

Finance for Non Finance Staff (Draft)

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Role of Finance & Accounts in an NGO

Objective of the course

- Educate non finance/program staff on financial matters to deliver work efficiently within the framework of
 - (a) internal controls and
 - (b) external statutory and regulatory compliances
 - Wear the finance hat for taking operational decisions while discharging duty
 - Facilitate smooth interface between finance and non-finance/program staff for achievement of organization goals.
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Curriculum content

Session plan:

1. Role of Accounting & Finance function in a not-for-profit organization.
2. Grant Management.
3. Concept of Fund based accounting, cost types, cost principles, Budgeting & Budgetary Controls in NGOs
4. Overview of financial statements of an organization
5. Procurement of goods & services, Contracts, Inventory and Assets
6. Overview of Regulatory framework and Statutory Laws for NPOs-brief details of Income Tax, FCRA, CSR, GST, Labor Codes which program staff should know-Pt I
7. Overview of Regulatory framework and Statutory Laws for NPOs-brief details of Income Tax, FCRA, CSR, GST, Labor Codes which program staff should know-Pt II
8. Finance & HR Policy-need and contents
9. Audit & Assurance

Objectives of an NPO

- Primary objective - Maximise benefits to beneficiaries
- Secondary objective:
 - Economy - control costs
 - Efficiency - achieve objective in minimum costs
 - Effectiveness - measure of achievement with reference to objectives

Change - The New Norm for NPOs

- Change
 - Donor expectation
 - Statutory and regulatory landscape
 - Govt orientation towards charity
 - Technological developments
- Change offers: Risks and opportunities
- Impacts organisation in terms of future growth, even existence.

Main Functions of an NPO

- Program
- Finance & Accounts
- Admin
- Communications
- Research
- New Business
- Training & Capacity Building

Every staff in every of above function performs a finance role

Types of Resources an NPO uses

- Material - capital goods, program goods, supplies
- Money - cash, bank

- Labour - Human resources of organisation

Role of Non Finance Staff on Financial Matters

- Non finance staff handle resources which have value
- Non finance staff authorise various types of expenditure - travel, procurement, office exp, statutory dues
- Non finance staff own and operate project budgets
- Project decisions of Non finance staff in field have financial implications - allowance/disallowance
- Decisions in field of Non finance staff have compliance implications with laws of land
- Non Finance staff actions affect reputation and even our very existence

Finance Function

- Finance function looks after the financial resources of an organization
- Difference between Accounting & Finance though used interchangeably.
 - Accounting looks Back while Finance looks Forward
- The finance function's role is:
 - manage financial resources of the organization
 - provide information to various stakeholders to help economic decision-making
 - ensure statutory and regulatory compliance
 - Manage risks through appropriate internal controls

Financial Management

- Financial Management is the business function that deals with investing the available financial resources in a way that greater business success and return-on-investment (ROI) is achieved.
- Why financial management:
 - Accountability to donors
 - Accountability to communities we serve

- Statutory/regulatory compliance reporting
- Futuristic planning - Financial security
- Minimise fraud, theft and resource misuse
- Better decision by people relating to finances
- Enhance credibility and trust thereby giving a competitive edge
- Managing risk

Role of Finance Function in NPO

Enables Value Creation through

- Planning - budgeting - organisation, donor projects
- Contracting - draw, review and sign off donor agreements
- Fund/grant receipts, disbursements
- Policies & Procedures (P&Ps) - Finance policy, Travel policy, Conflict of interest, Risk policy
- Recording
 - Book keeping i.e. recording transactions
 - Accounting i.e. summarisation, analysis and interpretation of financial data
 - Closing and reconciling - bank, vendor, employee, grant etc

Role of Finance Function in NPO

1. Forecasting - long term and short term
 - Budgets
 - Fund flows
 - Operating Cash
2. Resource Allocation - labour, material, money
 - Banking
 - Treasury & cash management
 - Procurement of goods and services as per policy and prevalent laws
 - Inventory management - slow moving, waste, loss
 - Asset management - depreciation, obsolescence, loss etc

Role of Finance Function in NPO

SHAPES value creation through

1. Performance Management
 - Budget monitoring (budget variance analysis) - organisation, projects
 - Value for money (VFM) - ratios
 - Return (social return) on investment (SROI), Social audit for social impact
2. Controls
 - Budgetary (realignment, reallocation)
 - Internal control procedures
 - Audits and assurances - statutory, internal, donor, Govt
 - Monthly MIS
3. Facilitator - support on finance to all other functions

Role of finance function in NPO

NARRATES the value creation through

1. Financial reporting
 - Donors - periodic FR, annual audited UC, supporting financial data
 - Govt bodies - IT, FCRA, Registering agency, EPF, ESI, TDS, GST
 - Board/top management - financial health
2. Focal point with external stakeholders on institutional matters
 - obtaining statutory approvals
 - financial assessment by donors, govt etc.

Identify how many of the finance functions are performed both by finance and non finance staff.

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

Cost: Types & Principles, Budgets and Budgetary Control

Components of Financial Management

Cost Concepts

What is a cost

A cost is the value of money that has been consumed to produce something or deliver a service and is not available for use anymore. Costs are classified in various ways according to needs of organization.

Types of cost

- **Capital & Revenue cost:**

- *Capital Costs:* Capital expenditures are typically one-time large purchases of fixed assets that will be used for revenue generation over a longer period - more than one year.
- *Revenue Costs:* Operating expenses, which are short-term expenses used in daily business operations.

- **Fixed and Variable Costs:**

- *Fixed cost:* Does not change in total within a reasonable range of activity. Per unit cost decreases with increased volume and vice versa.

- *Variable cost*: Changes in proportion to changes in volume or activity.

