Center for Law and Justice

Financial Policy Manual

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Chapter 1

Overall Accounting System

1. OVERALL ACCOUNTING SYSTEM

1.1 Basis of Accounting

The accounts of the organization will be prepared under the historical cost convention, except for those items where IAS specifically requires accounting at fair value, market value, or present value.

1.2 Accounting Year

The financial year of the organization is from July 1st - June 30 (12 months).

12.1 Chart of Accounts

The organization will develop and maintain a flexible and appropriate chart of accounts in order to cater to the present and future monetary transactions with the objective of coming up with timely, accurate, and meaningful reporting for the Governing Body.

The chart of accounts will act as a guiding and referring tool to the finance personnel while they post accounting entries to their respective head of accounts. In order to keep a vigilant control over the accounting framework of the organization, no accounting personnel is allowed to make an amendment (including opening a new head of account) in the chart of accounts unless specific written approval thereof is duly sanctioned by the Head of Finance. For this purpose, a form has been designed which would be required to be filled up by the initiating officer desirous of altering the present structure of the chart of accounts. Such a form, once approved, will be kept by the Head of Finance.

1.4 Vouchers & Forms

The finance personnel will be responsible for recording and maintaining financial records, related correspondence, accounts, statements, supports, etc., pertaining to the organization. For effective and accurate maintenance of accounting records, a set of internal documents, forms has been designed which will be used for initiating and recording financial transactions.

Payment Voucher

- Payment can be made after approval of the payment voucher. Payment voucher will be supported with bills or other relevant supporting documents. Such support will be scrutinized by the finance department prior to their submission for the sanction of payment before the approving authority.

- All cash payments will be recorded through cash payment vouchers, and all bank payments will be recorded through bank payment vouchers.

Receipt Voucher

- Receipt voucher will be prepared to record the receipts and collections in bank accounts.

- Cash receipt transactions will be recorded through cash receipts.

Journal Voucher

Journal voucher (JV) is prepared to evidence the authorization to record non-cash transactions. A non-cash transaction is one that does not involve the actual receipt or/and payment of funds, but the recognition of which in the books of account is fundamental to properly reflect the operating results and financial position of the organization.

As a prerequisite of the accrual basis of accounting, all accruals will be recorded on a monthly basis. Such accounting entries will be routed through JVs. All JVs will be prepared not later than two weeks from the close of the relevant month.

1.5 Books of Accounts / Records

In addition to the above-mentioned different types of vouchers, the organization will keep and maintain the following information/record:

- Cash / Bank Book
- General Ledger
- Salary Register
- Bank Statements & Reconciliation's
- Fixed Assets Register
- Employee Personal Files
- Invoices
- Bank Deposit Slips
- Cheque Books
- Purchase Orders
- Receipts
- Invoices
- Donors' Subsidiary Record

And any other record and information considered necessary.

1.6 Recording business transactions

All the financial transactions will be processed and recorded within a reasonable time of happening of any event. The test of 'reasonableness' will be judged on basic criteria as to the availability of timely, accurate, meaningful information for internal and external users of financial statements.

The Head of Finance will ensure that, at all times, the organization's books of accounts reflect a true picture of its financial affairs and no significant event is deferred from appropriate recording.

1.7 Pre-numbering entries

All entries will be allotted sequential numbers so as to ensure completeness and proper authorization thereof. Any entry recorded out of the prescribed sequence would require immediate and thorough scrutiny to dispel the impression of any deliberate event. A written report of such inquiry will need to be submitted to the Head of Finance, who would then decide the future course of action.

1.8 Review of accounting entries

All accounting entries will be submitted to the Head of Finance for his approval. Such entries will not be considered unless they are supported through documentary evidence originating from such transaction(s).

After necessary approval, such entries should be posted in their relevant head of account. If this is not possible due to the peculiar nature of the transaction, the matter should be referred to the superior personnel for proper guidance.

