

Between Us ...

Managing Little Managing Much

Story is told of a person entrusting his possession to some others. To one he gave five rupees, to another two rupees and to another one rupee. The person who got five rupees went out and wisely used the money and earned five more. So also, the one with two rupees earned two more. But the person who had received one rupee went off and kept it hidden in a box. After a long time when the person returned, he was happy with the work of the first two and was very sad about the third one. What do we learn from this story? It is not the quantum of resources that matters. But it really matters how it is used. If one can manage little, then one can also manage much.

We have received very warm and encouraging response on our first issue of 'Interface'. We are grateful for the appreciation. We look forward to suggestions that will make this publication more meaningful and relevant to voluntary organizations. We are starting a column 'Queries.com' with this issue, where some of the issues related to financial management would be addressed. Already a number of questions are lined up and they would be taken up in due course of time and availability of space. We request you to kindly bear with us. You are welcome to send your queries to us as well.



In Solidarity

Sanjay Patel

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Major Changes in Income Tax Laws applicable to Voluntary Organisations and its Employees

A. Major Changes in Income Tax Laws Applicable to Voluntary Organisations

1. Accumulation of income reduced to a maximum period of 5 years.

As per the existing provisions, income from property held under a trust and used wholly and exclusively for charitable or religious purposes is exempt from payment of income tax. This exemption is confined only to that portion of income, which is applied for charitable or religious purposes or is accumulated for such purposes, subject to the conditions specified in section 11(2). These conditions, inter-alia, specify that the maximum period for which such income can be accumulated is 10 years. The accumulation period has now been reduced to 5 years in respect of any income accumulated or set apart after the 1st April, 2001.

2. Publication of Annual Accounts in a Local Newspaper

In order to promote transparency in the functioning of charitable trusts, section 12A has been amended to provide that the exemption under section 11 will be allowed to the charitable or religious trusts only if they publish their annual accounts in a local newspaper and a copy of such newspaper is enclosed along with the return of income.

To mitigate hardship to smaller trusts, it is provided that this requirement shall apply only to trusts having total income, before giving to effect to the exemption available under sections 11 and 12, exceeding Rs. 1 crore in the relevant previous year.

So far there are, however, no clear guidelines as to whether the full statement of annual accounts or just a summary has to be published. It is also yet to be established if the publication of annual accounts will promote any accountability and / or transparency in the functioning of voluntary organisations.

3. Last date for Filing of Income Tax Return.

The last date for filing of Income Tax Return by voluntary organisations whose books of account are required to be audited has now been fixed as 31st October.

4. Perquisite on Salaries

An obligation has now been cast on the employer (person responsible for paying any amount under the head salaries) to file details of perquisites and profits in lieu of salary paid to its employees. In consequence of failure to make compliance, a penal provision has been made under section 272 A, which has been made applicable from 1st April, 2002.

Further from the Assessment Year 2002-2003, the value of perquisites are to be taxed on the basis of their cost to the employer.

A draft guidelines for determining the value of special facilities or perquisites offered to employees including rent free accommodation, cars, travelling, club

membership, credit cards and even daily free meals exceeding Rs. 50 per day have been issued recently. The draft guidelines inter-alia provide that:-

* A person would be taxed @ 10% of the salary, if he enjoys rent free accommodation provided by the employer.

* The employee would also be taxed at 10% of the value of furnishings including TV and Refrigerator, if it were provided with the Rent Free Accommodation.

* If the employer provides car, it would be regarded as the perquisite and would be valued at Rs. 1200 to 1600 per month depending upon the size and capacity of the car.

* If the employee maintains the car, the perquisite would be valued at Rs. 400 - 600 per month.

* Free or concessional loans for education, supply of gas, electricity and water would also be regarded as the perquisite and would be taxed.

* The value of travelling for holiday purposes, the expense of which are borne by the employer will also to taxed.

* Free meals above Rs. 50 per day during working hours are also to be regarded as the perquisite and would be taxed.

These draft guidelines are just indicative and would be finalised in due course.

