

Areas of Internal controls which are focus during Donor Financial Due Diligence

https://open.spotify.com/embed/episode/63zDIU4bOMBYajqaWmDuUX?utm_source=generator

<https://www.youtube.com/embed/QZ08Vs9vDn8?si=ufSnQwLYhu3lxRbd>

Why adhere to filing requirements?

2b (i). Compliance-Regulatory (Reporting)

1. Income tax filing
 - Form 10B/10BB-Annual Audit Report
 - Form ITR-7-annual income tax return
 - Form 10BD-statement of donation
 - Form 10BE-Donation receipt/certificate
 - Form 9A/10 for deemed application/accumulation
 - Form 15CA/CB for making remittance abroad
2. Income tax proceedings-ITR-7 acknowledgement, IT assessment-143(1) and (1A), 143(2), 143(3) etc
3. FCRA
 - Annual Return in Form FC4

- changes through forms FC-6A to 6E-change in name, objects, FC bank, office bearers
 - Renewal in Form FC-3C if covered through blanket permission (31.12.24 at present)
4. TDS/TCS related
 - Monthly challan -Quarterly return
 5. EPF/ESI-ECR for EPF and payment challan for ESIC-15th of following month. Six monthly ESI return (Apr-Sep-11 Nov, Oct-March-12 May)
 6. PT payment as per state requirement
 7. SCE-reporting as per specific state act including annual reporting as required
 8. GST-monthly payment challan based on GSTR-3B, Monthly or quarterly return and Annual GST Return
 9. Gratuity-GGS policy premium based on actuarial calculation for compliance with Payment Gratuity Act
 10. Annual disclosure requirements as per Listing Obligations & Disclosure Regulations (LODR) of SEBI if registered on SSE

2b (ii). Compliance-constitution related

Annual reporting to registration authority

- Trust-where no separate state trust act, no annual reporting
- Society-differs from state to state but generally annual reporting relating to list of Governing Body as at AGM and audited financials as approved by general body
- Section 8 company-e Form AOC 4(audited financial statement within 30 days from AGM), MGT 7 (Annual Return-within 60 days from AGM, AGM on or before 30/9), ADT-1 (Auditor appointment-15 days from AGM), Director KYC (by 30/9)

Vision & Values

Mission, Vision & Core Values of an organisation share the purpose of its existence and its direction and culture.

Why? The above helps donors assess whether there is alignment of organisation with their funding priorities and goals

- **Mission:** The organization's purpose, and how it differentiates itself from others in its industry. A mission statement should be specific and show how the organization will meet the needs of its stakeholders.
- **Vision:** The organization's future goals and what it hopes to achieve. A vision statement sets the direction for the organization to meet its mission.
- **Core values:** The organization's core principles and ethics, and how people in the organization should behave. Core values define the organization's defining features and shape its culture.
- Governance-it is about fiduciary duty and risk management
 - Constitution documents lay down governance structure (general body/governing body) and that the **actual** governance structure in line with such provisions-byelaws for society, trust deed for trust and AOA for section 8 company
 - Understanding and Compliance for provisions relating to **conduct of governance**-memberships, meetings, quorum, notice, minutes, inclusion/exclusion, tenure, conflict of interest etc
 - Roles and responsibilities (powers and duties) of General Body, Governing Body and office bearers
- Delegation to sub committees and reporting
- Policies & Procedures

Formulation, revision as org evolves and implementation in letter and spirit as robust internal controls framework. Policies should facilitate action and therefore policies are dynamic documents evolving with the org.

- Statutory
 - POSH-The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013
 - Apprenticeship policy
 - Child protection policy
- Others
 - Finance & Admin-Travel, Procurement
 - HR
 - DECI (diversity, equity and inclusion) policy
 - Code of Business conduct/ethics

- Conflict of interest
- Risk Management
- IT, Data Security and Data privacy (DPDP Act 2023)
- Whistleblower
- Anti bribery, anti corruption, Lobbying-importantly for international funding
- Terrorism Financing-for US grants-Designated Nationals and Blocked Persons List maintained by the U.S. Treasury

Policies should be in simple language and easy to understand and follow by all staff categories, that is key.

Audits & Assurance

Type of audit conducted for NPOs

- Statutory as required by Income Tax law
- Internal-depending on size and stage of evolution
- Donor-as per grant contract conditions
- FCRA undertaken by MHA
- CCAG mainly for govt and semi govt entities

Are statutory auditors approved by the General Body and with a formal agreement.

Audit process-periodicity, MRL, ML, independent auditor report and financials with Unique Document Identification No (UDIN) no from UDIN portal of ICAI, ATR.

Red flags, adverse observations, litigations etc pointed in audit reports.

Assurance undertaken-broader range of subjects.

Audit and assurance provide proxy indicators to donors on red flags for deciding to fund or otherwise Often, donors do get in direct touch with auditors.

Annual financial statements-separate for FC funds

Provides insights and assurance on 'state of financial health'

Key points:

- Annual financials is top level disclosure to public to **feel the pulse** (present) and **direction** (future) of an org
- Understand your annual audited financials-at times the leadership struggle to read, interpret and respond although they are signatories
- Required generally for 3 financial years to understand trends
- Period of association of auditor-rotation once every 5 years

Key components of audited financial statements:

Balance Sheet-liability and assets of an org as at a point of time

- Unrestricted/own funds-corpus, reserves & surplus/net asset (excess of income over expenditure)
- Unutilised grants/grants receivables
- Loans and Borrowings
- Current Liabilities and Provisions
- Investments-corpus, accumulation
- Fixed Assets
- Cash and Bank
- Deposits and Debtors (receivables)

ICE statement during a time period

- Grants and donations: trend, expansion of donor base, excessive cash donations/subscriptions
- Other income-interest, rent, business incidental
- Expenditure heads-Presentation based on Functional (why) and not natural (what) heads
- Surplus/deficit

RCP (cash) statement

Movement of inflow and outflow of cash

Accounting Policies and Notes to Accounts

Most organisations do not pay attention to this, many times these are not included in financial statements

Accounting policy exhibits the standards followed for arriving at and presenting various items of financial statements. ICAI has prescribed accounting standards to be followed so that the financial statements are standard, comparable and consistent. Notes to accounts is management's explanatory notes for certain important items of financial statements for explaining and clarifying to the reader.

What do the donors look in audited financials?

- Size and volume trend of organisation
- How much net assets or free reserves is available
- Level of investment
- Fixed assets particularly-land and building
- Level of cash in bank
- Unutilised grant or grant receivable amounts
- Proportion of grant and other income including donation
- Breakdown of expenses-program vs admin
- Current assets other than cash vs current liabilities
- Donors require 3 year projection on fund flows for revenue visibility

Visibility & Reputational-Market due diligence

- Website-Placing statutory registrations, AFS (both conso and FC) and AR for 3 years, accreditations as proactive disclosure
- Social media presence for demonstrating scale and delivery of services
- Partnerships and collaboration-strategic
- Awards
- Accreditations
- Publications
- Testimonials
- Intellectual property-trademarks, patents etc
- Address and contact details including Registered office-is it matching with statutory documents
- Name, contact details of Chief Functionary or point of contact

- IEC demonstrating ecosystem engagement and innovation in approach and interventions

Please note: Information is for reference only. Read our disclaimer [here](#).

Revision #12

Created 6 January 2025 08:26:21 by Pooja

Updated 26 February 2025 06:36:48 by Pooja