

# **CNI-Synodical Board of Social Services (CNI – SBSS)**



## **Standard Operating Procedures (SOP) for Financial Management of EED Grants**

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## CNI SBSS SOP for EED Grants

### Chapter 1 - Introduction and Baseline

#### 1.1 Background

Synodical Board of Social Services (SBSS) is a justice and development arm of the Church of North India (CNI). CNI SBSS is registered as a 'Society' under the Societies Registration Act, XXI 1960 (Punjab Amendment Act of 1957) as extended to the Union Territory of Delhi. It is registered under section 12A of the Income Tax Act, 1961 and has obtained registration under Foreign Contribution (Regulation) Act, 1976. In terms of funding, EED/EZE, Bread for the World and Christian Aid (hereinafter referred to as ERSA), are the key donors of CNISBSS.

In terms of structure, CNI SBSS works with and financially supports a number of Diocesan Board of Social Services (DBSS) all of which are separate legal entities and most of which are registered under the Foreign Contribution Regulation Act (FCRA). CNISBSS thus works in the mode of Collective Form of Cooperation (CNI SBSS) and is part of the Forum of Collective Forms of Cooperation (FCNI SBSS) which is an informal network of a number of CNI SBSSs, all of which receive funding from EED.

Effective the January 2012, the FCNI SBSS has formally approved and adopted a common set of "Standard Operating Procedures" which provide a common framework for EED grant management, general financial management and governance parameters for the CNI SBSS and their network partners. It was agreed that within the framework of the FCNI SBSS SOP, each CNI SBSS would adopt the SOPs as per their own requirements, while ensuring that the prescribed norms for grant management and financial management are adhered to and are synergized with the CNI SBSSs' own structures, legal registrations, accounting and reporting requirements.

Accordingly, these Standard Operating Procedures have been documented by CNI SBSS within the framework of the FCFC SOP and have been tailored to the requirements of CNI SBSS, while ensuring that the prescribed norms for grant management and financial management are adhered to and are synergized with the CNI SBSSs' own structures, legal registrations, accounting and reporting requirements.

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**These SOPs are divided into various Chapters, each dealing with the following specific aspect of the EED Grant Management**

CHAPTER 1 - INTRODUCTION AND BASELINE  
CHAPTER 2 - OVERVIEW OF EED GRANT MANAGEMENT  
CHAPTER 3 – BUDGETARY CONTROL  
CHAPTER 4 – ORGANIZATIONAL BUDGETS  
CHAPTER 5 – EED GRANT UTILIZATION  
CHAPTER 6 –GRANT REQUESTS AND REMITTANCES  
CHAPTER 7 – BOOKS OF ACCOUNT  
CHAPTER 8 – PAYMENT PROCESSES AND SUPPORTING DOCUMENTS  
CHAPTER 9 – BANKING PROCESSES  
CHAPTER 10 – CASH MANAGEMENT  
CHAPTER 11 – PROCUREMENT PROCEDURES AND INVENTORY CONTROL  
CHAPTER 12 – MANAGEMENT OF EED PROJECT ASSETS  
CHAPTER 13 – IMPREST / ADVANCE MANAGEMENT  
CHAPTER 14 – SALARY PAYMENTS  
CHAPTER 15 – REPORTING TO EED  
CHAPTER 16 – EED PROJECT AUDIT  
CHAPTER 17 – OWN MEANS CONTRIBUTION (OMC)  
CHAPTER 18 – GRANT / PHASE CLOSURE PROCESSES  
CHAPTER 19 – GOVERNANCE PROCESSES  
CHAPTER 20 – STATUTORY COMPLIANCE  
CHAPTER 21 - FINANCIAL MONITORING OF DBSSS BY CNI SBSS

It needs to be noted that CNI SBSS already has an organizational Finance Manual that covers some of the financial management systems and processes included in the SOP. While these SOPs complement the organizational finance manual, it is to be noted that where there is any contradiction / difference in processes mentioned in the two documents, the processes mentioned in these SOP would override those of the Finance Manual, in so far as the EED grant Management is concerned.

## 1.2 Overview of the present systems at CNI SBSS

ERSA had initiated an external evaluation of CNI SBSS in early 2008. This was followed by a midterm financial systems review in October 2010, to assess the level of implementation made in the financial evaluation report and provide further recommendations for strengthening the systems. As part of the process undertaken to document these SOPs, an overall review was undertaken at CNI SBSS level, in order to assess the level of implementation of the recommendations made in the financial systems review report of October 2010 (which in turn were based on the recommendations made in the original evaluation report). This was done in order to obtain a baseline understanding of existing systems, before documenting the CNI SBSS SOP.

An overview on the status of implementation of Key Recommendations made in the Mid Term Systems Review Report (at the time of the overall review on 5<sup>th</sup> March 2012), and the details of processes yet to be implemented, is provided below.

<b>Recommendation made in Mid Term Financial Review Report – October 2010</b>	<b>Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.</b>
The transfers made to DBSS should be treated as grants as against the practice of consolidating the DBSS level expenditure in the books of SBSS headquarters.	<p>In the audited financial statements for the financial year 2010-2011, the transfers made to 15 DBSS were treated as grants as against the practice of consolidating the DBSS level expenditure in the books of SBSS. However, transfers to 7 DBSS namely Kolhapur, Phulbani, Mumbai, Delhi, Chattisgarh, Marathawada and Nagpur continued to be reflected in the books of CNI SBSS. Of these, as informed, 4 DBSS (Kolhapur, Mumbai, Delhi and Nagpur) have FCRA registration while the balance 3 namely; Phulbani, Marathawada and Chattisgarh do not have FCRA registration.</p> <p><b>It was informed that effective April 2012; utilization of 3 DBSS (without FCRA</b></p>

Recommendation made in Mid Term Financial Review Report – October 2010	Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.
	<p>Registration) would continue to be routed through the SBSS books, while remittances to 19 DBSS/ Dioceses would be treated as grants. As informed, the dioceses of Phulbani, Marathwada and Chhatisgarh are new entities and yet to initiate the process of registration.</p>
<p>The books of account at all levels be structured according to the detailed line items as provided in the budgets, in order to track the spending against the individual activities to be performed both in terms of numbers and unit costs</p>	<p>Presently, the Tally accounts at CNI SBSS are structured only as per the Broad Programmatic Budget line items of the existing budget.</p> <p><b>It was informed that effective April 2012, the Tally accounts would be structured as per the detailed budget line items and sub line items, based on the approved budget of the new phase of the grant. In addition, the Tally software would also be structured in a manner that facilitates analysis of expenditure by generic expenditure heads like salaries, travel etc.</b></p>
<ul style="list-style-type: none"> <li>• Separate cost centres should be created for the SBSS and the individual RCSA and DBSS level (for the DBSS expenses channelized through RCSA and treated as direct expenses of the SBSS) in line with the detailed line items of the approved budget in order to track and monitor expenses by each such unit (SBSS/RCSA/DBSS) as also by detailed budget line items</li> <li>• In case of the cost centre created for the individual RCSAs, SBSS could consider</li> </ul>	<ul style="list-style-type: none"> <li>• Separate Cost Centres have been created for the SBSS and individual RCSA and DBSS level expenses (for the DBSS expenses treated as direct expenses of the SBSS). <b>However these are as per the Broad Programmatic Budget line items of the existing budget.</b></li> <li>• The system of passing a single journal entry is still being followed.</li> </ul>

<b>Recommendation made in Mid Term Financial Review Report – October 2010</b>	<b>Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.</b>
<p>merging the Tally data of the individual RCSA, after through checking, instead of passing a single journal entry wherein each broad budget line is debited by the consolidated spending by the concerned RCSA for the reporting period</p>	<p><b>It was informed that for the forthcoming financial year, the Tally software at the SBSS, and all the RCSAs and the DBSS would be restructured as per the detailed budget line items. Further the accounting structures at all levels would be synergized to facilitate merging of the databases maintained at various levels. However, before such merging, sufficient checks and balances would need to be put in place in order to ensure that the entries passed at all levels are correct, and are sufficiently backed up by financial and programmatic backup and supporting.</b></p>
<ul style="list-style-type: none"> <li>• 6 DBSS still maintain manual books of account. SBSS could consider building capacities to shift to computerized accounting systems using the Tally software which is in use at the other DBSS levels.</li> <li>• The vouching systems could be further strengthened by generating vouchers with automatic numbering from the Tally accounting software</li> <li>• Paid stamp should be affixed on all vouchers and supportings with voucher reference</li> <li>• Proper processes for accounting software security and backup should be put in place</li> <li>• Proper and consolidated fixed asset</li> </ul>	<ul style="list-style-type: none"> <li>• As informed Tally software had been installed at the DSSS using manual books of account. <b>However, the capacity building and the actual operationalization of computerized accounts is pending.</b></li> <li>• Tally generated vouchers with automatic numbering are now being used at the SBSS level. <b>However with the proposed merger of the SBSS / RCSA databases, the numbering scheme will have to be synergized at all levels.</b></li> <li>• As informed backup of accounting data is taken all levels at weekly intervals.</li> <li>• As informed, PAID Stamp with referencing of voucher numbers and date, will be affixed on vouchers at all</li> </ul>

Recommendation made in Mid Term Financial Review Report – October 2010	Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.
<p>register with complete details including invoice reference, source of funding and accession number</p> <ul style="list-style-type: none"> <li>• Inventory registers should be maintained for inventories all levels</li> <li>• The present Finance Manual could be reviewed in terms of the revised systems and processes already in place and those proposed to be further strengthened. Further the coverage of the manual also needs to be enhanced in terms of certain aspects such as treatment of common expenses funded by more than one donor, and donor management processes.</li> </ul>	<p>levels, effective April 2012.</p> <ul style="list-style-type: none"> <li>• Though a fixed asset register is maintained it is still not reconciled with the registers / assets at all levels, and does not have complete details as suggested in the recommendations.</li> <li>• Inventory records of stationery etc. are maintained at SBSS level</li> <li>• Finance manual has been revised. However, this is not strictly as per the EED grant management norms (it provides for charging of notional expenses such as or vehicle usage), allows inter project transfers, does not include the structure and reporting relationships for the finance function and does not include the aspects of financial monitoring of DBSS.</li> </ul>
<ul style="list-style-type: none"> <li>• It is recommended that the MIS reporting and consolidation processes be structured in a manner that (i) captures the actual outputs achieved (in terms of numbers) against those targeted and (ii) correlates the programmatic achievements against the financial utilization, using the detailed structure as provided in the ERSA approved budget.</li> </ul>	<ul style="list-style-type: none"> <li>• Grant management software has been developed which is programmed to capture the information with regard programmatic outputs achieved and the financial utilization at all levels. <b>However, as yet no data has been fed in the software and the software has not yet been tested to verify whether it meets with the information needs of CNI SBSS. Further, the training and dissemination of the software across the RCSAs is yet to be undertaken.</b></li> <li>• It was informed that the above mentioned processes would be completed by the</li> </ul>

Recommendation made in Mid Term Financial Review Report – October 2010	Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.
	<p>end of March 2012, and that the software would be ready for use in April 2012.</p> <ul style="list-style-type: none"> <li>For the present the compilation of the MIS continues to be done manually</li> </ul>
<p>The information on grant utilization grant management did not match with the figures provided by the Finance Manager as extracted from the books of account.</p>	<p>The new grant management software is not linked / synergized to the Tally software, to ensure ongoing and automatic correlation and matching of the data between the two software's.</p> <p>It was informed that the possibility of such correlation would be explored. Till such time the reconciliation process between the two data bases would need to be structured in a formal manner, and undertaken manually.</p>
<p>There are no separate/individual budgets prepared for SBSS and the 5 RCSAs to facilitate monitoring of expenses and activities against approved activities/budgets for SBSS as provided in the ERSA approved detailed budget provisions.</p>	<p>In the proposed budget for the new phase, which has been submitted to the donors, the budgets have been prepared separately for the SBSS and the various DBSS, the sum total of which tallies with the overall budget proposed.</p> <p><b>However, the SBSS budget has not been further broken down into the budgets for the SBSS and the RCSAs. It was informed that this would be done once the budget is approved by the donors.</b></p>
<ul style="list-style-type: none"> <li>The individual tri-partite agreements entered into between SBSS, the concerned DBSS and the concerned auditor, for the 22 DBSS level audits provide for issue of management letter with each audited report. From a sample review of the audit reports it was noted that very few auditors provide such</li> </ul>	<ul style="list-style-type: none"> <li>Effective April 2011, a common auditor has been appointed for the entire project audit. However, it was noted that a single audit report was submitted for the entire project. It was not clear whether from the next audit cycle, separate reports would be submitted.</li> </ul>

<b>Recommendation made in Mid Term Financial Review Report – October 2010</b>	<b>Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.</b>
<p>management letters. Even the management letters that were issued do not give any indication of the quality of internal control systems in place. Further, even the SBSS level auditor who certifies the consolidated utilization at all levels, does not provide an adequately drafted management letter, covering the internal control elements at the SBSS, RCSA and DBSS levels</p> <ul style="list-style-type: none"> <li>• With regard to the financial monitoring visits to the DBSS by the FAs based at the individual RCSAs, from a sample review of the reports it was noted that there was no standard process followed with regard to the periodicity, scope, methodology, reporting structure and follow-up of the issues emerging out of such visits. Further some of the reports highlighted areas of concern with regard to accounting, internal control and grant utilization processes at some of the DBSS.</li> </ul>	<ul style="list-style-type: none"> <li>• A more formal financial monitoring mechanism is now in place, which involves periodic visits to the DBSS, and a more structured scope for the financial reviews. <b>However, there is scope for the improvement in the process, in terms of ensuring the coverage both in terms of the number of visits and the review scope. Further, the reporting and follow-up mechanisms need to be standardized</b></li> </ul>
<p><b>Remittance Process:</b></p> <p>It is recommended while maintaining the basic principle of the present model, in order to save on time and effort, the cut-off date for settling the seed money balance should be on annual (31<sup>st</sup> March each year) rather than bi-annual basis. Further (i) the remittance could be rounded off to the higher Rs. 1000 instead of making remittances of odd</p>	<ul style="list-style-type: none"> <li>• A more structured bimonthly remittance process based on receipt and analysis of the utilization reports received has been put in place.</li> <li>• However, it was informed that due to the delay in receipt of grants for donors, remittances to DBSS could not be made as envisaged. Further, the existing processes need to be further streamlined</li> </ul>

<b>Recommendation made in Mid Term Financial Review Report – October 2010</b>	<b>Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.</b>
<p>figures (ii) provisions be maintained for higher remittances on account of higher anticipated expenditure and (ii) adherence to timelines, clear communication channels and proper amounts of remittances should be ensured so that the system can be effectively implemented.</p>	<p>by standardizing the formats for recommending the release of grants, which could include the basis of the recommended amounts and the present balance in hand at each DBSS level.</p>
<p><b>Budgeting and Utilization Processes</b></p> <ul style="list-style-type: none"> <li>• The budgeting, budget monitoring and corresponding accounting processes especially at the SBSS level be adequately strengthened to facilitate proper planning and then tracking of expenses.</li> <li>• The allocations towards the DBSS be adequately increased to ensure effective implementation of the project activities</li> <li>• Since the ERSA approved budget does not have any provision for “reserves” the amounts so earmarked by SBSS need to be adequately addressed</li> <li>• All allocations towards salaries should be provided for under the head of “salaries” instead of allocating salaries to different line items in the budget. This would help assess the total salary component of the grant. The issue pointed out in point 4.4 should be clarified and sorted out with the ERSA.</li> </ul>	<ul style="list-style-type: none"> <li>• The budget prepared for the new phase has addressed some aspects such as elimination of scope for reserves, by providing budget breakups for SBSS and DBSS.</li> <li>• However, the budget line items and sub budget line items are structured based on programmatic interventions and activities / sub activities, and not generic expenditure heads like consultancies, travel accommodation etc for each activity. Further, provisions for salaries have been included in some programmatic intervention like capacity building, instead of including all salaries at one place as suggested in the mid term review report. This is also important since the FCRA 2010 Rules define administrative cost limits.</li> <li>• With regard to the grant utilization processes, these have been covered in the project and internal audit reports of CNI SBSS</li> </ul>

<b>Recommendation made in Mid Term Financial Review Report – October 2010</b>	<b>Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.</b>
<ul style="list-style-type: none"> <li>• The appointment of a professional, independent internal auditor be undertaken on a priority basis, without any further delay</li> <li>• A Finance Committee with specific focus on financial matters and defined ToRs should be formed at the earliest. In this regard, it was informed that following discussions at Round Table meeting with Partners, and in order to involve the governance, the Office Bearers of CNI SBSS would function as Finance Committee, and that ToR are in process of development</li> </ul>	<ul style="list-style-type: none"> <li>• An internal audit process has been initiated through M/s S Sahoo and Co, an independent firm of Chartered Accountants</li> <li>• In the CNI SBSS Board meeting held on 4<sup>th</sup> August 2011, "it was resolved to invite Ms. Asima Able, CA and Mr. Sanjay James CA, as invitee consultants to advice on finance matters to the CNI SBSS. They would be serving on the Finance Committee with Finance Committee with office bearers. The Chief Coordinator was authorized to do the needful"</li> <li>• It was informed that in the next meeting of the new Board the composition of the new Finance Committee and the ToR would be formally approved.</li> </ul>
<p><b>Capacity of the Finance Team</b></p> <p>It is felt that there is need for external professional input in certain areas of financial and grant management aspect. For this purpose, the services of qualified chartered Accountant could be availed on consultancy basis and/or retainer basis, with clearly specified and focused Terms of Reference.</p>	<ul style="list-style-type: none"> <li>• The finance function at the CNI SBSS level is presently coordinated by the Finance Coordinator, who is assisted by an accountant. There is no Head of Finance.</li> <li>• It was informed that effective the next phase of the grant, the position of Head of Finance would be created.</li> <li>• Of the two invitee consultants identified as mentioned above, Mr. Sanjay James is proposed to be inducted as Finance Consultant, on part time basis. However, as yet the exact role of the Finance Consultant has not yet been defined.</li> </ul>

Recommendation made in Mid Term Financial Review Report – October 2010	Status at the time of review for documenting CNI SBSS SOP / processes yet to be implemented.
	<ul style="list-style-type: none"> <li>• With regard to grant monitoring and financial monitoring of the DBSS, at the RCSA level, there are presently 3 Finance Associates (FAs) for 5 RCSAs, interfacing with 21 DBSSs. The FAs are supported by other staff members (accountants / office secretaries) at their respective levels. The FAS work as a team with each of the three RCSA level FAs responsible for coordination, compliance and uploading of DBSS data respectively.</li> <li>• However, there is need for a formally defined Organogram for the finance function, with clearly defined reporting relationships, roles and responsibilities. The leadership roles in the finance function should be clearly spelt out.</li> </ul>

It can be assessed from the overview provided above, that while systems and processes for some aspects of financial and grant management processes have been put in place. It was informed that implementation of some other aspects will be initiated in the next phase of the grant, for which the proposal has been submitted by CNI SBSS.

