

# FINANCIAL MANAGEMENT MANUAL

of

## Society Development Agency (SDA)

PTI Road, (Northern Side of Shabujbag Moor), Patuakhali.



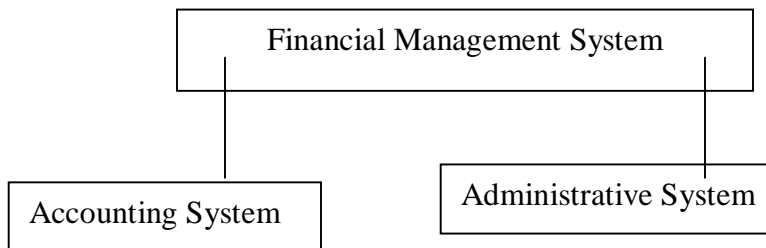
# FINANCIAL MANAGEMENT MANUAL

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## Society Development Agency (SDA)

### 1. BASIC CONCEPTS AND COMPONENTS OF FINANCIAL MANAGEMENT:

Globally, there is a legitimate concern among the government, donors and the stakeholders about accountability and transparency of the SDA's financial operation. Financial management is a vital area of SDA's management system. It controls and guides an organization in a very effective and transparent way. Having a good financial system is therefore considered to be a key strength of an NGO. Every organization requires a financial management system- although many NGOs may only have a simple accounting or bookkeeping system. Accounting or bookkeeping is a sub-component of financial management system. Financial management systems can be broken down into administrative systems and accounting systems:



Administrative systems assist NGO managers in administrative planning, communicating, controlling and decision-making.

Accounting on the other hand is concerned with identifying financial information, expressing the information in numeric terms and communicating this information to relevant and interested parties. An integrated accounting system provides the framework for this to happen. However, administrative and accounting systems may be required to change over time in relating to changes within the NGO and changing information. needs.

### ORGANOGRAM OF THE ORGANIZATION

#### 2. SILENT FEATURES OF THE ACCOUNTING SYSTEM

The financial year followed by SDA is from January 1 to December 31. The financial statements are prepared under the accrual basis of accounting for all income and expenditure of SDA.

The other features of the accounting system of SDA are as under:

##### 2.1 Accountability

In principle, SDA's expenditure can only be authorized by the Executive Director, but, in practice, to a certain extent, this authority is delegated to the operation management- Program Coordinator and Admin & Finance Officer so that SDA projects can be managed on a day-to-day basis without the direct involvement of the Executive Director.

## **2.2 Authority**

It is understood that the Program Coordinator and Admin & Finance Officer will exercise the delegated authority with due respect to the SDA's standard procedure and budgeted resources. But, responsibility for ensuring compliance with procedure rests with the Finance Coordinator.

## **2.3 Updating**

It is to be assumed that the accounting system of an organization reflects its organizational requirements. Therefore, as requirements change, it is imperative that this Manual be also updated/modified with approval of the Executive Committee. The Admin & Finance Officer shall notify changes to the manual. All pages are to be dated to ensure accuracy.

## **2.4 Commencement**

This manual is effective from 1<sup>st</sup> May 2007 and shall apply to all financial transactions undertaken by SDA.

## **2.5 Approved**

This manual will be approved by Executive Committee next meeting.

## **3. INTERNAL CONTROL AND CASH MANAGEMENT ISSUE**

Accounting controls assist in the preparation of fair and transparent reports and the safeguarding of assets. Control can include compliance with generally accepted accounting principles, voucher systems, dual cheque signing and approval for large expenditures, etc. Internal Control varies from organization to organization, depending on factors such as the nature of the program/project and its size.

The accounting procedures incorporated in this section have been designed to provide adequate internal control for SDA.

The elements of internal control are as follows:

- The organizational plan with particular reference to the allocation of Staff functions.
- Authorization, recording and custody procedures including internal verification
- Managerial supervision and reviews including audit.

### **3.1 Areas for applications of internal controls**

- Cash Receipts
- Payments
- Accounts Payable/Receivable
- Inventories (stationeries, publication)
- Fixed Assets
- Procurement

#### **3.1.1 Cash Receipts**

The duties and functions of person cash will be segregated as much as possible from the following duties:

- i) Approving Receive vouchers
- ii) Preparation invoices or Credit Notes
- iii) Dispatching invoices to Customers and Follow-up with Debtors
- iv) Posting in general Ledgers

A pre-numbered receipt is to be issued to the payee for all Cash collections and a copy is to be retained as official record. The retained evidence of the receipt is to be checked with the record of Cash/Bank book by accounts personnel other than the person receiving cash.

### **3.1.2 Payments**

- i) All payments are to be made as far as practicable through cheques crossed “account payee only”
- ii) Internal payments may be paid in cash cheques
- iii) All Cheques are to be signed through joint signatories. Only persons authorized to prepare or supervise the preparation of Cheques have access to the chequebook.
- iv) All void Cheques are to be retained.
- v) Bank accounts are to be reconciled monthly and Cheques or deposits outstanding for a considerable time must be investigated into compliance to administrative and financial procedures are to be followed.

### **3.1.3 Accounts Payable:**

- Invoices from suppliers will be checked with purchase order and the material/service receiving report. Differences, if any, will be promptly followed up. Adjustments arising there from will be approved by an authorized person.
- Recording of the supplier’s invoice is to be made promptly and accurately.

### **3.1.4 Inventories**

- i) All incoming material need to be certified by the concerned official.
- ii) The materials held in store will be:
  - Inaccessible to anyone other than the store personnel
  - Stored in an orderly manner
  - Issued only on approved requisition
  - Verified quarterly by physical counts.

### **3.1.5 Fixed Assets**

Purchase of the Fixed Asset will be complied with administrative and financial authority as laid out.

- Actual cost will be checked against the sanctioned Budget of Fixed Asst.
- Sales and disposals of Fixed Assets will be made only after specific authorization of Executive Committee. The sales process has to be consistent with the organizational policy.

## **3.2 BROAD PRINCIPLES OF SDA INTERNAL CONTROL SYSTEM**

Over and above the following Broad principles of internal control system of SDA are to be maintained.

### **3.2.1 Responsibilities**

Responsibilities should be clearly established. Good internal control necessitates that responsibilities be clearly established and for a given task, one person, be made responsible. When responsibility is shared and defused and some thing goes wrong, it is impossible to identify the person responsible for that.

### **3.2.2 Maintenance of Adequate records.**

Adequate records have to be maintained. Good records provide means of control by placing responsibility for care and protection of the assets. Poor maintenance of records only invites laxity and in many cases theft.

