**PROPOSED FINANCE POLICY AND PROCEDURE MANUAL FOR CIVIL SOCIETY ORGANIZATIONS**

**AMENDMENTS**

Amendments shall be made by the authority of the Executive Director (ED) of the [CSO’s Name]. All queries on the interpretation of this document or any matters not covered herein should be addressed to the Finance Manager. The ED shall report to the Governing Body the full text of new or amended Finance Policies and Procedures. The Governing Body may direct that a procedure or an amendment be withdrawn or modified if it finds that the procedure or amendment is inconsistent with the intent and purpose of the Financial Regulations or otherwise contravenes the objectives of [CSO’s Name].

**DEFINITIONS**

Capitalized terms used herein and not defined below, shall have the meanings ascribed to such terms in the Financial Policies and Procedures.

a) **“Accounting policies”** - the specific principles, bases, conventions, rules and practices adopted by [CSO’s Name] in preparing and presenting Financial Statements;

b) **“Accounting Records”** - the manual or computerized records of assets and liabilities, monetary transactions, and supporting documents (such as contracts, cheques, invoices and vouchers), which [CSO’s Name] is required to maintain in its records;

c) **“Allocation”** - amount of funds allocated for expenditure in a particular period of time, generally a fiscal year;

d) **“Appropriations”** - the aggregate of the expenditure authorizations approved by the Governing Body for the regular Budget of [CSO’s Name] for a financial period against which expenditures may be incurred for purposes approved by the Governing Body and as otherwise provided in the Financial Regulations;

e) **“Budget”** - the annual Budgets adopted by the Governing Body indicating estimated resources and expenditures for a financial period;

f) **“Cash and Cash Equivalents”** - Cash includes cash in hand and in bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value;

g) **“Cash Flow Statement”** - reports the company’s cash activities. It reports cash receipts & payments & the net change resulting from operating activities;

h) **“[CSO’s Name]”** means the Civil Society Organization registered under the companies Act No 17 of 1982

i) **“Capital Expenditures Fund”** – a fund that may be established to manage investments that involve capital expenditure

j) **“Contribution”** - a donation made in accordance with the Agreement on the Establishment of [CSO’s Name] and the Financial Regulations;

k) “**Contributing Member”** – Pursuant to the Establishment Agreement, a member of the [CSO’s Name] that has provided a multi-year financial contribution of core funding of no less than Rs 150 million over three years or Rs 100 million over the first two years;

l) **“Donor Agreement” -** [CSO’s Name] enter into formal agreements or contracts with donors, thereby committing themselves to deliver/perform service/work to be financed by the respective donors.

m) **“Estimated Useful Life”** - the time period in which a fixed asset is expected to provide economic benefit to the Organization and is expected to be retired from use beyond that time period;

n) **“Executive Director”** means the Chief Executive Officer (CEO) of the [CSO’s Name] appointed by the Governing Body. “**ED”** is the abbreviation;

o) **“Fair Value”** - the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction;

p) **“Finance Manager”** - the individual responsible for managing the day-to-day financial operations of [CSO’s Name]. “**FM”** is the abbreviation;

q) **“Finance Unit”** - Unit within [CSO’s Name] responsible for financial accounting and reporting, treasury operations, budget compliance, monitoring and planning, and asset-liability management and financial risk management;

r) **Financial Statements”** - formal record of the financial activities of the organization that is used to describe the financial position and financial performance of [CSO’s Name]; they include the Statement of Financial Performance – the income and expenditure of all funds, Statement of Financial Position, Cash Flow Statement, Statement of Changes in net assets/equity and Notes to the Statements

s) **“Furniture and Fixtures”** - immovable items affixed to real property, such as raised floors, carpets, etc., and movable item such as tables, chairs, desks, fillings, cabinets, etc.;

t) **“General Fund”** - the pooled account established for the purpose of managing [CSO’s Name]’s administrative costs and core activities;

u) **“General Ledger”** – the complete record of all financial transactions of the Organization, including accounts Organization for assets, liabilities, equity, revenue and expenses;

v) “**Governing Body”** means the Board of Directors or the Council of Members of the [CSO’s Name] as set out in the Agreement on the Establishment of [CSO’s Name];

x) “**Internal Control”** - a process carried out by the [CSO’s Name], designed to provide reasonable assurance of risk management and the achievement of objectives and goals, aimed at increasing the effectiveness and Financial Regulations efficiency of operations, the reliability of financial reporting, and compliance with applicable norms and regulations;

y) **“IT Equipment”** - physical equipment (including without limitation, computers, storage, networking, smartphones, recording equipment and other physical devices and hardware and associated peripherals and accessories), virtualization and management or automation tools, operating systems and applications (software), infrastructure and processes used to create, process, store, secure or exchange electronic data whether fixed or portable in nature;

z) **“Liabilities”** - all present commitments of [CSO’s Name] arising from past events, the settlement of which is expected to result in an outflow of resources from [CSO’s Name], embodying economic benefits or service potential;

aa) **“Member”** - any Member of [CSO’s Name] according to the Establishment Agreement;

bb) **“Notes to the Financial Statements”** – explanation of the items presented in the main body of the Financial Statements. They are explanatory notes on the Financial Statements items & accounting policies used;

cc) **“Office Equipment”** - consumables and non-consumables used for the operating functions of an office. non-consumable’s including, without limitation, desks, chairs, computer equipment, copier, printers, fax machines, telephone equipment, etc. and consumables include paper, paper-clips, post-it notes, and staples, etc.;

dd) **“Payables”** - represent the current liability, the monetary value of which an entity owes to contractors for goods or services purchased on credit;

ee) **“Program”** – a set of activities under which various Projects are undertaken;

ff) **“Program Owner”** - [CSO’s Name] staff member responsible for leading a program within [CSO’s Name], such as, the Manager Program, Manager Fund Raising, Manager Governance, and Project Manager for [CSO’s Name];

gg) **“Project”** - particular activities, tasks, functions or locations within a Program that is accounted for in the Budget;

hh) **“Reporting Date”**- the end of the financial year to which the financial report relates;

ii) **“Reserve Fund"** – a fund that may be established with the approval of the Governing Body in accordance with Regulation to finance obligations in relation to the long-term financial stability or going concern nature of the [CSO’s Name]. This may also be termed as accumulated fund.

jj) **“Statement of Changes”** – report outlining the sources and uses of funds and explaining any changes in cash or working capital;

kk) **“Statement of Financial Performance”** - report of the operating performance (incomes & expenses – including non-cash items like depreciation & provisions) during the time period;

ll) **“Statement of Financial Position”** - report of the financial position of the [CSO’s Name];

mm) **“Strategic framework”** - Is prepared on the basis of the Strategic Plan and provides guidance to the Division Heads by listing the priorities of the Members;

nn) **“Short-term investments”** - investments for a period not exceeding twelve months;

oo) **“Supplementary Program Activities”** - Any activity that is not part of the activities under the approved regular budget of the [CSO’s Name];

pp) **“Sub-Program”** - A Sub-Program may be categorized by functions, activity or location within each program and accounted for in the Budget;

qq) **“Work Program”** - defined as a set of activities and projects undertaken by the [CSO’s Name] Programs. The [CSO’s Name] has a number of key programs such as – HIV /AIDS program, heath & nutrition program, disaster management program, environment preservation program, Human Rights protection program etc.

rr) **“Working Capital Fund”** - a fund established to ensure continuity of operations in accordance with Regulation

**1. INTRODUCTION**

**1.1 General Scope:**

1.1.1 [CSO’s Name] is a non-governmental organization as per the definition provided in the Sri Lanka Statement of Recommended Practice for Not-for-Profit Organizations (including Non-Governmental organizations).

[It is/is not registered with the Department of Social Services and has been established under the Social Services Act No. of ………….].

1.1.2 The organization has been incorporated under the Companies Act No……...... of Sri Lanka as a company limited by guarantee. In the event that the company is wound up the liability of members is limited to Rs. …… per member]. [The Organization has been established under the Trust Ordinance of Sri Lanka].

The principle place of activity of the organization is located at …………..

1.1.3 Finance policies, procedures, and regulations – rules are set out here to exercise the power of the [CSO’s Name] in terms of the constituted Memorandum and Article of Association. All rights to interpret and modify these rules shall be reserved the Governing Body. These rules shall apply to every person in full time employment of the [CSO’s Name] provided that, unless otherwise provided in these rules.

1.1.4 All powers in these rules shall be exercised by the ED provided that it shall be open to the ED, to delegate any of the powers to any officer subject to any conditions which he may think fit to impose.

1.1.5 Where the Governing Body is satisfied that the operation of any rule under these rules causes hardships in any individual case, the requirement of that rule may be relaxed by the Governing Body for dealing the case in a just and equitable manner.

* 1. **Purpose**:

1.2.1 The purposes of these Finance Policies and Procedures are to:

1. implement the Finance Regulations approved by the Governing Body;
2. provide adequate controls and safeguards to protect against the loss or unauthorized use of [CSO’s Name]’s assets across all offices and activities;
3. ensure that all financial transactions are carried out and recorded in a manner that adheres to Sri Lanka Statement of Recommended Practice for Not-for-Profit Organizations (SL SoRP – NPOs), with due regard to the mission and objectives of the [CSO’s Name].
4. define and document the operating controls to be followed by the Finance Unit and to ensure standardization of policies and procedures followed across all the offices; and

e) provide a suitable and detailed framework to govern finance transactions across all offices and activities, and provide clear rules to [CSO’s Name] personnel for smooth and correct execution of their duties.

1.2.2 These Policies and Procedures apply to all activities concerning Budget preparation, Budget execution, Budget monitoring and accounting transactions of [CSO’s Name], including payments processing, payroll and other expenditure processing, cash and bank accounts, fixed assets, investments, financial reporting, revenue recognition, liabilities, and other financial transactions.

1.2.3 These Financial Policies and Procedures accommodate the requirements spelled out in the agreement between the respective donor and the [CSO’s Name] including preparation of corresponding budget, reporting requirements that include audited Financial Statements, a Variance Report, and comparing actual expenditure with the approved budget, together with a corresponding narrative Progress Report.

1.2.4 The financial period in respect of the budget for the purpose of both the proposed utilization of resources and the incurring of and accounting for expenditures shall consist of two calendar years starting from 1 January of one year until 31 December of the subsequent year

1.2.5 The ED shall develop Financial Policies and Procedures for the [CSO’s Name] as may be appropriate for the implementation of these Financial Regulations and shall report thereon to the Governing Body. The ED shall report to the Governing Body the full text of new or amended Financial Policies and Procedures. The Governing Body may direct that a procedure or an amendment be withdrawn or modified if it finds that the procedure or amendment is inconsistent or otherwise contravenes the objectives of the [CSO’s Name].

1.2.6 All queries on the interpretation of these Financial Manual or any matters not covered shall be addressed to the ED.

*[Refer* ***Annex I*** *for Financial Regulations, that will be part and parcel of the financial policies and procedures of the [CSO’s Name]. These Financial Regulations shall govern the financial administration of all the [CSO’s Name] Offices and activities].*

* 1. **Governing Body - Responsibilities**

1.3.1 The Governing Body of the [CSO’s Name] is jointly responsible for the management of the funds of the [CSO’s Name]. By delegation, ED shall administer the funds by carrying out the directives of the Governing Body.

1.3.2 The Governing Body of the GDF shall cause the accounts of the [CSO’s Name]to be kept regularly and shall cause the accounts in respect of each financial year to be audited by a firm of Chartered Accountants elected annually by the Governing Body

1.3.3 The Governing Body and the officials delegated with authority should ensure that the operations of the funds of the [CSO’s Name] is supervised and managed in the best interest of the [CSO’s Name] and in full compliance with the provisions in the Company’s Act, Rules framed under this Manual, decisions taken by the Governing Body of the [CSO’s Name], Donor Agreement and various guidelines issued in relation to the operations of NPO by NGO Secretariat from time to time.

1.3.4 Governing Body of [CSO’s Name] would also review project progress, resolve impediments, sanction annual plans, provide policy reforms and strategic support, and act as guardian of rules.

