

BRLF

Welcome Participants to
प्रबोधन
(Alert, Advise, Awake)

Session 6

*Webinar Topic: Principles of Grant Management & Accounting Standards for
NGOs*

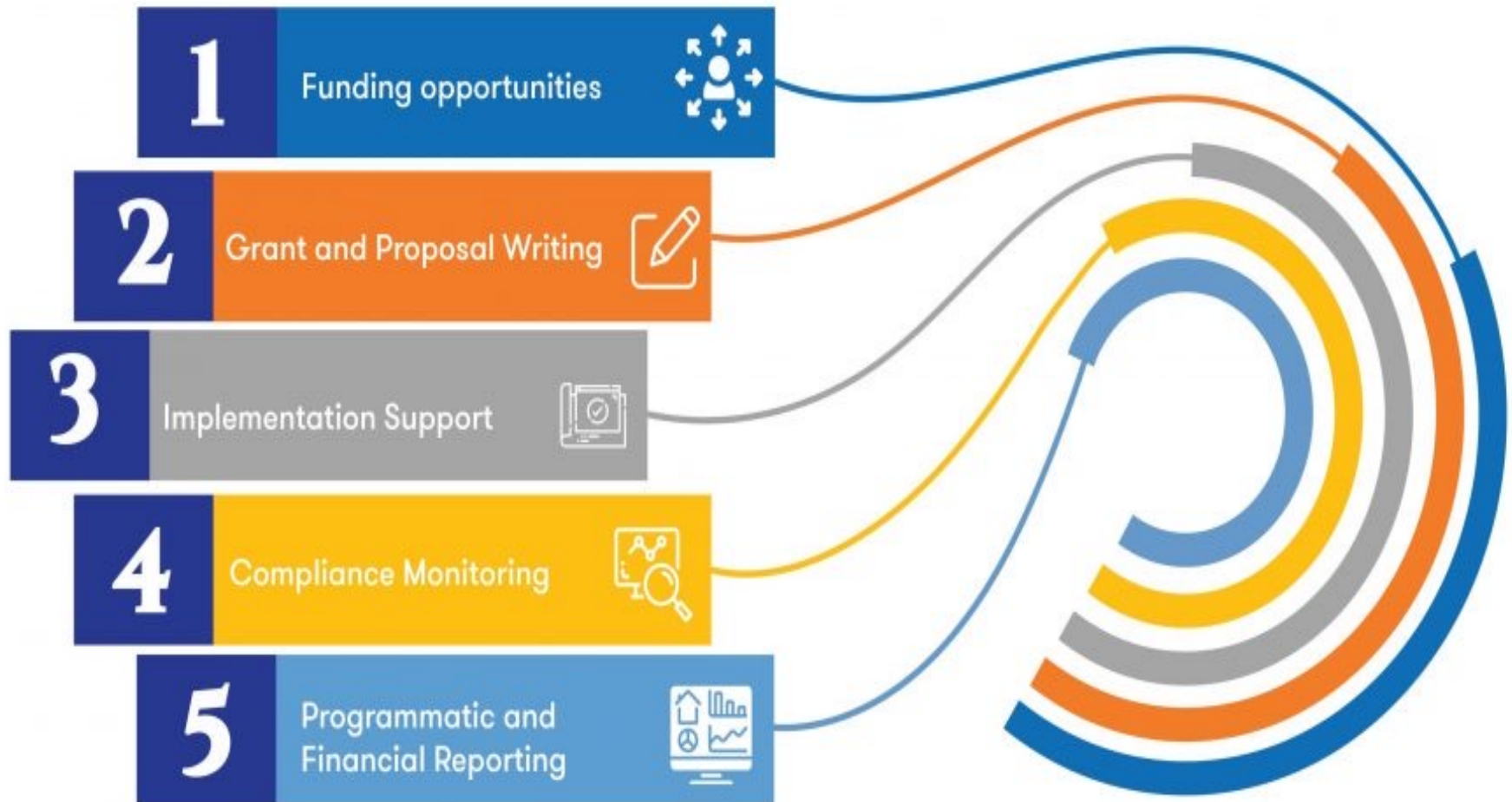
PRINCIPLES

- **Accountability & Transparency** with respect to utilisation of grant funds
- **Efficient & Effective** use of the grant funds
- **Compliance** with applicable laws of the land
- **Compliances** with terms and conditions of Grant Agreement

St Robust Financial Management systems with robust **internal controls, budgetary control, funds management**

