

Financial Manual For NGOs in India



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CHD Group is a leading national organization working in the space of public healthcare, education, environment and other humanitarian concerns. CHD Group works with Governments, United Nations and with corporate partners in India and around the world. It was founded in 2014 by Dr. Edmond Fernandes, a community health physician, and has its headquarters in Mangalore, Karnataka.

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M/s Teertha and Co., Chartered Accountants

Established in the year 2012, M/s Teertha and Co., is a Bengaluru based Chartered Accountant firm that is catering to the demands of digital age entrepreneurs and traditional business houses. Head quartered in Koramangala, known as the cradle of start-ups in India, the firm has a strong emphasis on both the traditional as well as the modern-day CA practice.

The firm aims at providing quality services to its clients, thereby strategically partnering its clients in their growth. The firm believes strongly in creating and adding value for clients by rendering business and finance related services in a professional and ethical manner.



Raghavendra Teertha, B.Com., FCA.

He is the founder and managing partner of the firm. A commerce graduate from Christ University, Bengaluru, in the year 2008, he went on to pursue CA thereafter. After successfully completing articleship, he qualified as a CA in the year 2012 and has been in practise ever since. Audit and assurance have been his core strength right from the days of articleship. Over the last 6 years, he has successfully mentored many start-ups with regards to book-keeping, compliances, transaction planning, building revenue models, valuations and facilitating with seed and angel funding. **He has also worked actively in setting up many MSME manufacturing facilities by liaising with KIADB, KSFC and other various state government bodies and agencies.** With a burning desire to succeed and make a positive difference to the eco-system, he leads by example has conducted various training programs on Income Tax, GST and other commerce subjects.

M/s Teertha and Co. provides both traditional CA services (Audit and Assurance, Income Tax and GST advisory and compliance etc.) as well as new age CA services (virtual CFO, transaction planning, debt syndication, investor liaising, corporate trainings and presentation).

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UNDERSTANDING ACCOUNTS

Why keep books of accounts?

- It is important for any organisation – whether “For Profit” or “Not for Profit” to maintain books of accounts because it helps organisations to record all their financial transactions in a systematic and disciplined manner.
- Furthermore, these books of accounts are the foundation based on which various management decision making, financial analysis and reporting, fulfilment of tax obligations, reporting to the stakeholders, etc. takes place.

Accounting methods

There are three methods of accounting:

Cash Basis	Accrual Basis	Hybrid Basis
Revenue and expenses are recorded on actual receipt of money.	Revenue and expenses are recorded based on when it is due and not based on money flow.	Mixture of both cash and accrual basis. Revenues and expenses are recognized based on due as well as money flow.

Which accounting records to keep?

1. Bank Book	2. Cash Book	3. Journal Register
4. Purchase Register	5. Sales Register	6. Debit and Credit Note register
<p><u>Supporting documentation</u></p> <ol style="list-style-type: none"> 1. Vouchers 2. Receipts 3. Invoices from vendors 4. Invoices to customers 5. Bank statements and deposit certificates 6. Copies of resolutions passed at the board of trustees meeting 7. Government correspondence 8. Correspondence with auditors and other stakeholders 		

Petty cash book

- The petty cash book is a summary of petty cash expenditures incurred daily, which is recorded chronologically.
- In olden days, the petty cash book was an actual ledger book. In modern day accounting, records of petty cash transactions are maintained in MS-EXCEL, Tally, Google spread sheet and even on a mobile application.

What are financial statements?

Financial statements are those statements that are extrapolated from the books of accounts maintained by the organisation.

- Financial statements are prepared for a specified period like monthly, quarterly, semi-annually and annually.
- In case of non-profit organisations, financial statements comprise of :
 - Balance Sheet (Statement of Affairs)
 - Statement of Receipts & Payments
 - Income & Expenditure Statement
 - Cash Flow Statement
 - Accounting policies followed in preparation of the financial statements.

Statement of Income and Expenditure

- The Statement of Income and Expenditure Account is a summary of all items of incomes and expenses which relate to a particular financial year.
- It is prepared with the objective of finding out the surplus or deficit arising out of current incomes over current expenses.

The Balance Sheet

Balance Sheet is a financial statement which represents the assets and liabilities of an organisation on a particular date.

