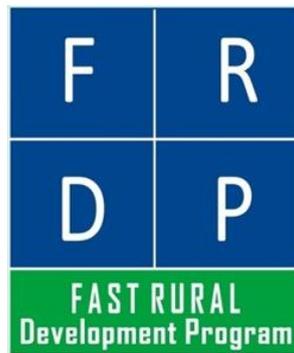


Fast Rural Development Program - FRDP



FINANCIAL MANUAL

TABLE OF CONTENTS

INTRODUCTION

OVERALL CONTROL SYSTEM

1. OVERALL ACCOUNTING SYSTEM

- 1.1 Basis of Accounting
- 1.2 Accounting Year
- 1.3 Chart of Accounts
- 1.4 Vouchers & Forms
 - *Payment Voucher*
 - *Receipt Voucher*
 - *Journal Voucher*
- 1.5 Books of Accounts / Records
- 1.6 Recording business transactions
- 1.7 Pre numbering entries
- 1.8 Review of accounting entries
- 1.9 Segregation of Duties
- 1.10 Correction of entries
- 1.11 Audit Trail
- 1.12 Custody of Accounting Records
- 1.13 Computerized Accounting Software

2. ACCOUNTING POLICIES AND RECOGNITION CRITERIA

- 2.1 Grants / Donations
- 2.2 Revenue
- 2.3 Restricted fund
- 2.4 Unrestricted fund
- 2.5 Fixed Assets
- 2.6 Financial Assets (Investments)
- 2.7 Allocation of Common Cost

3. PAYROLL & RELATED COSTS

- 3.1 Monthly Salary
- 3.2 Payroll Taxes

4. FIXED ASSET

- 4.1 Overall Policy
- 4.2 Requisition
- 4.3 Quotation
- 4.4 Ordering
- 4.5 Receiving
- 4.6 Recognition and Capitalization Policy
 - Cost of Asset*

Subsequent Expenditure

- 4.7 Physical Identification of Assets
- 4.8 Donor Related Assets
- 4.9 Insurance of Fixed Assets
- 4.10 Depreciation
- 4.11 Useful Lives
- 4.12 Disposal of Assets

5. FINANCIAL PLANNING

- 5.1 Budget Reporting
- 5.2 Monitoring & Review of Budget

6. FUND MANAGEMENT

- 6.1 Bank Accounts
- 6.2 Cash Management
- 6.3 Donor Funding
- 6.4 Petty Cash Fund

7. REPORTING

Internal Reports:
External Reports:

8. MONITORING BY THE BOARD

9. AUDIT

- 9.1. External Audit
- 9.2 Internal Audit
 - 9.2.1 Scope of Work
- 9.3 Audit Committee
 - Terms of Reference of Audit Committee
- 9.4 Reporting by the Auditors

INTRODUCTION

Fast Rural Development Program (FRDP) is a nonprofit and nongovernmental organization, registered under the societies Act XXI of 1860, working in the rural areas of Sindh, Pakistan.

This manual aims to develop and maintain an effective system of internal control in order to monitor compliance with established policies and procedures of the organization. These policies and procedures principally focus on the following:

- Is to provide framework within which the FRDP's financial guidelines and procedures are established.
- To make policies within that business transactions in the FRDP are to be made.
- Adequate documents and records
- Assets are safeguarded, accounted for and controlled
- Independent checks on financial and non financial activities
- Proper authorization of transaction and activities
- Sufficient segregation of duties, wherever practicable

This manual of accounting policies, systems and procedures would be helpful to:

- The Board for monitoring compliance with prescribed policies and procedures
- New employees of the FRDP for adaptation to the policies, systems and procedures
- Work Force of the Finance Department for use as a guide to the accounting system and procedures
- Other non-financial executives / employees who work closely with finance and accounts staff.

Through this manual, we endeavor to develop and maintain an effective internal control system which would provide assurance about the safeguarding of assets and detection / prevention of deliberate or unintentional material misstatement(s). The policies and procedures discussed herein are also useful for the fair presentation of financial statements.