Types of cost in nonprofits

- *Program Costs*: Direct benefit to beneficiaries. Called direct costs as they can be attributed to a program/intervention.
- *Overheads/Indirect/Common costs*: Core costs for admin and fundraising. Not directly attributable to outputs.
 - Indirect cost rate should be worked out with a common cost policy.
 - Common direct cost is also an indirect cost.

Cost Principles in Grant budgeting

- *Allowable cost*: Not restricted in grant award.
 - *Allocable cost*: Incurred specifically for grant objectives.
 - *Reasonable cost*: Necessary and prudent.
 - *Consistent cost*: Applied similarly throughout grant.
 - *Unallowable cost*: Cannot be paid under the grant.
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Fund Accounting

What Is Fund Accounting?

NGOs use fund-based accounting to manage grants. Focus is on accountability over profitability.

- Good internal control and reporting systems.
- Helps governing body comply with fund use guidelines.

Types of funds

- *Unrestricted funds*:
 - Corpus (non-refundable)
 - Designated/earmarked funds (not legally binding)
 - General funds (includes surplus/deficit from I&E)
- *Restricted funds*:
 - Given for specific purposes, includes donor-specified and fundraiser collections.
 - *Endowment Funds*: Invested to generate income for a specified purpose.

- *Temporarily restricted funds:*
 - Cannot be used till donor-imposed conditions are removed or time expires.
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Budgets

What is a budget?

- A plan of income and expenses over a time period.
- Analysis of fund flow across operations.
 - Anticipated Funding
 - Boundaries of Expenditure

Excuses for not budgeting

- Know it in mind.
- Can't predict future.
- Budgets are for banks or big organisations.
- No time/resources.

Why Budget?

- Helps achieve program objectives.
- Checks if funds are enough for the plan.
- Gives direction.
- Tool for grant monitoring.

Pre-Requisites for Budget

- Org structure
- Statistical data
- Chart of accounts
- Managerial support
- Formal process

Process of Budgeting

1. **Form a Budget Team:** Include CFO/CEO, accounting, program, HR, BD staff.

2. **Set Timelines:** Enough time for discussions. Start 2 months before year-end.
 3. **Decide Goals:** Programmatic, financial, strategic (if any).
 4. **Draft Budget:**
 - Income: Projected income based on expected activities.
 - Expenditure: Program costs documented.
 - Format should be easy and assumptions noted.
 5. **Review Draft:** See if it meets goals. Adjust based on income/expenses.
 6. **Approve Budget:** Through committees and board.
 7. **Implement Budget:** Enter in accounting system. Setup variance analysis.
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Types of Budgets

- **Activity-based budget:** Covers costs of project activities (e.g., workshops).
- **Line-item budget:** Budget under broad categories. Preferred by donors like USAID, EC.

Other types

- *Incremental budgeting:* Adds or subtracts from current budget.
- *Value Proposition Budgeting:* Allocates based on value to customer.
- *Zero-based budgeting (ZBB):* Starts from scratch.
- *Performance based budgeting:* Links resources to outputs.
- *Fixed budget:* Doesn't change with activity.
- *Flexible budget:* Adjusts with activity.

Balanced, Surplus, and Deficit budgets

- *Balanced:* Revenue = Spending
 - *Deficit:* Expenses > Revenue
 - *Surplus:* Revenue > Expenses
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Variance Analysis

- Compare planned vs actual regularly.
- Identify, analyze, and report variances.

- Plan for justified revisions and inform donors.

In grant management:

- Track income & expenses by budget lines.
 - Record budget vs actuals timely.
 - Check for deviations and get approvals if limits are crossed.
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Points to remember while Budgeting

- Match budget items with Chart of Accounts.
 - Follow org's accounting method (cash/accrual).
 - Be conservative in estimating income.
 - Add percentage for benefits like insurance, gratuity.
 - Build contingency fund.
 - Do monthly variance analysis (budget vs accounts vs deliverables).
 - Large orgs: budget by project or cost center.
 - Capital expense: Plan cashflow; may use surplus or financing.
 - All budgets need not be balanced.
 - Bad budget = long-term burden.
 - Use real, reliable cost estimates.
 - Keep budget realistic.
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Journey of Project Budget

(continued)

Grant Management

Accountability & Transparency

- With respect to utilisation of grant funds
- Efficient & Effective use of the grant funds
- Compliance with applicable laws of the land
- Adherence with terms and conditions of Grant Agreement
- Internal controls i.e. financial and accounting systems, budgetary control, funds management
- Timely submission of narrative and financial reports as required under the grant

Principals

Stages of Grant Management: Grant Lifecycle

Grant Management Lifecycle

- Pre-award
 - Identify the need
 - Planning
 - Opportunity
 - Apply for grant
- Awarded
 - Receive grant
 - Share additional information as needed
 - Documentation
- Post-award
 - Develop current year projection
 - Execute all activities
 - Manage and monitor the project
 - Share program and finance report
 - Documentation/Reporting

- Close out
- Close grant

Pre-requisites for robust grant management system:

- Policies & Procedures (Finance & HR) - ensuring strong internal control environment
- Accounting - ICAI Technical Guide for accounting of NPOs
 - Fund based accounting for presentation of financial statements
 - Accrual basis of accounting
 - Maintenance of prescribed books of accounts
 - Accounting Standards as framework for recording and reporting
- Statutory laws of land - understanding and compliance
- Donor contacts - expectations and reporting fully understood
- Segregation of duties - checks and balances, dedicated finance staff
- Encourage audit and assurance - risk mitigation

Income of charitable institutions - Types of Funds

- Aggregate Income from property held in trust (Schedule AI)
- Voluntary contribution (Schedule VC)
- Capital Gains

Types of funds (ICAI):

