

# Agricultural Development and Training Society (ADATS) Finance Policy & Practice

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## 1. INTRODUCTION

After many years, based on actual practice, ADATS has articulated its Finance Policy & Procedures in order to explain financial procedures that enhance accountability and transparency, both internally as well as externally. These guidelines also meet statutory requirements. Since ADATS believes that programmes and finance complement each other's functions, these guidelines support the smooth implementation of programmes and activities that contribute to achieve our Goal, Purpose and Vision. We do not see a Finance Policy as a disconnected set of practices, but as an integral component of our overall organisational culture and core values.

ADATS is rather conventional when it comes to money matters. We do not believe that ideological arguments come into play when fulfilling monetary and accounting obligations. We have never been in awe of the size of our annual budgets without, at the same time, losing a healthy respect for funds and funding.

The principle of total and exception-less transparency, specially in money matters, has held us in good stead. We have not only stated that everyone has a right to look into the accounts, but taken very many concrete steps to invite scrutiny on a continuous and on-going basis. We have simplified financial formats for easy understanding by our semi and neo-literate Primary Stakeholders.

Staff who are overtly sensitive to questioning and criticism are immediately relieved of money handling responsibilities. Constantly bearing in mind that we are mere intermediaries in the business of handling someone else's moneys has kept many possible excesses of arrogance and deceit in check. The distinction between "spending on ourselves" and "spending on the people" is clear and unambiguous at ADATS.

In this light, the value premise that guides ADATS in financial matters are:

- Total and exception-less transparency and answerability in money matters, including our personal finances.
- Maintain a flat and efficient organisation with minimum hierarchy and no bureaucratisation.
- Design and implement conscious measures to empower Staff and functionaries and to devolve power to village Coolie Sangha Units in a responsible manner.
- Not accept, route or handle moneys from or on behalf of any government agency since we believe that these are entitlements of the people themselves and should reach them in the natural course of affair, without any NGO intermediary; moreover we are not social contractors who perform a free or underpaid service to the government's obligatory service provision job.
- Not take bank loans for ourselves or programmes we implement, nor offer any of our holdings or Assets as security or surety.

Please see our guiding principles at <http://www.adats.com/finances/guide.php>

## 2. ACCOUNTING BACKGROUND AND POLICIES

### 2.1. Legal Status

ADATS is registered under the Societies Act, the FCRA, and enjoys recognition under Section 12A of the Income Tax Act as a charitable institution.

- Reg. No: 97/78-79 under the Karnataka Societies Registration Act, 1960.
- Registered as a Charitable Trust with the Commissioner of Income Tax, Bangalore, and bears Registration No: Trust/718/10A/Vol/AI/A-636 under Section 12A (a) of the Income Tax Act, 1961.
- Income Tax PAN No: AAATA4512D
- Tax Deduction at Source (TAN) No: A1787-F
- Union Home Ministry No: "094570001" under the Foreign Contributions (Regulations) Act, 1976

The final authority, with legal obligations for the proper functioning of the organisation vests with the Governing Body. Though the Governing Body keeps itself constantly informed on developments, day to day affairs are left to the discretion of the Project Director, who is directly appointed by them, and Secondary Stakeholders who actually run the organisation.

However, recognising that financial obligation is most binding of them all, the Treasurer of the Governing Body is at all times a senior Staff of ADATS.

### 2.2. Digitized Financial Accounting System

ADATS follows a double entry book keeping system and book-keeping is computerised. *InfoNeeds* is our intranet solution, developed over the past 27 years, and used to maintain all the books of accounts. It is an online system with multiple modules for different projects, programmes and activities. Financial accounting is integrated to all other programme monitoring modules. All further references to "*InfoNeeds*" in this document are specific to this financial accounting module of our intranet solution.

*InfoNeeds* has built in checks and balances for proper finance monitoring.

