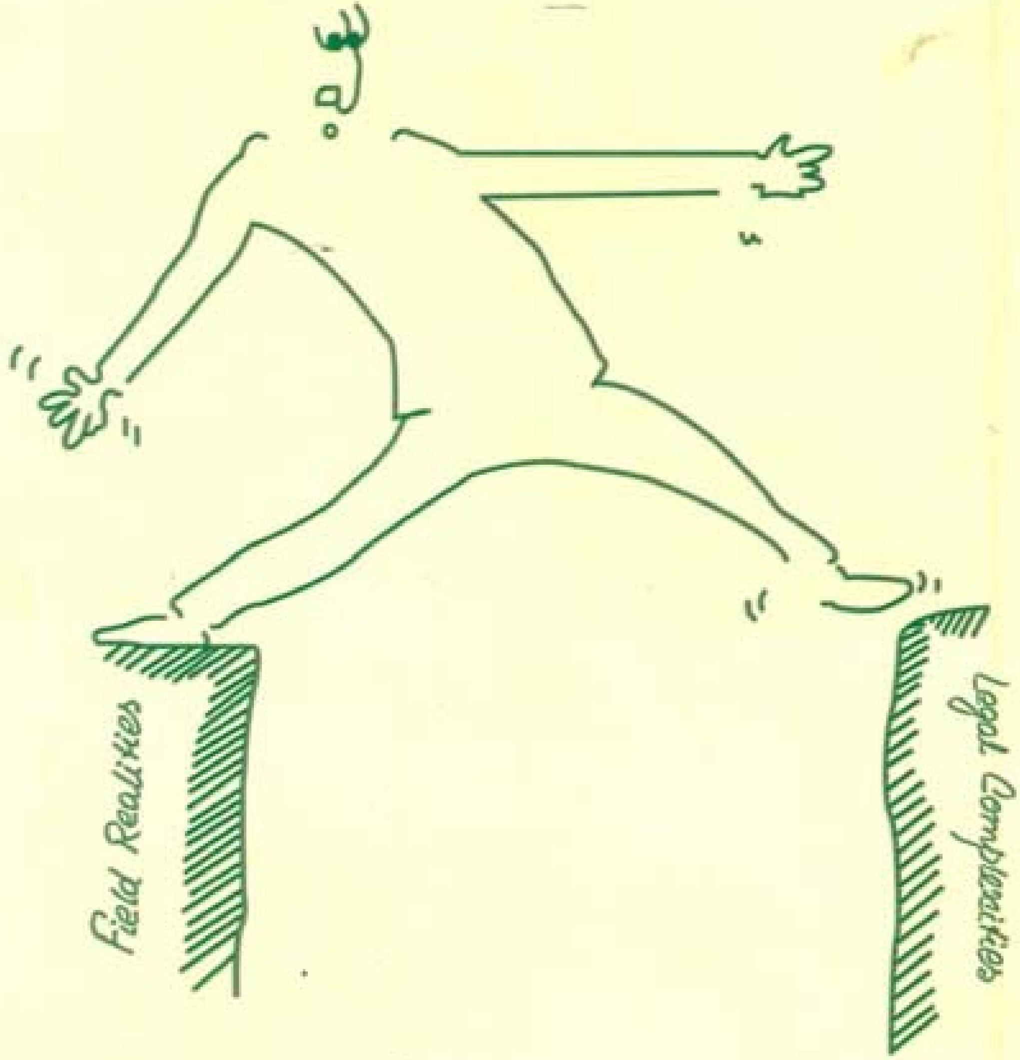
INTER*face*

October 2002 - March 2003



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Between Us

We are very happy to present the annual issue of Interface. It is now two years that we have started publishing this newsletter. The focus of the publication is very clear: to disseminate information to voluntary organizations on financial and legal issues. Even though, it has been quite a challenge to keep up the publication with our limited capacity of staff strength, on the other hand it has been quite exciting to get your feedback and encouraging responses. A number of significant developments are taking place in the financial and legal issues of voluntary organization. The Kelkar committee has given its recommendations on direct tax reforms suggesting sweeping changes that particularly affect the voluntary sector. An article to this effect is published in this issue covering various recommendations. The Government is yet to implement these proposals. As I write this, the Finance Minister has presented the Union Budget with proposed Finance Bill, 2003. In this year the proposals seem not to have been considered. We have to anlayse the implications of these proposals.

In the meantime, the Institute of Chartered Accountants of India has come up with a draft technical guide on accounting of NGOs. This again is a development that will have implications on the NGOs. Initially, the Institute proposes to make the technical guide recommendatory in nature. However eventually perhaps it will be made mandatory. There are certain areas where more clarifications are needed and some areas need to be reconsidered. We have already sent our response to the Institute and hope that due considerations would be given.

Finally, it seems that awareness and capacity building has to be the key to address all these emerging challenges. As the common clitche goes "Ignorance of law is not an excuse", the awareness has to be spread so that the good work done by the voluntary sector does not get affected by non-compliance to the laws of the land. We in FMSF are committed to this process of creating awareness,, capacity building and disseminating information. This year, we will organize "Annual Fund Management Workshop" which would discuss these issues in detail. The announcement can be found in this issue also. We look forward to your continued co-operation and encouragement in this endeavor.

In solidarity
Sanjay Patra

ACCOUNTABILITY, TRANSPARENCY & ETHICAL NORMS - Good Practices

I would argue that the nature of modern economics has been substantially impoverished by the distance that has grown between economics and ethics.

Amartya Sen

Manoj Fogla
L.L.B, M.A. (Phil), F.C.A.
Chartered Accountant

1. ETHICAL & SOCIAL PRACTICES

Ethics also called MORAL PHILOSOPHY, the discipline concerned with what is morally good and bad, right and wrong. The term is also applied to any system or theory of moral values or principles.

How should we live? Shall we aim at happiness or at knowledge, virtue, or the creation of beautiful objects? If we choose happiness, will it be our own or the happiness of all? And what of the more particular questions that face us: Is it right to be dishonest in a good cause? Can we justify living in opulence while elsewhere in the world people are starving? If conscripted to fight in a war we do not support, should we disobey the law? What are our obligations to the other creatures with whom we share this planet and to the generations of humans who will come after us?

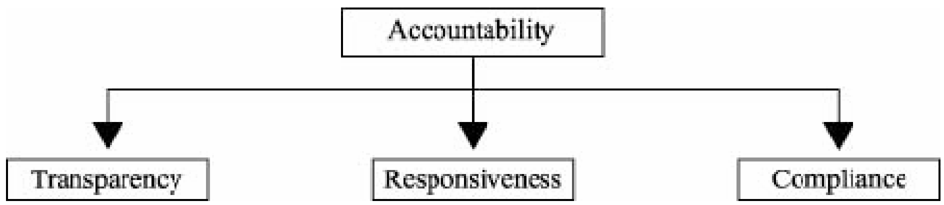
Ethics deals with such questions at all levels. Its subject consists of the fundamental issues of practical decision making, and its major concerns include the nature of ultimate value and the standards by which human actions can be judged right or wrong.

The term ethical and social characteristics or virtues of an individual or an organisation can have different connotations, for instance The Institute of Social & Ethical Accountability, London recognises different traditions of organisational and individual behaviour on social and ethical issues :

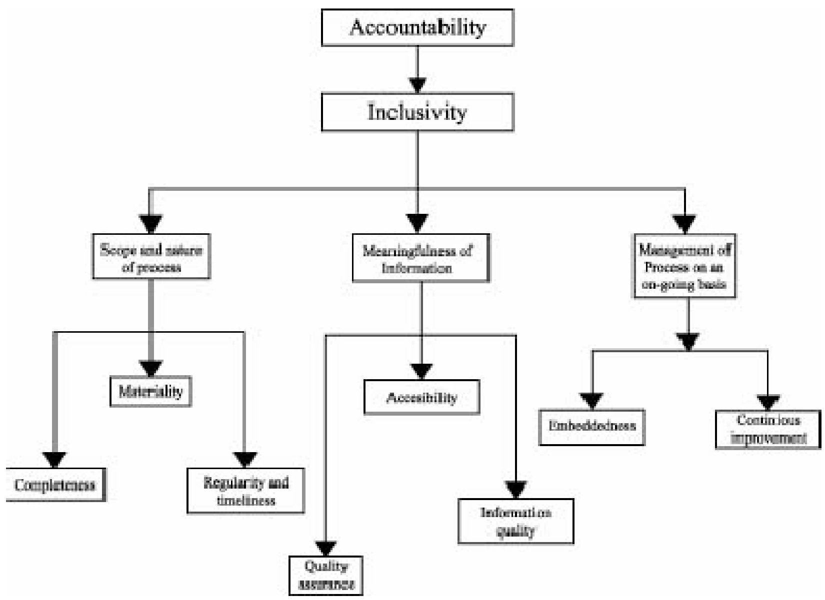
"The terms ethical and social have a number of theoretical and practical traditions in organisational accountability. For some, ethical (or ethics) refers to an organisation's systems and the behaviour of individuals within the organisation, whereas social refers to the impacts of the organisation's behaviour on its stakeholders, both internal and external. For others, ethical embraces both the systems and individual behaviour within an organisation, and the impacts of the systems and behaviour-on stakeholders, on the environment, on the economy etc."

2. ACCOUNTABILITY

Accountability is the ownership undertaken by an individual or an organisation for acts, omissions, risks and dependencies for which one is responsible to various stakeholders. The two flow charts depict the dynamics and the alchemy of accountability. Transparency, responsiveness and compliance are the 3 wings of accountability. Transparency implies sharing of processes and informations across the stakeholders. Responsiveness implies owning responsibility for acts, omissions and processes and infusing continuous improvement in the systems and processes. Compliance concerns the duty to comply with agreed standards of practice and policies and also statutory requirements.



The 2nd flow chart depicts the principle of inclusivity which means that at all stages of social and ethical accounting, auditing and reporting process the aspirations and needs of all stakeholder groups-who are affected or likely to be affected by the organisation and its activity-are taken care of. The principle of inclusivity requires consideration of various voices including the concerns of the 'voiceless' stakeholders.



3. Factors affecting independence of Auditor

The ethics committee of International Federation of Accountants (IFAC) has issued in January, 2002, a new independence standard as a part of its code of ethics. Independence of auditor is considered as a crucial factor in determination of the quality of audit. The factors which can affect the independence are as under:

- Self interest
- Self review
- Advocacy
- Intimidation

A direct financial interest in a client would create a self-interest threat.

Preparation of the original data used to generate financial statements would create a self-review threat.

Acting as an advocate on behalf of an audit client in litigation would create an advocacy threat.

A member of the audit team having an immediate family member who is a director of the audit client would create a familiarity threat.

Threat of replacement of the auditor over a disagreement would create an intimidation threat.

Further certain activities which the auditor should refrain from undertaking are

- Authorising, executing or consummating a transaction on behalf of the client or having the authority to do so.
- Determining which recommendation should be implemented.
- Reporting, in a management role, to those charged with governance.
- Valuation of matters material to the financial statments which involve a significant degree of subjectivity.

4. SARBANES - OXLEY ACT (SOA) & PEER REVIEW

SOA came in the aftermath of the Worldcom and Enron debacle. This act requires CEOs/CFOs to swear infront of a notary that to the best of their knowledge, the latest annual reports, neither contain any untrue statement, nor do they omit any material fact. SOA has banned subsidised personal loans to top executives, it has also debarred external auditors from assuming the self defeating role of internal auditors. The audit firms have to rotate the audit partner and the auditor can no longer offer non-audit services to its clients. A 5 member board has been constituted to oversee the accounting profession which comes as a setback to the self regulation and independence of the auditors in general.

