

# **DISA (Development Initiatives By Social Animation)**

## **FINANCE MANUAL**

This manual is meant to be a guide to help DISA set and maintain high standards of accountability. This will lead to an enhancement of its credibility and allow the Organization works to be more fruitful and effective.

### **This manual provides information on:**

- ❖ Quality management of the finances at DISA
- ❖ Sound decision-making on financial matters
- ❖ Compliance of major obligations
- ❖ Requirements of funding agencies
- ❖ Budgeting, fiscal discipline and hygiene
- ❖ Efficient utilization of available resources
- ❖ Reporting and Monitoring
- ❖ Legal and financial issues for Funding Agencies
- ❖ Integration of economic policies with the Mission of the Organization.

## **CHAPTER – I**

### **INTRODUCTION**

#### **1.1 Objectives of the Manual:**

The objectives of the Finance Manual are as follows:

- a) To document the accounting and reporting system
- b) To readily assist the Finance Department with the financial Policies and Procedures
- c) To Serve as a guide to financial management

#### **1.2 Users of the Manual**

Those who are connected with the financial activities of DISA are the users of the Manual. They are as follows: -

- a) The General Body and the Governing Body of DISA
- b) The Programme Director, and Staff of DISA
- c) The Finance Department
- d) The Statutory Auditors
- e) The Financial Advisors

The above persons are expected to familiarize themselves with the contents of the Manual so that they can refer it as and when need arises.

### 1.3 Amendment to the Manual

Any amendments to the Manual shall be carried out only with the approval of the Governing Body on the recommendation of the Programme Director who should consult the Finance Committee and the Financial Consultant prior to it.

Any such amendments duly approved by the Governing Body shall be documented in all the copies of the Manual both with the individual officers to whom Manual has been distributed and in the copies in possession of the Management and such documentation shall be noted in the amendment form prescribed herein.

### 1.4 Amendment Form (Format No.1)

Chapter	Para Ref.	Description	Date of Last Amendment

## CHAPTER – 2

### FINANCIAL POLICIES, PROCEDURES AND SYSTEMS

#### 2.1 Financial Policy

##### *Introduction*

- a. Financial policy is a tool as well as a measure for the standards of accountability of DISA
- b. Good financial policy enables the fulfillment of the vision of DISA. The nobler the vision the higher the standards of accountability should be. Transparency and high standards of accountability can be infused in DISA only if there is a sound financial policy.
- c. The financial policy of DISA is its guiding light and if it is to be implemented and correctly translated into reality, proper systems and procedures have to be evolved and practiced. This is the very core of a financial system.
- d. DISA should have a healthy financial policy and for that purpose there should be a good set of financial policies.

### **2.1.1. A Professional set of financial policies must ensure the following: -**

- a) A creative, honest and sound management of resources entrusted to DISA
- b) Optimum utilization of the above resources for the objectives of DISA
- c) Creative investments of the funds of DISA
- d) High accountability standards
- e) A Professional system of reporting, monitoring and evaluation.

### **2.1.2 Planning and Budgeting**

Please refer to Chapter 3

### **2.1.3 Training of Finance Staff**

The Finance staff should not only have requisite academic qualifications, competence and experience but also be provided with refresher and orientation courses and workshops on a continuing basis, since there is a need for constant up-gradation of skills in finances. This measure will improve the quality of the accounting standards and therefore will promote better financial management within DISA.

### **2.1.4 External Review**

It is healthy for DISA, which is responsible and accountable to the public to have an expert on Finance. There should be an external expert familiar with the finances of DISA who will review the finances and financial policies and systems of DISA to see whether they are adequately adhered to. The expert should alert DISA with regard to any lapses and deficiencies in standards and policies with in its cadre from time to time.

## **2.2 Procedures and Systems**

Procedures and systems are the key factors, which ensure an organization's smooth running. A good system will make sure that there is a clear and automatic functioning of DISA preventing domination or manipulation by any one person or group of persons for their own personal benefits.

The following are some of the common and generally accepted systems and procedures for DISA:

- a) Internal Control
- b) Professional Accounting Systems
- c) Reporting and Monitoring Systems
- d) Handing Over System

### **2.2.1 Internal Controls**

Internal controls are like checks and balances, which help to keep the system in place to avoid frauds and misappropriation or deviations from accepted policies and procedures. Periodical review of internal controls is required to maintain the vitality of the system.

**The following internal controls are adopted in DISA:**

#### **A. Cash Transaction**

**i) Segregation of cash payments into petty cash and larger payments.**

Both for accounting and control purposes, the Accountant with the knowledge of the Programme Director should make all the payments. It is advisable to fix limits for petty cash payments. DISA office has fixed an amount at Rs.10,000/- (Rupees ten thousand only).

**ii) Cheque payments versus cash payments**

As far as possible all payments for expenses should be made through cheques except for petty cash transaction. In any case, make all payments exceeding Rs.10,000/- by crossed "A/c Payee" cheque or demand draft.

**iii) Physical Verification of cash**

Management will ensure to verify the actual cash in hand with the balance shown in the book at least once a month and also undertake surprise checks, at the end of the financial year at HO & Community Centre (CC) level.

**iv) Cash Receipts**

The management will ensure that the cash received by the organization is promptly deposited in the bank next day. It will be acknowledged through pre-numbered Receipts, which are properly recorded in the cashbook.

#### **B Bank Transactions**

- a. There will be system for preparation of Bank Reconciliation Statement quarterly and monitoring the same.
- b. Issuing bearer cheques and post-dated cheques will be avoided as far as possible.
- c. Cheques for payment will be issued only when there is an adequate balance in the account since the dishonoring of a cheque will attract criminal liability.
- d. All cancelled cheques will be preserved for identification and control purposes.

- e. The cheque book will always be in the safe custody of a designated authority that is accountable.
- f. Cheques and Drafts received by DISA will be acknowledged through pre-numbered receipts, which are promptly deposited and properly recorded, and the various functions of receiving, processing and recording should be clearly segregated.

### **C. Fixed Assets and Inventory Control**

While an inventory (Stock Register) records assets, which are generally consumable or saleable, a Fixed Assets Register records more permanent assets, which provide long-term benefits to DISA. Hence both are valuable since they represent a substantial portion of the net worth of DISA. Both types of assets will be controlled and managed efficiently and also used effectively.

The following are measures for exercising adequate control: -

- a. Maintenance of a Fixed Assets Register.
- b. The management will carry out a physical verification of the stock and assets periodically.
- c. Management will ensure that there is an annual physical verification prior to the statutory audit.
- d. Original documents such as sale deeds, registration documents for vehicles, sanctioned building plans, land related revenue records etc. are carefully preserved.
- e. All fixed assets are numbered for identification and accounting purposes.
- f. The fixed assets are acquired or disposed off only after proper authorization and that they are adequately safeguarded.

### **D Investment Control**

Other than fixed assets and stock, investments represent a substantial net worth of DISA. Therefore investments must be managed and controlled efficiently and effectively.

Given below are practices followed: -

- A. Have a professional investment accounting through an Investment Register.
- B. Organize a Half Yearly Investment Report highlighting
  - The percentage of return
  - Returns for the quarter
  - Investments matured
  - Investments maturing in the next quarter

- C All records pertaining to investments should be in the safe custody of a designated authority.