**While the above analysis provides a baseline on existing systems and processes, the CNI SBSS SOPs have been developed from the perspective that all the systems and processes, as suggested in the midterm review (as mentioned above) and the FCNI SBSS SOP will be implemented. The baseline information provided will serve as a guide for CNI SBSS to plan the actions to be taken for implementing the CNI SBSS SOP in totality.**

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## Chapter 2 - Overview of EED Grant Management

In order to effectively manage the EED grants, it is important to understand (i) the EED grant making and monitoring processes - right from the receipt of the project proposal to the “closure” of the grant at the completion of the project phase and (ii) the various documents that define the terms of partnership and the manner in which the EED grants need to be managed.

### 2.1 EED Grant Making Process – Generic Framework

- The first step is the submission of the **project proposal / grant application** including a detailed budget by the partner to EED, highlighting the need, proposed strategy and expected outcome of the project.
- Upon programmatic and financial review of the proposal (which involves a detailed, defined process), the application is in-turn submitted by EED to their funding authorities.
- Upon the submission of the application to the funding authorities (back donors), a “Letter of Submission” is sent to the partner by EED intimating the partner about submission and probable date of the start of the project provided it is approved by the funding authorities.
- Along with this intimation, the copy of the **‘Preliminary schedule of budgeted expenses and sources of income’** the specimen copy of the **“Agreement for Cooperation”** is also sent, to enable the partner to understand the grant conditions and put in place appropriate systems and processes to facilitate the effective adherence to the same. In the intimation of Advance Information, the key aspects of the cooperation referred to in the agreement are also explained in a summary form.
- Once the approval of the Funding Authorities is received, the formal agreements are signed by the representatives of EED and the CNI SBSS. This marks the formal initiation of the partnership.

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## 2.2 Important documents that define the terms of EED partnership

- a) The terms and conditions of the EED grants are defined in the document titled “**Agreement of Cooperation**” which specifies the various aspects of the partnership including its purpose, funding, utilization of funds, remittance processes, reporting requirements, accounting, audit, and conditions of withdrawal.
- b) **The Audit Agreement** signed in triplicate between the Auditor, Partner and EED. This document outlines the roles and duties of the Partner; roles and duties of the Auditor; duration of appointment of the Auditor; audit cost; liability etc.
- c) Another document titled “**Letter of Approval**”(LOA) is also signed, and issued by EED along with the Agreement of Cooperation; Audit Agreement; Project Objective and Indicators and the approved schedule of Budgeted Expenditure and source of Funds (Approve Budget).LOA is more specific to the concerned grant and provides the detailed budget, funding sources, special reporting requirements if any.

## 2.3 Overview of Grant Monitoring Processes adopted by EED

The key financial monitoring mechanisms adopted by EED are summarized below:

- **Reports:** The Agreement of Cooperation provides the details of the programmatic and Financial Reporting requirements including the timelines and formats.
- **Audit:** Each financial report submitted (which covers the grant utilization at the CNI SBSS and individual implementing partners level), is required to be audited by an independent auditor. This is a very important monitoring tool. The scope of the audit and the terms and conditions of the appointment are laid down in detail, in the Agreement of Cooperation and the Audit Agreement.
- **Monitoring by FMSF:** All narrative and financial reports (both signed by at least one authorized representative and along with the audit report), as also the requests for transfer of funds and acknowledgement of receipts are to be sent to FMSF, for review and further processing. It is to be noted that a copy of the six monthly narrative report needs to be directly sent to EED by the partner organization. The reports shall be sent

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within 3 months after the end of the reporting period. Otherwise a request for transfer of funds can not be served.

- **Evaluations:** Mid terms / End term programmatic and financial evaluations are undertaken, which are inbuilt into the project action plans and budgets. The scope, methodology and timeframe of the evaluations are agreed upon between EED and the concerned CNI SBSS.
- **“Closure” of Grant** Upon the conclusion of the agreed project period and receipt of final reports and information, the grant is formally closed by EED, and the formal grant closure advice is sent to the concerned CNI SBSS.

## 2.4 Overview of the CNI-SBSS project implementation structure

- CNI-SBSS (registered as a ‘Society’ under the Societies Registration Act, XXI 1960 (Punjab Amendment Act of 1957) as extended to the Union Territory of Delhi; under section 12A of the Income Tax Act, 1961 and under Foreign Contribution (Regulation) Act, 1976) is the legal grant holder for the EED project, which is implemented through a number of **Diocesan Board of Social Services (DBSS)** each of which is a separate legal entity, having its own legal, governance and management structure.
- The grants to most DBSS (though not all) are remitted by way of onward granting by CNI-SBSS within the framework of separate agreements entered into with each DBSS. These agreements include the salient features, terms and conditions of the EED Agreement of Cooperation with CNI SBSS.
- Since the DBSS are geographically spread across the country, CNI SBSS has set up five Regional Resource Centres for Social Action (RCSAs) which are responsible for the programmatic and financial monitoring of the DBSS located within their earmarked geographical locations. Each RCSA is headed by a team leader and has earmarked staff to facilitate the financial monitoring aspects. These RCSAs are part of CNI SBSS and their expenses are consolidated with those of the CNI SBSS Head Office based at New Delhi.
- The EED grants are utilized at all the levels mentioned above, namely at CNI SBSS Head Office at Delhi, at the various RCSAs and at the level of earmarked DBSSs.

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## Chapter 3 – Budgetary Control

### 3.1 Budget preparation processes:

- *Since the overall EED project budget is a consolidation of the budgets of the CNI SBSS Head Office, the five RCSAs and the various DBSS based at different geographical locations, it is important to ensure that the budgets at each level are prepared in a cost-effective manner and that there is proper correlation between the activities planned and the budgets proposed.*
- *CNI-SBSS plays a facilitative and supportive role in ensuring that the individual budgets are in line with the overall project strategies and that proper processes are followed at all levels for activity planning and preparing the budgets within the framework of the overall project plan and costs.*
- *For this purpose, necessary guidelines on project and budget preparation are issued to the individual DBSS well in advance of the due date for submission of the overall project proposal to EED. These guidelines include the instructions on the programmatic aspects of the project such as the project log frame, project outputs and activities, project implementation strategy, monitoring evaluation and impact assessment, staffing, sustainability of the project and its impact/effects; and the financial aspects such as costing details per unit of activity – duly correlated with the activity plan, the total budget outlay with detailed specifications of allocations for each project objective and activities there-under, and detailed breakup of staff costs, administration costs and fixed assets proposed to be procured.*
- *The activities under each objective are also costed based on the generic expenditure heads (like travel, accommodation, consultancies, printing etc) in order to have better monitoring, tracking and accounting control (this is discussed in a subsequent chapter related to accounting processes).*
- *The staff based at the various RCSAs facilitate the budget preparation within the framework of the Budget Guidelines for the DBSSs earmarked to them.*

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- *Simultaneous to the DBSS Guidelines, CNI SBSS makes its own activity and financial plans, based on similar parameters, with breakup of costs for Head Office and individual RCSAs.*
  - *For each budget received, the provisions under each budget-line are reviewed in light of the proposed project activities. This is done for the CNI-SBSS level budget and the individual DBSS budgets as well. Emphasis is laid on ensuring the provision of cost-effective services using a “**zero based approach**” while working out the funding requirements.*
  - *It is ensured that the total of the budgets of CNI SBSS head office, the five RCSAs and the individual DBSSs add up to the overall grant budget.*
  - *Once all the budgets are reviewed these are consolidated into the overall project budget with appropriate breakups for CNI SBSS and the individual DBSS, and appropriate workings and backup details for the budgets proposed under the individual line items / sub line items. The project proposal and the financial budgets are also reviewed in the light of the strategic directions and guidelines (if any) received from EED with regard to the funding priorities in terms of programmatic focus and budgetary limits.*
  - *The firmed up project proposal along with the budget in the formats prescribed by EED, submitted within the prescribed timelines. Queries with regard to the programmatic and financial aspects are responded to and necessary clarifications and details are provided. Suggested / agreed changes are incorporated and final proposal/ budgets are submitted.*
  - *Once the Agreement of Cooperation, Audit Agreement and the Letter of Approval with the final budget are received from EED, the detailed budgets are updated for the changes (if any) made by EED and the workings / supporting details are also updated.*
  - *This final proposal with the final budget and the detailed workings and breakups by SBSS-RCSA-DBSS; by objectives – activities; by generic expenditure heads, is the final document to be used by CNI SBSS for the purpose of onward granting to the individual DBSS, as also for the purpose of monitoring the activities and expenditure at all levels, that is at CNI SBSS / RCSA and individual DSBB levels. These aspects are covered in subsequent sections of the SOP.*

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### 3.2 Budget monitoring processes

- *Once the Agreement of Cooperation; Audit Agreement and Letter of Approval are received from EED along with approved budget (as mentioned above), **the budgeted activities and expenditure is broken up month wise for the purpose of month to month monitoring of the budgets. This is done at the level of CNI SBSS / RCSA level as also at individual DBSS level.***
- *Based on the monthly break-ups, a quarterly cash flow plan (consolidated) is prepared by CNI SBSS Head Office and submitted to EED/FMSF at the beginning of the project. The advantages of this are two-fold. Firstly, it helps CNI SBSS and the DBSSs to plan their activities and expenditure well in advance within the framework of the approved project, and promote a culture of planning and financial discipline. Secondly, it helps CNI SBSS and the DBSSs to effectively project their cash flows plans for their respective fund requests.*
- *Once the quarterly cash flows are worked out and submitted, the actual activities and expenses are carefully monitored against these, at all levels.*
- *Barring unforeseen circumstances as specified in the Agreement of Cooperation (for which the CNI SBSS will take the written approval of EED) the CNI SBSS and the DBSSs have to function within the framework of their respective planned project activities and budgets*
- *Further, within the framework of the overall budget, the CNI SBSS and the DBSSs also have to monitor the expenditure against the various budget heads. In case of CNI SBSS there is the added responsibility of effectively monitoring the budgets of the individual DBSSs as well.*

***The aspects of financial monitoring of the DBSSs and the processes followed for this purpose are covered in the Chapter of Financial Monitoring of the DBSSs***

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## Chapter 4 – Organizational Budgets

### Organizational Budget and Charging of Common Expenses

- *It is recommended that organizations at all levels (including CNI SBSS / DBSSs) prepare their “organizational” budgets on an annual basis. The EED budget, as also the budgets of other donors, should form a part of this organizational budget. This would also facilitate equitable and consistent allocation of common costs, discussed in the latter part of the SOP.*

***This process of preparing organizational budgets is presently NOT in place at the CNI SBSS (including the RCSAs) as also at most of the DBSS levels. For this purpose, the following generic “organizational” budgeting process would be put in place at all levels:***

- *Each organization (including the CNISBSS and the individual DBSS) would prepare its organizational budget on a financial year basis. This would coincide with the financial year of the organizations for the purposes of preparing the audited financial statements.*
- *This organizational budget would include the incomes and expenses from all sources and all donors including EED. In cases where any donor budget year does not coincide, the part of the budget relevant to the organizational budget year (that is, financial year) would be considered to arrive at both the income and expenditure pertaining to the year.*
- *In cases of budget line items which are common to more than one donor, or where the same expenditure is provided for in the budgets of more than one donor (example – rent, electricity, common telephone expenses etc), such expenses would be allocated at the respective donors at this stage itself. This would facilitate the planning process, as also the actual charging of expenses to the donor on an ongoing basis. The basis of such allocation would be either the percentage funding of each donor, or the budget provisions available, as the case may be. Similarly, salaries of any common staff (if any) being funded by more than one donor would also be accordingly allocated.*

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- *Following is the illustrative list of some of the common expenses that may be incurred at the CNI SBSS level and / or at DBSS levels. :*
    - *Telephone exp.*
    - *Office rent*
    - *Printing and stationery*
    - *Municipal taxes*
    - *Electricity exp.*
    - *Petrol and diesels expenses*
    - *Vehicle repairs and maintenance exp / Insurance premiums*
    - *Part salaries of some staff*
    - *Organizational Audit' fees*
    - *Building and equipment maintenances*
    - *Post and telegram exp / News papers, subscription fees*
  
  - *It is important to recognize that, as the terminology suggests, such allocations are made only for “common” expenses which are provided for the common facilities that are used for more than one donor funded project. The same principle holds true for charging of salaries of specified staff members (like accountants and project staff overseeing or managing more than one project). Thus, project related / project specific administration / staff expenses provided for in the project budgets, for expenses specifically pertaining to the said project, do not fall within the purview of common expenses and would be charged to the respective project. The important guiding factors to be considered here are that (i) the same expenditure cannot be charged to more than one donor and (ii) where there are common expenses (as discussed above), these would be charged in a consistent and equitable manner across all projects. Complete transparency is maintained while charging of common expenses.*
  
  - *The organizational budget prepared as per the above process would be approved by the Governing Bodies of the respective organizations (CNI SBSS / individual DBSSs). These would be reviewed on periodic basis, and necessary changes made based on the spending patterns and necessary approvals from the donors.*

*Although the process of preparing organizational budgets is yet to be put in place, the principles governing the charging of common expenses, apply at all times, even pending the organizational budgeting processes being put in place. Thus, such common expenses are charged to the EED funded project only to the extent of the amounts determined by the common expenses charging policy defined above.*

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## Chapter 5 – EED Grant Utilization

*As a principle, EED project funds are utilized at all levels, only for the purpose of the project as applied for and specified in the Letter of Approval and the Budget. For the purpose of adhering to this principle, the following processes have been put in place for grant utilization at all levels*

### 5.1 Overall Principles of EED Grant Utilization

- *All the indicators, workings and breakups as worked out for the final “approved” project proposal / detailed budgets are referred to by the CNI SBSS monitoring team (at Head office and RCSA level) on an ongoing basis, for the purpose of tracking and monitoring the activities and spending at all levels, including the CNI SBSS (Including the RCSAs) and the individual DBSS. In terms of project finances, this implies that the utilization at each level is monitored (as applicable) in terms of :*
  - *Unit costs of various activities / expenditure units*
  - *Numbers in terms of outputs (programmes / trainings)*
  - *Numbers in terms of staff / other expenditure parameters*
  - *Budgets of various DBSSs as included in the final project proposal*
  - *Budgets of various RCSAs as included in the project proposal*
  - *Working and details of the budget as worked out for the final project proposal.*
  
- *Any expenditure that is not specifically allowed in the detailed budget is **not** charged to the EED funded project.*
  
- *Any expenditure that is of personal nature is **not** charged to the EED funded project, at any level.*
  
- *It is stressed upon to the concerned personnel at all levels that EED grant is a project specific grant and **NOT** an organizational grant, meant to fund the complete organizational expenditure. **Therefore expenses that do not specifically pertain to the project will not be charged to the project at any level.***

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- *Expenses are charged to the correct budget head / sub head, to which it belongs. Charging of expenses to the wrong heads / transfer of amounts between budget heads based on budget availability are NOT acceptable practices.*
  - *Advances are **not** reported as expenses.*
  - *Common expenses (as defined in the preceding Chapter) are equitably and consistently charged to the EED funded project.*
  - *In the normal course, provisions for expenses are **NOT** included as part of expenditure. Provisions are made only for expenses related to period, for goods and services already received, and for payments which are either already committed ( like salaries rent etc) or against bills/ invoices already received for goods or services procured for the project purposes.*
  - *In any case, it is ensured that all project related payments are made / cleared before the completion of the audit process, and it is ensured that no amount is payable as on the date of the audit report*
  - *No prior period expenditure, or expenditure the benefit of which is received after the end of the project period is charged to the project at any level.*
  - *Proper processes (as defined in the Chapter for Internal Control) are followed for all payments.*
  - *Proper financial and programmatic supporting are available (either attached to the vouchers or properly referenced in files / registers etc in an easily accessible manner.) in filed for all payments made on account of the EED grants. This us further elaborated in the Chapter on payment processes.*
  - *All expenses are properly monitored and related to the programme outputs / unit costs and purpose of the project only.*

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- *No unbudgeted or unrelated expenses are charged to any of the EED supported budget lines.*
  - *Only expenses pertaining to the concerned location ( SBSS / DBSS/ RCSA ) are charged in its books. No expense of any other location is booked in the accounts of any given location.*
  - *Only actual expenses incurred for the planned and approved project purposes are charged to the project. **No Notional Expenditure** is charged to the EED grant under any head, or at any level. The concept of Notional Expenditure is dealt with below.*
  - *No amounts can be transferred or remitted as loans or advances to other projects, without prior written approval of EED.*

## **5.2 Notional Expenses**

- *Notional Expenses are amounts that are reported to the donor as expense without actually being spent. Generally, these amounts are shown as expenditure from the project funds but brought back into the organizational funds through journal entry. This is done by transferring the project fund to the general fund by charging for using the facilities of the organization itself.*
- *EED project grants are subject to **actual utilization** of funds, through actual payments made to outside parties or “third parties” against proper bills, and by way of third party account payee cheques, for value received in terms of goods or services. **Therefore estimated or notional expenditure are not booked as actual utilization of funds at any level.** It is recognized that if notional expenditures are booked as actual expenditures, then, funds are not actually applied to that extent and would tantamount to diversion of EED project funds.*
- ***Some common instances of notional expenditures in the NPO sector are as under:***
  - *Charge against use of owned building, training facility, infrastructure, convention centre etc.*

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- *Charge against use of vehicle or other assets*
  - *Charge against use of photocopier, telephone, computer etc.*
  - *Providing services at a pre determined rate*
  - *Charge of salary (more than 100% recovery) of the same staff to various projects.*
  - *Inequitable apportionment of common expenditure etc.*
  - *Administrative expenditure as a fixed charge.*
  - *Charging inflated salaries.*
  - *Creating provision for expenditure and subsequently transferring it to general fund.*
  - *Charging notional staff welfare expenses.*

It is reiterated that “Notional Expenses” of the above nature or any other nature, cannot be charged to the EED funded project.