This manual primarily illustrates individual work steps in accounting process and recording the business events in the books of accounts. It is intended to provide assistance in coordinating efforts of groups of people working together to perform an activity, with certain time frame.

ORGANIZATIONAL STRUCTURE

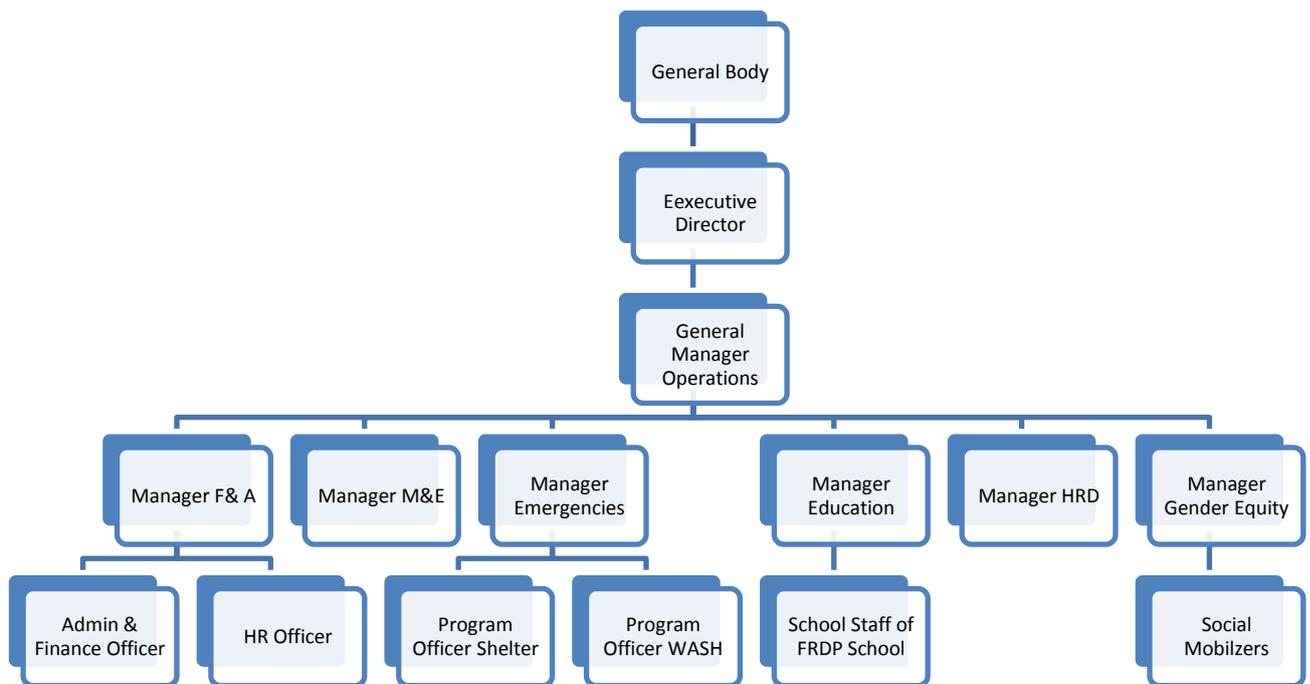
FRDP is staffed with:

- A Executive Director, who manages FRDP within Sindh and has an office in Hyderabad;
- A General Manager of Operations, who manages all Field Offices & Head Office , and is based in Hyderabad with frequent travel to the program locations;
- A Manager of Finance and Administration (F&A), who manages all Finance and Administrative aspects of the program / project & also recruitment, HR policy, HR management, staff training and assessment; Manager F&A had Officers Admin &

Finance Officer and second is Human Resource Office is based in Hyderabad & Field Offices.

- Manager M&E also based in Hyderabad but frequently field visits to ensure the program running smoothly.
- Manager Emergencies also based in Hyderabad but frequently field visits to field offices and project offices FRDP looking all over the emergency program, he as complete staff of WASH, Health & Nutrition to help them and supervise the activities at field level bases.
- Manager Education also based in Hyderabad but frequently field visits to FRDP Schools to help with principal and other staff for new techniques of education and give them training for quality education.
- Manager Human Resource Development also based in Hyderabad give the orientation to the field staff and as well as new staff about the organization goals and activities.
- Manager Gender Equity, also based in Hyderabad, who ensures gender sensitivity in all aspects of the program;
- Field Project Managers / Field Program Manager, who manage the program on a field offices basis.