## **E. Advances and Loans**

As a policy, DISA will not give loans to staff, but advances of salary could be paid against a written application by the staff and the advance will be adjusted against his/her salary. All the advances will be repaid / adjusted by the end of the financial year as on 31 March. DISA will not give fresh advance until the earlier advance is cleared. A repayment and deduction schedule from the salary towards the advance will be prepared and kept. Advances of Rs.10, 000/- and more on the aggregate shall be paid through A/c Payee cheque or draft only.

## **F. Internal Auditor**

The Governing Body of DISA will appoint one Internal Auditor for Financial Support Supervision. The Internal Auditor will verify Accounts, Financial records, Transactions, Fixed Assets and Application of funds. He will make the internal auditing at every six months and advice the Staff and the Management on the financial position and utilization of funds. Corrective measures, if any, are taken immediately. Financial irregularity will be considered seriously and the appropriate actions are taken for effective and efficient financial management.

### **2.3 Professional Accounting System**

A professional accounting system should necessarily include clear supporting documents and simple, transparent, yet informative books of accounts. Please refer to Chapter 4.

### **2.4 Reporting and Monitoring systems**

Please refer to Chapter 5

### **2.5 Handing Over System**

At DISA, it is quite normal that the office bearers change from time to time depending on the period of office, resignation etc. and the new office bearers take over the responsibility. At the time of handing over, the following issues have to be borne in mind: -

- a) Books of accounts, register and other financial records must be updated and signed by the preceding office bearer along with another office bearer authorized by the Governing Body.
- b) Financial statements must be drawn up to the date of handing over charge and signed by the preceding office bearer along with another office bearer as to the completeness of the financial statement.

- c) Physical cash must tally with the balance as per Cash Book on the date of taking over charge. The Cash Book must be signed jointly and a certificate to that effect must be signed in the presence of another office bearer.
- d) A bank reconciliation statement must be prepared and the preceding office bearer must obtain a certificate from the Banker as to the bank balance on the date of laying down charge.
- e) Statutory books must be updated and signed before they are given to the new office bearer.
- f) Files pertaining to legal compliance should be handed over along with the legal compliance status report e.g. Income Tax file, Societies Registration file and Foreign Contribution Regulation Act file.
- g) Original documents relating to the fixed assets e.g. sale deeds, building plan, investments, Certificate of Registration under various laws etc. must be handed over and be signed in the presence of another office bearer.
- h) Any outstanding income or expense such as advance recoverable, bills payable etc. should be booked
- i) All the Savings Bank cheques are to be handed over with the verification by a third person.

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## **CHAPTER – 3**

### **Planning and Budgeting**

#### **3.1 Need for Planning**

DISA has a vision, mission and specific strategy, which must be translated into reality. DISA is based on certain values of service to humanity and it should be a regular practice for them to go through a process of vision building and making a mission statement. DISA should plan for the future with wisdom and foresight, so that the mission can be fulfilled in the most economical way, within the least time limit, with professionalism and quality and in accordance with the highest standards.

#### **3.2 Significance of Planning**

The Finances of DISA can be healthy only if the same is used for the planned activities of DISA to achieve the objectives and finally to serve the vision.

#### **3.3 Annual Budgeting**

Budgeting is an important tool for planning the finances of DISA. Budgeting has to be a corporate approach in DISA since there are many departments, which incur expenses. Therefore, the finance department should propose the budget estimates by consolidating estimates received from different Project Areas and present the same on or before 31<sup>st</sup> January and get it approved in the G.B. meeting before the beginning of the succeeding financial year.

The Finance department should consolidate all the estimates of various Project Offices and departments concerning replacements and new equipment for the following year to the Programme Director before the Board Meeting.

The Programme Director may make such comments having regard to the broad objectives and the needs of DISA and present the final version to the Finance Committee on or before 15th February of the each year.

The Finance Committee shall study the budget estimates and make such comments as they consider necessary and forward the same to the Governing Body. The Programme Director shall thereafter place the budget with the comments of the Finance Committee before the next Governing Body meeting in March every year.

For constructing any of the budgets, the following steps have to be kept in mind:

-

- Estimate the income/receipts

- Estimate the expenditure/payments
- Review the previous two to three years income and expenditure for pattern
- Arrive at the surplus/deficit in either case, plan how to use the surplus or manage the deficit.

### 3.3.1. Annual Programme Income Budgeting (in linkage with Annual Programme Action Plan)

DISA in order to attain its goals and objectives will undertake activities for implementation of the project. Each of these activities planned is linked to the financial plan through budget code and budgeted head of accounts. This linkage facilitates to prepare a clear budget and enables us to determine the expected income for the year. This also gives us the picture of the previous years anticipated income and actual income. The following format is being used for the same:

Format No.2

### Development Initiatives By Social Animation Estimated and Actual Income For the Financial Year \_\_\_\_\_

SL. NO.	PROGRAMME / SOURCE	2006-07		2007-08		2008-09	
		Budget	Actual	Budget	Actual	Budget Proposed	%age increase over last year budget
1							
2							
3							
4							
	<b>TOTAL</b>						

(Source may vary depending upon the activities of the organization & collaboration with the donor agencies)

### 3.3.2. Staff Budget

This is the first step to prepare the annual budget. Under this we determine the various positions at various cost centers, which leads us to determine the personnel cost for the year.

### 3.3.3. Salary Budget

Based on the Staff Budget, the actual salary payable during the year to the staff is calculated giving all details of the salary components. Under this, salary of

each individual employee by his/her name is determined keeping in mind the staff budget.

#### **3.3.4. Capital Budget**

Capital Expenses (non-recurring expenses), are the acquisition of new assets like equipment, furniture, vehicles, land and building and / or additions to building. These assets require substantially large resources. Resources should be invested in capital assets only if they are required for the objects of DISA. Capital assets will otherwise turn out to be liabilities for DISA e.g. maintenance charges for rundown or idle building and equipment, cost of litigation arising out of encroachment of land etc.

#### **3.3.5. Cost Center wise Budget**

Operating expenses represent the operative expenses of DISA such as salaries, Travel, office expenses, normal maintenance expenses etc. This is the estimation of expenses on the cost centers basis i.e. Project Centre-wise, Department wise. This helps us to determine the cost of a particular Project Centre / Department.

#### **3.3.6. Total Administrative Budget**

Total of Cost Center wise budget (Capital as well as Revenue) is compared with the budgets and actual expenses of previous three years to have an idea regarding the inflation in the overall Admin Budget.

#### **3.3.7. Rationale of the Budgets**

We also keep the basis of the budgeted amount, how it is calculated, what type of expenses were anticipated and amount budgeted for the same under each head (cost center wise). This helps us to clarify doubts about the various provisions made under different budget heads, whether that particular activity/transaction was estimated and under which head it has to be accounted for.

It is healthier to run DISA in a self-reliant manner rather than to be dependent. High dependency will affect the stability of DISA and result in dislocation of its activities. All efforts should be made to make DISA self-reliant through sensible budgeting processes.

### **3.4 Finance Committee**

The Governing Body of DISA has constituted a Finance Committee Consisting of the Secretary, Treasurer, Programme Director and Accountant. It shall be the responsibility of the Finance Committee.

- To review the annual budget of DISA and make such comments as may be necessary
- Review the audited periodic financial statements of DISA
- Advice DISA on the investment policies
- To meet periodically at least every half year to review the finance system of DISA
- To meet for such purpose having financial implication of DISA and render advise for example, mobilization of Corpus Fund, purchase of office premises for Project Centre of DISA, any unexpected expenses etc.