5. Perceptions and Shifting Paradigms of Consultancy

In India normally finance consultant especially in the development sector implies a Chartered Accountant. I would like to remind you all of the fundamental theme of The Institute of Chartered Accountants of India which is “Aiy Ewam Supteshu Jagriti” the meaning of this statement taken from Upanishads is that the one who is alert and awake even while sleeping.

This slogan is not meant to languish unnoticed on the logo and banners of The Institute of Chartered Accountants of India. It is something which a finance consultant should aspire for consistently i.e., trying to comprehend all the subtle nuances and implications of financial transactions.

When we talk about perceptions and common understanding, a feeling generally creeps in that we would be discussing something truistic and obvious. But the problem with the state of our civilisation and consequently the financial and legal structure is so complicated that it becomes very difficult to add simple notions.

In view of the radical changes in the financial environment the traditional Balance Sheet which we prepare at times seems to be a redundant and notional statement. For instances

- the market capitalisation of various software companies
- the astronomical prices of transfer of various companies
- the book value of various metropolitan properties
- non-reflection of human assets etc.

Such facts about our financial recording systems impose tremendous pressure on the finance consultants and more so in the development sector where we deal in the miseries of the mankind in general. Therefore it is of paramount importance on the part of finance consultant to possess the skills and understanding to take into account those factors of our existence which our traditional methods and reports fail to convey.

6. Going Beyond Accounts, Facts and Figures

I am reminded of a beautiful observation by an anonymous person "while we enjoyed the woods the view of the forest was lost". In our obsession to maintain compliance and accountability at times we tend to waver away from the purpose and objectives for which we are working.

Few probable reasons of the inadequacies of our financial system as they exist today could be as follows:

- all our accounting norms and financial regulations are general in nature. We do not have any specialised development sector accounting or financial modes of operations
- we fail to account for the varying value of money in its downstream journey to the grassroots
- our existing financial systems fail to account for various enduring aspects of development
- above all, the world is changing at a radically fast pace and we have failed in evolving and attuning ourselves with the realities of the day

The World Development Report, 2001 issued by the World Bank cites various dimensions of poverty. It further stresses on the fact that if we do not understand the various causes and dimensions of poverty our eradication initiatives would not become effective. To understand the determinants of poverty and all its dimensions, one way is to think in terms of people's assets, the return and the volatility of return on these assets. The report classifies five kind of assets:

- Human Assets
- Natural Assets

- Physical Assets
- Financial Assets
- Social Assets

I am afraid how many of these assets find a reflection in our Books of Accounts inspite of the fact that they are the determining factors of livelihood of the underprivileged.

The report further states that the return on these assets to the poor depends not just on the behaviour of the market but also on the performance of the institutions of the state. The institutions of the state also includes NGOs and therefore all other concerned persons and agencies.

The managing director of Infosys Limited Mr. Narayanmurthy once observed that "all my assets walk away in the evening and my greatest nightmare is what if they do not come back in the morning".

Hypothetically have we ever thought the consequences of such improbable possibilities. What if:

- all the persons of an organisation do not join the next morning .
- all the access to infrastructure such as road, flights, trains, electricity, water, telephone, social security are withdrawn from a particular organisation.
- all the associated organisations, the suppliers, the customers, the beneficiaries, the consultants etc., withdraw their co-operation.

Ironically in any or all of such eventualities our Income and Expenditure Account and Balance Sheet would not be affected or would be very marginally affected. In our financial existence we take a lot of things for granted. Therefore I believe that our systems are evolving and we have a lot to do to avoid cynicism of our posterity.

Our financial systems have their specific parameters and we have to perform within the structures. The instant discussions are not meant to initiate overnight changes but it is imperative to have an awareness of our shortcomings and myopic viewpoints. In the development sector when we address to the needs of the underprivileged we are dealing with flesh & blood, with sentiments & aspirations and we have to find some way between astute mind and benign heart.

7. Development Governance

The Adrian Cadbury Committee, United Kingdom, 1994 report on Corporate Governance defines the term governance as "Systems by which organisations are directed and controlled".

In the light of the discussions we have made hitherto, I would like to discuss the governance code for NGOs keeping in view that idealistic talks and ground realities do not appreciate each other. But then we have to begin no matter how insignificant our steps are.

A system for ideal governance could include

- Transparent & effective Governing Body where accountability at the helm is determined.
- Efficient, competent and precise manpower
- Consistent efforts towards capacity building and evaluation of human resources
- Ensuring absolute independence of the auditor
- Stratified participation from the grassroot
- Evaluation in terms of the objectives achieved rather than the amount of funds utilised
- Development initiatives basically demand compassion and will, allowance should be made for factors which do not find a way to the books
- Financial planning should be on the basis of individual and circumstantial need and not on the basis of the principles of res judicata and universal formats applicable uniformly.
- Legal compliances keeping in view the hazards and protections embedded in the system
- Implementing systems which are essential though not legally mandatory.

EXISTING FRAMEWORK OF ACCOUNTING AND FINANCIAL REPORTING - NGOs

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Introduction

The exiting framework of accounting and financial reporting of the NGOs, are primarily based on the following:

- § Laws governing them or affecting them.
- § Other controlling Government Agencies.
- § The generally accepted principles prevailing in the same sector of the same region.
- § Model – into which the organisation fall into, e.g., network etc.,
- § Donor Requirements.
- § Donor Country Laws.
- § Accounting Standards that affect them.
- § Place of the accounting department in the organisational hierarchy.

Laws governing them or affecting them and other Governmental Agencies:

The primary law being the one under which the organisation was registered and such other laws affecting them like:

- § Foreign Contribution (Regulation) Act.
- § Income Tax Act.
- § Other Laws.

Generally accepted principles in the same sector:

Presently, there is no major consensus amongst NGOs as far as it concerns the accounting and reporting. However, perceptible changes are taking place due to the changes in the models, for example, in case of the Network model, the coordinating agency due to its responsibility under the FC(R) Act, does a sort of financial monitoring and evaluation of the system prevalent among the partners. But this is often set off by the submission of the audited statement of accounts of such partners, thereby keeping everything under the “sheets”.

Models

The changes in the set up of the organisation, the model into which it falls often determines the accounting and financial reporting of the same.

In case of the Network model, as discussed earlier, there would be to some extent discussions to arrive at a sort of common format, to fit into the requirement of the donor agency’s requirements.

In case of other models, wherein the control is from one or few persons, openness would not be there.

In case of the organisations, which have projects in different geographical locations and doing different projects, both government funded and that of other funding agencies both from India and outside India, there would be an amalgamation of the ideas of the regions wherein the organisation works and mixture of the ideas to satisfy the requirements of the various funding organisations.

Donor Requirements & Donor Country Laws:

This plays a vital role because the restrictions imposed in the funds given to NGOs plays a core role in accounting for the same. The requirement of various formats to satisfy the requirements of their local law leaves its mark on the financial reporting formats etc.

Accounting Standards that affect them:

Though there are no specific accounting standards or guidance notes specifically addressing the core issues of the NGO sector (but for very few guidance notes, like the one for dealing with Government Grants), the NGO sector has been asked to adhere to those which are primarily addressed for the "profit motive" sector.

Place of the accounting department in the organisational hierarchy:

This also plays a very vital role in determining the importance of accounting and financial reporting, and this is very much true for those organisations, which are based in the rural areas, and such other similar organisations.

In case of national or such other bigger organisations, there would definitely be an accounting department exclusively to deal with the same. However, in case of the small organisations, they are to some extent cannot afford to have a separate department and the program people, during the year end or say month end don the clothes of accounting personnel.

Accounting Framework vis a vis law:

Though the income recognition under Income Tax Act is different and so is the reporting format under it, the same is not in case of the Foreign Contribution (Regulation) Act, which states, as per Section 13(2), every year accounts should be audited and the same shall be duly certified by a Chartered Accountant, along with a balance sheet and statement of receipt and payment. This section conspicuously does not state the Income and Expenditure Account.

The inference is that it indirectly advocates the concept of Fund Based Accounting.

Fund Definition:

"A fund may be defined as an accounting entity "with a self balancing set of accounts regarding cash and/or other resources together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations."

- Government Accounting Standard Board, USA Codification of Governmental Accounting and Financial Reporting Standards, USA.

Basic Equation of Fund Based Accounting:

Assets = Restrictions on Assets

Here, "Balance Sheet is considered as "Inventory Statement" of assets and those restrictions applicable to assets"

Revenues represent an increase in assets into the fund that are completely free of equity restrictions, other than the final restrictions imposed by the residual equity.

The residual equity represents a final restriction of the assets and establishes the equality of assets and equities.

Expenses represent the release of services for designated purposes specified in the objective of the fund.

Thus the fund theory calls for fund based accounting rather than equity based accounting

Importance of Restriction of Funds:

One of the main problems in accounting for NGOs as such is the way in which the income has to be recognized. This not only affects the accounting for the revenue, but also determines the Financial Statements Display.

Though nothing much has been stated about these restrictions in the Indian context, lots of literature by other accounting bodies and governmental agencies of other countries are talking about it.

In fact their accounting standards and guidance notes are primarily based on this concept.

In "Accounting for the Smaller Charity" – a Guide to the Charities for preparing annual accounts on the receipts and payments basis, prepared by the Charity Commissioners who are appointed under the Charities Act, 1993 of United Kingdom, talks in detail under Clause 7 of the said guide, exclusively about Accounting For Restricted Funds.

Further, the Financial Accounting Standards Board (FASB), USA, talks about restriction on funds in its Concept Statement No: 6, and it further states that the restricted contribution involves a fiduciary responsibility on the part of the Not for Profit Organisation and not an obligation.

In fact, in 1990 the FASB came out with an exposure draft on a proposed statement, Accounting for Contributions Received and Contributions Made and capitalization of Works of Art, Historical Treasure and Similar Assets; but it came out finally incorporating with it the points relating to Display of Financial Statements, in its Statement No: 117 – FINACIAL STATEMENT OF NOT FOR PROFIT ORGANISATION.

Income Recognition:

The income recognition, differs from the funds which are classified as below:

§ Unrestricted.
§ Temporarily Restricted
§ Permanently Restricted.

In "Accounting for the Smaller Charity" – a Guide to the Charities for preparing annual accounts on the receipts and payments basis, prepared by the Charity Commissioners who are appointed under the Charities Act, 1993 of United Kingdom, different treatments were discussed for different funds as stated above, and it even goes on to say that different Receipts and Payments Account has to be prepared for each such fund and in case the consolidated accounts are prepared, the status of the different funds are to be clearly stated to avoid confusion in the minds of the persons using the statement and also to reduce the risk that the trustees of the charity will begin to regard all the funds as unrestricted.

The International Accounting Standard (IAS 20), establishes the basic principle that a government grant should not be recognized until there is reasonable assurance that the enterprise will comply with the conditions attaching to the grant and that the grant will be received. The grant is then required to be recognized as income over the periods necessary to match it with the related costs it is intended to compensate or, if the grant relates to an asset, either as deducting from the carrying amount of the asset or as deferred income. This is in tune with the recommendation of Institute of Chartered Accountants of India. It further states that a contingency related to a government grant, arising after the grant has been recognized, is treated in accordance with the Accounting Standard (AS 4) – Contingencies and Events Occurring After the Balance Sheet Date.