1.3.5 The Governing Body of the [CSO’s Name] shall follow generally accepted accounting principles, procedures and Sri Lanka Accounting Standards, Sri Lanka statements of recommended profit for not-for profit organizations as far as applicable in maintaining the accounts and rendering the annual financial statements.

**1.4 Implementation and Compliance**

1.4.1 The instructions contained in these Policies and Procedures are to be read in conjunction with the provisions of the Act of Establishment, the Financial Regulations, the Sri Lanka Statement of Recommended Practice for Not-for-Profit Organizations (SL SoRP – NPOs), the Delegation of Authority, the Code of Conduct and other documents governing the operations of [CSO’s Name] and subsequent directives promulgated by the ED.

1.4.2 These Finance Policies and Procedures elaborate on the manner in which the governing principles of the Financial Regulations are to be implemented. In the event of any conflict between any provisions of these Financial Policies and Procedures and the Financial Regulations, the Financial Regulations shall prevail.

1.4.3 The Finance Unit shall be responsible for implementing these Finance Policies and Procedures, as well as preparing and disseminating guidance and training to [CSO’s Name] personnel on implementation and compliance with these Policies and Procedures.

1.4.4 All personnel of [CSO’s Name] shall take it upon themselves to acquire a thorough understanding of these Finance Policies and Procedures and ensure that they attend training applicable to their job function and duties offered in relation to these Finance Policies and Procedures and the Financial Manual.

 **1.5 Exceptions to Finance Policies and Procedures**

1.5.1 All violations of the Finance Policies and Procedures shall be reported to the ED or the Finance Manager.

1.5.2 In the event circumstances exist which render it impractical or impossible to fully comply with any provision of these Finance Policies and Procedures, the request for exceptional treatment shall be presented to the ED for prior approval.

1.5.3 The request for exceptional treatment, including the reasons presented in justification for not being able to follow the Finance Policies and Procedures and the approval of the ED allowing such exception shall be recorded in writing and shall be part of the supporting documents of the relevant transaction.

1.5.4 All individuals are responsible for the actions taken by them in the course of their official duties, and any [CSO’s Name] personnel who takes action contrary to the Financial Regulations, the Delegation of Authority or these Finance Policies and Procedures may be determined to have engaged in misconduct and subject to disciplinary measures or contractual sanctions, as applicable, and/or held financially liable for the consequences of their actions.

**2. GENERAL ACCOUNTING PRINCIPLES**

**2.1. General Underlying Assumptions**

2.1.1 **Sri Lanka Accounting Standards (SLFRS Framework):** [CSO’s Name]’s Financial Statements are prepared and presented based on Sri Lanka Statement of Recommended Practice for Not-for-Profit Organizations (SL SoRP – NPOs). This SL SoRP recognizes the requirements of the Sri Lanka Accounting Standards with regard to recognition and measurement. The Sri Lanka Accounting Standards (SLASs) are based on International Financial Reporting Standards (IFRS).

2.1.2 **Going Concern:** Financial Statements shall be prepared on a going concern basis unless there is an intention to liquidate the Organization or to cease operating, or if there is no realistic alternative but to liquidate or cease operating. If such an intention or need exists, the Financial Statements shall be prepared on a different basis and, if so, the basis used will be disclosed.

2.1.3 **Accrual Basis Accounting**: Financial Statements, except for cash-flow information, are prepared under the accrual basis of accounting; the effects of transactions and other events are recognized when they occur (and not as and when cash or its equivalent is received or paid) and reported in the Financial Statements of the periods to which they relate. Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching concept). In addition, accrual accounting entails recording non-cash transactions such as depreciation, provisions, bad debts, etc. Non-cash transactions have a monetary value and contribute to the business unit’s financial position.

2.1.4 **Consistency of Presentation**: The presentation and classification of items in the Financial Statements shall be consistent from one period to the next unless:

a) There is a significant change in the nature of the operations of the Organization or a change in presentation will result in a more appropriate presentation of events or transactions; or

b) The change in presentation is required by an SLFRS/ IAS or an Interpretation.

2.1.5 **Changes in Accounting Estimates:** Changes in accounting estimates may occur as a result of changes in the circumstances on which the estimate was based or because of new information, more experience or subsequent developments. Changes in accounting estimates do not, by their nature, relate to prior periods and are not the corrections of errors. Where it is difficult to distinguish a change in an accounting estimate from a change in accounting policy, the change is treated as a change in an accounting estimate. For example, a change from carrying assets at historical cost to carrying them at Fair Value is a change in accounting policy, not a change in an accounting estimate. The effect of a change in an accounting estimate is to be recognized prospectively (that is, from the date of change) by including it in the consolidated statement of income in:

a) The period of the change, if the change affects that period only; or

b) The period of the change and future periods, if the change affects both.

Where changes in estimate may impact both assets and liabilities, or relate to an equity item rather than impacting profit or loss, the change is recognized by adjusting the carrying amount of the related assets and liabilities or the item of equity in the period of the change.

2.1.6 **Errors:** Errors may occur in the recognition, measurement, presentation or disclosure of elements in the Financial Statements. The consolidated Financial Statements do not comply with SLFRS if they contain material errors. SLAS 10 and IAS 8 require that adjustments to correct material errors are made retrospectively by amending comparatives and restating retained earnings at the beginning of the earliest period presented.

**2.2. Qualitative Characteristics of Financial Statements**

2.2.1 **Understandability**: The user should be able to understand the Financial Statements. All the relevant factors should be presented including all the complex matters that are material and relevant. Important factors cannot be ignored due to their inherited complexity.

2.2.2 **Materiality**: Information has quality of relevance when it influences the economic decision of users by helping them evaluate past, present or future events, or confirming or correcting their past evaluation. Materiality is a component of relevance. The information is material, if its omission or misstatement could influence the economic decision users take on the basis of the Financial Statement.

2.2.3 **Reliability**: Information must be reliable if it is to be useful. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

2.2.4 **Relevance:** Information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences, in normal circumstances the economic decisions and in the case of [CSO’s Name]’s the socio economic decision of users, by helping them evaluate past, present or future events or confirming or correcting their past evaluations. The relevance of information is judged by its nature and materiality.

2.2.5 **Comparability:** The measurement and display of the financial effect of similar transactions and other events must be consistent throughout any accounting period and over the tenure of the [CSO’s Name]. Accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes must be disclosed in the financial statements

2.2.6 **True and Fair View:** The financial statements should present a true and fair view of the results for the period and of the state of affairs at the end of the period. Where there is doubt that the application of any of the provisions of the SL SoRP would give a true and fair view, adequate explanation should be given in the notes to the accounts of the transaction or arrangement concerned, and the treatment adopted.

**3. BUDGETS**

**3.1. Budgeting Framework**

3.1.1. Planning directions will be established by [CSO’s Name]’s management in relation to each Budget period. The planning directions will provide guidance for the preparation of the Work Program and Budget for each biennium budget. In undertaking the preparation of the Work Program and Budget, [CSO’s Name] personnel shall adhere to the principles and approaches of the planning directions.

3.1.2. Budgeting activities shall aim to produce a coherent results-based Work Program and Budget that incorporates programmatic and operational priorities of [CSO’s Name] over the Budget period that are in line with the framework and guidance set out in the planning directions through:

a.) Activities that support decision making for achieving better accountability through integration between strategic planning and budgeting throughout the organization's hierarchy.

b.) Facilitation of flexibility in the adjustment of budget-related activities to match changes in strategic and operational priorities direction.

This includes the budget planning process, periodic reviews, reallocation of resources and the application of systems and processes.

3.1.3. Budgeting activities shall be carried out in accordance with Article 3 of the Financial, and shall reflect congruence with the existing organizational structures so as to enhance accountability.

**Revisions (Section 3.4)**

**Planning and Preparation (Section 3.2)**

**Implementation and Monitoring (Section 3.3**)

•Changes in approved Budget for successful delivery of Work Program through: •Reallocation •Realignment •Rescheduling

•Periodic reporting and reviews for compliance with approved Budget

•Preparation of planning directions •Preparation of budgets •Approval of Budget

**3.2. Budget Planning and Preparation Process**

3.2.1 The planning directions shall indicate (i) the programmatic and operational priority areas that will either build on achievements of prior period or reflect new directions in context of mid-term strategic plan, and (ii) the timelines for the milestones. This will provide the basis of “top-down” organization-wide planning.

3.2.2 Budgeting guidelines and related templates shall provide instruction on how to arrive at best possible budget estimates for priorities identified in the planning directions.

3.2.3 The planning directions and budgeting guidelines will be used by the respective organizational units in preparation and submission of their budgets following a “bottom up” and integrated budget preparation process within a given budgetary ceiling. *(Template References No FM 001 – Budget Estimate and Projected Cash Flow of Sample Organization and No FM 002 - Sample Multi-Program Line-Item Budget)*

3.2.4 The Work Program and Budget (WPB) shall be prepared for the biennium, and each year of the Budget shall follow the [CSO’s Name] financial year in accordance to the Regulations 2.6 of the Financial Regulations. Budgeting for earmarked projects shall also follow the [CSO’s Name] financial year, notwithstanding whether the beneficiaries and/or donor has a different financial year. Supplementary budget that starts in the middle of one financial year and continue into the next financial year shall also follow the [CSO’s Name] financial year. Such a budget shall be split to match the financial year within which the related activities fall.

3.2.5 All Budgets shall be prepared and maintained in the functional currency of the [CSO’s Name], which is the Sri Lankan Rupees (“LKR”). The LKR shall also be the functional currency for earmarked projects, even if the earmarked contribution is provided in a foreign currency.

3.2.6 The presentation and content of the draft Work Program and Budget shall be in accordance to the Regulation 3.2 of the Financial Regulations. The Work Program and Budget for the financial period shall be adopted by the Governing Body, after due consideration of the draft Work Program and Budget estimates. The ED shall arrange for the publication of the Work Program and Budget as approved by the Governing Body.

3.2.7 The diagram below shows the key steps of the budget planning and preparation process from the issuance of planning directions and guidelines to the approval of the Budget by the Governing Body.

**Biennium Budget Preparation Flowchart Processes**

Issuance of Budget Guideline and Planning Direction to Divisions

Issuance of Budget Ceilings with Division

Preparation of WPB at Project and Unit level

Preliminary Review of Submission

Provision of budgeted amounts scheduling, compliance with planning directions, Donor Agreement based on feedback from the M&E Unit

Revision of qualitative and quantitative details based on feedback from OED (Strategy Issues) and Corporate Division

Mid -Term Review

Submission of proposed WPB to MPCS for review by ED

Consolidation of First Draft of WPB

 Final Consolidation

Submission of proposed WPB to Governing Body

Approval of proposed WPB by Governing Body

3.2.8 The roles and responsibilities for the planning and preparation of Budgets are shown below.

|  |  |  |
| --- | --- | --- |
| Roles | Internal | External |
| Title | Responsibilities | Title | Responsibilities |
| Approval | ED  | Responsible for sign-off on the Budget before it is presented to the Governing Body or the Governing Body. | Governing Body or the Governing Body. | Final approving authority of the Budget before submission to Governing Body |
| Processing the Budget Preparing and Coordination | Finance Unit (Finance) | Responsible for the accounting and finance activities across the organization. Finance Unit is also responsible for uploading, administering, monitoring and reporting of the Budget. |  |  |
| Human Resources Unit (HR) | Responsible for providing necessary information about established posts, new posts, and reclassification and redeployment of established posts to ensure proper review of post level and other related requirements. |  |  |
| Monitoring and Evaluation Unit (M&E) | Responsible for • Ensuring the programmatic priority areas are well incorporated in the Work Program and Budget at the budget planning and preparation stage • The monitoring and Evaluation activities in project level and organizational level in coordination with the relevant Programmatic Division |  |  |
| Office of the Executive Director (OED) | Responsible for leading the planning and preparation of Work Program and Budget for the budget period. |  |  |
| Recommendation | Division Head (DH) | The official responsible for the formulation and delivery of a program, sub-program and project within the [CSO’s Name] Strategic Plan. | Management and Program Sub-Committee (MPSC) 3.5.3 | Assist the Governing Body in carrying out its responsibilities in overseeing the [CSO’s Name] by review the budget. |
| Project Manager (PM) | Responsible for formulation and delivery of a project authorized by the Division Head as well as preparation of any prerequisites for Budget preparation and implementation | Recommend approval for supplementary and revised budgets |

**3.3. Implementation and Monitoring**

In relation to Regulations 3.8 of the Financial Regulations, the ED shall establish a system (budget performance and evaluation) for measuring performance against the approved Work Program and Budget

3.3.1 The Finance Unit is responsible for overseeing and monitoring the administration of Budget appropriations to ensure that expenditures incurred remain within the structure approved by the Governing Body. Coding shall be established to reflect the mappings of the structure at the sub-program, project or office level during Budget implementation. *(Template Reference No FM 003 – Worksheet for Monthly Operating Cash Flow Projection versus Monthly Actual).*

3.3.2 The Budget shall be monitored on a monthly basis for staff and non-staff expenditures. The Finance Unit shall prepare variance reports showing the actual achievement in a format consistent that of the approved Budget. The format of the variance reports shall be consistent with that of the original Budget and shall contain:

a) the Budget;

b) actual expenditure vis-à-vis the Budget;

c) variance (year to date); and

d) forecast for the remaining period of the year.