1.9 Segregation of Duties

In order to keep a meaningful check over the affairs of the organization, segregation of duties is a must whenever practicable. Segregation of duties means distributing the execution of one activity over more than one person in order to ensure that no single individual is capable of handling the whole of a transaction individually.

If it is not practical to segregate any duty due to its operational nature and/or limited staff members, the management should ensure that all transactions are duly authorized and supported with all necessary documents and properly recorded in the books of account in a timely manner.

1.10 Correction of entries

Ensure that in case of omission, error of disposition/classification, etc., the correction should always be routed through JV. To confirm this procedure in the computerized accounting software, access controls have been placed that prohibit and restrict the individual responsible for data entry from re-entering and accessing the recorded data.

1.11 Audit Trail

At the time of approving the accounting entry, the Head of Finance will ensure that an adequate and reliable audit trail of the subject transaction exists and that the entry will be easily auditable at the time of internal or external audit. Such an audit trail would, ideally, start from the financial statements and end up at the related source document(s).

1.12 Custody of Accounting Records

All the accounting records, including but not limited to ledgers, statements, accounts, vouchers, invoices, banking records, records of procurement and sales, etc., should be in the custody of the accounting personnel. The Head of Finance should ensure that adequate facilities exist for the custody of accounting records. Such records should be kept and maintained for a minimum of 5 years from the relevant year-end.

1.13 Computerized Accounting Software

Organization shall ensure that effective access controls are in place to restrict abuse of the control environment in the accounting software.

All access rights should be well-defined to the users of the software. To specifically address this issue, written guidelines should be circulated among the intended users of the software specifying clearly the working methodology.

Chapter 2

Accounting Policies & Recognintion Criteria

2. ACCOUNTING POLICIES AND RECOGNITION CRITERIA

2.1 Grants / Donations

Grants/Donations are recognized in accordance with the International Accounting Standards.

2.2 Revenue

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the organization.

2.3 Restricted fund

The restricted fund comprises the accumulated surplus and deficit of donations and grants for which the donor has specified an intention to support a particular aspect of activities, together with income accruing directly to those restricted funds. Surpluses are held until they are fully expended or returned at the end of the respective grand period.

2.4 Unrestricted fund

The unrestricted fund comprises the accumulated surplus and deficit of untied funds/donations and grants, which are used by the organization for its various project activities, according to its other programs/plans.

2.5 Fixed Assets

These are stated at cost less accumulated depreciation. Depreciation on these assets is calculated by applying the straight-line balance at specified rates to write off the cost of assets over their estimated useful lives. Depreciation is charged on a quarterly basis.

Major renewals and improvements are capitalized, whereas normal repair and maintenance costs are charged to income as and when incurred. Gain or loss, if any, on disposal of assets is included in the current year's income.

In the case of financial reporting of individual project activity, all fixed assets are recognized as period costs. However, details of the assets as of the reporting period should be disclosed in the financial statements.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognized.

2.6 Financial Assets (Investments)

The organization classifies its financial assets in the following categories:

a) Investments at fair value through profit and loss
b) Held to maturity investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date, the date on which the organization commits to sell or purchase the assets.

- **Fair Value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition, at fair value through profit and loss. Financial assets at fair value through profit and loss are carried in the balance sheet at their fair value, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

- **Held to maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the organization has the positive intention and the ability to hold these assets to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment.

- **Impairment**

The organization assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

2.7 Allocation of Common Cost

Common costs are costs used by more than one activity and cannot be allocated to a single project activity. Examples of such costs could be:

- Rent
- Staff Salaries
- Utility Bills
- Depreciation of computers, vehicles, furniture & fixtures

Common costs should be allocated to the activities consistently, to the extent possible, with the actual use of the resources by individual activities.

Chapter 3

Purchases

3. PURCHASES

3.1 Budget

All requests to spend money for the purchase of goods, either capital or revenue items must have legitimacy or proper justification. Normally, the request for purchases is included in the budget proposal and approved as part of that budget. The criteria for approving such expenditure will take into account the operational as well as financial factors surrounding such item requested for procurement.

