

# **FINANCE MANAGEMENT & PROCEDURAL POLICY FOR MPSSS**

As the world is passing through an economic melt down and most of the countries in the world are facing economic crisis, the Non Governmental Organisations (NGOs) are facing great challenges especially in the field of finance. The NGOs should need to manage the scarce funds available and use them in such a way that the poor and the marginalized should get the maximum benefit. So MPSSS adopts a finance management and procedural policy so that the funds available for the organization might be used properly and usefully.

The purpose of this Financial Management and Procedural policy is to specify how to manage the funds in the organisation and what should be the procedures for utilising this fund for the specified purposes. This should also help to make necessary financial planning and reporting in the organization.

The key principles of the finance management and procedural policies are:

- Organisational funds should be used for the purpose for which it is granted and not for any private purposes.
- Funds should be carefully used in an effective way in the best interests of the organisation.
- All Board, Staff and members are responsible for the careful and honest use of funds.
- All Board members and staff have a collective responsibility for the financial health of the organisation.
- Each person has specific financial responsibilities. Some responsibilities are larger than others, for example the Treasurer and Administration Officer. However everyone on the Board and all staff dealing with finances must share responsibility for the careful and honest use of the organisational funds
- Everyone on the Board is also responsible for examining and questioning the monthly financial report and for formally approving it.
- All financial documents and reports should be available to all members of the Board and all staff members with financial duties.
- Checks and reviews should be done periodically.

## **1. General Norms:**

- 1.1. MPSSS should employ or retain good, experienced and full time accountants as required. Such persons should have adequate training in accounts, and preferably having a degree in commerce
- 1.2. Since the accounts are maintained on the accounting software Tally 9.0 each project can have a separate company to track accounts projects-wise. The accounting system is required to be protected through a pass-word and should take back-ups every week end. The print outs of cash book and ledgers on a monthly basis is to be filed.
- 1.3. Cash of MPSSS should be kept in a box, drawer or almirah which can be locked.

- 1.4. Corrections in the book of accounts are to be authenticated by the authorized signatory. Overwriting and use of whitener on book of accounts is generally not accepted.
- 1.5. A photocopy of the cheque needs to be retained in all cases, if payments are made through cheques, and the signature of the concerned person is to be taken to acknowledge the receipt.
- 1.6. All the advances are to be booked in the cash book as “advance” and not expenditure. Only upon settlement of the advances, the transaction is charged as actual expense.
- 1.7. The Secretary cum Treasurer of the Society shall operate FC Bank account.
- 1.8. The Secretary cum Treasurer will do the cash withdrawals with the help of accountant and office administrator.
- 1.9. FC Money will not be deposited in any individual local accounts.
- 1.10. Donations received shall be used for the specified purpose only.
- 1.11. The accountant on behalf of the Secretary cum Treasurer shall maintain FC Cash/Ledger books of accounts.
- 1.12. The Secretary cum Treasurer shall pay salaries to the staff by cash/cheques after proper documentation is done by the accountant.
- 1.13. The receipts and payments shall be reflected in the concerned project accounts.
- 1.14. The Secretary cum Treasurer shall present the detailed explanations, audit reports of the Receipts and Payments of the Society and activity reports during the General Body Meetings.
- 1.15. The Secretary cum Treasurer shall present the quarterly/half yearly statement of accounts in the Governing Body.
- 1.16. The accountant of MPSSS on behalf of the Secretary cum Treasurer shall maintain the books of accounts up to date.
- 1.17. Office rent will be charged from all the projects at the rate of Rs. 750/- for the use of office space.
- 1.18. Monthly expenditure of Telephone, electricity, internet (Broad Band) etc. shall be divided among the projects on following percentage basis.
  - 1.18.1. 50% of the total bill will be charged from MISEREOR project
  - 1.18.2. 25% of the total bill will be charged from IDEA project
  - 1.18.3. 25% of the total bill will be charged from ACSM project

**This sharing may be changed depending on the project MPSSS gets**

- 1.19. Usage of vehicle will be charged at the rate of Rs. 5.50/ from the project for which it has been used.
- 1.20. Usage of LCD and Laptop will be charged at the rate of Rs. 750/- from Caritas India's projects and Rs. 1000/- from other projects. This amount will be deposited in the India account and a separate head should be maintained in the society account.