*(Template Reference No. FM 004 - Income and Expenditure Variance Analysis)*

3.3.3 The Finance Unit shall alert the officer with authority over the budget for the respective organization unit or project if unusual patterns of expenditure occur – e.g. sudden increase in expenditures for one particular object, over-spending in another object, or no expenditure or under-expenditures for yet another object. If necessary, the Finance should draw the attention of Program Managers to identify the corrective measures needed as indicated in 3.4 below.

3.3.4 Monthly vacancy reports shall be prepared by the Human Resources Unit showing the authorized positions, their status, name of the incumbent, and source of funding (core or earmarked). Any revisions in the positions shall be made with reference to the approved resource plan for the approved Budget and all such revisions must be authorized by the ED.

3.3.5 The officer with authority over the budget for the respective organization unit or project shall review the monthly variance report, and identify corrective measures as needed as outlined in 3.4 below.

**3.4. Budget Revisions**

3.4.1 Given the ever-changing circumstances which may arise in the implementation of the Work Program of the organization, there is need for a certain measure of flexibility for incurring expenditures. The ED is permitted to reallocate expenditures within Program Budgets, and the ED has delegated to Division Heads the authority to revise their respective Program Budgets.

3.4.2 Budget revisions may include efficient utilization of resources, improved implementation of work programs, redeployments and streamlining procedures and processes.

3.4.3 The Budget revisions shall be consistent with the planning direction and budget guidelines for the approved Budget for the budgeting cycle and may include:

a.) Reallocations of budget amounts across organizational units and budget groups;

b.) Rescheduling of budget amounts across budgeting periods; and/or

c.) Realignment of budget amounts across budget groups;

provided, that reallocation of expenditures between different Program budgets shall be reported to the Management and Program Sub-Committee (MPSC) and the Governing Body as part of the normal Budget reporting process.

3.4.4 The presentation and content of the revision shall be in accordance to the regulation appended under footnote 6 in the above

3.4.5 The Finance Unit shall make updates for Budget revisions approved in accordance with the Delegation of Authority to incorporate approved redeployments, supplementary program activities, revised estimates and/or unforeseen and extraordinary expenditures.

3.4.6 Budget revisions shall be reported to the MPSC and the Governing Body in its subsequent session.

3.4.7 In the case of revisions to budgets for Projects financed with earmarked funds, the reallocation criteria and approvals, if any, set out in the agreement between [CSO’s Name] and the relevant donor shall be followed.

**3.5. Supplementary Budget**

3.5.1 In accordance with Financial Regulation 3.7, in the event new Project or scoping activities require financial resources greater than the approved Budget, the concerned Division Head shall prepare a submission using the same process and documents for the preparation of the biennium Work Program and Budget.

3.5.2 Where supplementary resources in excess of the approved Budget is required, the ED shall submit a Supplementary Work Program and Budget to the Governing Body with prior submissions to the MPSC for their recommendations on the adoption of the proposed budget.

3.5.3 In accordance with Financial Regulation 3.3, the ED may approve additions to [CSO’s Name]’s portfolio of projects and scoping activities that can be accomplished within the approved Budget amount for the financial period. The ED shall report on the progress of such additional projects and scoping activities to the Governing Body.

3.5.4 The table below presents the recommended timelines for the update of Budget revisions by the Finance Unit in order to facilitate efficient and effective implementation of Budgets.

|  |  |
| --- | --- |
| Revision Type | Recommended Timeline(s) |
| Additional Projects - Program Countries and Scoping | By end of 2nd Quarter |
| Supplementary Budget | By the end of the 1st Quarter |
| Revisions of Approved Budget within Division | By end of 2nd Quarter |
| Revisions of Approved Budget between Divisions | By end of 2nd Quarter |

**4. FIXED ASSETS**

**4.1. General Underlying Assumptions**

4.1.1 All assets shall be managed in accordance with SLAS in compliance with IAS2, IAS16, and IAS38.

4.1.2 An asset shall be recognized by [CSO’s Name] as a Fixed Asset when:

a) [CSO’s Name] has physical control of the asset and expects the asset to provide future economic benefits;

b) The cost of the asset (including the transfer risk and reward) can be measured;

c) The cost of the asset is above the threshold mentioned in the Capitalization Policy described below.

**4.2. Capitalization Policy**

4.2.1 All expenditures for individual capital assets of at least Rs.10,001/- in value shall be capitalized and depreciated/ amortized using the Estimated Useful Life if:

1. the asset is expected to be used for a period of more than 12 months; and

b) the asset is used or controlled by [CSO’s Name] (at main offices, at a regional office, or at a Project site).

4.2.2 Any asset with a value less than Rs. 10,001/- shall be expensed directly.

4.2.3 All items of Property, Plant and Equipment that meet the recognition criteria shall be recorded in the Fixed Assets Register. At a minimum, the following details shall be recorded:

a) date of purchase, cost and description of asset;

b) asset class, useful life, depreciation rate and method;

c) warranty and serial number; and

d) location of asset and custodian name.

**4.3. Recording**

4.3.1 Assets acquired in all locations shall be booked in enterprise resource planning (ERP) system (or Accounting Information Systems – AIS, like QuickBooks accounting or SAP accounting system) within the same calendar month of acquisition.

4.3.2 The initial recognition of the asset shall be at cost. The cost of a fixed asset item comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition. The total cost shall not include any trade discounts, rebates and other refundable costs.

4.3.3 For assets that have been acquired at no cost (gift, donations, etc.), the cost of the item shall be its Fair Value at the date on which it was acquired. Fair Value shall be determined by either the market value of comparable assets or by an independent evaluator.

4.3.4 For assets acquired in exchange of a dissimilar item, the cost of the acquired item shall be measured at the Fair Value of the asset received, which is equivalent to the Fair Value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

4.3.5 For assets acquired in exchange of a similar asset that has similar use in the same line of business and which has a similar Fair Value, no gain or loss shall be recognized.

4.3.6 Subsequent expenditure on the fixed asset shall only be recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. However, expenditures related to the maintenance of the asset to restore or maintain the future economic benefits, shall be recognized as an expense when incurred.

**4.4. Class of Asset and Depreciation**

4.4.1 [CSO’s Name] shall use straight line depreciation method.

4.4.2 Depreciation shall be charged on an annual basis. For assets acquired in the middle of the year, a pro-rated depreciation shall be charged for that year.

4.4.3 Depreciation expenses commence as per monthly convention where the asset is depreciated from the month it is acquired and put to use.

4.4.4 There are no residual values for any fixed assets following full depreciation.

4.4.5 The Estimated Useful Life for each asset class and sub-class is shown in the table below:

|  |  |  |
| --- | --- | --- |
| *Asset class* | *Depreciation method* | *Estimated Useful Life in Months* |
| Land | Not Applicable | No Depreciation |
| Office Equipment | Straight line | 60 |
| IT Equipment | Straight line | 36 |
| Furniture and Fixtures | Straight line | 60 |
| Vehicle | Straight line | 60 |
| Office Improvement | Straight line | 24 |

**4.5. Funding Categories for Assets**

4.5.1 [CSO’s Name] assets can be acquired through use of core funds and/or earmarked funds, each as defined in Regulation 4.2

4.5.2 Where assets are acquired through:

a. Core funds, the assets shall be capitalized and the depreciation will be charged as corporate shared cost in a dedicated Project code.

b. Earmarked funds, the assets shall be capitalized and depreciation will be charged to the earmarked Project. Upon termination or closure of Project, the residual value of the asset shall be fully charged to the Project.

**4.6. Physical Count**

4.6.1 Physical count of all assets shall be carried out every six (6) months under the supervision of the Finance Unit for the main office. This shall be approved as per the Delegation of Authority.

4.6.2 All differences between the physical status and General Ledger status shall be investigated by Finance Unit. Any adjustments/ write-offs shall be approved as per the Delegation of Authority.

4.6.3 For losses amounting to less or more than Rs 100,000/-, which may occur at any time during the year or during the physical count shall be written off with documented justification, after relevant approvals as per the Delegation of Authority.

4.6.4 A summary statement of losses of non-expendable property shall be provided at the request of the External Auditor within three months following the end of the financial period.

**4.7. Revaluation**

4.7.1 Revaluation of a fixed asset shall be carried out when there is a material change in the market price of an asset. After revaluation, the asset shall be carried at its Fair Value, less any accumulated depreciation.

4.7.2 If an item of a particular asset class is revalued, then the entire class of the asset shall be considered for revaluation.

4.7.3 If the revaluation results in increased value of carrying amount, then the increase shall be credited to revaluation surplus. However, the increase shall be recognized as revenue only to the extent it reverses a revaluation decrease of the same class of assets previously recognized as an expense, and as per SLAS guidance.

4.7.4 Assessment of a requirement of revaluation of assets shall be carried out at least yearly.

**4.8. Impairment**

4.8.1 Assets shall be tested for impairment annually at each reporting date.

4.8.2 An Impairment loss shall be recognized when the recoverable amount of the asset falls below its carrying amount or book value. The impairment loss shall be expensed in the Financial Statements as per SLAS guidance.

**4.9. Retirement and Disposal**

4.9.1 A fixed asset shall be eliminated from the Financial Statements when:

**a.** it is obsolete, outdated, broken, lost or cause excessive maintenance or repair costs;

**b.** it does not have future use for [CSO’s Name] (for example, due to closure of office and impracticability of transfer to another office);

**c.** it does not have future economic benefit;

**d.** it is sold to a third party; or

**e.** The donor requests [CSO’s Name] to return the asset upon completion or closure of an earmarked Project in accordance with the provisions of the related agreement.

4.9.2 Gains or losses arising from the retirement or disposal of an item of the fixed asset shall be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, within the financial period.

**5. INTANGIBLE ASSETS**

**5.1. General Underlying Assumptions**

5.1.1 An asset shall be recognized by [CSO’s Name] as an intangible asset when:

a) The asset is identifiable, as follows:

- it is separable, that is, is capable of being separated or divided from [CSO’s Name] and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether [CSO’s Name] intends to do so; or

- It arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from [CSO’s Name] or from other rights and obligations; and

b) It meets the following recognition criteria:

- it is more probable than not that the expected future economic benefits or service potential that are attributable to the asset will flow to the Organization; or

- the cost or Fair Value of the intangible asset can be measured reliably and it satisfies capitalization threshold requirement of Rs 10,000/- for new additions and Rs 25,000/- for internally developed intangible assets.

5.1.2 [CSO’s Name] shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent the best estimate of the set of economic conditions that will exist over the useful life of the asset.

**5.2. Recognition**

The initial recognition of the asset shall be at cost or Fair Value (if obtained from a non-exchange transaction). Internally generated goodwill shall not be recognized as an asset. For internally generated intangible asset, no intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, [CSO’s Name] can demonstrate all of the following:

a) The technical feasibility of completing the intangible asset so that it will be available for use;

b) Its intention to complete the intangible asset and use it;

c) Its ability to use the intangible asset;

d) How the intangible asset will generate probable future economic benefits or service potential;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

5.2.1 Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognized as intangible assets.