### **3.2.3 Separate record keeping and custody**

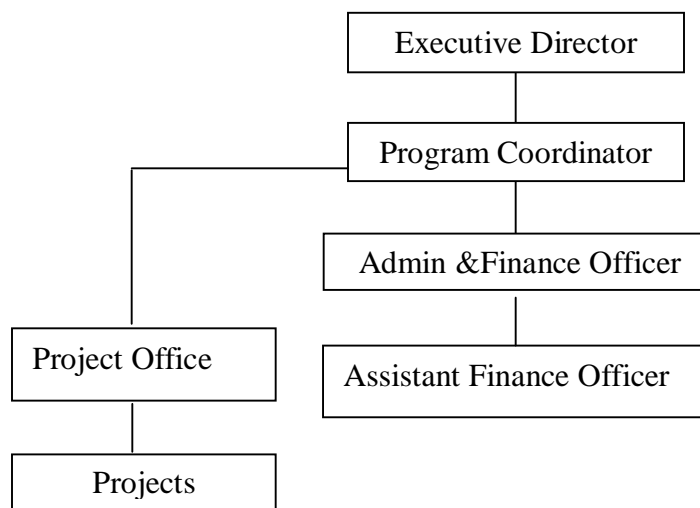
Record keeping and Custody of the same should be separated. A fundamental principle of internal control requires that the person who has access to or is responsible for an asset should not be given responsibility to maintain the accounting record for that asset.

### 3.2.4 Divided responsibility for related transactions

Responsibility for a divisible transaction or a series of related transactions should be divided between individuals or departments in such a manner that the work of one acts as a check on that of another.

## 4. ORGANOGRAM, DUTIES AND RESPONSIBILITIES OF THE FINANCE DEPARTMENT

Proposed Organogram of Financial Department



### 4.1 BROAD FUNCTIONS OF FINANCE OFFICER, SDA

Finance officer is responsible for the overall management and supervision of finance department. He/she will ensure proper discharge of responsibilities in collaboration with other assigned members of the department. Finance Officer will develop job descriptions of all members of the department in a manner that responsibilities are equitable distributed among the members of the department including himself. All job descriptions of the finance department have to be approved by the Executive Director. Following are the responsibilities of the Finance Officer:

1. Manage and supervise Finance Department activities
2. Ensure compliance of financial and accounting procedures of the organization
3. Facilitate budget preparation, revision and finalization
4. Prepare financial statements and reports.
5. Monitor and dispose accounts payable and receivables
6. Organize and facilitate audits on time
7. Prepare for an respond to donors' queries on financial and/or finance related issues

8. Coordinate and supervise projects, in terms of financial management, and project accounts
9. Assure compliance to statutory, regulatory and contractual requirements in financial operations
10. Conduit occasional crosschecking of bills and vouchers
11. Allocate/distribute/re-distribute his responsibilities among the staff of Finance section, as and when required.

## 5. BUDGET

### 5.1 Budgeting

The effective management process of organizational activities consists of two basic elements: Planning and Control. Budgeting provides an important mechanism of internal control. Budget acts as an instrument to provide focus on the future, performance evaluation, coordination, communication as well as a source of mobilization.

Budget is the principal instrument, through which the Board of Trustees will provide policy guidance to SDA's program and activities. SDA will prepare the Annual Work Plan and corresponding Budget and will present the same to the EC through the Executive Director.

Budget of an organization performs the following functions:

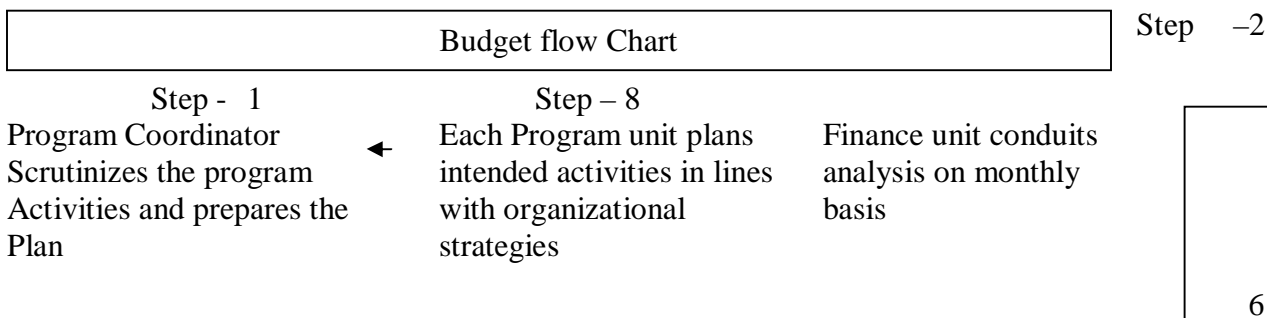
- Expression of broad policy guideline in terms of specific activities
- Provides guidelines for administrative performance
- Sets limit of expenditures in specific areas of activities as well as delineates the same
- Establishes personnel requirements for the organization
- Provide the means of monitoring of performance and evaluation of impact

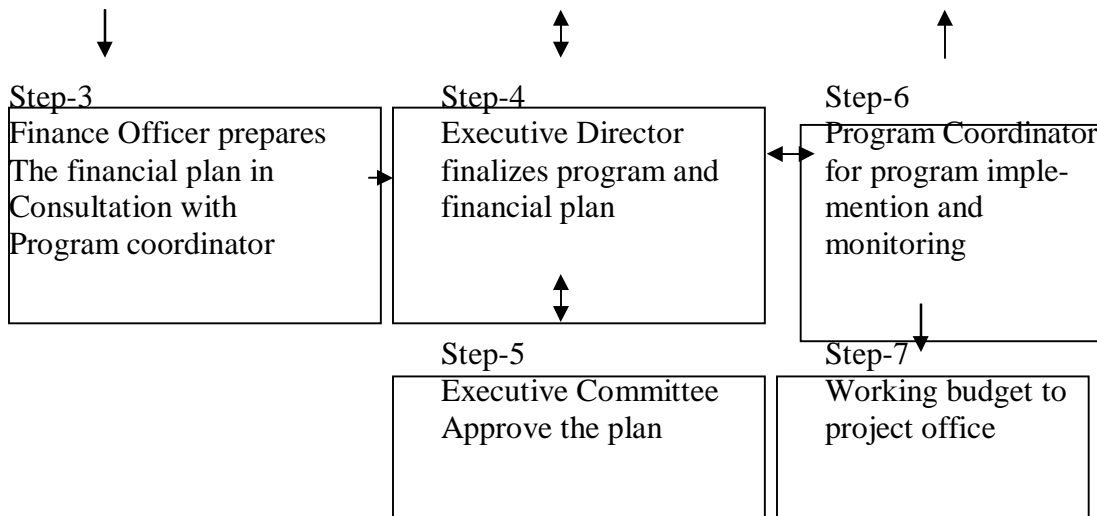
### 5.2 BUDGET PREPARATION AND PROGRAM PLANNING

Budget is prepared and maintained according to fiscal year (January-December). However, at the project level, SDA possesses sufficient flexibility to match with relevant donor's budget period. While preparing the budget, due considerations are required on the following factors:

- Strategic orientation of the organization
- Consistency between program priorities and resource allocation
- Planned activities of the organization
- Availability and Source of Fund

Budget will be developed with the strategic thrust of program planning. Each Program Unit will develop its annual work plan detailing the activities with expected income and expenditure, which will be submitted to the Finance Officer. The senior management will then finalize the draft budget for approved by the EC.