B. Major Changes in Income Tax Laws Applicable to Employees of Voluntary Organisations

1. Standard Deduction for employees under section 16(i) with effect from the Assessment Year 2002-2003 will be as under:-

	Salary Income before giving Standard Deduction	Amount of Standard Deduction
A	Rs. 1.50 lakhs or less	One third of gross salary or Rs. 30,000/- which ever is less
B	More than Rs. 1.50 lakhs but not more than 3 lakhs	Rs. 25,000/-
C	More than Rs. 3 lakhs but not more than Rs. 5 lakhs	Rs. 20,000/-
D	More than Rs. 5 lakhs	Nil

2. DEDUCTION U/S 88 FOR LOW PAID SALARIED EMPLOYEES

In case of tax payer having a gross salary income of less than Rs. 1,00,000

(before allowing deduction U/s 16) and which is not less than 90% of his/ her gross total Income from all sources, the amount of rebate on securities U/s 88 would be 30% instead of normal rebate of 20% which would be applicable from Assessment Year 2002 -2003.

3. DEDUCTION OF INTEREST ON HOUSING PROPERTY (SELF-OCCUPIED)

Interest payable on capital borrowed on or after 1st April, 1999 for acquiring or constructing one self-occupied house has been enhanced to Rs. 1,50,000 (from Rs. 1,00,000) where such acquisition or construction is completed before 1st April, 2003. Applicable from Assessment Year 2002-2003.

4. DEDUCTION FROM HOUSE PROPERTY

Under Section 24 now, only two deductions shall be allowed:

Repairs @ 30% of annual value (Previously 25%)

Interest paid on capital borrowed.

No other deduction like Ground Rent, Insurance, Annual changes etc., shall be allowed.

Applicable from Assessment Year 2002-2003.

5. DEDUCTION U/S 80-L

From the Assessment Year 2002-2003, the amount of general deductions has been reduced from Rs.12,000 to Rs. 9,000. However, the special deduction of Rs. 3,000 that is available in respect of Interest on Govt. Securities will continue to be available.

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Neera - an alternative approach in development cooperation

How an organization could replicate a validated community development experience? When such a question was posed to Palmyrah Workers Development Society (PWDS) in 1994, the idea for a network emerged as an effective option. NEERA (Network for Education and Empowerment of Rural Artisans), a network of development organizations working in south Tamil Nadu, came into existence with a common programme in 1996, at the end of a two year participatory planning process.

NEERA: Background

Palmyrah Workers Development Society (PWDS) was founded in 1977 to work for the socio-economic development of Palmyrah artisans, rural women and other economically weaker sections in Kanyakumary and Thiruvananthapuram districts of South India. Community organization was considered as the first step in the empowering process of the unorganized community and so essentially Palmyrah artisans and rural women were encouraged and enabled to form village level organization called mantrams. A series of programmes were developed as responses to specific needs of the community for improving their living conditions and aiming at self reliance. The interventions included multifaceted activities and covered varied sectors. Community organization, awareness generation, capability building and access to mainstream resources were considered as the basic approach towards self reliance. Efforts were made for skill upgrading, product research, marketing support and access to mainstream resources. A few value added products like palm candy and syrup were identified, the production process was standardized, and transferred to the community. Support services were made available in needed areas to initiate and manage the production units by the community including monitoring mechanism. An impact assessment showed the effectiveness of interventions with a notable increase in economic returns and other social impacts. Palmyrah workers were living in large numbers in the neighbouring districts. So PWDS preferred to disseminate some of these experiences to the workers in the nearby districts and also apply some of the project experiences to other products and communities as well. Instead of branching out or initiating projects directly, PWDS decided to network organizations already working in these districts. A planning process was initiated and NEERA came into existence.

NEERA: Functioning

NEERA has twelve NGOs as partners who have been working in nine southern districts of Tamil Nadu.

NEERA functions with a jointly developed common programme plan recognizing both the individual strength of the partner to address the local needs of the community and also the problems and concerns of the geographical area.

NEERA operates in around 450 villages in nine districts with a membership of more than 50, 000 families.

