

# FINANCIAL MANUAL



**Social Action For Rural Development (SARDA)**  
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# FINANCIAL MANUAL

## SOCIAL ACTION FOR RURAL DEVELOPMENT (SARDA)

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## **Chapter -1 – Introduction**

### ***1.1 Purpose of the Manual***

The **finance manual** outlines the financial systems and procedures of an organization. It aims to assist program and finance staff in comprehending their financial management responsibilities and understanding how the finance systems and procedures interconnect.

**The Financial Manual lays down the purpose, scope & policies/procedures relating to the various aspects of Finance Management.**

**The following are the objectives of this manual:**

1. **Standardization:** To Establish uniform accounting and financial procedures across the organization, ensuring consistency and reliability in financial reporting.
2. **Transparency:** To Enhance transparency by clearly outlining financial policies, procedures, and responsibilities, which helps build trust with donors, stakeholders, and beneficiaries.
3. **Accountability:** To Ensure that all financial transactions are properly recorded and reported, holding staff accountable for their financial actions.
4. **Compliance:** To Help the organization comply with legal and regulatory requirements, as well as donor conditions and expectations.
5. **Financial Planning:** To Provide a framework for budgeting, financial planning, and resource allocation, aiding in effective financial management and sustainability.
6. **Risk Management:** To identify and mitigate financial risks through internal controls and regular audits.
7. **Capacity Building:** To educate and train staff on financial management practices, improving their ability to manage funds effectively.

### ***1.2 Scope and Applicability:***

The purpose of this manual is to set policies & procedures that are consistent with the mission of the Nonprofit Organization. Also, the purpose of this manual is to set sound financial guidelines that promote financial management; and to abide by Accepted Accounting Principles and the legal requirements governing Nonprofit Organizations.

## **Chapter 2- Organizational Structure**

### **2.1 Overview of the NGO**

SARDA, a multi-dimensional Non-Governmental Organization established in 2001, has been actively involved in various sectors such as Community Based Natural Resource Management, Women Empowerment through Livelihood promotion under Forest, Farm, and Non-farm sectors, Tribal Development, Agriculture Development, Drinking Water and Sanitation, Environmental Conservation, Research Survey, Third Party Consultancy and Sustainable development programs.

#### **OUR ORGANIZATION**

<i>Our Tag line</i>	: ...illuminating Rural India
<i>Legal Status</i>	: Registered Under Societies Reg. Act XXI, 1860
<i>Registration Number</i>	: 135/2002-03 Dated: 28/02/2003 (Ranchi, Jharkhand)
<i>Year of Establishment</i>	: 2001
<i>EPF Number</i>	: JHRAN0033419000
<i>ISO 9001:2015 Cert. No.</i>	: IAS/QMS/C18831
<i>MCA Registration for undertaking CSR Activities</i>	: CSR00002185
<i>MSME Registration</i>	: UDYAM-JH-19-0004056

#### **Income Tax Related**

<i>PAN Number</i>	:	AADTS1984N
<i>12AB Registration No</i>	:	AADTS1984N23PT01 - 12AB
<i>Exemption U/S 80G Registration No</i>	:	AADTS1984N23PT02 - 80G
<i>TAN Number</i>	:	RCHSO24006F
<i>GST Number</i>	:	20AADTS1984N1Z6

#### ***Registered Office:***

*SARDA Bhawan, Chhotki Murram, Ward No- 05, Ramgarh Cantt., Dist.-Ramgarh, Pin- 829122, Jharkhand*

#### **Vision:**

To contribute to achieving Sustainable Development Goals in areas of our operation.

#### **Mission:**

Alleviating Rural Poverty by promoting the people of rural India, sustainable integrated development through partnership and total village management that makes a real difference in their lives, creating ownership and igniting initiative and innovation.