5. ORGANOGRAM



OVERALL CONTROL SYSTEM

The FRDP has two control systems, external control by the stakeholders of the business and internal control by the management. At the end of each financial year, an external audit of FRDP's projects and financial transactions is conducted. An independent firm of chartered accountants conducts such an audit.

As regards internal control system, its main objective is to safeguard the asset of the organization, ensure reliability of the accounts and achieve operational efficiency and effectiveness of the organization.

The FRDP is expected to build up a control environment with the following key fundamentals:

- Honesty,
- Ethical and principled morals,
- Ensuring that staff, at all levels, is competent to carry out the duties assigned to them.

Hence, it is imperative that employees adhere to high standards of personal integrity and set a good example to their subordinates.

The other key elements of the control environment are the communication of information and monitoring. Pertinent information must be communicated within the FRDP so that well-informed personnel may make well-informed decisions. Monitoring requires not only formal procedures such as internal audit, but cultivation of a culture of recommendations for improvements to existing systems and procedures.

Under the umbrella of this control environment the organization, through this manual, has developed policies and procedures to meet specific control objectives.

1. OVERALL ACCOUNTING SYSTEM

1.1 Basis of Accounting

The accounts of the FRDP will be prepared under the historical cost convention, except for those items where IFRS specifically requires accounting at fair value, market value or present value.

1.2 Accounting Year

The financial year of the FRDP is from June– July (12 months).

12.1 Chart of Accounts

The FRDP will develop and maintain flexible and appropriate chart of accounts in order to cater the present and future financial transactions with an objective of coming up with timely, accurate and meaningful reporting for the Governing Body.

The chart of account shall act as a guiding and referring principle to the finance personnel while they post accounting entries to their respective head of accounts. In order to keep a vigilant control over accounting framework of the organization, no accounting personnel is allowed to make amendment (including opening a new head of account) in the chart of accounts unless specific written approval thereof is duly sanctioned by the Head of Finance. For this purpose, a form has been designed which would be required to be filled up by the initiating officer desirous of altering the present structure of chart of accounts. Such form, once approved, will be kept by the Head of Finance.

1.4 Vouchers & Forms

The finance personnel shall be responsible to record and maintain financial records, related correspondence, accounts, statements, supports, etc. pertaining the organization. For effective and accurate maintenance of accounting records, a set of internal documents, forms have been designed which will be used for initiating and recording financial transactions.

Payment Voucher

- Payment can be made after approval of payment voucher. Payment voucher shall be supported with bills or other relevant supporting documents. Such supports shall be scrutinized by the finance department prior to their submission for sanction of payment before the approving authority.
- All cash payments shall be recorded through cash payment vouchers and all bank payments shall be recorded through bank payment vouchers.

Receipt Voucher

- Receipt voucher shall be prepared to record the receipts and collections in bank accounts.
- Cash receipt transactions shall be recorded through cash receipts.

Journal Voucher

Journal Voucher shall be used to adjust the transactions that are of non cash transactions such as, adjustments of advances, accruals, rectification of posting errors, year end adjustments and transactions of non cash nature, to reflect the proper usage of internal control procedures.

As a pre-requisite of the accrual basis of accounting, all accruals shall be recorded on a monthly basis. Such accounting entries shall be routed through JVs. All JVs to be prepared not later than two weeks from the close of relevant month.

1.5 Books of Accounts / Records

In addition to the above mentioned different types of vouchers, the FRDP shall keep and maintain the following information / record:

- Cash / Bank Book
- General Ledger
- Salary Register
- Bank Statements & Reconciliation's
- Fixed Assets Register
- Employee Personal Files
- Invoices
- Bank Deposit Slips
- Cheque Books
- Purchase Orders
- Receipts
- Invoices
- Donors' s Subsidiary Record

And any other record and information considered necessary.