### **3.5 Final Approval of the annual Administrative Budget from GB**

After the approval by the Finance Committee, the budget is presented to Governing Body for their final approval before implementing the same.

### **3.6 Budget Monitoring – Budget Comparison and Revision of Budget**

The budget, however, provisionally prepared, will be a futile exercise if the same is not monitored periodically. It is therefore, recommended that finance department shall monitor the budget on a monthly basis as per the format and the procedure recommended earlier and if required the budget could be revised based on the half yearly expenses. Quarterly cost center wise Budget Comparison should also be made for the close monitoring and better control.

### **3.7 Charts of Accounts – Budget Heads**

Chart of accounts is a list of accounts agreed in an organization based on the Vision, Mission, goals and objectives. The accounts are prepared based on the programs run, which falls within the vision of the organization. Any expenditure has to be classified under the agreed head of account and not under any other head of account. Both the heads of accounts and the description of the nature of expenditure under each head have to be agreed and not to be charged without proper authorization. In short the budget heads shall be integrated with chart of accounts.

## **CHAPTER - 4 ACCOUNTING AND RECORD KEEPING**

### **4.1 Maintenance of Books of Accounts**

#### **Introduction**

Accounting is a basic management tool which if used properly will enable the Governing Body / Management to determine the correct financial status of DISA.

#### **4.1.1 Type of Accounting: -**

DISA follows the Cash System of Accounting. In the cash system of accounting, entries are made only when the cash is received or paid and no entry is made when the receipts or payments are due.

#### **4.1.2 Accounting for DISA: -**

Presently, DISA is following the Cash System of maintaining the books of account. Under this system, the Following books of accounts are generally accepted and maintained: -

- 1) Petty Cash Book (imprest)
- 2) Main Cash Book with cash and bank columns (normally referred to as Cash book)
- 3) General Ledger (Normally referred to as Ledger- monthly, half yearly, annual)
- 4) Project Ledger
- 5) Agency Ledger
- 6) Journal Register (Normally referred to as journal)
- 7) Investment Register
- 8) Fixed Assets Register
- 9) Loans and Advance Register

DISA shall maintain exclusively three sets of books of accounts as follow:-

**One set** of books of accounts for Receipts and Utilization of Foreign Contribution as required under the Foreign Contribution Regulation Act, 1976

**Second Set** of books of accounts for local funds collected and spent by DISA

**Third set** of books of accounts for Government Grants collected and spent by DISA. This set of books are to be kept for easy accounting, monitoring and reporting to the Government from time to time.

#### **4.1.3 Imprest Petty Cash Book**

It is used for recording recurring petty transactions and thereby lessens the burden of maintaining the Cash Book as well as posting to the General Ledger. Payments made from the Cash Book shall be acknowledged as receipts in the Petty Cash Book. The difference between the receipts and the total of expenses as shown in the Petty Cash Book reflects the petty cash in hand.

##### *Maintaining Petty Cash under the Imprest System*

Under the imprest system the Petty Cash is fixed to a certain limit for handling cash. The limit is fixed based on the estimated requirements for a week/fortnight/month. The Petty Cashier gets the amount reimbursed of the

expenditure incurred from the Main Cashier when the cash balance becomes low e.g. the petty cash limit is Rs.20,000/-. The petty Cashier has incurred expenses of Rs.15,000/- under various heads of accounts. The balance cash with the Petty cashier is Rs.5,000/-. The Petty Cashier will be reimbursed Rs 15,000/- to ensure that the cash balance is Rs.20,000/-.

This book shall be maintained to record the following transactions:

- a) All the petty cash payments, which are below Rs.5,000/-. Payments exceeding Rs.5,000/- shall be made in exceptional situations.
- b) To record the reimbursement of the imprest cash from the main Administration Account.

#### **4.1.4 Imprest Account in Project Centre office**

Funds shall be disbursed towards reimbursement of imprest to the Project Centres from the foreign contribution account and from Indian funds separately. This is for accounting convenience, for proper legal compliance and to avoid mixing of FC (Foreign Contribution) and LC (Local Contribution).

The Project Centre office shall maintain proper accounts and send the expenses statement along with the original bills to DISA office when 80% of the imprest funds have been spent or forth nightly, which ever is earlier.

As soon as the head office receives imprest account, the head of finance should review the imprest account through a designated staff and have the approval of the Programme Director and send the demand draft/Bank Transfer request to the bank or make the cash reimbursement.

The assistant who maintains the imprest account should take into account the following points: -

- Supporting documentation
- Booking the item of expenditure under relevant heads of accounts
- Tallying the expenses with the tour schedule
- Identification of unauthorized expenses
- In case of certain expenses like long distance calls, proper details namely person called, purpose, number and time utilized, have to be verified and discrepancies have to be pointed out to the Head of Department. After all these verifications the assessing assistant should specifically recommend to the Head of Department to make the payment
- In case of problems of discrepancies in the imprest, the designated assistant should point it out to the Head and follow them up till they are classified / rectified
- To ensure the follow ups, the assessing assistant should maintain register

The following format is being used for imprest account in DISA:-

**Format 3.**

**Development Initiatives By Social animation  
Project Area Office.....  
PERIOD FROM: ..... TO: .....**

Voucher no.	Date	Receipts	Amount	Payments	Amount
1					
2					
3					
		Receipts Total		Payments Total	
				Balance	
		Grand total			

Accountant

Programme/Project Coordinator

Programme Director

**4.2. General Ledger**

This is a book of accounts in which transactions are posted from the Cash Book, Petty Cash Book and Journal Register under account headings e.g. Salaries, Repairs and Maintenance, Traveling & Conveyance, Rent, Interest received etc. according to the date of occurrence. The ledger printouts are taken on monthly basis, half yearly (6 month ledger) and annual basis (12 months ledger).

**4.3. Agency Ledger**

This ledger shall be maintained to reflect the status of Agency-wise Funds.

This Ledger shall contain the following transactions:

- a) Amount received from the Agency
- b) Amount disbursed out of the Agency Funds
- c) Balance available or deficit in the Agency Account.

**4.4. Accounting for different projects: -**

DISA carries out various projects/programs in collaboration with Central and State Government as well as with Funding Agencies abroad. Invariably the above agencies require our organization to maintain accounts separately for each project or programme funded. In all the above cases DISA has to maintain a separate set of books for each of the funded projects. If there is any component of local funds used with foreign grants, separate set of books will have to be maintained. However, for the purpose of reporting to the funding agency,

transactions from both local funds and foreign funds have to be merged. All the foreign contributions received for different projects have to pass through the designated FCRA bank account.

Further, the project control accounts must be online with the main computerized systems. The integrated accounts of the project must be validated once in every quarter. Reporting formats must be evolved to ensure proper monitoring of the project finances.

#### **4.5. Asset Register**

Asset Register shall be maintained to reflect all the movable and immovable assets owned by DISA. Assets Register shall reflect the following information as per the Format **(Format 4.)**

Sl.No	Bill No	Date of Purchase	Description of Asset	Value of Asset	Asset No.	Location of Asset	Person Responsible	Signature

#### **4.6. Advances**

Advances given are classified as under:

- 1) Advances made towards the project
- 2) Advances made to the staff for travel, salary etc
- 3) Other Advances

##### **Advances made towards projects**

Project advances are generally made from that particular grant of that program. Once such an advance is made both the Programmes Department and the Finance Department shall keep track of it and ensure that the same is regularized within the Financial Year. Such advances that cannot be regularized with the Financial Year should be avoided.