As a principle, where required, CNI SBSS will disclose all the relevant information at the time of project proposal regarding the existing facilities of organization that would be used for the project. The methodology of charging of expenses for use of such assets and facilities would be only on actual basis, and duly approved by EED during the proposal stage.

### **5.3 Effective and Efficient Utilization of Project Funds**

As per the EED grant conditions, goods and services should be obtained from the most economical and reliable supplier. If purchases and services are of a value over €400, prices and offers must be subjected to fair competition. For this it is required to collect a minimum of three purchase or service offers for comparison. Fair competition of goods and services acquired shall normally be assured by comparing offers from different suppliers before placing the order and in case of building projects by calling for tenders before entering into a contract. Payments in advance to suppliers prior to delivery of goods or services may only be made or agreed upon if this is common practice or justified due to exceptional circumstances.

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***The processes for procurement, payment processes and other internal control processes, are included as separate chapters.***

#### **5.4 Proper system of internal control**

*The CNI SBSS/ implementing partners ensure the existence of proper systems of internal control. Adequate procedures for the authorization of payments and that documentation of each transaction conform to generally accepted accounting practices. Payments shall be authorized normally by at least two persons and evidence of it will be documented. Cash payments shall be avoided as far as possible.*

***The processes for approvals / authorizations and cash / bank management. are included as separate chapters.***

#### **5.5 Prior Written Approval of EED**

***The CNI SBSS would inform EED immediately if any of the following changes are considered necessary:***

- *Substantial alterations to the project objectives*
- *Circumstances that may result in expenditure on any budget-line exceeding the agreed budget by more than 30% (implying that budget flexibility of upto 30% is available for already budgeted expenditure, provided that the overall budget is not exceeded. Provided further that, programmatic provisions are not diverted towards administration expenses and that capital expenditure budgets are not exceeded.)*
- *Unforeseen additional expenditure not included in the agreed budget (implying that no unbudgeted expenditure can be incurred)*

***In case any of the above situations, prior written approval would be obtained from EED.***

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## 5.6 Prior Written Approval of CNI SBSS

***Similar to the above requirement, the individual DBSS would inform CNI SBSS immediately if any of the following changes are considered necessary:***

- *Substantial alterations to the project objectives*
- *Circumstances that may result in expenditure on any budget-line exceeding the agreed budget by more than 10% (implying that budget flexibility of upto 10% is available for already budgeted expenditure, provided that the overall budget is not exceeded. Provided further that, programmatic provisions are not diverted towards administration expenses and that capital expenditure budgets are not exceeded. )*
- *Unforeseen additional expenditure not included in the agreed budget (implying that no unbudgeted expenditure can be incurred)*

***In case any of the above situations, prior written approval would be obtained from CNI SBSS.***

***On its part the CNI SBSS would take decisions, based on the following considerations:***

- *Where the amendment / revision requested results in substantial alterations to the project objectives, CNI SBSS would in turn need to obtain prior written approval of EED.*
- *Similarly, CNI SBSS cannot allow amendments where the changes requested result in additional expenditure not included in the agreed budget of the concerned DBSS, or expenses which do not pertain to the project activities of the concerned DBSS.*
- *Where the changes requested fall within the overall purview of the original budget, and merely represents a shift in the budget heads within the framework of the agreed budget, CNI SBSS could allow the changes within the framework of the flexibility allowed by EED for the project expenditure as specified in paragraph 5.5 above.*

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## Chapter 6 –Grant Requests and Remittances

### 6.1 EED request for transfer of funds - Overview of the Process to be followed

*The EED Agreement of Cooperation specifies the following requirements for the purpose of funds requests:*

- The contribution from EED shall be released in installments for a period of **up to 3 months in advance taking into account the progress of the Project**. For this purpose, the CNI SBSS prepares a written request stating the amount needed for the next three-month period. The request is signed by at least one authorized representative of the project (***in the case of CNI SBSS, it is normally the Chief Coordinator***) (reference EED-Form N°1 and explanatory notes to EED-Form N°1).
- The requested amount shall be calculated on the basis of the cash flow projection taking into consideration all project income and expenditure from the start of the project period upto the start of the request period. The requested amount for the period of the request should be calculated by summing up of the expenditure reported as per the last audited financial statement submitted to EED/FMSF plus the Actual and Estimated expenses since until the start of the requested period and the Estimated expenditure of the request period less all non-EED contributions till the start of the request period; less EED transfers and contribution already made. **The resultant figure is the EED funds to be requested for transfer** (reference EED-Form N°1 and explanatory notes to EED-Form N°1).
- The fund request should also include the details of the actual cash and bank balances of the project available at the time of making the request, the status of progress and financial reports submitted and the breakup of the estimated expenditure for the request period.

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**6.2 The following processes have been put in place at CNI SBSS in order to adhere to the requirements specified in paragraph 6.1 above:**

- Since the fund request to EED is based on the total project expenditure (actual and estimated), **including that at the network partners' level, the expenditure details and estimates at all levels are considered for arriving at the request amount.**
  
- **For the purpose of the fund request, the information of actual and project expenditure is compiled in the following manner:**
  1. Expenditure reported as per the last audited financial statement submitted to EED/FMSF is taken from the audited financial statements
  2. The Actual expenses until the start of the requested period is compiled from (i) the monthly financial reports received from the individual DBSS in case of the DBSS; and (ii) from the CNI SBSS books of account in case of the expenses incurred at CNI SBSS , RCSA and the DBSS whose expenses are consolidated at CNI SBSS level.
  3. The estimated expenditures of the request period are compiled from the monthly cash flows prepared upon receiving the final approved budgets from EED.
  
- In cases where the actual expenditure details are not received from any individual DBSS, then for the concerned DBSS, the monthly cash flow projection is taken into account for the purpose of arriving at the figures for point 2 above.
  
- The details of actual cash and bank balances of the project available at the time of making the request are compiled from the monthly expenditure reports / books of account.
  
- Since EED remits funds upto three months in advance, the fund request is compiled and sent to EED sufficiently in advance of the request period (atleast 4 weeks in advance), taking into consideration the processing time required for EED / FMSF to review the request and remit the funds through the normal banking channels.

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- In general, the planning for the fund request is undertaken in a manner that ensures that funds are available for the project activities at all levels and at all times. However, at no point in time, EED funds are allowed to be accumulated at either the CNI SBSS level or at the DBSS levels. This is ensured through the bi-monthly cycle followed for the DBSS level remittances, which is discussed in the following paragraphs. .

### **6.3 Transfer of funds from EED TO CNI SBSS**

***As per EED Agreement of Cooperation the following process is followed for the purpose of transfer of funds***

- *EED will process the first request for transfer of funds only after duly signed copy of the Agreement of Cooperation and the Audit Agreement (which needs to be signed by the Auditor as well) has been returned to EED/FMSF.*
- *Any further requests for transfer of funds is processed by EED only after the CNI SBSS has acknowledged the receipt of previous remittances and fulfillment of the reporting conditions as mentioned in the Agreement of Cooperation.*
- *Upon notification of the arrival of funds by the bank, the CNI SBSS sends to EED (a) an acknowledgement of receipt of the transferred amount stating the equivalent in national currency, the local bank charges and the net amount credited to the bank account. The acknowledgement is signed by at least one authorized representative of the project - (in the case of CNI SSBSS, it is normally the Chief Coordinator) (reference: EED-Form N°2). (b) Original bank credit advice of the said transfer.*
- *EED has clearly specified that if financial and narrative(progress) reports are not submitted within the due dates as specified in the Agreement of Cooperation, then subsequent transfer of funds will not be possible from EED's side. **It is thus ensured that all financial and programmatic reports are received, reviewed, compiled and submitted to EED in the prescribed formats, well within the times as specified in the Agreement of Cooperation.***

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- *In situations where CNI SBSS wishes EED to directly settle invoices on its behalf the authorized representative (in the case of CNI SSBSS, it is normally the Chief Coordinator) sends a formal requests to EED to make the payment directly to the third party's bank account. Such request letter includes the original bills submitted by the third party.*
  
  - *Upon making the payment, EED sends a Debit Note to the CNI SBSS which is reflected in the Project's Financial Reports. **However, it may not always be possible to account for such expenses in the project's books of account, since there is no actual payment / funds outflow from CNI SBSS. Further since EED grants are foreign contribution, and are governed by the FCRA 2010, reflecting such expenses in the books of account may not be advisable. In such cases CNI SBSS would consult with FMSF, as per need.***
  
  - *If funds requested by the CNI SBSS and transferred by EED cannot be utilized for Project purposes within 6 months after receipt, the CNI SBSS shall inform EED and explain the reasons. The CNI SBSS and EED shall seek an acceptable solution.*
  
  - *To avoid transfer of funds in excess of the ratio as agreed in the Budget, EED may withhold up to 5% of its contribution until the final Financial and Progress Reports have been received and accepted by EED.*
  
  - *Upon receipt of the funds from EED, it is CNI SBSS's responsibility to provide the funds to the network partners based on their requests to take up the planned activities.*

#### **6.4 Transfer of funds from CNI SBSS to DBSS**

- *Although the funds are received by CNI SBSS from EED on a quarterly basis, the remittances by CNI SBSS to the DBSS happens on a bi monthly basis, based on the requests received, actual expenditure and the review / recommendations made by the concerned RCSAs. This is discussed in detail in the Chapter on financial monitoring of DBSS.*

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## Chapter 7 – Books of Account

**7.1 EED Requirements: As per EED Agreement of Cooperation the following systems and process are in place for the purpose of maintaining books of account. These are explained in detail later in this chapter.**

- *In accordance with the EED Agreement of Cooperation, CNI SBSS keeps proper documentation for all project transactions and maintains suitable books of account for the Project Funds in accordance with generally accepted accounting practices. The CNI SBSS prepares the Financial Reports based on these books of account.*
- *The CNI SBSS has introduced in the books of account a separate account head for each budget and sub budget item and ensures that each transaction is correctly recorded under its proper account head. This applies even if an item exceeds the amount budgeted for this purpose.*
- *The CNI SBSS keeps the books of account and the corresponding documents and vouchers for a minimum of 5 years after EED has confirmed in writing that the files of the Project have been closed.*

**7.2 The bases of accounting and significant accounting policies are disclosed as part of the organizational financial statements and in project financial statements to the extent relevant to the EED grants.**

### **7.3 Accounting Treatment for EED Grants:**

#### **7.3.1 For the grants received from EED**

- *The grants received from EED are reflected as income in the income and expenditure account.*
- *The balance of EED grant (grants received less expenses) at the end of the financial year are disclosed on the liability side of the balance sheet as restricted funds.*

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### 7.3.2 For the grants remitted to the network partners

- *The grants remitted to the DBSSs are expensed off in the books of the CNI SBSS in the year of remittance.*
- *The tracking of expenses and grant balances at the individual DBSS is done outside of the books of account, through a defined process discussed in a later chapter. .*

### 7.4 Structuring of Accounts for EED Grants

- *Chart of Accounts is a list of all accounts tracked by a single accounting system, designed to capture financial information to make good financial decisions. **In simple words, it is the structure of the CNI SBSS's accounts comprising of ledgers, sub-ledgers and expense heads, which are designed to meet its information needs.***
- ***CNI SBSS maintains its accounts using the TALLY software, both at the head office and at the RCSA levels.***
- *At all levels, the accounts are structured in a manner that can support reporting to EED directly from books of account. **For this purpose the cost categories, cost centres and ledgers at each level are structured as per the approved budget line items / sub line items specified in the final proposal on the basis of which the grant / final budget is approved.***
- *Where the budget line items are based on project activities to be performed, the expenditure ledgers are also defined in accordance with the expenditure heads ( like travel, accommodation, etc) to be incurred for the said activities. This facilitates financial reporting for statutory purposes, as also expenditure analysis and control. **With such a structure it is possible to extract the information of different categories of expenses like salaries, travel etc, paid under different budget lines.***
- *Although accounts are maintained at the RCSA levels for the expenses incurred at that level, these are finally consolidated at the Head Office level. The expenses of 3 Non-FCRA DBSSs are also consolidated in a similar level. **For this purpose, the Head Office accounts are also additionally structured in a manner, whereby it is***

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***possible to identify the expenditure by the location (Head Office / individual RCSA / Individual DBSS) at which they are incurred.***

- *As mentioned earlier, the grants remitted to the DBSSs are expensed off in the books of the CNI SBSS in the year of remittance. The chart of accounts is structured in a manner that facilitates tracking the remittances of grants made to the individual DBSSs.*
  
- ***In summary, the chart of accounts at CNI SBSS are structured in a manner that facilitates the recording, tracking and generating reports of expenses***
  - *By Broad Budget lines*
  - *By Detailed Budget lines*
  - *By generic expenditure heads*
  - *By location*
  
- *The chart of accounts structured as above provides a framework for budgeting, recording and reporting of expenditure both for EED reporting purposes as also for statutory reporting purposes. Further, it also facilitates comparison of the accounts on year to year basis and period to period.*
  
- *The accounting data of the different geographical locations (individual RCSAs and the non FCRA registered DBSSs) is consolidated on a monthly, either through passing consolidated journal entries (as is happening presently) or through the accounting software by merging the accounting data (as proposed to be followed).*

## **7.5 Vouching processes for EED related transactions**

- CNI SBSS prints all vouchers directly from the TALLY software. This facilitates automatic generation of voucher numbers from the accounting package.
  
- *There are basically **three types of vouchers** that are used by CNI SBSS at all levels.*
  - a) *Receipt vouchers - for cash and bank receipts*
  - b) *Payment vouchers – separate for cash and bank payments*

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- c) *Journal vouchers – for non-cash/bank transactions and rectification entries*
- **Receipt vouchers** are raised to record the following cash / cheque receipts:
    - a) *Grant received from EED*
    - b) *Interest receipts*
    - c) *Any other project related receipts*
  - **Payment vouchers** are prepared for each and every cash or cheque payment made for EED related project.
  - **Journal vouchers** are used to book entries which do not have any effect on the cash book or bank book. Accordingly, booking of provisions, transfer of entries from one code to another or correction of wrong entries is routed through journal book. Journal vouchers are treated with same importance as bank or cash payment. No receipt or payment (cash or bank) is routed through Journal Vouchers.
  - **Each voucher invariably contains the following information regarding the accounting transaction it represents:**
    - *Voucher number*
    - *Date of transaction*
    - *Description of transaction*
    - *Accounting head debited (co-relating with the approved budget heads)*
    - *Amount in words and figures*
    - *EED Project title and EED as source of funding*
    - *Signature of recipient*
    - *Signature of person preparing / checking / sanctioning the voucher*
    - *Revenue stamp for cash payments for Rs.5,000/- or more*
    - *DD/Ac Payee Cheque details in case payment is by way of a demand draft or A/c payee cheque.*
    - *Paid stamp with date on the face of voucher and each supporting document.*
    - *Appropriate approved supporting documents evidencing the payment made.*

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- **CNI SBSS ensures adherence to the following aspects while preparing vouchers at all levels**
    - *Vouchers are prepared for each and every entry made in the books of account.*
    - *No payment is passed without supporting documents.*
    - *No payment can be made without being duly authorized by the concerned authority.*
    - *Vouchers are prepared and filed serially on a daily basis.*
    - *Vouchers numbers are generated from the TALLY software.*
    - *Vouchers are kept in safe custody of a responsible person in the accounts department*
    - *Vouchers are never overwritten.*
    - *Entries once fed into the TALLY software are not changed. Instead, where required, journal entries are passed to rectify entries where required.*
    - *Supporting documents are never over written.*
    - *A “PAID” stamp with date and voucher number reference is affixed on the face of all vouchers and all supporting documents.*

#### **7.6 Updating and Consolidation of Accounts**

- *As far as possible, accounts at all levels are updated on a daily basis. In any case, all accounts are updated by the end of each week.*
- *The updated accounts (Tally data file) along with the financial statements / original vouchers and supporting are received from the RCSA / DBSS (non FCRA whose expenses are consolidated with the CNI SBSS accounts) are received on a monthly basis, by the 10<sup>th</sup> of the following month. These are checked / verified at the Head Office level before consolidating into the CNI SBSS books of account.*
- *The accounting data of the different locations (individual RCSAs and the non FCRA registered DBSSs) is consolidated on a monthly, either through passing consolidated journal entries (as is happening presently) or through the accounting software by merging the accounting data (as proposed to be followed).*
- *Once all the accounts are consolidated on monthly basis (in the normal course, by 15<sup>th</sup> of the following month) these are “frozen” and o changes in the entries pertaining to the month, are allowed at any levels*

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## 7.7 Generation of Books of Account

- *Since CNI SBSS maintains books of account using computerized accounting package, the cash book, bank book and ledgers (as structured within the framework of the Chart of Account discussed earlier) get generated automatically, once the entries are fed into the software from the receipt, payment (cash / bank) and journal vouchers.*
- *It is ensured that the relevant details are correctly entered while feeding the entries into the package.*
- ***The printouts of the books of account namely cash book, bank book, and various ledgers are taken at quarterly intervals.***

## 7.8 Checks and balances for computerized accounting

*It is recognized that although computerized accounts are very beneficial, it is important to have checks and balances in place to ensure correctness, accuracy and completeness of accounts. For this purpose the following checks and balances are put in place at all levels:*

- *Security levels are defined by way of passwords for accessing / entering / modifying the data at all levels*
- *Back dated entries are not be allowed in the accounting package, once the accounts for a particular month are “frozen”*
- *Modification of the entries are done by way of passing rectification entry. That is to say the original entry is not be altered at all. For rectifying the entries, proper approval process is followed*
- *Regular back up of the data is taken. The backups is in two forms:*
  - ***Soft copy:*** *Backup is taken on a hard disk at all levels, once in every two days.. The soft copy of data is taken in duplicate. One is kept in the office while the other is kept outside the office.*
  - ***Hard copy:*** *This refers to taking print out of the data on regular basis. The printouts of the books of account namely cash book, bank book, and various ledgers are taken at quarterly intervals.*

### **7.9 Storage and Maintenance of Past Records - Retention Policy**

- *As per the EED norms, all financial records related to the EED grants are retained at all levels till the end of the project period and for a period of at least 5 years after the project is over.*
- For the purpose of retention, all vouchers are properly bound in chronological order and stored in a safe place, in an easily retrievable manner. The bound volumes are properly labeled and numbered.