- Generally, Balance Sheet is prepared as on the last date of the financial year.
- The balance sheet of a non-profit organization is prepared in the same manner as in the case of a business enterprise.
- The assets of the organization are recorded on the right side and liabilities on the left side.
- The Non-profit organizations do not use the term Capital. Instead, General Fund or Accumulated Fund appears on the Balance Sheet.
- The NPO might also create a special fund, such as prize fund or match fund to meet the expenses related to the purpose for which it is created.

- The incomes on the amount which is invested from these funds accrue to the fund alone and not the income and expenditure account.

What is depreciation?

- The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.
- Machinery, equipment, vehicles, buildings, etc are some of the tangible assets that can be depreciated.
- Accountancy estimates the decrease in value using the information regarding the useful life of the asset.



MANAGING AUDIT

What is an audit?

An audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern.

➤ Internal audit

- Internal audits evaluate an organisation's internal controls, including its accounting processes and risk management.
- They ensure compliance with laws and regulations and help to maintain accurate and timely financial reporting and data collection.
- Internal audits also provide management with the tools necessary to attain operational efficiency by identifying problems and correcting lapses before they are discovered in an external audit.
- Internal audit can be done by people within the organisation or by an external agency.

➤ External audit

- An audit of the financial statements of an organization performed in accordance with specific laws or rules is called as an external audit.
- External audit is always performed by a person who is not part of the organisation or an independent agency.

➤ Donor (or project) audit

- In case of not for profit organisations, there will be instances where such organisations would have received donations or government grants for attaining a specific objective.
- In such cases the donor or the government would want to inspect the utilisation of funds and verify if the funds have been utilised for attaining the specific objectives. Such audits are called as Donor Audit or Project Audit.

What does the auditor need?

To perform an audit effectively and efficiently, an auditor needs the following information:

- ✓ Books of accounts along with necessary supporting documents
- ✓ Financial statements
- ✓ Management report on the organisation's performance

FINANCIAL MANUAL FOR NGOs IN INDIA

- ✓ Minutes of the meetings of Board of Trustees, meetings of members, meetings of various committee's formed for the smooth functioning of the organisation
- ✓ By laws of the organisation
- ✓ Organisation Chart
- ✓ Job responsibilities and job description of every employee
- ✓ Internal control manual of the organisation
- ✓ Statutory filings done by the auditee during the period covered under audit
- ✓ Communication of the auditee with government agencies and other stakeholders



RISK MANAGEMENT

Risk Management

Risk is the possibility of happening of a foreseen or an unforeseen event in the future that will result in loss or damage.

- The loss or damage can be financial, physical, emotional, etc. depending on the context that we apply the concept of risk.
- Identifying such risks and taking actions to mitigate the probable loss or damage is called as Risk Management.
- In a not for profit organisation financial frauds, non-compliance with government rules are some of the potential risks which could cause substantial financial losses and irreparable loss of reputation to the organisation.

Four actions for internal control

In any organisation, to mitigate the risk of financial frauds, it is very important to have a robust internal control system. Following are some of the critical actions that needs to be taken to have a strong internal control system:

- Develop a system of checks and balances
- Delegation of authority and separation of duties
- Organisation functioning should be process driven and not person driven
- Regular reporting to the management and verification of those by the management and by internal auditor

Cash control

Cash is the most liquid form of asset and carries a major risk of theft or misappropriation. Some of the cash control systems that can be placed are:

- Defining the petty cash holding limit
- Depositing daily cash collection with the bank and not using it for expenses
- Avoiding cash transactions above a certain limit
- Incentivise modern payment methods like debit card / credit card / UPI
- Daily settlement of cash balance with the higher authorities
- Make the cashier accountable
- Educate the cashier about counterfeit notes and spoilt notes
- Implement a maker checker process, where in every cash payment must be authorised and approved by the superior officers

FRAUD AND CORRUPT PRACTICES

What is fraud?

Any activity carried out by a person or a group of persons with a malafide intention to cause financial damage or any other damage to another person or an organisation is called as fraud.

What are the warning signs of fraud?

