# SRUTI FINANCE POLICY

## 1. Introduction

Purpose of this Accounting Manual is to lay down in sufficient details the procedure to be followed by the Accounts Department of the Society for Rural Urban and Tribal Initiative so that the account books maintained by the Society present factual state of all the financial transactions of the Society.

The Manual deals with basic aspects of accounting such as budgeting, internal control, book keeping and bank transactions. The manual focuses primarily on financial and accounting aspects. Some of these aspects are connected to other issues such as FCRA or Income Tax. As such, related information to those aspects has also been discussed.

## 2. Budgeting

Budget is a very important document as from it emanates authority to incur expenditure. No expenditure can be incurred by the functionaries of the organisation unless it has been provided in the annual budget approved by the Executive Board. Also Accounts Department will classify the expenditure incurred, under the heads of expenditure, where it has been provided for in the approved budget. This will facilitate monitoring of variances effectively.

Budget figures should be realistic and based on ground realities. Still variances may occur in some cases. These variances should not be suppressed but analysed. Attempt should always be made to book all relevant expenses under proper account heads. Temptation to book expenses under different head just because the budget under the proper head has been used up needs to be resisted.

## 3. Internal Control

### a. Cash Box

As far as possible, payments should be made by cheque. This will reduce the amount of cash to be kept and handled. It will also reduce the risk that a transaction may be forgotten.

Cash is a key control point in any accounting system. It is essential that Society's cash always remain in cash Box. Mixing of personal cash with Society's cash has to be strictly avoided. Where ever it becomes necessary that an official has to carry Society's cash in his / her pocket, a voucher should be made to that effect. To guard against loss of cash in Cash

Box by theft etc. an insurance policy needs to be obtained for an amount that is likely to be maximum at any time in the Cash Box.

It is normally difficult to make entries in formal cash book immediately. To solve this problem a note book may be maintained in addition to the main cash book. All transactions may be noted in this immediately. This note book will help to keep track of cash book. This Petty Cash book will help to keep track of cash in hand. Periodically cash balance in the note book is tallied with cash in Cash Box. Chief functionary may participate in cash tally fortnightly.
One cash book to be maintained separately for FCRA and another for Indian money in cash. Large cash should not be kept in the office during weekend to avoid any chance of theft. Any large sum of cash received should immediately be deposited in bank.

b. **Advances**

Money given to a worker as advance for office expenses is office advance different from personal advance. As all cash transactions are meant to be recorded in the cash book it needs to be ensured that transactions relating to office advances are also noted in cash book. Separate advance accounts for the staff be maintained in the ledger. Person's account will be debited whenever money is given to him / her. Later when he / she submits vouchers, the amount would be credited to his / her account. Advance account need not be settled after each transaction. It could be settled once a month/before a subsequent tour is undertaken. The balances due or recoverable would be paid or recovered in cash.

No second advance should be provided to the same person without the first being settled. All the balances including the advances should be properly checked at the time staff leaves the organization.

Rolling imprest helps reduce accounting work. Under this system, a person is given a permanent advance. Whenever they incur expenses they are reimbursed whatever is spent. The original imprest gets replenished. Rolling imprest is given only to those persons who often incur many small expenses for the office. The imprest/advance amount may not to exceed by IRN 10,000/- (depending on the program) and it should be cleared quarterly.

c. **Old Records**

Under Income Tax law, old accounting records are required to be kept for at least ten years. Cash book, ledgers, asset and stock registers, vouchers, vehicle log books etc. all form part of accounting records and should be kept in the office. In case of computerised accounts printed copies of account records should be kept. Keeping computer files on a floppy or hard disc is not sufficient.

## 4. Accounting Record

### a. Cash Book

Agreements of many donor agencies say that separate accounts will be kept for funds given by them. This actually means that separate ledger accounts for their expense heads need be kept. This does not mean that separate set of account books need to be kept. One integrated cash book for FC fund transactions and another for Indian fund transactions need be kept. Each entry is to be marked suitably with the name of the donor agency. This is then to be posted to the relevant ledger.

Preparation of a Trial Balance on regular basis (Six monthly) is important for checking that the cash book and ledgers are written properly.

### b. Separate Ledger

While an integrated cash book may be kept, a separate ledger would be needed for each agency. Entries into these ledgers be posted from the General cash book or the FCRA cash book as the case may be. Such ledgers are called Sub-ledgers. These help keep separate accounts for each agency without loss of control over cash. In the sub-ledgers, ledger accounts can be opened according to the budget heads of the relevant agency. This will help in the preparation of financial reports for the agency.