The Financial Accounting Standards Board, in its document FASB 116 talks much about the different types of contributions and accounting for it. It talks about the conditionality imposed on the contributions and accounting for it. It states that unless the conditions were met, it should not be recognised as revenue. It also talks about the pledges receivable and for accounting it as such, even before receiving it. Further in FASB Concepts Statement No: 6, Elements of Financial Statements, state that a restricted contribution involves a fiduciary responsibility, not an obligation:

The essence of a not-for-profit organisation is that it obtains and uses resources to provide specific types of goods or services, and the nature of those goods or services is often critical in donors' decisions to contribute cash or other assets to a particular organisation. Most donors contribute assets (restricted as well as unrestricted) to an organisation to increase its capacity to provide those goods or services, and receipt of donated assets not only increases the assets of the organisation but also imposes a fiduciary responsibility on its management to use those assets effectively and efficiently in pursuit of those service objectives.

That responsibility pertains to all of the organisation's assets and does not constitute an equitable or constructive obligation. . . . In other words, a not-for-profit organisation's fiduciary responsibility to use assets to provide services to beneficiaries does not itself create a duty of the organisation to pay cash, transfer other assets, or provide services to one or more creditors. Rather, an obligation to a creditor results when the organisation buys supplies for a project, its employees work on it, and the like, and the organisation therefore owes suppliers, employees, and others for goods and services they have provided to it.

A donor's restriction focuses that fiduciary responsibility on a stipulated use for specified contributed assets but does not change the basic nature of the organisation's fiduciary responsibility to use its assets to provide services to beneficiaries.

The Canadian Institute of Chartered Accountants talks of the contributions received by the not for profit organisations and advocates deferral method and restricted fund method for the restricted funds. In the first case, revenue is recognised as revenue in the period in which the related expenses are incurred. In case of restricted fund method, restricted contributions are recognised as revenue in the year it was received.

Thus the international view is that the recognition of the revenue is based on the restrictions if any attached to it. However, no such specific notes, standards based on this concept of "restriction" on funds are in place to fall back by the NGOs in India.

Valuation – Grant in Kind (including those received at concessional cost):

Another important issue is the valuation of grant in kind, including those received at concessional cost, and this is in a way unique to the NGOs.

FAS 116 of the Financial Accounting Standard Board, stipulates that under Recognition and Measurement in Financial Statements of Business Enterprises, an item should be recognized in financial statement when four fundamental criteria are met:

Definitions -The item meets the definition of an element of financial statements.
Measurability -It has a relevant attribute measurable with sufficient reliability.
Relevance -The information about it is capable of making a difference in user decisions.
Reliability -The information is representationally faithful, verifiable, and neutral.

It further states that:

. . . a non-monetary asset received in a non-reciprocal transfer should be recorded at the fair value of the asset received. A transfer of a non-monetary asset . . . in a non-reciprocal transfer should be recorded at the fair value of the asset transferred, and a gain or loss should be recognized on the disposition of the asset.

The Canadian Institute of Chartered Accountants is of the view to recognise contributions of materials and services but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organisations' operations and would otherwise have been purchased.

The accounting of “people’s contribution” in kind, which are expended then and there, like tabbing the meeting expenses, falls into this category, but majority of the organisations do not account for it nor there exist a mechanism to value it and substantiate it with supportive documents so as to satisfy the laws of this country!

Depreciation – NGOs assets:

The Institute of Chartered Accountants of India, does not specifically talk about separate depreciation rates for NGO assets, but states that those rates that are applicable to corporate sector do apply for the development sector too, and this is in line with the provisions of Income Tax Act.

The FASB on its part has come up with FASB Statement No: 93, Recognition of Depreciation of Not for Profit Organisations, way back in 1987, basically understanding that the accounting for depreciation for the NGOs is different from that of other entities.

Financial Reporting – Statements format – NGOs:

The format of financial reporting of NGOs in India are generally based on the recommendation of the laws governing them and also based on the standards and guidance notes that affect the NGOs.

Unfortunately, the format for the financial reporting is not stated in the acts under which the NGOs are registered, but for the Companies Act, which stipulates the same in Schedule 6. Because of it there is no uniformity in the display of the financial statements of the NGOs.

This financial reporting has three basic things, which needs further discussion, namely:

- § Allocation of Costs.
- § Functional Classification vis-a-vis Natural Classification.
- § Complete Set of Financial Statements.

Allocation of Costs:

The accepted norms of UK SORP, is that:

1. No part of expenditure incurred on activities falling directly within one cost category should be allocated to any other cost category.

2. Items of expenditure, which involve more than one cost category, should be apportioned on a reasonable, justifiable and consistent basis to the cost categories involved.

The American Institute of Certified Public Accountants has issued “Statement of Position (SOP) 98-2” entitled as “Accounting for Cost of Activities of Not for Profit organisations and State and Local Governmental Entities, that include Fundraising”, which talks of allocation of costs, especially the combination of expenses, that are incurred both for fundraising and for other program costs, and if that be the case, appropriately the same is to be allocated. This was also reinforced subsequently by AICPA; Audit Guide for Non Profit described in SOP 78-10.

The FAS 117 of Financial Accounting Standards Board states that information about the costs of significant programs or services are both relevant and measurable with sufficient reliability. Many costs are directly related to a major program or service or to a supporting activity. Some costs relate to two or more major programs and may require allocations. Techniques for allocating costs among significant programs or services are reasonably well developed; allocating costs among segments, products or services, and accounting periods are common in general-purpose accounting and reporting, managerial accounting, tax accounting, and contract accounting of all entities.

Though there is no such document to deal exclusively with this allocation for cost in case of NGOs in India, the same could be deduced based on the format, which the organisation decides to follow in presenting the financial statements.

Functional Classification vis-a-vis Natural Classification:

FAS 117, establishes standards for general-purpose external financial statements provided by a not for profit organisation and this talks in detail about the functional classification and natural classification.

While finalising the aforesaid document, the Board discussed whether all not-for-profit organisations should provide information about expenses by

(a) functional classification,
(b) natural classification,
(c) either functional or natural classification at the option of the organisation, or
(d) both functional and natural classification.

It also considered whether they should provide that information in a financial statement or in notes to financial statements.

Expenses by function, such as major programs or services and major classes of supporting services, is necessary to an understanding of a not-for-profit organisation's service efforts and that a set of financial statements should include that information. Requiring that information also is a step toward providing information that may be useful in associating an organisation's expenses with its accomplishments. This information about an organisation's expenses by function may be meaningfully communicated either in a statement of activities or in notes to financial statements.

This statement provides latitude for organisations to define their major programs and determine the degree of aggregation used when reporting expenses of major programs. That latitude has several advantages. Foremost, it allows organisations to report in ways that they believe are meaningful, related to their service efforts, and consistent with internal management information systems. That latitude allows organisations to use existing cost-allocation systems to provide the information necessary to comply with this Statement.

The Board is of the view, that since, the not-for-profit organisations "generally have no single indicator of performance comparable to a business enterprise's profit, other indicators of performance are usually needed." It adds that those indicators are "information about the nature of and relation between inflows and outflows of resources and information about service efforts and accomplishments" (emphasis added). Furthermore, the Board observes that a requirement for information about a not-for-profit organisation's expenses by function is similar to standards that require information about a business enterprise's industry segments.

This functional reporting is also in tune with our own standard on Segmental Reporting.

Reporting Expenses by Natural Classification

The normal way of reporting the expenses based on the regular way of classifying it based on the activity than that of the program is called the Natural Classification. For example, the travel incurred for Health Awareness Program, would be classified as Travel Expenses under Natural Classification, and in case of Functional Classification it would be charged to Health Awareness Program Expenses.

The Financial Accounting Standards Board agrees that information about expenses by natural classification often is useful and encourages organisations to provide that information. However, it also believes that information about expenses by natural classification may not be essential in understanding the service efforts of all not-for-profit organisations or in assessing the ability of all organisations to continue to provide services.

In India, we adopt this functional classification, while preparing statements and linking it up with FC – 3 of the Foreign Contribution (Regulation) Act. However, other Acts are silent about this important issue.

Complete Set of Financial Statements

The act under which the organisation was registered states the basic statements that are to be filed with the concerned authorities by such organisations. Supplementary formats are given by other Laws, like Foreign Contribution (Regulation) Act, which are to be adhered to by the organisation. The donor requirements are also fulfilled by submitting statements in the format in which they want the financial statement. Further the requirement of the preparation of Cash Flow Statement and the Segmental Reporting, notes on accounts, disclosure statements etc., also plays a role in determining what is called as complete set of Financial Statements.

The Financial Accounting Standards Board, USA in its FAS 117 states that three financial statements are necessary to provide the variety of information needed to meet the financial reporting objectives of a not-for-profit organisation and to report that information in ways that are both comprehensive and understandable.

A statement of financial position, a statement of activities, and a statement of cash flows, used with related disclosures, provide information that is useful in assessing

(a) the services an organisation provides and its ability to continue to provide those services and (b) how managers discharge their stewardship responsibilities and other aspects of their performance.

The Board continues to believe that “ideally, financial reporting also should provide information about the service accomplishments of a [not-for-profit] organisation” (Concepts Statement 4, paragraph 53). However, this Statement emphasises information to be reported in financial statements. Since information about service accomplishments generally is not measurable in units of money, it cannot be included and reported in the totals of the financial statements.

This FAS 117 amends FASB Statement No: 95, dealing with Statement of Cash Flows in a limited manner.

Conclusion

There are certain uniqueness not only on the functioning of the NGOs but also in the accounting and reporting requirements of it and since, very few publications by the ICAI is there to lean on, lot of inputs has been taken from those publications from other boards in other countries. Because of this, the present situation is that, there is no uniformity in accounting and presentation of the financial statements amongst the NGOs, which should be streamlined based on the pronouncements that are to be made in this regard by the Institute of Chartered Accountants of India.

GLOSSARY

As defined by the Financial Accounting Standards Board, USA.

Donor-imposed restriction

A donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the nature of the organisation, the environment in which it operates, and the purposes specified in its articles of incorporation or bye-laws or comparable documents for an unincorporated association. A restriction on an organisation’s use of the asset contributed may be temporary or permanent.

Functional classification

A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program services and supporting activities.

Not-for-profit organisation

An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Not-for-profit organisations have those characteristics in varying degrees (paragraph 6). Organisations that clearly fall outside this definition include all investor-owned enterprises and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance companies, credit unions, farm and rural electric co-operatives, and employee benefit plans (paragraph 7).

Permanent restriction

A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organisation to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Permanently restricted net assets

The part of the net assets of a not-for-profit organisation resulting (a) from contributions and other inflows of assets whose use by the organisation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organisation, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from re-classifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations

Restricted support

Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets. Also refer to Unrestricted support.

Temporarily restricted net assets

The part of the net assets of a not-for-profit organisation resulting (a) from contributions and other inflows of assets whose use by the organisation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organisation pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from re-classifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by-actions of the organisation pursuant to those stipulations.

Temporary restriction

A donor-imposed restriction that permits the donee organisation to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organisation.

Unrestricted net assets

The part of net assets of a not-for-profit organisation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations

Unrestricted support

Revenues or gains from contributions that are not restricted by donors.