A. Unrestricted funds:

- Corpus: non-refundable, non-reducible, reinvestment obligation
- Designated/earmarked funds: for specific purpose/future, not legally binding
- General funds: neither designated nor restricted, includes I&E surplus/deficit

Income of Trust and Types of Funds 2/1: Corpus:

- Comply with Income Tax provisions - Section 11(5), Section 11(1)(d)
- Donation to another registered entity not considered application
- Application to be considered in year of replenishment
- Should be shown as Capital; income earned shown in I&E

B. Restricted funds:

- Project/program grants: to be used as per terms of award
- Endowment funds: only income used as per terms

Format of financial statements as per ICAI: BALANCE SHEET:

- Sources of Funds:
 - UNRESTRICTED FUNDS: Corpus/General/Designated
 - RESTRICTED FUNDS
 - LOANS/BORROWINGS
 - CURRENT LIABILITIES & PROVISIONS
- Application of Funds:
 - FIXED ASSETS
 - INVESTMENTS
 - CURRENT ASSETS, LOANS, ADVANCES & DEPOSITS

Income and Expenditure Account:

- INCOME: Operations, Grants & Donations, Other
- EXPENDITURE: Materials, Employee Benefits, Admin, Finance Costs, Depreciation, Other
- Surplus/Deficit transfer and carry forward

Cost Principles in grant budgeting:

- Allowable cost
- Allocable cost
- Reasonable cost
- Consistent
- Unallowable cost

Budgeting & Budgetary Control:

- Budget is estimation tool and framework
- Segregates costs: direct, common, indirect

- Supports co-financing/multi-donor grants
- Budgetary control:
 - Track income and expenses
 - Deviation analysis
 - Timely approvals for overspend

Terms and Condition of Grant:

- Understand full contract
- Common clauses:
 - Separate accounts
 - Cash expense limits
 - Interest treatment
 - Procurement rules
 - Fixed assets treatment
 - Reporting timelines
- Compliance Calendar post signing

Robust Grant Monitoring System:

- Performance tracking
- Progress review (physical & financial)
- Risk management
- Key tools:
 - Budget, LFA understanding
 - Variance analysis
 - Course correction
 - Timely narrative and financial reports

Accounting treatment for grants to NGOs:

- Grant is trust money
- Options:
 1. Grant as income
 2. Grant as liability
 3. Hybrid (income = expenditure)

- Follow principle of prudence

General Conditions of a Grant:

- Terms definitions
- Commitments (funder & grantee)
- Rights, reports, assets, termination
- Force majeure, dispute resolution, confidentiality, interest, employment, IP

Interest apportionment:

- With multiple projects in one account: use defined method
- Not applicable for dedicated accounts
- Interest treatment as per grant agreement

Common/Core Cost:

- Shared costs: HR, travel, office, etc.
- Prorated to donor projects
- Must have common cost policy
- Allocation examples: space, staff time, units

Salary Allocation for multiple projects:

- Allocate as per grant and annual budget
- Monthly salary register with allocation, deductions, variances
- Needed for audits
- FC/local funds booking compliance
- Timesheet compliance if required

Recipient, Sub-recipient and Vendor:

- Recipient = Prime = main grant holder
- Sub-recipient = does substantive project work
- Vendor = contractor for goods/services

What is a Contract:

- Binding agreement for goods/services
- Specific outcomes
- Payment based on deliverables

What is a Grant:

- Assistance to achieve result
- No legal requirement to achieve result
- Flexible scope and payments

Closure of Grant:

- Ensure all closure provisions met
- Submit final program & finance reports
- Closure report + fund reconciliation
- Final donor acknowledgment of NO DUES

Tips for effective Grant Management:

- Build trust
- Meet targets without under/overspend
- Spend capital budget early
- Timely donor reports
- Maintain files
- Avoid surprises

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Overview of Financial Statements of NGOs

Need for financial reporting framework for NGOs

- Financial reporting should provide true and fair view of state of affairs in conformity with generally accepted accounting principles (GAAP).
 - This confirmation is provided by an external auditor as per its opinion in the auditor report.
 - Financial reporting (statements) should provide uniformity, clarity and common understanding to various stakeholders.
 - For NGOs, lack of awareness and uniform applicability, inconsistency in basis of accounting, non-uniform terminology etc. results in financial statements being neither standard nor comparable.
 - Financial reporting framework for NGOs is detailed in *Technical Guide on Accounting of NGOs (Jan 2022)* by ICAI for uniformity and standardisation.
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Components of Accounting Framework as per Technical Guide

(a) Elements of financial statements

- Identify and define the items that should be considered as income, expenses, assets and liabilities in NPOs.

(b) Principles for recognition of items

- These principles lay down the timing of recognition (when) in the financial statements.

(c) Principles of measurement

- These lay down at what amount items should be recognised.

(d) Presentation and disclosure principles

- These explain the manner of presentation and disclosures required.

Note: a, b and c are sector-neutral, while presentation and disclosure differ for not-for-profit and for-profit sectors.

Accounting Terms

Accounting Transaction: A monetary activity recorded in account books with monetary effect on the financial statements.

Sales: Products/services are transferred from sellers to buyers for cash or credit.

Purchases: Transactions to obtain materials and services to accomplish goals.

Receipts: Payments received for providing services or goods.

Payments: Payments made for availing goods/services from vendors, staff etc.

More Accounting Terms

Assets

- Resources/items that the NGO owns. Measurable in monetary terms.
- Two categories: Fixed Assets and Current Assets.

Liabilities

- Legal financial obligations or debts to be settled over time.

- Two types: Long-term and Short-term.

Equity/Capital

- Amount an NGO would return to shareholders after assets are liquidated and debt is paid.