### c. Vouchers

A voucher needs to be prepared for each financial transaction entry in accounts. Voucher is to carry information such as why an expense was made, who made the payment and the account head to which the expense incurred has to be debited. Voucher has to be countersigned by the person authorising the expense. Generally types of vouchers made are receipt vouchers, cash vouchers, payment vouchers and journal vouchers. FCRA vouchers and vouchers made for transaction pertaining to Indian funds needs to be kept separately. All vouchers should be marked with serial numbers. This number should also be given on the cash book and ledger so that vouchers can be located easily.

### d. Revenue Stamps

A revenue stamp is required whenever a person acknowledges receipt of money exceeding Rs. 5000/-. Stamps are required both in case of cash payments and payments by cheque. The stamp should always be cancelled by drawing a cross or signing across. No revenue stamp is required on imprest transactions with employees. But it is required when loan or salary is given.

5. **Other Records**

a. **Minutes Book**

A Minutes Book should be maintained to record the minutes of the Executive Board meetings and the General Body meetings. The Minutes Book should be a bound register where minutes are recorded. Normally the Secretary is supposed to record the minutes. These are authenticated or signed at the next meeting.

b. **Log Book**

Maintenance of a Log Book for the Society's vehicle is essential. It should have columns such as date, starting point, closing point, purpose, number of kilometres etc. Each time fuel is filled, the number of litres and cash memo reference should be entered in the log book by the driver or person handling the vehicle. This will help the accounts person to check the mileage per litre. This helps in controlling fuel consumption.

c. **Fixed Assets Register**

A fixed Assets Register is a register which shows all the permanent assets owned by the organisation. The register shows the quantity and value of things like chairs, tables, fans, furniture, vehicles, land, buildings, etc. It may also show where these assets are kept or used. A serial number is put on the item and noted in this register. Any assets that are sold are also recorded in the register. This register helps to keep whether all assets are in possession of the organisation. The total value of the assets can also be cross-checked with Balance Sheet or ledger.

In this register different sheets are opened for different type of items. For example, all tables, chairs, almirahs, etc. are written together on one sheet as 'Furniture'. Similarly all cycles, motor cycles, jeeps are written together on one sheet as 'Vehicles'.

If the organisation receives an item (such as land, building, etc.) as a gift, it should also be recorded in the register. Estimated value of that item be also recorded in the register and relevant accounting entry made.

Assets entered in the register need to be physically verified atleast once a year and certificate of verification recorded. The number of existing items considered as fixed asset need to be recorded on the asset register. Some assets may have to be written off because those have been lost or become unserviceable. Donors name should be marked in the fixed assets register and also on assets.

d. **Stock Register**

A stock register is maintained to keep record of goods received and used. This register should show quantity of consumable item purchased, issued and balance. Physical verification of available balances shown in the register needs to be made atleast once a year.

6. **Bank Accounts**

a. **Signatories**

All accounts and deposits shall be made in the name of the Society in such banks as may be determined by the Executive Board of the Society. The bank accounts of the Society shall be operated by such persons who may be authorised by Executive Board. To ensure that more than one person controls the bank transactions, all cheques will be signed by two persons out of the panel of persons approved by the Executive Board.
The organization should not keep more than required number of bank accounts. Non operating bank accounts should be closed. The blank cheques should never be signed even if there is possibility of urgent requirement of money in absence of the signatories.
Bank reconciliation Statement should be made at the end of each month. The cheque books should be kept in secured place under the lock and key.

b. **Cash Withdrawals**

Cash withdrawals needs to be linked to requirements and the existing cash in hand. Withdrawals should be for the amount required for immediate disbursement. It needs to be ensured that at the end of the day undisbursed amount in the cash Box should normally be not more than the amount for which insurance cover exists.

As far as possible, payment should be made by cheque. Otherwise, amount of cash to be withdrawn and carried increases. There is higher risk of defalcation or misuse. A bank payment (through account payee cheque) is always considered more reliable and authentic.

Under the Income Tax Act payments (for expenses or assets) above Rs. 20,000/- should not be made in cash. Splitting up of large payments so that each payment is below Rs. 20,000/-, is not desirable. Petty cash withdrawal for office uses or for travel and tour expenses should not exceed INR 20,000/-. Exceptional cases depend on situation according to program.

c. **Loans**

In case it becomes necessary for the Society to borrow money it should be taken by crossed account payee cheque. For all loans taken receipt should be issued. The receipt should give the name and address of the person who has given the loan. All loans must be repaid by crossed account payee cheques. When the loan is repaid the receiver should acknowledge the repayment by signing on the voucher. The name of the receiver should be given on the voucher.

d. **Bank Reconciliation**

As cheque transactions increase, control over bank account needs to be strengthened. A simple control is bank reconciliation. When difference appears between ledger / cash book balance and bank pass book balance a Bank Reconciliation has to be attempted to understand the reasons for the difference.
There is a Bank reconciliation process on monthly basis. It is a mandatory process adopted by SRUTI. An update of credit –debit is also took place when it is required.