5.2.2 Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

5.2.3 After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

5.2.4 [CSO’s Name] shall assess the length of the Estimated Useful Life of the asset, which shall also be reviewed at each reporting period.

**5.3. Amortization**

5.3.1 [CSO’s Name] shall use straight line amortization method.

5.3.2 Amortization shall be charged on an annual basis. For intangible assets acquired in the middle of the year, pro-rated depreciation shall be charged for that year.

5.3.3 Amortization expenses commence as per monthly convention where the intangible asset is amortized from the month it is acquired and put to use or the acquisition is reported to the Finance Unit.

5.3.4 All intangibles shall have a zero residual value following full amortization.

5.3.5 The Estimated Useful Life for intangible assets are as follows:

|  |  |  |
| --- | --- | --- |
| *Class*  | *Amortization method* | *Estimated Useful Life in Months* |
| Software acquired | Straight line | 36 |
| Internally developed Software | Straight line  | 36 |
| Software licences acquired | Straight line | 12 |

**5.4. Retirement and Disposal**

5.4.1 Intangible asset shall be eliminated from the Financial Statements when:

1. An intangible license or right expires;
2. It does not have future use in [CSO’s Name] (due to closure of office etc.); or
3. It does not have future economic benefit.

**6. REVENUE AND RECEIVABLES**

**6.1. Sources of Revenue**

6.1.1 In accordance with Financial Regulation 4.1, [CSO’s Name]’s sources of revenue are:

a) Core contributions;

b) Other contributions and

c) Miscellaneous income.

**6.2. Recognition**

6.2.1 Core Contributions: The income from core contributions shall be recognized when [CSO’s Name] receives the contribution[[1]](#footnote-1).

6.2.2 Other Contributions: Income from other contributions that comply with Financial Regulation 4.4 shall be recognized on receipt of the contribution.

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6.2.3 Miscellaneous Income: Income classified as miscellaneous income in accordance with Financial Regulation 4.6 shall be recognized when due and payable to [CSO’s Name].

6.2.4 Matching principle shall be applied for all contributions and reasonable judgment shall be made to ensure that only applicable revenue for the year is recognized. Contributions for the following year shall be accrued.

**6.3. Contributions Reporting**

6.3.1 On a monthly basis status of core contributions will be prepared by the Finance Unit and shared with the Management Team in order to facilitate communication with the Members. This report shall show the total contributions received and due from each Member for each year, including the current year.

6.3.2 [CSO’s Name] may enter into formal agreements or contracts with donors, thereby committing themselves to deliver/perform service/work to be financed by the respective donors[[2]](#footnote-2).

**6.4. Management of Contributions**

6.4.1 In accordance with Financial Regulation 6.3, core funds of [CSO’s Name] shall at all times and in all respects be held, used, committed or invested entirely separate from earmarked funds. All core funds shall be pooled and maintained using a dedicated bank account.

6.4.2 In accordance with Financial Regulation 6.3, each earmarked contribution, its resources and accounts shall be kept entirely separate from other earmarked contributions.

6.4.3 Withdrawals and advances from and reimbursements to the Working Capital Fund shall be undertaken pursuant to and in accordance with Financial Regulation 6.2[[3]](#footnote-3).

6.4.4 Dedicated trust funds and accounts and earmarked funds (restricted funds) may be established by the ED in accordance with Financial Regulation 6.3 e)[[4]](#footnote-4).

6.4.5 Pursuant to Financial Regulation 6.4, a capital expenditure fund may be established to manage investments that involve capital expenditure, as defined therein[[5]](#footnote-5).

6.4.6 Pursuant to Financial Regulation 6.5, reserve funds may be established with the approval of the Governing Body to finance obligations in relation to the long-term financial stability or going concern nature of [CSO’s Name][[6]](#footnote-6).

6.4.7 Managing Excess Contributions: If a Member remits excess core contribution to [CSO’s Name] to the extent that the excess does not pertain to exchange gain, then only the amount due for the current year and any arrears should be recorded in the books. The excess amount shall appear in the account of the Member as a credit balance, unless otherwise agreed between the Member and [CSO’s Name]. Excess Contributions may be adjusted against contributions pertaining to later years subject to confirmation from the Member.

6.4.8 Managing Short Contributions: In the event that an incoming core contribution which is less than the agreed amount and the difference does not arise from exchange gain or loss or bank charges, only the amount actually received by [CSO’s Name] shall be recorded and credited to the General Fund.

**6.5. Receipt of funds**

6.5.1 An official receipt shall be issued for all cash and negotiable instruments received.

6.5.2 Only the Finance Unit shall be authorized to issue official receipts. If other officials receive money intended for [CSO’s Name], they shall immediately notify the Finance Unit and transmit the funds received as directed by the Finance Unit.

6.5.3 All monies received shall be deposited into an official [CSO’s Name] bank account.

**7. BANK TRANSACTIONS**

**7.1. General Guidelines Bank Account Management**

7.1.1 In selecting financial institution for banking, the following considerations shall be taken into account:

a) The financial strength and credit worthiness of the bank

b) The reputation, reliability and geographical availability;

c) The cost of services of the bank;

d) The ability of the bank to handle business in [CSO’s Name]’s best interests;

e) The efficiency in foreign exchange dealings and international money transfers; and

f) The bank being an insured institution under a government-backed deposit insurance scheme.

7.1.2 The ED shall authorize all bank account openings and closures and designate those officials to whom signatory authority is delegated for the operation of those accounts. [CSO’s Name]’s accounts shall be opened and operated in accordance with the following guidelines:

a) Bank accounts shall be designated as “official accounts of [CSO’s Name]”.

b) Banks shall be required to provide prompt monthly statements.

c) All modes of payment or withdrawal instructions shall require two signatories.

d) All banks shall be required to recognize that the ED is authorized to receive, upon request or as promptly as is practicable, all information pertaining to official bank accounts of [CSO’s Name].

e) The bank shall be clearly informed not to honor payments that exceed the individual authority limits. Bank mandates shall exclude payment instructions by fax or telex.

7.1.3 With no exception, all bank accounts shall be in the name of [CSO’s Name] and not in the name of any [CSO’s Name] personnel, office or any other organization. No joint accounts shall be opened.

7.1.4 The number of bank accounts shall be kept to a minimum. Regional Offices shall normally operate one bank account to receive transfers from main office bank accounts, depending on the requirements. Maximum of available funds shall be retained in the main office bank account for as long as possible before transfer to the regional bank account.

7.1.5 For establishing and administering bank accounts, comprehensive banking information shall have to be entered, logged and updated by the Finance Unit. The Finance Unit shall maintain a permanent file containing key correspondence with banks (bank contracts, short-term investments, bank guarantees, amendments to the banks mandates, changes to signatories etc.).

7.1.6 The Finance Unit shall send to the bank the specimen signature card of all the authorized signatories. Any changes in the authorized signatories or in their financial limits shall be immediately communicated to the bank.

7.1.7 Bank signatory authority and responsibility is assigned on a personal basis and cannot be delegated.

7.1.8 Designated bank signatories shall ensure that checks and other banking instruments are properly safeguarded and that they are destroyed when they become obsolete.

7.1.9 Bank signatories shall ensure that there are sufficient funds in the bank account when cheques and other payment instructions are presented for payment, and shall verify that all payment instructions, including cheques, are dated and drawn to the order of the named payee as indicated in the accompanying disbursement voucher, payment instruction and invoice.

**7.2. Bank Receipts and Payments**

7.2.1 All monies received shall be in the name of [CSO’s Name] and not in the name of any personnel of [CSO’s Name] or any third party.

7.2.2 All payment instruments shall be received by the Finance Unit of [CSO’s Name].

7.2.3 All funds received for [CSO’s Name] shall be deposited only into official accounts of [CSO’s Name]. Notwithstanding the foregoing, funds may only be deposited into a bank account opened for regional office banking following written approval by the Finance Unit.

7.2.4 In offices where manual payments are initiated or processed the supporting documents shall be affixed with stamps of “Paid”, “Received” and “Date” including for transfers.

**7.3. Disbursements and Payments**

7.3.1 The payment process is the last action in the settlement of an obligation. It is the physical action of paying out money after all verifications, checks and controls have been carried out. The invoice/receipts shall be presented and the disbursement shall be approved in accordance with the Delegation of Authority based on the determination that the transaction is valid and is in accordance with the relevant policies.

7.3.2 All disbursements and payments shall be made by cheque, wire transfer or use of an Electronic Banking System (“EBS”) which is recommended where feasible, or exceptionally to the extent permitted under these Finance Policies and Procedures and in accordance with the Delegation of Authority by cash disbursement or use of credit cards. Access to EBS shall be approved by the authorized bank signatories.

7.3.3 No transaction shall be posted in the ERP system (or AIS like QuickBooks or SAP accounting system) without the support of original source documents. Supporting documents shall include scanned copies of invoices. Where an invoice is not submitted, on an exceptional basis, [CSO’s Name] shall reimburse up to Rs 2,500/- for each instance. A written justification shall be required from the relevant department and approved by the Finance Manager.

7.3.4 Payments to vendors/suppliers shall be made within the term limit from the date of receipt of correct invoices (or based on the contractual agreement), unless otherwise stated in the vendor’s/supplier’s contract or purchase order.

7.3.5 No payment shall be split to bypass the signatory limit.

7.3.6 All payments shall be processed every Thursday and all approvals for such shall reach finance no later than Friday of the previous week.

7.3.7 All payments shall be made in the name of legally contracted relevant vendor/ supplier/ contractor as stated in the contract or purchase orders. No payments shall be issued to specific individuals of a vendor/supplier/contractor unless it is stated in the contract or purchase order.

7.3.8 Payments shall be recorded in the accounts as at the date on which they are made, that is, when the cheque is issued, transfer is affected or cash is paid out.

7.3.9 All disbursements shall be completed within 30 days of receipt of the duly completed invoices and supporting documentation from suppliers which are due for payment.

7.3.10 Payments for any specific expenditures shall be prepared by persons other than those who initiated or approved any documents that gave rise to the disbursements.

7.3.11 [CSO’s Name] shall bear all bank transfer fees charged by the [CSO’s Name] sending bank for all payments made from [CSO’s Name] bank accounts. [CSO’s Name] shall not bear any bank charges or fees charged by the receiving bank or any correspondent bank.

**7.4 Payment by Cheques – General Instructions**

7.4.1 Drawing of Cheques

1. Cheques should be written such a way that space is not left for fraudulent interpolations before or after the words or figures written on the cheque. A line should be drawn to fill the blank space left after what is written.
2. In writing the date of the cheque, the month should be written in words.
3. Indelible ink should be used in writing cheques unless a computer or a cheque writer is used.
4. Where payee is denoted by designation, it should be written in full and abbreviations should not be used.
5. When a cheque is drawn in favour of a bank to the credit of payee account, the name and account number of the payee should be written on the body of the cheque or on the reverse and authenticated by the paying officer.
6. All cheques should be crossed “NOT NEGOTIABLE” and “ACCOUNT PAYEE ONLY”. An open cheque should be issued only on the written request of the recipient and with the approval of the Finance Manager.
7. To make a cheque “OPEN” the crossing should be cancelled by an endorsement on the body of the cheque to the effect “Crossing Cancelled”. Two officers authorized to sign cheques should certify this endorsement. An open cheque should not be posted and it should be handed over to the payee personally.
8. Any open cheque issued should be recorded in a register maintained for that purpose and particulars such as Cheque number and Date, Amount, Name of the payee, Identity, Reasons for issuing the open cheque, Initial of the Issuing Officer, and the Signature of the payee should be recorded therein.
9. Details, such as date of cheque, voucher number, name of payee and amount should be written on the counterfoil of each cheque.

7.4.2 Responsibilities in Signing of Cheques

It is the duty of the first signatory to ensure that:

1. the voucher has been certified an officer who has the authority to do so;
2. the voucher shows no evidence of having been tampered with;
3. any facts within his knowledge are taken into account before payment is made;
4. the identity of the payee is established;
5. the name and other particulars appearing on the cheque agree with those shown on the face of the voucher;
6. the net amount is paid;
7. the fact of payment is noted on the voucher and connected documents by means of a “paid “ stamp and initialed; and
8. every payment is noted in the prescribed records and duly brought to account.