#### **Aims and Objectives:**

SARDA aims for the all-round development of the villages by providing,

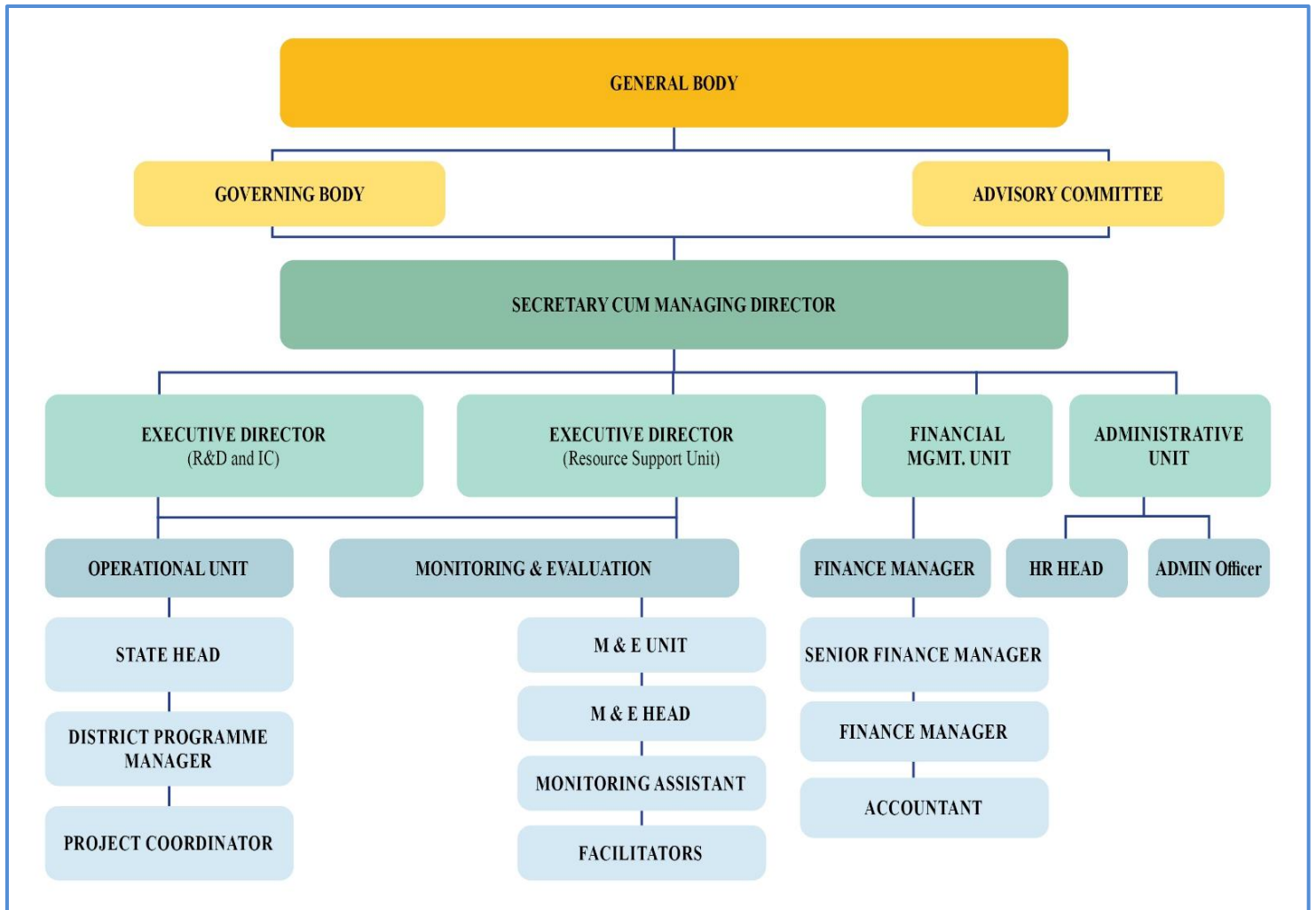
- Formation of self-help groups and self-employment opportunities for men & women.

- Technical & social support for utilizing natural resources like land, water, Forest, animal & agriculture management, horticulture, and cottage industries.
- Infrastructure development such as approachable roads, housing, hospitals, schools, community halls, and marketing.
- Providing training in microfinance and developing entrepreneurial skills in the rural sector.
- Developing human resources by establishing schools, and technical & vocational institutions.
- Giving all organizational support for the scientific development of rural villages & entering them into the enlightened world.
- To organize women & downtrodden tribal for constructive development.
- To prohibit alcoholism, drug –addicts, and superstition through social awareness.
- To develop a link between the government and the rural population by popularizing & action of the government among the rural population.
- To create a suitable environment based on equality and fraternity.

