

11.Special Issues

a) Revolving Funds

Revolving Fund is a very wide term - it includes funds for purchasing raw material, stocks, running an Income Generation Project as also a credit program. Revolving Funds for running Income Generation Projects are also known as Working Capital. In this section we are concerned mainly with Revolving Funds for credit programs.

Running a credit-based Revolving Fund is very similar to managing a Bank. In fact Revolving Funds are created by NGOs mainly to overcome the shortcomings of commercial banks.

A commercial bank raises money by selling shares or accepting deposits. An NGO raises money for Revolving Funds through grants from Funding Agencies. The banks generally avoid giving out small loans because they find management costs of such loans too high.

An NGO gives loans to people who can not get loans from banks. These people may be women or men working in small business / trades (micro-enterprise) or they may be small farmers or they may wish to take up goat-herding, piggery, poultry etc. on a small scale. The loans given may range from Rs.750 to Rs.20,000 or more.

Quite often the loans are given through a small group of 5-30 persons. This helps group formation and improves recovery rate. Some NGOs have extensive paper-work (application forms, photographs, attendance records, pass-books, collection sheets, receipt books, loan agreements), whereas others may simply be satisfied with a thumb-impression on a voucher or a register.

In almost all cases, no security is taken. Sometimes these loans are interest-free – in other cases, flat interest (10% of the loan) or annual interest (10-25% per annum) may be charged. The interest helps pay operating costs and protects the Revolving Fund from inflation.

This kind of micro-credit programs have proved highly successful, much to the surprise of traditional bankers. Some of the better known examples are Grameen Bank, Bangladesh; SEWA Bank, Ahmedabad and MYRADA, Bangalore.

(1) Accounting and Control

Classic accounting wisdom holds that recoverable loans should be treated as an asset. All banks follow this practice (though sometimes one wishes they wouldn't!). It is on this basis that FCRA department is insisting on revision of FC-3 wherever NGOs write off recoverable loans as Program Expenditure (see FCRA requirements on page 67). **Keep in mind that FCRA Revolving Funds should always be accounted in FCRA Cash Book and Ledgers.**

When you treat the loans as an asset, the following issues come up:

(a) Individual loans:

You need to keep track of each loan separately. However, you can not open hundreds of loan accounts in the main ledgers. A sub-ledger is normally kept for individual accounts of the beneficiaries. In the main ledger, only total entries for each day may be recorded - the details are recorded in each individual's account. The main ledger and the sub-ledger are periodically tallied (reconciled). This system is similar to how your bank maintains your organisation's account in a sub-ledger.



(b) Pass Books:

Individual beneficiaries are issued loan pass-books. The loans given and the instalments collected are entered in these pass-books. It is a good idea to have a photograph of the beneficiary pasted on the pass-book. Also if the pass book is printed bi-lingually (English and local language), it will help both your auditors as also the beneficiaries. If possible, try to cross-check the pass-books periodically with your sub-ledger accounts.

(c) Loan Documentation:

You need to have enough details in your office to locate and identify the beneficiaries. This may mean that apart from the address and parent's / spouse's name, you also keep a photograph of the beneficiary on the files. Getting a photograph may be easier than it sounds - you can use your own camera and photograph¹ two persons at a time, standing side-by-side. Village people are often known by aliases (pet-names) - keep a note of these also.

A loan agreement on stamp paper is often useless in development work. However use it if you find it relevant as a psychological tool. In such a case, have the standard agreement reviewed by a lawyer or your auditors.

If you don't want to get into the stamp paper routine, try plain paper instead. The agreement remains effective whether it is on stamp-paper or not².

You will need to keep proof of payment. This can be on a voucher or on a plain paper. Use a revenue stamp if the loan amount exceeds Rs.5,000. If the beneficiary is going to use their thumb, make sure it is the left thumb. Thumb impressions should normally be witnessed by one or two *villagers* whose names and addresses should be noted on the receipt / voucher. Some NGOs also ask for a guarantor.

(d) Recoveries:

If you want to keep your auditors happy, deposit the recoveries in the bank account first. In the long run, this will strengthen your internal controls and you are less likely to lose money through fraud.

¹ You may wish to exercise your discretion, keeping village customs in mind.

² When you want to file a case, you have to pay additional court fees if stamp paper was not used.

Remember that you need to issue individual receipts. These should be pre-numbered – the numbering should be done by the printing press. These should also have a carbon copy. The unused receipt books should be kept under lock and key. Avoid using receipts which have a tear-off counterfoil. Bi-lingual receipts are better than English or local language receipts.