1.6 Recording business transactions

All the financial transactions shall be processed and recorded within a reasonable time of activity/ financial happening of any event. The test of 'reasonableness' will be judged on basic criteria as to availability of timely, accurate, meaningful information for internal and external users of financial statements.

The Head of Finance shall ensure that, at all times, the FRDP's books of accounts reflect true and fair view of its financial affairs and no significant event is deferred from appropriate recording.

1.7 Pre numbering entries

All entries shall be allotted sequential numbers so as to ensure completeness and proper authorization thereof. Any entry recorded out of the prescribed sequence would require immediate and thorough scrutiny to dispel the impression of any deliberate event. A written report of such inquiry shall need to be submitted to the Head of Finance, who would then decide future course of action.

1.8 Review of accounting entries

All accounting entries shall be submitted to the Head of Finance for his approval. Such entries shall not be considered unless they are supported through documentary evidences originating such transaction(s).

After necessary approval, such entries should be posted in their relevant head of account. If this is not possible due to peculiar nature of the transaction, the matter should be referred to the superior personnel for proper guidance.

1.9 Segregation of Duties

In order to keep internal controls in process a meaningful check over the affairs of organization, segregation of duties is a must, whenever practicable. Segregation of duties means distributing the execution of one activity over more than one person in order to ensure that no single individual is capable of handling the whole of a transaction individually.

If it is not practical to segregate any duty due to its operational nature and / or limited staff members, the management should ensure that all transactions are duly authorized and supported with all necessary documents and properly recorded in books of account in a timely manner.

1.10 Correction of entries

Ensure that in case of omission, error of disposition / classification, etc. the correction should always be routed through JV. To confirm this procedure in the computerized accounting software, access controls should be placed which prohibits and restricts the individuals responsible for data entry adjustment (i.e, from re-entering and accessing the recorded data)

1.11 Audit Trail

At the time of approving the accounting entry, the Head of Finance shall ensure that adequate and reliable audit trail of each transaction exists and that the entry should be easily auditable at the time of authorization. Such audit trail would, ideally, start from the financial statements and end up at the related source document(s).

1.12 Custody of Accounting Records

All the accounting records, including but not limited to ledgers, statements, accounts, vouchers, invoices, banking records, record of procurement and sales, etc. should be in the custody of the Finance Department. The Head of Finance should ensure that adequate facilities exist for custody of accounting records. Such records should be kept and maintained for a minimum 5 years from the relevant year-end.

1.13 Computerized Accounting Software

FRDP shall ensure that effective access controls are in place to restrict abuse of control in accounting software called Tally ERP.

All access rights should be well defined to the users of software. To specifically address this issue, written guidelines should be circulated among the intended users of software specifying clearly the working methodology.

2. ACCOUNTING POLICIES AND RECOGNITION CRITERIA

2.1 Grants / Donations

Grants/Donations are recognised as received from the donor.

2.2 Revenue

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the organization.

2.3 Restricted fund

The restricted fund comprises the accumulated surplus and deficit of donations and grants for which the donor has specified an intention to support a particular aspect of activities together with income accruing directly to those restricted funds. Surpluses are held until they are fully expended or returned at the end of the respective grand period.

2.4 Unrestricted fund

The unrestricted fund comprise the accumulated surplus and deficit of untied funds / donation and grants which are used by the FRDP for its various project activities, according to its other programs / plans.

2.5 Fixed Assets

These are stated at cost less accumulated depreciation. Depreciation on these assets is calculated by applying the reducing balance at specified rates to write off the cost of assets over their estimated useful lives at year end.

Major renewals and improvements are capitalized whereas normal repair and maintenance costs are charged to income as and when incurred. Gain or loss, if any, on disposal of assets is included in income as extraordinary items.

In case of financial reporting of individual project activity, all fixed assets are recognized as period cost. However, detail of the assets as on reporting period should be disclosed in the financial statements. While the assets at the end of project handed over by the donor are recorded at its fair value as assessed by the committee formed therefor.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognized.