### 5.3 CATEGORIES OF BUDGET

The Admin & Finance Officer will prepare following categories of budget:

**Cash Flow Budget:** This budget will indicate cash requirement for specific time frame. It will help the donors to prepare the disbursement plan and the organization to manage its financial resources to ensure uninterrupted program activities.

**Detailed Working Budget:** This budget will indicate the approved activities with financial implication for all program units to follow and maintain budget line activities and expenses.

**Summary Consolidated Budget:** This will indicate overall Program wise resources requirement and assist the Management to monitor the expenses and take necessary steps.

### 5.4 BUDGET ACCOUNTABILITY

In case of bilateral projects, budget limits are determined according to the project agreement. Such agreement also specifies the limit of flexibility either in terms of percentage of amount.

In case of any unusual requirement, over expenditure up to a maximum of 15% over the budget of a particular line item is allowable. Any expenditure in excess of 15% will require prior approval of the EC. However, in any case, the actual expenditure shall not exceed the overall budget limit.

For proper monitoring of the budget utilization, Admin & Finance Officer shall provide a set of financial statements showing comparison of actual expenditure against budgeted expenditure and present the same to the Executive Director periodically. The Executive Director will report on the financial performance of SDA to the Trustees in EC meeting.

### 5.5 BUDGET REVISION:

In case of shortage of fund or essential requirement of additional expenditure beyond allowable limit, the Management may require revising the approved budget at any given period. In such cases, the revised budget has to be placed before the EC for approval.

## 6. FINANCIAL RECORDS AND DOCUMENTS:

### 6.1 Books, Forms and Registers

Books, forms and register are the primary records in which day-to-day transaction are recorded. Following is the list of books, forms and registers maintained at NSS.

1. Cash Book (Cash Register)
2. General Ledger
3. Salary Register
4. Fixed Assets Register
5. Advance Register
6. Voucher
- Debit Voucher
- Credit Voucher
- Journal Voucher
- Transfer Voucher
7. Stock Register
8. Money Receipts
9. Credit Voucher
10. Cheque Register

#### **6.1.1 Cash Book (Cash Register)**

Transactions relating to cash and bank, which are recorded in a book in a chronological manner, are called a Cashbook.

SDA implements multiple projects simultaneously and it will maintain separate bank account for each project.

#### **6.1.2 General Ledger**

General Ledger is a book of records where cash /bank and non-cash transactions are recorded in a classified manner according to their heads of accounts. Daily cash transactions will be recorded in the cash register according to their heads of accounts (Code number). All the transactions from Cashbook will enter into the General Ledger. For non-cash transaction, journal vouchers will be prepared and posted in the general ledger directly.

General ledger is the principal book of accounts. The financial position of an organization can be easily ascertained at a particular point of time by preparing financial statements from general ledger data.

#### **6.1.3 Salary Register**

Salary and benefits is the largest part of the operating expenses. Details about salary/payroll register have been discussed in payroll section of this Manual.

#### **6.1.4 Stock Register**

SDA will be maintaining a separate stock register. The register will facilitate proper maintenance moveable asset specific format.

#### **6.1.5 Fixed Assets Register**

Fixed assets play an important role in every organization. The following data are very essential as regards to fixed assets:

- a. Date of purchase
- b. Source of funding
- c. Description of assets
- d. Quantity of assets



- e. Value of assets
- f. Location and depreciation rate
- g. Yearly depreciation
- h. Written down value
- i. Identification marks; and
- j. Other information

SDA will maintain a separate fixed assets register to ensure management control over fixed asset. The register will facilitate proper maintenance and asset-wise allocation of depreciation. Format of Fixed Assets Register is shown under Annex-1

Identification numbers should be fixed with all movable fixed assets with inerasable ink. This number will provide adequate information of an asset. The following procedures are to be followed in attaching number with fixed assets:-

- a. First two digit number for source of finance (donors)
- b. Next four-digit number for a particular project
- c. Next two-digit number for group assets
- d. Two-digit number for particular assets within the group of assets.
- e. Last four-digit number for identification of asset.

Example is giving below:

1<sup>st</sup> chair no.        10-1000-03-01-0001  
 2<sup>nd</sup> chair no.        10-1000-03-01-0002  
 1<sup>st</sup> Table no.        10-1000-03-03-0001  
 2<sup>nd</sup> Table no.        10-1000-03-03-0002

10 for Donor code  
 1000 for project code  
 03 for group of assets  
 01 for assets (chair) within the group of assets  
 0001 and 002 for chronological order of chair.

### 6.1.6 Depreciation

SDA follows the declining method for calculation of depreciation on fixed assets. The rates of depreciation on different categories of assets are as follows:

Group of Assets	Rate of Depreciation
Furniture and Fixture	15%
Photocopier	25%
TV and VCR	25%
Computer	25%
Air Conditioner	25%
Refrigerator	25%
Clinic Tools	33%
Vehicles	30%

Any change in the rate of depreciation will be done through the approval of the EC.

### 6.1.7 Advance Register

Advance is a normal phenomenon of an organization. To carry out various activities, it becomes essential to procure goods and services from different persons or organizations at different points in time and in doing so, advance payments need to be made from time to time. Depending on the particular situation, these advance payments are made directly to third parties and sometimes to internal staff.

Advance register is a tool through which proper control on advance payment can be established. It is a subsidiary record in addition to the general ledger. It is essential to maintain all necessary information properly in respect of advance payments and their subsequent adjustment. While preparing financial statements, a list is prepared for unadjusted advances from this register and the total of such advances is compared with that of the general ledger.

Following is the form of advance register:

Society Development Agency (SDA) Advance Register						
Name & Address:						
Date	Voucher Number	Particular	Dr. (Advance)	Cr. (Adj)	Balance	Remarks
1	2	3	4	5	6	7

### 6.1.8 Voucher Forms

Vouchers are primary documents to record financial transactions of a business organization with all essential supporting documents.