(e) Internal Reporting:

You need to generate regular reports to monitor how the credit program is progressing. These reports can show you how the recovery is progressing around different areas and how the funds recovered are being given out again. This will help you identify weaknesses in group-formation as also potential problems. The key to managing a Revolving Fund is keeping the maximum amount of money out on loans at any given point of time. At the same time, you need to ensure that the money rotates from hand-to-hand reasonably fast. This will help you spread the benefit of your revolving fund.

(2) FCRA requirements

If your Revolving Fund has been created out of Foreign Contribution, then you should keep the following in mind:

(a) When the loans are given out:

- ❑ When the loans are given out to the people, these should be shown on the Payment side of the FCRA Receipts & Payments Account.
- ❑ The loans given out should not be shown as an expenditure in the Income & Expenditure Account.
- ❑ Whatever amount is given out as loans during the year should be shown as utilisation in FC-3 [Table 2, column 10].
- ❑ The loans given to beneficiaries are recoverable and therefore an asset for your organisations. These should be shown as assets in the FCRA Balance Sheet.
- ❑ In order to tally the Balance Sheet, a Revolving Fund Account should be created on the Liabilities side of the Balance Sheet. This account would show the original amount of grant received for the Revolving Fund.

(b) When the loans are recovered:

- ❑ Loan recoveries should be deposited in organisation's FCRA Bank Account as per FCRA requirements. However, some people prefer depositing the recoveries in a separate bank account for better control over Revolving Fund. Deposit these, if desired, in a separate bank account in the name of your organisation. Remember, however, that according to FCRA rules, this money should be re-deposited in the FCRA bank account only. Depositing the recoveries in the bank account helps improve accounting control and makes reconciliation easier.
- ❑ Show these as receipt in the Receipts & Payments Account.
- ❑ Also show these as receipt in FC-3 [table 2, row 10¹, column 7]. The amount should also be included under table 4, sub-head (iii) 'individual donors below 1 lakh'. The amount should also be reported in the country analysis (table 5) as receipts from 'India'.

¹ Micro-finance projects, including setting up banking, co-operatives and self-help groups

- Show the total recovery in the Balance Sheet on the Assets side.

(c) Interest received on micro-credit loans:

In some cases, NGOs receive interest and other service charges from the self-help groups. Both these are treated as FC funds¹.

- Show these on the Receipt side of the FCRA Receipts and Payment Account.
- Also report these² in FC-3 under table 2, row 56, column 7. You can specify this as 'Interest / Service charges on Revolving Fund'.
- Interest income should be shown in table 1A also. This can be done under sub-heading (ii)(b) as 'Interest on Revolving Fund Loans'.

(d) Interest paid to funding agency:

In some cases, the NGO has to pay a nominal interest to the funding agency for the Revolving Fund³. This interest should be reported as an expense in FC-3. You could show this as utilization (column 10) in row 56 of table 2.

Sida normally does not recover any interest on revolving funds from its partners.

(e) When the loans are given out again:

- Show these on the Payment side of the FCRA Receipts & Payments Account.
- Do not show these as an expenditure in the Income & Expenditure Account.
- Whatever amount is given out again as loans during the year should be shown as utilisation in FC-3 (table 2).
- Show these loans on the Assets side of the FCRA Balance Sheet.

You should not transfer these funds to Indian section of the Balance Sheet at any time. Any loans that become irrecoverable during the year can be written off by reducing the Revolving Fund in the Balance Sheet as shown below.

| FCRA Balance Sheet (partial) of Lok Jagran Manch as at 31st March 2004 | | | |
|--|----------------|----------------------------------|----------------|
| Liabilities | | Assets | |
| <i>Sida Revolving Fund:</i> | | <i>Beneficiary Loans (Sida):</i> | |
| Opening Balance | 450,000 | Opening Balance | 428,300 |
| Add: Grant received this year | 50,000 | Add: Loans given this year | 275,800 |
| | 500,000 | Less: Loans recovered | -186,700 |
| Less: Loans written off | -4,850 | Less: Loans written off | -4,850 |
| Closing Balance | 495,150 | | 512,550 |
| <i>Interest on Revolving Fund:</i> | | | |
| Opening Balance | 10,000 | | |
| Add: Received this year | 31,300 | | |
| | 41,300 | Bank Balance | 23,900 |
| | | | |
| Total | 536,450 | Total | 536,450 |

¹ If generated on a Revolving Fund created with foreign contribution

² Interest and service charges etc.

