



PADALA CHARITABLE TRUST (PCT)

Finance and Accounting Policy



2024-2025

Preamble

Management of finance and accounting is a key function of any organization. A transparent and efficient management is paramount to establish the credibility of the organization, given the fact that NGOs are Public Charitable in nature and have obtained exemption in Income tax. Hence, the whole policy is built on the following four pillars and supported by the fifth pillar as foundation

- 1.A sound policy
- 2.Practices aligned to the policy
- 3.Periodical monitoring of implementation of the policy
- 4.Periodical review and ushering in changes in keeping with the dynamics of eco-system
- 5.Integrity

For the purpose of ease of reference, the policy is divided into three chapters and they are

- 1.Generic principles, guidelines and rules
- 2.Financial policy
- 3.Accounting policy

In case of any doubts/clarifications/disputes, the decision of the following committee shall be final and binding on all the concerned. The committee shall utilize the services of the concerned experts like auditors/tax consultants/lawyers for better clarity of the issues involved.

- 1.CEO/Secretary/Managing Trustee of the entity
- 2.One member of the Board who is proficient with finance and accounting
- 3.The financial head of the organization and if this specific position is not available, the above two persons can co-opt one or two persons working at executive level

Chapter 1

Generic principles, guidelines and rules

The generic principles, guidelines and rules will apply to the entire organization and therefore the actions and behaviors of all the concerned personnel shall be guided by these as reference and guidance at all times.

1. The organization shall always remember that the purpose of the organization is for taking up chosen social causes and target the affected or serve the beneficiaries with a view to ameliorating the problems faced or improving the conditions of the beneficiaries. In doing so the sole objective is to get the best out of every rupee spent.

2. The organization is privileged to be given exemptions and exceptions under various tax laws and compliances. Hence, the organization will always try to comply with the laws of the land in letter and spirit.

3. The organization understands that the highest body, the governing body, will be mainly responsible for ensuring the compliance, oversight and has the statutory and fiduciary responsibilities.

4. **Credibility & Transparency:** The organization understands that the best way to meet this twin responsibility is by adhering to the following norms

- Books of accounts shall always be maintained in legal accounting software. And periodical updates shall be ensured to keep in line with the technological progress. Management abides by the principle that technology is an important intervention for ensuring transparency.
- Keep the cash transactions to the barest minimum, especially in the matters of expenditures. While the Income Tax laws and FCRA rules sets the boundaries, but the organization will endeavor to keep the overall cash transaction in the range of 10 -15% of the annual expenses.
- It shall collect the donations to the extent possible through normal banking channels, electronic transfers and any other means which can leave a proper trail. If the cash donations are inevitably collected, details of the donors with identity document will be obtained. Every donation collected shall be issued with receipts and properly accounted for in the books of account. Even in case of donations collected through electronic mode or through normal banking channel, PAN and address will be obtained

- Apart from donations issued receipt book, details of donors with address and PAN, and donation collected, mode of collection and receipt number issued will be separately recorded.
- Organization may receive donation in kind. While it understands such donations are not exempted from tax for the donor, but it will acknowledge, record and use such donations for the causes it espouses.
- Every expenditure shall be supported by vouchers and documents to serve as evidence. Besides, any exceptional transactions shall be supported by details in the voucher or in the form of explanatory notes and/ or office a.notes. The bills obtained shall be from vendors who are GST complaint if they are required by law.
- The maker and the checker concept shall be strictly be adhered to by involving two persons in any of the transactions.
- While oral instructions/ approvals are a necessity but it shall always be followed by an email or authentication in the vouchers/office notes.
- Any deviations and exceptions in the transaction shall always be approved and authenticated by the competent authority in the organization.