## **2.2 Roles and Responsibilities**

SARDA follows a Functional Organization Structure where each Functional Unit handles different aspects of projects and services. **The Functional Units are:**

- 1. HR & Administration Unit-** The HR and Administration Unit manages all aspects of human resources, such as recruitment, training, performance evaluation, and employee relations. Additionally, the admin team is in charge of handling office operations, facilities management, and logistical support.
- 2. Operational Unit-** The Unit is responsible for implementing the strategies and plans set forth by upper management, as well as monitoring performance and making adjustments as needed.
- 3. Financial Management Unit-** Overall, the financial unit serves as the backbone of the organization, providing the necessary financial information and guidance for decision-making. Additionally, the financial unit is responsible for ensuring compliance with financial regulations and standards to protect the organization's financial health.
- 4. Monitoring & Evaluation Unit (M&E)-** The M&E unit collects data, analyzes results, and provides valuable insights to help improve program/project effectiveness and efficiency. By monitoring progress and evaluating outcomes, the M&E unit helps SARDA to make informed decisions, allocate resources effectively, and demonstrate accountability to stakeholders.



The roles and responsibilities of the key players involved in Financial Management:

### 2.2.1 Board of Directors

1. **Strategic Guidance:** Sets long-term goals and strategies for the organization.
2. **Oversight and Accountability:** Reviews financial statements, ensures financial integrity and monitors management performance.
3. **Legal and Ethical Compliance:** Ensures compliance with laws & regulations, and promotes ethical behaviour.
4. **Financial Oversight:** Establishes and ensures the organization's compliance with proper financial systems and controls.

### **2.2.2 Executive Director/ State Coordinators/ Project Officers**

1. **Financial Management:** Oversees the organization's financial management, working closely with the finance department.
2. **Fundraising:** Facilitate fundraising campaigns/Projects/Bids and collaborates with the nonprofit treasurer.
3. **Operational Oversight:** Ensures that the organization is positioned for financial success and sustainability.

### **2.2.3 Finance Department**

1. **Budgeting:** Prepares and manages the organization's budget.
2. **Financial Reporting:** Generates financial reports and statements for review by the executive director and board of directors.
3. **Compliance:** Ensures adherence to financial regulations and standards.

### **2.2.4 Finance Staff**

1. **Record Keeping:** Maintains accurate financial records and documentation.
2. **Transaction Management:** Handles day-to-day financial transactions, including payments and receipts.
3. **Support:** Assists in the preparation of financial reports and audits.

These roles collectively ensure that our Finance Department operates with financial integrity and transparency, fostering trust among stakeholders and donors.

## Chapter 3- Financial Policies

### 3.1 Accounting Principles and Standards

In India, Non-Governmental Organizations (NGOs) follow specific accounting principles and standards to ensure transparency, accountability, and uniformity in their financial reporting.

**Accounting Standards:** We, Social Action for Rural Development (SARDA) follow the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI)

**Accrual Basis of Accounting:** We use Fund Based Accounting / Accrual Based Accounting, for a more accurate representation of financial position and performance.

### 3.2 Budgeting - Steps followed in the organization.

#### 3.2.1 Budget Preparation.

- **Needs Assessment:** Identification of the needs and goals of the organization for the upcoming period.
- **Resource Estimation:** Preparation of an Estimate of the resources required to meet these needs, including staff, materials, and other expenses.
- **Drafting the Budget:** Preparation of a draft budget that includes all expected income and expenses. This is done in consultation with various departments to ensure accuracy.
- **Review and Adjustments:** Review the draft budget with key stakeholders and make necessary adjustments.

#### 3.2.2 Budget Approval

- **Board Review:** The draft budget is presented to the board of directors for review.
- **Feedback and Revisions:** We Incorporate any feedback from the board and make revisions as needed.
- **Final Approval:** Final approval is obtained from the board.

#### 3.3.3 Budget Monitoring and Reporting

- **Regular Monitoring:** Tracking of actual income and expenses against the budget regularly (monthly or quarterly).
- **Variance Analysis:** Analyzing any variances between the budgeted and actual figures to understand the reasons behind them.
- **Reporting:** Preparation of regular financial reports for internal stakeholders and external donors. These reports highlight key variances and provide explanations.
- **Adjustments:** Making necessary adjustments to the budget based on the monitoring and reporting outcomes.

## Chapter 4- Financial Procedures

Financial procedures in an NGO in India are crucial for ensuring transparency, accountability, and effective management of funds. Here's an overview of the key financial procedures followed by SARDA:

### 1. Accounting Procedures

- a) **Accrual Basis:** Financial statements should be prepared on an accrual basis following Indian Accounting Standards.
- b) **Documentation:** Maintain comprehensive records of all financial transactions, including receipts, invoices, and vouchers.
- c) **Accounting Trail:** Ensure a clear and traceable accounting trail for all transactions to facilitate audits and reviews.