3.2 Purchase Requisition Form

Before making a formal requisition for the purchase of any particular item, the concerned personnel will check with the Stores / Inventory to ascertain whether the subject item is already lying in the stock in hand.

3.3 Quotation

Where the value of goods exceeds *Rs 500,000/-*, quotations will be obtained from at least three suppliers. The following factors will be considered in reviewing quotations and awarding contracts:

- Prices
- Bidder's previous track record in general
- Other customers of the bidder
- Organization's previous experience with the bidder
- Ability of the bidder to render satisfactory service
- Capacity to effectively address after-sales problems/service

After all quotations have been received and examined for completeness, a dated summary sheet will be prepared, enlisting all the necessary details.

3.4 Approval of Quotations

Contract should ideally be awarded to the lowest bidder after an evaluation of the quotations submitted by them. However, besides financial concerns, weightage should also be given to non-financial and other qualitative factors before a final decision. A written explanation of factors leading to the final decision regarding the award of the contract will be documented.

Requisitions for the purchase of goods must be approved by the appropriate individual prior to issuance of any purchase order. The approving authority should ensure that approved budgets are complied with. A 15% budget overrun in any budget head requires prior approval of the Executive Director, whereas any amount beyond 15% requires Board's approval.

3.5 Financial Approval Limits

Personnel authorized to approve expenditure are:

Value of Purchase / Service request	Approval Required from
Up to Rs. 500,000	Head of Finance
Up to Rs. 1,000,000	Chief Executive
Above Rs. 1,000,000	Chairperson BoD

The above limits shall apply to all payments other than the monthly salary, which will be approved by the Executive Director.

Cheques made payable to a nominated signatory will not be signed by him/her.

3.6 Purchase Order

After selection and finalization of the quotation and approval of purchase requisitions, a Purchase Order (PO) will be issued in the name of the selected supplier. This PO will be signed by the Head of Finance and will contain the following information:

- Reference to the bid submitted by the supplier
- Quantity ordered by the organization
- Desired date of delivery of goods
- Exact specification of the product(s)
- Terms of the contract
- Agreed Price for the contract
- Payment Terms
- Other Stipulations

Before issuance of the PO, this would be entered into the Purchase Order Register for future reference. This register would be maintained by the staff responsible for the procurement and ordering function.

3.7 Receiving Function

Once the ordered goods are received, a Good Received Note (GRN) will be prepared. The GRN shall carry a comparison of goods received with goods ordered, and will also contain evaluation comments by the authorized personnel of the ordering department.

3.8 Processing & Payment of Invoice

Designated employees who are preferably independent of purchasing and receiving functions should process vendors' invoices. While processing, reference should also be made to the applicable rate of sales tax, which would only be charged by suppliers registered with the Sales Tax Department. As a policy matter, all suppliers charging sales tax on their invoices should be requested to furnish their registration certificates before their invoice is put for processing.

With the receipt of GRN by the accounts department and the related invoice, the receipt of goods will be recorded in the General Ledger with a corresponding credit to the supplier in the Purchase Ledger and a simultaneous credit in the control account in the Accounts Payable Ledger. This practice will be followed even in cases where goods are received but no invoice is received.

At the end of every month, a reconciliation report would be prepared between the General Ledger and the Purchase Ledger. The difference(s) would be noted and investigated till satisfactory disposal of the same.

Cheques made payable to a nominated signatory will not be signed by him/her.

Payments

For the disbursement, the cheque would be attached with the following supporting documents in original, such as:

- Payment Voucher

- Purchase Order
- Goods Received Note
- Invoice from the supplier

The disbursement will be made through a cross cheque and duly signed and authorized. At the time of releasing payments, the maximum monetary ceiling of the authorized signatories is to be considered, as approved by the Board. The organization shall discourage cash payment exceeding Rs. 10,000 except in the case of the following:

- Utility Bills
- Government Taxes or Levies
- Staff Travel Allowance
- Staff Reimbursements
- Special cases, where the responsible person would allow cash payment after proper justification.