5.The management will ensure adherences to its own time lines like preparation of annual budget and approval thereof, quarterly reviews of financial matters, periodical bank reconciliation etc.,

Budget Preparation	Budget Approval	Quarterly Review	Bank Reconciliation (Tally, Bank,Excel)	Internal Audit	Final Submission to CA
15 th March	20 th March	15 th July, 15 th Oct, 15 th Jan & 15 th Mar	15 th July, 15 th Oct, 15 th Jan & 15 th Mar	30 th July, 30 th Oct, 30 th Jan & 30 th Mar	April 30 th

6.The organization will ensure to comply with the timelines mandated as per statute like remittance of TDS amounts, filing of returns etc., save for delays on account of reasons which are beyond the control of the organization.

7.Conflict of interest: Whenever the organization encounters such situations, it shall be the responsibility of the concerned to escalate such matters to the next higher authority and seek advice and follow up on such advice.

8. Approval of expenses: Approval of expenses, both capital and operational will be adhered to as per the delegation of power approved by the board. In the exceptional situations, where a particular authority exceeds such powers, it shall be notified to the concerned authority within a reasonable period of time and ratification of that authority will be obtained duly explaining the reasons for transgressions.

9. Purchase Committee and appointment of vendors: In the matters of purchases, especially purchases involving large sums, normally the organization obtains three quotations from credible suppliers. In order to ensure that the organization keeps the cost to the minimum three quotations are necessary. But the organization supports the idea that the cheapest may not be always the best. Hence, to ensure quality of the materials/service purchased/obtained, if necessary, go for higher quote but such decisions shall be properly recorded. In order to minimize the work load of obtaining quotations every single time, the organization may decide to appoint regular suppliers with credible background.

10. Payment to vendors/suppliers: Upon satisfactory receipt of goods and services, the payments shall be made within maximum of next payment cycle but not later than 15-20 days of receipt of goods and services to the complete satisfaction of the organization. In all eligible cases appropriate TDS will be deducted and remitted to the government within the due dates.

11. Promptness in payments to employees: Pay roll processing shall be done promptly and salaries shall be paid within seven days of the completed months. Similarly, the employees shall submit the travel claims, conveyance and any other reimbursement and such bills will be processed and paid within 15 - 20 Days .

12. Payment of all utility bills, annual subscriptions etc., will be strictly paid within the due dates barring exceptions.

13. Maintenance of books and records: The organization shall systematically maintain all the books and records and preserve such records for a period of 8-10 years. All the data stored in electronic form shall always have a backup periodically with a minimum of one-month cycle. In order to ensure continuity, such electronic records shall be stored either outside the office premises physically or use facilities like cloud storage. The organization will be sensitive to environmental issues in the matter of disposal of old and scrapped assets, especially the assets which may be hazardous like e-waste.

14. The statutory audit, finalization of accounts, filing of annual income tax returns, presentation of audited accounts to the stake holders will be done as per statutory time lines.

15. As far as possible and depending on the availability of banking facility, the accounts will be opened and maintained with public sector banks and highly rated private sector banks. However, the management also understands the need to encourage local cooperative banks. But if it is required to open accounts in more than one financial institution, proper care will be taken to distribute funds to minimize the risks.

16. **Rule of the land is paramount:** The organization believes that the practical world demands flexibility in approach and therefore it cannot be victim of its own rules. Therefore, in tackling situations of dilemma, the priority of interest shall be in the sequence of Rule of the land, organization, community and personnel of the organization.

17. **Seeking guidance from the experts:** Some situations may pose challenges in terms of taking decisions. Hence, organization shall always seek opinion of the experts in the field by raising appropriate questions and issues. This shall be followed by internal debate in an appropriate forum before taking a final decision. In doing all these a proper record shall be kept.

18. **Periodical review of policy and guidelines:** The organization understands that it operates in a dynamic world. Hence to align with the changing eco-system, it shall not only make suitable changes as and when needed but also take up review of the policy at periodical intervals. Such interval shall be at least three years. And the review and changes shall be approved by the highest governing body of the organization. If changes are in nature of exigency, it shall be changed by the Executive Director/Secretary/Trustee and shall be got ratified by the Governing Body later.