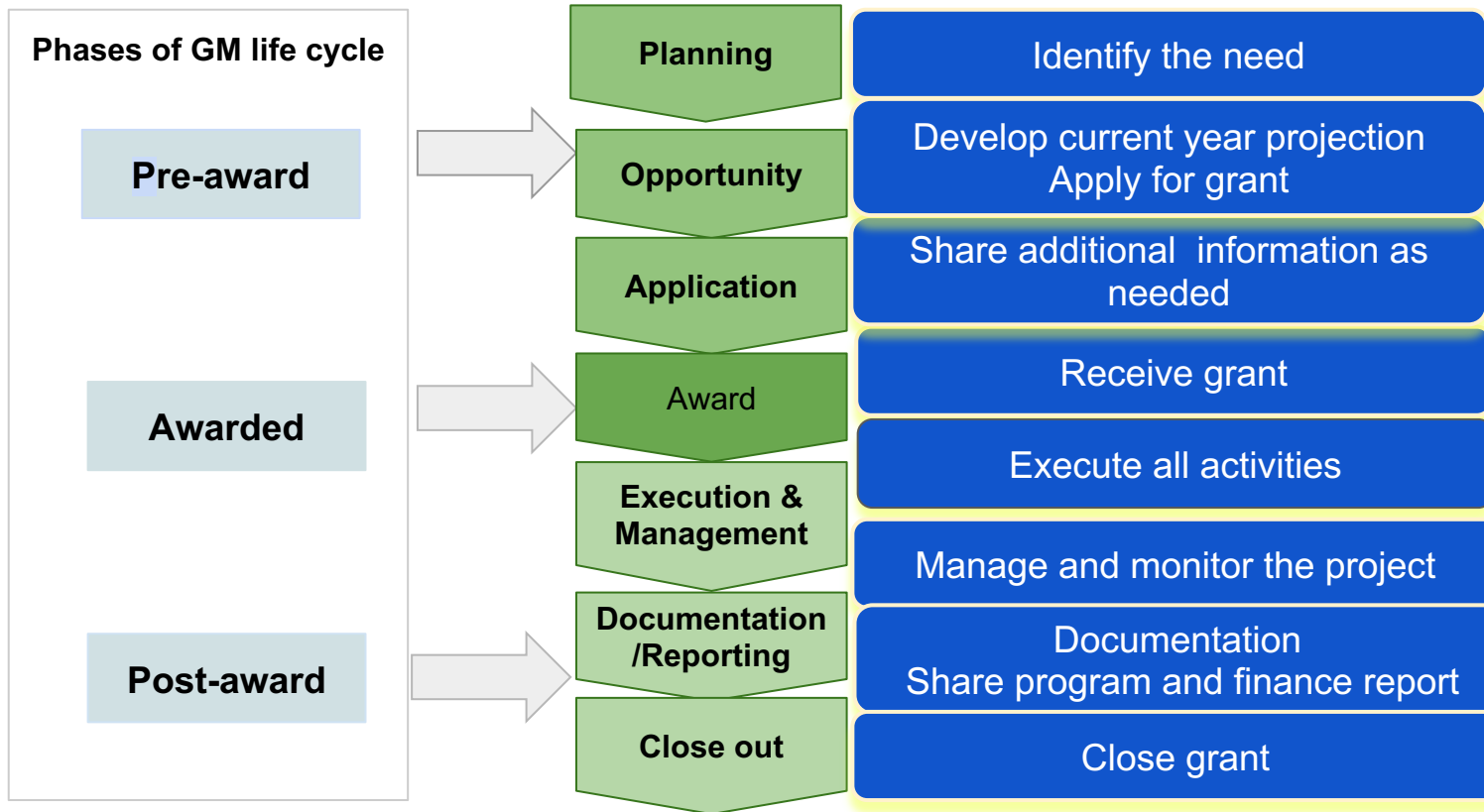
- **Timely submission** of all reports as required under the grant

STAGES OF GRANT MANAGEMENT-GRANT LIFECYCLE



GRANT MANAGEMENT

Life cycle



Pre-requisites for robust grant management system

- a. Policies & Procedures (Finance & HR)-strong internal control environment
- b. Accounting-ICAI Technical Guide for accounting of NPOs-framework
 - i. Fund based accounting for presentation of financial statements
 - ii. Accrual basis of accounting
 - iii. Proper books of accounts
 - iv. Accounting Standards as framework for recording and reporting in financial statements
- c. Statutory laws of land-understanding and compliance
- d. Donor contacts-expectations and reporting fully understood
- e. Segregation of duties-checks and balances, dedicated finance staff
- f. Encourage audit and assurance-risk mitigation