Expenses

- Costs incurred to generate revenue. Examples: wages, payments, equipment depreciation.

Revenue/Income

- Income from normal business operations.
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What is a Financial Statement?

- Collection of summary-level reports:
 - a. Balance Sheet
 - b. Income and Expenditure Account
 - c. Receipt & Payment Statement (cash flow)
 - d. Accounting Policies and Explanatory Notes
 - Accompanied by Auditor Report.
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BS, I&E, R&P

- **Balance Sheet:** Shows assets and liabilities (what you own and owe).
 - **Income & Expenditure Statement:** Income earned and expenses incurred.
 - **Receipt & Payment Statement:** Actual cash receipts and payments.
 - **FCRA Note:** Separate FCRA financial statements required for FC operations.
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Key Points for Preparation of Financial Statement

- Accrual system of accounting recommended.
 - Prepared annually.
 - Include comparative information for at least one year.
 - Different from donor reporting or taxation.
 - Reflect restricted and unrestricted funds separately.
 - Format: Schedule III of Companies Act (used even by charitable organisations).
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MRL and ML

Management Representation Letter (MRL)

- Issued by the client to the auditor during audit as audit evidence.
- Clarifies separation of responsibilities.

Management Letter (ML)

- Sent by auditor to Governing Board highlighting control weaknesses and suggestions.
 - Board should respond and confirm compliance.
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Maintaining Books of Accounts for NGOs

- No prior regulation till FY 21-22.
 - Section 12A(1)(b)(i) added wef AY 23-24.
 - Books must include:
 - Cash book, ledger, journal
 - Receipts (serially numbered), invoices etc.
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Other Required Documents

- Records of projects, income, application of income, voluntary corpus contributions, 80G corpus, loans, properties, specified persons (section 13(3)), etc.
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Bookkeeping Guidelines

1. **Form:** Books can be in written, electronic, digital or print-out form.
 2. **Place:** Kept at registered office. If kept elsewhere, AO must be informed.
 3. **Period:** Maintain for 10 years from end of relevant assessment year.
 4. **Note:** Entities under section 11(4) and 11(4)(a) must keep separate books for that income.
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Accounting Standards

- Necessary for uniformity in preparation and presentation.
 - Prescribed by ICAI.
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AS-1: Disclosure of Accounting Policies

- Fundamental assumptions: Going concern, Consistency, Accrual.

Considerations

- a. Prudence – Do not anticipate profits, provide for all known liabilities.
 - b. Substance over Form – Economic substance over legal form.
 - c. Materiality – Disclose material items that influence user decisions.
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AS-1 Points to Remember

- Disclose accounting policies: depreciation, valuation, employee benefits, etc.
 - Any change affecting financials must be disclosed.
 - If fundamental assumptions are not followed, disclose in statements.
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AS-10: Accounting for Fixed Assets

1. Gross and net book values
 2. Construction/acquisition expenditure
 3. Revaluation method, appraisal year, valuer involvement
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AS-13: Accounting for Investments

- Assets held for income, appreciation or other benefits.
- Follow classification, cost, disposal, reclassification norms.

Procurement Contracts

Inventory

Procurement

Kinds of Procurement

- Purchase of: Capital Goods, Program Goods, Services, Works

Essentials of Good Procurement

- Must best fit the requirement
- Competitive prices / value for money
- Follow procurement policy and due process
- Transparency, accountability, and integrity (arm's length transaction)
- Systematic documentation for transparency and efficiency
- Delegation, segregation of duties, and teamwork

Procurement Process & Steps

1. Specify technical specs
2. Budget for Purchase
3. Appoint Purchase team
4. Research potential suppliers
5. Solicit Bids
6. Bid evaluation and vendor selection
7. Issue Purchase Order
8. Receipt & Inspection of purchase
9. Invoice approval & payment

Exceptions

- All exceptions must be justified and approved.

Single Sourcing:

- Allowed in special cases like:
 - Only one responsible source (specialised work)
 - Urgency
 - Preferred vendors (reviewed annually)
 - Amendments/follow-on contracts
- Must be documented by a "Sole Source Justification" and approved by CEO

Approved Vendor List

- Maintained by Purchase Committee
- Vendors vetted for statutory compliance, credibility, and not related to organisation

Maintaining Audit Trail

- Maintain documentary/electronic evidence for all procurements and related decisions
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Understanding and Interpreting Contracts

Introduction

- Contracts may be signed as authorisers or users
- Important to understand what is being signed to avoid future losses

What is a Contract?

- A spoken or written agreement enforceable by law
- Oral agreements are also valid

Elements of Contract

- Offer
- Acceptance

- Consideration (something of value exchanged)

Why Do We Need Contracts?

1. Make promises binding
2. Function in a capitalist society where buying/selling is routine

Reminder:

“Ignorantia legis neminem excusat” which means “Ignorance of the law excuses no one”.

Essentials of a Valid Contract

- Agreement, legal intent, capacity, legal object, free consent, written/registered if required

Why Written Contracts?

- Enforceable, clear terms, legal clarity

When is a Contract Enforceable?