It is the duty of the second signatory to ensure that:

1. the first signatory has the authority to sign the cheque;
2. the cheque shows no evidence of having been tampered with;
3. the name, amount and other details appearing on the cheque agree with those shown on the voucher;
4. the voucher has been certified by and officer authorized to do so; and
5. he makes a suitable endorsement on the voucher and connected documents to indicate that payment has been made.

7.4.3 Revalidation of Cheques

1. Cheques issued by the [CSO’s Name] and returned for some reason to the [CSO’s Name] with a request for revalidation, should be done by an endorsement by two signatories authorized to sign cheques.
2. Cheques received from outside parties which cannot be presented to the bank for realization as the validity period has expired or nearing the date of expiry, should be returned under Registered Post to the respective parties for revalidation.

7.4.4 Issue of Cheques in lieu

1. When a payee returns a cheque which is so defaced that it is not likely to be honoured by the bank, a fresh cheque in lie may be issued.
2. If a payee reports that a cheque had been lost or cannot be traced, a fresh cheque may be issued after satisfying:
3. that the cheque has not been encashed;
4. payment had been stopped with the bank and confirmation obtained that the cheque in question has not been paid and will not be paid if presented later and
5. A letter of indemnity is obtained.

**7.5 Bank Reconciliation**

7.5.1 All financial transactions, including bank charges and commissions, shall be reconciled with the information submitted by the bank. This reconciliation shall be performed or validated by a finance officer playing no actual part in the receipt or payment of funds.

7.5.2 Bank reconciliations between the bank ledgers and the bank statements shall be prepared by the Finance Unit on a monthly basis for all bank accounts.

7.5.3 Adjustments (If any) shall be made in the books to reconcile the bank account balances with the ledger.

7.5.4 Authorized personnel preparing and reviewing the bank reconciliation shall sign and date the reconciliation indicating the date:

a) the reconciliation was completed; and

b) the reconciliation was reviewed.

Bank reconciliations format/template shall certify that:

a) Entries are accurate and correspond with [CSO’s Name] Accounting Records. These shall include deposits, wire transfers, withdrawals, expenditures and revenues on bank statements and monthly financial reports; and

b) All reconciling items have been identified and included. Reconciling items shall include:

- Reconciling items that would clear over a period of time; and

- Reconciling items requiring adjustments to clear them, either by the bank or with an adjusting voucher in the Accounting Records.

7.5.5 Reconciling items which have been carried forward from the previous month’s reconciliation shall be highlighted and investigated.

7.5.6 Any non-reconciling items shall be addressed accordingly in coordination with external and internal parties. Bank reconciliations shall be filed within the Finance Unit and made available to internal/external auditors, upon request.

7.5.7 Supporting documentation for the bank account balance, general ledger account balance and significant reconciling items shall be attached to the reconciliation.

7.5.8 After preparation of bank reconciliation, the finance officer responsible shall review and sign the bank reconciliation prior to submission to the Finance Manager for approval and signature.

**7.6 Custody of Paid Documents**

7.6.1 All paid documents should be systematically arranged according to the date of payment/ or Voucher nos., bundled and kept in safe custody of the officer to whom such duty has been assigned.

7.6.2 Losses - losses shall include losses relating to:

1. Cash and cheques;
2. Counterfoil books of monitory value;
3. Stores;
4. Damage to property;
5. Losses arising due to negligence, theft or fraud;
6. Overpayments, irregular payments or payments to wrong parties and
7. Non recovery or under recovery of debts and other amounts due.

7.6.3 Whenever losses occur appropriate action mentioned below should be instituted immediately.

1. It should be reported to the Governing Body of the [CSO’s Name];
2. Complaint should be made to the Police if it is a loss of cash., theft or fraud;
3. It should be reported to Insurers if there is an insurance cover;
4. An inquiry should be held to fix responsibility;
5. Disciplinary action where necessary should be taken;
6. Action should be taken to recover the value of the loss as determined by the Governing Body of the [CSO’s Name];
7. Precautionary measures should be taken to avoid or minimize similar losses in the future;
8. Write-off action should be taken only as final resort

**8. PAYABLES AND ACCRUALS**

**8.1. Obligation Process**

8.1.1 An obligation arises when [CSO’s Name] enters into a formal contract, agreement, purchase order or other form of undertaking, or on a liability recognized by [CSO’s Name]. Every obligation shall be supported by the appropriate obligating document which shall be approved as per Delegation of Authority.

8.1.2 For every obligation, the availability of corresponding appropriation needs to be verified. All requisitions shall have the budget code against which the expense is being incurred, and approved by the budget holders.

8.1.3 For every obligation, a travel request or approval request shall be raised, and approved as per Delegation of Authority.

8.1.4 For expenses that are made for more than one Division / Office, the allocations may be made based on total positions or any other cost-sharing methodology that shall be approved as per Delegation of Authority.

8.1.5 Any amendments or cancellation in the approved purchase/ service orders/ contracts shall be authorized in accordance with the Delegation of Authority.

**8.2. Advance Payments**

8.2.1 The ED may approve other cash advances as may be permitted by the Staff Regulations and Rules and administrative instructions and as may otherwise be authorized in writing by him or her. *(Refer HR and Admin Manual, which is given separately).*

8.2.2 Personnel to whom cash advances are issued shall be held personally accountable and financially liable for the proper management and safekeeping of cash so advanced and must be in a position to account for these advances at all times.

8.2.3 Advance payments to suppliers are to be discouraged except where and to the extent permitted by the applicable procurement rules.

8.2.4 All advance payments to suppliers, staffs and consultants must be approved in accordance with the Delegation of Authority.

8.2.5 No further travel advances will be given until all previous advances are accounted for and balances settled.

**8.3. Remittances to Regional Offices**

8.3.1 Offices away from main office shall obtain their funds through remittances from main office. In the absence of a special authorization from the ED, those remittances shall not exceed the amount required to bring cash balances up to the levels necessary to meet the recipient office’s estimated cash requirements for up to the next three months.

**8.4. Petty Cash**

8.4.1 Petty cash may be maintained in main office and in regional offices as approved by the ED.

8.4.2 The petty cash shall be kept in a locked safe storage or cabinet. In the regional offices, the respective officer in charge is responsible for designating the custodian of the petty cash fund. There shall be a custodian for each petty cash fund.

8.4.3 The custodian shall be responsible for the actual disbursement and safe-keeping of the petty cash. There shall be an approving officer for the petty cash fund who shall be responsible for approving payments made from the petty cash fund. In accordance with the Delegation of Authority, for petty cash funds held in the regional offices, the respective country representative is the approval authority for payments using petty cash. Access to the petty cash fund must be restricted to the custodian only

8.4.4 Petty cash funds shall be maintained on a replenishment system (petty cash imprest). In accordance with the Delegation of Authority:

(i) The Finance Manager shall determine the maximum float amount to be held as petty cash; and

(ii) Replenishment of petty cash funds held by the regional offices shall be approved by the respective regional in-charge up to the maximum float amount established by the Finance Manager.

8.4.5 The petty cash shall be maintained on the following basis:

a) The maximum float amount shall be Rs 50,000/-

b) The maximum expenditure amount shall not exceed Rs 10,000/- per transaction.

8.4.6 The fund shall be replenished as soon as the balance is Rs 5,000/-

8.4.7 Amendment to existing float amount or establishment of new float shall be recommended by a regional in charge and authorized by the Finance Manager in accordance with the Delegation of Authority.

8.4.8 The Petty Cash shall only be used for the purpose of small cash disbursements for purchases for which bank transfer would not be practical or possible (for example postage and taxi fares). Payments of salaries, overtime, and allowances must not be made from petty cash. No payment shall be split to bypass the petty cash limit of Rs 10,000/- per transaction.

8.4.9 The custodian shall maintain a Petty Cash Control Sheet/cash book to monitor petty cash transactions. The Petty Cash shall be kept in a locked safe storage/cabinet with dual combination lock system. The regional in-charge shall maintain at least one of the safe combinations and this shall be delegated to his or her senior officer upon his/her absence.

8.4.10 The petty cash shall be reconciled on a daily basis and any discrepancy in the amount held shall be notified to the regional in-charge and Finance Manager immediately. On a monthly basis, as a part of month end closing, the petty cash balance in the cash register shall be reconciled with the balance in ledger (cashbook).

8.4.11 The regional in-charge shall put in place measures designed to ensure the safety of the petty cash funds when in movement between the bank and the regional office and shall notify the Finance Unit of such measures.

**8.5. Staff Claims**

8.5.1 All staff travel and general expense claims shall be submitted to the Finance Unit through ERP (or AIS) with all relevant supporting documents for proof of payment.

8.5.2 All staff travel and general expense claims shall be submitted within 30 days of occurrence or return to duty station. Any claims submitted after 30 days will not be reimbursed.

8.5.3 All payroll related claims shall be submitted by the 15th of the month shall be processed through that month’s payroll. Payroll related claims submitted after the 15th of the month shall be processed through the next month’s payroll. Employees in regional offices which have a payroll service provider must submit claims by the 10th of the month for processing in the same calendar month.

8.5.4 All payroll related claims or payments to staff shall be documented through ERP (or AIS) and all documents shall be maintained in ERP (or AIS).

**8.6. Payroll**

8.6.1 The Human Resource Unit shall provide accurate and reconciled personnel payroll data to the Finance Unit by the 20th of every month.

8.6.2 [CSO’s Name] personnel and individual consultant contracts and salary/professional fees will be denominated in Sri Lankan Rupees and credited to an account designated by the concerned individual. Changes to bank accounts are allowed in exceptional circumstances (closure of current bank account, regulatory requirements, interim arrangement for new personnel or leavers) and after approval from the Finance Unit.

8.6.3 Foreign exchange calculations shall be based if a foreign citizen is employed

8.6.4 The Finance Unit shall ensure timely and accurate payment of personnel compensation. Payments of salaries/professional fees shall be made not later than 25th of the current month. In case the payment date falls on holiday or weekends, the salaries/professional fees shall be paid on the previous working day.

8.6.5 The payroll register shall be certified, authorized and approved as per the Delegation of Authority.

8.6.6 A payroll reconciliation report which includes the difference between payroll payments made from previous month and current month shall be prepared by the Human Resources Unit and approved by the Head of Human Resources. This shall be accompanied with the payroll transfer list from HR to Finance. Finance will do a random sampling test on individual transactions before the payments are released.

**8.7. Insurance**

8.7.1 [CSO’s Name] shall enter into relevant insurance contracts to insure coverage on the following cash transactions:

a) Cash in Transit;

b) Money in Petty Cash; and

c) Any movement of cash between [CSO’s Name] offices.

**8.8. Credit Card**

8.8.1 ED shall oversee the general administration of [CSO’s Name] credit cards and be responsible for determining eligibility for issuance of corporate credit cards and establishing and adjusting limits on individual corporate credit cards. The Finance Manager shall be responsible for issuance of the credit cards, setting guidelines and procedures on credit card distribution, overall management of issued credit cards, and other matters regarding credit card administration and usage.

8.8.2 Credit card holders shall comply with all credit card guidelines and instructions issued by the ED.

8.8.3 Credit card usage by [CSO’s Name] personnel shall be subject to independent internal audits for checks against appropriate usage as per the Credit Card Guidelines and other relevant [CSO’s Name] regulations, rules, policies and procedures. In the event of credit card misuse, the Finance Manager shall notify the event to the ED and the Internal Auditor.

**8.9. Investments**

8.9.1 In accordance with Financial Regulation 7.4, the ED may invest monies not needed for immediate requirements in accordance with investment criteria approved by the Governing Body and will periodically report to the Governing Body on any such investments.

8.9.2 In making investments, the ED will seek the advice of an investment committee or Finance Manager who have substantial experience in the financial sector.

8.9.3 Unless otherwise specified in the regulations, rules, resolutions or agreements relating to a particular fund or account, income derived from investments will be credited to miscellaneous income, as specified in Financial Regulation 4.6.