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(b) Exposure draft on a proposed statement, Accounting for Contributions Received and Contributions Made and capitalisation of Works of Art, Historical Treasure and Similar Assets.
(c) FASB 116
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SUGGESTED FRAMEWORK OF ACCOUNTING AND FINANCIAL REPORTING BY NGOs

(Presented during the Finance Consultant's Workshop held during November, 2002 at Goa)

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1. It is assumed that the title “Framework for Accounting and Reporting“ would mean the methodology for the content in the preparation of financial statements ant the reporting thereon. Unlike the Companies Act or the specific laws governing statutory corporations which prescribe the form, content and the disclosure requirements of the entity, the laws governing the non-profit institutions such as the Societies Registration Act, 1860 or the state laws governing such Societies or rules framed thereunder, generally do not have such provisions. Consequently, the framework for accounting is need based, influenced by the Administrators and the Accountants – the way in which they have perceived the requirements.

2. I believe that the discussion would be focused on non-profit institutions carrying on activities which are of non-commercial purposes in nature. Therefore, this paper will not deal with accounting and reporting of commercial activities carried on by non-profit institutions. The participants in this consultation are all quite knowledgeable about the accounting principles and procedures followed by non-profit institutions. Therefore it would only be appropriate that issues that call for clarity and improvement are debated and useful conclusions are reached for the benefit of non-profit institutions. In order to raise issues that are relevant, it becomes necessary to take cognizance of the nature of the entities, laws which affect their functioning and the effect on the community or persons having a stake–not monetary–in its activities.

3. The non-profit institutions vary in the nature of the activities as well as the size. The activities can be in the nature of education - formal or informal, medical relief, relief to the poor, welfare funds, mutual associations such as clubs, sports activities and resident welfare associations. The activities touch upon the basic needs of the community. Therefore, it would not be proper to assume or suggest a rigid method or format in which the accounts are to be drawn and reported upon. In the circumstances, it is only useful and proper to discuss the principles in which they are to be based. While the fundamental accounting assumptions of a) going concern and b) consistency are squarely applicable, the third assumption relating to accrual is not strictly applied in terms of accounting, but they are to be achieved through off the balance sheet disclosures. Taking into consideration the community to which it is addressed, it is important that the accounts are easy to understand and maximum disclosures are made, so as to ensure a high degree of transparency in reflecting the activities.

4. **Application of Accounting Standards:**

The Institute of Chartered Accountants of India (ICAI) has clarified that exclusion of an (not-for-profit)entity (from the applicability of the standards) is permissible only, if no part of the activity (of the entity) is commercial, industrial or business in nature (Sept.1995). However, all may agree that voluntary compliance (to the extent applied) would considerably enhance the credibility of the statements. Perusing the standards from 1 to 22, it would be seen that except those which relate to accounting for (i) Construction Contracts (AS-7), (ii) Accounting for Research & Development (AS-8), (iii) Accounting for Amalgamation (AS-14), (iv) Earnings per Share (AS-20) (v) Consolidated Financial Statements (AS-21) and Accounting for taxes on income (AS-22), all others can be applied to the extent they are relevant to the circumstances. The applicability of various standards are briefly given in the annexure.

REPORTING:

5. Reporting is of two types. One is by the Management and the other is by the Auditor. While the Companies Act contains a mandatory provision requiring the Board of Directors to attach a report (to the financial statements) in the manner specified, there is no such obligation for non-profit institutions. However, it is quite essential for the management to make and circulate a report to the members in order that their understanding of the financial statements is made easy as well as achieve the objective of transparency in their activities. It is not necessary that there should be a legal requirement for such a report in order to achieve credibility in the eyes of the community and the public at large.

6. Coming to the auditors' report, the absence of a "statutory" form of reporting should not dissuade the managements to require (in the terms of management) the auditor to give a report, more or less in the form in which such reports are addressed to the shareholders of a corporate body. Here again, the report assures the reader - whether he be a member of the entity, representative of the Government or donor agency that the accounts are among other things, free of material mis-statement. ICAI has recently directed the members to indicate the management’s responsibility in the preparation of the statement as well as outline the scope of audit and the responsibility of the auditors. Accordingly, it is suggested that the auditor would give a report similar to the one addressed by them to the shareholders of a company, so that the confidence level is kept at a high level of acceptance. No doubt the auditors are required to give a report on the statement of accounts in Form 10B of the Income Tax Rules, as an annexure to the return of income filed by a Society or Trust. This being restricted to tax purposes, it cannot be deemed sufficient for other purposes.

Accounting Standard Number	Title	Remarks
AS-1	Disclosure of accounting policies	Disclosure required for a proper understanding of the statements
AS-2	Valuation of Inventories	Basic principles of valuation at cost or at market value
AS-3	Cash Flow Statement	LArgely achieved by preparation of a

		Receipt and Payment account in the case of small and medium sized entities. It may be useful to adhere to As-3 in a modified manner for a large entity.
AS-4	Contingencies and events occuring after the balance sheet date	Even if cash basis of accounting is followed, disclosure by the management, either in their report or in the notes on accounts would be relevant
AS-5	Prior period items and changes in accounting policy.	Any unusual or extraordinary item or change in the policy needs disclosure
AS-6	Depreciation accounting entities	Can be applied by all non-profit entities
AS-9	Revenue recognition	The principles adopted can be suitably disclosed
AS-10	Accounting for fixed assets	The basic principles are to be followed
AS-11	Accounting for effects of changes	Applicable to the extent necessary in foreign exchange rates
AS-12	Accounting for Government	Quite useful and appropriate Funds
AS-13	Accounting for Investments	It is only proper to make disclosures as suggested and provide, for fall in investments, as otherwise the balance sheet will not disclose a true picture.
AS-15	Accounting for Retirement benefits in the financial statement of the employers	Keeping in view that employees are generally covered under retirement benefits, proper evaluation of the liability and disclosure thereof is essential. AS-16 Borrowing costs The

		principles apply.
AS-17	Segment reporting	In case of entities carrying on more than one activity which are distinctly different from each other, it would be useful and proper to disclose the results of the activity through a separate Income and Expenditure account.
AS-18	Related party disclosure	Reference can be had to the requirements in Form 10B - report forming part of income tax return - where disclosure is required of payments to founders, managers and those coming within the purview of Sec.13 of the Income Tax Act. A similar Disclosure forming part of the accounts is highly recommended from the point of view of transparency.
AS-19	Leases	Applicable in rare cases

Internal Control and Managent Practices in Non-Profit Organisations

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I. INTRODUCTION

Non-Profit Organisations sometimes try to run their operations without adequate controls, on the grounds that they would “cost too much”, or that they “trust their staff”. However, the cost of operating a new control should be compared with the possible amount of loss that may occur if the control were not in place. The operation of internal controls is not a guarantee that fraud or mistakes will not occur. Controls minimise the risk to acceptable levels, and should enable management to be aware of problems at an early stage.

II. INTERNAL CONTROL DEFINITION

Internal control is a process continually operating at all levels within the entity to achieve:

- efficiency and effectivenes,
- reliability, completeness and timeliness of financial and management information, and
- compliance with applicable laws and regulations.

III. OBJECTIVES OF INTERNAL CONTROL

- To assist management in orderly and efficient conduct of its operations,
- Adherence to management policies and procedures
- Safeguarding of assets
- Prevention and Detection of Fraud and Error
- Accuracy and completeness of accounting records
- Timely preparation of reliable financial information
- Inspire confidence in the organisation by its funding partners and beneficiaries.

IV. SOME EXAMPLES OF DEFICIENCIES IN INTERNAL CONTROLS

- Absence of appropriate segregation of duties consistent with appropriate control objective,
- Absence of appropriate reviews and approvals of transactions, accounting entries, or systems outputs
- Inadequate provisions for the safeguarding of assets
- Evidence of failure to safeguard assets from loss, damage, or misappropriation
- Evidence that a system fails to provide complete and accurate output consistent with the auditee’s control objectives because of the misapplication of control procedures
- Evidence of intentional override of internal controls by those in authority to the detriment of the overall objectives of the system
- Evidence of failure to perform tasks that are part of the internal controls, such as

reconciliations not prepared or not timely prepared
- Absence of a sufficient level of control consciousness within the organisation
- Significant deficiencies in the design or operation of internal controls that could result in violations of laws and regulations having a direct and material effect on the financial statements; and
- Failure to follow up and correct previously identified deficiencies in internal controls.

V. DIFFERENT TYPES OF INTERNAL CONTROLS

Budgetary Control

All transactions carried out in an organisation should, be in accordance with the activities that are stated in the annual budget.

It is therefore essential to evolve the budget control mechanism, which involves:

Planning, executing the plan, monitoring and evaluating the performance and financially managing the activities of the organisation.
The system will determine the objective to be achieved over the budgeted period and the policy to be adopted to achieve objectives and determines the activities to be undertaken to achieve the objectives.
The system will also help to interpret the vision by preparing a detailed plan of activity in physical and financial terms and provides a yard stick for measuring the performance by comparing the plan with the actual performance activity-wise both in physical and monetary terms.

Organisation Control

It is important to have an effective organisation structure which provides for:

Division of the organisation's operations into appropriate departments, and the appointment of persons to assume responsibility for different activities.
Communication of delegation of authority and scope of responsibilities at various levels.
Design, so far as practicable, to preclude individual from over-riding control system.
Segregation of incompatible functions

Division of Duties

Duties should be separated so that no one person is in a position to record and process a complete transaction. Segregation of duties reduces the risk of fraud and error. This control demonstrates that each staff member is part of an inter-reliant team that has to work well together if the organisation is to achieve its mission.

Authorisation and approval controls

All transactions will require approval and authorisation by a responsible official. The limits of authority should be clearly defined by means of delegation of powers.

Accounting Controls

These controls include checking the arithmetical accuracy of records; also the preparation of reconciliation, for example, reconciling cash in hand with the cash book balance, and amounts due to a project, per head office statements, with amounts due per project records.

A computerised system may include a number of in-built mathematical calculations, but we should be careful to ensure that when designing “spreadsheets”, visual checks should be incorporated within these; for example, the total adds and total crossadds of several columns of figures should be displayed in separate cells on the worksheet, so that they can be visually checked and agreed with each other.

The printouts made of the respective statements should be duly signed by the competent authority.

Personnel Controls

Proper functioning of any system depend on:

Competence and integrity of those operating it.
Qualifications, selection and training as well as personal characteristics of personnel involved.
These include proper procedures over selection and training of staff, to ensure that their abilities and experience match up to their responsibilities.

Non-government organisations know from experience that it is tempting to take on staff who appear to be committed to the objectives of the organisation, or who are known personally to existing members of staff. If normal procedures are not followed, the organisation may find that the new staff member is not really capable of carrying out the job. Dismissing staff is unpleasant; sometimes it proves extremely difficult; in this situation the reputation and work of organisation may be damaged.

Supervision Controls

The job description and detailed work programmes of senior staff should include the routine daily supervision of junior staff. This has to be done in a sensitive but programmed way; in most cases the staff whose work is being supervised should be aware that this supervision is taking place; they will be encouraged to share difficulties, and to make suggestions as to how their job might be carried out more effectively. In carrying out supervisory responsibility, management should: Review adequacy of internal control on a regular basis to ensure that all significant controls are operating effectively. Where the organisation has an internal audit system, entrust to it some of its supervisory functions, especially with respect to review of internal control. The internal audit, in addition to other control functions, may carry out surprise cash counts, physical inventories of stores, and checking vehicle log books.