³ Provisions for Foreign Exchange Management Act, 1991 may also apply.

| FCRA Receipts & Payments Account (partial) of Lok Jagran Manch for year ended 31 st March 2004 | | | |
|--|----------------|----------------------|----------------|
| Receipts | | Payments | |
| Opening Bank Balance | 31,700 | Loans given out | 275,800 |
| Grant received this year | 50,000 | | |
| Loan Recovered from Beneficiaries | 186,700 | | |
| Interest received on R. F. Loans: | 31,300 | Closing Bank Balance | 23,900 |
| | | | |
| Total | 299,700 | Total | 299,700 |

(3) Sida requirements:

Sida requires that partners will set up suitable accounting and control mechanism for Revolving Loan Funds provided by Sida. For this purpose, the above discussion may be useful.

The Fund itself will be disclosed as 'Sida Revolving Fund' on the liabilities side of the Balance Sheet. The loans given from this fund will be disclosed as shown above on the assets side.

b) Village Level Organisations

Can you transfer an FCRA Revolving Fund or its recovery to village level organisations, such as Mahila Mandals¹ or self-help groups?

(1) What is the law?

Let us first look FCRA provisions regarding this.

- ❑ FCRA covers all 'associations of individuals', whether incorporated or not [section 2 (1)(a)].
- ❑ Foreign Contribution includes delivery or transfer of funds from a foreign source. This is much wider than the commonly understood sense of 'Donation' or 'Grant' only [section 2(1)(c)].
- ❑ The FCRA registration letter² prohibits transfer of FCRA funds to any other organisation not registered (or having prior-permission) under FCRA.
- ❑ However, receipts of foreign contribution is regulated only if the 'association' has a 'definite culture, economic, educational, religious or social programme'.

(2) Apply the law

How does this apply to our situation? To understand this *Mahila Mandals* or self-help groups can be categorised into five stages of evolution:

¹ Women's Groups

² Also see explanation to section 2 (1)(c)

| Stage | Association ¹ | Program ² |
|-------|---|--|
| 1 | People just meet every week. No formal leadership. | No program. Just a common interest. |
| 2 | Meetings continue. A name is given to the Mandal. Leaders start emerging. | No program. Just a common interest in savings and credit. |
| 3 | Group becomes more organised. A membership register is started. Office bearers are appointed. | Objectives of the group are widened and put down in writing. |
| 4 | Memorandum of Association is signed. Society is not yet registered. | Memorandum of Association serves as a definite program. |
| 5 | Society is formally registered. | Definite program continues to exist. |

What happens if these groups want to receive FC funds?

- Groups at stages 1 and 2 do not need FCRA registration or prior-permission.
- Groups at stage 3 may or may not need FCRA.
- Groups at stages 4 and 5 definitely need FCRA.

c) Network Funding

In some cases, a program may be implemented through a network of organisations in a region. In such cases, Sida funds are given to one member, who serves as a secretariat to the network. The secretariat or lead partner then distributes the funds to other network members. In such a situation, some issues related to FCRA, accounting and reporting may arise. The following is provided as a general guide to resolving these issues:

(1) FCRA

Sida is a foreign source. Funds or materials provided by Sida to Indian partners are treated as foreign contribution in the hands of the lead partner. What happens when the funds are passed on to other members by the lead partner?

These still remain foreign contribution. Therefore, it is essential that all network members handling Sida funds should have FCRA registration. If any partner is not registered under FCRA, then they should get prior-permission from FCRA.

Both the lead partner and other network members should deposit such funds in the FCRA designated bank account. They should also comply with all the other FCRA requirements.

¹ Section 2 (1)(a)

² Section 6 (1)

(a) Reporting in FC-3

The lead partner should report the receipt of such funds in the normal way. But what about the other network members receiving funds from the lead partner? They should show the funds in the column for 'second or subsequent recipient' (column 7).

In some cases, a lead partner may purchase some equipment or material with Sida funds and distribute these to the network members. In such cases, these items should be recorded in Form FC-6. The approximate value of these items should also be reported in column 8 of the form FC-3.

Where should the disbursement of funds by lead partner be shown? This can be shown in row 56 of the main table in form FC-3. Here a lump sum can be mentioned in columns 10 or 11. The purpose (column 2) can be specified as 'Transferred to other NGOs per donor agreement'.

The lead partner should report these funds as received from Sweden. Other members should also do the same.

(b) Shadow-lending or 'legal' holders

In some cases, funds are given in cash to network members who do not have FCRA registration or prior-permission. They spend the money and bring the vouchers etc. back to the lead partner. The accounting and FCRA reporting is done by the lead partner.

Is this permitted under FCRA? In our view, it is not permitted. Rather, it is punishable with fine, confiscation and imprisonment. Sida does not encourage its partners to get involved in such transactions. They should at all times comply with the law of the land.