2.6 Financial Assets (Investments)

The FRDP classifies its financial assets in the following categories:

- a) Investments at fair value through profit and loss
- b) Held to maturity investments.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date, the date on which the FRDP commits to sell or purchase the assets.

-Fair Value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets, designated upon initial recognition, at fair value through profit and loss. Financial assets at fair value through profit and loss are carried in the balance sheet at their fair value, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

-Held to maturity

No-derivate financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the FRDP has the positive intention and the ability to hold these assets to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest method, less impairment.

-Impairment

The FRDP assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

2.7 Allocation of Common Cost

Common costs are cost used by more than one activity and cannot be allocated to single project activity. Examples of such cost could be:

- Rent
- Staff Salaries
- Utility Bills
- Depreciation of computers, vehicles, furniture & fixture

Common costs should be allocated to the activities on a basis consistent, to the extent possible, with the actual use of the resources by individual activities.

This allocation depends on the donor agreement for common allocation otherwise that shall be charged to Head Office.

3. PAYROLL & RELATED COSTS

3.1 Monthly Salary

A person who is hired on permanent/ project contract basis in the FRDP requires completing 3 months probation period. An individual's salary is to be disbursed according to the terms and conditions mentioned in his appointment letter.

All employees, except daily wagers, should be paid through cross cheque / Bank Transfers in their name. At the time of approval of employees' salary expense for the month, a detailed report for each employee shall be prepared containing the following information:

- Name of the Employee
- Staff Code
- Monthly salary
- Bonus, if any
- Leave Encashment, if any
- Leave Fare Assistance, if any
- Loan / Advance sanctioned to the employee
- Monthly deduction on account of loan or advance
- Payment on account of medical expenditure, if any
- Other allowances
- Any other payroll related information

The aforesaid report will be furnished to the Head of Finance for necessary approval, before approving salary disbursements Head of Finance should arrange comparison of gross salary with last month and obtain satisfactory reasons for change, if any. After the approval, the payroll officer will forward the cheque along with the bank letter mentioning all the staff accounts with their net salary for credit in their respective bank accounts.

3.2 Payroll Taxes

At the time of salary disbursement, tax shall be deducted as per prevailing rates under tax regulation as specified in the Income Tax Ordinance, 2001. Thereafter, deducted income tax to be deposited into the Government treasury within time frame through tax challan.

Periodic tax statements under the Income Tax Ordinance shall be prepared and furnished within the stipulated time.

4. FIXED ASSET

4.1 Overall Policy

Capital expenditure is budgeted at the beginning of the year and forms part of FRDP's annual budget. Enhancement of capital expenditure or change of budgeted amount can only be approved by the Executive Director up to a maximum of 15%, Board approval is required beyond 15%.

Adequate and strong controls should be kept over fixed assets and their related records to ensure that all fixed assets are recorded in the books of accounts with appropriate carrying costs and all recorded assets existing in the FRDP are safe guarded and operational.

All assets shall be recognized in books of accounts in accordance with policy framework of this manual. IAS 16 will remain the key principle for the accounting of fixed assets.

4.2 Requisition

See Purchases.

4.3 Quotation

See Purchases.

4.4 Ordering

See Purchases.

4.5 Receiving

See Purchases.

4.6 Recognition and Capitalization Policy

As per our policy, minor renewals replacements, maintenance and repairs less than Rs. 10,000/- are charged off as an expense, as and when they are incurred, while major renewals and improvements are capitalized.

Hence, an item shall be recognized as fixed assets only when:

- It is probable that future economic benefits will flow to the organization as a result of its acquisition;
- The cost per individual item exceeds Rs. 10,000; and
- Item have useful life of more than one year.

Based on the nature of items, the Management should decide to capitalize an individual item of less than Rs. 10,000/-.

Cost of Asset

Cost of an asset includes purchase price, installation cost, import duties, all non-refundable Governmental taxes and cost of bringing the asset into working condition. All trade discounts and rebates are deducted in arriving the purchase price.

Subsequent Expenditure

Any subsequent expenditure on non-expendable items, which extend the useful lives, enhance the capacity or substantially reduce the operating cost, should also be capitalized.