1. Accounting anomalies
2. Unusual behaviour pattern
3. Extravagant lifestyle
4. Side stepping certain issues
5. Fierce resistance to share certain information

How to deal with fraud committed by employees in the organisation?

1. Create awareness about fraud
2. Develop an anti-fraud policy and circulate it among the employees
3. Building robust internal control systems
4. Division of roles and responsibilities
5. Conduct regular verification
6. Hire experts to conduct regular audits
7. Show zero tolerance towards fraud and take action on the erring employees at the very first instance of detection of fraud

How to prevent fraud?

Hire Ethical employees

- Hire for integrity interviews
- Pre-employment background screening

Organizational Culture

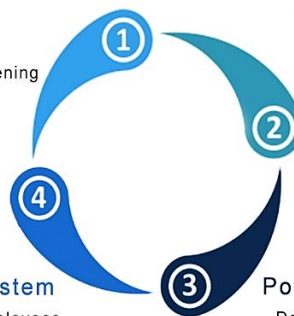
- Employee surveys
- Set the "tone at the top"
- Leadership training
- Fraud training and awareness program
- New hire orientation process

Reporting and Reward System

- Implement a hotline system for employees to report fraud
- Create a reward system for reporters

Policies and Procedures

- Develop a system of checks and balances
- Implement anti-fraud policies
- Conduct random audits
- Perform fraud risk assessments



GST ISSUES FOR NGOs



GST is applicable for all types of goods and services in India, unless exempt or NIL rated by the GST Council. Thus, contrary to popular beliefs, GST could be applicable for some of the services and goods supplied by a Charitable Trust or NGO.

Criteria for Charitable Trust to be exempt from GST

To be exempt from GST, a charitable trust or NGO must satisfy the following two criteria:

- The entity must be registered under Section 12AA of the Income Tax Act.
- The services provided by the entity must be a charitable activity.

If one of the above-mentioned conditions is not satisfied, then GST exemption is not available.

Under the GST Act, not all services provided by a Trust registered under Section 12AA would be termed as a charitable activity. Only the following activities are termed as charitable activity and exempt from GST:

1. Services relating to public health like:
 - Care or counselling of terminally ill persons or persons with severe physical or mental disability;
 - Persons afflicted with HIV or AIDS;
 - Persons addicted to a dependence-forming substance such as narcotics drugs or alcohol;

2. Public awareness of preventive health, family planning or preventing HIV infection;
3. Advancement of religion, spirituality or yoga;
4. Advancement of educational programmes or skill development relating to:
 - Abandoned, orphaned or homeless children;
 - Physically or mentally abused and traumatized persons;
 - Prisoners; or
 - Persons over the age of 65 years residing in a rural area;
5. Preservation of environment including watershed, forests and wildlife.

Are services provided by Charitable Trust exempt from GST?

- No, only charitable activities as defined above provided by a charitable trusts or NGOs having 12AA registration is exempt from GST.
- Any other service provided by a Trust for consideration would be liable for tax under GST.
- If an NGO conducts a musical concert and collects entry fees, the proceeds of which would be used for a charitable activity, will it attract GST? Yes, GST must be levied on the entry fees that is collected.

Are goods sold by Charitable Trust exempt from GST?

Yes, goods sold by a charitable trust for consideration is taxable under GST. Hence, there is no exemption for supply of goods by charitable trusts. Thus, GST rate applicable for the goods normally must be paid by the charitable trust on purchases and collected on supply.

GST Applicable for Colleges and Universities

While implementing GST, services which enjoyed exemption from service tax were also exempt from GST. Thus, the services provided by an educational institution to its students, faculty and staff are exempt from GST.

Also, the following services provided to an educational institution are exempt from GST:

- Transportation of students, faculty and staff;
- Catering, including any mid-day meals scheme sponsored by the Government;
- Security or cleaning or housekeeping services performed in such educational institution;
- Services relating to admission to, or conduct of examination by, such institution;

Under GST, “educational institution” is defined as an institution providing services by way of:

- Pre-school education and education up to higher secondary school or equivalent;
 - Education as a part of a curriculum for obtaining a qualification recognized by any law for the time being in force;
 - Education as a part of an approved vocational education course;
- In addition to the exemption continuing from the erstwhile Service Tax regime, income from education is wholly exempt from GST if a charitable trust is running a school, college or education institution for abandoned, orphans, homeless children, physically or mentally abused persons, prisoners or persons over age of 65 years or above residing in a rural area.