(2) Accounting and reporting

There are at least two options for accounting for these funds: 1. Centralised Accounting, and, 2. Distributed Accounting.

(a) Centralised Accounting

Under this system, the budget is held by the lead partner. It disburses funds to the network members. At this point, it debits their ledger account in its own books.

The network members credit the funds to the lead partner's account in their books. They treat it as a liability. They incur expenses out of these funds. Later they submit an accounting statement to the lead partner, along with all the vouchers and supports. These are then recorded in the books of the lead partner. The ledger account of the network member is credited with the total amount of expenses reported.

(b) Distributed Accounting

Under this system, the budget is held by the network members. The lead partner disburses funds to them periodically, as required. On disbursing the funds, the lead partner records it as utilisation of funds.

The network member records the receipt as an income. It incurs expenses out of these funds. These are recorded in its books. After this, it prepares and submits a financial report to the lead partner.

The lead partner consolidates all the member reports and adds its own expenses to the statement. It then submits one report to Sida for the entire network.

Which system is better? It is difficult to say that one is naturally better than the other. **The first system is more suitable when the network members are small and struggling organisations and do not have fully developed accounting systems.** Normally in such cases, the amount handled by each network member is quite small, say upto Rs.50,000-1,00,000. This system is also useful when you are coordinating a one-time activity like a workshop or conference. A disadvantage is that auditing of expenses becomes more difficult, due to variety of organisations involved and also as the persons who incurred the expenses are not present during audit.

The second is more suitable when the network members are bigger and can handle accounting and reporting independently.

d) Transfers to General Fund

Situations arise when partners debit an expense head in Sida accounts, in the FCRA books. A credit for these is taken into the General Fund. This may be done through a journal voucher or by using payment and receipt vouchers. This results in transfer of funds from FCRA cash book to Indian. This type of transaction is seen often in case of boarding and lodging expenses for residential training programs, camps, vehicle mileage, purchase of assets etc.

Apparently, such a transfer is in violation of FCRA requirements. Partners need to assess the need for such transfers keeping this in mind. If you are advised that this is acceptable under FCRA, please read further.

If such a transfer is made¹ at all, Sida requires that there will be good quality accounting evidence to back up the transaction. A simple allocation of Sida funds on the basis of an internal debit note may not be sufficient unless there is other evidence to support it. **It is also expected that no margins will be added to such recoveries, which would be realistic and based on actual specific facts.** As this remains an internal transaction, extra care in documentation is requested.

e) Purchases

Purchases are necessary and inevitable in a materialistic world. Auditors often report that purchases are not being made properly. What does this mean? It means that your systems may not be showing that you are getting good supplies at reasonable prices.

What kind of systems are good? This depends on the type of purchases and size of the organisation. Some items have low value but are purchased frequently. Also, the total value of such purchases over a year may be high. Other items, such as fixed assets, are purchased only once in a while.

¹ This statement should not be taken to mean that Sida is recommending an FCRA violation.

Further, formal systems are more important in large organisations. In smaller organisations (upto 5-6 persons), informal systems are more effective. This usually means that the chief functionary or a senior person may have been personally involved in making the purchase decision. Therefore, the risk of impropriety is lower.

(1) Regular Supplies

Mostly, this involves getting quotations from at least three different suppliers and then comparing the prices and other terms. Normally the order is placed with the supplier who offers the best deal. Unfortunately, over the years, this system has become unreliable due to a variety of malpractices. Therefore, **one should strengthen the system by making some independent checks.**

For example, you may wish to crosscheck that all the suppliers who have given quotations actually exist. Also check whether they are just alternative letterheads of one existing trader, with multiple paper identities.

When same items are purchased frequently, it is common to issue a standing order for a full year's requirements. Supplies are made over the year, against the standing order.

Another common problem is that sometimes suppliers are reluctant to give quotations again and again. They think it is a waste of time, as they never seem to be getting any orders from you. To overcome this, you may consider breaking up your order and placing some part of it to a different supplier. In such cases, the price paid may be marginally higher.

(a) Purchase Orders

You can place a purchase order using your letter-head. A Purchase Order form is needed only when you make purchases frequently. You can actually place an order through email also, and confirm it later over phone or in writing.

A purchase order should contain all the key items of information. These include specification of the item, quantity required, schedule / dates of delivery, prices, taxes, freight / cartage, and also terms of payment. Normally the goods will be delivered at the address given on your letter-head unless you give a different address¹ to the supplier.

Can you give a verbal purchase order? This is not a good idea when you are purchasing things for your office.