4.7 Physical Identification of Assets

At the time of acquisition, all assets should bear exclusive identification of reference. This identification mark should be tagged and entered into Fixed Assets Register. Donor emblem should also be affixed on all donated assets while the rest of the assets shall be assigned relevant code and tagged for the same.

A register be maintained for all fixed assets containing:

- Description & cost of each item
- Date of acquisition
- Location of asset
- Item Code
- Rate of depreciation and per year charge
- Accumulated depreciation

Fixed assets records must be reconciled with General Ledger on a regular basis. The finance personnel shall take a physical inventory of all fixed assets at least once per year to ensure the completeness and accuracy of the records. The inventory of assets on hand shall then be compared to actual. All the differences shall need to be resolved by a responsible staff member. Any write off as a result of physical verification of fixed assets should require BOD approval.

4.8 Donor Related Assets

Assets purchased under any program of the donor agencies shall remain the property of the donor agency unless otherwise specified in the agreed terms and conditions. Due care should be taken for the safety and maintenance of such assets. At the end of the program, either the assets shall be transferred to the donor agencies or shall be disposed off according to the terms and conditions.

4.9 Insurance of Fixed Assets

The FRDP should arrange comprehensive insurance coverage from approved insurance agents for all high value movable assets against theft and fire and all non movable to be insured against fire only. The insured value is taken at current market replacement value. The renewal of insurance *will be carried out on a yearly basis*.

Upon receipt of premium estimate from insurance company, the concerned officer will obtain the approval for getting the asset insured. On receipt of premium notice, disbursement shall only be made through cross cheque in the name of insurance company. A comprehensive record of insured assets shall be maintained.

Relevant files should also be maintained for every insurance policy relating to FRDP's property. The value of sum insured shall be reviewed annually.

Assets received from the donors in kind should be insured in a similar fashion as the bought assets purchased, subject to donor funding.

4.10 Depreciation

Depreciation is charged to income from the year of acquisition to the year of disposal, on quarterly bases. Depreciation rates reflect the useful lives of the assets. The annual depreciation rates, applied on a straight-line basis, are as follows:

Lease hold improvements	20%
Furniture and Fixture	20%
Computer & Equipments	33.33%
Motor Vehicles	20%

4.11 Useful Lives

The useful life of an asset shall be estimated after consideration of following factors:

- Expected physical wear and tear; and
- Technological obsolescence

4.12 Disposal of Assets

Disposal of fixed assets should be undertaken through tenders, auction or a private sale, whichever is suitable as approved by the Governing Body. A private sale would only be considered where the sales price can be reasonably / accurately assessed, and there is a possibility of fetching higher prices as compared to other modes of disposal.

Where the fixed assets, intended for disposal, comprise equipment, the estimated sales value is to be determined by using outside independent experts.

At the time of intended disposal of an asset, Head of Finance will issue an inter office memo to the Executive Director, containing the following.

- *Specification and description of the asset*
- *Reasons for disposal*
- *Where possible, an estimate of the realizable value*
- *The mode of disposal of asset, as per the donor's policy*
- *Comparative statement of bids in respect of tender*
- *Draft sale agreement / transfer note, in case of intended private sale*

After approval from the Executive Director, the sale shall be executed. Simultaneously, the responsible official who is knowledgeable and not directly responsible for the assets shall move the subject fixed asset from the premises.

At the time when asset is retired, the following procedures shall apply to record the transaction:

- The cost of the disposed asset shall be removed from the Fixed Assets' Register
- The related accumulated depreciation shall be removed from the allowance for depreciation account; and

- The profit and loss account, adjusted for the cost of removal, shall be recorded as income (gain) or expense (loss).

A report will also require to be furnished to the Executive Director containing the following details:

- *Disposal value of the asset*
- *Mode of disposal*
- *Gain and loss on disposal of fixed assets*
- *Auctioneers receipt memo in case of auction*
- *Issues receipts*
- *Banking of fetched value*

Where the asset is returned to the original donor, the applicable process for retirement (as above) shall, *mutatis mutandis* apply.