**9. FINANCIAL RECORDING AND CLOSING PROCEDURES**

**9.1. Financial Ledger and Records**

9.1.1 The financial ledgers shall be maintained on the principle of double entry book-keeping i.e. that every transaction has a twofold aspect. Every debit in the ledger has a corresponding credit, and vice-versa. Consequently, at any moment in time, the total of the debits in the ledgers shall agree to the total of the credits. This balancing of totals shall be proved by a Trial Balance.

9.1.2 The Finance Unit shall maintain ledgers to record all transactions and use a coding structure to provide a basic framework. It should record all expenses and income plus all non-cash transactions. The project/output code is structured so that every main activity of [CSO’s Name] is included therein.

9.1.3 All records of financial transactions shall be kept and maintained in accordance with the SLAS relevant to NPOs (SL SoRP recognizes the requirements of the Sri Lanka Accounting Standards with regard to recognition and measurement) and shall comply with the financial regulations. Records shall be taken to include both hard copy and electronic records, and according to the financial regulations and the internal retention policy, as in paragraph 9.7

**9.2. Project or Program Accounting**

9.2.1 [CSO’s Name] shall have separation of duties between managing contributions and accounting for contribution. A periodic accounting of funds shall be made available to the donors. Regular accounting reports shall be sent to donor’s summarizing the receipt, use, management and disposition of all contributions in the required reporting format.

9.2.2 For earmarked funds/projects, the budget is agreed with a donor and the accounting systems shall reflect the major donor concerns and the fixed detailed budget lines. [CSO’s Name] shall maintain a separate accounting system over earmarked funds. To avoid the appearance of co-mingling earmarked funds with [CSO’s Name] own funds, separate bank accounts shall be maintained for earmarked funds.

9.2.3 To ensure that all earmarked funded projects are allocated their appropriate share of the overhead cost, [CSO’s Name] shall apply the agreed overhead percentage to all Projects funded by earmarked funds.

**9.3. Direct Costs and Indirect Support Costs**

9.3.1 The ability to identify, measure, interpret and present costs as they relate to [CSO’s Name]’s economic flow of services, both historically and in forward-looking context, is necessary for an informed understanding of [CSO’s Name]’s drivers of costs and value. Further, understanding [CSO’s Name]’s full costs of delivery is critical in strategic decision making and in ensuring the financial stability of [CSO’s Name]. In order to support optimal allocation of resources for service delivery and provide clarity to internal and external stakeholders, [CSO’s Name] seeks to define its internal principles relating to direct costs and indirect support costs. These principles should be read and understood by all personnel involved in Budget preparation, particularly Project Managers and Finance Unit personnel, as well as by [CSO’s Name] contributors, especially donors of earmarked funds.

9.3.2 In implementing programs, projects and activities, [CSO’s Name] incurs two distinct types of expenses: (1) direct costs and (2) indirect support costs/overheads.

1. “Direct Costs” are all costs that can be directly linked to the activities of the program or project and are clearly identifiable.

The following list is illustrative and not exhaustive:

a. costs of personnel assigned to the program or project (full-time or part-time or temporary), whether such personnel are based in region at main office, at another regional office, at a district or area project office;[[7]](#footnote-7)

b. costs of main office, regional office, district or area project office personnel, in those cases where an activity directly attributable to the program or project has been identified that would be undertaken in the most cost-efficient way by using personnel based at main office, a regional office, district office or area project office, insofar as the costs correspond to the actual time devoted by such personnel to the program or project;[[8]](#footnote-8)

c. costs associated to training and routine technical assistance and capacity building of in-regional personnel and structures;

d. travel costs and related subsistence allowances directly related to the program or project activities for people directly involved in or contracted for or taking part in the program or project (in line with [CSO’s Name] applicable travel policy and procedures);

e. costs for outsourcing / sub-contracting identifiable to the project or program;

f. in-regional costs relating to management and administration, such as, office rent, depreciation of buildings, utilities (water/gas/electricity/ICT/etc.), security, maintenance, insurance, postage, etc.;

g. purchase cost of equipment specifically for the program or project (in accordance with [CSO’s Name]’s usual fixed asset & depreciation policy);

h. costs of consumables, materials and supplies (including office supplies) that are identifiable and assigned to the project or program;

i. publications produced specifically for the program or project and related dissemination;

j. costs relating to conferences and seminars organized as part of the implementation of the program or project (excluding any travel costs and related subsistence allowances, which are addressed in (c) above);

k. value added taxes (VAT) where [CSO’s Name] is unable to recover such taxes from tax authority under a tax exemption granted by the relevant government; and

l. costs of audits and evaluations of the program or project.

1. “Indirect Support Costs”, also referred to as “Overheads”, are those costs that cannot be identified and calculated by [CSO’s Name] as being directly attributed to each program or project. Indirect support costs compensate for services provided by [CSO’s Name] main office or regional offices that are located outside the main office region (where the program or project is being implemented) that support the accomplishment of the program or project activities.

The following list is illustrative and not exhaustive:

1. accounting, treasury management, reporting support and internal audit;
2. human resources administration support;
3. procurement services;
4. management support and oversight;
5. legal support;
6. IT support;
7. documentation;
8. costs connected with the infrastructure and general operation of [CSO’s Name]; and
9. costs of depreciation of equipment purchased prior to the beginning of the program or project or purchased newly for the program or project that is specifically used for the program or project (in accordance with [CSO’s Name]’s usual depreciation system).

9.3.3 The following “Non-eligible Expenses” costs will not be considered as either Direct Costs or Indirect Support Costs:

1. exchange rate losses;
2. interest owed or paid;
3. provision for losses or potential future liabilities;
4. return on capital;
5. debt and debt service charges; and
6. provision for doubtful debts.

9.3.4 The [CSO’s Name] Governing Body has approved an overhead cost between10% to 15% to be charged to the earmarked funding partners. In order to ensure the costs associated to Indirect Support Costs/Overheads are timely recovered, [CSO’s Name] will deduct the agreed percentage of the Indirect Support Costs/Overheads from the earmarked contributions immediately upon the receipt of contributions by [CSO’s Name].

**9.4. Trial Balance General Policies**

9.4.1 The trial balance shall be extracted from the ledgers by listing all the debit balances, and all the credit balances. The debits should total the same as the credits and thus the trial balance agrees.

9.4.2 All postings to the financial ledger must be completed, and each ledger folio totaled and balanced. If the trial balance doesn't agree, the following shall be checked:

a) The casting (adding up) of the trial balance and the ledger;

b) That all relevant ledger folio balances have been included and at the correct amount, and the input documents do balance.

**9.5. Closing Activities**

9.5.1 The following section defines the key closing activities that are to be performed before each period end – month, quarter or year.

1. Planning meeting: A planning meeting shall be held 10 calendar days prior to the closing period to prepare for the closure and to update all stakeholders. An assessment of the last closing period is undertaken and any improvement areas are discussed by Finance Manager with relevant heads and program managers.
2. Expense provisions and scheduling: All expenses and month end accruals and provisions, including rent, electricity, salaries, telephone, audit fees, and other expenses shall be recognized within 3 working days after the closing period. The Finance Unit is responsible for completing the transactions within 4 calendar days after the period end.
3. Reconciliation: The Finance Unit shall reconcile balances with the corresponding asset accounts in the ledger for both, costs and accumulated depreciation, and compute variance analysis, if required.

9.5.2 Finance Unit shall prepare notes to accounts for each line item in the Cash Flow Statement, Income Statement & Balance Sheet which should reconcile the trial balance and the GL. Finance Unit shall prepare the following for audit as well as reporting purposes:

a) Detailed accounts payable, ageing schedule and analysis.

b) Reconciliation analysis of 5 major debtors.

c) Detailed advances (travel, cash) and aging schedule

d) Bank reconciliation statement for all active bank accounts.

e) Petty cash reconciliation for petty cash floats in different locations.

f) Schedule for accruals and prepayments.

g) Schedule for depreciation of fixed assets.

9.5.3 The Finance Unit shall complete the following activities for the review and adjustments to the accounts:

a) Ensure all reconciling items are cleared and significant trend movements are justifiable. This shall be completed within 7 calendar days after period end.

b) Review identified period end adjustments, including adjustments for donor reporting and project closures, and approve all manual journal entries to be posted, and close period in the Ledger.

**9.6. Period-end Reporting**

9.6.1 The Finance Unit shall prepare period end management accounts and shall be submitted to the Finance Manager for approval within 10 calendar days after the period.

9.6.2 Every month, the Finance Unit will prepare and send budget vs. actual report to the Head of Divisions including Program Managers.

9.6.3 The Finance Manager shall periodically prepare a reports for the MPSC, which provides a high level summary overview of [CSO’s Name]’s financial performance with high level analysis including budget vs. actual.

**9.7. Additional Requirements for Half-Yearly and Annual Closing Activities**

9.7.1 In addition to the above mentioned closing activities, a few incremental steps shall be required to complete the half-yearly and annual closing activities.

1. Physical verification

- [CSO’s Name] shall carry out physical assessment and associated adjustments related to write off for fixed assets, and whether there is any indication that an asset may be impaired. If any such indication exists, the Finance Manager shall estimate the recoverable amount.

- The Admin Services Unit shall be responsible to conduct physical count of the assets in main office to ensure completeness and existence of the assets listed in the system. Regional offices, the respective regional in-charge shall be responsible to conduct physical count of the assets in the country to ensure completeness and existence of the assets listed in the system. The annual asset count shall be conducted in the presence of department maintaining the register.

- Fixed Assets: The Admin Services Unit shall be responsible for physical verification of Assets in the Fixed Asset Register on a semi-annual basis.

1. Annual Accounting Adjustments

- The Finance Unit shall complete the annual adjustments, which shall be reviewed by the Finance Manager.

- The Finance Unit shall review whether the balances in accruals include any accruals for goods/ services where vendor invoices are not received for a considerable period.

- The Finance Unit shall prepare notes on financial risks at the end of the financial year, Schedule for annual Financial Statements, and Contribution Schedules.

**9.8. Document Retention and Destruction**

9.8.1 [CSO’s Name] will establish a document retention and destruction policy that will be applicable to the retention and destruction of, among other documents, Accounting Records and other financial records.

9.8.2 All Accounting Records must be maintained in a manner that supports operational and audit requirements. Records must be kept to ensure that financial transactions and activities are fully documented and supported in the event of internal or external audit, litigation and other external action.

9.8.3 Electronic records including approvals sent through e-mail or made through ERP system (or AIS) are accepted as sound, legitimate Accounting Records and are subject to the same retention requirements as paper-based records.

9.8.4 [CSO’s Name] will retain certain Accounting Records for at least the retention period provided by the document retention and destruction policy even if other laws require a shorter period or do not have a specific retention period at all.

**10. PRESENTATION OF FINANCIAL STATEMENTS**

**10.1. Underlying Assumptions**

The preparation of the Financial Statements is in accordance with Sri Lanka Accounting Standards - SLAS relevant to NPOs (SL SoRP recognizes the requirements of the Sri Lanka Accounting Standards with regard to recognition and measurement), which requires management of the Organization to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense *(Template Reference No. FM 005 - Sri Lanka Accounting Standards (SLASs) relevant to Non-for- Profit Organizations).*

NPO Specific Provisions should be read in conjunction with the applicable set of Sri Lanka Accounting Standards and the purpose of giving the specific provisions is to address NPO specific matters and adjustments. This section prescribes the principles to be followed in the presentation of financial statements by NPOs, inclusive of disclosures and should be followed in its entirety by NPOs to be in compliance with this SL SoRP *(Template Reference No .FM 006 - NOP Specific Provision)*

10.1.1 Pursuant to Regulation, as in paragraph 9.9.2, the ED shall submit the annual audited Financial Statements to the Governing Body no later than 30 April following the end of the financial year. A complete set of Financial Statements includes:

a) Statement of Financial Position.

b) Statement of Financial Performance – the income and expenditure of all funds.

c) Statement of Changes in net assets/equity.

d) Cash Flow Statement.

e) The status of appropriations, including:

- Original appropriations and supplementary appropriations, if any;

- Appropriations after modification by any transfers;

- Credits, if any, other than appropriations approved by the Governing Body;

 - Expenditures charged against those appropriations and/or other credits;

- Unused balances of appropriations and of other credits;

f) Statement of comparison of budgeted and actual performance for the financial period;

g) Notes, comprising a summary of significant accounting policies and other explanatory notes.

h) The preparation of the Financial Statements is in accordance with International Financial Reporting Standards which requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

10.1.2 The presentation and classification of items in the Financial Statements shall be retained from one period to the next unless:

a) A significant change in the nature of the operations of the Organization or a review of its Financial Statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions.

b) A change in presentation is required by a Sri Lanka Financial Reporting Standard for NPOs (SL SoRP)

10.1.3 Assets and liabilities shall not be offset except when offsetting is required or permitted by another International Financial Reporting Standard.