(b) Cut-off Limits

Do we need the same procedure for all purchases? No. **You need to set cut-off limits.** For example, if you set a cut-off limit of Rs. 5,000, then a purchase order will be needed when the value of the purchase is Rs.5,000 or more. However, **you should watch out against splitting of purchases** – people sometimes split the purchase into two transactions to avoid following the proper purchase procedure.

¹ Such as a field office

(2) Fixed Assets

Fixed assets may be purchased or they may be constructed. For purchase of fixed assets, the procedure described above is valid. However, people often fix a lower cut-off limit for fixed assets.

If you are constructing an asset, such as a building, you may either do it directly or you may hire a contractor to do it for you. If you are getting the construction done directly, then you should follow the purchase procedures outlined above.

If you are planning to use a contractor, then you may wish to float a tender. Tenders may be open tenders or they may be closed to a small group.

Open tenders are floated by advertising in a local or national newspaper. Bidders then contact you for tender documents, which contain all the details about the proposed construction. They later bring back the tenders with filled in prices, in sealed packets. The packets are opened in front of all the bidders, on a fixed date. The contract is then awarded to the lowest bidder.

The open tender procedure is a complex procedure. It should be considered only for large contract, say for Rs.1 crore or more. Your auditors and architects can also help you in deciding whether an open tender is required or not.

Closed tenders are floated by contacting a limited number of contractors. These are identified on the basis of market information or word-of-mouth. They are then invited to make a bid. Quite often they are not given the names of other bidders to avoid the formation of a cartel. Sealed bids are received and held till the time they are opened in front of all the bidders. The contract is then awarded to the lowest bidder.

Before awarding a contract, you should make sure that the contractor has the necessary expertise and resources.

(3) Purchase Committees

Purchase committees are formed to promote internal transparency. These are normally used for large purchases only, including contracts. A cut-off limit should be decided for this in advance. Care should be taken not to set the limit too low – it will slow down the purchase process and will lead to loss of time for the committee members.

A committee would normally have persons from various departments, such as finance, administration, user department, and someone from the director's office. In some cases, outside experts may also be invited.

(4) Sida Requirement

Sida requires that its NGO partners will set up suitable purchase mechanisms based on the foregoing discussion. These mechanisms should be designed to ensure that they procure appropriate quality and quantity of supplies, at reasonable prices.

f) Travelling Expenses

‘Travelling expenses’ normally means expenses on long-distance travel. Expenses on local travel (within or around the city / town) are normally called ‘conveyance expenses’. How do we track and record travelling expenses?

In one trip, you are likely to spend money on train fare, lodging, food and also on incidental items. These expenses will be made on different dates. All these should be collected together and accounted through one set of entries. This helps in keeping track of the expenses for each trip.

(1) Accounting

How will this work in practice? Do not debit ‘Travelling Expenses’ or any other expense head when you book the train / air ticket. You may have reserved the ticket directly by paying cash or you may have used a travel agent. In either case, you can debit the concerned person’s advance account².

Later the person may take some advance for boarding and lodging expenses and go on the trip. At this stage, the person’s advance account is debited again.

On coming back, he / she will submit a Travel Expense Report³. This report will show all expenses related to the trip, including fare as also stay and boarding. All the travelling expenses related to this trip will now be booked into accounts.

These entries may look like the following:

| Receipts | | | Payments | | |
|----------|-------------|--------|----------|---|--------|
| Date | Particulars | Amount | Date | Particulars | Amount |
| | | | 31.3.04 | <u>Workshop Travel (Sida)</u> | |
| | | | | – Fare | 600 |
| | | | | – Boarding & lodging | 200 |
| | | | | – Conveyance | 150 |
| | | | | – Others | 50 |
| | | | | Paid to Sri Ashish for participating the Sida workshop at Jaipur on 20 - 22 March '04 | |
| | | | 31.3.04 | <u>Travel (Oxfam)</u> | 1,230 |
| | | | | Visit to Ahmedabad by Sri Venkat for meeting in February '04 | |

¹ In some organizations, this is not done. Train / air fare is recorded as and when paid. Other expenses claimed by the employee are recorded later. This makes it difficult to find out total expenses for a trip. Also this weakens control over use of train / air tickets.

² For example, ‘Shri Rajendra Sharma Advance Account’

³ See Annexure on page 89.