5. FINANCIAL PLANNING

5.1 Budget Reporting

A budget is a financial plan of an entity relating to a period of time. It is prepared from a range of available data, within the overall guidelines and long term plans of the organization. As a part of monitoring funds and expenses, the FRDP will prepare the following Budgets:

- Revenue Expenditure Budget
- Capital Expenditure Budget

The budget year for FRDP shall be June to July. The management is responsible to prepare the budget for the following year and present it to the Board for approval before the start of the budget year.

The budgets for donor funded projects shall be prepared in accordance with the guidelines provided by the respective donor agency with the support of the relevant Program Unit. FRDP's program must operate within the budget approved by the Donor Agency.

The Head of Finance shall ensure that expenditure should not be overrun. Any saving under the head of Fixed Expenditures such as staff cost, rent, insurance, premium, utilities bill and capital expenditure shall be utilized for any other purpose with prior approval of Donors.

5.2 Monitoring & Review of Budget

The budget should be monitored regularly and compared with actual results. A mid-year review of the budget should be made by the Head of Finance in the light of actual results; recommendations for upward or downward revision should be put for consideration by the Board.

Besides, on a quarterly basis, the budgeted data should be compared with actual experiences and variance report should be generated. This variance report should be submitted to the Executive Director who would carry out investigations into all significant variances. While carrying out scrutiny, reasons for unusual or unforeseen fluctuations would be noted.

6. FUND MANAGEMENT

6.1 Bank Accounts

The FRDP shall maintain a bank account for day-to-day operation approved by the Governing Body. Each program / project must maintain a separate bank account.

The Governing Body shall authorize to open the bank account in the name of the Fast Rural Development Program. At least two signatories duly authorized by the Governing Body shall operate bank accounts. A copy of approved signatories and specimens of their signatures will be lodged with the bank.

At present the signatories are:

- a. Chairman Governing Body
- b. General Secretary Governing Body
- c. Finance Secretary Governing Body

Each financial instrument should bear two signatures as approved by the Board.

Accessibility of the cheque book should be strictly limited to Accountants/Finance department or any other person designated by the Board. Bank reconciliation statements should be prepared on a monthly basis and approved by the Head of Finance.

6.2 Cash Management

The sources of cash receipts would be either refund of working advance, donation, cash fee, etc. On receipt, a cash receipt should be prepared by the concerned personnel containing all the necessary details of the receipts. This cash receipt will be printed and used in a chronological sequence.

As a principle policy, an independent officer authorized by the Head of Finance will periodically count cash funds. This official would be independent from the official custodian of cash.

6.3 Donor Funding

As a principle, separate accounting record will be maintained for each project. Expenditure shall be carried out in accordance with budgetary limits. Factors such as agreed terms and conditions of funding agencies shall also be considered while expensing out funds.

Subject to the provisions of agreed terms and conditions, all financial policies and procedures shall be applicable and followed for incurring any expenditure related to donor agencies. The Head of Finance shall be responsible to submit Financial report in respect of each project activities to the respective donor agencies as per agreed terms and conditions.

6.4 Petty Cash Fund

To meet day-to-day cash expenditure of small amounts, a petty cash fund up to a maximum of Rs. 20,000/- will be maintained on imprest basis. In order to restrict petty cash fund only for small payments, no single payment out of it should exceed Rs. 10,000.

The Head of Finance shall authorize every petty cash expense or any other person authorized by the Board. For custody of petty cash, a steel box would be used which will be kept in locked safe under the custody of Head of Finance. Any shortfall found in the petty cash fund would need to be made good by the custodian thereof.

A person authorized by the Head of Finance will maintain petty cash register to record petty transaction on daily basis.

7. REPORTING

The financial management system should provide complete, reliable, consistent, timely and useful financial management information and financial statements. Some of the reports to be generated as a regular feature are as follows:

Internal Reports:

- Project Reports
- Aged Receivables
- Aged Payables
- Cash Flow Position
- Variance analysis between budgeted costs / revenue and actual data, spelling down the reasons of significant variations
- Consolidated report of all project activities
- Balance Sheet
- Expenditure reported in statement of financial activities (Income Statement), classified into direct program cost and administrative support cost.