Payment shall be released or adjusted only if proper documentation accompanies each payment request. Payments will be made in accordance with the terms already agreed with the concerned supplier.

Any request for advance payment to the supplier of goods and services shall be approved in accordance with the purchase policy. Advances to suppliers would be given in accordance with management's authorization.

Tax Deduction

Withholding income tax will be deducted from resident person and permanent establishment in Pakistan of a non-resident. This tax will be deducted at the time of payment and shall be deposited as per the law. In case the supplier has filed a tax exemption certificate, a note is to be placed on the concerned invoice and tax exemption certificate obtained from him for the purposes of record.

This would be followed by preparing income tax challans for the total amount of tax deducted from all the suppliers. Afterwards copy of the challan shall be handed over to the supplier or his authorized representative, after obtaining due acknowledgement.

Periodic tax statements under the Income Tax Ordinance will be prepared within the stipulated time.

Chapter 4

Payrole & Related Costs

4. PAYROLL & RELATED COSTS

4.1 Monthly Salary

A person who is hired on a permanent basis in the organization requires completing a 3-month probation period. An individual's salary is to be disbursed according to the terms and conditions mentioned in his appointment letter.

All employees, except daily wagers and support staff, should be paid through a cross cheque issued in their name. At the time of approval of employees' salary expense for the month, a detailed report for each employee will be prepared, containing the following information:

- Name of the Employee
- Staff Code
- Monthly salary
- Overtime for the month, if applicable
- Bonus, if any
- Leave Encashment, if any
- Leave Fare Assistance, if any
- Loan / Advance sanctioned to the employee
- Monthly deduction on account of loan or advance
- Payment on account of medical expenditure, if any
- Other allowances
- Any other payroll-related information

The aforesaid report will be furnished to the Head of Finance for necessary approval. Before approving salary disbursements Head of Finance should arrange a comparison of gross salary with last month and obtain satisfactory reasons for change, if any. After the approval, the payroll officer will forward the cheque along with the bank letter mentioning all the staff accounts with their net salary for credit in their respective bank accounts.

4.2 Payroll Taxes

At the time of salary disbursement, income tax will be deducted as per Rule 45(1) of the Income Tax Ordinance, 2001. Thereafter, the due income tax will be deposited into the Government treasury through a tax challan. The deducted amount of income tax is to be deposited within 15 days from the date of deduction thereof.

Periodic tax statements under the Income Tax Ordinance will be prepared within the stipulated time.

The parameters for the computation of withholding income tax from payroll will be reviewed on a regular basis, especially after the announcement of the Federal Budget, and modification(s) shall be incorporated on an immediate basis.

Chapter 5

Fixed Assets

5. FIXED ASSET

5.1 Overall Policy

Capital expenditure is budgeted at the beginning of the year and forms part of the organization's annual budget. Enhancement of capital expenditure or change of budgeted amount can only be approved by the Executive Director up to a maximum of 15%; Board approval is required beyond 15%.

Adequate and strong controls should be kept over fixed assets and their related records to ensure that all fixed assets are recorded in the books of accounts with appropriate carrying costs and all recorded assets existing in the organization are safeguarded and operational.

All assets shall be recognized in the books of accounts in accordance with the policy framework of this manual. IAS 16 will remain the key principle for the accounting of fixed assets.

5.2 Requisition

See Purchases.

5.3 Quotation

See Purchases.

5.4 Ordering

See Purchases.

5.5 Receiving

See Purchases.

5.6 Recognition and Capitalization Policy

As per our policy, minor renewals, replacements, maintenance, and repairs less than Rs. 10,000/- are charged off as an expense, as and when they are incurred, while major renewals and improvements are capitalized.

Hence, an item shall be recognized as fixed assets only when:

- It is probable that future economic benefit will flow to the organization as a result of its acquisition.
- The cost per individual item exceeds Rs. 10,000; and
- Items have a useful life of more than one year.