Elements of vouchers:

1. Name of the organization
2. Number and nature of voucher
3. Date of preparation
4. Account name, code no. and amount
5. A brief narration about the transaction
6. Signature of appropriate authorities
7. Attachment of bill/cash memo/chalan and other supporting documents
8. Project Code Number
9. Recipient's signature
10. Indication of cash or bank

### 6.2 TYPES OF VOUCHER

Four types of vouchers are used in SDA as follows:

- Debit voucher
- Credit voucher/Received voucher
- Journal voucher

### 6.2.1 Debit Voucher

Debit vouchers are prepared for recording of revenue and capital expenditure such as staff salary, traveling and transportation etc. and plant & machinery, furniture & fixture etc. respectively. This voucher is prepared for all types of cash/bank expenditure. Necessary original supporting documents should be attached with debit voucher except original telephone, electricity, gas, eater and contract documents to be field separately. This voucher has other alternative names available in use, such as payment voucher, disbursement voucher etc. Format foe debit voucher is shown under Annex-2.

### 6.2.2 Credit Voucher

Amount received from donor agencies, advance refund from staff or amount received by any means through sale, transfer etc. is recorded in books of accounts through credit vouchers. Before approving this voucher, it is ensured that all necessary supporting documents have been attached thereto. Format for credit voucher is shown under Annex-3.

### 6.2.3 Journal Voucher

Transactions other than cash are recorded in the books of accounts through journal vouchers. PF, Income Tax, advance adjustment, deduction from salary, depreciation on fixed assets etc. are recorded in the books of accounts through journal voucher. Necessary supporting documents are attached with this voucher before it is approved. Format for journal voucher is shown under Annex-4.

#### 1. Preparation of Journal voucher:

Project, code, voucher no. date are same as debit and credit voucher. Others are as follows:

Head of account : Debit and credit sides of transaction are mentioned here.

Dabit (Taka) and Credit (Taka): Amount is written down here.

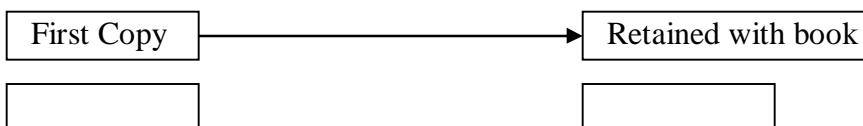
Source : Source of journal is mentioned here. For example, Circular no., minutes, approval, working sheet, ect.

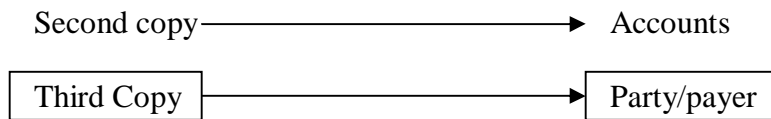
Particular : Explanation of transactions is written down in this column  
As follows:

- a. Provision- the provision was made against ..... For the month of .....
- b. Adjustment – the amount is adjusted as per schedule/list attached.
- c. Rectification- Rectification entry is made against voucher no (reference Of previous voucher) ..... Dated.....
- d. Transfer- the amount is transferred to .....from..... as per circular Minutes/others etc.

#### 2. Money Receipt

Money Receipt is the acknowledgement of money for both cash and cheque. Which is chronologically numbered and bound in a book form having 50 numbers in each book. (Format for money receipt is shown under Annex-6). This is the primary evidence based on which amount received by any means is recorded in cashbook. While receiving any amount a money receipt of three copies each is used as follows:





## 8. FINANCIAL RECORDS MAINTENANCE:

### 8.1 Accounting Records:

Finance Officer ensures proper maintenance of accounting and financial records, and other essential, their protection from damage (by fire or other means) and unauthorized access or removal. Further, the Finance staff ensures, where appropriate, that the copies of records and cheque books and cash are kept in safe custody.

### 8.2 Printing of Financial Documents:

Finance Officer approves printing of financial documents. Distribution of finance documents to outside organization requires the authorization of the Executive Director.

### 8.3 Processing of Financial Documents

Using pencil is prohibited in the processing of expenses claims, vouchers, and other financial documents.

Erasers (including use of correction fluids or chemicals) are not permitted in any records and books of account. In case of necessity of correction the straight line is drawn on the incorrect line/record to keep it legible. However, concerned person making the correction puts his/her initial along the respective correction/s.

### 8.4 Destruction of Financial and Accounting Records:

Accounting records shall be destroyed with specific approval of the EC. Destruction of accounting documents must comply with the GOB rules and regulations for NGOs.

From the date of last transaction, all the records will be preserved for the period as required by the respective donors/funders. SDA's own record will be preserved for five years. However, the following records will be preserved for indefinite period.

- Cash Book
- General Ledger
- Asset Register
- Audit Reports
- Meeting minutes of the Board of Trustees
- Financial and Personnel Management Manuals

## 9. BANKING

### 9.1 Official Bank Accounts:

EC is the sole authority for opening and closure of bank accounts. EC assigns signing officers to operate bank accounts. Correspondence with respective bank must be done after getting approval of the EC in the following cases:

- Opening and closing of bank account
- Alteration to the designation of account signatories
- Appointment of cheque signing officers; and

- Cancellation of appointments as signing officers

## **9.2 Operational Procedures of Bank Account.**

- a. All the bank accounts of SDA are jointly operated by any two of the following signatories. ED's signature is mandatory for any amount above Taka.....
  - Treasurer
  - Executive Director
  - Program Coordinator
  - Admin & Finance Officer
- b. The chairperson of the EC must approve single third party payment over 1 lacs. However, payments will be made through account payee cheques as per clause 9.2 a
- c. All the payments over Taka- 10,000.00 are to be made through account payee cheques. However, advance and reimbursement to staff will be made through cash cheque.
- d. In case any one or more of the bank signatories resign from the organization or otherwise not able to perform their job, the Board will appoint signatories from the existing Board member(s) and/or the staff. However, these appointments should be treated as ad-hoc. As soon as the vacant position(s) are filled in with new appointment (s), the signatory panel as per clause 9.2 a. will be reinstated, as regular bank signatories of the organization and the ad-hoc signatories will become null and void.
- e. According to the NGOAB (NGO Affairs Bureau) rules all grants/donation must be received through one bank account (Mother account) by the organization but more than one operational bank account may maintained for implementing the project activities. Following is the procedure to operate bank accounts:
  - i. After receiving all grants in foreign currency or foreign grants originating abroad but received in local currency through only one bank (mother account), the account number with address of the bank must be furnished to the NGO Affairs Bureau.
  - ii. The foreign grants received in above manner, may be transferred to separate accounts (operational bank account) for smooth and better functioning of program activities.

## **9.3 RECEIPT OF CHEQUES:**

Following steps are to be followed against receipts of any cheque:

- i. Official Money Receipt (MR) to be issued against each receipt of cheque.
  - ii. All the cheque(s) received are to be crossed as "Account Payee" after receipt.
  - iii. Cheque(s) received during the day should be deposited to respective bank within the next working day.