Preventive & Detective Control

Preventive

Require two cheque-signatures on all large disbursements.
Require the use of an Authorised Vendors list.
Reconcile invoice to receiving reports before authorising payment.
Check mathematical accuracy of invoice before payment.

Detective

Prepare Bank reconciliations
Reconcile vendors statements to recorded payables
Count physical inventory Observe payroll distribution on a test basis. Trace detail.

Control Activities

Reporting and reviewing reconciliations.
Checking the arithmetical accuracy of the records.
Controlling applications and environment of computer information environment systems. For example, by establishing controls over changes to computer programmes access to data files.
Maintaining and reviewing control over accounts and related subsidiary ledgers.
Approving and controlling of documents.
Comparing internal data with external sources of information.
Comparing the results of physical verification of cash, fixed assets, investments and inventory with corresponding accounting records.
Restricting direct access to assets records and information.
Comparing and analyzing the financial results with corresponding budgeted figures.

Safeguarding Controls

Internal controls over safeguarding of assets constitute a process, effected by an entity's Governing Body to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Safeguarding controls relate to the prevention or timely detection of unauthorised transactions and unauthorised access to assets that could result in losses that are material to the financial statements, for example, when unauthorised expenditure or investments are made, unauthorised liabilities are incurred, inventory is stolen or assets are converted to personal use.
Such controls are designed to help ensure that use of and access to assets are in accordance with management's authorisation.
Authorisation includes approval of transactions in accordance with policies and procedures established by management to safeguard assets.
These include restricting physical access to cash, stocks and other assets.
They would also include comparing existing assets with the related records at reasonable intervals and taking appropriate action with respect to any differences.

Understanding these safeguarding controls can help auditors assess the risk that financial statements could be materially mis-stated. For example, an understanding of an organisation’s safeguarding controls can help auditors recognise risk factors such as:

failure to adequately monitor decentralised operations;
lack of controls over activities, such as lack of documentation for major transactions;
lack of controls over computer processing, such as a lack of controls over access to applications that initiate or control the movement of assets;
failure to develop or communicate adequate policies and procedures for security of data or assets, such as allowing unauthorised personnel to have ready access to data or assets; and
failure to investigate significant unreconciled differences between reconciliations of a control account and subsidiary records.

Controls over Compliance with Laws and Regulations

Auditors should design the audit to provide reasonable assurance that the financial statements are free of material mis-statements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. To meet that requirement, auditors should have an understanding of internal controls relevant to financial statement assertions affected by those laws and regulations. Auditors should use that understanding to identify types of potential mis-statements, consider factors that affect the risk of material mis-statement, and design substantive tests. For example, the following control environment factors may influence the auditors' assessment of control risk:

a) management’s awareness or lack of awareness of applicable laws and regulations. b) Organisation’s policy regarding such matters as acceptable operating practices and codes of conduct, and c) assignment of responsibility and delegation of authority to deal with such matters as organisational goals and objectives, operating functions, and regulatory requirements.

Control Risk Assessments

When auditors assess control risk below the maximum for a given financial statement assertion, they reduce their need for evidence from substantive tests of that assertion. Auditors are not required to asses control risk below the maximum, but the likelihood that they will find it efficient and effective to do so increases with the size of the entities they audit and the complexity of their operations. Auditors should do the following when assessing control below the maximum:

a) identify internal controls that are relevant to a specific financial statement assertion;
b) perform tests that provide sufficient evidence that those controls are effective; and
c) document the tests of controls.

Auditors should remember the following when planning and performing tests of controls:

The lower the auditors' assessment of control risk, the more evidence they need to support that assessment.
Auditors may have to use a combination of different kinds of tests of controls to get sufficient evidence of a control's effectiveness.
Inquiries alone generally will not support an assessment that control risk is below the maximum.
Observations provide evidence about a control's effectiveness only at the time observed; they do not provide evidence about its effectiveness during the rest of the period under audit.
Auditors can use evidence from tests of controls done in prior audits (or at an interim date), but they have to obtain evidence about the nature and extent of significant changes in policies, procedures and personnel since they last performed those tests.

Auditors may find it necessary to reconsider their assessments of control risk when their substantive tests detect mis-statements, especially those that appear to be irregularities or due to illegal acts. As a result, they may find it necessary to modify their planned substantive tests for some or all financial statement assertions. Deficiencies in internal controls that led to those mis-statements may be reportable conditions or material weaknesses, which auditors are required to report.

Governance

In addition to the day-to-day controls which are to be carried out by the Senior Staff, there will be other supervisory procedures which should take place at Board level.

The Board should not be monopolised by a single interest group (e.g. members of one family).
The Board should have identified experts drawn from various disciplines.
The statutes / bye-laws of the organisation should provide for transparent process of taking decisions, election of office bearers and members of the Board.

Transparency

The organisation should have transparency in purpose of work by:

making clear documentation as to who they are, what they do and how they do;

explicitly following and documenting financial norms, accounting policies, staff and management policy;

preparing and making available annual reports with a summary of major activities undertaken, achievements made, tasks to be undertaken and financial statements about their constituencies, affiliates etc.

Limitations of Internal Control

Internal Control cannot:
- change an inherently poor manager into a good one,
- ensure success, or even survival.

An internal control system, no matter how well conceived and operated, can provide reasonable, not absolute, assurance regarding achievement of an entity's objectives. Internal control is not a cure-all.

Inherent Limitations of Internal Controls

Inherent inability to achieve 100% control due to control risks, such as:

Judgement – individual judgement and decision making can be faulty.
Breakdowns – can occur because of human failures such as simple errors or mistakes.
Management Override – management can have the ability to override controls.
Collusion – some controls can be circumvented by the collusion of two or more

Income Tax Obligations for NGOs in Bangladesh

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Introduction :

Prior to the financial year 30 June 2000, Government did not attach so much importance for submission of Tax returns by the NGOs. But recently Government has made it compulsory to submit the Tax return irrespective of it size and nature of NGOs.

Returns :

All the NGOs are required to submit the Tax returns for the organisation as per prescribed form setting forth therein such particulars and information as may be required thereby including total income of the assessee. Upon submission of the return Tax authority will verify the records and will finally assess its income.

But any income derived from operation of Micro Credit by a Non-Government organisations registered in the NGO Affairs Bureau is exempted from Tax.

Date for submission of return :

Unless the date is extended by the authority:-

(i) In the case of a organisation, by the fifteenth day of July next following the income year or, where the fifteenth day of July falls before the expiry of six months from the end of income year, before the expiry of such six months; and

(ii) In all other cases, by the thirtieth day of September next following the income year;

Employee income Tax:

It is obligatory on the part of a NGO to deduct appropriate taxes from the employees where the employees' income exceed the prescribed limit.

Rates of Income Tax for the financial year 2002

In the case of every individual including Bangladeshi non-resident, Hindu Undivided Family firm, Association of Persons and every artificial juridical person, not being a case to which paragraph 'KHAA' applies-

	Rates
1. On the first Taka 75000/- of total income	Nil
2. On the next Taka 1,50,000/- of total income	10%

3. On the next Taka 1,50,000/- of total income		15%
4. On the next Taka 2,50,000/- of total income		20%
5. On the balance of total income		25%

Provided that the minimum tax shall in no case be less than Tk.1,200/-.

Source Tax :

i) Deduction from Salaries: Section 50.
The person responsible for making any payment under the head "Salaries" shall deduct tax from the amount so payable at the rate applicable to the estimated total income of the payee.

ii) Deduction from payment on account of supply of goods or execution of contracts or indenting commission or shipping agency commission : Section 52

The payments on account of supply of goods, execution of contract or on account of indenting commission or shipping agency commission are subject to deduction of tax at the rates prescribed in Rules 16 and 17 of the income Tax Rules, 1984. All deductions shall be treated as advance payment of tax.

Schedule for rate of deduction under rule 16. :

Sl. No.	Amount of payment	Rate of deduction on tax at the time of making payment.
01.	Where the payment does not exceed Taka 1,00,000/-	Nil
02.	Where the payment exceeds Taka 1,00,000/- but does not exceed Taka 5,00,000/-	1%
03.	Where the payment exceeds Tk. 5,00, 000/- but does not exceed Taka 15,00,000/-	2.5%
04.	Where the payment exceeds Tk. 15,00,000/- but does not exceed Tk. 25,00,000/-	3.5%
05.	Where the payment exceeds Tk. 25,00,000/-	4%
06.	In the case of oil supplied by oil marketing companies:	
(a)	Where the payment does not exceed Tk. 2,00,000/-	Nil

(b)	Where the payment exceeds Tk. 2,00,000/-	0.75%

iii) Deduction at source from fees for professional or technical services: Section 52A.

Section 52A of the I. T. Ordinance provides for deduction of tax at source @ 5% from fees for professional services and @ 10% from fees for technical services. The deductions will be made by the Government or any authority or body or its units whose activities are authorised by any Act or Ordinance, any company as defined in clause (20) of section 2, or any NGO registered with NGO Affairs Bureau responsible for making such payments.

Professional services means services for legal, engineering, architectural, accountancy, interior decoration or advertising matters, technical assistance etc..

Deduction from the payment or certain services: Section 52AA.

This section provides for deduction of tax at source at 5% from payment of certain services like clearing and forwarding agency, stevedoring agency, private security service agency etc., The deductions will be made by the Government, any other authority, corporation or body, any company as defined in section 2(20), banking or insurance company, co-operative bank or any NGO registered with NGO Affairs Bureau.

iv) Deduction from rent payable to owner of a house: Section 53A & Rule 17B

This section provides for deduction of tax at source from income from house property payable by the organisation, or any authority, corporation or body including its unit, any company as defined in clause (20) of section 2 or any banking company or insurance company or any co-operative bank or any non-government organisation run or supported by any foreign donation or assistance.

Deduction will be made at the rates laid down in the schedule below:-

Sl. No.	**Amount of payment of tax at the time of**	**Rate of deduction of making payment**
01.	Where the monthly payment does not exceed Taka 15,000/-	Nil
02.	Where the monthly payment exceeds Taka 15,000/- but does not exceed Taka 35,000/-	3%
03.	Where the monthly payment exceeds Taka 35,000/-	5%

owner of the house property or the amount of tax deducted is in excess of the amount payable, tax deducted shall be refunded in full if no tax was payable or where the tax deducted was in excess of the amount payable, the excess deduction shall be refunded to the owner of the house property.

The Deputy Commissioner of Taxes, on an application made in this behalf may however give a certificate in the prescribed form to the owner of a house property that the owner will have no assessable income during the year or his income is otherwise exempt and in that event, the tenant shall make the payment of rent without deduction of tax until the certificate is cancelled by the Deputy Commissioner of Taxes.

Internal Control and Managent Practices

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The emerging development scenario in the country brings into focus the needs for better NGO governance and changes in the Management practices. Internal Control, which is one of the tools of Management practices, is not new for the NGOs . The Internal Controls are the procedures and instructions followed by NGOs so that work can be performed to provide reasonable assurance that an organisation's vision and mission will be achieved. Internal Control is not solely a procedure or policy that is performed at a certain point in time, but rather, a method continuously operating at all levels in the NGO Management.