Income of charitable institutions-Types of Funds 1/1

Income of charitable institutions being headless is reported under following categories:

1. Aggregate Income from property held in trust (Schedule AI)
2. Voluntary contribution (Schedule VC)
3. Capital Gains

Types of funds: (specified by ICAI)

A. Unrestricted funds-Funds received with no specific restrictions categorized as:

- a. Corpus-non-refundable, non reducible, reinvestment obligation
- b. Designated/earmarked funds-appropriated and set aside for specific purpose/future, self imposed but not legally binding
- c. General funds-neither designated nor restricted and also surplus/deficit transferred from I&E

Income of Trust and Types of Funds 2/1

Corpus comply with Income Tax provisions-Section 11(5) modes of investment, Section 11(1)(d) not treated income

Corpus donation to another registered entity not considered application

Corpus application to be considered application in the year of replenishment.

Corpus should be shown as Capital and income earned shown in I&E

B. Restricted funds:

- **Project/program grants**-Project Grants to be utilized as per terms and conditions of award, restriction on both utilization and income earned from such funds.
- **Endowment funds:** fund amount cannot be utilized, only income utilized for general/specific purpose as per terms.

Format of financial statements as per ICAI

Name of Entity _____

BALANCE SHEET AS AT _____

SOURCES OF FUNDS	Schedule	Current Year	Previous Year
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- UNRESTRICTED FUNDS

Corpus Fund/General Fund/Designated Funds

- RESTRICTED FUNDS

- LOANS/BORROWINGS

Secured/Unsecured

- CURRENT LIABILITIES & PROVISIONS

TOTAL

APPLICATION OF FUNDS

- FIXED ASSETS

Tangible Assets/Intangible Assets/Capital Work-In-Progress

- INVESTMENTS

Long Term/Short term

- CURRENT ASSETS

- LOANS, ADVANCES & DEPOSITS

TOTAL

- Significant Accounting Policies and Notes on Accounts

Format of financial statements as per ICAI

Name of Entity _____

INCOME AND EXPENDITURE ACCOUNT FOR THE PERIOD/YEAR ENDED _____

INCOME Schedule	Schedule	Current Year	Previous Year
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- Income from operations, Fee & Subscription
- Grants & Donations, Other Income
- **TOTAL (A)**

EXPENDITURE

- Materials consumed, Employee Benefit Expenses
- Administrative and General Expenses, Finance costs
- Depreciation & Amortisation Expenses
- Other Expenses
- **TOTAL (B)**
- **Balance being excess of Income over Expenditure (A-B)**
- Transfer to Designated fund, Building fund/ Others (specify)
- **Balance Being Surplus (Deficit) Carried to General Fund**

Cost Principles in grant budgeting

Costs budgeted for a project grant should be

- **Allowable cost**-costs which are not subject to any restrictions/limitations in the grant award.
- **Allocable cost**-costs which are incurred specifically for the attainment of the objective of the grant.
- **Reasonable cost**-cost which is generally recognized as necessary to be incurred by a prudent person in the conduct of normal business
- **Consistent:** cost applied in same fashion throughout the grant
- **Unallowable cost**-those costs that cannot be incurred and paid under the grant.

Budgeting & Budgetary Control

The purpose of budget is to:

- Ascertain reasonable estimation of costs for interventions/activities in a grant proposal/award. It is budgeting the Plan.
- Segregates direct and common/indirect/OH costs
- Depicts cost matching/sharing (co-financing) for multi donor grant.
- Provides framework for a grant for donor-donee
- Enables course correction based on measurement of actual achievements versus estimates

Budgetary control is the process to:

- Track income and expenditure (annual and cumulative) by budget lines versus original/revised (realigned) budget based on record of income and expenditure budget line and activity wise entered timely in books
- Ascertain deviation/tolerance for expenditure under budget lines in grant award and timely approvals for spends beyond permissible limits

Terms and Condition of Grant

Grant contracts contain terms and conditions in main doc/annexure and should be fully understood before executing the grant contract. Terms include:

Example:

- a. Basis of accounting
- b. Separate Books of Account and separate Bank Account for Grant Funds
- c. Bills and Vouchers defaced with mention of project
- d. Limit on Cash Expenditure.
- e. Treatment of interest
- f. Procurement rules
- g. Inclusion of clauses as per the laws of land
- h. Program/Financial reporting and audit timelines
- i. Treatment of Fixed Assets
- j. Income generated from project activity
- k. Closure of grant

After grant signing, a COMPLIANCE CALENDAR be prepared to ensure all terms and conditions are being adhered as per grant

Robust Grant Monitoring System

Grant monitoring is a process to measure/review performance during grant period. It assesses physical & financial progress, identify risks and corresponding mitigation measures, ensure that funds are used as intended and programs achieve desired outcomes and impact.