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## Chapter 8 – Payment Processes and Supporting Documents

*8.1 EED Grant provisions mandate the existence of proper systems of internal control, adequate procedures for the authorization of payments, proper documentation of each transaction conforming to generally accepted accounting practices.*

***For this purpose the following processes have been put in place at all levels:***

- There is formal and documented delegation of financial and non financial powers across the organization and at all levels.
- All the payments are authorized on the basis of the approved limits for authorization as per the delegated powers.
- All payments are recommended and approved by two different persons, in keeping with the norms prescribed by EED.
- After making the payments; paid stamp with EED as donor, voucher number and date is affixed on all vouchers, bills / invoices and other supporting
- The finance in-charge at all levels ensure that the payment proposed is in accordance with the approved budget line items..
- All the payments are supported with bills / invoices / receipts as also the relevant programmatic supporting
- Where the bills are not available, the reasons for the same are mentioned along with the payment details. As a rule, third party authentication / evidence for payments is obtained for all payments, in cases where it is not possible to obtain proper bills. In such instances, programmatic supporting / circumstantial evidence play an important role in evidencing the payments made.
- It is ensured that the bills and other supporting do not have any over writings.
- Payments are made by cheques to the extent possible – As a rule, all salaries, consultancy payments, asset purchase and all third party payments (to the extent possible) are made by way of account payee cheques and / or bank transfers.
- The documentation with regard to the process followed for making the payments (such as requisition for goods or services, purchase order, bill or invoice from supplier proof of

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receipt of goods or performance of services) are enclosed with the vouchers or are maintained in a properly referenced / easily accessible manner.

- The vouchers are also properly cross reference to other supporting records / documents such as:
  - rental agreements
  - consultant contracts
  - construction contracts
  - fixed asset register (where fixed assets are purchased)
  - Inventory register (where fixed assets are purchased)
- The arithmetic calculations are checked. It is ensured that details of supporting documents match each other.
- Cheques are made payable only to the Person or Organization as agreed to in the purchase contract.
- All cheques are crossed and marked as “Account Payee Only”
- It is ensured that the expense is allowable under the budget being debited, and that it is being booked under the appropriate account head
- It is ensured that all necessary deductions (TDS, Advance etc.) are made from the bill amount.
- It is ensured that the party to whom payment is being made has fulfilled the purchase order/work order terms.
- It is ensured that the receipt of asset / material has been properly entered in the appropriate register and properly referenced.
- It is ensured that proper processes (as tabled below) have been followed for the payment being made.

### ***8.2 Supporting Documents and processes***

The following table provides the details of processes to be followed and supporting documents to be attached in case of certain categories of expenses:

Category of Expenditure	Process Followed	Supporting documents / process for payments <i>(either with the vouchers, or referenced / filed in an accessible manner, as appropriate)</i>
Purchase of goods (including fixed assets and consumables)	Purchase procedure as documented in relevant section of the SOP.	<ul style="list-style-type: none"> <li>• Approved requisition from the originating department / field office</li> <li>• Three independent quotations for assets costing Rs. 5000 or more</li> <li>• Quotations analysis sheet</li> <li>• Approval of Purchase Committee</li> <li>• Written purchase order for assets costing Rs. 5000 or more</li> <li>• Invoice – complete in all respects</li> <li>• Entry in fixed assets / stock register as appropriate</li> </ul>
Consultancies	Procedure as documented in relevant section of the manual	<ul style="list-style-type: none"> <li>• Consultancy contract</li> <li>• Invoice of the consultant, duly authorized by the concerned authority certifying receipt of services as per the ToR.</li> </ul>
Remittances/ reimbursement to DBSS	As per the SOP on financial monitoring of the DBSSs	<ul style="list-style-type: none"> <li>• MoU with DBSS</li> <li>• Addendums, if any</li> <li>• Updated reports / grant utilization statements</li> <li>• Review and recommendation of the concerned RCSA</li> <li>• Receipt of Bills/ supportings (if reimbursement mode)</li> <li>• Receipts from DBSS for receipt of grant amount.</li> </ul>

Category of Expenditure	Process Followed	Supporting documents / process for payments <i>(either with the vouchers, or referenced / filed in an accessible manner, as appropriate)</i>
Staff salaries	As per the defined process at CNI SBSS	<ul style="list-style-type: none"> <li>• Appointment / confirmation letters/ periodic renewal of contractual appointments.</li> <li>• Leave records</li> <li>• Monthly salary processing records</li> <li>• Communication to the bank for salary credits</li> <li>• Yearly appraisal/ increments as decided.</li> </ul>
Travel / Programme reimbursement Requests making flight / rail / accommodation bookings	As per defined process and entitlements	<ul style="list-style-type: none"> <li>• Duly authorized request with complete supporting, authorization and details as prescribed.</li> </ul>
Payment to travel agents	After reconciling the invoice of the travel agent with actual travel and/or cancellation details, which are tracked through the travel requisitions.	<ul style="list-style-type: none"> <li>• Invoice of travel agent</li> <li>• Travel authorizations</li> <li>• Used tickets and Boarding passes</li> <li>• Duly updated travel register</li> </ul>
Rent payments	As per the provisions of the rental agreement	<ul style="list-style-type: none"> <li>• Rental agreement</li> <li>• Receipt of the landlord</li> </ul>
Other payments including programmatic payments	As per the various processes documented in the manual	<ul style="list-style-type: none"> <li>• Proper bill / invoice complete in all respects</li> <li>• <b>Complete financial / programmatic supporting</b> duly correlated. This could include for Travel - purpose, invitation, visit report etc; for Training – participant list, signatures, agenda,</li> </ul>

Category of Expenditure	Process Followed	Supporting documents / process for payments <i>(either with the vouchers, or referenced / filed in an accessible manner, as appropriate)</i>
		report, photographs etc; for beneficiary distribution / aid - basis for selection, list of beneficiaries with signatures , photographs, proper confirmation for receipt of goods and / or services

### **8.3 Circumstantial evidence:**

Although it is very important to attach appropriate / sufficient supporting documents to the vouchers, in case of implementation of projects in extreme remote areas it would be difficult to obtain proper / sufficient supporting documents. In such cases the accountant would need to rely on the appropriate evidence called as circumstantial evidence. Such circumstantial evidence could include list of families, photographs, or registers with signatures of the beneficiaries to evidence that the expenses have been incurred. Instances where such circumstantial evidence could be used include expenses for tea/snacks/provisions for the persons participating in campaigns or community meetings, where it becomes difficult in many instances to obtain bills for such expenses.

**However, it is ensured that proper bills are obtained to the extent possible.**

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## Chapter 9 – Banking Processes

### 9.1 Bank Accounts

*As mandated by the EED grant terms, CNI SBSS and the individual DBSSs each maintain a separate bank account earmarked for the EED funded Project. The bank account is in the name of the respective organization, indicating that it is held for the purpose of the Project. Necessary requirements as provided in the FCRA 2010, are adhered to with regard to each bank account, at each level, operated for the EED project purposes.*

- *For this purpose the following arrangement is made for receipt and utilization of the EED grants at various levels.*
  - *The grants from EED are received by CNI SBSS in the designated FRCA bank account*
  - *The onward grants by CNI SBSS to the DBSSs are made from the designated FRCA bank account.*
  - *The expenditure at the CNI SBSS level, RCSA level, and at the level of the DBSSs whose expenses directly booked under CNI SBSS are met from the earmarked EED Bank account maintained for the project at each of these levels.*
  - *At the CNI SBSS level, the remittances to individual RCSAs the DBSSs whose expenses directly booked under CNI SBSS, are remitted by way of imprest amounts from the CNI SBSS earmarked EED project bank account.*
  - *The bank accounts at individual RCSAs and the DBSSs whose expenses directly booked under CNI SBSS are opened in the name of CNI SBSS indicating that these are for the EED project purposes.*
  
- *No other funds are deposited in the EED project bank accounts at the various levels. Similarly no other payments except those pertaining to the CNI SBSS approved budget are made from the said accounts.*

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## 9.2 Operation of bank accounts at each level

- The signing authorities for each bank account are defined clearly. There are a minimum of two signatories jointly operating the bank account.
- Under no circumstances are signatures obtained on blank cheques.
- Except in cases where the CNI SBSS needs to withdraw cash for office use, all cheques issued are crossed with “Payee’s A/c Only” clearly written on the cheque or by affixing a rubber stamp.
- Direct bank transfers through RTGS / NEFT are made wherever possible. Acknowledgements are obtained for all payments made.
- In any case all payments above Rs. 5000/- are made by cheque.
- Bank Reconciliation Statements (BRS) are prepared on a monthly basis for each bank account at each level.
- Each BRS is checked and initialed by an authorized person, before filing.
- Outstanding / long pending items are carefully scrutinized and actions taken where necessary.
- In situations where the cheque issued has become stale (more than three months), necessary reversal entries are passed in the books of account. In such instances, unless the cheque is re-issued, the EED grant balance would increase, in view of the reversal of the expenditure. In cases, where the payment reversed on account of stale cheque is found to be payable on account of the EED project, necessary provision is created in consultation with the project auditors, and a disclosure in this regard is made in the financial report submitted to EED. If by the end of the project period, the payment on account of the provision is not made, the same is reversed, thereby increasing the EED grant balance. **In no circumstances, are amounts on account of such provisions transferred to the General fund of any organization at any level.**
- All banking records including the pay-in slips and cheque issued records must be meticulously maintained.
- Unused cheque books should be kept in safe custody
- A quantity control over the cheque books issued by the bank is maintained. Physical verification of unused cheque books and cheque leaves is undertaken at periodic intervals

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## Chapter 10 – Cash Management

*It is important to ensure the security, propriety, and proper utilization of EED cash. It is also important to ensure that funds are not misappropriated.*

***For this purpose the following processes have been put in place at all levels, where EED grant fund is utilized.***

- Cash payments are made only on the basis of proper approval and authorizations.
- **In normal circumstances no payments in excess of Rs. 5000/- is made by cash. Even below the limit if Rs. 5000, it is endeavored to make payments by way of account payee cheques / bank transfers**
- In case of exceptional situations where cash payments beyond this amount has to made, the reasons thereof along with the approval of the designated authorities (within the framework of the delegation chart) is documented and attached to the voucher.
- In case of cash withdrawal from the EED earmarked project bank accounts, entries are made in separate cash book maintained for the said purposes.
- **Under no circumstances is there huge accumulated cash on hand at any level. In normal circumstances cash in hand does not exceed Rs. 20,000/- at any point in time, at any level.**
- Cash book is closed on a daily basis. Cash on hand is tallied and physically reconciled with the balance as per the cash book on daily basis.
- Surprise physical verification of cash is undertaken on periodic basis.
- Physical cash is held in safe custody lockers
- **Cash on hand / in-transit insurance cover should be obtained to cover the maximum amount of cash on hand / in transit at any point in time.**
- Cash receipts / refunds should be properly accounted for and vouchers should be prepared
- *Duties of cashier and other within the accounting section should be periodically rotated so that one single person does not handle cash for an extended period of time. Such a person should not be involved in writing of the cash book and other such records.*

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## Chapter 11 – Procurement Procedures and Inventory Control

Procurement of goods and services from the EED grant happens throughout the year and across various levels of project implementation – CNI SBSS Head Office, individual RCSAs and DBSS levels.

The main objective of defining standardized procurement policy and procedures is to ensure that all procurement decisions at all levels are:

- Justified and transparency
- Sound and fair practices within the donor guidelines
- Based on arm's length negotiations with independent and bonafide suppliers that provide goods and services at a fair price.

***For this purpose the following processes have been put in place at all levels, where EED grant fund is utilized.***

### **11.1 Purchase Procedures**

- A procurement committee is constituted for looking into major purchases exceeding Rs.50,000. The procurement Committees have standing members and clearly defined Terms Of Reference.
- At least 3 independent quotations are obtained for any procurement whose cost exceeds Rs.5,000. For this purpose, quotations are obtained for assets with standard specifications, quality and brands, in order to ensure that they are comparable.
- Comparative Analysis statement is prepared for all the quotations obtained / negotiated and presented to the procurement committee for approval.
- General approval from procurement committee can be obtained for making, regular purchases with complete details such as name of the party and the negotiated rate. This is done after following an initial, duly documented process for determining the supplier, quality parameters, rates and terms of payment.
- Such general approvals are reviewed regularly ( atleast on half yearly basis) for any modifications

- It is ensured that formal written purchase orders with specified terms and conditions, including rate, quantity, quality parameters, guarantee/ warranty period delivery schedule and payment conditions are issued for all major purchases in excess of Rs. 10,000.
- Once the materials are received as per the purchase order, quality and quantity checks are applied, and relevant entries must be made in the inventory register / fixed assets register with cross-referencing markings of the folio numbers on the invoice.

### **11.2 Contracting Consultants**

- The process for contracting task based consultants is initiated subject to availability of approved budget provisions, and the approval as per the policy of delegation of authority.
- For all consultancies a formal contract is entered into with the consultant, documenting all the terms and conditions, including timeframes for delivery of services and payments, and deduction of tax at source, where applicable.
- Consultancy payments are processed as per the terms of the contract, upon receipt of the deliverable services, and upon the approval of the concerned authority. The process and supporting documentation for this purpose have been mentioned in the section on payment procedures.
- Tax is deducted at source, where applicable.

### **11.3 Inventory Control**

- The internal control procedure pertaining to inventory management systems become relevant where supplies constitute a key component of the grant. The procedures pertaining to purchases, maintenance, record keeping, issues and verification of closing balances are relevant in this regard.
- Stock registers are maintained all levels for all stationery / programmatic items as also items purchased for the purpose of distribution to the beneficiaries.
- The stock register is maintained item-wise, with details of opening balance, receipts, issues and closing balances of each item.

- Entries in the stock register are made as and when the materials are received or distributed.
- The receipt of the goods is recorded in the Stock Register against the respective item of stock, with reference of the voucher / bill number to evidence the details of payments made against the goods received.
- Issue of stock is made against proper authorizations. These are acknowledged by the person receiving the stock.
- Factors like existing stock levels, pattern of consumption, delivery / transport time etc. are taken into consideration while determining the order quantity of each item of stock.
- It is ensured that stocks in excess of requirements are not ordered for.
- Physical verification of each item of stock is carried out on a half yearly basis. Discrepancies between book stock and actual stock, if any, are immediately reconciled / brought to notice of higher authorities for necessary.

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## Chapter 12 – Management of EED Project Assets

### 12.1 EED requirements for Project Assets

In keeping with the EED Grant conditions, the following processes have been put in place at all levels:

- **Ownership:** *Assets acquired out of Project Funds are the property of the CNI SBSS / DBSS (or the beneficiaries according to the purposes of the Project) and shall be utilized only for the purpose of the Project. In case of project assets purchased by / for DBSS (based on the approved budget), these are owned by the respective DBSS and capitalized in the books of the DBSS.*
- *The CNI SBSS / DBSSs maintain a register of all fixed assets of the Project. Proper records are also kept for other Project Assets for like stocks, debtors, bank balances and cash accounts.*
- *The CNI SBSS / DBSSs obtain adequate insurance cover for all project fixed assets.*
- *EED's prior consent in writing is obtained if the CNI SBSS / DBSSs want to utilize Project Assets for any other purposes than those of the Project or they wish to pledge or sale or replace or mortgage Project Assets or wish to wind up revolving funds and use such funds for other purposes.*
- *If any of the above transactions results in proceeds being received by the CNI SBSS / DBSSs they shall be accounted for separately as project income in the Financial Report.*

### 12.2 EED Asset Management

- ***EED funded assets are capitalized and depreciated as per the organizational policies of CNI SBSS and the individual DBSSs.***
- ***Procurement & Payment Procedure for Fixed Assets***
  - Any fixed asset from EED grant can be procured only after confirmation of budget provision and proper approval

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- Payments for purchase of fixed assets are made through crossed account payee cheque/demand draft/ Pay Order.
  - The procurement process as prescribed in the earlier chapter are followed
  - At the time of receipt of fixed asset, relevant entry is made in the fixed asset register.
- ***Components of Cost of Fixed Assets***
    - **The cost of fixed assets comprises the following:**
      - Purchase Price
      - Other non-refundable taxes or levies
      - Any directly attributable cost of bringing the asset to the working condition for which it is intended.
- ***Improvements and repair***
    - If, after the repairs, expected future benefits from fixed assets like life of the asset do not change, the expenses of repairs are charged to Maintenance Costs, provided there is a budget provision available in the budget of CNI SBSS / concerned DBSS.
    - If, after the repairs, expected future benefits from fixed asset (originally capitalized) increase beyond the previously assessed standard of performance, such expenses on improvement are capitalized and included in the gross book value of fixed asset, provided there is a budget provision available in the budget of CNI SBSS / concerned DBSS.
- ***Retirements and disposals***
    - The sale/disposable value of capitalized assets is shown as receipt against sale of asset.
    - The sale/disposable value of assets not capitalized is reflected receipt as miscellaneous income.
    - In both cases the assets are removed from the respective assets registers, by way of an entry for sale/disposal/scrap.
    - The proceeds received by CNI SBSS / DBSSs is reflected as project income in the Financial Report submitted to EED.