Internal Control is broadly defined as a process designed to provide reasonable assurance regarding the achievement of specific objectives of NGOs in accountability, effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations and prescribed management practices. The element of this definition is as follows:

(1) The NGO Management will take the entire responsibility for implementing Internal Control.
(2) It has to be implemented in the whole organisation.
(3) It is a continuous activity.
(4) The compliance with laws and regulations of NGOs needs to be reviewed and changes to be made depending on changes in the laws.

The Internal Control encompasses controls that may be either accounting or administrative, processes or procedures or both, depending upon the management practices. The accounting controls pertain to procedures which ensures that assets are safeguarded and that financial statements are accurate and reliable. The administrative controls comprise the plan with operational efficiency and adherence to managerial practices and applicable laws.

Management is responsible, in both the centralised and decentralised practices adopted by NGOs, for establishing, maintaining and promoting effective internal control. Such system will vary from organisation to organisation depending upon the operating environment, size and diversity of operations, funds received and other management practices adopted by NGOs.

Internal Control systems must be documented. The nature and extent of documentation will depend upon the operating environment of each NGO function, and may take various forms including, but not limited to:

a. Vision and Mission of NGO

b. Formalised reporting responsibilities within the activity and descriptions of authority and responsibility. These may be in the form of organisation charts, job descriptions and /or narratives, and other management practices adopted.

c. Control objectives and control techniques which contribute to the achievement of vision, mission and other objectives.

d. Flowcharts of systems with the identification of key control points.

e. Support for decisions regarding the implementation of controls, preferably in a cost -benefit format.

Objectives of Internal Control in Organisations:

The main objectives of the Internal Control process will depend upon management practices adopted by each NGO . But the general practices can be categorised as follows:

· **Operational objectives :** To ensure that the organisation is carried on in an efficient and effective manner.

· **Information objectives :** To ensure that the MIS are Reliable, Timely and Accurate to make pragmatic decisions.

· **Security objectives :** To ensure that the assets are safeguarded from unauthorised access, use or disposition and accounted properly.

· **Compliance objectives :** To ensure that plans, programmes and policies are implemented by the NGO and laws and regulations of the country are adhered to.

· **Segregation of Duties :** To ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relating to processing a transaction.

· **Authorisation :** To ensure that all transactions are approved by responsible persons in accordance with their authority, and in accordance with general or specific authorisation.

Components of Internal Control:

There are five major elements that make up an organisation's internal control for the NGOs. They are exhibited in the pyramid.

Control Environment:

The control environment underlines the whole structure of the pyramid of NGOs. The control environment relating to external factors for NGOs will include the accountability, transparency and ethical norms maintained and demonstrated by management practices. The internal factors include proper accounting, natural transactions and other operations within the policy guidelines.

There should be positive and supportive attitude towards internal control. The staff need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management practices should identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counselling, and performance appraisals.

The operating style and polices of management determines the degree of risk the organisation is willing to take . The attitude and philosophy of management towards information systems, accounting, personnel functions, monitoring, audits and evaluations can definitely have an impact.

The organisation structure provides management's framework for planning, directing and controlling operations to achieve the vision, mission and other objectives. A good internal control environment requires that the organisational structure and other management practices clearly define key areas of authority and responsibility, and proper delegation with reporting systems.

Risk Assessment:

Risk can be defined as "Hindrance in meeting an objective". There are many risks like regulatory mechanisms, operating and economic conditions which are associated with the NGO. Risk assessment is the identification and analysis of relevant risks to the achievement of established objectives.

Management practices need to comprehensively identify risks. The significant interactions between the organisation and others should be considered. Risk identification methods may include qualitative and quantitative ranking activities, workshops, seminars, forecasting and strategic planning, budgetary control, audits and other management practices.

The risks should be analysed for their possible effect and decide about process of managing the risk and action to be taken. The specific risk analysis methodology used can vary because of differences in vision and mission of NGOs and the difficulty in qualitatively and quantitatively assigning risk level.

Control activities :

Control activities are the policies and procedures that help ensure that management philosophy and practices are carried out, and designed to manage risks.

Control activities are policies, procedures, and other management practices that enforce management's directives, such as the process implementing good budgetary control system. They help to ensure that actions are taken to address risks. Control activities are integral part of NGOs' planning, implementing, achieving effective results, and monitoring.

Control activities occur at all levels and functions. They include a wide range of diverse activities such as approvals, authorisations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be manual or with computerised system, or both.

The illustrative examples are:

- Top level reviews of actual performance, with tight budgetary control of NGO
- An effective internal Audit function
- Reviews by management at the functional or operative level under continuing supervision
- Management of Human Resources
- Control over MIS
- Accurate and timely recording of transactions and events
- Reporting and reviewing reconciliations
- Documentation of transactions.

Monitoring :

Internal Control systems need to be monitored. Monitoring is a process that assesses the system's performance. They give early warning of risk areas but in themselves they deal with problems of NGOs rather than prevent them.

Monitoring of internal control should include policies and procedures for ensuring that the Audit reports and all other comments are promptly dealt with. The Management practices should be designed in such a way:

(1) to take seriously findings from audits and other reports, including those showing deficiencies
(2) to plan proper actions in response to findings and recommendations from audits

and other reviews; and (3) to complete, within established time frames, all actions that has to be corrected.

The action programme should ensure:

(1) action is taken on definite recommendations,
(2) improvements are instituted, or
(3) demonstrates the findings and recommendations.

Information and Communication:

Information systems produce reports containing operational, financial and other management information for running and controlling the organisations. They need both internal data and external events.

Timely information should be recorded and communicated to management. Program managers need both operational and financial data to determine whether they are meeting their strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. Operating information is needed to know about its compliance requirements under various laws and regulations. Financial information is needed for both external and internal users. It is required to develop financial statements for periodic external reporting. The information should reach the users in a form and time frame that permits people to perform their duties efficiently.

The features of internal control and management practices are:

(1) It is essential that the authorisation levels are fixed at each managerial level.
(2) The custodial and recording functions for the staffs to be fixed and automatic review should be in-built with effective supervision.
(3) There should be accounting controls.
(4) Proper register for fixed assets should be maintained and periodical physical verification should be done. (5) The management should design an effective internal control system with clear demarcation between administrative and financial controls.

Techniques for Internal Control:

As part of management practices , there are different techniques used to record and some techniques are:

· Review of procedural manuals
· Narrative Descriptions with systems notes
· Questionnaires
· Flow charts
· Collection of forms and stationery used.

There are circumstances when internal controls are not reliable like:

· Defective in design which may lead to i) insufficient or ii) inaccurate or iii) incomplete information.
· Audit effort required to test compliance with those internal controls which is not

commensurate with the reduction in effort.
· Technological obsolescence.

Limitations:

There are some inherent limitations of internal control, such as:

1. Some controls do not tend to be directed at transactions of usual nature. This is more so in NGO sector especially with transactions of CBOs

2. The potential for human failures such as mistakes and errors

3. The possibility of circumvention of controls through collusion and abuse with beneficiaries, other outsiders and employees

4. The possibility that procedures may become inadequate due to changes in conditions since procedures are not given sufficient importance

5. Manipulations by management with respect to transactions or estimates and judgement required in the preparation of financial statements

6. Management's consideration that a control be cost-effective.

Internal Control and Standard Auditing Practices:

The Auditor can determine the extent of checking and nature of Audit procedure only on the basis of review of the internal control system.

The study and evaluation of the Accounting System and Related Internal Controls in connection with an Audit is discussed in detail in SAP.6.

The statement on Standard Auditing Practices (SAP), "Basic Principles Governing an Audit" states "Management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance.

The auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures. Where the auditor concludes that he can rely on certain internal controls, his substantive procedures would normally be less extensive than would otherwise be required and may also differ as to their nature and timing."

The above statement clearly indicates the expected role of internal controls. The internal control may contribute to the reasonable assurance the auditor seeks in forming his opinion on financial information. Similarly, the internal control has to help the audit about the safeguarding of assets and compliance and other procedures. It will be a good management practice that internal control procedure should be reviewed and evaluated and the SAP.6 discusses about Review and Preliminary Evaluation.

The important provisions are:

1. The auditor should review the accounting system and related internal controls to gain an understanding of the flow of transactions and the specific controls procedures to be able to make a preliminary evaluation and identification of those internal controls on which it might be effective and efficient to rely in conducting his audit.

2. It may be useful to trace a few transactions through the accounting system to assist in understanding that system and its related internal controls. When the transactions selected are representative of the type of transactions that usually pass through the system, this procedure may be treated as part of the compliance procedures.

3. The auditor's preliminary evaluation of the internal controls should be made on the assumption that the controls operate generally as described and that they function effectively throughout the period of intended reliance. The purpose of the preliminary evaluation is to identify the particular controls on which the auditor still intends to rely and to test through compliance procedures.

The compliance procedure discussed in SAP.6.

1. Compliance procedures should be conducted by the auditor to gain evidence that those internal controls on which he intends to rely operate generally as identified by him and that they function effectively throughout the period of intended reliance.

2. Based on the results of his compliance procedures, the auditor should evaluate whether the internal controls are adequate for his purposes.

3. If, based on the results of the compliance procedures, the auditor concludes that it is not appropriate to rely on a particular internal control to the degree previously contemplated, he should ascertain whether there is another control which would satisfy his purpose and on which he might rely.

The SAP.6 also gives detailed guidelines to be adopted by the auditor continuously for the whole period and the procedure to be applied to transactions occurring in the remaining period will be affected by factors like:

a) the results of the procedures already conducted
b) the responses to enquiries as to whether the internal control system is still operating in the same manner as when studied and evaluated
c) the length of the remaining period
d) the nature and amount of the transactions or balances involved
e) the auditor's evaluation of the internal control environment, especially supervisory controls; and
f) the substantive procedures which the auditor intends to carry out irrespective of the adequacy of internal controls.

The auditor should make management aware, on a timely basis, of material weaknesses which have come to his attention.

NGO Management has the responsibility to establish and maintain an adequate system of internal control and to furnish to the members of the Governing Board, Funders, Beneficiaries, and relevant government departments and other constituencies reliable financial information on a timely basis. Though the internal control and management practices discussed above are common for all, the NGO sector has peculiar problems. There are institutions which are working on capacity building, empowerment of CBO's, educational and medical institutions, specialised agencies working in Watershed Management, Joint Forest Programmes, and working at the time of crisis. These new programmes require internal control model which suits them. In those cases, it is essential to develop specialised control procedures, and so also when the funding pattern and programmes change, periodical review of Internal Control and separate models has to be established. All levels of NGOs are responsible for the creation and maintenance of successful internal control environment as a effective tool of modern management practices. They have an obligation to continually assess the internal controls and make adjustments as necessary to ensure that the internal control environment meets the need of changes in the structure of NGOs.

Suggested Internal Control Procedures for Micro Finance Institutions in Cash Handling

1. Cash receipts should be prepared as soon as funds are received. The Receipts should be pre-numbered. An individual designated to receive cash may prepare the Cash Receipt.

2. The pre-numbered receipts must be reconciled with the Cash Book / Deposit slips. It is essential that an independent person verifies the slips and the reconciliation statement.

3. Cash receipts should be posted daily to appropriate accounting records.

4. The Cash received should be deposited, in fact, daily or depending upon the volume and should not be used for the activities.