Applicability of GST on Training Programs, Camps and Events

Training programs, camps, yoga programs and other events that are not free for participants conducted by a charitable Trust would be considered a commercial activity, liable for GST. Hence, if a Trusts receives any consideration (donation or otherwise) for any type of program including for arranging residential camps, the same would be liable for taxation under GST.

How is GST calculated?

GST is calculated as follows:

1. Determine the taxable value of the outward supply
2. Apply the rate of GST on the taxable value of outward supply – called as the output GST
3. On all the inward supplies calculate the GST available – called as the input GST
4. Verify if such input GST is an eligible input to claim input tax credit
5. Calculate the sum of output GST in a month as mentioned in Step 2
6. Calculate the sum of input GST in a month as mentioned in Step 4
7. Difference of Step 5 and Step 6 is the GST payable for a month. If Step 5 > Step 6, then it is GST payable, else it will be excess input tax credit which will be carried forward to the subsequent month.

What are the basic compliance NGOs must have for GST?

1. Filing of GSTR-3B on a monthly basis
2. Filing of GSTR-1 on a quarterly basis, if annual turnover is within Rs. 1.5 crores. If it exceeds Rs. 1.5 crores, GSTR-1 to be filed on a monthly basis
3. Reconciling of GSTR-2A with the input tax credit ledger, periodically
4. Annual returns and audit, if the turnover exceeds Rs. 2 crores p.a.

Foreign Contribution Regulation Act (FCRA) for NGOs



Who can apply for FCRA registration?

For grant of registration under FCRA, 2010, the organisation should:

- i. be registered under an existing statute like the Societies Registration Act, 1860 or the Indian Trusts Act, 1882 or section 25 of the Companies Act, 1956 (Now Section 8 of Companies Act, 2013) etc;
 - ii. be in existence for at least three years and has undertaken reasonable activity in its chosen field for the benefit of the society for which the foreign contribution is proposed to be utilised.
- The applicant NGO/association will be free to choose its items of expenditure (excluding the administrative expenditure as defined in Rule 5 of FCRR, 2011) to become eligible for the minimum threshold of Rs. 10.00 lac spent during the last three years.
 - If the association wants inclusion of its capital investment in assets like land, building, other permanent structures, vehicles, equipments etc, then the Chief Functionary shall have to give an undertaking that these assets shall be utilized only for the FCRA activities and they will not be diverted for any other purpose till FCRA registration of the NGO holds.

Who can apply for grant of prior permission under FCRA?

An organization in formative stage is not eligible for registration. Such organization may apply for grant of prior permission under FCRA, 2010. Prior permission is granted for receipt of a specific amount from a specific donor for carrying out specific activities/projects. For this purpose, the association should meet following criteria:

- i. Be registered under an existing statute like the Societies Registration Act, 1860 or Indian Registration Act, 1908 or the Indian Trusts Act, 1882 or section 25 of the Companies Act, 1956 etc.;
- ii. Submit a specific commitment letter from the donor indicating the amount of foreign contribution and the purpose for which it is proposed to be given; and

For Indian recipient organizations and foreign donor organizations having common members, FCRA Prior Permission shall be granted to the Indian recipient organizations subject to its satisfying the following:

- i. The Chief Functionary of the recipient Indian organization should not be a part of the donor organization.
- ii. At least 75% of the office-bearers/members of the Governing body of the Indian recipient organization should not be members/employees of the foreign donor organization.
- iii. In case of foreign donor organization being a single person/individual that person should not be the Chief Functionary or office bearer of the recipient Indian organization.
- iv. In case of a single foreign donor, at least 75% office bearers/members of the governing body of the recipient organization should not be the family members and close relatives of the donor.

Who can receive foreign contribution?

Any “person” can receive foreign contribution subject to following conditions:

- a) It must have a definite cultural, economic, educational, religious or social programme.
- b) It must obtain the FCRA registration/prior permission from the Central Government
- c) It must not be prohibited under Section 3 of FCRA, 2010.