- On signing by acceptor
- If sent by post, from the date of posting
- Email contracts are valid
- Jurisdiction depends on place of contract unless stated otherwise

Key Clauses in Contracts

- Parties, scope of work, consideration, deliverables, period
- Other terms: responsibilities, payment, delays, termination, renewal, confidentiality, liability, dispute resolution
- Signatures and witness

Practical Tips While Signing Contracts

- Read carefully, delay signing if unsure
- Seek professional advice
- Know rights and duties

- Ensure written agreements
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Inventory Management

- Maintain stock records using software like Tally or manually (registers/excel)

Key Forms:

- Goods Received Note (GRN)
- Goods Issue Note (GIN)

Summary of Inventory Management

- Fill GRN for all received goods
 - Use GRN, invoice, GIN to update stock register or tally
 - Store goods in a neat designated store using bins and bin cards
 - Do periodic stock verification (physical vs. records)
 - File verification report for review
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Fixed Asset Management

- Maintain a Fixed Asset Register (FAR)
- Tracks details like purchase price, depreciation, and location

Summary of Fixed Assets Management

- Use unique coding for each asset; affix/paint ID visibly
- Keep assets in secure locations; insure high-value items
- Do periodic verification and compare with FAR
- File verification reports and act on discrepancies
- Fill GRN for all goods received
- Goods useful beyond one year should be recorded in FAR, not stock register

Overview of Regulatory Framework and Statutory Laws for NPOs: Part 1

Income Tax and TDS

Definition of Charitable Purpose (Sec 2(15))

- Includes relief of the poor, education, yoga, medical relief, environment preservation, monuments, etc.
- Does not include activities in nature of business/trade unless:
 - Done in course of charitable work
 - Receipts do not exceed 20% of total receipts

Registration under Income Tax Act

New Regime (From 1.4.2021)

- Sec 12AB replaces 12AA
- Valid for 5 years, then renewal
- Types:
 - Re-registration under 10(23C)/12A/80G
 - Provisional registration
 - Statement and receipt of donations (80G)

Section 80G – Donations

Form 10BD

- File by 31st May for each FY
- Capture donor details incl. PAN/Aadhaar or ID proof
- Proportionate split allowed

Form 10BE

- Issue after filing 10BD
- Download from portal; only 10BE valid for claiming benefit

Income Exemptions (Sec 11)

Sec 11(1)

- Income from property held for charitable purposes not taxable if:
 - Applied in India for such purpose
 - Up to 15% can be set aside

Deemed Application (Form 9A)

- For income not received/applied within year
- To be used in following year

Accumulation (Form 10)

- Income not applied can be set apart for up to 5 years
- Must be declared and invested in specified modes
- Cannot transfer to non-12A entity

Sec 11(4) & 11(4A)

- Business income exempt only if:
 - Incidental to charitable objective
 - Separate books maintained

Section 11(5) – Modes of Investment

- Savings certificates, Post Office, Scheduled Banks

- Public sector bonds, UTI units, Government securities
- Property, Housing finance bonds, Infrastructure bonds, etc.

Disallowances

Cash Payments (Sec 40A(3))

- No deduction if > Rs. 10,000 paid in cash
- Applies to staff reimbursements too

Non-Deduction of TDS (Sec 40(a)(ia))

- 30% of expense disallowed if TDS not deducted

Sections 12A and 13

Sec 12A

- Conditions to avail Sec 11 & 12 exemptions

Sec 13(1)

- Exemptions not available if:
 - Trust benefits a particular religious community/caste
 - Trust benefits specified persons (Sec 13(3))

Sec 13(3) - Specified Persons

- Author/founder, major donor, trustee, manager, relatives, entities with substantial interest

Sec 13(2) - Deemed Benefit to Specified Persons

- Includes:
 - Lending without interest/security
 - Providing property/services without compensation
 - Overpayment of salary
 - Below-value sales or above-value purchases

Filing Process

- File Form 9A / Form 10 first
- Followed by Form 10B / 10BB (Audit Report)
- Then ITR-7 (Return)

Objectives of TDS

- Regular inflow to government
- Prevent tax evasion
- Widen tax base

Important TDS Sections

- 192 – Salary
- 194C – Contract payments
- 194J – Professional/technical fees
- 194I – Rent

Section 192 – TDS on Salary

- Based on slab rates
- ₹50,000 standard deduction
- Tax rebate ₹12,500 if income up to ₹5 lakh

New Tax Regime

- Optional from FY 2020–21
- No exemptions like 80C, HRA, etc.

Section 194C – Contractors

- 1% for individual/HUF, 2% for others
- Limits:

- ₹30,000 single invoice
- ₹1,00,000 aggregate per FY

Includes:

- Ads, catering, manpower supply, transport, manufacturing, etc.

Section 194J – Professional Services

- Exemption limit: ₹30,000
- Includes legal, medical, accountancy, consultancy, etc.

Section 194I – Rent

- Exemption limit: ₹2,40,000 per FY

Section 269ST – Cash Receipt Limit

- Max ₹2 lakh from a person per day/transaction/event
- Penalty equals amount received

Other IT Act Provisions

Sec 115BBC – Anonymous Donation

- Tax @ 30% plus cess if details missing

Sec 115TD – Exit Tax

- Triggered if:
 - Registration cancelled
 - Merger with non-eligible entity
 - Assets not transferred to eligible entity on dissolution

Sec 194Q - TDS on Goods Purchase (from 1 July 2021) Sec 194R - TDS on Perquisites (from 1 July 2022)

- Deduct 10% if value > ₹20k
- Depends on invoice name

Lower Tax Deduction Certificate (Sec 197)

- Apply to AO for reduced/no TDS

Regulatory Framework and Statutory Laws for NPOs:

Part 2

FCRA (Foreign Contribution Regulation Act)

Key Concepts

- *Foreign Contribution* includes donations in cash/kind/securities from foreign sources
- Not considered FC: fees for services, goods in business, education fees from foreign students
- Local interest/rent from FC deposits also treated as FC

Person Includes: individual, HUF, association, Sec 8 company

Conditions to receive FC:

- Must have definite programme (CEERS)
- Must register with/go through prior permission from central govt
- Must not be prohibited under Section 3

Foreign Source Includes:

- Foreign governments/companies/MNCs
- Entities with >50% foreign shareholding
- Trusts, societies, associations outside India

FCRA Architecture

- Registration and Prior Permission
- Bank account only at SBI, New Delhi
- Separate books of accounts
- FC4 filing mandatory even for NIL return
- Admin cost ceiling, no transfer of FC to others
- Intimations to be made: change in key info, etc.