##### **Advances made to the Staff for Travel or Salary**

The staff should ensure that the advances taken for Travel costs by him/her are settled as soon as possible (within 5 days) after reporting on his or her return from the travel. No subsequent advance shall be made to any staff before the settlement of travel advance by the staff through a designated assistant who will keep a separate register of all the travel programs.

##### **Other Advances**

The advance is permissible to the Staff for arranging any meeting, workshop etc. The concerned staff should ensure settling the same as soon as possible after the finish of such meeting etc.

**Format 5.**

**Development Initiatives By Social Animation  
REQUISITION FOR ADVANCE**

1. Name.....
  2. Advance Rs.....
  3. Purpose.....
  4. Required on .....
  5. Previous Advance balance with purpose .....
- Date .....Signature.....  
Comments / Approval.....  
Signature of Coordinator.....Programme Director

The following format is used by our office for Travel Itinerary for getting the approval of their planned travels: -

**Format 6.**

**Development Initiatives By Social Animation  
TRAVEL ITINERARY**

The Programme Director  
DISA, Basti  
Dear Sir,

Dated

I request you to approve my Travel schedule as given below :

TIME OF DEPARTURE .....

DATE & TIME OF ARRIVAL .....

<b>Date</b>	<b>Place of visit</b>	<b>Purpose / Project / Meeting</b>	<b>Name of the person/s to contact</b>	<b>Mode of travel Air / Train / Bus/ Taxi etc.</b>	<b>Accommodation required Yes / No</b>

Thanking You  
Yours sincerely

For **DISA**  
**[NAME, EMPLOYEE CODE/DEPTT]**

The following format for taking any tour advance after getting the tour itinerary approved by the Programme Director:

**Format 7**

**Development Initiatives By Social Animation  
Details of Travel Expenses**

- 1. Name.....2.Designation.....
- 3. Purpose of travel.....
- 4. Departure Date..... Time.....
- 5. Arrival Date.. Time.....
- 6. Details of Travel Expenses

Date	From	To	Rail/ Bus/Air	Expenses	Ticket No

A. Total Rs.....

**7. Local Travel Expenses**

Date	From	To	Mode of Travel	Expenses	Bill No

B. Total

Rs.....

**8. Accommodation**

No of Days .....Rs.....(Please attach Bills)  
. Total Rs.....

**9. Food**

For .....days Rs .....  
Extra if any .....Rs. (Explanation if any..... )  
D. Total Rs.....

**10. Other Expenses**

- .....Rs.....
- ..... Rs.....
- ..... Rs.....

(Explanation if any ..... ) E. Total Rs.....  
Grant Total (A+B+C+D+E) Rs.....(Rupees.....)  
Advance Received Rs.....Dated .....

Signature of Applicant.....Accountant.....Programme  
Director.....

**RECEIPT**

Received Rs.....(Rupees.....) only  
in Cash / Cheque No.....Dated .....from DISA, Basti.

Signature .....Date.....

**FOR OFFICE USE**

Total Advance Rs.....  
Total Travel Expenses Incurred Rs.....  
Balance Rs.....to be reimbursed / to be paid by Cash / Cheque.....

Project Name .....

Signature of Accountant  
Dated.

#### **4.7. Local Contribution**

DISA shall maintain the following Books of Accounts for the Receipt and Utilization of Local Contributions:

##### **4.7.1 Local Contribution Bank Book**

This book shall be maintained to record the followings: -

- a) All the inward remittances of local contributions including cheques /drafts received towards campaign, special collections, donations etc.
- b) All the disbursements made to the Project Centres and towards charity grants
- c) To reconcile the closing balance in the Bank day by day

##### **4.7.2 Local Contribution Ledger**

This Ledger shall be maintained to reflect the status of local funds. This ledger shall contain the following transactions.

- a) Amount received towards campaign, special collections & donations
- b) Amount disbursed out of local funds
- c) Balance available or deficit in the funds account

#### **4.8 Depreciation**

Depreciation is provided in order to achieve the following objectives:

- ✓ To ascertain the true surplus
- ✓ To show the asset at its fair value
- ✓ To present a fair and true picture of the financial status
- ✓ To provide for replacement of the depreciation asset

Depreciation is a non-cash expenditure of DISA. It is allowable expenditure under the Income Tax Act.

##### **4.8.1 Method of providing depreciation**

The following are some of the methods of providing depreciation

- Straight Line Method
- Written Down value Method

DISA is following the Written Down Value Method. The rate prescribed by the Income Tax of the respective year will be taken / charged for calculating

Depreciation. Assets purchased prior to 10 years of period are taken as purchase in the 10<sup>th</sup> year and calculations are done on that basis.

#### **4.9 Fixed Deposit Ledger**

This Ledger shall record entries relating to Fixed Deposits made out of foreign/local contribution with the date of deposit, principal amount, interest received, period of deposit and maturity date, bank wise.

#### **4.10 Maintenance of Bank Accounts**

DISA shall maintain exclusively a separate Bank Account for operating Foreign Contribution and separate bank account or accounts for operating local funds and also Government Grants.

#### **4.11 Bank Account for Foreign Contributions:**

This bank account is the account officially approved by the foreign contribution Regulation Act Division of the Ministry of Home Affairs, Government of India, while granting registration to the organization under FCRA. This account shall contain only the transactions relating to foreign contributions. All inward remittances of foreign contributions shall be deposited and encashed through this bank account. No local funds shall be remitted into this account under any circumstances.

#### **4.12 Receipt of Foreign Contribution**

All the receipts of foreign contributions shall be credited into the Foreign Contribution Bank Account against which official receipts should be issued to the Donor Agency. No other receipt shall be paid into this bank account under any circumstances.

#### **4.13 Payments out of Foreign Contribution**

Payment out of foreign contribution shall be made for the following purposes:

- a) Disbursements to project holders
- b) Drawing for administrative expenses of DISA

#### **4.14 Bank Account for Local Funds**

DISA maintains as many bank accounts as it requires for operating various local funds like Campaign fund, special collections, Government Grants, donations etc.

DISA shall open or close such bank accounts from time to time with the proper resolution of the Governing Body.

#### 4.15 Bank Reconciliation Statements

The Finance Department shall prepare a bank reconciliation statement every quarter which shall be certified by the Head of the Department and attached to the quarterly management report described elsewhere. The Correction, rectification entries required shall be passed on or before the first week of the next quarter.