## **9.4 CHEQUE REGISTER**

When a chequebook is collected from the bank, the Finance Department shall make an entry in the cheque register mentioning the number of cheques leaves.

For recording of the cheque issued, the Finance Department shall maintain a "Cheque Register Book" which should contain at least the following information.

- Date of issue
- Cheque Number
- Purpose
- Payees' Name

- Amount of cheque
- Initial of authorizing office

### **9.5 RECONCILIATION OF BANK ACCOUNT**

At the closure of each month the bank reconciliation statement must be prepared and checked within 7 days of the following month. The Finance Officer shall sign the reconciliation statement.

### **9.6 CANCELLATION OF SPOILT CHEQUE FORM OR ISSUED CHEQUE**

Cancelled cheque should be marked by red pen, and marking “Void” should cross-spoilt cheque. Any signature on the cheque should be removed and destroyed. The cancelled and void cheques should be kept in the safe for subsequent audit.

## **11. CASH TRANSACTION:**

### **10.1 Cash Payments**

- a. For handling of daily cash transactions, a maximum of Tk. 10,000.00 shall be maintained by the Assistant Accounts Officer. He will remain responsible for the maintenance of this cash amount.
- b. At the end of the daily operation, the Finance Officer shall check the physical cash with cashbook and confirm the balance by putting his initial in the cashbook.
- c. Ledger posting from the cashbook shall be made by an Accountant other than the person responsible for maintenance of cashbook.
- d. All the vouchers to be approved by the appropriate authorities.
- e. After payment “Paid” seal with date to be stamped on all supporting bills.
- f. Revenue stamp to be affixed on the bills according to the Government rules
- g. Petty cash shall not be advance for personal use.

### **10.2 CHANGES OF CUSTODY**

Should there be a change in custodianship, a formal hand-over of cash and vouchers should take place and be recorded in the cashbook. Both the outgoing and incoming custodians should sign the declaration of cash balance and the same to be countersigned by Finance Officer.

### **10.3 USE OF PETTY CASH**

Use of petty cash will be confined to:

SDA will use petty cash up to Tk. 10,000.00 for purchase any item that otherwise is not possible/feasible to buy through cross-cheque. The cash limit may exceed to the actual amount to pay for utilities and phone/fax bill.

### **10.4 CASH RECEIPTS:**

Official Money receipts shall be issued against cash received by way of sale proceeds/refund of advance etc. The Finance Officer to ensure that all the cash received during a day deposited in the relevant bank account within the next working day without fail.

## **11. ADVANCES, CLAIMS AND ACCOUNTING FOR ADVANCES**

Normally three types of advance shall be paid by SDA.

1. Advance payment to staff for travel or other official purpose
2. Advance payment to supplies/contactors
3. Advance payment to project

Normally no advance will be given to any supplier/contractor. Advance payment can only be allowed if mentioned in the terms and condition of the work order/contract or subsequent negotiation with SDA management. Advance to any supplier/contractor will be made through “Account Payee” cheque only.

### **11.1 Approval and Processing of Advance**

The Finance Officer shall ensure that the following procedures are followed/implemented when dealing with the advance payments.

- a. Advance for overseas travel is approved by the Executive Director
- b. Requests for travel advance must be submitted to the Finance Officer at least 3 working days prior to departure. The amount of travel advance shall be based on the estimated travel costs and allowances. (Format is shown under Annex-7)
- c. Advance payment to suppliers/contractors shall be based on the contents of the contract/work order.
- d. No additional travel advance will be provided where a previous advance remains unadjusted.
- e. Advance paid to staff member shall be adjusted within the 5 working days after the event is completed.
- f. Contractors/suppliers advance shall be adjusted from the final bill.
- g. An advance register shall be maintained to record the party wise advance payments and adjustments made.

### **11.2 Accounting (Settlement) for advances.**

- a. A staff member who has undertaken the travel shall carefully prepare the travel expenses claims. He/she will ensure that expenses are date, itemized and referenced.
- b. Original receipts, that is, ticket stubs and boarding pass, train fares or bus fares, receipts for taxi fares, attendance sheet, receipts for business phone call and faxes, and hotel bills where ever applicable, shall be appropriately numbered and attached. Claim for travel expenses shall be calculated as rules of SDA.
- c. The travel expenses report shall be certified and verified by the respective supervisor before submission to the Finance department including narrative report.

## **12. PAYMENT OF SALARIES AND WAGES**

For the purpose of salary, staff members receiving salary above Taka- 5,000.00 shall open personal bank account with any commercial bank and provide the bank detail to Finance Department. Monthly salary for the staff members shall be transferred to their respective bank account by the end of each month. Staff members receiving salary up to Taka- 5,000.00 may be paid by cash.

### **12.1 Payroll Processing**

Finance Officer will process project-wise monthly payroll for the project. Payment to other project shall be dealt by respective project. In all cases the following procedures are to be followed.

- a. Relevant payroll documents of all appointments, promotion, transfer; resignation, removal from office etc. are promptly recorded.
- b. Entries on these documents are supported by the approval, advice etc. And verified properly.
- c. Prepare the payroll by the end of each month.
- d. Payroll shall contain the information like Name, Designation, salary and deductions like advance recovery, Income tax etc., the Net Pay and bank account number with bank name and branch.
- e. Finance Officer shall recommend the payment and the same will be submitted to the Executive Director for approval.

- f. An “Account Payee” cheque/debit advice along with a copy of the payroll shall be sent to bank for organizing payment to relevant staff members’ bank account.
- g. For cash payment to staff receive salary up to Taka- 5,000.00 a separate cash cheque equivalent to salary amount to be issued and withdrawn from bank for disbursement to respective staff.

### **12.2 Payment of Salaries due to an employee at the time of resignation or dismissal.**

Payment of salaries to an employee at the time of resignation or dismissal will be administered by the service rules/practices of SDA.

### **12.3 Payment of salaries and benefits due to a deceased employee.**

In case of death of an employee the following steps will be followed for settlement of dues to the successors:

- A list containing entitled dues, allowances etc. will be provided to his/her nominee (s)/successors (s). Format for nominee declaration is shown under Annex-9
- Unpaid salaries shall be paid to the nominee(s) successors(s) of the deceased employee upon receiving appropriate documents from the nominee(s)/successor(s)
- Payment will be made through “Account Payee” cheques(s)

### **12.4 Payroll Taxes/VAT**

As per prevailing law, Income Tax will be deducted at source from the monthly salary of concerned employee and deposit the same to concerned Bank account. Also any vendors/party sale equipments/furniture, services tax will deducted at source from the work order/contracts.