Who cannot receive foreign contribution?

- a) Candidate for election;
- b) Correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;

- c) Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government;
- d) Member of any legislature;
- e) Political party or office bearer thereof;
- f) Organization of a political nature as may be specified under sub-section (1) of Section 5 by the Central Government.
- g) Association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any electronic mode, or any other electronic form as defined in clause (r) of sub-section (1) of Section 2 of the Information Technology Act, 2000 or any other mode of mass communication;
- h) Correspondent or columnist, cartoonist, editor, owner of the association or company referred to in point (g).
- i) Individuals or associations who have been prohibited from receiving foreign contribution.

What is the fee amount for grant of registration, prior permission and renewal?

For registration the association is required to pay a fee of Rs. 5,000/- and for prior permission, the fee is Rs. 3,000/- and for renewal, the fee is Rs 1500/- only.

What are the compliances under FCRA?

Filing of annual returns online within 31st December of every year. If not filed on time, then the organisation will be levied penalty and may also face cancellation of registration.

Whether the certificate of registration is to be renewed?

Yes, As per Section 16 of FCRA, 2010 every person who has been granted a certificate of registration under Section 12 thereof shall have such certificate renewed within six months before the expiry of the period of the certificate.



INCOME TAX COMPLIANCE FOR NGOS



Are NGO's exempt from Income Tax?

Trust, Society and Section 8 Company can seek registration u/s 12A to claim exemption under provisions of Income Tax Act, 1961, if certain conditions are satisfied. 12A registration is not applicable for Private or Family Trust.

What is the procedure for registration under 12A?

To obtain 12A Registration, an application in Form 10A for registration of charitable or religious trust or institution must be made online to the Commissioner of Income Tax along with the following documents:

- Where the trust is created, or the institution is established, under an instrument, self-certified copy of the instrument creating the trust or establishing the institution;
- Where the trust is created, or the institution is established, otherwise than under an instrument, self-certified copy of the document evidencing the creation of the trust, or establishment of the institution;
- Self-certified copy of registration with Registrar of Companies or Registrar of Firms and Societies or Registrar of Public Trusts, as the case may be;
- Self-certified copy of the documents evidencing adoption or modification of the objects, if any;
- Where the trust or institution has been in existence during any year or years prior to the financial year in which the application for registration is made, self-certified copies of the annual accounts of the trust or institution relating to such prior year or years (not being more than three years immediately preceding the year in which the said application is made) for which such accounts have been made up;
- Note on the activities of the trust or institution;

- Self-certified copy of existing order granting registration under section 12A or section 12AA, as the case may be; and
- Self-certified copy of order of rejection of application for grant of registration under section 12A or section 12AA if any.

If the Commissioner is satisfied with the application, then he/she will pass an order in writing registering the Trust or Institution under 12A of the Income Tax Act.

In case the Commissioner is not satisfied with the application, then he/she can also pass an order in writing refusing to register the Trust or Institution. Once a Trust obtains registration, it's is valid for the lifetime of the Trust and there is no requirement for renewal.

Will obtaining registration under 12A provide registration under 80G?

No both are separate registrations and must be applied separately.

What is the procedure for registration under 80G?

Following is the procedure for obtaining registration under 80G:

- Application in form No. 10G.
- Copy of registration granted under section 12A.
- Notes on the activities of institution since its inception.
- Copies of accounts of the institution.
- All other documents as mentioned above in 12A registration

What is the validity of registration under 80G?

- Prior to 01.10.2009, there was a requirement that before the expiry of the date as mentioned in the letter of approval, renewal had to be sought for.
- However, finance act 2009 made change in this regard. After such change, only those institutions require renewal whose expiry is due before 01.10.2009.
- For the remaining cases, the perpetuity of approval has been provided until the commissioner withdraws the exemption. Therefore, there is no need for periodical **renewal under present law.**

Can the registrations under section 12A and 80G be revoked?

Yes, the jurisdictional Commissioner of Income Tax has the powers to revoke such registrations if found that the registered organisations are indulged in profit making activities and are not carrying out the objectives that are mentioned in their registration document. It may also be revoked in instances where such organizations do not file returns and refuse to comply with clauses laid down in the Income Tax Act, 1961.



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