- 1.21. Annual Maintenance charge of computers shall be bifurcated and put in the project account according to the use of computers.
- 1.22. The stationary items will be purchased in bulk and as per the use of the items in the trainings or capacity building programmes MPSSS will charge the respective projects.

## **2. Budget**

- 2.1.1 Every year MPSSS will prepare an annual budget for the coming year and will get it approved by the Governing Body of the society before 15th March and the same will be passed by the General Body at the Annual General Body meeting in July.
- 2.1.2 The process of preparing the budget will start with the preparation of the annual plan of the society. Each department of MPSSS will prepare its annual plan along with the annual budget.
- 2.1.3 This process will be completed by the end of February every year. Later these plans and budgets will be consolidated and the Secretary and the Treasurer with the help of the accountant will prepare the annual plan and the budget of the society.
- 2.1.4 Budgets will be prepared separately for the projects and activities funded by foreign contribution and local fund.
- 2.1.5 The budget under the foreign contribution shall have the following budget heads under the expected income. - Individual donations, Funds from different donor agencies (project funds from the funding agencies can be shown separately in budget), Bank Interest.
- 2.1.6 The expected expenditure under Foreign Contribution will include the following heads - The current projects, The projects that are expected to be sanctioned in the coming year, Office administration (The bank interest of FC could be used for general administration if a funding agency does not insist that the interest of its funds should be used for its project)
- 2.1.7 The budget under Local fund will have the following budget heads under the expected income. - General Donations, Membership fee, Government Departments/Ministries, Contribution for different projects, Bank Interest, Local fund mobilization through special fund raising programmes
- 2.1.8 The expected expenditure under local fund will include the following items, Office maintenance, Meetings and orientations, Government funded projects
- 2.1.9 There could be some unexpected developments for which finance will be required. In such case additional budget shall be prepared and presented to the Governing Body for approval.

## **2.2 Implementation of the Budget**

- 2.2.1 The accountant should prepare a monthly budget for the coming month and present to the Secretary cum treasurer on every 25<sup>th</sup> of the month and approved by him.

- 2.2.2 He who hands the money shall give the account in time with proper bills and vouchers and supporting documents.
- 2.2.3 Every disbursement of the funds should be according to the budget. If there is any unforeseen expenses written approval should be documented and filed.
- 2.2.4 Every disbursement should be supported by a voucher countersigned by the Secretary cum Treasurer. There should be documents in case of trainings or meetings, etc.
- 2.2.5 The accountant shall prepare a statement of accounts of all the projects stating the variations if any and submit it to the director on 5<sup>th</sup> of every month.
- 2.2.6 Attendance register of the trainings, Salary register of the staff, purchase register, distribution register of the stationary items, Register of cheques issued with the signature of the receiver etc. should be maintained.
- 2.2.7 Monthly statement of account of both consolidated and project-wise shall be made available to the Secretary and the Treasurer for the effective monitoring of the projects and activities.
- 2.2.8 Quarterly consolidated statement of account will be presented to the Governing Body in its quarterly meetings.
- 2.2.9 Auditing of the account of the society by the internal auditor and the external auditor will be held in April-May every year.

### **3. Maintenance of the Account**

- 3.1 It is the responsibility of the Secretary cum Treasurer with the accountant, that the accounts of MPSSS are maintained properly.
- 3.2 Separate accounts will be maintained for Foreign Contribution and Local Fund. There should be separate bank accounts and receipt books for the Foreign Contribution account and the Local account.
- 3.3 Proper bills/ vouchers with supporting documents are to be maintained for every expenditure.
- 3.4 The accountant shall prepare monthly statement of accounts (Receipts and Payments Account) of MPSSS and shall be made available to the Secretary cum Treasurer on 5<sup>th</sup> every month.
- 3.5 All the bank accounts will be in the name of the society. Governing Body is entitled to give the authorization to designated person to operate its bank account.
- 3.6 Authority is given by Governing Body to Secretary cum Treasurer to authorize expenditure for day-to-day operations of the society.
- 3.7 Authority is given by Governing Body to Secretary cum Treasurer to sign cheques.
- 3.8 Books of accounts will be maintained as per the statutes and prevailing laws of Government of India. Every month the accountant has to take print outs of the cash book and file them.
- 3.9 All the cheque-books and bank pass books/statements will be kept in safe custody of the Secretary cum Treasurer.
- 3.10 Monthly Bank reconciliation Statements will be prepared and properly filed in the records.