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- **Record of Fixed Assets**

- A detailed and comprehensive Fixed Asset register is maintained in a manner such that at any point in time, it gives complete information regarding the assets possessed by the project.
- The Asset Register at all levels, contain the following details:
  - Date of acquisition of the Asset
  - Voucher and bill reference of the Asset purchased
  - Detailed specification of the Asset
  - Cost of the Asset
  - Current Location of the Asset
  - Details of the Supplier
  - Details regarding warranty/Guarantee for Asset
  - Details regarding insurance for the Asset
  - Name of EED as the donor agency funding the asset
  - Identification code of the asset
- The Fixed Assets register is updated at the time of purchase/disposal/write off/Transfer of assets to other projects
- In respect of assets provided to employees for official use, a receipt must be obtained to evidence the same.
- There is systematic ID Marking on all items of fixed assets.

- **Physical Verification of Fixed Assets**

- Maintaining a register is not enough, if not accompanied by an annual Physical Verification, as at the end of each financial year. .
- As mentioned earlier, all furniture, fixtures and computer and other fixed assets are allotted a unique identification code, which is mentioned in the fixed asset register as also affixed on the asset. During the course of the physical verification these are correlated and matched.
- Any discrepancy between the fixed asset register and the physical count of assets is documented, reconciled and appropriate action taken
- The process of physical verification of fixed asset is documented and the report so generated is approved by the appropriate authorities at all levels..

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## Chapter 13 – Imprest / Advance Management

### **13.1 Imprest System**

In case of the remittances made to the RCSAs and the DBSSs whose expenses are booked and consolidated at the CNI SBSS level, for which imprest amounts are advanced, a clear, documented policy is put place detailing the procedures for making payments and settlement of such imprest amounts. These are documented in the Chapter on financial monitoring of the EED Grant.

### **13.2 Advance Management**

- All advances are duly authorized by the appropriate authorities
- Advances are made on the basis of duly approved requisitions, with justification for the purpose and amount required.
- Advances are given suppliers or project staff for the purpose of the EED grants related expenses only.
- No personal advance is given to any staff from EED Grants
- No advance or loan is given to any other project without prior written approval of EED.
- Details of advances taken by employee and the settlement thereof is maintained properly
- The amount of advance sanctioned is commensurate with the nature of activity / purpose.
- All advances are settled at the earliest. In case of tour advances, these are settled within 7days of the completion of the tour.
- All expenses incurred from the advance are duly supported by expenditure statements and original bills / other supporting documents
- **As far as possible all advances are reduced to NIL as at 31<sup>st</sup> March every year**
- In the rare event of loans / advances outstanding as at 31<sup>st</sup> March, a schedule giving details of the loan / advance like date , purpose, recipient , amount etc..is prepared, and confirmation of advance is obtained from the person holding the advance as on that day.

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## Chapter 14 – Salary Payments

*The following processes have been put in place at all levels, where EED grant fund is utilized.*

- Proper HR processes including issue of appointment letters with terms and conditions, leave records, attendance records etc are maintained for all staff at all levels.
- **Salaries are charged at all levels only for the staff included in the final proposal approved by EED**
- **The number of staff, their positions, the unit salaries and the total salaries as provided in the budgets are adhered to at all levels.**
- **Unless specifically provided, staff salaries are not booked under any other programme or administration heads, at any level.**
- **Where the provision in the budget is for full time staff, it is ensured that the concerned staff members devote full time to the EED funded project.**
- **In case of salaries of certain employees are co-funded by more than one donor apart from EED, then the proportion charged to each donor is clearly earmarked and mentioned on the voucher / records while charging salaries or updating the ledgers pertaining to different donors.**
- **Under no circumstances are salaries of the same staff (double) charged to more than one donor.**
- The salary register / staff payroll include the salary entitlements, benefits and deductions in respect of each employee on a monthly basis, as also details of the donors funding the salaries in case of funded / co funded projects.
- All salaries at all levels are paid by way of bank transfers or account payee cheques
- Tax is properly deducted from salaries where applicable, and deposited in time
- Attendance and leave records of individual staff members and their entitlements are systematically maintained
- Procedures / documents pertaining to all entitlements and staff benefits including provident fund, medi-claim and personal accident policies and other benefits are meticulously followed / maintained.
- All legal and statutory requirements including those for staff benefits like provident fund, gratuity etc are adhered to.

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## Chapter 15 – Reporting to EED

*In keeping with EED requirements, the following processes have been put in place at all levels, where EED grant fund is utilized.*

- As mandated in the Agreement of Cooperation, after the approved starting date of the Project, Financial and Progress Reports are submitted to EED at six-month-intervals. For this purpose, the EED standard "Project reporting Form" is adhered to.
- The start of the Project is taken as that mentioned in the Letter of Approval unless otherwise stated there. Unless there is a written approval from EED, expenditures prior to the agreed date are not charged as Project expenditure.
- The Progress Report is prepared from the start of the Project implementation at six-month-intervals.
- The Financial and the Progress Report is signed by at least one authorized signatory of the CNI SBSS (Normally the Chief Coordinator of CNI SBSS) and is sent together with the Auditor's Report to EED **within 3 months after the end of the reporting period**. If the CNI SBSS is unable to do so, EED is informed about the reasons, and revised timeline mutually agreed upon.
- Each Project Financial Report is based on the Project's books of account at the respective levels, and contains a **consolidation of the following items at all levels**:
  - *Project income and expenditure' (including capital items but excluding depreciation) structured according to the individual items of the Budget during the six months reporting period as well as the accumulated amounts from the start of the Project. Debit notes as well as interest earned on funds transferred by EED are included.*
  - *The balance of project funds (income minus expenditure) at the end of each reporting period.*
  - *A statement of cash status showing the cash held on the Project's bank account and the cash in hand for the Project. If the total cash available does not tally with*

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*the balance of project funds, the statement shall explain the reasons and give the details of the relevant items that make up the difference.*

- *A confirmation that the funds have exclusively been used for the purposes of the Project as specified in the Letter of Approval and the Budget.*
  
- The Financial Report is prepared using the standardized form for a Financial Report as worked out by EED and attached to the Letter of Approval (reference EED-Form N°3 / explanatory notes to EED-Form N°)
  
- The details of individual DBSS level income and expenditure details are provided as annexure to the six monthly report..
  
- Each Financial Report (as detailed above) sent to EED is audited by the Project auditor appointed as per the provisions of the EED grant terms (detailed in Chapter 16 below).
  
- Since each six monthly report is to be submitted within a period of three months of the end of the reporting period, and the said report is required to be audited, **it is extremely important to prepare and plan for the audit and submission of the financial reports well in advance.**
  
- For this purpose the ongoing financial monitoring of the DBSSs, including the monthly reports that are received and scrutinized by the respective RCSAs, the monitoring visits by the RCSA staff and their close interaction with the respective DBSSs with whom they interface play a critical role in ensuring that there are no major concerns or delays in the timely completion of the audit process at the individual DBSS levels. This is because any concerns or question with regard to the programmatic and financial performance of the individual DBSS is addressed and resolved on an ongoing basis. This is further elaborated in the Chapter on financial monitoring of the EED funded project.
  
- As far as possible, it is ensured that all project related payments are made within the reporting period, to avoid the need for making any provisions for expenses in the financial report.

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- In case it is not possible to pay off all expenses before the closure date, a list of all outstanding expenses / provision for expenses is made at the time of closure of the project, with reasons, details of expenses, amounts thereof and the probable dates on which each payment would be cleared.
  - Provisions are made only for expenses related to period, for goods and services already received, and for payments which are either already committed ( like salaries rent etc) or against bills/ invoices already received for goods or services procured for the project purposes.
  - In any case, it is ensured that all project related payments are made / cleared before the completion of the audit process, and it is ensured that no amount is payable as on the date of the audit report.
  - Even before the initiation of the project audit process, the draft financial reports of the individual DBSSs in the specified format (in which these have to be compiled and submitted to EED) are received and reviewed by the respective RCSA staff interfacing with the DBSSs. This review is undertaken at the CNI SBSS level from the perspective of the overall project financial and programmatic achievements. Reasons for variances in each of these are properly analyzed, reported and corrective actions taken. It is recognized that the report is not merely a numeric compilation and consolidation of figures received from network partners.
  - **The timeframes prescribed for the purpose of receiving, reviewing and finalizing the financial reports to be submitted for audit purposes are as follows:**
    - Receipt of the six monthly programmatic and Financial report in the format prescribed by EED, by the concerned RCSAs: **by 15<sup>th</sup> of the following month.**
    - Review of the reports, obtain clarifications, and finalize draft report: **by 25<sup>th</sup> of the following month.**
    - All reports to be reviewed at the Head Finance / Chief Coordinator level: **by**

- 30<sup>th</sup> of the following month (month-end)**
- Audit Process to be initiated : **by the 1<sup>st</sup> week of the second month from the end of the reporting period**
  - Audit Process to be completed including debriefing and finalization: **within six weeks of initiation**
  - Reports to be submitted to EED: **Atleast one week in advance of the due date.**

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## Chapter 16 – EED Project Audit

*In keeping with EED requirements, the following processes have been put in place at all levels, where EED grant fund is utilized.*

### 16.1 Project Auditor

- Audit is one of the most important monitoring tools, through which EED obtains assurance with regard to the proper utilization of project funds and the adherence to the terms and conditions of the grant by the entire project network. **CNI SBSS therefore ensures that this process is carried out in an effective manner across the entire network.**
- CNI SBSS has appointed an independent firm of Chartered Accountants to audit the accounts, the utilization of funds and the adherence to the Agreement of Cooperation, **for the project as a whole, including CNI SBSS, THE RCSAs and all the DBSSs forming part of the project.** This concept of having a common / single auditor for the entire project promotes standardized audit procedures, quality checks, proper consolidation and ownership of the entire audit process by the Auditor
- For this purpose CNI SBSS, the Auditor and EED enter into a tripartite written agreement (Audit Agreement). After approval by EED, one signed copy each is retained by EED, CNI SBSS and the AUDITOR.
- The importance of ensuring the independence of the project auditors is recognized at all levels. In consultation with EED, CNI SBSS could consider the option of rotating the project auditors after every two phase(six years).
- If either the CNI SBSS or EED consider it necessary to terminate the contract with the Auditor, out of the suggested rotation cycle, the prior consent of the other party is required.
- The audit costs are paid by CNI SBSS out of Project Funds.

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## 16.2 Project Audit Scope

- The detailed scope of the Audit to be undertaken forms part of the tri-partite audit agreement signed between EED, the PARTNER and the auditor.
- The audit scope for the CNI SBSS level audit includes the certification of the financial statements of the entire project, which includes the utilization and balances at CNI SBSS and the individual DBSS levels. The financial report also consists of one page Auditors' Report. The Auditor includes all relevant matters in the Audit report. In particular the audit report specifically includes the Auditors' opinion upon the following:
  - *Whether the agreement of cooperation has been adhered to*
  - *Whether the project funds have been used exclusively for the purpose of the project in accordance with the Agreement of Cooperation, Letter of Approval and the schedules of Budgeted Expenses and Sources of Income*
  - *Whether financial statements reflect true and fair view of the financial affairs of the project.*
- One important way to obtain a fair overview of the financial / grant utilization systems and processes at all levels is through the Management Letter that is issued by the auditor pertaining to the project as a whole. This Management Letter highlights many important aspects of the grant utilization processes at all levels, including feedback on the individual DBSS, where required. Further, the feedback on the grant management at the DBSS level assists CNI SBSS in indentifying areas of concern and taking appropriate action through its financial monitoring processes.
- The Management Letter highlights various aspects of EED grant management, as provided for in the EED Agreement of Cooperation as also included in the scope of the audit as included in the audit agreement. A detailed Management Letter providing feedback on aspects included in the audit scope, is issued by the Auditor (of CNI SBSS and individual DBSSs), even if the feedback is positive and adequate systems and processes are in place for all aspects covered by the audit. CNI SBSS ensures receipt of Management letter from

the project auditor after the completion of each audit and comments / provides responses on the findings and recommendations given.

***FMSF has worked on the suggested format and contents of the Management Letter, which is provided as Annexure 8 to this SOP.***

- While in the normal course, the Management Letters are not submitted to EED / FMSF, these are submitted if specifically requested.
  
- As mentioned earlier, the timing of the audits at various levels is very important, and these are planned in a manner that allows sufficient time for the Auditor to review and form an opinion on the utilization at all levels. Further, the network partner level expenditure need to be compiled to arrive at the total project expenditure.

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## Chapter 17 – Own Means Contribution (OMC)

- Own Means Contribution is the contributions that is expected to be raised - in cash - by CNI SBSS and the individual DBSSs through their own sources or other agencies to contribute to the approved cost plan. The sources of own means of contribution are clarified and agreed upon between EED and CNI SBSS. **Likewise, the amounts and sources of OMC are also agreed upon by CNI SBSS with all the individual SBSSs, on the basis and consolidation of the total OMC figure is arrived at.**
  
- **For the purpose of the financial reporting to EED:**
  - Only the actual funds received from Non-EED sources are considered.
  - These funds can be received either at the CNI SBSS level or at the SBSS levels.
  - These funds are related to the project funded by EED
  - These funds form part of the audit process, for the purpose of the EED reporting.
  - The Project Auditor discloses / comments in the Auditor's report about the source of own means reported in financial reports submitted to EED.
  
- *It is recognized that OMC is the project expense agreed to be borne by project partner NGO from its own resources. Complete transparency is maintained while reporting the own mean contribution. **No unacceptable or unethical practices are adopted at any level, to project OMC where no real OMC is mobilized.***
  
- *It is recognized that OMC can also be “Non Cash” or “Contributions in Kind”, which is direct contribution in kind (which could have otherwise cost money to CNI SBSS) from the community or any stakeholder (other than EED), to the approved project activities. These could also be in the form of funds or benefits leveraged (though not routed from or reflected in the books of the CNI SBSS/ DBSSs) by the community or beneficiaries, as a direct outcome of the EED funded project. Since these contributions cannot form of the EED budget (cost and finance plan) and therefore cannot form part of financial reporting to EED, they can be valued and documented, and can form part of narrative progress reports, that reflect the project outcomes.*

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## Chapter 18 – Grant / Phase Closure Processes

- *The planning with regard to grant / phase closure is started well in advance, at least 3 months prior to closure date, to ensure that the closure of the project is done in time.*
- *The last fund request before the project closure is prepared carefully to ensure that there is no possibility of accumulated balances, at any level, on the date of the grant closure date.*
- *This is done through carefully scrutiny of (i) the financial utilization at all levels in the months immediately preceding the final request and (ii) the funding requests received from the DBSSs and (iii) the requirements of CNI SBSS / RCSAs in the last quarter of the project. The requirements are reviewed on the basis of the past spending patterns as also the planned activities in the last quarter.*
- *Based on the abovementioned review, the realistic funds requirements of all levels are consolidated before sending the final funds request to EED.*
- *As mentioned in the section on the remittance process, EED may retain up to 5% of the grant funds, to ensure that there are no accumulated grant balances at any level of the project. Thus there may be a situation, where, as at the date of the grant closure, there could be amounts receivable from EED. In such a situation, this position would get reflected in the closure report, and grant balance would reflect the amount receivable from EED.*
- ***For the purpose of the closure of the grant phase, the following is ensured at all levels:***
  - *All advances and deposits are liquidated at all levels, and deposited in the respective bank accounts.*
  - *All liabilities are discharged as at the date of the closure*
  - *It is ensured that all amounts receivable by the project, including bank interest are updated and reflected in the project books.*

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- *As far as possible it is ensured that no major payments (apart from committed payments like salaries, rent etc) are made on the last date or towards the fag end of the project, just to book utilization of project funds. **For instance, purchase of assets, bulk consumables, repairs or other expenses, the benefit of which not be available to the project, during the project period, are not booked towards the end of the project period.***
  - *No expenditure the benefit of which is received after the end of the project period is charged to the project at any level.*
  - *The closure is planned in such a way that as at the date of the grant closure, the balance is reduced to balance payable to or receivable from the donor.*
  - *As far as possible, it is ensured that all project related payments are made before the closure date, to avoid the need for making any provisions for expenses in the financial report.*
  - *In case it is not possible to pay off all expenses before the closure date, a list of all outstanding expenses / provision for expenses is made at the time of closure of the project, with reasons, details of expenses, amounts thereof and the probable dates on which each payment would be cleared.*
  - *Provisions are made only for expenses related to period, for goods and services already received, and for payments which are either already committed ( like salaries rent etc) or against bills/ invoices already received for goods or services procured for the project purposes.*
  - *In any case, it is ensured that all project related payments are made / cleared before the completion of the audit process, and it is ensured that no amount is payable as on the date of the audit report.*
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- ***The EED grant / phase is formally closed upon the receipt of the closure intimation from EED.***
  
  - ***As mentioned earlier, all project related programmatic and financial records are retained at all levels for five years after the formal closure of the project.***

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## Chapter 19 – Governance Processes

Since organizational governance has a major impact on the way the EED project is governed and managed, it is critically importance to ensure effective and transparent governance across all levels of project management including at CNI SBSS and all the DBSSs implementing the EED project.