*E.g. Vouchers are entered by the respective Desk Workers and automatically updated in the Day Book. Entries are scrutinised by the ADATS Treasurer the next day before posting. Once authorised and posted, there is no way a Voucher can ever be modified by anyone. In case of genuine errors, a rectification Voucher is physically entered, reversing the original wrong entry. This enables us to track errors and rectifications made.*

*InfoNeeds* has a rigid security system and is permission driven. Only Users with permission for a particular Set of Books can enter vouchers. But all Finance Reports, without exception, are available for any Intranet User, in line with our principle of total and exception-less transparency.

### 2.3. Budgets & Realisation

Every programme or project that ADATS undertakes is planned bottom-up. After long drawn and elaborate consultations with our Primary Stakeholders, Field and Programme Staff together prepare a Strategic Plan for a particular programme, project or activity. This includes, besides the Goal, Purpose and Objectives, a detailed section on "Activity Processes". Each Activity Process is further broken down into tasks and jobs. Costs, if any, are allocated to each such task or job, with the source of funding clearly indicated. These form the Programme or Project Budgets.

Programme or Projects Budgets are fed into different Sets of Books defined in *InfoNeeds*. After that, the software keeps instant track of budget realisation, with every Voucher that is entered. In the

event of a particular Voucher crossing the budgeted amount, a warning is given as a budgetary control mechanism. In addition, the Chief Accountant and Desk Worker(s) create Sub Accounts in order to keep an even tighter track on expenditures.

ADATS follows a hybrid system of accounting wherein both accruals as well as cash basis are maintained. The financial year is from 1 April to 31 March.

Finance management at ADATS deals with many broad areas of activities. This Finance Policy & Procedures document spells out these guideline. It also ensure that relevant statutory requirements are met. The Project Director, Assistant Project Director (who is also the ADATS Treasurer) and Chief Accountant oversee the broad finance management, fund flow and budget realisation. But they do not do so in any exclusive or *in camera* manner. Every single Staff is encouraged to realise budget lines pertaining to her/his programme or project. All of them, individually and collectively, also “police” expenses to ensure that no dubious expenditures are claimed/made.

ADATS generally follows the principle that only tax paid bills and invoices be accepted for payment. All efforts are made to obtain such tax bills and invoices. However, for the purchase of items such as sand, bricks, stones, etc. it is often times difficult to obtain tax bills. Even then, we try to make sure that cheque payments are made. In exceptional circumstances when all means to obtain tax bills fail, we obtain signature from the vendor/producer/supplier on a written statement and these are verified by the Desk Worker(s) and Chief Accountant.

Furthermore, ADATS strictly follows statute requirements defined for not-for-profit organisations. Specifically, ADATS files annual returns with the Income Tax Authorities, Registrar of Societies, and Union Home Ministry under the FCRA. TDS, Professional Tax and State IB reports are also filed and maintained by the Chief Accountant.

### 3. ACCOUNTING SYSTEM

The major areas of finance management at ADATS as documented here, are the following:

- Bank Accounts
- Asset Management
- Purchase Procedures
- Vehicles Management
- Travel Expenses
- Staff Welfare
- Advances
- Records, Reporting & Audit

#### 3.1. Bank Accounts

All bank accounts are governed by the Governing Body of ADATS and managed through resolutions of the Governing Body – be it for opening, closing, defining signatories, mode of operating or any other. However as a policy, a minimum of two signatories are compulsory for operating any bank account of ADATS.

As required under the FCRA, all foreign funds are received only into the FCRA designated bank account with Canara Bank, Bagepalli branch. The Foreign Contributions (FC) are then transferred to the respective programme accounts for better management and implementation of programmes and projects. All FC funds are managed through FC accounts only and are not be mixed with other domestic/local funds. Under no circumstances is the transfer of FC funds to domestic and *vice-versa* allowed. All bank accounts of ADATS, including FCRA and programme accounts, are maintained with Canara Bank, Bagepalli branch.

As just mentioned it is the policy of ADATS that all income from FC account is deposited only in the FC designated bank account and transferred to the respective programme accounts. However, in case of need, such as when funds are delayed from one donor, advance can be received from one FC

programme account to another FC programme account and it would normally be reimbursed as early as possible on receiving the remittance, unless the donor conditionality specifically bars such transfers. This is done for cash flow management.