### **13. ACCOUNTS PAYABLE/PAYMENT TO THIRD PARTY:**

The transaction starts through issuance of a contract, agreement or work order to any supplier, contractors or consultant. The national clause that should be incorporated in every contract are as follows:

- Both party sign the agreement
- Materials to be delivered (in kind or by service)
- Specific time frame
- Payment shall be made through “Account Payee” cheque only.
- Mention that tax/vat will deducted at source as per relevant Income Tax rule
- Arbitration clause, in case of any disagreement/discrepancies

### **13.1 The Payment Process :**

- The party shall submit bill and challan to the user section. The concerned section shall attach a “Payment Initiation Form” (format is shown under Annex-10), fill up the relevant columns, confirm receipt of goods/services and pass it to Finance Department.
- Finance Section shall check the invoice and other relevant documents, and the Finance Officer recommends payment on the payment initiation form. For purchase of fixed assets, new asset number to be allocated.
- Executive Director will approve the payment.
- Finance section issue cheque in favor of the party, receives money receipts from the party and pass it to relevant person for cash book and ledger book posting and stock register.

### **14. ACCOUNTS RECEIVABLE:**

When any goods and services are delivered on credit or any expenses are incurred on the basis of commitment, the amount receivable from relevant party is treated as “Accounts Receivable” in the



books of accounts. To ensure timely recording of such credit in the books of accounts and also the recovery of the amount, the following steps to be taken by the finance department.

- a. The Finance Officer shall prepare all accounts receivables invoices or “Request for Advance” for projects/contract. Finance Officer shall sign request letters. Invoice shall be prepared for all revenues.
- b. Invoices will be prepared using SDA’s invoice form. An invoice number will be obtained from the invoice book, which will be kept by Accountant. Finance Officer will sign all invoices, and copies of them will be sent to concerned Accountant for raising journal voucher and positing to the General Ledger.
- c. The Finance will approve all the journal entries
- d. Finance Officer will ensure the recovery of all outstanding invoices. He/she will ensure the following actions:
  - Issue of invoice in due time
  - Issue of reminder notices
  - Consulting the Executive Director in cases of doubtful debt.

#### **14.1 Writing Off of IRRECOVERABLE AMOUNTS DUE TO SDA.**

- a. Before classifying a debt as irrecoverable, either of the following conditions must be satisfied:
  - the debtor became non traceable
  - it is uneconomic to follow up recovery action due to the relatively small value of the debt.
  - Legal proceedings through the courts have proved unsuccessful
- b. The Executive Director will propose of Board of Trustees for approval of writing off the irrecoverable debts.
- c. The party shall not be informed regarding the decision of writing off the irrecoverable debts.

### **15. PROCUREMENT- POLICY AND ACCOUNTING PROCEDURES**

#### **15.1 Procurement Policy**

The assistance/sub grant provided for procurement of supplies will require complete accounting and the expenses must be substantiated by proper documentation. The procedures to be followed for procurement of supply are listed below:

#### **15.2 Guiding principles to be followed for any procurement of SDA.**

- a. Concerned section shall raise a requisition for procurement of an item and submit to Finance section for verification with budget provision.
- b. The Executive Director shall approve the requisition for purchase.
- c. The Executive Director shall constitute a purchase committee containing at least three members. One will be Program Coordinator/Coordinator of the organization, one Project In charge/Coordinator and other Admin/Finance Officers of the organization.
- d. Through market survey, the purchase committee will develop a list of bonafide supplier depending on the nature of item to be procured.
- e. All the decision of the purchase committee to be properly recorded.
- f. After approval of the requisition, procurement to be arranged following the Bid solicitation procedure mention below.
- g. The goods supplied must be officially received and performance certified by the requisitioning section.
- h. Finance section will verify bills along with challan, and Purchase committee decision for payment to the supplier.

- i. Advance payment at the time of placing work order to any party should not be considered. However, under special circumstances the Executive Director can approve advance payment maximum to 25 percent of the estimated value.

The bid solicitation procedure may not be required while the procurement is made from Government/Semi Government/Corporation or exclusive dealers and that should be properly documented.

### 15.3 BID Solicitation Procedure

Amount	Source	Quotation	Method of Purchase
Tk. 01-9,999	Open market/ Enlisted vendors	None	Direct purchase by In-charge/Designate
Tk. 10,000-30,000	Open market/ Enlisted vendors	Minimum Two	Direct purchase by In-charge/Designate
Tk. 30,000-2 Luck	Open market/Enlisted vendors	Minimum Three	Obtain at 3 sealed quotations from bonafied enlisted suppliers and observe other standard purchase procedure
TK. 2,00,000 and above	Open market/Enlisted vendors & Tender	Minimum Three	Obtain at 3 sealed quotations from bonafied enlisted suppliers and observe other standard purchase procedure

**Note:** Other standard purchase procedures involves:

- Opening of tender in presence of bidder (s)
- Prepare Comparative statement for price comparison
- Document committee decision on selection of suppliers
- Issue work order etc.

## 16. CONSTRUCTION WORK OF SDA.

All construction work of SDA shall be processed through the Construction Committee.

### 16.1 Formation, Duties and Responsibilities of Construction Committee.

A minimum 3 members Construction Committee shall be formed and approved by the Board of Trustees consisting of members from the Board and Senior Member. The committee shall be responsible for the following:

- a. Selection of consulting firm through tender process, for preparation of the following documents required carrying out a construction work.
  - Soil testing
  - Preparation of structural design
  - Material analysis
  - Cost analysis
  - Approval of building plan by the respective local authority
  - Development of tender document

In addition, the Construction Committee may also engage the consulting firm for the construction supervision responsibility.

- b. Make necessary arrangement for pre-qualification/enlistment of contractors observing the following:
  - Develop the pre-qualification notice indicating the minimum requirements for enlistment
  - Circulate the pre-qualification notice for offer from the contractors
  - Develop the list of pre-qualified contractors
  - Scrutiny of tenders
  - Selection of contractor scored maximum positive points.
  - Take formal approval from the Board of Trustees before issuance of Work-Order
  - Award Work-Order
  - Supervise the work in progress, and
  - Certify the running and final bill for payment.

### **16.2 Accounting Procedures**

- a. An invoice must be received for all goods and services procured. Only original invoices prepared by the supplier are acceptable. Supporting documents such as quotation or the documentation report should be attached.
- b. Payment certification to be done through Payment Initiation Form
- c. Finance Officer to confirm that new assets number is mentioned on the Payment Initiation Form in case of fixed assets procurement.
- d. All invoices shall be stamped "Paid" and dated. Finance Officer will check the correctness and appropriateness of the invoices before payment.
- e. Cash book entry and ledger posting to be done by relevant Accountant as per account code.
- f. In case of failure by the supplier to meet its obligation of supplying contractual goods and services the prompt action will be taken by Finance Officer to safeguard organization interests. Any security deposit provided by the supplier will be forfeited.
- g. Should it become necessary to terminate a procurement contract (for purchasing goods or services) at any time during its performance, the Finance Officer will be responsible for investigating the legal aspects of the proposed action, and, where appropriate, negotiate terms of settlements. These actions shall be carried out in consultation with the Executive Director.