NEERA promotes self help through a community organization process: equip the community with awareness generation and capability building : and enable the

community to create access to resources by linking with the mainstream

NEERA: Coordination

NEERA is coordinated by a programme committee represented by each partner organizations. The programme committee meets once in three months with a moderator elected from among the partners for a specific period of three years.

NEERA Coordination Centre coordinates the collective responsibilities of the network, functions as the secretariat, takes care of the training needs, and organizes the required support services. The partners have collectively deliberated and decide upon the roles and responsibilities of the Partners, Coordination Centre and the Project Holder. The partnership spirit is driven by a set of negotiable and non - negotiable areas commonly agreed upon by the partners, along with the policies and procedures for effective coordination.

NEERA: Financial Management

The coordination centre disburses the funds to the partners based on the request, prepared according to the programme plan with cash flow for the period of three months finalized by the programme committee. the partners file the financial statement on a monthly basis. The transferred amount will be debited against the partners as utilization at the coordination center level. The utilization at the partner's level is monitored based on the monthly statement, audited statements and the quarterly narrative report. The Programme Committee meetings also serve as a monitoring process for steering the project by corrective actions when found necessary. The accounting system is automated and a separate subsidiary system is maintained to monitor the utilization at the partner level.

The system of financial management is totally integrated with the programme planning and monitoring process. The Programme Committee decisions in the form of minutes, serve as sanctions for approval of payments. The programme and financial planning jointly prepared by the programme and accounts staff make coordination of the network and monitoring of the programme more effective

NEERA is almost five years now. We have learned from experiences. Looking back, we are happy. Nevertheless, we look forward to new learning experiences.

D. Regi Chandra,
Director PWDS

Cost Overruns – EZE's requirement

While preparing the final financial reports, we often find the Finance personnel informing the Chief Functionary " We have incurred cost overruns. What is to be done now ?"

The Chief Functionary along with the Programme & Finance personnel then try to break their minds to figure out the reasons that led to this situation when it is too late for such analysis. This is a post-mortem exercise which often turns out to be futile. Futile in terms of a remedy but has a lesson to be learnt.

By the way, what do we mean by Cost Overruns ?

Cost Overruns are nothing but excess costs incurred in comparison to the planned costs.

Is it not a common feature that we often come across in our lives, where even our monthly budget of household expenses and the actual expenses stand far away from each other? So, why make a hue and cry when an organization incurs cost overruns where the amounts involved are quite huge for various programmes spread over a vast area ?

On the other hand, if the resulting expenses are so perfect that it absolutely fits into the approved budget, this implies that something is terribly wrong somewhere !!!

Before we go into other details, let us see what are the main factors that normally leads to resulting cost overruns.

The reasons may be attributed to the following :

- * price increase
- * under calculation of expenses while budgeting
- * to achieve the best possible result, the programme is further developed within the scope of the objectives and measures agreed upon
- * unforeseen expenses on the approved budget
- * extension of project implementation period

Although the reasons could be varied, one cannot deny the need for a control to be exercised over excess costs.

How to keep a control over excess costs, when it is all related to the approved programmes?

Will not curtailing of expenses affect the implementation of planned programmes ?

These are some of the immediate and natural questions that comes to our minds when we talk about controlling of excess costs.

The answer to all the above lies in constant, periodical and systematic review of the expenses being incurred. This helps a lot in analysing the reasons for a specific cost item to have exceeded the approved or the planned budget. We will find that the reason so observed will be due to one or the other factors listed above. This enables to exercise appropriate control measures to check the cost overruns.

This will also help us to foresee if the future expenses of a particular cost item will continue the same trend. If so what implications will it have on the overall budget and on the requirements of EZE.

So, let us bring this aspect of periodical review and control of expenses into our financial system rather than carry out a post - mortem analysis only when a query comes from EZE / FMSF in this regard.

What are the provisions of EZE towards Cost Overruns?

The budget approved by EZE allows the partner organization to have some flexibility in exceeding the approved expenditure.

- * The partner may decide to exceed the budget of the individual expenditure item by upto 30%. However the partner is to explore the possibility of having an under expenditure or a savings on other expenditure items and / or "Reserve" by an equivalent amount thereby ensuring that the overall agreed budget remains unchanged and binding.