5. Adequate physical facilities must be provided for safeguarding cash prior to deposit.

6. Insurance policies should be taken for transit, and for holding.

7. The following cash controls must be used:

Void copies of receipts should be retained for audit purposes.
Cash handling procedures must reflect proper daily check and documentation.
Cashiers must be provided separate cash drawers to establish accountability.
Cash drawers must be locked during cashier's absence.
The Cashier or the Staff receiving cash must not have authority to sign cheques and reconcile bank accounts.
The Cash collections must be reconciled to totals of Cash Receipts Book, Deposit

Slips, Loan Register etc., by another staff who has no access to cash.
The Cash shortages and excess must be recorded on the books by cashier and reviewed regularly by the person who verifies the cash.

8. The journal entries and transfers must be approved by persons other than the person who prepares it.

9. All journal entries and transfers should be properly prepared, recorded, supported, posted and reconciled.

10. The bank accounts must be opened with the approval from the Board and in accordance with the existing legal framework.

11. There must be an adequate segregation of duties between staff handling cash and other staffs.

12. The Bank Reconciliation should be made atleast once in a month, and/or with less periodicity depending upon the needand should include:

Comparison of dates and amounts of deposits as shown on the bank statements with the cheque register. Review of completed bank and fund reconciliation by persons other than who prepared it.
Adequate checks should be made on cancelled cheques. All Revolving Fund disbursements items must be made by cheque.

13. The cheque should be under the safe custody and with proper procedure for issues.

14. There should be proper procedure for preparing and approving the vouchers and cheques must be prepared only on the strength of properly approved vouchers.

15. A cheque register should be maintained and prepared simultaneously with the preparation of the cheque

16. The vouchers and contents should be reviewed by the cheque signatories at the time of signature.

17. The cheques should be signed at least by two approved signatories.

18. The Banks should be intimated about the changes, if any, in the approved signatories.

19. The person writing cheques should be prohibited from drawing cheques payable to;

"Cash" , "Bearer" or similar payee which renders the cheque payable to the bearer;
Other payee when the payee named is not intended as the party to retain funds;

20. Persons authorised to sign cheques should be prohibited from:

Preparing the bank reconciliation.

Recording cash transactions.
Posting to the ledger accounts.

21. The Revolving Fund cashier must be prohibited from mingling cash receipts with the Petty Cash Fund.

22. The responsibility for the Fund should not be vested in any one person, and there should be built-in control mechanism.

23. Reimbursements must be approved by persons other than custodians only after adequate inspection of supporting data.

24. Revolving Fund claims and reconciliation's along with supporting documents should be filed separately from the other transactions.

Income Tax Obligations for NGOs in Bangladesh

Suhrid K. Barua
Chartered Accountant
Dhaka, Bangladesh

Introduction :

Prior to the financial year 30 June 2000, Government did not attach so much importance for submission of Tax returns by the NGOs. But recently Government has made it compulsory to submit the Tax return irrespective of it size and nature of NGOs.

Returns :

All the NGOs are required to submit the Tax returns for the organisation as per prescribed form setting forth therein such particulars and information as may be required thereby including total income of the assessee. Upon submission of the return Tax authority will verify the records and will finally assess its income.

But any income derived from operation of Micro Credit by a Non-Government organisations registered in the NGO Affairs Bureau is exempted from Tax.

Date for submission of return :

Unless the date is extended by the authority:-

(i) In the case of a organisation, by the fifteenth day of July next following the income year or, where the fifteenth day of July falls before the expiry of six months from the end of income year, before the expiry of such six months; and

(ii) In all other cases, by the thirtieth day of September next following the income year;

Employee income Tax:

It is obligatory on the part of a NGO to deduct appropriate taxes from the employees where the employees' income exceed the prescribed limit.

Rates of Income Tax for the financial year 2002

In the case of every individual including Bangladeshi non-resident, Hindu Undivided Family firm, Association of Persons and every artificial juridical person, not being a case to which paragraph 'KHAA' applies-

	Rates
1. On the first Taka 75000/- of total income	Nil
2. On the next Taka 1,50,000/- of total income	10%

3. On the next Taka 1,50,000/- of total income — 15%

4. On the next Taka 2,50,000/- of total income — 20%

5. On the balance of total income — 25%

Provided that the minimum tax shall in no case be less than Tk.1,200/-.

Source Tax :

i) Deduction from Salaries: Section 50.
The person responsible for making any payment under the head "Salaries" shall deduct tax from the amount so payable at the rate applicable to the estimated total income of the payee.

ii) Deduction from payment on account of supply of goods or execution of contracts or indenting commission or shipping agency commission : Section 52

The payments on account of supply of goods, execution of contract or on account of indenting commission or shipping agency commission are subject to deduction of tax at the rates prescribed in Rules 16 and 17 of the income Tax Rules, 1984. All deductions shall be treated as advance payment of tax.

Schedule for rate of deduction under rule 16. :

Sl. No.	Amount of payment	Rate of deduction on tax at the time of making payment.
01.	Where the payment does not exceed Taka 1,00,000/-	Nil
02.	Where the payment exceeds Taka 1,00,000/- but does not exceed Taka 5,00,000/-	1%
03.	Where the payment exceeds Tk. 5,00, 000/- but does not exceed Taka 15,00,000/-	2.5%
04.	Where the payment exceeds Tk. 15,00,000/- but does not exceed Tk. 25,00,000/-	3.5%
05.	Where the payment exceeds Tk. 25,00,000/-	4%
06.	In the case of oil supplied by oil marketing companies:	
(a)	Where the payment does not exceed Tk. 2,00,000/-	Nil

(b)	Where the payment exceeds Tk. 2,00,000/-	0.75%

iii) Deduction at source from fees for professional or technical services: Section 52A.

Section 52A of the I. T. Ordinance provides for deduction of tax at source @ 5% from fees for professional services and @ 10% from fees for technical services. The deductions will be made by the Government or any authority or body or its units whose activities are authorised by any Act or Ordinance, any company as defined in clause (20) of section 2, or any NGO registered with NGO Affairs Bureau responsible for making such payments.

Professional services means services for legal, engineering, architectural, accountancy, interior decoration or advertising matters, technical assistance etc..

Deduction from the payment or certain services: Section 52AA.

This section provides for deduction of tax at source at 5% from payment of certain services like clearing and forwarding agency, stevedoring agency, private security service agency etc., The deductions will be made by the Government, any other authority, corporation or body, any company as defined in section 2(20), banking or insurance company, co-operative bank or any NGO registered with NGO Affairs Bureau.

iv) Deduction from rent payable to owner of a house: Section 53A & Rule 17B

This section provides for deduction of tax at source from income from house property payable by the organisation, or any authority, corporation or body including its unit, any company as defined in clause (20) of section 2 or any banking company or insurance company or any co-operative bank or any non-government organisation run or supported by any foreign donation or assistance.

Deduction will be made at the rates laid down in the schedule below:-

Sl. No.	**Amount of payment of tax at the time of**	**Rate of deduction of making payment**
01.	Where the monthly payment does not exceed Taka 15,000/-	Nil
02.	Where the monthly payment exceeds Taka 15,000/- but does not exceed Taka 35,000/-	3%
03.	Where the monthly payment exceeds Taka 35,000/-	5%

owner of the house property or the amount of tax deducted is in excess of the amount payable, tax deducted shall be refunded in full if no tax was payable or where the tax deducted was in excess of the amount payable, the excess deduction shall be refunded to the owner of the house property.

The Deputy Commissioner of Taxes, on an application made in this behalf may however give a certificate in the prescribed form to the owner of a house property that the owner will have no assessable income during the year or his income is otherwise exempt and in that event, the tenant shall make the payment of rent without deduction of tax until the certificate is cancelled by the Deputy Commissioner of Taxes.

COMPENDIUM OF FOREIGN CONTRIBUTION (REGULATION) ACT, 1976

B. Pal
B.A., F.C.A., M.I.B.M(London)
Chartered Accountant

At the very outset it is necessary to define what is Foreign Contribution. Foreign Contribution means the donation, delivery or transfer made by any foreign source of any article other than a gift to any Citizen of India resident in India, resident outside India or any associates, branches or subsidiaries outside India, of Companies or Bodies corporate, registered or incorporated in India.

Gifts irrespective of their amount and nature do not come under the purview of Foreign Contribution. It is noteworthy that Foreign Contribution may not always necessarily be in foreign currency, it can also be in Indian Currency if such contribution is of monetary nature.

As the volume of inflow of foreign contribution increased tremendously during the early 70s, the Goverment enacted the Foreign Contribution (Regulation) Act in the year 1976 with a main purpose to regulate the acceptance and utilisation of foreign contributions/donations or foreign hospitality by certain persons or associations.

The following are the restrictions made by the FCR Act.

1. Foreign Contribution cannot be accepted by any:

v Candidate for election to any Legislature.
v Correspondent, Columnist, Cartoonist, Editor, Owner, Printer or Publisher of a registered Newspaper.
v Judge, Government servant or employee of any corporation owned by Government.
v Member of any Legislature.
v Political Party or Office Bearer thereof.

2. No organisation of a political nature, not being a political party shall accept any Foreign Contribution except with the prior permission of the Central Government with Ministry of Home Affairs. Application should be made to the Central Government for this purpose in either Form FC–1 or FC–1A or FC–8 depending upon the circumstances of each case.

3. Any other association except an organisation of a political nature, in order to accept Foreign Contribution has to register itself with the Central Government in accordance with the rules framed under this act and will have to agree to receive such Foreign Contribution only through such one of the branches of a bank as it may specify in its application for such registration. The application for registration shall have to be made by the Organisation in Form FC–8. These associations are also required to give an intimation to the Central Government regarding the amounts, sources, purposes for which and the manner in which the Foreign

Contribution so received by them has been utilised by them.

4. Every Citizen of India who is in receipt of any stipend, scholarship or any payment of a like nature exceeding Rs. 36,000/- in a year from any foreign source will have to give an intimation to the Central Government regarding amount, source and purpose of the Foreign Contribution so received by him within such time period as may be specified in the Act.

5. A member of a legislature or Political Party or any Judge or a Government Servant is not entitled to accept without the prior permission of Central Government any foreign hospitality except for an emergency on account of a sudden illness during their visit to any foreign country. However if under such circumstances, the person aforementioned accepts such foreign hospitality, he has to intimate the Central Government about the amount, source and the manner of receipt of such foreign hospitality.

6. If the Central Government after making an enquiry is satisfied that a person has accepted any foreign currency in contravention of the rules framed by the act, then the Central Government may, by an order in writing, prohibit such person from paying, delivering, transferring or otherwise dealing with such Foreign Currency in any manner.

7. Every association entitled to accept Foreign Contribution should in such form and manner as has been prescribed maintain an account of Foreign Contribution received by it as well as a record of the manner of utilisation of such Foreign Contribution. Every account should be maintained on a yearly basis and every such yearly account should be certified by a Chartered Accountant. Such certified accounts along with a Balance Sheet and a Receipts and Payments Account shall be furnished in duplicate to the Secretary to the Government of India, in the Ministry of Home Affairs, New Delhi, within 4 months of the closure of the year.

8. If the Central Government has any reasons to believe that any provisions of the Act has been violated by any political party, a person or an association etc., then it may by general or special order in writing authorise such Gazetted Officer as it may think fit to inspect any accounts or record, maintained by such political party, person, association etc.

9. If such Gazetted Officer after such inspection is of the opinion that a provision as contained in the Act has been in fact violated by the party concerned, then he may seize such account or record and produce the same before the Court in which any proceeding is brought for such contravention.