19. **Maintaining Confidentiality:** While transparency and credibility demand openness, the organization and its personnel become privy to confidential information/facts. Hence, the organization shall endeavor to manage fine balance between confidentiality and transparency.

20. **Lead by example:** The organization understands that the sanctity for any rules or stipulations is derived by its proper implementation. And the implementation responsibility always starts from the top officials of the organization.

21. **Reporting of untoward incidents/happenings:** Lastly, it is duty of every person in the organization, who is privy to any untoward happenings/ untoward incidents to immediately escalate it to the appropriate higher authority so that immediate corrective measures may be taken.

Chapter 2

Policy on Finance

Organization understands the fact that resources in the form of donations and grants are the life blood of the organization. Hence, the organization will make every effort to explore and create channels of source for flow of funds and will prudently manage and utilize the funds mobilized through the following policy guidelines

1.Resource mobilization: Organization will adopt the policy of minimizing the risk of stoppage of flow of funds by

A. Constantly tapping the various sources like individual donors, HNIs, institutional donors, CSR sources and also governmental sources. It will also not to be averse to modern day sources like aggregators, crowd funding and any other innovative way of mobilization to ensure continuous flow of funds.

B. Despite stringent compliance requirements as per FCRA, Act & Rules, the organization will not hesitate to tap the international sources.

C. The surplus resources if any shall be invested as permitted in the tax law and FCRA, Act and the endeavor will be to minimize the risk of investments being lost. In doing so, it will not fall prey to temptation of high return and high-risk investments.

D. It will also invest in mutual funds with minimal risk funds but within the rules of Income Tax and FCRA.

2. Budgeting and control: Organization will prepare the annual budget and get the approval done by 15th March of the previous accounting year. While preparing the budget, it will ensure that budget is prepared project-wise, segregate administrative expenses other than directly related to the project, commonly called head office expenses. The budget will also contain the total organization budget. While preparing the budget, it will try and segregate income and expenditure budget, capital budget and cash inflow and outflow to get the correct view of the budget. Organization understands that monitoring of the budget is a key element for control of budget. This shall be done by the Executive Team (CEO & Directors) of the organization on a Quarterly basis. It will prepare quarterly performance and variance reports for review by the board. The organization understands that 5-10% variations are normal but it will make all out efforts to operate within the budget boundaries barring a few practical exceptions.

3. Approval of quarterly budgets: While preparing the annual budget, the organization will strive and prepare quarterly budgets. Such quarterly budgets will be got approved from the Board before the commencement of the relevant quarter as a prudent and necessary practice.

4. Opening and operation of bank accounts: Keeping in view the practical difficulties, the Board may permit that bank accounts can jointly be operated with non-trustees. In any case, with regard to mode of operation, the organization will abide by the trust deed. Online operation is very convenient and efficient mode of operation. Hence the organization will set appropriate limits periodically, in terms of initiator and approver permissions. As far as possible, it will use the online facility. For any online / offline transactions of Rs. 1 Lakhs and above, there will be an email approval is required by CEO of the organization.

5. Approval of expenditure: The Board shall set limits for approval of expenditures and shall review it periodically. The limits as of now shall be:

SL No	Position in the organization	Limit for operational expenses	Limit for Capital expenses	Limit for approval of Travel/ communication /Conveyance etc.,
01	CFM	Up to 50000	0	Up to 25000
02	CEO	Up to 100000	Up to 10000	Up to 100000
03	Managing Trustee & Treasurer	>100000	50000	>100000

6. Purchase of Capital Assets: Capital assets like land, building, vehicle, computers and laptops furniture and fittings are important for the organization. They necessitate cash out go in one lumpsum and cannot be easily converted into cash. Not only that, more often they fetch lower value than the acquisition cost when the organization tries to dispose them. Hence, the organization will make a thorough analysis of its use by way of cost-benefit analysis before taking decision to buy such assets.