A difference may be simply due to some cheque which has not reached the bank for payment. Or it may be due to normal clearing delay for some cheque deposited. Sometimes the problem may be more serious. The difference may be due to a dishonoured cheque. Or the bank may not have credited some deposit to the account of the society. Apart from this, small charges like collection charges, bank charges etc. are levied on organisations account from time to time. Normally no intimation to that effect is received from the bank. Also the bank credits interest to the organisations account twice a year. Entries in the organisations books remain to the carried out.
Process of Bank Reconciliation involves in ticking off the common items in the pass book and the ledger. All matching entries may be ticked off. If there is a small difference, it may be due to collection charges etc.

6. **Expenditure Controls**

All the activities of an organization entail expenditure. Unnecessary expenditures or more than required expenditure actually means loss of revenue. To ensure that all the expenditures are reasonable and required, there should be proper control over expenditure. All the expense should be done on proper authorization by the person conversant with the overall programme for which the expenses are done. For example Programme Executive/ in charge of a particular project should always be part of approval system so that the viability and validity of expense is properly judged. Bills to be paid must be so authorised by Executive Director/ Directors.

Other control which is very important is the segregation of duty related to authorizing expenditure and preparation of cheques between different people. Segregation of duties in cash; one, who holds the petty cash box must not be a signatory.

As far as possible, the payment should be done only on receipt of proper and original documents supporting the expenditure. Payment to vendors should always be done on receipt of original invoice.

## 7. Purchase Control

Another aspect of control system is the purchase process. Purchases involving considerable amount should properly be processed to avoid any possibility of excess payment as well as inferior products being received. A range of quotations need to be sought and analyzed before deciding on a purchase so that value for money is established.

This process of seeking multiple offers and objectively comparing the most advantageous investment for the organization will ensure the correct decision and choice of purchase and the vendor. It will also ensure that favourable terms, conditions and service backups are put into place. There should also be check on the technical aspects of the item purchased.

Following control would ensure the above;

- There should be system of obtaining more than one quotations for all big purchases exceeding INR 5,000/- and do comparative analysis (bid analysis) to select the most economic, qualitative and viable option.
- All the large purchases beyond the cost of INR 100,000/- should be collectively decided upon by the required team members, and if required, approved by the Board or committees specially formed for that.
- Pre numbered purchase order mentioning the specifications for the item and the terms and conditions of payment should always be prepared to order the purchase of the item.
- On receipt of the item, it should be matched with the order to ensure that the item received is same as ordered.

8. **Corpus and Fixed Deposit Management**

The corpus investments and the short term fixed deposits will be monitored on a monthly basis, to avoid any lapse in renewal of investments. The investments will be periodically reviewed by the treasurer of the society or the president to ensure that the best returns are being derived. Wherever required, low return investments will be withdrawn and reinvested in better schemes, after analyzing the overall gains and loss vis a vis early withdrawal penalties etc.

**9. Disbursement of Fellowships**

Fellows of the Society for Rural, Urban and Tribal Initiative (SRUTI) are selected for their work on various issues among marginalized communities and impoverished and deprived people. Their effort is to enable these vulnerable groups to access rights, justice and opportunity. Some of the Fellows get such sangathans registered under section 12A(a) of the Income Tax Act 1961. Others do not get their sangathans registered. SRUTI sends Fellowship grants to the sangathans registered u/s 12A(a) for disbursement of the Fellowships to the individuals by the sangathans. SRUTI also gives organisational grant to such sangathans. Where the sangathans have not got registered u/s 12A(a) of Income Tax Act 1961, SRUTI disbursers Fellowships to individuals Fellows after deducting the tax at source where due. In those cases SRUTI reimburses the expenditure incurred by those Fellows for organisation purposes.

SRUTI makes all direct payments for Fellowship support from Indian funds only. It cannot be made through the Foreign contribution or grants.

# The amount and terms of Fellowship and Organizational support have been outlined in the updated Fellowship Policy that can be reviewed time to time.