All bank withdrawal details are recorded by the financial accounting module of *InfoNeeds*.

Designated signatories sign cheques as and when required, after verifying the requisition. No signed blank cheques are kept. Desk Worker(s) carry out bank reconciliation at regular intervals and ensure that balances as per the books of accounts and Bank Passbooks are tallied.

ADATS in general follows the principle of making cheque payments for payments exceeding ₹ 20,000. Exceptions are allowed for purchase of local items such as groceries, vegetables and also for out-station purchases where the third party does not accept cheques. Exceptions are also made for specific instances such as the booking of bulk travel expenses during the settlement of programme advances.

### 3.2. Asset Management

An Asset is defined as a physical item with a value greater than ₹ 20,000 and/or having a useful life of more than one year, as well as a reasonable resale value. The Project Director and/or ADATS Treasurer authorise the purchase of all Assets after the Chief Accountant determines the budget line under which they can be booked.

On receipt of the authorization for purchase of the Asset, the Chief Accountant, Desk Worker(s) and Field/Programme Staff strictly follow the below described purchase procedure.

Any sale of Asset having a market value exceeding ₹ 500,000 is done only after the Governing Body approves the sale. More often than not, the donor's permission is also sought. The ADATS Treasurer makes a recommendation for the sale of such Assets giving reasons to the Governing Body, based on the need and condition of the Asset. On receipt of approval from the Governing Body, Staff canvas by word of mouth the availability for sale of the Asset and make the sale to the highest bidder.

However, for sale of Assets whose market value and/or book value does not exceed ₹ 500,000, the ADATS Treasurer, in consultation with the Project Director, decide and order such disposals. The Governing Body are later informed about the sale. Once again, the respective Staff follow a similar sale procedure as explained in the previous paragraph to identify the highest bidder, taking into account the condition of the Asset, market as well as the book value. No asset is sold based on book value alone.

The involvement of Staff in the sale of Assets of whatever value is in order to make the transaction totally over board and above suspicion. We believe that it is not enough to be honest; we need to be perceived as being squeaky clean.

In either procedure, the Chief Accountant ensures that the sale proceed is immediately, entirely and directly deposited by the purchasers themselves into the respective bank account of the Set of Books where the Asset was recorded.

An Asset register is maintained for all purchase and sale of Assets and this forms a part of the audited annual accounts of ADATS. Though the Asset Register is electronically maintained, the print out is sealed and certified by the Chartered Accountant during annual audit after physical verification where necessary.

### 3.3. Purchase Procedure

A purchase procedure is followed for buying items exceeding ₹ 20,000 be it termed an Asset, inventory or any other. The Chief Accountant determines if it is a revenue or capital purchase, irrespective of the budget line it is provisioned under, following guidelines described in the Asset Management section of this document. Purchase of an Asset is classified as capital purchase while other purchases are classified as revenue. Capital purchases follow the Assets Management guidelines.

After asserting that there is a budgetary provision for the purchase, approval is taken from the Project Director and/or ADATS Treasurer. The Chief Accountant and Desk Worker(s) discuss with Field and/or Programme Staff on their exact requirement. Programme Staff who will eventually use the item are actively involved in scouting and deciding on what is best suited for them, price, delivery, vendor, etc.

*E.g. When purchasing saplings for the dry land horticulture programme or crossbred cows for women, Member Coolie families are involved at every stage of the negotiation and final purchase.*

Sometimes, an advance amount is given to the vendor, and settled on receipt of the item. In some cases, the full amount may have to be paid in advance. In both cases, the specific authorisation of the Project Director and/or ADATS Treasurer is obtained, after making a careful risk assessment.

Sometimes there is only a single vendor for the item to be purchased and it is not possible to obtain quotations. After the concerned Programme/Field Staff are fully convinced of the item they want, the Chief Accountant and Desk Worker(s) independently determine if their judgement is correct. They may, on scouting, find different shops and bargain a better price and quality. After that, the ADATS Treasurer takes a final call and the purchase is made.