### 2. Budgeting Process

- a) **Annual Budget:** Prepare an annual budget that outlines expected income and expenses.
- b) **Approval:** The budget should be reviewed and approved by the board of directors.
- c) **Monitoring:** Regularly monitor actual income and expenses against the budget and make necessary adjustments.

### 3. Cash Management

- a) **Cash Handling:** Use cash transactions only for petty expenses and where banking facilities are unavailable.
- b) **Cash Register:** Maintain a daily cash balance register, signed by the accountant.
- c) **Verification:** Conduct occasional physical verification of cash balance by the competent authority, with mandatory verification at the end of each month.

### 4. Revenue and Income Procedures

- a) **Recording Receipts:** Document all income, including donations, grants, and other sources of revenue.
- b) **Receipts to Donors:** Issue receipts to donors for all contributions received, ensuring compliance with legal requirements.

### 5. Expenditure Procedures

- a) **Payment Vouchers:** Prepare payment vouchers for all expenses, ensuring they are properly maintained and approved by the competent authority.
- b) **Authorization:** Obtain necessary approvals for all expenditures to ensure accountability.

## 6. Bank Accounts and Transactions

- a) **Bank Accounts:** Operate bank accounts in the name of the NGO, with multiple signatories for added security.
- b) **Bank Reconciliations:** Perform regular bank reconciliations to ensure accuracy and detect any discrepancies.

## 7. Audit and Compliance

- a) **Internal Audits:** Conduct regular internal audits to review financial procedures and ensure compliance with policies.
- b) **External Audits:** Engage external auditors to perform annual audits and provide an independent assessment of the NGO's financial health.

## 8. Financial Reporting External Audits

- a) **Regular Reports:** Prepare regular financial reports for internal stakeholders and external donors, highlighting key financial metrics and variances.
- b) **Transparency:** Ensure transparency in all financial dealings to build trust with donors and stakeholders.

## 9. Compensation and Payroll

- a) **Salary Payments:** Process salary payments through bank transfers to ensure traceability.
- b) **Payroll Records:** Maintain detailed payroll records, including salary slips and tax deductions.

## 10. Procurement Procedures

- a) **Vendor Selection:** Follow a transparent process for selecting vendors, including obtaining multiple quotes and conducting due diligence.
- b) **Purchase Orders:** Issue purchase orders for all procurements, ensuring they are approved by the competent authority.

## 11. Procurement Policy

### 11.1 Purpose

The purchase of goods and services is necessary for the smooth operation of the organization. The aim of the internal control system for the supplying of goods and services is to ensure orders are handled by individuals having skills in evaluating what purchases are required from suppliers offering the best deals, **to ensure purchases made do not exceed the budget provided, and to ensure purchased goods and services conform with the quantity and price specified in the order.**

## 11.2 Methodology

To follow certain methods in purchasing goods, equipment, and services required for the needs of the SARDA or its projects. Competitive bidding shall be a priority practice. The first criterion in choosing a supplier shall be the lowest bid. However, other criteria shall also be considered if a supplier does not provide the required level of service or an adequate guarantee. Project Lead/TL shall specify in the purchase file the reasons the lowest bid was not chosen.

- For purchases, a quotation/invoice shall be obtained from three local suppliers.
- Purchases from a sole source shall be explained in the purchase file.

The purchase file shall contain all the documents about each transaction, i.e., the purchase requisition, quotations, contact information of suppliers' purchase contracts or orders, invoices, delivery slips, and any other pertinent documents.

## 11.3 Purchases

Employees making purchases as part of the project activity or organizational work shall follow these mechanisms:

- **Requisition form** – the employee requesting a purchase fills this form, has it recommended by the Project Officer and approved by the Executive Director/Managing Director/Authorized Team Leader, and sends it to the Finance Department.
- **Order form** – the Finance Department issues the order form after it is signed by the Executive Director/Managing Director/Authorized Team Leader. The concerned employee or the Finance Department will make the purchase successful based on the order form.
- **Delivery slip** – After the purchase has been made, a delivery slip will be issued by the Finance Department for the supplier, who will sign it and give it back to the Finance Department.

## Chapter 5- Internal Controls

### 1. Segregation of Duties

- **Definition:** Dividing responsibilities among different people to reduce the risk of error or fraud.
- **Implementation:** Ensure that no single individual has control over all aspects of any financial transaction related to a particular project. For example, the person who authorizes a payment should not be the same person who processes it. Each project shall have a project coordinator and a project accountant, separately to perform separate assigned tasks, answerable to their seniors and the management committee.