- 3.11 The balances of cash-book will be reconciled with physical amount of cash at least once a month.

## **4. Segregation of Duties**

As required by generally accepted accounting principles there should be an adequate segregation of duties in the finance department for different functions. The segregation of the responsibilities is to be done in such a way that it ensures that a single individual do not have overall control of key aspects of the financial procedure.

Some examples of segregation of duties

- The vouchers are prepared by the accountant and approved by the Director.
- The petty cash custodian should be other than the main Accountant.
- The petty cash is counted by the petty cash custodian and verified by the Director.
- The Bank Reconciliation Statement is prepared by a staff independent of cash function.

## **5. Record Retention**

- 5.1 All accounting records need to be kept for 10 years, safely. This is also a requirement of Income Tax Act. In case, any audit recommendation is open or any ongoing inquiry is in process, the records needs to be retained till the closure of the recommendation and inquiry.
- 5.2 In case accounts are computerized, partner needs to keep printed copies of the records. Keeping computer files on a floppy or hard-disk is not sufficient.

## **6. Vouchers**

- 6.1 Generally, receipt vouchers, cash vouchers, payment vouchers are to be prepared and maintained
- 6.2 All vouchers should be marked with sequential pre numbers. This number should also be given on the cash book and ledger so that vouchers can be located easily
- 6.3 Each voucher needs to bear the date and signature of the person who prepared it.
- 6.4 All payment vouchers should have authorized signatory's approval.
- 6.5 Each voucher needs to have the actual date of transaction
- 6.6 Each voucher needs to have a brief narration of the transaction.
- 6.7 In case of travel expense, payment vouchers needs to have the details of travel i.e., date, place of visit, mode of transportation, amount and purpose. Similarly on all Diesel/Petrol bills, these details are to be provided. All supporting bills such as bus/train tickets are to be attached as supporting document with the vouchers.
- 6.8 In case of training expense, payment vouchers needs to have details such as number of participants, trainers, rate of payment of lodging and boarding etc.
- 6.9 All payment vouchers are to be defaced with "PAID" stamp including the supporting bills after making the final payment. This is basically to prevent duplicate payments.

## **7. Revenue Stamp**

Essentially, a revenue stamp is required whenever a person acknowledges receipt of money. It is required only on Cash payments exceeding Rs.5000.

## **8. Transaction**

- 8.1 The transactions are authorized by the Director
- 8.2 Cheques are prepared by the account and signed by the Director (Do not sign blank cheques)
- 8.3 Bank Reconciliations should be done every month by the accountant
- 8.4 Petty Cash Vouchers are prepared and submitted to the accountant by the Administrative Officer with the approval of the Director.

## **9. Procurement**

As per the project and approved budget, if MPSSS is purchasing some items for office maintenance or any item for program implementation, the Director shall follow the minimum guidelines as mentioned below:

- 9.1 A purchasing committee consisting of 3 or 4 members should be in place.
- 9.2 The members of the committee are, Secretary cum Treasurer, Accountant, Office Administrator and INRM programme Manager.
- 9.3 In case of Purchase of equipments, furniture and vehicles etc. costing above Rs. 20,000/- the director shall obtain minimum of 3 sealed quotations from the different vendors.
- 9.4 The sealed quotations are to be opened in the presence of purchasing committee. The committee members shall put their initials on each of the quotation.
- 9.5 Purchasing committee members shall analyze the quotations and give their recommendations on bid analysis. The Director shall review the same for approval or rejection.
- 9.6 Director places the order with the vendor by issuing purchase order. In purchase order the he shall mention all terms and conditions and escape clause.
- 9.7 All purchase order to be numbered and dated.
- 9.8 It is the responsibility of the Office Administrator to purchase the items needed. But he can delegate this task to others as per the need.
- 9.9 It is also the responsibility of the Secretary cum Treasurer or Accountant to verify the quality of various items purchased along with the proper cash memos and receipts.
- 9.10 The partner shall obtain the signature of the vendor on the purchase order as acknowledgement/agreement to the purchase of the item

## **10. Donations**

Donations exceeding Rs. 1,000/- at a time require discussion with the financial committee.