### Overview of Legal Status of the various entities implementing the EED project

- CNI SBSS and the registered DBSSs (to whom onward grants are remitted) are all registered as Societies in their **respective states. They are all primarily governed by the legal statute under which they are registered.**
- Additional registration under the Bombay Public Trust Act is obtained with the Charity Commissioner under the Bombay Public Trust Act in case of the DBSSs registered in the states of Maharashtra and Gujarat.
- In addition registrations are also obtained under section 12A of the Income Tax Act and under the Foreign Contribution Regulation Act.
- **CNI SBSS and all registered DBSSs ensure compliance with the statute under which they are registered.**
- The key elements of the statute (Societies Act under which they are registered) that are particularly studied and focused upon include the following:
  - **Remuneration to Board Members and relatives:** The legal statute under which the CNI SBSS / individual DBSSs are registered are carefully studied to determine whether any remuneration can be paid to the Governing Board members, their relative or any “interested” parties.
  - **Independence of the Board:** CNI SBSS / individual DBSSs ensure validation of their structures with the legal statute under which they registered, to ensure that there is no contravention or contradiction in their structures.
  - **Annual documents to be filed:** All CNI SBSS file the required documents, accounts, minutes, reports, declarations and renewals in the specified formats and within the timelines as prescribed in the Act under which they are governed.

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- Within the framework of the “**Act**” under which the organizations are registered, each organization has its **Memorandum of Association and Rules and Regulations** which is drawn out and filed with the appropriate registering authority at the time of its registration.
  
  - These legal documents define the objects as also various aspects of operations, governance and management of the respective organizations. There is a common framework of contents and legal obligations that each such document comprises of. Some of these include:
    - Main objects, other objects and incidental objects of the organization.
    - Statutory audit of accounts
    - General Body & Governing Body / Management Committee Meetings
    - Filing of Returns
    - Adhering to the MoA / R&R
    - Area of operation
    - Election of office bearers etc.
    - Type/ Nature of beneficiaries (secular or faith based)
    - Operation of Bank accounts
    - Management of monies and properties belonging to the organization.
    - Power to accept grants, raise loans and conduct incidental income generating activities.
  
  - CNI SBSS and all registered DBSS ensure that their legal registration documents are updated in consonance with time. For this purpose, the key elements of the Memorandum of Association / Rules and Regulations that are particularly focused upon include the following:
    - **Objects:** include atleast all the present activities of the organization and the EED supported project
    - **Accounting year:** is the financial year (April to March)
    - **Area of Operation:** includes atleast the present geographical coverage of the organization and the EED funded project.
    - **Designation of persons:** is in accordance with the present designations in use at the organization

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- CNI SBSS and all registered DBSS ensure compliance with all the stipulations included in their (amended / updated) Memorandum of Association / Rules and Regulations. For this purpose, the key elements of the registration documents that are particularly adhered to include the following:
    - **Number of members of the General Body and Governing Body:** are within the range as defined in the legal statute (where the statute provides such numbers) and the Rules and Regulations.
    - **Register of members:** are maintained as stipulated in the legal registration documents. This includes important details such as the name, address, date of birth, qualification, occupation, date of election of member, date of cessation of membership (where applicable), details of payment of membership fees (where applicable).
    - **Collection of membership fees:** Membership, whether onetime, lifetime, or annual, are collected as prescribed in the legal registration documents of the organization. The range of fees can range from one time admission fees to annual fees, at the rates prescribed in the registration documents. The details of the fees collected are properly recoded and accounted for.
    - **Bank Account Operation:** All organizational bank accounts, including those at the field / project office level, are only operated by persons as mandated in the registration document. Ideally all bank accounts are jointly operated by atleast two signatories.
    - **Delegation of financial and non financial authorities:** The legal registration document normally charges the office bearers (for instance the treasurer) or the Governing Body / Managing Committee / Finance Committee with the responsibility of managing the finances of the organization. These are abided by at all levels, and where is onward delegation of authority to management staff at various levels, this is formalized through proper resolutions at the appropriate level / amendment in the Rules and Regulations, as appropriate.
    - **Criteria for admission / termination of membership:** The Governance Structure in the case of Societies is normally a two tier one, comprising of the General Body and the Governing Body or the Management / Executive Committee. The membership norms as defined in the Statue / legal registration documents of the organization are

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strictly abided. The following aspects are specifically looked into by the individual CNI SBSSs

- *The stipulations of the legal registration document are strictly adhered to.*
- *Further, within the framework of the legal registration document, detailed criteria for the selection and induction of members are developed and documented.*
- *Similarly, the conditions under which membership can be terminated are also developed and documented.*
- *In case of registration models where the organizational membership leads to programmatic and funding partnerships (through onward granting of EED funds) such criteria include organizational, programmatic, and financial parameters both for admission and termination of such membership.*
- *In case of faith (Church) based organizations where the membership is based on election, appointment or nomination by a higher authority, such norms, as also those defined in the legal registration documents are documented and followed.*

- **Term of the Board members:**

- The number of years of membership in the General Body and Governing Body is generally defined in the legal document of the organization.
- In some organizations, the members retire by rotation based on the term / number of years as defined in the legal registration documents.
- The election of the members at all organizations happens as per the process defined in the legal document of the organization, within the period as specified therein. This is formally documented in the minutes of the meeting in which the election takes place, by way of resolutions.
- In cases where the legal registration documents do not define the number of years of membership, or where the membership is implied to be perpetual (unless certain conditions occur, which lead to the termination of membership, as defined in the paragraphs above), this aspect will be reviewed by the individual organizations and suitable norms for the number of years, election / re-election criteria will be defined and documented.

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- **Performance of statutory duties of General Body / Board of Trustees:** Some of the statutory duties of the General Body in case of registered societies which are strictly ensured at all levels include the following:
    - **Adoption of accounts:** The audited financial statements of the organization are adopted every year through a formal resolution passed at the Annual General meeting. This formal adoption of accounts happens before the filing / submission of such accounts to statutory Bodies such as the Registrar of Societies, Income Tax authorities, the Ministry of Home Affairs etc.
    - **Appointment of Auditors:** The statutory auditors of the organization are appointed each year through a formal resolution passed at the Annual General meeting. The resolution specifies the name of the auditor / audit firm, the period of appointment and the audit fees for undertaking the audit.
    - **Approval of performance reports and budgets.**
      - This is another statutory function of the General Body, where the Governing Body / Management Committee (in case of Societies) present the activity reports for the concluded year and the proposed activities / budgets for the forthcoming year, to the General Body / Board of Trustees for their approval.
      - **As a good governance practice the final proposal submitted to the donor (specifically EED), and the Terms and Conditions of the EED Grant specified in the Agreement of Cooperation are formally approved at the General Body / Governing Body meeting of the respective organizations. This is done before the grant documents are signed and accepted on behalf of the organization.**
  - **Election of Governing Body/ Management Committee (in case of Societies):** This is another statutory function of the General Body which is performed within the framework of the Act under which the organization is registered, its own legal registration documents and the criteria for election of members to the Governing Body/ Management Committee. This is formally documented at the General Body meeting minutes by way of a proper resolution.

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- **All organizations ensure adherence to the following good practices with regard to Governance:**
    - **Maintenance of proper minutes:** *The following aspects with regard to maintenance of minutes are specially adhered to by organization.*
      - *Proper minutes are maintained for each General Body and Governing Body / Management Committee meeting of the organization.*
      - *Such minutes are recorded in a Minutes Register maintained separately for the General Body and Governing Body meeting*
      - *In case the minutes are prepared in soft form, the printouts are pasted on the minutes book registers*
      - *Proper resolutions are passed for each key decision taken at the meetings.*
      - *Minutes of each meeting are approved in the immediately following meeting and signed by the Chairman of the meeting in which the minutes are approved.*
      - *Attendance register is maintained for each meeting, which is duly signed by each member / invitee attending the meeting.*
      - *The attendance register includes the name, designation and signature of each member / invitee attending the meeting, with due noting for the members not attending the meeting.*
    - **Independence:** *In general, it is ensured that the governance processes at all levels are transparent and that the General Bodies and the Governing Bodies perform their respective roles in spearheading the organizations towards their stated goals. Further, the distinction between the roles of Governance and Management is maintained, and the independence of either the Governance or the Management function is not compromised. This is done by ensuring that all policy level decisions and approval of all strategies, systems and processes take place at the Governance level, within the framework of which the day to day functioning of the Organization is undertaken by the Management Team.*

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- **Conflict of Interest: It is ensured at all levels and by all organizations, that the Board members and / or their family members shall not derive any personal, organizational or professional material or monetary gain by virtue of being part of the organization.**
  
  - **The potential areas where there could be conflict of interest include the following:**
    - *Appointment of Board members / their family members as staff or any position of profit*
    - *Contracts with vendors / suppliers / service providers associated with the Board Members.*
    - *Remuneration to Board Members / their family members*
    - *Any other payments or benefits (like rent, consultancies, or remuneration in any form) to Board Members / their family members*
    - *In cases where organizations work in the network model, a conflict of interest situation may also arise where the General Body members represent the organizations that receive grant funds from CNI SBSS.*
  
  - **Dealing with Conflict of Interest at all levels:**
    - *All Board members disclose their association with any external agency or individual that is in turn associated / wishes to be associated with the organization in a position of profit as motioned above.*
    - *In the event of any decision that may result in potential relationship with such an agency or individual, the Board member in question do not participate, except to provide information as required.*
    - *Comparable quotes and / or valuation are evaluated to establish that there no undue benefit is being derived.*
    - *The Board (or a committee duly constituted by it) determines that the transaction is in the best interest of the organization.*
    - *The decision made by the Board is properly minuted, with the interest of the concerned Board member duly recorded. .*
    - *Disclosure involving the interest of the Board members is made to the entire Board as also the donors (specifically EED)*

- *Disclosures are also made in statutory returns (specifically Form 10 B of the Income Tax Returns) of the payments made to the Board members and or other interested parties.*
- *In cases where General Body members represent or are “interested” in the organizations that receive grant funds from CNI SBSSs, apart from ensuring that the independence of the Board is not compromised as mentioned in the above paragraphs, CNI SBSS also ensures that proper distinctions are made between the roles of Governance and Management in the grant management aspects. This is done by clearly defining the roles and responsibilities of the Management staff responsible for effective monitoring of the grant funds, and ensuring that there is no intervention or interference in the said process by the concerned Board Member. Further, proper and formal grant management processes are will be defined right from the budget preparation / approval stage to the closure of the grant. These aspects are covered in greater detail in the Chapter on Financial Monitoring of the EED Grants. .*
- ***Conflict of interest Policy:*** *CNI SBSS and all DBSSs receiving onward grants from the EED project have documented a conflict of interest policy suited their own requirements, which include the above aspects of dealing with conflict of interest situations and disclosure norms where such situations arise.*

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## Chapter 20 – Statutory Compliance

This Chapter outlines the key compliances under the following statutory Acts applicable to NGOs, along with the due dates for filing of statutory returns.

- 1) The Foreign Contribution (Regulation) Act, 2010
- 2) The Income Tax Act, 1961

CNI SBSS and all concerned SBSSs ensure compliance with these requirements.

### Checklist of requirements under FCRA, 2010

- An association granted prior permission or registration under the repealed Foreign Contribution (Regulation) Act, 1976 shall be deemed to have been registered or granted prior permission, as the case may be, under the Foreign Contribution (Regulation) Act, 2010 (FCRA, 2010) and such registration shall be valid for a period of 5 years from the 1st May, 2011, i.e., up to the **30th April, 2016**.
- Every certificate of registration granted under FCRA, 2010 shall be valid for a period of five years from the date of its issue.
- Every certificate of registration shall have to be renewed. The application for renewal is to be made in Form FC-5 along with the prescribed fee, six months before the date of expiry of the certificate of registration. An association implementing an ongoing multi-year project shall apply for renewal twelve months before the date of expiry of the certificate of registration. In case no application for renewal of registration is received or such application is not accompanied by the requisite fee, the validity of the certificate of registration shall be deemed to have ceased from the date of completion of the period of five years from the date of the grant of registration.
- An association granted prior permission or registration under the Foreign Contribution (Regulation) Act, 2010 (FCRA, 2010) should receive the foreign contribution in the same exclusive designated Bank Account mentioned in the order granting prior permission or registration. This account number would be the same as has been intimated by the

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organisation in their application for prior permission/registration. Deposit of any local fund in this bank account is not allowed. One or more accounts

- In one or more scheduled banks may be opened for utilizing the foreign contribution provided that no funds other than foreign contribution shall be received or deposited in such account or accounts. Section 17 of the FCRA, 2010 may please be referred.
- Foreign contribution cannot be mixed with local funds being handled by the organisation.
- An association granted prior permission or registration is required to carry out the activities, for which foreign contribution is received, in India only and the amount should not be utilised for purposes other than for which it is received.
- Any fixed asset acquired out of the foreign contribution and any article received in kind from the foreign source should be in the name of the association and not in the name of any individual in the association.
- Not more than 50% of the foreign contribution shall be defrayed to meet administrative expenses of the association. What constitutes 'administrative expenses' has been defined in Rule 5 of the Foreign Contribution (Regulation) Rules, 2011 (FCRR, 2011).
- Any foreign contribution or any income arising out of it shall not be used for speculative business. What constitutes 'speculative business' has been defined in Rule 4 of FCRR, 2011.
- An association granted prior permission or registration should maintain a separate set of accounts and records, exclusively for foreign contribution received and utilised. If the foreign contribution relates only to articles, the intimation shall be submitted in Form FC-7. If the foreign contribution relates to foreign securities, the intimation shall be submitted in Form FC-8. Every report submitted shall be duly certified by a chartered accountant.
- Every account giving details of the receipt and purpose-wise utilisation of the FC, including the interest earned on the FC amount, should be maintained on an yearly

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basis, commencing on the 1st day of April each year, and every such yearly account is to be submitted, in prescribed Form FC – 6 along with the income and expenditure statement, balance sheet and statement of receipt and payment, duly certified by a chartered accountant in duplicate, within nine months of the closure of the year, i.e., before 31<sup>st</sup> December. Every such return in Form FC-6 shall also be accompanied by a copy of a statement of account from the bank where the exclusive foreign contribution account is maintained by the person, duly certified by an officer of such bank. The cash book and ledger account on double entry basis, where the FC relates to currency received and utilised. The annual return in Form FC-6 shall reflect the foreign contribution received in the exclusive bank account and include the details in respect of the funds transferred to other bank accounts for utilisation.

- The accounting statements shall have to be preserved by the NGO/association for a period of six years.
- Even if no FC is received during a year, a 'Nil' return is required to be filed with the Ministry of Home Affairs within the prescribed time limit.
- Associations/NGOs granted registration or prior permission, which have received foreign contribution in excess of one crore rupees, or equivalent thereto, in a financial year, shall place the summary data on receipts and utilisation of the foreign contribution pertaining to the year of receipt as well as for one year thereafter in the public domain.
- No FC should be transferred to an association which has not obtained either prior permission or registration under FCRA or to any person or association, prohibited under FCRA from receiving any FC. However, if the foreign contribution is proposed to be transferred to a person who has not been granted a certificate of registration or prior permission by the Central Government, the person concerned may apply for permission to the Central Government to transfer a part of the foreign contribution, not exceeding ten per cent, of the total value of the foreign contribution received. The application shall be countersigned by the District Magistrate having jurisdiction in the place where the transferred funds are sought to be utilized. The District Magistrate concerned shall take an appropriate decision in the matter within sixty days of the receipt of such request from

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the person. The donor shall not transfer any foreign contribution until the Central Government has approved the transfer. Any transfer of foreign contribution shall be reflected in the returns in Form FC-6 as well as in Form FC-10 by the transferor and the recipient.

- Change of name, address, registration, nature of activities or aims and objectives of an association should be intimated to the Ministry of Home Affairs within 30 days of effecting the change, along with the documentary evidence effecting the change.
- Prior permission of Ministry of Home Affairs should be obtained for replacing 50% or more of the office bearers.
- Prior permission of Ministry of Home Affairs should be obtained for changing bank account for valid and convincing reasons.
- The amounts received by the network partners from the CNI SBSS should be classified as subsequent receipt, the name of the donor should be the name of the CNI SBSS sending the grant and the name of the country should be India.
- The purpose for which grant is given as documented by the main partner while filing its FC 6 return should correspond with purpose classification made by Individual network partners while submitting their FC returns.

In Addition to the above, the following ***Due Diligence Processes*** are put in place by CNI SBSS, as a donor (through onward granting) to the DBSSs to which EED grants funds are remitted as grants

- The CNI SBSS obtains a certificate from all the network partner organizations at least once in a year as required under rule 24 of FCR Rules
- It ensures that the implementing partner is a registered entity having further valid registrations under section 12AA of Income Tax Act, 1961 and Foreign Contribution Regulation Act, 2010 (FCRA).

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- CNI SBSS ensures that the implementing partner is not declared as a prohibited or political nature organisation under Foreign Contribution Regulation Act, 2010 (FCRA).
  - CNI SBSS ensures that the implementing partner is not engaged in any activity which can be interpreted as activity of 'political nature'. Any activity, even, for a social cause may be considered as activity of political nature if it involves forceful or coercive means of protest such as Dharna (blocking premises of authorities), Bandh (calling for closure of shops & vehicle movement), Rastaroko (blocking road), Railroko (blocking rail) etc.
  - CNI SBSS ensures that the project budget does not reflect administrative expenses (as defined in FC rules) in excess of 50% of the total budget. Under the amended FC rules, certain programme expenditure can also be considered as administrative in nature.
  - CNI SBSS ensures that the project period is within the validity period of the FC registration certificate, as FC registration is valid for 5 years only. The registration of NGOs which was valid on 1st May 2011 would continue to remain valid upto 30th April 2016.
  - CNI SBSS ensures that the partners entering into commercial/consultancy contracts are not violating income tax laws, as commercial activity beyond 25 lakh is not permissible. It may further be noted that FCRA registration is not necessary for commercial contracts.
  - CNI SBSS ensures that all partners having an annual income of more than ten million rupees keep all financial information in public domain. A website shall be considered as public domain for FCRA purposes.
  - CNI SBSS ensures that in case of a network, all the partners are having FCRA registration. In case there are some unregistered partners in the network, then funds should be transferred only after prior permission.
  - CNI SBSS ensures that the funds are transferred only to the approved and designated bank account. Subsequently the partner may be asked to open dedicated bank account for specific projects.
  - CNI SBSS ensures that the balance of project fund available with the partner is invested in secured instruments. It asks for the detail of investment against the available project balance at the end of each period.
  - CNI SBSS seeks a declaration from the partner that its certificate of registration has not been suspended.