The difference in the balance could be due to the followings:

- a) Bank charges debited by the bank are not immediately entered in the books of DISA
- b) When cheques are being deposited, DISA will record it in its books immediately whereas the bank will enter it in the bank pass book or statement only on realization of the cheques
- c) When cheques are being issued DISA will record it as payment but until each party presents the cheque for payment the bank will not debit it.
- d) Errors may be committed in the books by the bank and / or by DISA
- e) Standing instructions given to the bank to make payment or collect receipts are entered in the bank books but the entries in the books of DISA are passed only after receipts of the bank advice

4.15.A The Finance Department shall maintain an Inward Remittance List exclusively for foreign contribution received in the given format:

#### Format 8

#### Development Initiatives By Social Animation

#### INWARD REMITTANCE LIST FOR .....

VR.NO.	DATE	CR ADVICE	PURPOSE	DONOR	CURRENCY	TOTAL	RATE

#### 4.16 Cash Flow Projection / Cash Flow Statement

The Finance Department should prepare a cash flow projection report at least every quarter to serve the following triple purpose:

- a) To make the best investment decisions for the funds of DISA
- b) To ensure that there is smooth flow of cash receipts and payments
- c) To avoid any cash crunch/deficit situation

In order to prepare a scientific cash flow projection report, the Finance Dept may take the assistance of other departments like Programmes Dept. or HR & Admin. The Cash flow statement presents the flow of funds of the reporting period that has just expired. The purpose of this statement is to compare the actual transaction with the projection referred to in the previous month and to make any

such adjustments as may be required in the coming months. The Cash flow projection report of the departments shall be in the given form :-

**Format 9  
Development Initiatives By Social Animation**

**CASH FLOW FOR THE YEAR .....**

<b>RECEIPTS</b>	AP R	MA Y	JUN	JUL	AU G	SE P	OC T	NO V	DE C	JAN	FEB	MA R	TOTAL
From Agency1													
Agency 2													
Agency 3													
LESS:													
<b>PAYMENTS</b>													
<b>BALANCE</b>													

The pattern of disbursements of the previous months or the same period in the last year or past years may be considered. The administrative expenses to be incurred shall also be taken into account.

**4.17 Maintenance of Financial records and Documents**

Maintenance of proper financial records and documents on a daily basis is a good accounting system. Any transaction must be supported by certain valid documents e.g. vouchers, receipts etc. These are known as supporting documents and they are an integral part of any accounting systems.

**4.18. Maintenance of Files**

A good filing system is an integral part of the accounting systems of any organization.

**The following files should be maintained in DISA:**

- 1) Voucher file for cash book
- 2) Voucher file for petty cash book
- 3) Voucher file for journal register
- 4) A separate bank file for each bank account
- 5) Receipts file/book
- 6) Fixed Asset file/register
- 7) Fixed deposit file
- 8) Management reports (monthly/quarterly)
- 9) Financial statements
- 10) Audited accounts

- 11) Budget file
- 12) Separate files for each Project Centre
- 13) Income Tax Files
- 14) Programmes files for different grants
- 15) Salary files/Staff file

#### **4.19. Fixed Assets- Purchase/ Disposal Procedure**

##### **Purchase Procedure**

1. Assets, which have to be purchased, should be approved in the budget.
2. In case it is not budgeted; rationale / justification for urgency of such purchase has to be given.
3. Three quotations to be obtained from different vendors to ensure cost effectiveness and utility for value above than Rs. 5,000/- (cost benefit analysis).
4. Identification of vendors from whom to purchase and its terms of reference such as payment terms, delivery details, guarantee period, services available, AMC etc.
5. Proper authorization/approval for purchase from Governing Body
6. After purchase/installation, proper identification mark (asset number) should be put on the asset by the finance department.

##### **Sale Procedure**

1. Reason for disposal/ write off the assets, possibility for further utilization at different location or with some modification/repair etc.
2. Approval for the disposal/write off from the Governing Body
3. Calculate the estimated present value of the assets and comparison with Written Down Value (WDV).
4. Fixing reserve price.
5. Calling/ scrutiny for tenders/ auction of assets.
6. Collection of sale value.
7. Depositing the sale proceeds in the DISA account.

#### **4.20. Documentation of Fixed Assets:**

Fixed assets can be classified into two types

1. Immovable e.g. Land, Buildings
2. Movables e.g. Vehicles, Furniture, Equipment

The following documents relating to Fixed Assets have to be properly preserved:

##### **Immovable Assets:**

- a) **Land (Free hold)**
  - Original Sale Deeds
  - Parent documents

- Sketch of the property
- Encumbrance Certificate
- Legal opinion as to the title of the property
- Land Tax receipts, if any
- Patta / katha

In the case of leasehold land the lease agreement document should be preserved.

**b) Building**

- Purchase of Building:
- Original Sale deed
- Parent documents
- Sketch of the land and building
- Encumbrance Certificate
- Legal opinion
- Patta / katha
- Property tax and land tax receipts

**c) Constructed Building**

- Building plan approved by the Government
- Valuation report from an approved value as to the value of the building

**Movable Assets:**

**a. Vehicle**

- Invoice
- Registration document of the vehicles
- Road Tax
- Insurance

**b. Other assets**

- Cash bills
- Invoice
- Cash Receipts

**4.21. Allocable Interest**

All the interest earned/received by the Society on its investments is collected in a Pool Account called "Allocable Interest Account" and subsequently allocated quarterly to different Funds proportionately on the basis of their monthly closing balances.

**4.23. Preservation of Financial Records**

The financial records must be preserved and made available for verification by the Governing Body, members of the organization, the funding agencies, auditors and Government authorities.

## **CHAPTER 5 REPORTING AND MONITORING**

### **5.1. Reporting**

Reporting is a process through which DISA presents a reflection of its current status, especially the financial situation. Reporting is important because it enables not only those in authority but also the public at large to know whether or not activities which had been planned have been carried out, whether there have been any deviations and whether there are high standards of efficiency and accountability or not.

There are several ways of reporting depending on the different types of organization and the sort of information they need. The following are some of the ways of reporting by DISA :

1. Reporting to the GB/Donors
2. Reporting to the Programme Director
3. Reporting to the Government
4. Reporting to the public at large e.g. by publishing an Annual report.

#### **5.1.1. Reporting to the Governing Body/Donors**

The following are the common reports submitted to the Board :-

- a) Financial Management Information System
- b) Half Yearly Financial Report
- c) Annual Financial Report
- d) Legal Compliance Status Report
- e) Projects Status Report
- f) Budget Comparison Report
- g) Investment Status Report
- h) Donor Agency Status Report
- i) Management letter from statutory auditors.

##### **a) Financial Management Information System**

A tool has been developed to closely monitor the improvements made and future plans for further improvement of the DISA Financial Management. A close monitoring is being done to review and further simplify and ensuring compliance of all the necessary activities. This is prepared and reported periodically.

##### **b) Half Yearly Financial Report**

Boards of DISA meet at least every half yearly during the fiscal year. This is a healthy practice.

In such half yearly meeting the following reports should be prepared and presented by DISA for the review of the Board :-

- i Receipts & Payments Account
- ii Income & Expenditure Account
- iii Balance Sheet

- iv Legal Compliance Status Report
- v Project Status Report
- vi Budget Comparison Report
- vii Investment Status Report

**c) Annual Financial Report**

Normally it is a legal requirement that DISA should present its audited financial statement in the Board meeting after the end on the fiscal year and adopt the same before filing it with the appropriate Government Authorities.

The Board may then like to review the following reports :

- i Audited Financial Statement including :-
  - ii. Receipts & Payments Account
  - iii. Income & Expenditure Account
  - iv. Balance Sheet
- ii Utilization Status Report for the purpose of Income Tax (85%)
- iii Legal Compliance Status Report
- iv Annual Budget Comparison Report
- v Project Status Report
- vi Investment Status Report

**d) Legal Compliance Status Report**

This is a report that informs the Board whether DISA has complied with the necessary laws e.g. filling the Income Tax Returns, reporting to the Ministry of Home Affairs under FCRA etc.

If there is any action against DISA by the Government it should be reported to the Board. Information should not be purposely concealed from them. If there is any violation of the law, then it will have serious implications and will cause immense damage to DISA

**e) Project Status Report (Project Placement Planning)**

DISA often implements many programs simultaneously. Therefore, it is important for the Chief Functionary as well as Board to understand the status of the stage of completion of each program. This report, therefore, gives clear details about each program at any particular point of time.