Important Tools and Process:

- a. Complete understanding of terms and conditions of Grant contract
- b. Complete understanding of Budget and LFA by both finance and programme teams
- c. Periodic Budget Variance/Deviation Analysis by finance and programme team and review by top management
- d. Timely reporting-narrative and financial reports as stipulated in grant contract

Accounting treatment for grants to NGOs

Grant is trust money. 3 options followed as per convention:

- Option 1: Grant treated only as income
- Option 2: Grant treated only as liability
- Option 3: Grant treated as income to the extent of expenditure-hybrid method.
- AS 9 mentions income recognition to the extent of expenditure for grants applicable if there is business/commerce etc
- Follow the principle of prudence in selecting the right option.

Interest apportionment

- With a single bank account for multiple projects, interest apportionment for reporting to donor has to be made as per well defined method
- Interest apportionment not applicable for dedicated bank account
- Excel sheet attached explains the apportionment method, this be shared with donor.
- Interest can be additive or deductive from grant as specified in grant agreement.

Common/Core Cost

Shared costs (HR, Travel, Office Cost etc) are costs that cannot be attributed to a single project but apportioned/prorated to donor projects/own funds.

Common cost partially budgeted as direct cost is common direct cost

Basis of common cost allocation should be documented as common cost policy and shared with prospective donor at pre award/award execution stage

Allocation should not be based on “availability of budget funds.” Examples of allocation basis are percentage of space utilized, number of units, total staff allocated, contribution of staff to different projects based on time allocation.

Common cost be managed as per organisation annual budget apportioned over multiple donor projects/own resources

Salary Allocation for multiple projects

Staff cost for shared HR in a grant should be allocated and charged to donor grants based as per grant and annual budget.

Prepare monthly salary register/sheet with salary allocation of staff to donor projects, deductions/adjustments, variance versus previous month with reasons and banking streams.

This is required for donor verification and audit

Be mindful of booking and payment of salary out of FC and local funds

Check applicability of time sheets in donor contracts

Closure of Grant

Like management of Grant during its currency, closure of grant is an essential part of a grant. The following processes should be ensured during the closure of a Grant.

- a. Ensure all provisions for closure of grant complied with by donor/donee
- b. All program and financial reports submitted and duly acknowledged by the donor
- c. Closure report in prescribed format and Grant refund based on grant reconciliation.
- d. Other Reporting requirement should be adhered to, if applicable for submission, prior to formally closing the Grant.
- e. Acknowledgement from the funder of NO DUES after the submission of final report and total utilization of funds along with the closure report

Tips for effective Grant Management

- Building mutual trust
- Meeting project targets without under/overspend in budget
- Spend capital expenditure budget early
- Submit donor reports timely and accurately
- Keep donor contract files and budgets and refer timely
- Donors do not like surprises

AS-1 Disclosure of Accounting Policies

- **Fundamental accounting assumptions as per AS:**

Going concern

Consistency

Accrual.

- **Consideration** in selection of accounting policies to reflect true and fair view of the financial statement

a. Prudence: Profits are not anticipated but recognized when realized.

Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only as an estimate.

b. Substance over Form: The accounting treatment and presentation of transactions and events in financial statements should be governed by their substance and not merely by the legal form.

c. Materiality: Financial statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

AS-1 Points to Remember

- Areas for accounting policies disclosure for NPOs- Depreciation, FA valuation, valuation of investment, treatment of employee benefits, contingent liabilities.
- All significant accounting policies used in the preparation and presentation of financial statements should form part of the financial statements as a Schedule.
- Change in the accounting policies which has a material effect should be disclosed and amount by which the financial statements is affected should also be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- If the fundamental accounting assumptions are not followed, the fact should be disclosed in financial statements.

AS 10: accounting for fixed assets

- 1- Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
- 2- Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- 3- Revalued amounts, the method adopted, the nature of indices used, the year of any appraisal made and whether an external valuer was involved

AS13: Accounting for Investments

- Investments are assets held by an organization for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits.
- Classification of Long term and short term investments should be as specified in the standards
- The requirements of this Standard regarding cost of investment, carrying amount of investment, disposal, reclassification etc should be followed.

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Thank You!

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