Sida Ledger

| Account of Workshop Travel – Sida | | | | | | |
|-----------------------------------|---|-----|-------|--------|-------|---------|
| Date | Particulars | CBF | Debit | Credit | Dr/Cr | Balance |
| 31.12.03 | Paid to Lakshmi for Mumbai Workshop in Dec. '03 | | 1,600 | | | |
| 31.3.04 | Paid to Sri Ashish for Jaipur workshop in March '04 | | 1,000 | | | |
| | | | | | Dr. | 2,600 |

What is to be done with the Travel Expense Report (TER)? **You should attach all the supports to the TER.** These may include used train tickets, air-ticket counterfoils, boarding passes, hotel bills, vehicle hire charge bills / receipts, etc. **A covering voucher is put on top of the TER. Then the whole bunch will be filed normally along with the relevant vouchers.**

(2) Allocating to different projects

The above procedure is fine if all the expenses of one trip go to the same project. But suppose the expenses are to be shared by 2-3 agencies / projects? **In such a case, the covering voucher should be made in a different way as shown below:**

Lok Jagran Manch, Machhera, A.P.

Voucher No. 387

Date: 8 - Dec - 04

| Budget / Account Head | Project / Agency | Amount (Rs.) | |
|----------------------------------|------------------|--------------|--|
| Dr. Traveling Expenses | Oxfam Project | 1,500 | |
| Dr. Traveling Expenses | Sida Project | 1,500 | |
| Dr. Networking Expenses | Diakonia Project | 3,000 | |
| | Total | 6,000 | |
| Cr. Sri Venkat's Advance Account | FCRA | 1,500 | |
| Cr. Cash in Hand | FCRA | 4,500 | |
| | Total | 6,000 | |

Traveling expenses for visit to Jaisalmer for networking meeting by Shri Venkat from 2-Dec to 6-Dec-04. These are shared among Oxfam, Sida, and Diakonia projects @ 1:1:2.

Part of expenses incurred by Sri Venkat from his Advance.

Total Rupees (in words) Rs. **Six thousand only**

Amount paid (in words) Rs. **Four thousand Five hundred only**

P. Diwakar

Ssingh



Accountant

Project In-charge

Treasurer/ Secretary

Receiver

The Travel Expense Report can be filed in the same way as above.

(3) Fares

Fares (rail / road / air) are always reimbursed on the basis of actual expenses. However, there are different options in terms of class of travel. In non-profit organisations, an attempt is made to choose an optimum mode of travel.

What is an optimum mode of travel? It takes into account organisational philosophy, alternatives available, distance / time, convenience and the expense. For train travel, this may range from Sleeper class accommodation to Air-conditioned class. In case of air-travel, people mostly choose 'economy' or 'tourist' class.

In all cases of travel, used tickets or ticket counterfoils should be attached to the Travel Expense Report. In some cases, people find it difficult to produce these, as train tickets are often collected at the station exit. They should be guided properly in this matter. The Ticket Collectors always return the used ticket after punching them, if you ask them for it.

(4) TA / DA rules

Apart from fares, you also have to pay for boarding (food) and lodging (hotel). This is called TA / DA¹. What kind of rules should you have for this? If you have a small organisation of say 4-5 people, you don't really need detailed rules. In such a case, you can reimburse actual reasonable expenses. In such a small group, every one understands the meaning of 'reasonable'.

However, if the organisation is bigger or you are facing problems of overspending, consider laying down some rules.

The following gives you an idea of the options you have for this:

(a) Scheme 1: Fixed Daily Allowance

Expenses for food and stay are reimbursed based on fixed amounts. The allowances are fixed in advance. The employee is not asked to produce bills or cash memos for any expenses. This scheme is often seen in Government Departments.

In most cases, however, stay is reimbursed according to actual expenses. For this, the hotel bills have to be produced. These expenses are subject to pre-set limits.

(b) Scheme 2: Actual Expenses

Expenses for food and stay are reimbursed based on actual expenses. However, there are also pre-set limits on how much can be spent.

(c) Scheme 3: Optional

Under this scheme, the employee can choose to be on either fixed DA or actual expenses. This option can be exercised for each trip. The limits for fixed DA are kept lower than for actual expenses, as shown below. Figures given here are indicative only – you will

¹ Traveling Allowance / Daily Allowance

need to fix your own limits, which may be higher or lower:

| City / Place | Option A: Fixed Allowances | | Option B: Actual Exp. Limited to... | | Misc. (given under both A & B) |
|----------------------|----------------------------|-----------|-------------------------------------|-----------|--------------------------------|
| | Stay | Food etc. | Stay | Food etc. | |
| A Class ¹ | 125 | 75 | 200 | 125 | 40 |
| B Class ² | 100 | 50 | 175 | 90 | 30 |
| C Class ³ | 75 | 40 | 125 | 75 | 25 |
| Towns | 50 | 30 | 90 | 50 | 20 |
| Villages | 0 | 20 | 0 | 30 | 10 |

The idea behind this scheme is to encourage people to go for option A. This helps reduce overall travelling costs and makes accounting easier. However, people are not allowed to switch A and B during the same trip / location.

g) Local Conveyance Expenses

Local conveyance expenses occur when you are in town⁴. These expenses should be properly detailed. Normally following are considered useful:

| Date | Mode ⁵ | Place | | Amount | Purpose | ___ K.m. @ Rs. ___ (for own vehicles only) |
|------|-------------------|-------|----|--------|---------|---|
| | | From | To | | | |
| | | | | | | |
| | | | | | | |

There is no need for a printed format – these details can be given on plain paper or on the reverse of the voucher. Each person should submit a separate voucher or claim.