External Reports:

- Audited Financial Statements
- Annual Report

Every report which, as per terms and conditions previously agreed upon, is required to be submitted to the donor agencies should be timely and accurately prepared. It will be responsibility of the Head of Finance to brief the management about the deadlines, contents, frequency, etc. of reports that are required by the donor agencies together with the arrangement made by the FRDP to meet such deadlines on time.

8. MONITORING BY THE BOARD

Head of Finance will keep a close liaison with the Executive Director in the execution of day-to-day affairs of the organization, including but not limited to satisfactory execution of various projects undertaken by the organization.

All internal and external reports generated by the Finance Department would be sent to the Board for its review, periodically. The Board shall hold deliberations and discussions over such reports and suggest modifications / amendments / rectifications. The details of business conducted during meeting of the Board shall be duly recorded and its minutes shall be circulated by the Head of Finance to the Board Members.

9. AUDIT

9.1 External Audit

Financial statement of the FRDP and / (or) each project shall be audited on annual basis.

The auditors shall be appointed in annual general meeting in accordance with the respective statutory legislation. The FRDP will endeavor to get its financial statements audited by renowned and reputed firm of Chartered Accountants. This is expected to give more credibility to its financials and would increase its standing in the eyes of our donor agencies.

External auditors will be changed after every three years. If, for any reason this is impractical, the FRDP may at a minimum, request for rotating the partner in charge of its audit engagement.

Besides, the donor at its discretion may also opt to get the financials of the relevant project audited by an independent firm of Chartered Accountants. In this case, notwithstanding the external audit by the auditing firm of the organization, any project's accounts will again be subject to audit by another Chartered Accountant.

9.2 Internal Audit

There will be an Internal Audit Function in the organization. The Head of Internal Audit will preferably be a qualified accountant. He shall have access to the Chair of the Audit Committee.

The Head of Internal Audit will be assisted by a proper team who will work under his guidance and control. The team of Internal Audit Function will comprise of individuals possessing relevant experience, training and accounting qualification.

9.2.1 Scope of Work

- Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective
- Instituting special projects, value for money studies or other investigations on any matter specified by the Governing Body
- Determination of measures to safeguard assets of the organization
- Performing substantive testing of the financial transactions and account balances executed by the FRDP

The Internal Audit Function will issue a monthly report to the Head of Internal Audit, who would share his findings with the Audit Committee. The report(s) of Internal Audit Function will also be provided for review of external auditors.

The Internal Audit Function will also carry out a follow up exercise to check up the corrective measures taken by the management as a result of its previous reports submitted highlighting weaknesses of internal control.

9.3 Audit Committee

The Audit Committee will comprise not less than two members. The members of the Committee shall be from among the non-executive directors of the organization. All members of Audit Committee will be financially literate and at least one member shall have accounting or related financial management expertise.

The Audit Committee shall hold its meetings prior to the approval of interim results of the FRDP by its Board.

A meeting of the Audit Committee shall also be held, if requested by the external auditors or the Head of Internal Audit.

Terms of Reference of Audit Committee

- The Board shall determine the terms of reference of the Audit Committee. The Governing Body shall act in accordance with the recommendations of the Audit Committee in all these matters.

9.4 Reporting by the Auditors

The draft accounts initialed by the external auditors will be subject to review by the Board along with the management letter, containing internal control weaknesses, issued by the external auditors. The Board might also seek further clarification(s) from the Audit Committee over the findings reported in the management letter. After review, the Board, if thinks fit, will approve the financial statements.

It will be the management responsibility to take adequate, timely and corrective actions to address the weaknesses identified by the external auditors in their management letter.

In case the external auditors do not issue a clean (unqualified) opinion on the financial statements of the FRDP and (or) the projects undertaken by it, a special session of the Board shall be called which would discuss in detail the reasons, grounds and impact of such qualified opinion. The Head of Finance, Executive Director and Members of Audit Committee will also attend the session.