- * In case of the expenditure on any item exceeding the approved amount by more than 30%, the partner shall inform EZE of the same in writing and obtain EZE's written approval.

In case the excess expenditure on any budget item is on account of unforeseen expenses that was not included in the approved budget, the partner shall inform EZE of the same in writing giving reasons and obtain EZE's prior approval. In such circumstances, EZE may approve the use of budget item " Reserve" or otherwise come to a mutual understanding with the partner concerned in this regard.

How the reporting of excess costs is made to EZE ?

- * The excess cost, thus incurred will be reflected in the half - yearly audited financial report - EZE form no. 3 - in the period in which it has been incurred, under the respective expenditure item only.

- * However, the expenditure relating to additional measures not included in the agreed budget, will be shown indicating specifically the new expenditure item under the budget head "Reserve" in the half - yearly audited financial report - (EZE form no. 3) in the

period in which it has been incurred.

In any case, the partner needs to provide a detailed description on the programme activities resulting in excess cost and also on any new additional measures in the respective progress report along with the relevant photographs.

Therefore exercise of the relevant cost control measures is not only an EZE requirement but is one of the efficient financial management tools !!!

Ms. S. P. Selvi
Finance and Project Monitoring Officer, FMSF

Synergy'21

On 22nd June, 2001 the 'Synergy 21' meeting took place at India Habitat Centre, Lodhi Road, New Delhi. The meeting was held in two parts. In the first part, the "Manual of Financial Management and Legal Regulations" written by Mr. K.N. Gupta with value addition and editing by Mr. Manoj Fogla was released by Mr. T. S. Viswanath, Former President of Institute of Chartered Accountants of India. Many NGO representatives, auditors and finance consultants from Delhi were present on this occasion. It was widely covered in the national press.

In his inaugural speech, Mr. T.S. Viswanath stated that this manual has been brought out at the most appropriate time to enhance the accountability and the transparency of NGOs among its various constituents. He further stated that this manual will facilitate this process. He also expressed his appreciation for EZE, ICCO and FMSF for their unique initiative in strengthening accountability among the voluntary organizations.

The manual went through a long process of preparation and includes chapters on Financial Management, Legal Regulations and Requirements of Funding Agencies (EZE and ICCO). It was sponsored by EZE and ICCO. All the partners of EZE and ICCO will receive one copy of the manual free of cost. Subsequent copies can be obtained on payment of Rs. 500/- per copy.

The second part of the meeting was the paper presented by Mr. K.N.Gupta on 'Disclosure of Accounting Policies in the financial statement of non-profit organizations'. This was a follow up of the deliberations held in the "Workshop of Resource persons and Consultants" organized by FMSF some time back. After the presentation of the paper, discussion took place as to the importance of the disclosures and the need to make these discussions flexible and adaptable to the change in the overall accounting scenario. It was agreed that further work is necessary in this regard. Mr. Sanjay Patra assured that FMSF would further work on it.

The Earth Centre Inaugurated

In the midst of Alpine Forest on the slopes of the Dauladhar ranges of Dalhousie, Himachal Pradesh at the height of 7000 ft, Tagore Bhavan or very aptly called the 'Vasundhara Kendra' a part of the Earth Centre (TEC) was inaugurated by the Most Rev. James Terom, Moderator of the Church of North India on 10th May, 2001. Apart from Tagore Bhavan, Gufa, Khyber House, Khhyam and Sadhu Sundar Singh Prayer Hall were also inaugurated. Mr. Sanjay Patra and Ms. Anuradha Singh from FMSF were present on this occasion.

This center came into forth under the leadership of Bishop Samanta Roy of Diocese of Amritsar, Church of North India and with able guidance of Bishop Anand Chandu Lal. Partners like C.I.R.S, B.U.C.C, D.M.R.C, ISPCK and EZE were also instrumental in bringing forth this Earth Centre.

TEC gathers concerned persons and key initiators from diverse cultures, ethnic and faith communities to enlarge conversation and analysis propose solution and develop networking based on mutuality for more justice and humane social systems at the national and global levels. They work in formats initiated by them.