10.1.4 [CSO’s Name] shall present current and non-current assets and current and non-current liabilities as separate classifications on the face of the Statement of Financial Position.

*(Refer Template References No. FM 007 for Illustrative Financial Statement – Organization and No FM008 for Illustrative Financial Statement – Group)*

*(Refer Template References No. FM 009 for Sample Non Profit Financial Statements and No. FM 009A for Sample Non Profit Significant Accounting Policies)*

**10.2. Statement of Financial Position**

10.2.1 As a minimum, the face of the Statement of Financial Position shall include line items which present the following amounts, if material:

a) Fixed Assets.

b) Intangible assets.

c) Investments accounted for using the equity method.

d) Other current assets.

e) Financial assets.

f) Receivables from donors, suppliers and staffs.

g) Receivables from non-exchange transactions, including taxes and transfers.

h) Receivables from exchange transactions.

i) Transfers payable.

j) Other current liabilities.

k) Cash and Cash Equivalents.

l) Payables to donors, suppliers and staffs.

m) Payables under exchange transactions

n) Unearned revenues.

o) Provisions.

p) Non-current liabilities.

q) Net assets/equity.

10.2.2 Additional line items, headings and sub-totals shall be presented on the face of the Statement of Financial Position when an International Financial Reporting Standard requires it, or when such presentation is necessary to present fairly the entity’s financial position.

**10.3. Statement of Financial Performance**

10.3.1 As a minimum, the face of the Statement of Financial Performance shall include line items which present the following amounts, if material:

a) Revenue, including a sub-classification of total revenue, classified in a manner appropriate to [CSO’s Name]’s operations

b) Surplus or deficit from operating activities or on projects;

c) Surplus or deficit from ordinary activities or after finance cost;

d) Extraordinary items; and

e) Net surplus or deficit for the period.

10.3.2 Additional line items, headings and sub-totals shall be presented on the face of the Statement of Financial Performance when required by an International Financial Reporting Standard, or when such presentation is necessary to present fairly the Organization’s financial performance.

10.3.3 A separate component of the Financial Statement shall have a Statement of Changes in Net Asset/ Equity. It shall include the following:

a) The net surplus or deficit for the period.

b) Each item of revenue and expense, which, as required by other standards, is recognized directly in net assets/equity, and the total of these items.

c) The cumulative effect of changes in accounting policy and the correction of fundamental errors.

d) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for the period.

e) To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each movement.

**10.4. Cash Flow Statement**

10.4.1 [CSO’s Name] shall report cash from operating activities in a format that reconciles the beginning and ending cash balances.

10.4.2 Cash flows arising out of a transaction in a foreign currency shall be recorded in the reporting currency (LKR) by applying the exchange rate on the date of the cash flow.

10.4.3 Cash flows associated with extraordinary items shall be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.

10.4.4 [CSO’s Name] shall disclose the components of Cash and Cash Equivalents and shall present a reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the Statement of Financial Position.

10.4.5 [CSO’s Name] shall disclose, together with a commentary by management in the notes to the Financial Statements, the amount of significant Cash and Cash Equivalent balances held by the entity that are not available for use by the economic entity.

10.4.6 Notes and Accounting policies: The notes to the Financial Statements shall:

a) Present information about the basis of preparation of the Financial Statements and the specific accounting policies selected and applied for significant transactions and other events;

b) Disclose the information required by International Financial Reporting Standards that is not presented elsewhere in the Financial Statements; and

c) Provide additional information which is not presented on the face of the Financial Statements but that is necessary for a fair presentation.

10.4.7 Notes to the Financial Statements shall be presented in a systematic manner. Each item on the face of the Statement of Financial Performance, Statement of Financial Position and Cash Flow Statement shall be cross-referenced to any related information in the notes.

**10.5. Distribution and Publication of Financial Statements**

10.5.1 The MPSC shall review the audited Financial Statements and reports before providing their recommendation to the Governing Body.

10.5.2 The annual Financial Statements and reports shall be distributed and published to all required stakeholders within 30 calendar days of a decision being taken by Governing Body.

**10.6 Internal Audit**

10.6.1 There should be an internal audit set up to assist the ED and the Governing Body of the [CSO’s Name] in the discharge of their duties and responsibilities. A practicing firm of Chartered Accountants which is registered with the Institute of Chartered Accountants of Sri Lanka can be selected through an open competitive bidding procedure to function as an internal auditor.

10.6.2 The main objective of the internal audit is to participate in the system of internal control of the financial and other operations of the Company and to carry out a continuous survey and an independent appraisal of such operations and the soundness and adequacy of the internal checks adopted in the prevention and detection of errors and frauds.

**10.7 Appointment of External Auditor**

10.7.1 The accounts and financial management of all funds governed by the Financial Regulations shall be subject to an annual audit, and the arrangements for such audit shall take into account the international nature of [CSO’s Name] and ensure an open and competitive process for the selection of the external auditor in accordance with the procurement rules.

10.7.2 National audit authorities of Contributing Member countries shall have the right to conduct an independent audit with prior notice of one month at the Member country’s own cost.

10.7.3 The MPSC shall recommend the appointment of an external auditor to the Governing Body and the whole tendering process for the external auditor shall be administered by the Finance Unit with the Procurement team.

10.7.4 The appointment of an external auditor shall be for a maximum period of 3 years, renewable once for an additional term of 2 years.

10.7.5 The external auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited. The external auditor shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of [CSO’s Name]. The external auditor shall disclose any relationship that might possibly compromise his/her independence.

10.7.6 The external auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, and the internal financial controls and, in general, the administration and management of the Organization. The external auditor shall express and opinion and sign an opinion on the Financial Statements of [CSO’s Name][[9]](#footnote-9).

10.7.7 The Finance Manager shall provide the external auditor with facilities required for the performance of the audit. In addition to the Financial Statements, [CSO’s Name] shall provide the external auditor with information on:

a) Total value of property, plant and equipment and intangible assets for which records are kept;

b) Losses of cash, and other assets written off; and

c) Such other information as the external auditors may require.

10.7.8 The terms of reference for the appointment of external auditor shall include the following details:

a) Audit scope and approach;

b) Deliverables;

c) Time period;

d) Audit fees and payment terms;

e) Confidentiality and data protection;

f) [CSO’s Name] standard terms and conditions.

**10.8 Non Profit Annual Report**

10.8.1 [CSO’s Name] may also publish annual reports, although it is not mandatory. The report details all aspects of the [CSO’s Name]’s dealings for the past year. This brief guide should try to explain the meaning of an [CSO’s Name]’s annual report, along with its objectives, purpose, and best practices when preparing the report. The sections within [CSO’s Name]’s annual report include:

1. An introductory message by the President of the [CSO’s Name] (or a leading authority)
2. List of governing body members
3. [CSO’s Name] organizational chart & governance structure
4. List of projects and activities conducted
5. Achievements of the [CSO’s Name]
6. Case studies, with [CSO’s Name]’s success stories
7. An audited [CSO’s Name] accounts summary

10.8.2 The report published by [CSO’s Name] must be attractive and comprehensive. For the best results, an annual report design expert (annual report design agency) may be hired. The agency adopts visual storytelling ideas to transform annual report into a strong piece of brand communication[[10]](#footnote-10)

**10.9 Non Profit Financial Ratio Analysis**

10.9.1 [CSO’s Name] shall undertake Non Profit Financial Ratio Analysis to measure nonprofit health, analyze the expenses section of the financial state to identify whether the costs of event management and promotion match up to the income received from the activities. Divide the total contributions excluding government grants by the fundraising expenses to determine the fundraising efficiency ratio.

10.9.2 Key financial metrics to measure nonprofit health of [CSO’s Name] that are –

* 1. Liquidity,
	2. Program expenses as percentage of total expenses;
	3. Sources of unrestricted recurring dollars or rupees;
	4. Liabilities as percentage of total assets;
	5. Full-cost coverage;
	6. Fundraising expenses as percentage of total contributions etc.

*(Template References No FM010- Nonprofit Financial Ratio Analysis for Definition, No FM011 - Non Profit Financial Analysis for Worksheet, and No FM012 - Non Profit Financial Analysis for Filled Format)*

**11. PROCUREMENT PROCEDURE**

11.1 Procurement Guidelines provided in the standard documents should be applied as far as practicable in the procurement of goods, services, works and consultancies.

11.2 Procurement plan for the ensuing year should be informed to the Governing Body before commencement of the financial year.

11.3 Key principles of procurement are:

1. Value for money – economy and efficiency
2. Fair and equal competition;
3. Transparency and
4. Accountability.

11.4 No expenditure on any goods, services, works, and consultancies shall be incurred without adequate financial provision in the Budget.

11.5 All procurement should be done in the manner most advantageous to the [CSO’s Name] due regard being paid to quality, price, reliability of supply and speed of delivery.

11.6 Specially with regard to construction works, there should be a Material Requirement Plan prepared by reference to Bill of Quantities and commencement dates of the works or contracts.

11.7 In determining the quantity to be purchased the current stock level, consumption rate, future requirements, and validity period of the items where applicable should be evaluated.

11.8 The principle is that quantities to be ordered should not be excessive, but at the same time it should be ensured that works to be executed are not delayed due to lack of required material. Officers responsible for procurement should be able to justify their actions in carrying out their responsibilities.

11.9 Deviations from the laid down procedure under special circumstances should be permitted by the appropriate authority. However, reasons to justify such deviation should be explained and properly recorded in a register maintained for such deviations.

11.10 Officers dealing with procurement and disposal on behalf of the [CSO’s Name] should perform their duties with high sense of propriety, and are forbidden any advantage, direct or indirect through such transactions.

**11.11 Authority limits for procurements – Direct Procurement**

 Finance Manager or Delegated Authority - up to Rs. 50,000/-

CEO / ED - up to Rs. 200,000/-

Procurement Committee/Tender Board - up to Rs. 25 mn.

**11.12 Deviation from tender procedure**

11.12.1 The CEO / ED can deviate from tender procedure and authorize purchases up to Rs. 200,000 in urgent and exceptional circumstances without calling for tenders / quotations.

11.13 The CEO / ED is authorized to operate up to a limit of Rs. 200,000/- for determination of tenders without a Tender Board. In urgent circumstances sealed quotations can be called for from reputed suppliers. The yellow pages, rainbow pages, list of registered supplies, current operating suppliers those who are performed successfully may be used for this purpose.

**11.13.1 The repeat orders:-**

11.13.1.1 The orders placed with the original supplier over a short period of time or after confirmation of no value deduction of original orders in the market for the supply of the same goods shall be considered as repeat order.

11.13.2 The quantity of the repeat order should be justified and recommended by the relevant senior Officer (Program Manager) of the subject in considering the need.

11.13.3 It is not economical to follow the bidding procedure again.

11.13.4. Price of the goods have not dropped since the original order

11.13.5 The necessity for additional requirement was not foreseen and identified at the time of original invitation to Bid was issued.

11.13.6 Prior to the placement of repeat orders, the foundation shall use its best endeavours to negotiate with the supplier to obtain more favourable terms and conditions

11.13.7 However, if the foundation is of the view that the prices of particular items display a downward trend, repeat orders should not be authorized.