Reconciliation between agency balances must be carried out through a proper system. Further, a report on administrative expenditure in each project or programme shall be submitted.

**f) Budget Comparison Report**

A budget is a financial plan and hence it needs to be compared with the actual financial statement periodically (monthly, quarterly, half yearly or annually). A Budget Comparison Report is a tool to assist in the above process, in order to monitor systematically.

**g) Investment Status Report**

DISA is making different types of investments. Funds are invested in a creative manner and then measured in terms of capital appreciation, safety, liquidity and rate of return, thereby, improving the resources of DISA effectively and efficiently.

**h) Donor Agency Status Report**

Donor agencies prescribe different types of reports. It is for the Board to ensure that the reports prescribed by the donor agencies are complied with.

It is advisable to develop a calendar for reporting to donors and incorporate the same with the financial calendar in practice.

Quarterly monitoring is done in order to ensure a regular review of the activities of DISA. It enables DISA to take the necessary corrective activity for any deviation from the actual plan before it is too late. It will be too late to take any corrective action at the end of the fiscal year and a review after the end of the fiscal year serves no purpose at all.

**i) Management Letter from statutory Auditors**

The statutory auditors shall provide a management letter with advice and give recommendation for improving the financial practices of the organization. The Board of DISA shall ensure that the recommendations are discussed and a specific time plan be drawn for implementation.

A recommendation closure document shall also be prepared as to number of recommendations implemented, which is also intimated to the statutory auditors and the Financial Advisor.

**Grant completion Report to Donor Agency**

Once the accounting period is over, within a period of 3 months the Completion Report should be sent to the Donor Agency.

**For finalizing the completion report the following documents are required:-**

- a) Audited Statement of Accounts for the whole programme period or Utilization certificate for the completed programme.
- b) Completion Report of the programme by the Legal Holder.

**5.1.2. Reporting to the Secretary and Programme Director**

While it is the Board, which frames Board policies, it is the Secretary and the Programme Director who implement such policies and take care of the day-to-day affairs of DISA. Therefore, these reports will be required for them more frequently than they are required by the Board :

A good reporting and monitoring system ensures transparency in the accounting of DISA.

Reporting and monitoring are two important functions, which are complementary to each other for the effective functioning of the finance department.

Reporting function enables the management to obtain certain key information required to ensure that the financial system is working smoothly and is intact.

Monitoring function facilitates taking note of any deviation from what has been planned or budgeted and enables corrective action before it is too late.

#### **5.1.2.1 Monthly Management Reports**

The following reports shall be submitted to the management to ensure reporting and monitoring function effective.

- i Monthly Financial Report
  - a Receipt & Payment Account
  - b Income & Expenditure Account
  - c Balance Sheet
- ii Budget Comparison Report
- iii Investment Status Report
- iv Donor Agency Status Report
- v Bank Reconciliation Statement

It is the responsibility of the Senior Finance Officer to prepare, certify and present the report. The above reports shall be submitted on or before the 15<sup>th</sup> day of the following month.

#### **5.1.2.2. Budget Comparison Statement**

This statement shall reflect the budgeted income and expenditure (department/region wise) as against the actual for the month and the deviation, if any. It is an important tool for the management to ensure that the income and expenditure are adhered to the budget planned and approved. This is made on the basis of cost centers and expenses heads as approved by the GB, which is reconciled with the total approved budget and actual expenses incurred.

#### **5.1.2.3. Utilization percentage of expenses for the purpose of Income Tax**

An organization violates the Tax Laws by not spending the required amount (85%) of income of a fiscal year under the present Income Tax Act. DISA has to spend 85% of its income during the year towards its various objectives. Of course, if the same is not spent by DISA it can take recourse to other possibilities of obtaining exemptions by accumulating the income to be spent in the next or in the succeeding years. However, it is to track the above information on a monthly basis so that towards the end of the year DISA does not face a situation of non-compliance of the Tax Laws.

### **5.1.2.9 Schedules to Balance sheet**

This is the summary of transactions, which have taken place during that financial year in that particular fund. DISA prepares Schedules to Balance Sheet on Half yearly basis and Annual Basis. This gives us idea of how transactions in a particular fund have affected the balance of that fund appearing in Balance Sheet in a particular period.

### **5.1.2.10 Ledgers**

Ledgers are the details of the transactions of each account head giving full details of all the transactions with their related effect over the balance of that particular account head. The printout of ledgers is taken from the tailor made software programme of DISA Accounting System on periodical basis (monthly, half yearly, annually).

### **5.1.3 Annual Financial Statements Separately for Foreign Contribution and Local Contribution and Consolidated Statements**

DISA has to prepare a separate set of financial statements for submission to FCRA Department of the Ministry of Home Affairs as follows :

- a Receipts and Payments Account
- b Income and Expenditure Account
- c Balance Sheet
- d Form FC 3

DISA shall also prepare another set of financial statements including the foreign contributions and local contributions as follows :

- a) Receipts and Payments Account
- b) Income and Expenditure Account
- c) Balance Sheet

The consolidated financial statements shall be used for the following purposes :

- 1 Submission to the Income Tax Department
- 2 For filing returns to the Registrar of the Society
- 3 For obtaining various Income Tax Exemption U/S 80 G, 10 (23) © etc.

## **5.2 Monitoring**

Planning and control are two sides of the same coin. Monitoring ensures that one side of the coin, namely, control is adequately exercised. Monitoring is a process by which people who are connected in various capacities to DISA ensure that the project or activity is carried out in accordance with the planned objectives.

There are various levels of monitoring depending on the relationship of the people connected to DISA e.g. The Board is the first level of monitoring authority being the legal body which is accountable and fully responsible for all the good deeds and misdeeds of DISA. Similarly, the Government, both at the State and Central levels, monitors the activities of DISA through various laws which cover DISA e.g. FCRA, taxation etc.

Reporting & Monitoring are the two aspects – to whom we are reporting, he is monitoring through the same tools of reporting. e.g. Finance Department is reporting through monthly financial statements and Governing Body is monitoring through monthly financial statement.

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## **CHAPTER – 6**

### **INVESTMENT OF FUNDS**

#### **6.1 Introduction**

DISA deals with funds received for carrying out their various objective and goals. They received funds for various purposes :

- a) for operating expenses
- b) for specific or designated funds e.g. Training and Orientation, Rehabilitation etc.
- c) Corpus Funds

#### **6.2 Planning for investments**

It is important that DISA has a good investment policy in order to ensure that the funds are invested in the most effective and efficient investment options. Interest earned from these investments is re-allocated to the respective funds at the end of every quarter based on their proportionate average monthly balances.

For this purpose DISA should draw an investment plan keeping reference to the Section 11(5) of the Income Tax Act based on the following factors

- a) nature of funds available for investment in short term deposits and long term deposits
- b) time plan for implementation of the projects for which funds are received

*DISA has to*

- i) ensure conformity and stability by developing a healthy economy
- ii) avoid financial crisis
- iii) avoid high in-dependency and insecurity

##### **6.2.1. Investment Policy**

The DISA Investment Policy should be framed on the guidelines of the following example:

DISA has investment of Rs.XXX crores/million approximately as on 31.03.20XX. These are in the form of fixed deposits with the banks for periods ranging from XXX days to one year depending on the nature and the requirements of the funds for disbursement. The investments are with the Nationalized banks and the reputed Foreign Banks.