2020 Amendments Highlights

- No sub-granting
- Cap on admin expenses
- Aadhaar/Passport mandatory
- SBI account compulsory
- Suspension period extended to 360 days
- No utilisation during inquiry

FC Examples

- Donations from OCI/PIO/foreigners in INR
- Proceeds from sale of FC-created assets
- Interest earned on FC
- Refunds of unutilised FC

Other Notes

- Upload audited accounts within 9 months
- Use reimbursement method for project advances
- Refer to FCRA charter on official portal (www.fcraonline.nic.in)

CSR Law (Section 135, Companies Act 2013)

Applicability

- Companies with:

- Net worth \geq ₹500 Cr, or
- Turnover \geq ₹1000 Cr, or
- Net profit \geq ₹5 Cr

Key CSR Responsibilities

- Form CSR committee (≥ 3 directors, 1 independent)
- Draft CSR policy and publish on website
- Ensure spending of at least 2% of avg. profits of last 3 years

Unspent CSR Amount

- Transfer to a Schedule VII fund within 6 months (if no ongoing project)
- If ongoing project, transfer to special bank account within 30 days, spend within 3 FYs
- If still unspent: transfer to Schedule VII fund within 30 days

Penalties

- Company: Lesser of 2x unspent CSR or ₹1 Cr
- Officers: Lesser of 1/10th of unspent or ₹2 Lakh

Schedule VII Activities Include

- Health, education, gender equality, environment
- National heritage, sports, rural/slum development
- COVID-19 related spending (as per 2021 circular)

CSR Rules 2021

- CSR can be done via: own org, sec 8 company, trust, society (with 12A/80G and 3-yr track record)
- Must register via Form CSR-1
- Get CSR Registration Number (URN)

Administration

- Admin overheads capped at 5% of CSR expenditure
- Engage international orgs for monitoring/evaluation

CSR Committee (if spend > ₹50 Lakh)

- Must create action plan
- Include list of projects, execution, monitoring, impact assessment

Reporting

- Annual CSR report in Annexure II from 2020
- Display policy and committee details on website
- CFO certifies CSR fund utilisation

Surplus from CSR Projects

- Must be ploughed back or transferred to CSR fund/account

Capital Asset Creation with CSR Funds

- Must be in name of eligible entity (Sec 8/Trust/Public authority)

Impact Assessment

- If avg CSR obligation \geq ₹10 Cr in past 3 FYs
- For projects > ₹1 Cr, completed at least 1 year ago
- Budget: 2% of CSR spend or ₹50L (whichever higher)

Social Security Laws for NPOs

EPF (Employees' Provident Fund)

- Mandatory if ≥ 20 employees
- 12% from employee & employer
- EPS: 8.33% upto ₹1250/month; EDLI: insurance upto ₹7 Lakh
- Online submissions; separate challans for FC/NFC staff
- eKYC, UAN, Form-11, registers to be maintained

ESI (Employee State Insurance)

- Mandatory if ≥ 10 employees

- Applies to those earning $\leq ₹21,000/\text{month}$
- Employer: 3.25%, Employee: 0.75%
- Benefits: health, maternity, disablement, funeral

Gratuity (Payment of Gratuity Act 1972)

- Applicable if ≥ 10 employees
- 5 years of service (or 4 yrs 240 days)
- $15/26 \times \text{last salary} \times \text{no. of years}$
- Ceiling: ₹20 Lakh; 4.81% of basic recommended

Maternity Benefit Act

- 26 weeks (8 prenatal + 18 postnatal) for first 2 kids
- 12 weeks for later kids; 6 weeks miscarriage; 2 weeks tubectomy
- Applicable if ≥ 10 employees; creche if > 50 employees

Minimum Wages Act

- Revised every 5 years by state and central govt
- Based on skill category

Professional Tax

- State-based; max ₹2500/year
- Not applicable in Delhi, UP, Rajasthan, Haryana

Shops & Establishment Act

- State law; covers leaves, holidays, work conditions

Budgeting Tip

- Account for:
 - State Minimum Wage +
 - 13% EPF employer share +
 - 3.25% ESI employer share +
 - 15 days salary (for gratuity)

Example: ₹8,000 salary → budget ₹9,685/month

HR and Finance Policy

Understanding Basics of Policy

What are organizational policies?

- Rules and regulations employees must follow to keep operations running smoothly.
- Provide guidance to employees and protect the organization from legal risks.
- Cover areas such as:
 - Safety
 - Hours
 - Dress code
 - Use of company assets
 - Employee benefits
 - Paperwork submission
 - Harassment
 - Check signatories
 - Expenditure approvals

Why do you need policy?

- Helps control and monitor resources.
- Training tool for staff.
- Reference for staff, management, auditors, and evaluators.
- Ensures accurate data entry from documents.
- Enables effective management and reporting.

Why do you need procedures?

- Policies = "why"; Procedures = "how."
- Clear steps for routine tasks, with checklists and timelines.
- Defines individual roles and timelines for processing and reporting.

Who makes Policies?

- Board of Directors or Board Members appoint a financial committee.
- The committee prepares a draft, discussed and approved by the Board.

Responsibility for Implementation

- **Finance:** Director-Finance or Finance Manager
- **HR:** Director-HR or HR Manager
- Both ensure implementation and suggest updates.

Is Policy Only for Finance/HR Departments?