Based on the nature of items, the Management may decide to capitalize an individual item of less than Rs. 10,000/-.

Cost of Asset

Cost of an asset includes purchase price, installation cost, import duties, all non-refundable Governmental taxes, and the cost of bringing the asset into working condition. All trade discounts and rebates are deducted in arriving the purchase price.

Subsequent Expenditure

Any subsequent expenditure on non-expendable items, which extend the useful lives, enhance the capacity, or substantially reduce the operating cost, should also be capitalized.

5.7 Physical Identification of Assets

At the time of acquisition, all assets should bear exclusive identification of reference. This identification mark should be tagged and entered into the Fixed Assets Register. Donor emblem should also be affixed on all donated assets, while the rest of the assets will be assigned a relevant code and tagged for the same.

A register will be maintained for all fixed assets containing:

- Description & cost of each item
- Date of acquisition
- Location of asset
- Item Code
- Rate of depreciation and per year charge
- Accumulated depreciation

Fixed assets records must be reconciled with the General Ledger on a regular basis. The finance personnel shall take a physical inventory of all fixed assets at least annually to ensure the completeness and accuracy of the records. The inventory of assets on hand shall then be compared to the actual. All the differences will need to be resolved by a responsible staff member. Any write-off as a result of physical verification of fixed assets should require BOD approval.

5.8 Donor Related Assets

Assets purchased under any program of the donor agencies will remain the property of the donor agencies unless otherwise specified in the agreed terms and conditions. Due care should be taken for the safety and maintenance of such assets. At the end of the program, either the assets will be transferred to the donor agencies or will be disposed of according to the terms and conditions.

5.9 Insurance of Fixed Assets

The organization should arrange comprehensive insurance coverage from approved insurance agents for all high-value movable assets against theft and fire, and all non-movable assets to be insured against fire only. The insured value is taken at current market replacement value. The renewal of insurance *will be carried out on a yearly basis.*

Upon receipt of the premium estimate from the insurance company, the concerned officer will obtain the approval to get the asset insured. On receipt of the premium notice, disbursement will only be made through a cross cheque in the name of the insurance company. A comprehensive record of insured assets will be maintained.

Relevant files should also be maintained for every insurance policy relating to the organization's property. The value of the sum insured will be reviewed annually.

Assets received from the donors in kind should be insured in a similar fashion as the purchased assets, subject to donor funding.

5.10 Depreciation

Depreciation is charged to income from the year of acquisition to the year of disposal, on a quarterly basis. Depreciation rates reflect the useful lives of the assets. The annual depreciation rates, applied on a straight-line basis, are as follows:

Leasehold improvements	20%
Furniture and Fixture	20%
Computer & Equipment	33.33%
Motor Vehicles	20%

5.11 Useful Lives

The useful life of an asset will be estimated after consideration of the following factors:

- Expected physical wear and tear; and
- Technological obsolescence

5.12 Disposal of Assets

Disposal of fixed assets should be undertaken through tenders, auction, or a private sale, whichever is suitable as approved by the Governing Body. A private sale would only be considered where the sales price can be reasonably / accurately assessed, and there is a possibility of fetching higher prices as compared to other modes of disposal.

Where the fixed assets, intended for disposal, comprise equipment, the estimated sales value is to be determined by using outside independent experts.

At the time of intended disposal of an asset, the Head of Finance will issue an inter-office memo to the Chief Executive, containing the following.

- *Specification and description of the asset, Reasons for*
- *disposal*
- *Where possible, an estimate of the realizable value*
- *The mode of disposal of the asset, as per the donor's policy*
- *Comparative statement of bids in respect of the tender*
- *Draft sale agreement/transfer note, in case of intended private sale*

After approval from the Chief Executive, the sale shall be executed. Simultaneously, the responsible official who is knowledgeable and not directly responsible for the assets will remove the subject fixed asset from the premises.