How often should you reimburse these? Normally, reimbursements can be made once a month. However, if the expenses are high, then you can reimburse on a weekly basis or on event basis⁶.

Should you attach supports also? If the expenses are properly detailed and reasonable, there is no need to attach supports such as bus-tickets, train tickets, etc. for local conveyance. However, if you hire a taxi or auto-rickshaw for the day or part of the day, then you must get some proof of payment (private taxi bill or driver's signatures against amount paid).

In some cases, people are given mileage for own vehicles. In such cases, the last column must also be filled up. The rate is normally fixed in advance and depends on type of vehicle (motor-cycle / car).

¹ Normally Bangalore, Chennai, Delhi, Kolkata and Mumbai

² State Capitals, tourist destinations

³ Other cities (e.g. Saharanpur, Tirunelveli, Bongaigaon, Kolhapur)

⁴ Where your office / duty-station is located

⁵ Bus, train, auto, taxi, rickshaw etc.

⁶ When an event (mela etc.) is completed

h) Reimbursement of expenses

In some situations, Sida provides reimbursement of expenses to partners. This may be for a study tour or some other purpose. Reimbursement of expense is an internal accounting mechanism at Sida. Partners should treat these funds as an FCRA grant.

This would mean that the reimbursement would be deposited in the FCRA bank account and reported in the FC-3. In the Income & Expenditure Account, partners should disclose this as 'Reimbursement of expense by Sida' on the Income side. Corresponding expenses should be shown separately on the Expenditure side.

i) Multi-purpose workers

Persons working in more than one project should be identified clearly. This information, including their total salary, should be shared with Sida. Where possible, salaries of such person should be allocated to each project in a fair manner.

j) Salary payments

Sometimes, salary is booked in the accounts on the basis of budget. The budget is merely a tool for allocating funds. If lower salary is paid, the same must be booked.

Actual expense on salary may be lower because some people were on leave and leave salary was deducted. Then again, if a person leaves, their replacement may take place only after a gap. When a project is started, it takes time to add people one by one. In the meanwhile, total salary paid may be lower.

k) Local Contribution

Local contribution should be budgeted based on ground realities. Only actual contribution, which is marketable¹, can be proven and is reasonable², should be accounted. It would be improper to build up the local contribution figures by using imaginary situations. If false local contribution figures appear on the account books, it would be treated as a serious accounting impropriety. Partners may wish to seriously study the possibility of accounting for local contribution received in kind.

Any local contribution, whether cash or in kind, can not be brought into FCRA account books. This should be accounted in the General or Indian books and posted to another sub-ledger maintained for Sida project. Please note that this sub-ledger is different from the FCRA Sida ledger.

l) Sale of Fixed Assets

Fixed assets acquired from Sida funds should be sold, disposed or transferred with Sida's agreement only. When these are sold, the entire sale proceeds (including any appreciation or 'profit') will have to be deposited into the FCRA bank account. This will also be disclosed as a receipt in the FC-3.

¹ Goods or services which can be sold in the market and have a market price.

² Rate used for valuing these should be realistic.

If such assets are transferred to an NGO without taking any money, then the receiving NGO must either have FCRA registration or prior permission.

m) Publication of Accounts

Publication of accounts helps inform the general public about the work that you do and enhances image of the voluntary sector. Currently, there is no law in India that requires publication of non-profit accounts. However, many well-governed non-profit organisations publish their accounts voluntarily.

(1) Options and costs:

There are at least three ways to publish accounts. These are summarised below:

| Mode | Number reached ¹ | Exposure period ² | Amount of information | Cost ³ (Rs.) |
|--|-----------------------------|------------------------------|-----------------------|-------------------------|
| 1. Printing and circulation of annual report | Low | Medium | Large | 5,000+ |
| 2. Advertisement in newspaper | Large | Short | Brief | 1,000 – 75,000 |
| 3. Publication on the Internet | Large | Long | As desired | 0 – 3,000 |

Sida encourages publication of accounts for better transparency and accountability to general public. If you would like to publish your accounts, you may wish to make a provision in the Budget to cover reasonable costs of publication. This cost may be shared by several Agencies proportionately, including Sida.