For items like vegetables, groceries, small stationery, medicines, etc. for meetings and training sessions, a different procedure is followed. Based on regular experience, some local shops are identified as reliable suppliers and slips/notebooks are given by the Staff in charge. These slips/notebooks are thoroughly cross-checked by Desk Worker(s) and also the ADATS Treasurer, once a month during settlement. If the slightest suspicion of foul play is detected, the vendor or shopkeeper is immediately black listed.

### 3.4 Vehicle Management

ADATS owns four-wheelers and motorcycles. All vehicles are stationed in the respective Taluk headquarters at ADATS Campuses.

Four-wheelers are used mainly for ambulance service, field trips, out-station trips, training programmes, bank visits for heavy withdrawals and cash disbursement in the villages. In principle, a vehicle and Driver are stationed at each Taluk Headquarter. One four-wheeler is reserved for exclusive use by the Project Director and ADATS Treasurer. Another for transport of programme material. Motorcycles are allotted to particular Field Staff to travel to the villages on an everyday basis.

All vehicles, four-wheelers and motorcycles, are registered in the name of the ADATS Treasurer as non-commercial vehicles in order to allow easy inter-State travel and save on road tax.

The respective Drivers of four-wheelers maintain logbooks for their vehicles. Desk Worker(s) monitor these logbooks at the time of settling diesel bills. Only actual expenses of Drivers are reimbursed when they make out-station trips. Drivers ensure that their four-wheelers are serviced and maintained in good running condition. They are on call 24 x 7 to deal with health emergencies in villages, for which they are not paid any overtime.

Field Staff are allotted motorcycles to go to the villages they look after. They normally leave the Taluk headquarters (ADATS Campus where they reside) after lunch every day and return between 10 pm and midnight. If later than that, an early returnee from the Campus goes out to look for them.

Field Staff do not maintain logbooks. Instead they are given a fixed quota of 25 litres of petrol per month. In exceptional cases, when there is a lot of extra travel or for Field Staff who cover the distant corners of their Taluks, the quota is slightly increased at the discretion of the ADATS Treasurer.

ADATS tries to ensure that all motorcycle users compulsorily wear helmets while riding. Drivers and passengers in the front seat of the four-wheeler vehicles are required to use seat belts.

Desk Workers are entitled to use four-wheeler when they travel to the villages to make field payments in excess of ₹ 20,000.

The Chief Accountant is responsible for maintaining insurance and fulfilling statutory requirements in respect of all vehicles.

### 3.5 Travel

ADATS functions in a geographical area spread across 5 Taluks of Chickballapur District. Our work involves extensive travel and our coverage is far and wide. As a policy, we discourage out-of-project-area travel except for evident purposes like purchase, meeting with statutory authorities, accompanying patients to hospitals, NGO meetings, annual Staff trips, receiving/dropping off a visitor, etc.

ADATS does not meet travel expenses for visits to villages within our area of work. Field Staff are provided with motorcycles and a monthly quota of 25 litres of petrol. Travel expenses are reimbursed, against actual bills and expenses, to Staff who travel outside the district.

We allow for travel by the most economical and efficient mode – road or train. In certain cases where air travel is inevitable, ADATS reimburses costs on the authorisation of the Project Director. When Staff attend a seminar, conference or workshop where travel is not reimbursed, then the ticket cost is taken as programme expense.

### 3.6 Staff Welfare

ADATS believes that a parity has to be found between the personal and the political. Family values, especially with regard to caste/community, womenfolk, child socialisation practices, display of social status, customs and practices have to match and meet with that of the NGO. The way we development workers live and work has a direct bearing on what we achieve and accomplish. Over the years, we have tried to evolve a woman-friendly environment. It makes living and working a pleasure, and enhances everyone's overall performance.