At the time when the asset is retired, the following procedures shall apply to record the transaction:

- The cost of the disposed asset shall be removed from the Fixed Assets' Register
- The related accumulated depreciation shall be removed from the allowance for depreciation account; and

- The profit and loss account, adjusted for the cost of removal, shall be recorded as income (gain) or expense (loss).

A report will also need to be furnished to the Chief Executive containing the following details:

- Disposal value of the asset
- Mode of disposal
- Gain and loss on disposal of fixed assets
- Auctioneer's receipt memo in case of auction
- Issues receipts
- Banking of fetched value

Where the asset is returned to the original donor, the applicable process for retirement (as above) shall, *mutatis mutandis,* apply.

Chapter 6

Investment Policy

6. Investment Policy

The Governing Body of the organization lays down the Investment Policy with regard to the deposit, investment, and disbursement of all funds of the organization.

The investment policy of the organization provides for: Safety

- and marketability of funds
- Reasonable yield on invested funds and
- Minimum idle cash in working funds

A Committee of Finance and Investment will be established by the Board, which, in view of the policy laid down by the GB, supervises the implementation thereof by ordering that the securities of the organization be bought, sold, exchanged, or assigned by the Chief Executive and the Head of Finance.

All surplus funds, as well as the reserves of the organization, are to be invested. For this purpose, the following procedure is to be followed;

For investment control, invested Funds are to be subdivided into two parts:

6.1 Working Capital

The Working Capital of the Funds is the amount required for normal needs. It is to be invested, so far as practicable, in income-earning short-term Government securities, in short-term notes of well-financed corporations, or in money market funds.

6.2 Investment Portfolio

The Investment Portfolio of the Funds consists of equities, fixed income securities, and other types of investments. Safety of capital must be a prime consideration of investment. From time to time, the Committee on Finance and Investment has to decide, based on the financial and economic conditions then prevailing, the ratio of equities and fixed income securities in the Investment Portfolio.

Besides the above-mentioned, other options for investments are also available. However, these may be considered after proper economic analyses demonstrate that they will produce a return equal to or greater than the return analyzed through equities and fixed income securities. These include;

- Purchase of real estate for use by the organization. Purchase of
- real estate as a source of rental income. Other prudent
- investments.

It is to be noted here that the Committee on Finance and Investment may take the advice of professional investment counsel in:

- Deciding the desired ratio of equities to fixed-income securities, and
- Authorizing purchases and sales of specific real estate, equities, or fixed income securities in the investment portfolio.

The various funds of the organization (General Fund, Endowment Fund, and any other funds entrusted to the Committee) are pooled and invested as a unit. Profits or losses are allocated monthly, based on the percentage of capital each fund represents. All investment funds are to be treated equally.

Chapter 7

Revenue

7. REVENUE

7.1 Invoicing

On the basis of the goods delivered / rendering of services, the organization will issue pre-numbered sales invoices. The Head of Finance will duly sign all sales invoices. Such invoices should be posted in the sales ledger in a reasonable time from the time of their issuance. Such a Sales Ledger will be reconciled on a monthly basis with the General Ledger Control Account and differences identified, investigated, and reconciled.

7.2 Credits to Customers

All the sales/services will be against advance cash payment / Bank draft, or P.O.

7.3 Receipts

Control shall be established over all cash and cheque receipts, which would be deposited promptly in the respective project's bank account or the organization's own bank account. The Finance Department shall issue a pre-numbered official receipt as evidence of acknowledgment of the receipt of funds.

Chapter 8

Financial Planning

8. FINANCIAL PLANNING

8.1 Budget Reporting

A budget is a financial plan of an entity relating to a period of time. It is prepared from a range of available data, within the overall guidelines and long-term plans of the organization. As a part of monitoring funds and expenses, the organization will prepare the following Budgets:

- Revenue Expenditure Budget Capital
- Expenditure Budget

The management is responsible for preparing the budget for the following year and presenting it to the Board for approval before the start of the budget year.