Investments of funds should be carefully studied and then invested as regards to the safety and high returns from the banks.



An annual investment report shall also be prepared and the same shall be presented to the Governing Body after periodic audit.

## **CHAPTER – 7**

### **LEGAL COMPLIANCE**

#### **1. Foreign Contribution (Regulation) Act, 1976**

The provisions of the FCRA 1976 govern DISA. This is an important legislation, which can have far reaching repercussions on DISA if the provisions are not strictly adhered to. Among other provisions, this Act requires DISA to comply with the following

##### **1) Registration under the Act**

DISA is duly registered under the FCRA. Registration no. is No.136310026 dated 21 April 2003

##### **2) Maintenance of Bank Accounts**

This Act requires that DISA maintain only one bank account specified in the Certificate of Registration for Receipt and Utilization of foreign contributions DISA maintains the above bank account with the Punjab National Bank, bearing Account no.3143010100025650. DISA also maintains different bank accounts with PNB for administrative expenses.

##### **3) Disbursement to the Project Holders**

While making disbursements to the project holders DISA should ensure the followings:-

- a) The Recipients/project holders are duly registered with the Ministry of Home Affairs under FCRA
- b) The Recipients/project holders agree to encash the disbursement in approved bank account for receiving the foreign contributions
- c) The recipients/project holders agree to provide such returns to DISA as may be required
- d) The objectives for which the recipient is receiving funds from DISA are not different from the objectives of DISA itself.

DISA and the project holders agree upon the above terms and conditions in a duly documented contract agreement named Letter of Offer.

#### **Reporting to Ministry of Home Affairs through Annual Report in Form FC-3**

- ❖ The Annual Report in the form prescribed by the Government viz Form no.FC-3 shall be prepared for the fiscal year ending 31<sup>st</sup> March of each year and shall be filed with the Ministry of Home Affairs on or before 31<sup>st</sup> of July after the end of the fiscal year.
- ❖ Change of name of the Organization, address, its registration, its nature, its aims and objectives have to be informed to the Ministry of Home Affairs within 30 days of the change taking place

- ❖ Change of designated bank account needs prior permission of the Ministry of Home Affairs.
- ❖ If at any point of time, 50% or more of the office bearers are changed at a time, the organization should not accept foreign contribution till the Ministry grants the permission for the above change. In the meanwhile if the organization wants to accept foreign contribution, it can do so after obtaining prior permission.

The annual report stated above shall contain the following:

- Form FC-3 prescribed by the Government signed by the Chief Functionary and Certified by the Auditor.
- The Audited Receipts and Payments Account
- Audited Balance sheet.

### **7.1.1 Respond to any of the queries from the Ministry of Home Affairs**

It is after submitting a timely report to the Ministry of Home Affairs, it is possible that DISA will receive some communication requiring certain explanations and clarifications. In the event of any receipt of such communications, the Head of the Department of Finance should immediately take note of the issues, promptly respond and after the approval of the Secretary, file the same with the Ministry of Home Affairs before the due dates.

Any delay in filing the annual report or respond to the queries shall entail great risk.

### **7.1.2 Income Tax Act**

DISA is a charitable and non-profitable organization having exemption from the Income Tax Act, 1961 under Section 12 A and the Regn No is 146/02-03 w.e.f. 01.04.2002. PAN No. is AAATD545IG. DISA has to file the annual return on or before 31<sup>st</sup> October of the calendar year for the fiscal year of March of each year.

### **7.1.3 Annual Return to the Income Tax Department**

The following documents have to be filed along with the return of income

- a) Form 3A provided by the Income Tax Department
- b) Audited Financial Statements
  - Receipts and Payments Account
  - Income & Expenditure Account
  - Balance Sheet
- c) Audit Report in form 10B certified by the Auditor
- d) Certificate of Income & utilization u/s 11
- e) Copy of certificate of registration under section 12A
- f) List of original subscribers to the MOA
- g) Latest Governing Body Members List
- h) Copy of PAN Certificate

The Finance department should be alert in order to do the filing to the Income Tax Department on date otherwise, non-filing of the Income Tax returns attracts penalty at the rate of Rs.100/- per day for the period of delay.

#### **7.1.4 Tax Deducted at Source**

##### **From Salaries etc.**

The Income Tax Act requires DISA to deduct tax at source from salaries paid to the staff.

Such tax deducted at source shall be paid on the Central Government on or before the 7<sup>th</sup> of the succeeding month in Challan no.9

Annual Return for tax deduction from salaries shall be filed in form no.24 on or before 31<sup>st</sup> May.

DISA has to issue to those staff, a certificate for deduction/non-deduction of tax in Form no.16 within one month from the closure of the financial year.

##### **Tax Deduction at source on payment to contractors**

Payments to contractors and sub-contractors include payment for any work including supply of labor for carrying out any work in pursuance of a contract between the contractor and DISA. Payment also includes the advances made towards bills and mobilization advance. Payments to contractors can be from any source whether local or foreign contribution. However, payments do not include the amounts paid for material like cement, bricks etc. if the bills for the material are in the name of the institution.

##### **Rate of Tax**

Tax has to be deducted @ 2% on the payment to the contractors and @ 1% from the payment to sub-contractors.

Tax has to be deducted only from payments exceeding Rs.20,000/- on a particular contract. Therefore, on contracts whose value is below Rs.20,000/- there is no need to deduct tax at source.

##### **Tax deduction on payment of fees for professional services/technical services**

Payment of fees to professional or technical services exceeding Rs.20,000/- per year are subject to tax deduction at the rate of 5% of the fees paid.

Professional services include profession such as legal, medical, engineering, architecture, accountancy, technical consultancy, interior decoration, advertising and such other profession identified from time to time.

##### **Tax deduction on payment of rent**

DISA is also liable to deduct tax at source on all the rent paid exceeding 1,20,000/- per year @ 15%, 20%. After deducting the tax the same has to be remitted into a bank through a challan provided by the Income Tax Department to the credit of the Central Government. Therefore, a certificate to the contractor in Form no.16A has to be issued.

### **Annual Returns**

The annual return in Form no.26 has to be filed on or before 30<sup>th</sup> of June, for the fiscal year ending 31<sup>st</sup> March of each year in the case of TDS deducted on the payments made to contractors, professional, technical services and rent payments.

#### **7.1.5 Issue of TDS Certificates**

DISA has to issue the TDS Certificates to its employees/contractors/Sub-contractors/ Professionals/Other parties etc. for deduction of tax at source in Form 16/16A, as prescribed by the Income Tax Act, 1961.

#### **7.1.6 Notice from the Income Tax Department**

Any notice received from the Income Tax Department regarding the income tax hearing by the income tax officer, income tax appeals, income tax appellate tribunal or high court or any other tax authority has to be taken seriously.

The Head of Finance Department shall take charge of any such notice on issue and contact the Auditor or Tax consultant and attend to the issues till the appropriate completion and end results. Any violation or non-response to the Income Tax Department shall entail great risk to DISA

### **Societies Act**

DISA being registered under the Societies Registration Act XXI of 1860 and the Society Registration No. 462/2001-02 dated 24 September 2001, Renewal No is 385/2006-07 dated 29 December 2006. It is covered under the Punjab Amendment Act of 1957 and is governed by the provisions of the above Act.