- CNI SBSS is careful in fund transfers for a multiple year project in advance as the proposed DTC law requires that 100% funds should be utilised in the year of receipt. If the funds are not utilised within the year, then unspent balance may be subjected to tax.
- CNI SBSS seeks a declaration that the partner is not engaged in any broadcasting activity of current affair and public news (for example community radio for current affair and public news), because such activity is not permissible at all, whether from foreign or local funds.
- CNI SBSS seeks a declaration that the partner is complying with the legal requirements such as :
  - Filing of Annual returns under Income Tax Act and FCRA.
  - Deducting tax at source in payments such as salary, consultancies, fees, rent, payment to contractor etc.
  - Project funds are not used for the benefit of any board members or interested individuals.
  - Notional expenditure are not charged to project. Notional expenditure may include internal transfers or estimated expenses against services or assets used.

### **The Income Tax Act, 1961**

Of the Direct Tax Laws, it is the provisions of the Income Tax Act, which have serious implications for NGOs. The Act, though generally expressed as applicable to Trusts, equally applies to Societies registered under the Societies Registration Act, Companies incorporated under section 25 of the Companies Act, and other such non-profit organizations.

### **Exemption of Income**

***CNI SBSS and all DBSSs are registered under section 12 A of the Income Tax Act. This implies that it enjoys conditional exemption of its income under sections 11 to 13 of the said Act.***

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### **Checklist for availing exemption of income**

- Annual Audit of Accounts
- Investment of funds in accordance with the provisions of section 11 (5) of the Income Tax Act, 1961. In case of violation, the entire income will be liable to be taxed. ***(Refer Annexure 4 for the list of investments approved under section 11 (5) of the Income Tax Act)***
- Application of the specified percentage of income (presently 85%) for charitable purposes ***(or by making the necessary applications with the appropriate authorities, in case it is unable to apply the specified percentage towards charitable purposes)***
- Filing of Return of Income in the prescribed form on or before 30<sup>th</sup> September for the previous financial year.

***CNI SBSS and all DBSSs abide by the above mentioned requirements.***

### **Tax Deduction at Source (TDS)**

#### **Tax Deduction Account Number (TAN)**

- ***CNI SBSS and all DBSSs have obtained TAN as mandated by the Income Tax Authorities.***
- This number is quoted (i) in all certificates issued in accordance with the provisions of the Act, like TDS certificates issued and (ii) in all returns submitted with the Income Tax authorities for tax deduction at source.

#### **Payments and receipts subject to TDS**

As per the provisions of the Income Tax Act, all NGOS deduct tax at source on certain payments as follows:

- Payment of salaries to its staff (Section 192)
- Payment to contractors and sub-contractors ( Section 194 C)
- Payment of rent ( Section 194 I)
- Payment of fees for professional or technical services ( Section 194 J)

#### **Deduction and remittance of Tax**

- All NGOs deduct tax at source at the specified rate and remit the same into the credit of the Central Government within the due date.

**Filing of TDS Returns**

- Annual and quarterly returns are filed in specified forms before the specified timelines.

**TDS on receipts by All NGOs**

**Tax is also deducted at source on certain receipts of all NGOs as follows:**

- Interest in securities ( Section 193)
- Interest other than interest on securities ( Section 194 A)
- Rent ( Section 194 I)
- Income in respect of units ( Section 194 K)

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## Chapter 21 - Financial Monitoring of DBSSS by CNI SBSS

The EED is structured in a manner whereby a number DBSSs (which are autonomous bodies) come together to achieve the common project goal. The CNI SBSS takes over in functional and/or legal terms, the various stages of project cycle management from the donors (primarily EED). This implies that there is in effect a transfer of responsibilities. The CNI SBSS is charged with the responsibility of ensuring that all the DBSSs also adhere to all the terms and conditions of the EED grant and have good financial management systems. For this purpose, the CNI SBSS is supposed to (i) provide capacity building and technical guidance to the partner in the project implementation and (ii) undertake financial monitoring of network partners.

***This implies that the CNI SBSS has to ensure the following;***

- Ensure that terms and conditions of the EED Letter of approval, the EED Agreement of Cooperation and the EED audit agreement are adhered to by all the network partners. **These terms and conditions have discussed at length in the various Chapters on EED grant management.** Further, this also involves the aspects pertaining to the budgeting and utilization processes, correlating programmatic outputs to the expenditure, ensuring proper remittances, reporting and audit processes, and finally ensuring the proper closure of the grant.
- Ensure that proper financial management systems are in place especially for the EED grant utilization. This including accounting systems and various elements of internal control have been covered in the previous Chapters. .
- Ensuring proper Governance processes and statutory compliance as covered in the earlier Chapters.

This Chapter covers the processes followed at CNI SBSS level to ensure all of the above. In effect, this chapter covers a standard framework of financial monitoring of network partners – right from the pre-assessment of a prospective partnership the “closure” of the partnership at the completion of the project

### **21.1 The pre-assessment / selection process, and database of the DBSSs**

- This is one of the key and most critical phases in the financial monitoring process, since the assessment and decision-making process at this stage influences the effectiveness of the entire grant making process of CNI SBSS.

- As part of the financial assessment of the prospective partners, CNI SBSS collects the following basic documents including copies of the registrations under the Income Tax and FCRA, their Bye-Laws, copies of audited financial statements etc. The following checklist is followed for the purpose of collecting various documents. In case these were not collected earlier for the existing partners, these have now been collected, and filed systematically in DBSS wise files maintained at CNI SBSS.

	<b>Document Required</b>	<b>Comments / Submitted Yes/No</b>	<b>Annexure/Page number Reference</b>
•	<i>Tax status determination document (12A/80G or others, please specify)</i>		
•	<i>FCRA registration certificate</i>		
•	<i>A copy of certificate of registration of Society</i>		
•	<i>A copy of the Memorandum of Association, Articles of Association, Rules and Regulations etc of the organization (as applicable)</i>		
•	<i>Most recent Organizational Audit report, audited balance sheet and audited income and expenditure statements</i>		
•	<i>Organization's annual budget for current year</i>		
•	<i>Most recent Annual Report of the organization</i>		
•	<i>List of major funders with approx amounts</i>		
•	<i>Detailed list of General Body / Governing Board Members</i>		
•	<i>List of key Management Staff</i>		
•	<i>Details of remuneration paid to Board Members, if any</i>		
•	<i>Copies of organizational, HR, Financial, other policies, if documented.</i>		
•	<i>Statutory Compliance documents for timely returns filed under the various Acts</i>		

- Once the above documents have been received, reviewed and found to be in order, the next step comprises of an organizational, programmatic and financial assessment of the

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partners in question. While programmatic parameters play a very important part in decision with regard to partnering, it is important to also ensure that basic financial management systems are in place. This can be done by way of a financial assessment of the prospective DBSS Partners.

- With regard to the financial assessment of network partners, basic criteria is developed and followed, against each DBSS is assessed. The basic objective of doing this is to ensure that the minimum level of systems and controls are in place, before considering any DBSS as a prospective partner. In addition, it is also ascertained, that in case there are gaps in the basic systems, whether the DBSS is open to putting in place the minimum systems, and whether with appropriate capacity building, this would be possible. This financial assessment is of critical importance and would play a key role in the partner selection process. The basic aspects to be covered as part of the pre-funding financial assessment are provided in Annexure 6.
- Once the prospective network partners have been shortlisted based on the organizational, programmatic and financial assessment, the prioritized list of shortlisted network partners is placed before the Governing Body of CNI SBSS for their consideration and approval. The final selection of network partners should be approved by the Governing Body / General Body based on the assessment results and the recommendations of the Management.

## 21.2 Agreement of Cooperation

- **Upon receipt of the EED Grant documents discussed in the earlier Chapter, CNI SBSS enters into onward grant agreement with each DBSS within the framework of the EED grant terms.**
- The **Agreement of Cooperation** between the CNI SBSS and the individual DBSSs clearly reflect all the **relevant** terms and conditions of the EED Agreement of Cooperation with the CNI SBSS. **This is because all the EED terms and conditions are applicable for the entire grant which includes the components of DBSSs.** However, it is ensured, that all these terms and conditions are **relevant** (and not just copy of the EED agreement) **and amended to meet the timelines of the overall CNI SBSS grant.**

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- In specific the **Agreement of Cooperation** between the CNI SBSS and the individual DBSSs specify the following aspects of the grant:
    - The work plan and the approved budget, detailed and broken down as per the final proposal.
    - Terms for EED Grant utilization ( detailed in the earlier chapter)
    - EED Programme implementation requirements
    - Timelines and formats for submitting grant repots, both programmatic and financial
    - Specification of the CNI SBSS monitoring like financial reviews
    - Procedures and timelines for submitting fund requests
    - Accounting and banking arrangements for the grant
    - Project audit requirements
    - Internal control processes to be followed for the grant management
  
  - The abovementioned requirements are synergized with the EED requirements and timelines. For instance the timelines and formats for reporting are in keeping with the EED requirements as specified in the earlier Chapters. Similarly the duration of the project period should be co-terminus with main agreement between EED and the network partners.

***All the above aspects have been covered in detail in the earlier chapters on EED grant management. All these are adequately mentioned in the Agreement of Cooperation between the CNI SBSS and the individual DSBBs.***

### **21.3 Partner Monitoring Mechanisms**

As mentioned earlier the financial monitoring of the DSSSs happens through the respective RCSAs who are earmarked to interface with the DBSSs in their geographical locations. The present details of the RCSAs and their staffing pattern is enclosed as Annexure 9.

The financial monitoring of the DBSSs by the RCSAs comprise of

- **Ongoing communication and tracking**
- **Receipt and Analysis of monthly reports on the basis of which the funds are released to the respective DBSS**
- **Periodic Financial Reviews**

## 21.4 The Overview of the Monitoring System through Reports is provided below:

- By 5<sup>th</sup> of every month the progress report and receipt and payment details are received from the individual DBSSs by the concerned RCSA.
- The receipt and payment details are received in specified format with details of the opening balances, receipts, payments under various budget heads and the closing balances. The details of OMC received and expended during the reporting period is also provided. An illustration of the reporting format is provided below. The budget line items would be different based on the approved budgets of the individual DBSSs

**Diocesan Board of Social Service, Diocese of \_\_\_\_\_**  
**Monthly Statement of Expenditure for the month of \_\_\_\_\_**

Particulars	SBSS	OMC	Total
<b>Opening Balance</b>			
Bank			
Cash			
Grant Received from SBSS			
<b>TOTAL</b>	-		-
<b>1.1 Learning Movement for Building Movement</b>			
<b>1.1.2 Review and Planning of Community</b>			
i) Staff meeting			
<b>Sub Total</b>	-		-
<b>2.1 Strengthening Structure, Database reporting, Communication System of Partner</b>			
<b>2.1.1 Strengthening DBSS, POs, CBOs</b>			-
i) External Baseline survey			
ii) Prog. Facilitation & Review			
<b>Sub Total</b>	-	-	-
<b>2.2 Community Based centre for learning &amp; Advocacy</b>			
<b>2.2.1 Community based advocacy</b>			
i) Honorarium to CBCLA Facilitators			
<b>Sub Total</b>	-		-
<b>Salary of Program Personnel</b>			
i) Coordinator			
ii) Communication Documentation Assistant			
<b>Sub Total</b>	-		-
<b>Coordination &amp; Administration</b>			
i) Office Administration			
<b>Sub Total</b>	-		-
<b>TOTAL ( To be reimbursed )</b>	-		-
<b>Closing Balance</b>			
Bank			
Cash			
<b>TOTAL BALANCE</b>	-		-

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- Within two days of the receipt of the reports (that is by the 7<sup>th</sup> of the following month) the RCSAs review the reports and provide feedback to the concerned DBSS and seek clarifications where required.
  - Upon receipt of the feedback / clarifications/ justifications from the DBSS (within two working dates) the details of expenditure are entered into the monitoring sheet maintained by the RCSA for each DBSS. This monitoring Sheet comprises of the annual and monthly budget details of each DBSS along with the monthly and cumulative utilization details.
  - By 10<sup>th</sup> of the following month the details are sent to the Finance Coordinator, for the purpose of review, compilation and consolidation.

In conclusion, the steps involved in the process of financial monitoring through reports, are enumerated below:

- Ensuring timely receipt of reports
- Ensuring that the reports received are complete in all respects
- Analyzing the reports in terms of :
  - Correlation of expenses with the activities undertaken
  - In general, assessing whether the programme is being implemented as per the agreed plan, and that the expected outcomes are being achieved.
- Comparison of actual expenses with budgets for the reporting period
- Ensuring that all utilization is as per the approved budget
- Ensuring that major deviations, if any, either in the implementation plan or budgets have been effected only after obtaining prior written approval of the CNI SBSS

### **21.5 Process for the RCSAs and the DBSS whose expenses are booked by CNI SBSS**

A process similar to the above is followed, with the exception that the financial statements are sent along with the original vouchers and supports, and the data file backup of the TALLY software for the purpose of either entering the data manually in the CNI SBSS accounts after due verification, or consolidating the data in the books of CNI SBSS. This has been discussed in detail in an earlier Chapter on Accounting Systems.

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## **21.6 Overview of the Grant Management System Software developed basically fund management and control.**

The Grant management Software is programmed to capture the information with regard programmatic outputs achieved and the financial utilization at all levels. However, as yet no data has been fed in the software and the software has not yet been tested to verify whether it meets with the information needs of CNI SBSS. Further, the training and dissemination of the software across the RCSAs is yet to be undertaken. Till such time that the above process is completed the compilation of data would continue to be undertaken manually as per the process outlined above.

### **The Grant management tools works at 3 levels**

1. **At DBSS level** – Each DBSS has its own ID & password; they can upload the six month cash flow, their monthly utilization, information of fund received and other receipts, Opening Balance Details and Budget Proposal. (At present uploading cash flow and monthly reporting is done at RCSA level)
2. **At RCSA Level** – The data available from the DBSS are processed and analyzed at RCSA level, to monitor the result & performance and deliver strategic facilitation to accomplish the set objectives. (at present RCSA take the initiative of uploading the monthly cash flow and utilization received from DBSS.)
3. **At CNI SBSS Head Office level** - At Central level the entire strategic & data are used as Management by Objective tool, to establish relevant and measurable objective, to monitor result & performance and to send alerts to the RCSA and DBSS on all deviations between results and pre-established objectives and budget for the effective & efficient program implementation as well as fund management and its control.

Any new registrations, as also changes in the tools and master data related to budget head, objectives can only be done from Centre. The uploading of data with regard to the expenditure incurred (after due review and approval) and details of grants remitted is done at the RCSA / Central level, based on specified authorities.

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The timelines and formats for the receipt and review of reports remain the same as specified in the present manual system.

**The following reports can be generated through the Grant Management tool, based on need.**

1. View submitted Budget Proposals by DBSS.
2. Variance Report of DBSS between budgeted and utilized fund which can be viewed Monthly or six monthly basis of a single or of all DBSS.
3. Fund Disbursement Details – Shows the Fund disburse to DBSS in a certain period with details.
4. Activity Details by objective – shows activities conducted by all DBSS in a period objective wise.
5. Activity Details in a month – shows all activities conducted by all DBSS in a month.
6. Activity Details in a month of a DBSS – shows all activities conducted by a DBSS in a month.
7. Cash flow analysis – shows the Utilization and availability fund Objective, Program and activity wise of a DBSS in the given period.
8. Grant Requirement – Shows the Grant required by the DBSS at the given month.

### **21.7 The Overview of the Monitoring through Financial Reviews is provided below**

- While the reports received from the partners may facilitate a review of the expenditure in comparison to the approved budgets, they will not provide an insight into the grant management, accounting systems and internal control processes followed. Hence, reports alone would not be adequate for effective financial monitoring of the partners.
- Hence, apart for the monthly reports and periodic meeting between the RCSAs and DBSSs for the purposes of programmatic and financial monitoring and planning for the future programmatic utilization within the framework of their respective approved budgets, the concerned RCSA's finance staff also undertakes periodic financial review visits to each DSSS with which they interface.

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- These financial reviews are undertaken with the objective of assessing the financial and grant management systems at the concerned DBSS as also assesses the utilization of EED / CNI SBSS grant. Further, hand holding / mentoring support is also provided where required. It is clearly understood that the scope of this review is different from that of an audit (discussed earlier) or an evaluation commissioned by EED.
  - Each DBSS is covered once in each quarter by the respective RSCA staff.
  - The generic scope of the financial review includes the following:
    - 1. Organizational Overview (this is initially, and only updates / changes if any, are reviewed in subsequent reviews)**
      - a. Legal framework and applicability of statutes
      - b. Organizational structure
      - c. Functional setup and reporting relationship
      - d. HR systems and policies / Administrative setup
      - e. Governance aspects
    - 2. Financial Management Systems**
      - a. Budgeting and planning
      - b. Accounting Systems
      - c. Monitoring and reporting
      - d. Internal Control systems
      - e. Audit Arrangements
    - 3. EED Grant Utilization**
      - a. Maintenance of accounts for EED grants
      - b. Adherence to provisions of grant agreement
      - d. Verification of grant utilization (as per the parameters discussed earlier)
      - e. Reporting to the CNI SBSS (whether as per the books of account)
      - f. Correlation of financial utilization to programme records / documentation

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#### 4. Statutory Compliance

- a. Societies Act / Public Trust Act (as applicable)
- b. Foreign Contribution Regulation Act
- c. Income Tax Act
- d. Provident fund / Gratuity
- e. Ant other Act / Law as applicable

**The following records are verified by the RSCA staff during each financial review visit.**

- Accounting systems and books (as mentioned in the Chapter on Accounting systems)
    - Cash book
    - Bank book
    - Ledger
    - Checking the data in tally
    - Receipt and payment sheet
  - EED grant utilization processes ( as mentioned in the Chapter on EED grant management)
  - All vouchers with supporting documents ( as mentioned in the Chapter on payment processes)
  - Bank reconciliation statements and other banking records (as mentioned in the Chapter on payment processes)
  - Programmatic backup / supporting that evidence the expenditure
  - Governance and Statutory Compliances ( as mentioned in the relevant chapters)
  - Vehicle log book
  - File existing and updated
  - Asset Register
  - Salary register
- 
- For the above purpose, a checklist is developed for use during the financial review visits, to ensure completeness and standardized processes by the staff of different RCSAs
  
  - Hand holding support is provided by the RSCA staff during the review visit to improve the steams and processes where required.

