

NPO GOVERNANCE TOOL BOX SERIES

Vol. 5, Issue 3

For private circulation only

POLICIES – FINANCE POLICY



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FINANCE POLICY

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FINANCE POLICY

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1. INTRODUCTION

Policies provide a guiding framework whereas procedures deal with day to day operations. Policies provide the overall principles and define the way an organization sets its controls. Policies also provide a consistent basis for decision making and assists in smooth operation. One key function of the board is to set policy framework for the management to run the organization.

2. WHAT IS FINANCE POLICY?

Finance policy is a key policy to be developed for any organization. A financial policy is a set of financial procedures which govern the financial and legal aspects of an organization. A finance policy also helps documentation of the financial decision making process and thereby provides greater credibility.

3. PURPOSE OF DEVELOPING FINANCE POLICY:

- Serve as a framework for organization financial planning and decision making
- Clarify roles and responsibilities in financial management or procedures
- Establish standards operating procedures (SOP).
- Ensure compliance with law of the land

4. RESPONSIBILITY OF DEVELOPING FINANCE POLICY

It is the responsibility of the Board to formulate financial policies and review operations and activities on a periodic basis. The Board sometimes may delegate the responsibility of formulating finance policy to the Treasurer and the Finance Committee. Further, the Finance Committee forms a team of Finance and Programme staff to develop the policy based on existing practices being followed in the organization. The ultimate responsibility for formulation and approval of finance policy lies in the hand of the Board.

5. USERS OF FINANCE POLICY

All those associated with the day to day financial activities of the organization can be the users of this policy.

- a) Board
- b) Staff
- c) The Statutory auditors/Internal auditors
- d) The Financial and Programme Consultants
- f) Resource Partners- with approval from the organization
- g) Any other person prescribed by the organization

The above mentioned persons are expected to familiarize themselves with the contents of the Manual and to refer to it as and when the need arises.

6. PROCEDURE TO DEVELOP FINANCE POLICY

STEP 1: Review of Existing Practices-

Every organization operates on the basis of some policy. In some organizations it may be unwritten. Therefore, as a first step, all the existing practices in Financial Management need to be documented. These practices may be in the areas of accounting procedures, budgeting, auditing etc. Once the practices are documented, it needs to be further compared with standards of good practices. If the document is adequate and covers all aspects of good financial management and accounting practices then it is forwarded for approval as draft policy and in case there are any gaps then these areas are filled in and a draft policy is finalized.

STEP 2: Implementation-

On preparation of the draft policy, it is presented for review and approval by the Board of Directors. After receiving the draft, the Board may make the desired changes in the draft or direct the team to make certain changes and thereafter approve the policy. On approval of the policy, the same is circulated to the staff members. The policy can be explained to staff members through orientation meetings. Copy of the policy should be made easily accessible to all the employees.

STEP 3: Review & Implementation-

The Finance policy once implemented should be followed diligently by all the staff and concerned persons. After the policy is being followed and implemented for a period of 6 months or so, it is once again reviewed to identify any gaps and updated accordingly. The review of policy at periodical intervals is necessary to ensure that they are current and in line with changes within the organization.

STEP 4: Compliance-

It is necessary that policy apply consistently throughout the organization and it is well documented. Any breach of policy should be dealt with according to the set procedures mentioned in the policy.

7. BROAD AREAS FOR SETTING UP OF POLICY

The Finance policy would broadly consist of 7 sections, which are as follows:

- 7.1 Budget planning, monitoring and controls
- 7.2 Accounting and reporting policies
- 7.3 Internal control systems
- 7.4 Statutory compliances
- 7.5 HR systems and management
- 7.6 Audit, monitoring and reporting
- 7.7 IT systems

7.1 Budget planning, monitoring and controls

The section of budget planning, monitoring and control should entail the approaches of budgeting process in order to achieve the defined objectives and scope of the organization. The procedure for planning, monitoring and controlling the budgets should be stated in the following way:

- Defining Objectives & scope
- Approaches of budgeting
- Activity schedule/Time table
- Planning & Budgeting process
- Approval of budget
- Budget variance analysis

7.2 Accounting and reporting policies

This section should define the organizations accounting and reporting procedures. The procedure for the following areas needs to be mentioned:

- Responsibility matrix
- Maintenance of Books of accounts & Records
- Vouching process
- Basis of accounting being followed
- Recognition criteria for the following items:
 - Income
 - Expenditure
 - Liabilities
 - Assets

7.3 Internal control systems

The internal control systems imply development of systems within the organization to ensure efficient functioning and minimize the possibilities of mismanagement and inefficiency. Under this section, an organization needs to entail the control procedures to be followed in the following areas:

- Assets management
- Cash management
- Bank management
- Fund management
- Advance management

7.4 Statutory compliances

Under this section, the organization should mention the statutory compliances as well as compliances as per the incorporation law under which the organization is registered. The various procedures being followed to meet these compliances from time to time has to be mentioned.

A non-profit organization may be registered under the following acts:

- Foreign Contribution Regulation Act 2010
- Income Tax Act 1961
 - TDS
 - Service Tax
- Provision of Gratuity Act 1972
- Employees Provident Fund Act 1952
- Employees State Insurance Act' 1948
- Payment of Bonus Act' 1965

7.5 HR systems and management

The following procedures and policies which are being followed with regard to Human resource management needs to be mentioned:

- Attendance Procedure & Records
- Employment Policy
- Working Schedule
- Remuneration
- Leave policy
- Benefits & Incentives
- Consultant's management
- Personal Income Tax
- Full & Final Settlement

7.6 Audit, monitoring and reporting

The process and methods for conducting audits should be defined in this section of policy. The financial and programme monitoring procedure for all the activities of the organization should be stated along with the guidelines on reporting requirements.

Thus, this section should include the following process:

- Audit:
 - Internal audit
 - Statutory audit
 - Project audit
 - Appointment of an auditor
 - Change of an auditor
- Programme monitoring
- Financial monitoring
- Reporting

7.7 IT systems

Computerized accounts are very beneficial to ensure correctness, accuracy and completeness of accounts. It reduces human errors. For ensuring efficiency of the information present in database and in backups, an organization should prepare a checklist enlisting the various procedures with regard to maintenance of IT systems. The checklist may include the following:

- Accounting package
- Updating and documentation of computerized vouchers
- Authorized person
- Back up of database
- Password protection
- Anti-virus

8. CONCLUSION

Thus, a Finance policy not only provides guidelines for the organizations stakeholders but also clarifies the roles, responsibilities and authorities for essential financial management activities and decisions. It is to be noted that in the absence of such policy the staff and board members are likely to operate under a set of assumptions that may or may not be accurate. Therefore, it is necessary for an organization to develop a Finance policy which act as a guiding framework for its staff and also act as a principal document for showcasing the operations of the organization in the areas of Finance, Programme and Administration.

Watch out for the next issue on “Policies – Gender Policy”

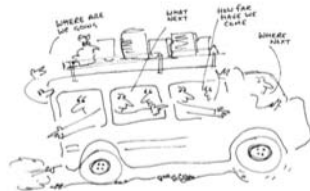


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