The budgets for donor-funded projects will be prepared in accordance with the guidelines provided by the respective donor agency, with the support of the relevant Program Unit.
Organization’s program must operate within the budget approved by the Donor Agency.

The Head of Finance shall ensure that expenditure does not overrun. Any savings under the head of Fixed Expenditures, such as staff cost, rent, insurance, premium, utilities bill, and capital expenditure, shall be utilized for any other purpose with the prior approval of Donors.

8.2 Monitoring & Review of Budget

The budget should be monitored regularly and compared with actual results. A mid-year review of the budget should be made by the Head of Finance in the light of actual results; recommendations for upward or downward revision should be put for consideration by the Board.

Besides, on a quarterly basis, the budgeted data should be compared with actual experiences, and a variance report should be generated. This variance report should be submitted to the Chief Executive, who would carry out investigations into all significant variances. While carrying out scrutiny, reasons for unusual or unforeseen fluctuations would be noted.

Chapter 9

Fund Managment

9. FUND MANAGEMENT

9.1 Bank Accounts

The organization will maintain a bank account for day-to-day operation approved by the Governing Body. Each program/project must maintain a separate bank account.

The Governing Body shall authorize to opening of the bank account in the name of the organization. At least two signatories duly authorized by the Governing Body shall operate bank accounts. A copy of approved signatories and specimens of their signatures will be lodged with the bank.

At present, the signatories are:

- Member Governing Body
- Member Governing Body
- Member Governing Body
- Chief Executive
- Head of Finance

Each financial instrument should bear two signatures as approved by the Board.

Accessibility of the cheque book should be strictly limited to the Accountants department or any other person designated by the Board. Bank reconciliation statements should be prepared on a monthly basis and approved by the Head of Finance.

9.2 Cash Management

The sources of cash receipts would be either a refund of working advance, a donation, a cash fee, etc. On receipt, a cash receipt would be prepared by the concerned personnel containing all the necessary details of the receipt. This cash receipt will be printed and used in a chronological sequence.

As a principle policy, an independent officer authorized by the Head of Finance will periodically count cash funds. This official would be independent from the official custodian of cash.

9.3 Donor Funding

As a principle, separate accounting records will be maintained for each project. Expenditure will be carried out in accordance with budgeted limits. Factors such as agreed terms and conditions of funding agencies will also be considered while expensing out funds.

Subject to the provisions of agreed terms and conditions, all financial policies and procedures shall be applicable and followed for incurring any expenditure related to donor agencies. The Head of Finance shall be responsible for submitting Financial and narrative reports in respect of each project activity to the respective donor agencies as per agreed terms and conditions.

9.4 Petty Cash Fund

To meet day-to-day cash expenditure of small amounts, a petty cash fund up to a maximum of Rs. 50,000/- will be maintained on an imprest basis. In order to restrict the petty cash fund only for small payments, no single payment out of it should exceed Rs. 25,000/-.

The Head of Finance will authorize every petty cash expense or any other person authorized by the Board. For custody of petty cash, a steel box would be used which will be kept in locked safe under the custody of Head of Finance. Any shortfall found in the petty cash fund would need to be made good by the custodian thereof.
A person authorized by the Head of Finance will maintain petty cash register to record petty transaction on daily basis.

Chapter 10

Reporting

10. REPORTING

The financial management system should provide complete, reliable, consistent, timely and useful financial management information and financial statements. Some of the reports to be generated as a regular feature are as follows:

Internal Reports:

- Project Reports
- Aged Receivables
- Aged Payables
- Cash Flow Position
- Variance analysis between budgeted costs/revenue and actual data, spelling down the reasons for significant variations
- Consolidated report of all project activities
- Balance Sheet
- Expenditure reported in the statement of financial activities (Income Statement), classified into direct program costs and administrative support costs.