7. Insurance of capital assets and other properties: Annual insurance against loss of property on account of fire, theft, burglary and due to civic unrest will be taken to protect such assets of the organization from the hazards. Renewal of insurance will be promptly done.

8. Disposal of capital assets: Often disposal of unused and redundant capital assets poses challenges. The main problem is that the organization may not get even the book value. At the extreme, assets may have to be sold as scrap. Though it is tough to visualize such situations, the organization will adopt the following guiding principle to help in taking decisions appropriate to the situation:

- A. As far as possible, assets will be sold above the book value by calling for quotes.
- B. If there are no suitable bidders/takers or they quote prices far below book value, preference will be given to employees, but such a sale shall not be less than the book value. In exceptional cases may be permitted to buy below the book value.
- C. If procedures (a) & (b) do not fructify, then it will be sold as scrap

9. Opening of the bank accounts: Certain mandates like FCRA, funding agencies demand, , may compel, to open more than one account. Hence, having regard to all these, the following guidelines will be used:

- A. There shall be one main account for carrying out the most of the transactions
- B. Since FCRA mandates opening and maintaining of exclusive dedicated account, same shall be strictly adhered to. Besides main FCRA account, utilization accounts will be opened depending on the need.
- C. There shall not be any inter transfer of money between FCRA and main account or any other account linked to local funds.
- D. As far as possible the organization will desist from opening project-based accounts. The reason is that the project expenses can be easily managed by opening cost- centers in the accounting software. Unless the grantor (other than FCRA related grantor) absolutely compels to open and operate a separate account, organization will try and manage with the existing account/s.

E. If the organization operates in more than one centers, then, depending on the need, center wise bank accounts may be opened.

10. Utilization of funds received from grant givers: The grant giving entities often are weary of diversion of grants for purposes other than the grant purpose. Hence, these stipulations will be strictly followed. However, in case the loans are borrowed when there is delay in getting the grant, such loans will be repaid as soon as grant is received.

11. Reporting of funds utilized: The organization will strictly adhere to timelines committed for reporting of the funds utilized. Donor-wise/ grantor-wise utilization report will be prepared and submitted. Any variance will be reported with necessary explanations. The organization will strive and utilize the grant amount within mutually agreed time span. Any unspent amount will be promptly reported and will not be utilized. The organization shall always re-negotiate to make use of such un-spent amount so that such amounts are not returned to the funder unless it is completely inevitable.

12. Borrowings: As far as possible the organization shall desist from relying on the borrowed funds as it will be a wasteful expenditure if it involves payment of interest. If inevitable, it shall strive and borrow interest free loans. If interest must be paid, it shall be kept to the minimum having regard to the market interest prevailing at the time of borrowing.

13. Loans and advances to employees: While it is desirable not to make any loans and advances to employees given the nature of the organization. But it is often inevitable and a necessity to keep the quality staff. Hence, in such instances, the organization shall set a budget limit and eligibility criteria and individual limit and purposes for which it can be given. It is also important to decide whether such loans should be free of interest or reasonable interest depending on the market conditions. There will be an SOP with the required guidelines to process the loans.

14. Minimizing the cash transactions: The organization will adhere to the following working guidelines to minimize the cash transaction;

A. All the payments like salaries, payment to vendors, consultants, travel related payments including travel advance, payment towards purchase of assets and consumables etc., will be done either electronically or by way of crossed checks.

B. Small petty cash limit of Rs.5,000/- will be set so that it can take care of minute expenses wherein cash payment may become necessary. In such cases proper entry will be done and will be supported by vouchers/bills and authorization by the competent authority

C. Employees seeking reimbursement of travel expenses, local conveyance, small purchases, communication etc., will be persuaded to make electronic payments and produce proof of such payments before reimbursing the money to them.

D. All the statutory stipulations with regard to cash payment limits will be strictly adhered to both in letter and spirit.