With regard to the third option (publishing on the Internet), AccountAid™ India⁴ provides a complimentary service to some NGOs. It provides advice on summarising and redesigning your published accounts for the Internet. They will also put up these accounts on their web-site or provide a link to accounts published on your own web-site.

(2) Format:

It is difficult for general public to understand detailed accounts. Accounts for publication are, therefore, usually summarised. You have to take care in doing this, so that they do not mislead. For publication of accounts, you could use a short format or a detailed one:

Abridged

Below is an example of a brief format for publishing the accounts in newspaper. This needs 12 column centimetres. You may need to add or reduce this format.

| Balance Sheet | | | |
|-------------------|--------------------|-------------------|--------------------|
| Liabilities | Amount | Assets | Amount |
| Trust Fund | 50,00,000 | Assets & Building | 50,00,000 |
| Other Funds | 1,30,00,000 | Investments | 1,01,00,000 |
| Other Liabilities | 7,00,000 | Loans | 26,00,000 |
| Surplus | 6,50,000 | Cash and Bank | 16,50,000 |
| | <u>1,93,50,000</u> | | <u>1,93,50,000</u> |

¹ Number of persons who may see the information

² Period for which information is available to people

³ Including postage

⁴ E-mail: accountaid@vsnl.com; web-site: www.AccountAid.net

| Income & Expenditure Account | | | |
|---|---------------------------|------------------------------|---------------------------|
| Expenditure | Amount | Income | Amount |
| Program Expenses | 85,00,000 | Grants | 80,00,000 |
| Institutional Expenses | 25,00,000 | Donations | 15,00,000 |
| Surplus | 3,50,000 | Investment & other income | 18,50,000 |
| | <u>1,13,50,000</u> | | <u>1,13,50,000</u> |

Detailed

Below is an example of a brief format for publishing the accounts in newspaper. This needs 30 column centimetres. You may need to add or reduce this format. This format can be used for publishing accounts on the Internet or as part of annual report as well.

| Balance Sheet | | | |
|--------------------------|---------------------------|-------------------------------|---------------------------|
| Liabilities | Amount | Assets | Amount |
| Trust Fund | | Assets & Buildings | |
| Capital Fund | 42,00,000 | Land & Buildings | 15,00,000 |
| Corpus Fund | 5,00,000 | Vehicles | 20,50,000 |
| General Fund | 3,00,000 | Furniture & Equipments | 14,50,000 |
| Other Funds | | Investments | |
| Endowment Fund | 1,00,00,000 | Endowment | |
| Staff benefit Fund | 2,50,000 | Investments | 80,00,000 |
| Fixed Assets Fund | 2,50,000 | Other Investment | 21,00,000 |
| Revolving Fund | 25,00,000 | | |
| Other Liabilities | | Loans | |
| Creditors | 4,25,000 | With Beneficiaries | 22,00,000 |
| Exp. Payable | 2,75,000 | Other Loans | 4,00,000 |
| Surplus | 6,50,000 | Cash and Bank | |
| | | Cash at Bank | 16,00,000 |
| | | Cash in Hand | 50,000 |
| | <u>1,93,50,000</u> | | <u>1,93,50,000</u> |

| Income & Expenditure Account | | | |
|---|---------------------------|--------------------------|---------------------------|
| Expenditure | Amount | Income | Amount |
| Program Expenses | | Grants | |
| Watershed Program | 30,00,000 | Indian Grants | 10,00,000 |
| Education Program | 16,00,000 | Foreign Grants | 70,00,000 |
| Micro-credit Program | 9,00,000 | Donations | |
| Emergency Relief | 18,00,000 | Corporate Donations | 7,00,000 |
| Rural Development | 12,00,000 | Public Donations | 5,00,000 |
| Institutional Expenses | | Local Contributions | 3,00,000 |
| Salary | 12,00,000 | Investment Income | |
| Professional Fees | 2,50,000 | UTI | 2,50,000 |
| Fuel & Conveyance | 2,75,000 | LIC Deposits | 3,00,000 |
| Travel | 75,000 | Bharat Petroleum | 2,50,000 |
| Audit Fees | 50,000 | ICICI Flexi Bonds | 5,00,000 |
| Printing & Stationery | 2,25,000 | Bank Interest | 3,50,000 |
| Other Expenses | 3,00,000 | Other Income | 2,00,000 |
| Repairs & Maintenance | 1,25,000 | | |
| Surplus | 3,50,000 | | |
| | <u>1,13,50,000</u> | | <u>1,13,50,000</u> |