No, because:

- Every decision has finance or HR impact.
 - Quality procurement and recruitment depend on policy.
 - Organizations function through crosschecks and shared responsibility.
-

Finance Policy Contents

- Accounting Basics
- Budgeting and Budget Monitoring
- Investment, Treasury, Banking
- Donor Management
- Authorization Matrix
- Fund Flows
- Procurement
- Asset Management
- Travel Policy
- Petty Cash
- Audits and Assurance
- Fraud Management
- Sub Grants
- Statutory Compliance

Detailed Finance Topics (with Takeaways):

- **Accounting Basics:** Understand codes and documentation. Enables informed approvals.
 - **Investment, Banking, Treasury:** Roles in fund access, bank signatories, and reporting.
 - **Donor Management:** Respect commitments, maintain grant records, build credibility.
 - **Budgeting:** Know processes, tracking, variances, and unbudgeted expenses.
 - **Authorization Matrix:** Who can approve what (e.g., vouchers, bills, recruitment).
 - **Fund Flows:** Monthly projections, request and release formats.
 - **Procurement:** Templates, thresholds, good procurement leads to success.
 - **Assets:** Buying, selling, maintenance, depreciation, and responsibilities.
 - **Travel Policy:** Travel claims, approvals, entitlements, and conduct.
 - **Petty Cash:** Limits, approval, storage, and reimbursement guidelines.
 - **Audits and Assurance:** Types of audits, responsibilities, and rights during audits.
 - **Fraud Management:** Prevention, helplines, investigation, and reporting.
 - **Sub Grant Management:** Choosing sub-grantees, assessments, and fund release.
 - **Statutory Compliance:** Legal structure, calendar for compliance, responsibilities.
 - **Other Topics:** Office opening/closure, travel advances, vehicle use.
-

HR Policy Contents

Illustrative Policies

- Whistle Blower Policy
- Late Coming Policy
- Transfer Policy
- Promotion Policy
- Mobile Policy
- Job Rotation Policy
- Laptop Policy
- Reward & Recognition Policy
- Code of Conduct
- Harassment Policy
- Nepotism Policy
- Leave Policy

- Referral Policy
- Attendance Policy
- Recruitment Policy
- Compensation & Appraisal Policy
- Probation & Confirmation
- Internet Usage
- Dress Code

Why HR Policy Matters

- **Senior Management:** Implements policy with efficiency.
- **Managers:** Ensure transparency.
- **Employees:** Know their rights and duties, increasing trust and output.

HR Policy Details

- **Leave Policy:** Types, usage, carry-forward, monetization.
- **Recruitment Policy:** Channels, approvals, process, documentation, and onboarding.
- **Appraisal Policy:** Goal setting, measurement, ratings, feedback, timelines.
- **Promotion Policy:** Criteria, committees, timelines, and fast-track paths.
- **Transfer Policy:** Need-based, support offered, relocation help.
- **Job Rotation:** Rationale, coverage, protocol, evaluation.
- **Nepotism Policy:** Family member employment, definitions, conditions.
- **Anti-Harassment Policy:** Follows law and grants, covers all harassment types.
- **Code of Ethics:** Employee obligations, declarations.
- **Equal Opportunity Policy:** No bias based on gender, caste, etc.
- **Termination Policy:** Grounds and process for exit.
- **Asset Usage Policy:** Proper use and care.

Other HR Aspects

- Salary structure, increments, rewards, trainings
- Master file management
- Payroll creation
- Attendance/timekeeping
- Visitor policies

Other Policies

- **Risk Management:** Mapping, mitigation.
- **Disaster Management:** Backups, alternate setups.
- **Security Policy:** Threats and response protocols.

Audit, Assurance, Fraud Awareness, and Ethics

Audit and Assurance

- **Audit:** Systematic, independent examination of data, statements, records, operations, and performances for a stated purpose.
- **Assurance:** Independent professional service to improve information quality for better decision-making.
- **Audit is a type of assurance service.**

Understanding Assurance:

- Three parties: data owner, independent practitioner, stakeholders.
- Subject matter and standard criteria.
- Evidence collection and professional reporting.
- Assurance services deal with past data.

Rationale for Audits

- Governance tool to assure management and stakeholders.
- Continuous improvement of financial and administrative systems.
- Identify policy gaps and risks.
- Establish financial integrity.

Types of Audits

- **Statutory Audits:** Required by law (Income Tax Act, Societies Registration Act).
- **Donor Audits:** Assurance to donors on fund utilisation.
- **Internal Audits:** Assurance to management on compliance and asset protection.

Things about Audits

- Audits are a badge of honour and an opportunity for improvement.
- Self-audit regularly to stay ready.
- Audits build stakeholder trust.
- Cooperate fully and be transparent with auditors.

Why We Dislike Audits

- Disrupt routine work.
- Require time and documentation.
- Identify mistakes.
- Possible misunderstandings.

Dealing with Audits - Before Audit

- Organise documents systematically.
- Obtain Scope of Work if possible.
- Prepare required data.
- Appoint a knowledgeable point person.
- Arrange a proper workplace for auditors.

Dealing with Audits - When Audit Starts

- Hold an opening meeting.
- Clarify audit requirements.
- Plan field trips if needed.
- Set schedules for clarifications.

Dealing with Audits - During Audit

- Provide timely clarifications.
- Request draft observations early.

Dealing with Audits - After Audit

- Conduct a closing meeting.
- Discuss and understand observations.

- Prepare and implement an action plan.
- Periodically review action points.

Audit Understanding Points

- Orient auditors properly.
- Systems evolve; gaps should not be harshly judged.

Fraud Awareness

What Constitutes Fraud?

- Act or omission causing harm.
- Intent to deceive.

Types of Fraud:

- **Corruption:** Conflict of interest, rigged bids, unnecessary procurement.
- **Asset Misappropriation:** Theft, skimming, fraudulent payments.
- **Financial Statement Fraud:** Over/undervaluing assets, timing differences, fictitious revenues.