### **16.3 Sale/Disposal of Assets:**

The Executive Committee is the sole authority to approve sale/disposal of any assets of SDA. Hence before processing any sale/disposal of any assets, approval from the Board of Trustees to be obtained. To handle the sales/disposal of any assets of the organization, following steps to be followed by the Management:

- Form a three-member committee. Composition of the committee will be same as purchase committee.
- The committee will assess the expected present market value of the item to be sold through market survey to determine the minimum possible sales value.
- Where the estimated sales value is less than Taka- 10,000.00, obtain at least three quotations from bonafied buyers.
- Where the estimated sales value is more than Taka- 10,000.00, obtained sealed quotation form at least three bonafied buyer and decide.
- No staff and EC member of SDA will be allowed to participate in the tender.
- Payment to be made through cash or pay order only.

## 17. Delegation Authority

The following chart provides the details of authority level that the Senior and Mid Management can exercise as decided by the Board of Trustees:

Sl.#	Instrument/Documents	Authority	Extent of Power	Remarks
1	Cheque signature	Executive Director, Program Coordinator, Finance Officer	Above Tk. 5,000.00 Executive Director, signature is mandatory	Any two signatories
2	Re-allocation of budget items	Executive Director	Up to 15%	Above 15% EC
3	Capital Expenditure	Executive Director	Full	Budget provision and purchase procedures
4	Write off of asset, Bills Receivables etc.	EC	Full	Management to place necessary information
5	Renting/Leasing	Executive Director	Full	
6	Salary, Allowances and other benefits	Executive Director	Full	As per service Rule of SDA
7	Program and administrative expenses, travel, advance, stationary purchase etc.	Executive Director, Program Coordinator, Finance Officer	Above Taka- <u>2,000</u> . Up to 2000 for program expenses. Up to Tk. 2,000	With concurrence to recommendation from concerned section In Charge
8	Party Bills	Executive Director	Full	All formalities to be followed
9	All revenue expenses at project level and program	Respective project manager	Full	Within the approved budget
10	Professional fee like audit, surveyor	Executive Director	Full	
11	Consultants bill	Executive Director	Full	
12	Utilities bill	Finance Officer	Full	

### 17.1 Explanatory Notes:

- In the absence of Executive Director, Program Coordinator may exercise full or partial authority as delegated from the Executive Director.
- In the absence of Program Coordinator, Admin & Finance Officer may exercise full or partial authority as delegated from the Finance Officer.

- At the project office level, in the absence of Project Manager, Administrator may exercise full or partial authority as delegated from the Project Manager.
- No payment can be made unless there is appropriate provision in the budget.

## **18. PROJECT OFFICE ACCOUNTS**

SDA maintains its account centrally but the Project Offices are allowed to maintain subsidiary accounts and adjust balances following the SDA fiscal year.

### **18.1 Procedures for Project Office**

#### **18.1.1 Description**

At the project level, accounting will be purely on cash basis. The accounts of Project offices will be maintained by the assigned staff of the respective project, who is not likely to be finance background person but have basic knowledge of keeping simple accounts.

#### **18.1.2 Fund Transfer**

An amount equivalent to one-month expenses will be transferred to respective Project Office from HO. Project Office in consultation with the related offices will to prepare fund requisition for one month in prescribe form within 15<sup>th</sup> of the current month and send it to the Program Coordinator (format of Fund Requisition Form is shown Annex 11). Program Coordinator will approve the fund requisition and allocate the budget among existing donors. Finance Officer approved amount of cash to related projects. Subsequently the project office expenses will be reimbursed on submission on of bills.

When the fund is transferred to a project office, the same will be treated as Advance to the Project. The advance account will be adjusted against Expenses Report of the project office (Format is shown under Annex –12)

#### **18.1.3 Cash Book**

The project office shall maintain columnar cashbook. All cash and bank transactions will be posted in the respective ledger. The Project Manger shall check entry in the cashbook.

#### **18.1.4 Operation of Bank Account and Cash Transaction**

Project Manager and Administrator will jointly operate Project Bank account. Project Manager will approve all the expenses of project office and expenses of project above Taka- 5,000.00. The Project Manager will also approve rent, Utilities and other fixed expenses of Project office. Project Officer can maintain a maximum of Tk. 10,000.

However, HO finance Office will approve the exact limit for a particular project. Finance officer can review the limit from time to time.

#### **18.1.5 Reporting to Central Office**

The Project office shall send the expenses report on monthly basis within three working days of the next month. All the vouchers of the expenses shall be retained by the Project Office with due care for next 5 years as per rule of SDA. Project In-Charge and Project Administrator responsible for maintenance of accounts shall sign the expenses report.

#### **18.1.6 Internal Audit**

In addition to project office internal checking, system, the expenses incurred by Project off shall be checked by Head Officer Finance section quarterly.

## **19. DONOR FUND**

### **19.1 Introduction**

SDA's major projects are financed by Donor grant/donation. So accounting treatment for donor grant is one of the major issues in SDA's accounting system. Unlike other items, it has got some special characteristics. International accounting Standard-20 spells out the systems for Accounting for Government Grant (As per IAS-20 Government refers to government, government agencies and similar bodies whether local, national or international). From the given definition of government, it is evident that SDA's donors are also covered by the same definition. So donor grant can also be treated as like as government grant. Keeping in view this aspect, the related accounting systems have been devised in the light of International Accounting Stadars-20, (IAS-20).

As per IAS-20 (Accounting for government Grants and Disclosure of Government Assistance, SDA's grant related accounting issues would be identified under the following categories:

- Donor Fund – General
- Donor Fund – Investment in fixed assets.

Grant related to assets and revenue will be accounted for as per following norms:

### **19.2 Grant Related to Assets:**

Grant related to assets including non-monetary grants, as fair value should be presented in the Balance sheet by setting up the grant as Deferred Income.

### **19.3 Grant Related to Income/Revenue:**

Grant should be recognized as income the period necessary to match them with the related cost, which they are intended to compensate on a systematic basis. They should not be credited directly to own fund.

### **19.4 Donor Fund- General**

When donation is received, it is record under this account irrespective of the nature of donation. Thereafter, donations utilized for assets are transferred to respective accounts. Donation utilized for revenue type expenses for a period is transferred to income. The balance remaining in this account represents unutilized donor fund.