External Reports:

- Audited Financial Statements
- Annual Report

Every report that, as per terms and conditions previously agreed upon, is required to be submitted to the donor agencies should be timely and accurately prepared. It will be the responsibility of the Head of Finance to brief the management about the deadlines, contents, frequency, etc. of reports that are required by the donor agencies, together with the arrangements made by the organization to meet such deadlines on time.

Chapter 11

Monitring By The Board

11. MONITORING BY THE BOARD

Head of Finance will keep a close liaison with the Chief Executive in the execution of day-to-day affairs of the organization, including but not limited to satisfactory execution of various projects undertaken by the organization.

All internal and external reports generated by the Finance Department would be sent to the Board for its review, once every 6 months. The Board shall hold deliberations and discussions over such reports and suggest modifications/amendments/rectifications. The details of business conducted during the meeting of the Board shall be duly recorded, and its minutes shall be circulated by the Head of Finance to the Board Members.

Chapter 12

Audit

12. AUDIT

12.1 External Audit

Financial statements of the organization and/(or) each project will be audited on an annual basis.

The auditors will be appointed at the annual general meeting in accordance with the respective statutory legislation. The organization will endeavor to get its financial statements audited by a renowned and reputable firm of Chartered Accountants. This is expected to give more credibility to its financials and would increase its standing in the eyes of our donor agencies.

External auditors will be changed every five years. If, for any reason, this is impractical, the organization may, at a minimum, request for rotating the partner in charge of its audit engagement.

Besides, the donor, at its discretion, may also opt to get the financials of the relevant project audited by an independent firm of Chartered Accountants. In this case, notwithstanding the external audit by the auditing firm of the organization, any project's accounts will again be subject to audit by another Chartered Accountant.

12.2 Internal Audit

There will be an Internal Audit Function in the organization. The Head of Internal Audit will preferably be a qualified accountant. He shall have access to the Chair of the Audit Committee.

The Head of Internal Audit will be assisted by a proper team who will work under his guidance and control. The team of the Internal Audit Function will comprise of individuals possessing relevant experience, training, and accounting qualifications.

12.2.1 Scope of Work

- Ascertaining that the internal control system, including financial and operational controls, accounting system, and reporting structure, is adequate and effective
- Instituting special projects, value for money studies, or other investigations on any matter specified by the Governing Body
- Determination of measures to safeguard the assets of the organization
- Performing substantive testing of the financial transactions and account balances executed by the organization

The Internal Audit Function will issue a monthly report to the Head of Internal Audit, who will share his findings with the Audit Committee. The report(s) of the Internal Audit Function will also be provided for review by external auditors.

The Internal Audit Function will also carry out a follow-up exercise to check the corrective measures taken by the management as a result of its previous reports submitted, highlighting weaknesses of internal control.

12.3 Audit Committee

The Audit Committee will comprise not less than two members. The members of the Committee shall be from among the non-executive directors of the organization. All members of the Audit Committee will be financially literate, and at least one member shall have accounting or related financial management expertise.

The Audit Committee shall hold its meetings prior to the approval of the interim results of the organization by its Board.

A meeting of the Audit Committee shall also be held, if requested by the external auditors or the Head of Internal Audit.

Terms of Reference of Audit Committee

- The Board shall determine the terms of reference of the Audit Committee. The Governing Body shall act in accordance with the recommendations of the Audit Committee in all these matters.

12.4 Reporting by the Auditors

The draft accounts, initialed by the external auditors, will be subject to review by the Board along with the management letter, containing internal control weaknesses, issued by the external auditors. The Board might also seek further clarification(s) from the Audit Committee over the findings reported in the management letter. After review, the Board, if it thinks fit, will approve the financial statements.

It will be the management's responsibility to take adequate, timely, and corrective actions to address the weaknesses identified by the external auditors in their management letter.

In case the external auditors do not issue a clean (unqualified) opinion on the financial statements of the organization and/or the projects undertaken by it, a special session of the Board shall be called, which would discuss in detail the reasons, grounds, and impact of such a qualified opinion. The Head of Finance, Chief Executive, and Members of the Audit Committee will also attend the session.