Fraud Red Flags:

- Behavioural issues (arrogance, slowness, secrecy).
- Dominating employees.
- Close ties with vendors.
- Disorderly accounting.
- Orphan funds.
- Too good to be true deals.

Ethics, Accountability and Transparency

Ethics

- Doing the right thing the right way.

- Can and should be taught.
- Organizations must have a written Code of Ethics.
- Train employees and stakeholders on ethical behaviour.

Coverage of Ethics

- Business ethics guide decisions on governance, discrimination, bribery, and responsibility.

Common Ethical Violations

- Discrimination, harassment, unethical accounting, health and safety negligence, nepotism, favouritism.

Common Ethical Dilemmas

- Hiding fraud.
- Misrepresenting products.
- Misuse of official resources.
- Accepting unauthorised gifts.
- Dealing with related vendors.

Transparency

- Be open, honest, and straightforward.

Examples of Transparency:

- Disclose plans early.
- Make salaries public.
- Keep promises.
- Bring your authentic self to work.

Accountability

- Accept responsibility for ethical conduct.
- Accountability extends to all stakeholders.
- Judged based on performance.

Examples of Accountability:

- Setting clear employee expectations.
- Managing client funds responsibly.
- Taking ownership of mistakes.

Responding to Financial Problems

- Stay calm.
- Verify facts.
- Evaluate options carefully.
- Communicate honestly.
- Seek external help if needed.
- Brainstorm creative solutions.

Interdependence Among Functions

- Financial management links governance, planning, programs, evaluation, and overall leadership.

Risks and Controls in NGOs

Key Concepts

- **Threat:** A potential cause of harm.
- **Risk:** Likelihood and impact of a threat occurring.
 - Internal risks: Personnel or technology issues.
 - External risks: Economic, legal, political, environmental factors.
- **Residual Risk:** Risk remaining after mitigation.

No organisation is completely risk-free.

Types of Risks in NGOs

- Ethical Risk
 - Operational Risk
 - Reputational Risk
 - Safety Risk
 - Security Risk
 - Fiduciary Risk
 - Legal/Compliance Risk
 - Information Risk
-

Risk Management

- **Risk Management/Mitigation:** Organisational practices and policies that reduce the chance or effect of risk.
- **Enterprise Risk Management:** Integrated approach combining all types of risks (security, fiduciary, etc.) to strategise and implement mitigation.
- Risk can be reduced but not eliminated.

Why Have a Risk Management Policy?

- Required for donor audits or due diligence.
 - Builds awareness and culture of risk understanding.
 - Encourages staff ownership.
 - Acts as a governance tool.
-

Risk Management Process

1. Risk Universe Analysis
 2. Risk Identification
 3. Risk Assessment (Matrix of likelihood vs. impact)
 4. Prioritise Risks
 5. Risk Response (Maintain Risk Registers)
 6. Define Staff Roles
 7. Monitor and Report
-

Internal Controls

- “Checks and balances” on staff, vendors, and processes.
- Types:
 - **Preventive:** To stop errors before they happen.
 - **Detective:** Identify issues after they happen (e.g., audits, reconciliations).
 - **Corrective:** Fix issues post detection.

Benefits:

- Early warning
- Prevent fraud
- Reduce audit findings and penalties

Limitations:

- Collusion
 - Human error
 - Unexpected events
-

Key Areas for Internal Controls in Charitable Organisations

- Legal Compliance
 - Governance
 - Budget and Budgetary Controls
 - Income
 - Expenditure
 - Procurement
 - HR Management
 - Asset & Inventory
 - Accounting
 - Cash & Bank
 - Donor Reporting
 - Program Implementation
-

Legal Compliance Controls

- All registrations valid (12AB, 80G, PAN, FCRA, etc.)
- Timely filings (ITR, TDS, EPF, etc.)
- Monitor legal proceedings
- Stay updated on law changes

Governance Controls

- As per bylaws
- Documented meetings
- Notify changes to authorities
- Risk systems in place
- Avoid conflicts of interest

Budget Controls

- Understand budgeting purpose and process
- Monitor variances
- Allow for course correction

Grants and Income Controls

- Designated bank account
- Grant reconciliation
- Maintain donation records
- Accurate reporting

Expenditure Controls

- Match spending to project plans
 - Qualified finance team
 - Track utilisation
 - Maintain bills/vouchers
-

Procurement Controls

Procurement Steps:

1. Define specifications
2. Budget allocation
3. Appoint purchase team
4. Research suppliers
5. Solicit bids
6. Evaluate bids
7. Issue purchase orders
8. Receive and inspect goods
9. Approve invoice and pay

Controls:

- Check budget
 - Vendor vetting
 - Maintain vendor database
 - Transparent bidding
 - Accurate POs
 - Use procurement tracker
-

HR Management Controls

- HR planning
 - JD-based hiring
 - Proper induction
 - Avoid nepotism
 - Capacity building
 - Performance appraisals
 - Exit procedures
 - Social security compliance
-

Fixed Asset & Inventory Controls

- Policies for asset/inventory
 - Annual verification
 - Maintain registers and ID marks
 - Remove disposed assets from records
-

Accounting Controls

- Accurate book-keeping
 - Use of accounting software
 - Compliance with rules
 - Ensure transparency and audit readiness
-

Cash & Bank Controls

- Secure storage
 - Minimise cash use
 - Proper voucher system
 - Monthly bank reconciliation
 - KYC and signatory updates
-

Donor Compliance Controls

- Timely, accurate reports
 - Adhere to donor formats
 - Data linked to program goals
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Program Implementation Controls

- As per proposal and LFA
- Track events' impact
- Monitor with audits
- Proper assessments
- Outcome reporting