15.Password protection: The organization understands the vulnerability of the electronic data if proper security protocol is not in place. Hence it will be guided by the following procedures:

A. All the users will be mandated to create own passwords and not to share them with others.

B. In case of common password like accounting software, same shall be recorded and stored in a secured place. It shall be in a closed and sealed cover and only the CEO/Secretary/Nominated board member along with the accounts in-charge are permitted to open the sealed cover in case of need. Such transactions shall be recorded as and when it happens in separate book. The permitted users will be requested to memorize the user id and password for their daily log-in.

16. Cash Insurance: It is assumed that the strategies described in the manual so far may result in organization handling very minimal cash. However, for some inevitable reasons cash is to be handled higher than Rs.10,000/- on a regular basis, then the organization will take out an appropriate insurance policy and review and renew it periodically.

17. Internal audit, statutory audit and filings for Income Tax and other statutory filings of annual financial statements: The organization will strictly adhere to all the timelines in filing. It will ensure sufficient disclosure of all the necessary information. In so far as internal audit is concerned, while it is not statutory in nature, but a key factor in for efficient financial system. Hence the organization will strive and appoint competent external person to carry out the internal audit. Since time is an essence in such efforts, it will strive to get such audits done quarterly and if not feasible at least half yearly intervals. Audit report findings will be immediately attended to for rectification/correction. This report along with the action taken report will be shared with the Governing Board.

18. Annual stock verification: It is important to preserve the assets of the organization. In doing this, periodical verification and certification is important. Hence, the organization will follow annual stock verification of fixed assets in particular and any other current assets which are classified as current assets. It will also include for verification the assets received in kind. If the number of assets is too large, it will follow ABC analysis. As per ABC analysis assets are classified into three categories. Generally, assets A & B together constitute 80-90% of the value of the total assets. Hence, the following approach will be adhered to

- A. High value assets: 100% stock verification
- B. Medium value assets: 60-80% stock verification
- C. Low value assets: Random verification with a minimum of 10% stock verification

19. Periodical analysis of efficiency parameters: As mentioned in the beginning of the policy, the ultimate test of efficiency is how well every rupee of funds mobilized is utilized. In order to reach this goal, the finance unit will periodically, at least once a year, analyze financial performance on the following parameters and place it before the Secretary/CEO, who in turn will share it with the Board for evolving corrective actions, change of strategy.

- A. Targets and achievements of key variables
- B. Ratio of amount spent for programs to the total spend
- C. Growth of funds mobilized expressed as annual compounded growth
- D. Composition of funds mobilized in terms of Institutional donors, individual donors, government grants, FCRA funds etc., and their respective percentage contribution to the overall funds mobilized
- E. Ratio of fund-raising cost to total cost
- F. Interest and other gains from investments as ratio of total income
- G. Assets to total income
- H. Current ratio

20. Publication of Annual reports: Annual reports will be published both in hard and soft form, with not only highlight of targets, achievements but also financials, list of major donors.

Chapter 3

Policy on Accounting

The organization will follow double accounting system apart from the following generic accounting principles:

1. In respect of FCRA accounting, it is mandated that it shall be cash-based accounting. Hence cash-based accounting will be strictly followed in respect all FCRA related transactions.
2. In respect of transactions other than FCRA, **accrual-based accounting** will continue, which has been the historical accounting method. However, as and when it is necessary, changeover to cash-based accounting will be adopted after getting the approval of the Board and in consultation with the auditor.
3. Depreciation will be calculated using written down value method **(Not applicable in case capital expenditure is accounted as payments for the year and application for charitable purpose is claimed within the 85% norms)**. The rates of depreciation will be as communicated by Income Tax Department periodically.
4. In case of any dispute in accounting, the statutory diktats will prevail over organization practices
5. In respect of FCRA, a separate “company” will be created so as the create a completely different set of accounts as they relate to FCRA related transactions as per FCRA Act, 2010 and Rules, 2011.