Sometimes SDA finds shortage of fund in donation account. In such a situation it creates Receivable on Donors' account and this accrued income in matched against expenditure or receivable account is debited and donor fund-general account is credited.

The accounting entries related to donor fund-general are as follows:

- a. When donation is received  
Cash and bank A/C.....Dr.  
Donor fund-general A/C.....Cr.
- b. When donation is utilized for fixed assets  
Donor fund-general A/C.....Dr.  
Donor fund-Investment in fixed Assets A/C.....Cr.
- C. When donation is utilized for revenue expenses  
Donor fund-general A/C.....Dr.

Donation Income A/C.....Cr

- c. When fund utilization exceeds, donation receivable is accounted for  
Accounts Receivable A/C.....Dr.  
Donation Income A/C.....Cr

The fund utilization entries are made at year-end based on consolidated project accounts.

### **19.5. Donor Fund-Investment in Fixed Assets**

When donation is utilized for fixed assets, related donation is transferred from Donor Fund-General and recorded under this head and this portion of the fund is treated as Deferred Income. At the end of the year income will be recognized this fund to the extent of depreciation charged on the related asset by making the following entry:

Donor Fund-Investment in Fixed assets A/C.....Dr  
Income & Expenditure A/C.....Cr  
(Only for depreciation on donor funded fixed assets)

### **19.6 Completion of a Phase/Project**

On completion of a phase of a project the remaining donor funds are treated in the following manner:

#### **19.6.1 Donor fund-general**

The balance of this fund is treated as per the terms of the agreement. If any refund clause exists in the agreement, then the related unutilized fund is refunded to the donor concerned. Otherwise it is carried forward to new phase or in case of completed projects, transferred to General Fund (capital fund) account.

#### **19.6.2 Donor Fund-Investment in Fixed Assets**

On completion of a phase, the remaining balance under this head is transferred to the capital fund. At this stage the following accounting entry is phased:

Donor Fund-Investment in Fixed Assets A/C.....Dr.  
Capital Fund A/C.....Cr.

## **20. FINANCIAL REPORTS:**

### **20.1 Introduction**

Financial reports and statements are the ultimate product of the finance and accounts department. All financial transactions generated throughout the year are recorded in a set of books and records. A systematic recording system facilitates an accountant timely to prepare financial reports as the requirements of the users.

Financial statements and reports contain a typical presentation of financial data. Statutory financial statements are prepared in accordance with accounting concepts, convention and other applicable standards. In other cases, reports and statements are prepared on the basis of requirements of the users. However, the financial data for both the cases are generated from same set of books.

Following is a list of the users of SDA's financial reports:

- Internal users – monthly
- Donor – depending on donor demand
- Government of Bangladesh – yearly
- Financial Experts/researchers
- Others

To meet the requirements of above users, the reports are prepared under the following groups:

- Internal reports – monthly
- Donor reports – depending on donor demand
- Statutory reports – yearly

The finance department is responsible for preparation of these financial reports.

### **20.2 Internal Reports**

These reports are prepared for the purpose of internal uses only. The internal reports are as follows:

- Monthly cash and bank balance/certificate
- Monthly project wise receipts and expenditure statement
- Monthly Head office comparative financial statement

This statement presents monthly receipts and expenditures as well as cumulative picture up to that month. It enables program head to monitor the financial position of the project.

The users of this report are Program/Projects Head, Finance Officer and related accounts Officers.

Form of this statement is given below: **(Attached)**

### **20.3 Quarterly Receipts and Expenditure Statement (ALL Project)**

This statement includes accounts head wise position of all projects cash receipts and payments in order to understand the cash and bank position. It helps making next months projections because it shows cash and bank balances at the month end. It also helps comparing data with previous period, as it contains previous data beside the current period data. Key personnel like Executive Director, Program Coordinator are the users of this statement.

Form of this statement is given below: **(Attached)**

### **20.4 Quarterly Cash Flow Statement:**

This statement is prepared at the end of each quarter. It shows both actual data and projections for the next quarter. It informs the user the total cash inflow and outflow of any project. It also helps the management to assess the fund requirement of Project Officer for transfer of fund. Executive Director, Program Coordinator and Program Heads are the users of this statement.

Form of this statement is given below: **(Attached)**

### **20.5 Project-wise Budget variance Analysis:**



This analysis is done on monthly or sometimes on quarterly basis. It provides a columnar analysis of budget with actual data and also contains the percentage of variance and the reasons for variance.

Finance and Administration Division, Program Head are the users of this statement.

Form of this statement is given below: (Attached)

### **20.6 Donor Reports**

Depending on donors' requirements following reports are prepared

### **20.7 Periodical Financial Report**

It is a columnar financial report prepared as per donors' requirement. This report also contains budget and actual data for the relevant period. It also contains analysis of budget variance.

### **20.8 Project Audit Report**

At the end of each project phase, an NGOAB enlisted chartered accountancy firm is appointed to conducts an external audit. This report includes – Independent auditors report, Donor Fund utilization report (Receipts and Payments), and certification of the Income and Expenditure Statement and Balance Sheet.

### **20.9 Statutory Reports**

These reports are prepared to fulfill statutory requirements. Some of these are required by the constitution of the organization while some have legal requirements. These reports are as follows:

#### **20.9.1 Annual Financial Statements**

The following financial statements are to be prepared at the end of each fiscal period January-December 31. These statements are basically a consolidation of all projects' annual financial statements. Consolidated financial statement includes:

- A Balance Sheet
- An Income and Expenditure Statement
- A Cash Flow Statement and
- Related explanatory notes

This financial statement is audited by the independent auditor and published in the annual report of SDA.

#### **20.9.2 Reports for GOB (NGOBA)**

NGOBA has a requirement to submit a set of financial reports along with auditor's certificate (FD-4) for each donor-funded project. These reports are required to be submitted annually, i.e. project year. The following are the project wise requirements of NGAB as per circular dated .....23<sup>rd</sup> October 2000.

1. Independent Auditors' Report
2. Balance Sheet
3. Income and Expenditure Statement

4. Receipts and Payment Statement (As per FD-6)
5. A brief project description along with related notes, Budget variance
6. FD-4 Certificate with Anex-A/1
7. Auditors observation (SI 1-14)
8. Others, if any.

## **21. External AUDIT**

A Chartered accountancy firm for fulfillments of statutory requirements must complete annual audit of accounts.

- Selection of auditors will be decided by the Board of Trustees
- All possible efforts will be made to complete the yearly audit within 3 months after the fiscal year.
- Finance Officer will ensure submission of final accounts or relevant schedule/document and required clarification arising out of the audit.
- Finance Officer will finalize the TOR is consultation with the Executive Director taking into considerations on requirements of the donors.

***The End***