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- A de-briefing meeting is held with the respective DBSS to share the review observations and key concern areas. During this meeting the buy-in of the DBSS is obtained to the recommendations for further improvement where required.
  - Further the reporting formats are also standardized to include the observations and recommendations for each area where further improvement is required.
  - The report is shared with the concerned DBSS and their responses are obtained, along with the action points and timelines for addressing each area / recommendation included in the financial review report.
  - During subsequent visits of the RCSA staff the compliance to the previous review report is assessed and reported.

### **21.8 Audit Arrangements**

One of the key components of the financial monitoring is Audit. At CNI SBSS apart from the Project audit as discussed in an earlier Chapter, there is also an additional arrangement for Organizational Internal Audit. This process also covers the EED grant (which is a major component of the CNI SBSS overall funding). The scope and coverage of the Internal Audit is included in the MoU and Terms of Reference for the Internal Auditor.

### **21.9 Consequences of Non Compliance**

- In case it is evident that there are major deviations either in the implementation plan or in the budget utilization, it may be appropriate to have discussions with concerned DBSS to:
  - understand the reasons for deviations
  - In case required, to amend the implementation plan or budgets
- In a situation where it appears that :
  - the DBSS has willfully contravened some of the key provisions of the grant agreement

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- where there is no correlation between the expenditure incurred and the outputs achieved
  - where it appears that the proposed outcomes or targets are not likely to be achieved
  - there is evidence of misappropriation of funds or deviation of funds to activities other than for which they were provided

In such circumstances, the CNI SBSS may either undertake or commission a detailed investigative audit / review to find out the facts of the matter. This is done in consultation and coordination with FMSF / EED. Depending on the outcomes of the investigative audit, CNI SBSS / FMSF/ EED may decide to select a course of action.

#### **21.10 Exit and “Closure” of NETWORK PARTNER Grant**

The partnership with the NETWORK PARTNER may come to an end in the following two circumstances:

- **In between:** pre – mature closure of the project
- **On completion:** on completion of the project

##### **Pre – mature closure of the project:**

The following circumstances may lead to premature closure of the project:

- a) There has been appropriation of grant funds
- b) Funds utilized other than for the purpose of implementing the project
- c) Funds received from other sources and there is not in need of financial support
- d) Activities / objective of the project completed / achieved before the timeframe scheduled
- e) The legal status / Income Tax exemption status / Charitable status / FCRA registration has been withdrawn
- f) One or more provisions of the grant letter has been violated
- g) The project is unable to deliver the project outputs / outcomes as anticipated

**On completion of the project:**

The essential part of any program is a proper programmatic and financial close out at the end of the project supported, by the final progress and financial reports to be submitted to the CNI SBSS within the set timeframe.

The procedure as outlined for the closure of the EED project has been detailed in the section on EED grant management, and is similarly applied to the DBSSs.

**21.11 Training and Capacity Building of DBSSs**

As mentioned earlier, it is the responsibility of CNI SBSS to provide need based training, and build the capacities of the DBSSs. Apart from ensuring the adherence to the EED grant conditions by the network partners, this would also ensure that the DBSSs are capacitated to have good organizational financial management systems which could also help them to access other institutional grants as well.

**Annexure 1 Format for Bank Reconciliation Statement**

Name of the Organization:

Bank Reconciliation Statement as on [Date]					
					INR
	Bank Balance as per cash book				0.00
Add:	Cheques issued but not cleared for payment			Amount (Rs. )	
	Cheque details	Cheq.No.	Date		
			TOTAL	0.00	
		Interest credited by the bank but not taken into C.B. Interest on investment, if any credited by the bank Any wrong entry on credit side of pass book			
		TOTAL	0.00	0.00	
Less:	cheques deposited into bank but not yet credited bank charges -Draft comm. cheque collection chrgs any payments made directly by the bank interest on over draft charged by the bank dishonoured cheques or bills, if any withdrawals / payments made but not entered in CB any wrong entry on debit side of the pass book				
			TOTAL	0.00	0.00
	Bank Balance as per pass book				0.00

<b>Annexure 2 Analysis of Quotations</b>				
Name of the Project				
Funding Agency				
Description of Asset		Quantity Required:		
Budgeted Amount				
<b>S.No</b>	<b>Name of the Vendor</b>	<b>Detailed description of the Asset (Including features)</b>	<b>Rate Offered</b>	<b>Remarks</b>
1.				
2.				
3.				
4.				

Therefore, the approval is sought for purchase of \_\_\_\_\_ from (name of the vendor) \_\_\_\_\_ (S.No.\_\_\_\_) because \_\_\_\_\_ (it could be because of lowest price, better quality, regular supplier, better after sales service/ etc)

**Prepared by**

**Verified by**

**Approved by**

1.

2.

3.

**Note: Purchase Order should be issued to the selected vendor with detailed terms & conditions with regard to advance payments, delivery & payment of total bill.**



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#### **Annexure4          Investments u/s 11(5)**

**The following is a list of investments approved under section 11(5) of the Income Tax Act:**

- Investments in savings certificates or any other securities issued by the central government.
- Deposits in any account with the post office savings bank.
- Deposits in any account with a scheduled bank or a co-operative society engaged in banking
- Investments in the unit trust of India
- Investments in any security of money created and issued by the central government or the state government
- Investments in any debentures issued by a company or corporation where both the principal thereof and the interest thereon are fully and unconditionally guaranteed by the central government or by state government.
- Investments or deposit in any public sector company.
- Deposits with or investment in any bonds issued by a financial corporation engaged in providing long term finance for industrial development in India which is approved by the central government.
- Deposits with or investments in any bonds issued by a public company formed with the main object of carrying on the business of providing long term finance for construction or purchase of houses for residential purposes which is approved by the central government.
- Investments in immovable property.
- Deposits with the industrial development bank of India.
- Investments issued under any scheme of the mutual fund referred to u/s10 of the income tax act.
- Any transfer of deposits to the public account of India.
- Deposits made with an authority constituted under any law for satisfying the need for housing accommodation or for the purpose of developing, planning, improvement of cities, towns and villages
- Any other form or made of investment or deposit as may be by the act or rules from time to time.

**The FCRA 2010 prohibits any form of speculative investment out of foreign grants. This needs to be mentioned explicitly in the SOP.**

**Annexure 5 : SUGGESTED FORMAT FOR IN KIND CONTRIBUTION**

NAME OF THE ORGANISATION				
<b>IN KIND CONTRIBUTION ACKNOWLEDGEMENT NOTE</b>				
Sl. No. (pre-printed Sl. No.)		Date :		
Received with thanks, from Ms./Mr./M/s. _____ of (address) _____				
_____ the following services/material in kind for (name of the programme) _____				
<b>Name of the Activity/Occasion / Event / Purpose : Advocacy/Training/Construction of school</b>				
Sl. No.	Description	Quantity	Estimated Rate	Estimated Value (Rs.)
TOTAL :				
Estimated value of Contribution in kind : Rupees :				
_____	_____	_____		
Received by	Contributor	Secretary/Treasurer/Approval Authority		

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**Annexure 6: Suggested aspects to be covered as part of DBSS assessment**

Areas to be covered	Responses	Supporting documents
<p><b><u>GOVERNANCE &amp; INTERNAL CONTROL</u></b></p> <ul style="list-style-type: none"> <li>• Is there a separate finance committee within the governing body, if yes then how often do they meet?</li> <li>• Do you have a Finance manual? If yes when it was last updated?</li> <li>• Provide a copy to check various issues to be discussed next.</li> <li>• How many people are involved in a transaction approval process?</li> </ul>		
<p><b><u>BANKING &amp; CASH HANDLING</u></b></p> <ul style="list-style-type: none"> <li>• What is your bank account policy e.g. how many accounts should be open and who are the signatories?</li> <li>• Do you have a petty cash system? What is the level of cash transactions and who are the people mainly involved in cash transactions?</li> </ul>		
<p><b><u>FINANCIAL PLANNING &amp; BUDGETING</u></b></p> <ul style="list-style-type: none"> <li>• Is the financial resource unit is led by a person trained for that purpose and how they integrate with other units within the organization?</li> <li>• Do you have a consolidated budget for the whole organization incorporating</li> </ul>		

<b>Areas to be covered</b>	<b>Responses</b>	<b>Supporting documents</b>
individual project budgets? Are these budgets clearly communicated to all relevant implementing managers?		
<p><b><u>COST EFFECIENCY</u></b></p> <ul style="list-style-type: none"> <li>• Are purchases carried out through competitive pricing and transparent comparison of several offers?</li> <li>• What kind of cost efficiency measure you have? Get some examples.</li> </ul>		
<p><b><u>ACCOUNTING</u></b></p> <ul style="list-style-type: none"> <li>• Do you have documented flow of financial information that is applied to day to day accounting?</li> <li>• Is the accounting kept in manual or computerized system?</li> <li>• Do people other than finance staff have direct access to accounting information either electronically or manually?</li> </ul>		
<p><b><u>TRANSPARENCY AND REPORTING</u></b></p> <ul style="list-style-type: none"> <li>• How often are internal financial reports are produced, how are they distributed and discussed among team?</li> <li>• Do you have a Donor Policy outlining key aspects of handling multiple donors/ funded projects (example allocation of common expenses , co-funded</li> </ul>		

Areas to be covered	Responses	Supporting documents
<p>projects)</p> <ul style="list-style-type: none"> <li>• Are donor reports submitted in time ?</li> <li>• Does your financial reports include a narrative section on top of numbers?</li> <li>• What are the financial management capacity building (e.g. training and mentoring for staff etc) actions you have taken or taking</li> </ul>		
<p><b><u>AUDIT AND EVALUATION</u></b></p> <ul style="list-style-type: none"> <li>• Do you have an internal audit function, if not how do you ensure a check and balance? If available provide a copy of last audit report.</li> <li>• Does your external auditor provide a management report? If yes then provide a copy and see the issues raised by auditors.</li> </ul>		

**Summary of Income and Expenditure**

Project Number and Title: \_\_\_\_\_

Partner: \_\_\_\_\_

Project Period: \_\_\_\_\_

**I. INCOME / Receipts**

Sources of Income	Budgeted Income of whole project (in EURO)	Budgeted Income of whole project (in NC)	Semi-annual Income (National Currency)						TOTAL period 1 to 6
			1. Reporting period	2. Reporting period	3. Reporting period	4. Reporting period	5. Reporting period	6. Reporting period	
Period covered									
<b>1. Non-EZE/EED funds</b>									
1.1 Own means									0.00
1.2 Contribution of <u>national</u> sources (please specify)									0.00
1.3 Contribution of <u>inter-national</u> sources (please specify)									0.00
<b>2. EZE/EED funds</b>									
Transfer									
Transfer									
Transfer									
Transfer									
etc.									
2.1 Total Transfers			0.00	0.00	0.00	0.00	0.00	0.00	0.00
2.2 Debit Note									
Debit Note									
Debit Note									
Debit Note									
2.3 Interest									
2.4 Exchange-rate gains									
<b>Total Income EZE/EED</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>3. TOTAL</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes (if necessary): \_\_\_\_\_

Project Number and Title:

**II. EXPENDITURE / Payments**

Budget Item	Total budgeted expenditure (in EURO)	Total budgeted expenditure (in NC)	Expenditure /payments (in National Currency)						TOTAL period 1 to 6	
			1. Reporting period	2. Reporting period	3. Reporting period	4. Reporting period	5. Reporting period	6. Reporting period		
Period covered										
<b>IMPORTANT!!</b> Please indicate ALL budget items and budget sub-items as indicated in the "Letter Of Approval"										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
										0.00
<b>TOTAL</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes (if necessary):

List of debit notes from EED included in the expenditure as reported above. The total of the debit notes is also included in the income from EED (see Income sheet).

Debit Note N°	Amount (in NC)	Budget item N°

Project Number and Title: \_\_\_\_\_

**III. Balance of Project Funds and Cash Status**

NC

1. Balance of Project Funds at start of reporting period			_____	
2. <b>Add:</b>	Total income during the reporting period	+	_____	
3. <b>Less:</b>	Total expenditure during the reporting period	-	_____	
4. Balance of Project Funds at the end of the period			<u>0.00</u>	(A)

5. Cash Status:

Cash at hand:			_____	
Cash at bank:	+		_____	
			<u>0.00</u>	(B)

Reconciliation of difference between (A) and (B), if any: \_\_\_\_\_ 0.00

6. Details of major prepayments and liabilities: \_\_\_\_\_

This is to confirm that the contents of the report are in accordance with the Letter of Approval, the Budget and the Agreement of Cooperation entered into by the Partner and EED.

**Notes (if necessary):** \_\_\_\_\_

\_\_\_\_\_  
(Place, Date)

\_\_\_\_\_  
(Name and Signature of authorised Signatory)

## **Annexure 8: A Handout on MANAGEMENT LETTER**

### **Introduction**

It is sometimes observed that once the audit process is completed, the Auditors give their observations about the internal process of the organization in an informal manner. The weaknesses are brought to the notice of the management (but not formally) and thus the action taken by the management cannot be tracked. Therefore, to have a clear view on the auditors' observations it is recommended to issue a management letter. This is also a requirement of the International Standards on Auditing i.e. ISA 265 issued by International Auditing and Assurance Standards Board (IAASB) as well as Standard on Auditing i.e. SA 265 issued by ICAI- "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management". In ISA 265 point 9 it is specifically mentioned that "The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis." Therefore, a management letter is not just a recommendation but a requirement for all audits.

A management letter will be addressed to those charged with governance of the organization (in most circumstances it is the board) outlining the observations upon the system of accounting and internal controls, together with a detailed list of any significant findings that come to the auditors' attention during the course of the auditing. The letter will include recommendations as to how these weaknesses may be eliminated and how controls and records might be improved. The management in response to this letter needs to provide a written Action Taken Report (ATR) to the auditors' comments.

If a previously communicated significant deficiency remains, the auditor may ask management or, the board, those charged with governance, why the significant deficiency has not yet been remedied. A failure to act, in the absence of a rational explanation, may in itself represent a significant deficiency.

Thus, it should be made a practice to issue the management letter before approval of the financial statements by the board and their comments be included in the management letter, then it would be much more effective since the entire board will also come to know of the observations.

**Salient Features of a Management Letter**

The main purpose of a management letter is to state the deficiencies in the internal control system and also cover certain essential points with respect to an audit. Some of the topics/issues a management letter should cover are listed below:

- 1.1. The letter should set out :
  - 1.1.1. The weakness identified
  - 1.1.2. The risk associated with that weakness
  - 1.1.3. The possible consequences
  - 1.1.4. Recommendations for improving the system
  - 1.1.5. The likely outcome of implementing the recommendation
- 1.2. Comments as to whether recommendations made in the management letter for the previous audit were implemented and the implementation status.

A suggestive management letter is attached which can be used as a guideline/checklist for issuing a management letter is enclosed.

**Conclusion**

It is very critical for the voluntary organisation to understand the value of audit. Audit must be used as a tool to promote accountability and transparency in the organisation. A strong and independent audit process generates confidence of stakeholders and enhances credibility of the organisation. It is also important to realize that audit should be seen as a continuous quality improvement process. In that context management letter by the auditor is a very critical component. It is necessary for the voluntary organisation to insist on obtaining a management letter from the auditor and to internally process it so that it serves as a good tool to improve the control systems and other financial management process in the organization.

**Suggested Format of Management Letter**

To,

The Governing Board/Chief Functionary of the Organisation

Name of the Organisation

Address

**Sub: Management Letter for the year ending \_\_\_\_\_**

Dear Sir/ Madam

As part of our statutory/Project/others (specify) audit of \_\_\_\_\_ for the year ended \_\_\_\_\_, we evaluated the systems of internal controls to the extent we considered necessary under generally accepted auditing standards. This is done to establish a basis for reliance on systems and determining the nature, timing and extent of other auditing procedures necessary to express an opinion on the financial statements. This study was conducted to determine whether the system of internal controls is adequate and commensurate with the size of the organization and its activities.

Our audit identified areas where financial management and internal controls could be strengthened. The attached memorandum of observations and recommendations is enclosed for your information and consideration.

We would be pleased to discuss this document or to respond to any questions at your convenience.

Sincerely,

XYZ Chartered Accountants.

<b>General areas covered during Audit Process</b>	<b>Weakness Identified</b>	<b>Risk Associated With That Weakness</b>	<b>Possible Consequences</b>	<b>Recommendations</b>	<b>Outcome Of Implementing The Recommendation</b>	<b>Management's Response</b>
1. Accounting Policies Fixed Assets, Investments, Cash & Bank Management, Inventory, Any other.						
2. Accounting Record & Systems Books maintained, manuals						
3. Internal Controls Authority for approvals, Measures taken to ensure safety of cash , cheque books and other valuables						
4. Notional expenditure and Cost Allocation.						
5. Restricted fund, Unrestricted fund, Capital Fund etc						
6. Legal Compliances & registration under Income Tax, FCRA and any other applicable						

7. Budgetary Control Budget monitoring system, variance analysis, annual/half yearly/ quarterly operational budgets.						
8. Own means of contribution Cash and Non cash reporting to donor						
9. Documentation and processing of program expenses						
10. Assets Acquisition, Insurance, Sale and Depreciation.						
11. Investments Compliance with regulations and donor requirements.						
12. Contingent Liabilities Case/legal dispute						
13. Any other issue						