11.14 The composition of Project Tender Board shall be as follows:

1. ED/CEO (Chairman)
2. Finance Manager or Program Admin Manager (Member)
3. Senior Executive Officer of the [CSO’s Name] as appointed by Governing Body (Member)

11.14.1 Project Tender Board should be established by the ED of the [CSO’s Name]

**11.17 Board of Survey**

11.17.1 An annual survey should be held at the end of the each financial year to verify the existence value of assets belonging to the [CSO’s Name]. For this purpose a Board consisting of two officers who are not involved with the subject should be appointed to survey the items of fixed assets and other inventory items. The number of members of the board will depend on the volume of work involved.

11.17.2 Appointments to boards should be made by 15th of December and the survey of assets and inventory items should be done and a report forwarded to ED by 15th January of the following year.

11.17.3 The ED shall deal with the discrepancies pointed out by the board of survey and action taken to recover the value of shortages from those responsible.

11.17.4 Unserviceable items reported on by the board of survey shall be dealt with separately and action taken to dispose of them.

11.17.5 All action on the reports of the board of survey shall be finalized before (31st March) of the following year and should be incorporated in the final accounts of the project.

 *(Refer* ***Annex II*** *for Detailed Volume of the Procurement Policies and Procedures)*

**12. FINANCE MANAGER’S ROLES, RESPONSIBILITIES & FUNCTIONAL COMPETENCIES**

**12.1 Area of Responsibilities**

12.1.1 The Finance Manager (FM) is responsible for managing the financial activities of [CSO’s Name], including financial analysis and planning, accounting operations and reporting, budgeting and external audits… The FM is responsible for ensuring legal and regulatory compliance of the financial functions. Position description is designed, to enable Sample CSO to establish Finance Manager’s Roles and Responsibilities relevant to non-profit motive organization

12.1.2 The person responsible for all financial and accounting operations that covers every aspect of being a controller, including the management of accounts payable, cash, credit, collections, inventory, payroll, and more. For his/her job description includes:

1. internal controls and internal checking, cash management,
2. inventory management,
3. fixed assets management,
4. equity management,
5. payroll management,
6. closing the books,
7. financial statements,
8. management reports, and
9. nonprofit ratio analysis etc.

**12.2 Functional Area of Finance Management**

12.2.1 Functional area of finance can be classified under two approaches;

1. One classification system links with twin goals of liquidity and profits (nonprofit surplus leading to reserves then building an accumulated fund towards [CSO’s Name]’s sustainability) – Each task is linked with the goal of liquidity, reserves – surplus, or both.
2. The second classification method focuses on what is being managed – assets or funds

With this method, a distinction is made between the decision making aspects of finance and the specialized advisory role of the financial manager

* + 1. Functions of finance management of nonprofit are;
1. Liquidity functions
2. Profitability functions (with regard to building an accumulated fund towards [CSO’s Name]’s sustainability – surplus leading to reserves)
3. Managing funds
4. Managing assets
	* 1. Functions leading to “Liquidity”
5. Forecasting cash flows– Successful day to day operations require the firm to be able to pay its bills promptly. This is largely a matter of matching cash inflows against outflows. The firm must be able to forecast the sources and timing of inflows from customers, donors etc. and use them to pay salaries, utility bills, creditors and suppliers.
6. Raising funds– The firm receives financing from a several of sources. The financial manager must identify the amount of funds available from each source and the period when they will be needed.
7. Managing the flow of internal funds – A firm has number of different bank accounts for various operating divisions or for special purposes. The money that flows among these internal accounts should be frequently and carefully monitored. A firm has excess cash in one bank account may be transferred on the shortage without external barrowing
	* 1. Functions leading to “Profitability”
8. Cost control – The firm should have detailed cost accounting system to monitor expenditure in the operational area of the firm. For example: maintaining sub-project accounts.
9. Pricing – Determination of appropriate price should be a joint decision of business development/program and finance. Business Development/Program Manager provides information on how differing prices will affect demanding the market and the firm’s competitive position. Finance Manager can supply important information about costs.
10. Forecasting profits - Gathering and analyzing the relevant data and making forecast of profit levels from its business. To estimate profit from future sale the firm must be aware of current costs, likely increases in costs.
11. Measuring required returns from investment – Every time a firm invests its capital, it must make a risk- return decision. Is the level of return offered by the project adequate for the level of risk therein? This may be called the cost of capital.

11.2.5 These two roles are recognized in two categories of functions performed by the Finance Manager. These are

1. Managing Assets
2. Managing funds

11.2.6 Managing assets – Assets are the resources by which the firm is able to conduct business. The term assets include buildings, machinery, vehicles, inventory, money and other resources owned or leased by the firm.

11.2.7 Managing funds – Funds may be viewed as liquid assets of the firm. The term funds include cash held by the firm, money borrowed by the firm, and money gained from purchases of common stocks.

* + 1. Financial manager operates to distinct roles
1. One role is a manager, a decision maker, a participant on the corporate team trying to maximize the value of the firm over the long run
2. The other role is a specialized staff officer, an expert on financial matters and money markets, an individual with specific knowledge and skills in the area of money management with an exposure of handling finance in nonprofit motive organizations.

*(Refer Template Reference No FM 0013 for Sample Job Description of Finance Manager of CSO)*

1. Contributions and/or donations from donor organizations or individuals, and government grants constitute an important part of [CSO’s Name] resources. An obligation, for example to deliver or perform specified service or work, is often attached to these contributions, and in such an event should be regarded as part of “restricted funds”. Donations/contributions from individuals or institutions create;

	1. a moral obligation, by whichever way it is received;
	2. a legal obligation to use the funds for what it was solicited; and
	3. Restricted Funds, where usage is specified.A contribution (donation or grant) should not be recognized as an incoming resource, until there is reasonable assurance that the contribution will be received, and where relevant that the organization has or will comply with the condition(s) attached to it. Receipt of the funds does not by itself provide conclusive evidence that the conditions attached to the contribution have been or will be fulfilled. Until the conditions have been fulfilled, the contribution should be regarded as part of Restricted Funds. [↑](#footnote-ref-1)
2. The Donor Agreement - will provide a detailed description of what, where and when specified activities are to take place. A corresponding budget and a list of terms and conditions, including for example reporting requirements, almost always constitute an essential part of the agreement entered into. In addition to audited Financial Statements, a Variance Report, comparing actual expenditure with the approved budget, together with a corresponding narrative Progress Report, covering the same activity and period as the Variance Report, are also often demanded. These reports often constitute an essential part of the requirements spelled out in the agreement between a donor and the [CSO’s Name].

These reports with the financial statements often provide a useful tool to the donor in assessing the degree of completion of the activity, and to determine whether or not agreed objectives and conditions are being achieved. Restrictions, or obligations, are attached not only to those funds provided by large donor agencies, but also in many cases to contributions from individuals. In a fundraising campaign, for example, where the [CSO’s Name] may look to the public to raise funds for a specific cause, even while there may be no written agreements, there is a clear understanding between the parties.

There is, consequently, a moral obligation to utilize the funds as announced during the campaign, and the funds raised should, therefore, be regarded as restricted. Funds received as donations without any direct request being made, or without any defined terms and conditions being laid down with regard to utilization, are unrestricted. In such circumstances, there will be an unwritten agreement, that the funds will be utilized within the objectives of the [CSO’s Name]. In this same context, there must also be clear transparency in how much of the funds received are being used to meet the general administrative and other central office costs of the [CSO’s Name]. [↑](#footnote-ref-2)
3. Unrestricted Funds - [CSO’s Name] have resources, which are available for the general purposes of the [CSO’s Name] as set out in its governing document. This is the [CSO’s Name] “unrestricted” or “general” fund. Income generated from assets held in an unrestricted fund will be unrestricted income. The [CSO’s Name] governing body may earmark part of the NPOs unrestricted funds to be used for particular purposes in the future. Since the governing body has the power, at a future date, to re-designate such funds within unrestricted funds, they should be described as “designated funds” and, consequently, be accounted for as part of the [CSO’s Name] unrestricted funds. [↑](#footnote-ref-3)
4. Restricted Funds - [CSO’s Name] holds the funds that can be applied only for particular purposes within their overall objectives. These purposes are often imposed by donors (whether it be the Government or other donors) and contained in an agreement or may be self-imposed through announcements made during the course of a fundraising campaign, the media or other similar form of communication. Funds held for such specified usage are restricted funds and have to be separately accounted for in the financial statements. Income that is generated from assets held in a restricted fund will normally be subject to the same restriction as the original fund, unless the terms that imposed the original restriction specifically say otherwise.

A different form of a restricted fund is an “endowment”, which is held on trust to be retained for the benefit of the organization as a capital fund. Such funds cannot normally be spent as if it were income to the organization. The income earned from such capital may, however, be utilized for restricted or other purposes of the organization. In some instances the governing body may have a power of discretion to convert endowed capital into income. In such an event, and if such power be exercised, the relevant funds become restricted income or unrestricted income, dependent upon whether the governing body, within its discretion permits the funds to be expended for any of the purposes of the [CSO’s Name], or only for the specific purpose. As a restricted fund, the endowment fund should, in any event, be separately accounted for in the financial statements. [↑](#footnote-ref-4)
5. Accumulated Fund - “A fund held by [CSO’s Name] to which a surplus of income over expenditure is credited and to which any deficit is debited. The value of the accumulated funds can be calculated at any time by valuing the net assets (i.e. assets less liabilities) of the organization. The accumulated fund is the equivalent of the capital of a profit making organization”. An organization may, during any period, draw upon resources received in past periods and still unutilized, or set aside resources for use in future periods. Maintenance of the accumulated fund of [CSO’s Name] is based on the maintenance of its financial capital. [CSO’s Name]’s capital has been maintained if the financial value of its net assets at the end of a period equals or exceeds the financial value of its net assets at the beginning of the period [↑](#footnote-ref-5)
6. See footnote 5 above [↑](#footnote-ref-6)
7. The rates at which personnel costs are charged to a program or project will correspond to [CSO’s Name]’s normal policy on remuneration (as documented in salary scales, work contracts, other service agreement, etc.) and be calculated on the basis of the actual gross salary or fees, plus, where applicable, obligatory social charges and any other statutory costs, and benefits, allowances and entitlements included in the remuneration. Where personnel is allocated only part-time to a program or project, only the equivalent part of remuneration will be allocated to the program or project. [↑](#footnote-ref-7)
8. See footnote 7 above. [↑](#footnote-ref-8)
9. An auditor should read in between the lines to highlight any inconsistencies and outright errors in the report. The auditor checks whether the report conforms to the laid out accounting principles and whether it portrays a true financial state of the firm. If the auditor is satisfied with the report and gives an unqualified opinion, the report is released to investors, shareholders, and the general public through the mainstream media or the company’s own channels of communication [↑](#footnote-ref-9)
10. Non-profit annual reports are an in-depth and comprehensive reporting of the [CSO’s Name]’s activities. It outlines [CSO’s Name]’s accomplishments. An audited annual accounts section is also added to the annual report. The annual report allows [CSO’s Name] to fellow members, volunteers, partners, and donors. The final reason is building credibility. The branding of the [CSO’s Name] gets various advantages. The major objective is fund-raising. By demonstrating the work done during the preceding year, the [CSO’s Name] can reach out to prospective donors and other agencies for donations.

The report also serves as a historical progress report. Publishing an annual report is a good management practice. It acts as inspiration for existing staff, members, volunteers and stakeholders. An annual report encourages engagement and readership, further increasing accountability. The report should contain sufficient information about the [CSO’s Name]’s activities, written in simple language. The balance between creativity and information can only be maintained by a design agency. The agency also ensures the report convey a story. Human experiences are showcased through team photos, volunteer testimonies, project case studies, etc.

The report needs to also touch upon the impact of the [CSO’s Name] on social issues. Future projects can get a mention as well. Some best practices adopted by an agency are:

	1. The audience is always at the forefront. For a non-profit annual report or even a CSR report, the right format makes a huge difference. If donors for the [CSO’s Name] are spending more time online, then a digital format makes sense. A video [CSO’s Name] annual report maybe?
	2. This doesn’t mean the print annual report is neglected. A regular printed annual report can suffice both online and offline audiences.
	3. These design elements elevate a powerful branding tool. [↑](#footnote-ref-10)