ADATS believes that Staff should be comfortable, within limits, while they work in trying and difficult circumstances. The caveat is that living conditions and lifestyles of Staff should never exceed that of the lower middle class in the *Moffusil* towns they live in. For a description of work conditions, please see <http://www.adats.com/staff/work.php>

Job descriptions are mutually decided, based on the 10 year Strategic Plans drawn up and periodic reviews thereof through Effects Monitoring exercises, both in a participatory manner. Please see <http://www.adats.com/staff/jobdesc.php>

ADATS has 5 Campuses at as many Taluk headquarters where Staff are provided free housing, electricity and water. Single Staff, who do not have their dependents living with them, are provided rooms and subsidised Canteen facility. Where there isn't enough accommodation in the Campus, Staff stay outside and a reasonable amount is provided towards rent. Allocation of campus accommodation is decided on a first-come basis. Several times a year, we jointly celebrate festivals, functions and Staff marriages to bring together all Staff and their family members.

All Staff and their immediate dependents are covered under Health Insurance. This is renewed annually and the premium paid by ADATS. In case of accidents, emergencies and hospitalisation, ADATS bears the expenses and later claims the same from the Insurance company. In cases where Staff can manage to bear their own costs, they do so and such expenses are reimbursed by ADATS after the Insurance claim is settled. In certain cases where the Insurance policy does not cover the claim due to some technical reason, ADATS absorbs the expenses from its Staff Fund.

ADATS recognises that educating children is the greatest asset that development workers can legitimately invest on. We therefore meet reasonable schooling needs of Staff children at local schools of fairly good quality, but not in fancy schools outside our area of work. ADATS also supports these children through college, provided they get free and merit based seats.

ADATS contributes modestly towards marriage expenses of Staff, especially if they are choice marriages and inter-caste. In exceptional cases the Project Director has the discretion to sanction any other Staff welfare measure as may be deemed necessary.

Staff salaries are disbursed monthly in cash. When a taxable salary is paid to specialised Staff, this is done by cheque. TDS is deducted and deposited with the Income Tax authorities.

ADATS provides 15 days salary for each completed year as leaving benefit for Staff who leave the organization to better their prospects outside the NGO world, calculated on the last drawn salary.

### 3.7. Advances

#### a. Programme Advances

For the smooth implementation of programmes and projects, ADATS Staff take programme advances to meet field expenses. These advances are given on the oral request of concerned Staff, supported by their Desk Worker(s) and authorised by the ADATS Treasurer or Chief Accountant. Normally, such programme advances are taken by Desk Worker(s) themselves. All such advances taken for programme implementation are termed as programme advances.

Programme advances are normally settled within the week. In case of difficulty in doing so for any reason, they are returned and retaken when needed. In the event of a programme advance not being settled even by the end of the week, the Chief Accountant immediately enquires and, if necessary, treats it as salary advance to deduct from salary.

Unless a previous programme advance has been settled, a second advance is normally not given. In exceptional cases, due authorisation from the ADATS Treasurer is obtained for subsequent advance while the first advance is outstanding. This is a rare exception.

Desk Workers prepare requests for programme advances for their respective Taluks and get them authorised by the Chief accountant and ADATS Treasurer. Desk Workers take these advances to disburse the payments as per these requisitions. They settle such programme advances once or twice a week.

#### b. Inter-Project Advances

As already mentioned, it is the policy of ADATS that all income from FC account is deposited only in the FC designated bank account and transferred to the respective Programme or Project accounts.

When a cash flow requirement arises due to delayed remittance from a particular, advances are given from one Programme Account to another, unless a donor conditionality specifically bars such transfers. Such advances are reimbursed immediately on receipt of remittance from the donor.

In order to maintain the Foreign Contribution integrity of such cash flows, such advances are always routed through the FCRA recognised Bank Account of ADATS and not directly from one Programme Account to another.

#### c. Staff Advances

Staff are entitled to interest free advances. Staff who have completed their three months training period and have been construed as permanent have access to such advances. They are entitled to an advance equivalent to one-month salary. These advances are authorised by Desk Worker(s).