#### **7.1.7 Annual Return**

DISA is required to furnish the annual return to the Registrar of the Societies on or before 31<sup>st</sup> of January giving details of the office bearers of the Organization.

#### **7.1.8 Intimation of changes in members/office bearers**

This shall be the responsibility of the Secretary and not Head of Finance.

#### **7.1.9 Maintenance of Minutes Book**

This shall be the responsibility of the Secretary of the Society.

#### **7.1.10 System for Tracking Legal Compliance**

The Finance Department should introduce and maintain a register to record the various notices received from the government Departments like Income Tax, FCRA and Societies, Provident Fund etc. wherein details for compliance shall also be complied by the Finance Department for efficient work and tracking.

## **CHAPTER 8 AUDIT**

### **Definition of an Audit**

An Audit is a systematic review of the financial transactions. It involves an examination of the validity of supporting documents and the certification of :

- a) The Financial Statements
- b) The various report for legal compliance such as FC-3 for FCRA, Audit Report in Form 10B under the Income Tax Act etc.

The auditor normally also presents a report to the management in order to help them to improve the accounting standards and practices.

### **8.1. The purpose of an Audit**

An audit is like a watchdog. It safeguards the accountability standards of DISA. An audit certifies the authentic financial status of DISA and points out, if there are any deficiencies, malpractice or frauds. It thus builds confidence in the minds of the people connected with DISA whether they are Board Members, beneficiaries or the public. An audit is also a means for legal compliance.

### **8.2. Definition of an Auditor**

An auditor is a person who is qualified as a CHARTERED ACCOUNTANT within the meaning of the CHARTERED ACCOUNTANTS Act 1949. Only a person who is approved by the Institute of CHARTERED ACCOUNTANTS of India as a practicing auditor can certify the financial statement of DISA.

A person who is qualified but not approved by the Institute of CHARTERED ACCOUNTANTS to practice cannot be a practicing auditor.

Any certification to the Government or funding agencies has to be obtained only from a qualified and practicing auditor. If it is certified by anyone else it cannot be an audited statement.

### **8.3. External Auditor versus Internal Auditor**

An external auditor is an independent person or firm specifically appointed to audit the accounts of DISA. The Auditor's report is used for filing returns and compliance of legal requirements. The internal auditor is normally appointed by the management basically to provide guidance to the management.

### **8.4. Responsibilities of Auditor towards DISA**

Generally DISA should ask for the certification of the following from the auditor:

- Certified Financial statements
- Receipts & Payment accounts for the financial year ending
- Income expenditure Account the financial year ending
- Balance sheet as at the end of the year

## **8.5. Preparation for Audit**

The auditor shall be appointed by the General Body as provided in the constitution of DISA every year to audit the accounts of DISA

The auditor shall be provided with a specific scope of work and the same shall be agreed upon and documented.

### **Time Plan**

A proper time plan should be discussed and agreed by the management with the auditor so that the audit work is completed in the most effective manner.

### **Books. Records and Statements**

DISA is to submit the appropriate books, records and report for audit.

Among other things, the following must be submitted for audit :

- a) Books of accounts updated and closed
- b) Vouchers and other supporting documents
- c) Tallied Trial Balance
- d) Tallied Financial Statements - Receipts and Payments Accounts; Income & Expenditure Account; Balance Sheet
- e) Bank Reconciliation Statement

### **Certificates**

DISA should also provide the following certificates:

- Certificate for cash in hand at the end of the financial year i.e..31<sup>st</sup> March
- Certificate for investments like fixed deposit held at the end of the financial year with complete details
- Certificate for closing stock, if any, at the end of the financial year with complete details
- A banker's certificate at the end of the financial year confirming the cash at bank
- A certificate that the fixed assets of DISA have been physically verified and any discrepancies have been dealt with by DISA

## **8.6. Issue of Management Letter**

After completion of audit of a particular audit period, Auditors issue a letter to the management of DISA highlighting main area of focus in which attention of the

management is required. In this report, any pending work, non-compliance or any other suggestion by the auditors to the management is given.

### **8.7. Audit Report**

The auditor shall provide DISA the following reports :

- ❖ A quarterly, six monthly report as required by DISA
- ❖ An Annual Report as of 31<sup>st</sup> March of every year
- ❖ The Audit Report shall consist of the following : Financial reports including Balance Sheet, Income & Expenditure and Receipts & Payment Account

### **8.8. Review of the Audit Report / Management Letter/Secretariat Comments**

The Finance Department shall review the Audit Report and prepare such replies/comments to be placed before the Governing Body.

### **Meetings and the Auditor**

#### **A. Annual General Meeting / Governing Body meeting**

It is a healthy practice to invite the auditor to attend these meetings, present the audit report and clarify any queries raised by the members. This practice will instill confidence in the minds of people connected with DISA

#### **B. Half Yearly Governing Body Meetings**

It is preferable to conduct frequent meetings of the GB, at least on a half yearly basis where half yearly financial statements should be presented.

#### **If the above practices are followed then: -**

- ❖ The audit work will be completed in the least time with the highest quality.
- ❖ The required returns will be filed with the Government and its agencies within required time limits.

### **8.9. Possession of Original Documents**

It is important that DISA retains in safe custody all original documents including the following :

- Memorandum of association and bye-laws
- Certificate of Registration of Society etc.
- Certificate of Registration u/s 12 A of the Income Tax Act.
- Certificate of exemption u/s 80G of the Income Tax Act department along with the statement of income
- Assessment orders issued by the Income Tax Department on completion of assessment
- Certificate of Registration under FCRA

- FC-3 certificate along with the acknowledgement of having filed it with the Ministry of Home affairs
- In the case of different deposits (rent, telephone etc.) or cheque books/pass books of the Project Centre, that should be kept in the safe.

#### **8.10. Change of an Auditor**

There may arise a situation when DISA has to change its auditor. The procedure to be followed for change of an auditor is as follows:

- a) Identify a new auditor with experience of Foreign Contribution Regulation Act (FCRA), 1976
- b) Pass a resolution at the General Body Meeting / Governing Body Meeting or such other meetings of the appropriate body to appoint a new auditor
- c) Issue an appointment letter with a clear scope of work and the previous auditor's name and address and obtain the acceptance of the new auditor.
- d) Inform the previous auditor for the sake of courtesy though it is not obligatory
- e) It is the responsibility of the newly appointed auditor to inform the previous auditor

<b>SL.NO</b>	<b>FINANCIAL CALENDAR OF DISA</b>	<b>DATE</b>
1	Filing of Annual Return to the Registrar of Societies	January
2	Annual Budget 1st Draft	15 <sup>th</sup> January
3	Annual Budget 2 <sup>nd</sup> Draft	15 <sup>th</sup> February
4	Annual closure of Project Disbursements	25 <sup>th</sup> March
5	Annual Budget final draft	05th March
6	Annual Closure of Accounts	31 <sup>st</sup> March
7	Issue of TDS Certificates to Staff/Contractor/Professional/Rent	30 <sup>th</sup> April
8	Annual Audit	30 <sup>th</sup> May
9	Finalization of Audit with ED	10 <sup>th</sup> June
10	Filing of Annual Returns – TDS on salaries	31 <sup>st</sup> May
11	Annual Return for TDS for contractors/professionals/Rent	30 <sup>th</sup> June
12	Filing of FC-3 with MHA	30th June
13	Half yearly closing of accounts	30 <sup>th</sup> September
14	Filing of Income Tax Return	31 <sup>st</sup> October

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