10. **Compliance of Government Acts**

A. **Income Tax**

a. **Filing of Income Tax Return**

NGO's are not automatically exempted from Income Tax. Organisation has to apply for exemption of Income tax. After that certain conditions need to be followed to remain exempt. Organisation should spend a minimum of 85% of its income each year on its objects. Even if the organisation is exempted an Income Tax Return has to be filed annually. Documents detailed below have to be attached with the return:-

(i) Audit Report
(ii) Balance Sheet
(iii) Income and Expenditure Account
(iv) Receipts and Payments Account

(v) Resolution for Accumulation if the expenditure incurred in the year is less than 85% of the receipts of the year. Also Application for Accumulation for five years (Computation for the relevant year )

b. **Permanent Account Number**

All NGOs need to procure Permanent Account Number and quote the same wherever necessary.

c. **Separate account books for Income Generation**

Income generation activities by an NGO are allowed under Income Tax Act if the profits from this are utilised for carrying on the activities for which the organisation has been established. However, a separate cash book and ledger for such activities will have to be kept.

d. **Transactions with key persons**

Income Tax people keep a close eye and payments to people who may be in position to control the NGO. According to the Act, Author of the Trust, Founders of the Society, Key donors, Chief Functionary, Executive Director, Director, Secretary, office bearers and trustees are key persons. Close relatives of above mentioned persons are also treated as key persons. Income Tax Act does not prohibit payments as such – it comes into play when these payments may be unreasonably high. Similar restrictions apply on use of NGO's assets by key persons.

e. **TDS**

Income Tax Department makes an NGO responsible to deduct tax at source from people who work for the organisation. This includes employees, lawyers, accountants, contractors, consultants, etc. Tax has to be deducted at source from payment made to such persons. After deduction tax has to be deposited with the Government. NGO need to get registration for this. Such registration is compulsory if any such payment is made from which tax is deductable (for example fees exceeding Rs. 30,000/- made to consultant one who rendered any kind of service to the organisation). Application for registration should be made within 30 days of the time tax is deducted at source. A xerox copy of the TDS challan has to be attached with the application.

Amount of tax deducted at source has to be deposited with the Government within seven days. This is done using the prescribed challan which is in three parts. Filled up challan along with the cheque has to be taken to a local bank which accepts Government payments. The cheque has to be made out as

'Name of the bank – a/c Govt. Dues – Income Tax'. Bank will return two parts of challan, retaining the third part with it. Returned two parts will bear the banks stamp. Of the two parts received back by the organisation, one part will be filed with the TDS return and the other retained as office record.

TDS certificate is issued to contractors/ employees/ consultant etc. at the end of each quarter after filing TDS return. This certificate is used by them to claim refund or credit of tax. For employees this certificate is issued in Form 16. For other certificate this is issued in Form 16A. If regular payments are being made to a consultant or contractor, one consolidated certificate can be issued at the end of the year. Time limit for issuing such a certificate is one month from the end of the year.

Organisation need to file a separate return at the end of the year for each category of payment
In the context of Fellowship disbursal to SRUTI Fellows; the TDS

| Sr. No. | Payment | TDS Required it | Return Form | Last Date |
|---|---|---|---|---|
| 1. | Salary | Salary exceeds taxable limit after deductions | Form 24 | 31st May |
| 2. | Payment to Consultants | The contract value exceeds Rs. 30,000/- | Form 26 C | 30th June |
| 3. | Rent | Rent exceeds Rs. 2,40,,000/- in the financial year | Form 26 J | 30th June |
| 4. | Professional Fees | Fees paid during the financial year exceed Rs. 30,000/- | Form 26 K | 30th June |

## f. Tax Advantage to Donors

Registration under section 12 of the Income Tax Act makes an organisation exempt from tax but it does not give any advantage to donors. If the organisation wants to offer tax advantage to donors it has to seek approval of the Income Tax Department under section 80 – G or section 35 AC

For approval under section 80-G, the organisation has to apply in Form 10 – G. Normally this approval is granted for two to three years at a time but can be renewed. This is a general approval and the organisation can raise money for any charitable purpose. The donors get a deduction of 50% from their taxable income and not from their income tax. The donor will be able to claim deduction on the basis of receipt issued by the organisation indicating 80 – G approval number.

Approval under section 35 AC is given for a specific project and carries a limit on how much funds can be raised. The approval is usually for two to three years but can be extended. The donors get a deduction of 100% of the donation made.

Receipts have to be issued to the donors in Form 58 – A. The organisation has to file periodic progress reports with the National Committee.

11. **FCRA –** SRUTI follows the guidelines prepared by the MoHA on the FCRA grant execution.

12. **Audit:** Audit is the process of examination of books of accounts and the financial statement by an independent person so as to give opinion on the state of affairs of the organisation. The Audit is generally done by the Qualified Practicing chartered Accountants. This is done in line with the legal requirement the report of which is submitted to the government authority.