## **11. Construction of Buildings**

For any construction exceeding Rs. 50,000/- there should be a written contract between the contractor and the organization. It is to be specially mentioned in the contract that tax will be deducted (TDS) as per the government rules.

## **12. Payments**

- 12.1 All payments above Rs. 20,000/- shall be made either by cheque or Demand Draft.
- 12.2 All payments are to be approved by the Secretary cum Treasurer of the organization.
- 12.3 When purchases are made original bills are to be obtained by paying the legally required taxes. Along with invoices receipts are to be obtained.
- 12.4 All salaries must be paid through the bank.
- 12.5 Bills and vouchers will be first checked and signed by the accountant before being signed by the Secretary cum Treasurer.
- 12.6 All the Cash payments above Rs. 5000/- through vouchers must have a revenue stamp of Re.1/- affixed, which will be cancelled by signing/thumb impression on it.

## **13. Bank Account Operation and Investments**

- 13.1 The investments of MPSSS will be made only in those items legally allowed for charitable organizations.
- 13.2 Opening new bank accounts requires the resolution of the Governing Body of MPSSS.
- 13.3 At the beginning of every month the pass books will be updated and bank reconciliation statement will be prepared.

## **14. Legal compliance**

- 14.1 It is the responsibility of the Secretary cum Treasurer with the accountant to get the accounts audited in time. The auditing of the account shall be completed before 31<sup>st</sup> May.
- 14.2 It is the responsibility of the accountant that the TDS is deducted and deposited in the govt. Treasury within the prescribed period and the returns are filed with the Income Tax Department. The Treasurer will see that these tasks are done within the prescribed period (December 31<sup>st</sup>)
- 14.3 The Director/Treasurer will see that returns (FC 3) along with the audited statement of account of Foreign Contribution) will be sent to the Ministry of Home affairs, Govt. of India before 31<sup>st</sup> July.
- 14.4 The Treasurer will remind the auditor for filing the Income Tax Returns before 30<sup>th</sup> September.
- 14.5 The audit report and the annual returns have to be filed with the registrar of firms and societies, Bhopal within the prescribed time limit.

## **15. Documents to be maintained**

- Bills/cash memo and receipts/vouchers.
- Cash book and ledger
- Receipt books separately for Foreign Contribution and local contribution
- Contracts and agreements with regard to construction, services etc.
- Asset Register
- Stock Register
- Salary Register
- Log Books for all Vehicles 4 wheelers and 2 wheelers
- Stationery issue register
- Repair & Maintenance register for major equipment.
- Register for income from old-items sold.
- Fixed deposit Register
- Cheque issue register/record

## **16. Review of Accounts**

All financial reports should be reviewed by the Director, to ensure completeness, accuracy and relevance. The account shall submit monthly, quarterly, six monthly and yearly reports to the director.

The Director has the ultimate responsibility for reviewing financial reports of the Programmes, and for providing feedback to the concerned persons. The Finance officer will provide necessary data and statements and other details for the review.

## **17. Finance Committee**

The Governing Body of MPSSS will appoint a Finance Committee consisting of four members from the staff of MPSSS. The following are the responsibilities of the Finance Committee.

- Study the quotations for the purchase of things needed for the office.
- Periodically check the inventory
- Study the financial statement prepared by the accountant
- Periodically meet and discuss about the problems of the financial matters and suggest ways and means to solve them
- Quarterly /half yearly monitoring of the budget implementation

## **18. Inventory**

The MPSSS needs to maintain a property inventory register exclusively for all the items procured by MPSSS. Inventory register should have the following information.

- Property inventory number
- Date of purchase and invoice number
- Purchase order number and date.
- Description of the item and quantity.
- Cost of the item.
- Location.
- Condition of the item

MPSSS needs to maintain separate inventory register for the items received or purchased and distributed to the beneficiaries. MPSSS requires maintaining a list of beneficiaries with their signature in project file for any such distributions.

## **19. Verification**

Once a year, each asset on the register should be inspected to confirm its existence, location, usefulness and condition. The verification exercise should be carried out by officer administrator. All assets which cannot be located must be thoroughly investigated and a full report submitted to the Director. Based on this report, management can authorize the asset to be written off if it has not been fully depreciated or already written off. Assets in poor condition or which remain idle should be considered for disposal.

## **20. Acknowledgement**

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