Some concerns addressed by them are:

- * Stewardship of God's creation
- * Human Rights and Earth Rights
- * Creation Spirituality
- * Evolution of new/alternate paradigms in partnership and other like minded persons and agencies.

It is a center which will initiate to facilitate community projects, catalyze movements and develops partnership for advocacy, consultancy and solidarity for a more just and human social order.

It offers facilities for Conference and meetings with comfortable accommodation and will facilitate NGOs and institutions at national and international level for learning, reflection and action on issues related to the Earth and her well being.

Anuradha Singh
FMSF

Book Review

Manual of Financial Management and Legal Regulations

By

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Since last one decade, the development organizations have assumed great significance than ever before due to a lot of expectations from various quarters. In the last few years with natural calamities striking the Indian sub-continent in some form or the other on one hand and the naked face of poverty and injustice showing their ugly face on the other, the NGOs' work has been in the centre stage. Together with these roles come the whole question of accountability which includes financial accountability and legal compliance.

Many of the organizations suffer silently due to lack of adequate information in this area. Realisation is slowly dawning that in spite of being able to perform well in their programme activities, if they lack proper financial management in their organization it not only hampers the programme but also causes a setback to the organisation in the eyes of the Govt., resource sharing agency and the community at large.

The Manual of Financial Management and Legal Regulations sponsored by EZE and ICCO and published by FMSF, is as much as a tribute to its much aspired subject relating to the development sector. It brings out the accounting and legal requirements in simple terms that are mandatory to be followed by any development organisation irrespective of their size. It has been released by FMSF.

The book is divided into three parts, Accounts & Audit, Law & Statutes, Budgeting, Implementation & Reporting for easy reference of the respective topic.

In fact, the chapter under part Accounts & Audit provides adequate details and information on basic features of accounting, book -keeping system & preparation of financial statements. This is part of the day-to-day work of the accountants. The book provides not only the answers but states also the procedure for any practical problem related to their routine work.

For many of the development organizations today, the words "FCRA" and "Ministry of Home Affairs" (MHA) are sufficient to give sleepless nights to their Chief Functionaries and the Accountants. This book has aimed at providing

solace to them by providing adequate details about FCRA which can be of immense use to them. Further this will also help in promoting transparency in their dealings with the MHA by removing the unwanted and unfounded doubts and fears from the minds of these development organisations.

The book has quite a lot of detailed information on legal and tax requirements under Income Tax Act and on staff welfare schemes such as Provident Fund and Gratuity Act.

Part three of this book deals with the "Budgeting, Implementation & Reporting" - an area on which most of the organizations spend hours on lengthy meetings and discussions. This book aims at providing information on how to plan a project, prepare a budget as to cost and finance plan, distinguishing between a capital costs, programme costs and office costs.

The book also contains very useful information on the specific reporting requirements of EZE and ICCO.

In short this book will serve as a reference guide for all the development organizations in improving their accounting and reporting parameters and compliance to legal requirements.

(The book can be procured at FMSF office, A-17, Neeti Bagh, New Delhi - 110 049.)

Query: Can a Statutory Auditor also become the Internal Auditor of a Voluntary Organisation?

Ans: A statutory auditor is an auditor who is required to be appointed as per legal statute. Audit needed as per Form 10B under the Income Tax Act is a statutory audit. Similarly certification under Form FC-3 of FCRA is also statutory in nature. On the contrary internal audits are optional. Normally large organisations appoint internal auditors to strengthen their accounting and internal control systems. Statutory auditor is an independent external auditor. Normally the internal audit should not be taken up by the statutory auditor. However an internal audit can be conducted by experienced person from within the organisation as well as by external auditor other than the statutory auditor.

Query: Is it necessary to affix revenue stamp on vouchers for purchases made by cheques?

Ans: There is a mistaken notion that revenue stamp should only be used whenever cash transactions above Rs. 500/- are made. The Indian Stamp Act, 1899 and the rules thereof require revenue stamp to be affixed for both cash & cheque transactions. It may be further noted that the person who receives the payment is required to affix the stamp.