### 2. Authorization and Approval

- **Definition:** Establishing a system where all financial transactions require approval from authorized personnel.
- **Implementation:** Set clear policies on who can approve different types of transactions and ensure that all approvals are documented. This includes setting limits on the amount that can be approved by different levels of management. The Approval Limit will be set up for each project separately.

#### Purchase Approval Matrix

S.N	Purchase Limit	Project Accountant	Project Coordinator	State Coordinator/ ED	Chief Accountant	Secretary/ MD	Board Members
1	Purchase up to Rs 1000	₹	₹				
2	Po- Rs 1000- Rs 5000	₹	A	A			
3	Po- Rs 5000- Rs 10000			A			
4	Po Rs 10000- Rs 50000				A		
5	Po Rs 50000- Po Rs100000					A	
6	Po Rs 100001 and above						A

₹	Delegated Autonomy
A	Management Approval
	Cumulative Approval

**Note:**

- a) The requestor cannot be the approver
- b) Purchased items must be associated with a Work Order. Purchase methods include Requisition, Purchase order, and record-keeping in the stocks.
- c) Approval from the Secretary is required on all Purchase

#### d) **Approval Procedures**

We Implement a structured workflow for approvals, which includes multiple levels of review depending on the requisition/approval of the amount and type of expense. We also ensure that no single person is responsible for both approving and processing payments to prevent fraud. We also maintain the required detailed documentation for all expenses, including receipts and invoices.

#### e) **Payment Procedures**

We consolidate and track all invoices and use secure and efficient payment methods such as electronic funds transfer (EFT), and minimal usage of Cash and Implement internal controls for cash handling, such as background checks, and limiting cash access. We Conduct regular audits to ensure compliance with policies and to identify any discrepancies or areas for improvement.

### **3. Documentation and Record Keeping**

- **Definition:** Maintaining detailed and accurate records of all financial transactions.
- **Implementation:** Use standardized forms and procedures for recording transactions. Ensure that all documents are stored securely and are easily retrievable for audits and reviews.

### **4. Physical Controls**

- **Definition:** Safeguarding physical assets such as cash, inventory, and equipment.
- **Implementation:** Use locks, safes, and restricted access areas to protect assets. Conduct regular physical counts and reconcile them with accounting records.

### **5. Reconciliation**

- **Definition:** Regularly comparing internal records with external statements to ensure accuracy.
- **Implementation:** Perform monthly bank reconciliations and compare them with the NGO's records. Investigate and resolve any discrepancies promptly.

### **6. Internal Audits**

- **Definition:** Conducting periodic reviews of financial processes and controls.
- **Implementation:** Schedule regular internal audits to assess compliance with policies and identify areas for improvement. Document findings and follow up on corrective actions.

## 7. Budgetary Controls

- **Definition:** Monitoring actual income and expenses against the budget.
- **Implementation:** Regularly review budget performance and analyze variances. Adjust the budget as necessary based on actual performance and changing circumstances.

## 8. Fraud Prevention and Detection

- **Definition:** Implementing measures to prevent and detect fraud.
- **Implementation:** Establish a whistleblower policy, conduct fraud awareness training, and use data analytics to identify unusual transactions. Ensure that there are clear procedures for reporting and investigating suspected fraud.

## 9. Compliance with Laws and Regulations

- **Definition:** Ensuring that all financial activities comply with relevant laws and regulations.
- **Implementation:** Stay updated on legal requirements and ensure that all financial practices adhere to them. This includes tax filings, donor reporting, and compliance with grant conditions.

## 10. Financial Reporting

- **Definition:** Preparing and presenting accurate financial reports to stakeholders.
- **Implementation:** Use standardized formats for financial reports and ensure they are prepared regularly. Include key financial metrics and explanations for any significant variances.

## 11. Training and Capacity Building

- **Definition:** Providing ongoing training to staff on financial management and internal controls.
- **Implementation:** Conduct regular training sessions and workshops to keep staff updated on best practices and new regulations. Encourage continuous learning and improvement.

## 12. Use of Technology

- **Definition:** Leveraging technology to enhance financial management and controls.
- **Implementation:** Use financial management software to automate processes, improve accuracy, and facilitate reporting. Ensure that systems are secure and regularly updated.