However, if the advance amount is more than a month's salary the Project Director authorises such advances and repayment instalments. Normally, while fixing the repayment schedule 2 thumb rules that are followed:

- The monthly repayment does not exceed 50% of salary
- The advance should be cleared before the financial year ending on 31 March

#### *d. Advances brought to Zero*

All advances, irrespective of whether they are Staff or Programme, are brought to zero on 31 March every year. The few that appear in our Balance Sheet, in spite of this strict and unsparing policy, are contentious ones that could require recovery action.

ADATS does not, as a general practice, write-off outstanding advances unless and until all other avenues are exhausted. This is done on the recommendation of the Auditor to the Governing Body.

### **3.8 Records, Reporting & Audit**

#### *a. Records*

ADATS maintains a number of records and books to fulfil the function of finance management. While most records relating to book keeping are generated by *InfoNeeds*, the following records are manually maintained:

- Fixed Assets Register
- Vehicles & Title Documents

The Day Book is generated online by *InfoNeeds*. For statutory and management reasons, daily print outs are taken and filed after posting is completed. Hard copies of General Ledgers are printed once every 6 months, after statutory audit.

Desk Workers enter the details of payments in the *InfoNeeds* accounting module. *InfoNeeds* generates auto numbered Vouchers for various types of payments such as Cash Payment, Cash Receipt, Bank Payment, Bank Receipt, Withdrawal from Bank, Deposit into Bank, Journal, etc. These Vouchers are printed, supporting documents attached, signatures obtained from recipients, and filed in designated Voucher Files. Vouchers are filed chronologically and as per the Voucher Number and Type, under separate Sets of Books. While posting Vouchers into *InfoNeeds*, the ADATS Treasurer and/or Project Director go through them before final commitment.

All financial records such as Vouchers with supporting documents, Day Books, General Ledgers, Subsidiary Ledgers, Journal Registers, Budget Realisations, Trial Balances, Cash & Bank reconciliation statements, etc. are stored and maintained for a statutory minimum of 7 years.

Audited Financial statements such as Audit Report(s), Receipts & Payments statements, Income & Expenditure statements, Balance Sheets and Assets Register are maintained eternally. Audited Financial reports are immediately uploaded to our website at <http://www.adats.com/finances/finance.php>

#### *b. Reporting*

ADATS prepares many reports for both internal as well as external purposes.

Regular finance reports such as Day Book, Ledgers, Subsidiary Ledgers, Sub Account listing, Budget Realisations, Trial Balances etc. are automatically generated in real-time by the *InfoNeeds* financial accounting module. They are available to anyone and everyone, irrespective of permissions, at the click of a button.

Additionally, the following reports are manually prepared by the Chief Accountant and Desk Workers for submission to donors and statutory authorities:

- Consolidated Receipts and Payments, Income & Expenditure & Balance Sheet, with schedules
- Budget Realisations for each programme or project are perused by Field/Programme Staff
- Donor Reports to various Donors in their formats, along with Progress/Activity Reports
- Fund Transfer requests to Donors
- Income Tax Reports and formats for annual filing
- TDS Reports for filing and distributing Forms 16
- FC-3 form for reporting under FCRA

- Half yearly Report to the Central IB
- Professional Tax Report

Apart from the above, Desk Workers prepare several need based Excel worksheets used Programme/Field Staff to assist them in programme monitoring.

*c. Audit & Management Report*

ADATS has a two-tier audit practise in place – Internal Audit and Statutory Audit.

- The Chief Accountant and Desk Workers carry out the Internal Audit every quarter. Internal Audit function verifies compliance to the ADATS Finance Policy & Procedures.
- An external Auditor is appointed by the Governing Body to conduct statutory audit twice a year. Statutory Audit fulfils the statute and donor needs and are carried out bi-annually in October and April.

The Statutory Audit includes verification of vouchers and supporting documents, and all other accounting records as required by audit, as well as preparation of Balance Sheet, Income & Expenditure statement, Receipts & Payments statement, Donor Reports and any other reports that may be deemed necessary from time to time.

Auditors, as part of their contract, also oversee the filing of Income Tax returns, TDS, Service Tax, FC statements, Donor reports, etc. besides offering financial management advice.