Since the accounting is done in a reputed software, there are in built systems and processes. Hence, the organization will get its staff trained in the use of the software to make best use of all the privileges and possibilities available in the systems. More than one person will be trained in the software to ensure continuity. In addition to this the organization will use the following guidelines/rules in the matter of accounting

1. **Bank Reconciliation:** Bank reconciliation of all the bank accounts will be done every month by 15th of the succeeding month. If the transactions are huge in any particular month/s, then the reconciliation will be done for a shorter duration depending on the volume and concentration of the transaction.

2. **Safe keeping of check books:** Check books are important security items. Hence proper receipt and use should be ensured. Hence the following guidelines will be used in dealing with the check books/leaves

- Check book register will be maintained with separate folios allotted for each bank account.
- As soon as cheque book/s is/are received, it will be in-warded by making entry in the cheque book register. The serial numbers, starting and ending will be entered and number of leaves will be recorded. Once recorded, the check leaves will be physically counted to ensure receipt of all the check leaves. If any discrepancy, it will be escalated to the concerned bank and will be followed up till the issue is brought to the logical end.
- As and when the check book is issued, it will be recorded.
- In the check book, the space provided for recording the details of the check leaves issued will be used.
- If any check leaf is cancelled, it shall be struck across and the fact of cancellation shall be recorded in the space provided in the check book against the serial number of the check leaf cancelled.

3. **Cash book:** Since the accounting software itself provides for cash book, the systems of linking separate cash book for each of the bank account will be aligned as per the accounting software.

4. **Cash maintenance:** Cash is a risky asset. Hence the following system will be put in place to eliminate/minimize the scope for any misappropriation

- Separate register shall be maintained in excel/physical form
- Receipt of exact amount received and the denominations shall be recorded.
- Daily total cash spent may be recorded
- At the end of the week, cash shall be physically counted and recorded with denomination details. This cash balance shall be tallied with cash book in the accounting software. It shall be signed by the person handling cash.
- The supervisor shall make surprise check on a periodical basis but not less than once a month. Such checking shall be done randomly as surprise cash verification.

5. **Ledgers:** All the necessary ledgers will be started as provided in the system. Posting of ledgers will be done promptly on a day to basis to ensure that at any given point of time vouchers pending for posting shall not be more than 15 days. The postings will be verified by the internal auditors. Besides this, the next higher authority to the person who posts it will verify the ledgers on random basis.

6. **Creation of cost centers:** When more than one project is undertaken, it is important to keep track of spending in each project separately. The accounting software provide for such segregation by way of creating cost centers. This will ensure automatic segregation at the time of posting itself. And report can be generated project-wise whenever needed.

7. **Voucher generation:** All the four types of vouchers will be generated for each of the transaction, viz., cash, bank, transfer or journal and receipts. In case there are very small amounts of transaction, such items will be recorded in a separate petty cash register outside the tally. On a monthly basis, these transaction summaries will be printed if in excel format or transferred if in the physical form into accounting software system after reconciliation.

8. **Filing of bills and vouchers:** The organization will file the bills along with the vouchers generated directly from the accounting software. However, in case of fixed assets purchased, such bills will be filed separately. Copies will be filed along with the vouchers. Often, the tax department uploading of the original bills as a part of scrutiny to ensure that proper bills and vouchers are available for such purchases made.

9. **Provisioning:** Since the organization follows accrual system of accounting, it shall make provision for all un-incurred expenses pertaining to the relevant accounting year. Also, the accrued income will be provided for. In doing so it will adopt “Conservatism” principle of accounting.

10. **Separation of year wise accounts:** The accounting software normally provides for posting of transactions in the respective financial years. But until it is actually bifurcated by invoking appropriate options, it will continue to show two consecutive years together. Hence, the organization, will freeze the accounts for a financial year for which the audited balance sheet is finalized and approved. This way, it will not permit any posting of vouchers even by mistake.