10. If the returns filed by an organisation or an Association according to the opinion of the Central Government is incomplete or inadequate, or the Central Government has any suspicion regarding the truthfulness of the returns then it may dispel its suspicion by authorizing a Gazetted Officer to conduct an examination of the affairs of such association or organisation.

11. If such Gazetted Officer has come to the conclusion after such examination that a person has in his possession any Foreign Currency or article, in contravention of the rules framed by the Act in this behalf, he may seize such article or currency in accordance with the provisions of Section 100 of the code of

Criminal Procedure.

12. If any person on whom a prohibitory order has been passed, still deals with such Foreign Currency in any manner, he is liable to a punishment of either fine or imprisonment which may extend to three years or both depending upon the circumstances of the case.

13. Any person who accepts foreign hospitality in contravention of the rules framed by the Act is liable to a punishment of either fine or imprisonment which may extend up to three years or both depending upon the circumstances of the case.

14. Any person who accepts, assists any person, political party or organisation in accepting any Foreign Contribution in contravention of the rules framed under the Act is punishable with imprisonment for a term which may extend to five years or fine or both depending upon the circumstances of the case.

The Central Government has powers to prohibit receipt of Foreign Contribution in certain cases:

The Central Government may:-

1. require any association to obtain prior permission of Central Government before accepting any foreign contribution

2. require any person or class of persons or any association, to furnish intimation within such time and in such manner as may be prescribed regarding the amount, source and the manner of the utilization of the foreign contribution received by it.

3. require any person or class of persons or any association, to obtain prior permission of the Central Government before accepting any foreign hospitality.

4. require any person or class of persons to furnish intimation within such time and in such manner as may be prescribed regarding the amount, source and the manner of receiving such foreign hospitality.

The Central Government has also the powers to frame rules regarding Foreign Contribution and change it from time to time in such manner as it may think fit.

Under the present scenario in the world, the Government should keep strict vigilance of the Foreign Contribution received by the persons so that these amounts are not used for anti-social, anti-national activities in India.

INCOME VERSUS FUND

(In case of "Not-for-Profit" Organisations)

L. Vittal Rao
B.Com, F.C.A.,
Chartered Accountant

"NOT-FOR-PROFIT" ORGANISATIONS (herein after referred as NPOs) are born either under Societies Registration Act or under Section 25 of the Companies Act, 1956. It can also be registgered as a trust.

The objects for which they started will be found in their formation documents. We can also find certain other classes in their documents like (i) the Society/Trust/Institution shall not distribute profits or declare dividends to the members out of the surplus, (ii) at the time of dissolution of the Society/Trust/Institution, the assets and liabilities as it stands on the date of dissolution, will not be distributed among the members but will stand transferred to another Society/Trust/Institution which has similar Aims and Objects.

These kind of bodies are generally for a philanthropic cause, service rendering institutions.

For their operations and programmes they do have many kinds of receipts like Membership Fee, Specific Funds for specific programmes, Endowment for certain objects, Corpus Fund (the income from which could be used for the Objects of the Institution) General Donations etc.

For a professional Accountant, it is important to know that all Receipts do not constitute income. Some are Capital Receipts and some are Revenue Receipts. Specific Funds (Earmarked Funds) and Endowment Funds received will be in the nature of "RESTRICTED FUNDS" (Capital Receipts) and General Donations are in the nature of "UNRESTRICTED FUNDS" (Revenue Receipts).

Knowledge of this helps in giving a proper accounting treatment and disclosing it properly (professionally) in the Financial Accounting Statements of NPOs.

Where the funds are given for a specific programme, the recipient trust is ordinarily expected to render accounts as to the manner in which the funds are spent. In case of foreign contributions, there is even the possibility of inspection by the contributor or check by a monitoring agency to oversee the spending of such amount. In quite a few cases the committed amounts are distributed in instalments depending upon the use to which they are put. In all these cases, one can only assume that the institution acts as a trustee for different trusts created by each contributor in respect of such programme. There is no discretion left to the trustees to spend it in any manner they like. It cannot be taken to the corpus of the trust fund. It cannot be used for any other purpose.

As pointed out by the Supreme Court in CIT vs. Trustee of Nizam's Family Trust (1986) 162 ITR 286 that "just as there maybe a trust within a trust, there may be two or more different trusts created under a single document."

There is no discretion left for the trustee to spend the funds in any manner other than under the condition for the grant. In fact it is only acting as a conduit pipe or post office for the funds so marked.

If correct accounting procedure is followed, many of the trusts which are burdened with the problem of reconciling with the requirement of 85 percent spending of income will find that there is no difficulty if such a requirement has to be considered with reference to each such programme. If in a particular case the funds received for a programme cannot be spent during the year it will invariably be spent in the succeeding year and hence, the requirement will be met in view of the provision in clause (ii) of the Explanation to Sub- Sec (1) of Sec. 11. Moneys in the pipeline will also not be considered as income under the self-same explanation.

If a contribution is received for a school building, this is again a separate endowment though it is one of the general objects permitted for the trust. The corpus fund for the school building as and when received can be credited to the school fund and moneys drawn out of such funds as and when the school building come up. The account will remain as school building fund while the cash contribution will become an asset as a school building. In such cases even separate accounts in the form of subsidiary accounts separately closed will be justifiable. In order words, the principle of one trustee to different trusts as pointed out by the Supreme Court in Nizam's Trust Case (supra), has to be strictly applied as required under law. In fact, the strict requirement of trust law would necessitate such treatment.

Keeping in view the fund accounting, the presentation in the financial statements can be as per the model shown hereinafter.

Model Financial Statement

FINANCIAL STATEMENTS

OF

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____

(Name & Address of the Organisation)

FOR THE YEAR ENDED 31ST MARCH 20XX

(CONSOLIDATED)

By

(CHARTERED ACCOUNTANT)

Model Financial Statement

(AUDITOR'S FIRM LETTER HEAD)

AUDITOR'S REPORT

FOR X Y Z & CO.
CHARTERED ACCOUNTANTS

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(X Y Z)
PARTNER / PROPRIETOR

PLACE

DATED_______________

Model Financial Statement

(Name and Address of the Organisation)

SIGNIFICANT ACCOUNTING POLICIES

1) SYSTEM OF ACCOUNTING :	"CASH SYSTEM" is followed. All transactions are recorded on Cash Basis as and when effected.
2) FIXED ASSETS :	Fixed Assets are stated at cost (Historical cost). No revaluation has been made during the year.
3) INFLATION :	Current Costs are not adjusted to reflect increase in cost due to inflation .
4) SPECIFIC GRsANTS :	Since grants from 'HIVOS' are specific grants given for specific purpose, it is shown separately under the head "UNDISBURSED GRANTS / FUNDS" to reflect the balance available in hand and to be applied in the following year for the purpose for which it was given.

"Restricted Fund" is a Specific Grant for a specific programme from a Resource Agency or individual to an organisation which should be applied/utilised towards a purpose which is pre-decided. They cannot be considered as Income of the organisation. It pre-supposes that :

a) Project funds are required to be spent within the specified time frame.

b) A segregated fund accounting is required and unspent balances to be shown separately in the Balance Sheet as **Liability.**

c) Unspect balances to be returned to the Donor or adjusted with the following project or spent as mutually agreed and

d) Periodic line item for financial reporting is required (this may be monthly, quarterly, annually etc.,)

These may be earmarked for certain programme purposes, projects, geographical locations. (The approved/sanctioned Budgets constitute "Restricted Funds").

"Unrestricted Funds" are those contributions made available for use at the full discretion of the Board and is also referred to as **"General Fund"**. These grants are not earmarked for a particular use. They constitute Income of the organisation.

In terms of **"Standard Accounting Principles"** and Generally Accepted Accounting Practices, **"Fund Approach Accounting Principle"** is followed for Restricted Funds received by the organisation whereas **Income Approach Accounting Principle** is followed for Unrestricted Funds received by the organisation.

Restricted fund is an obligation, a liability, whereas Unrestricted Fund is an Income of the Organisation.

The undisbursed/unspent Restricted Fund balance is shown as a liability in the Balance Sheet of the organisation, whereas General Income is shown as Income in the Income and Expenditure account and the unspent balance gets mixed in General Fund which is available in the hands of the Board to spend as per their discretion.

Recommendations of the Task Force on Direct Taxes for Charitable Trusts and NGOS

Recommendations of The Task Force on Direct Taxes for Charitable Trusts and NGO's The Indian Income Tax Act, 1961 is one of the most complicated and confusing legislations from a common man's point of view. It has been amended hundred of times, resulting in a law which is almost incomprehensible to a layman.

To quote Nani Palkiwala "Today the Income Tax Act, 1961 is a national disgrace. There is no other instance in Indian jurisprudence of an Act mutilated by more than 3,300 amendments in less than 30 years. Simple provisions like section 11 and section 13 have suffered no less than 50 amendments."

To rationalise and simplify the Indian tax laws, The Ministry of Finance, Government of India constituted two Task Forces, one on direct taxes and the other on indirect taxes, under the chairmanship of Dr. Vijay Kelkar, former Finance Secretary and presently Advisor, Ministry of Finance & Company Affairs, Government of India.

The Terms of Reference of the Task Force included the following:

ã Rationalisation and simplification of the direct taxes, with a view to minimising exemptions, removing anomolies and improving compliance procedure.

ã Improvement in tax payer services so as to reduce compliance cost, impart transparency and facilitate voluntary compliance.

ã Re-designing procedures for strengthening enforcement so as to improve compliance of direct tax laws.

DRAFT REPORT

The task forces issued draft consultation papers in November 2002, which were open for public debates. Certain suggestions and recommendations were made for the charitable trusts and institutions in that draft paper, which are as follows:

Provision regarding Registration of a Charitable Trust or Institution

Charitable trusts and institutions require registration either under section 11 or 10(23C) of the Income Tax Act, 1961 for claiming exemption from income tax, subject to certain specified conditions. The compliance burden under the two schemes is different. The registration under section 11 is simpler compared to registration under section 10. For registration under section 10, the application is made to the Director General of Income Tax (Exemption) through the Commissioner of Income Tax having jurisdiction and is not just issued a registration certificate like under section 11. Contrarily, it is notified in the official gazette, which in a sense infers a certificate of national importance.

The Task Force received large number of grievances relating to delay in issue of exemption notification by Central Board of Direct Taxes (CBDT) under section 10. Therefore, the Task Force recommended that the exemption under section 10 (21), 10(23B), 10(23C) (iiiab) to (vi a), and 10(29A) should be merged with Section 11 to 13A of the Income Tax Act. Consequently, there will be no requirement for any statutory notification to be issued by CBDT.

The Task Force also recommended that all charitable trusts and institutions will be required to file tax returns. Some will be selected for scrutiny. This will be done using a computerised risk assessment method. The Assessing Officer will examine the case. If he/ she feels that the charity may not be actually charitable, the case will be referred to a specialised rating agency from the panel drawn by Comptroller & Accounts General of India.

The rating agency will examine the case and will grade the charitable trust or institution. An "A+" rating for the trust will mean that it is indeed a charitable trust. An "A" rating for the trust will mean that it will enjoy exemption during the current year and will be subjected to review again in the following year. "B" rating for the trust will disqualify it from any tax exemption.

Deduction under Section 80G to the Donors

At present, the donors get 50% deduction from the taxable income under section 80G for the donations to the NGO's registered under section 80G of the Income Tax Act, 1961. The maximum marginal rate of tax is 30%. This means that presently the maximum tax benefit to a donor may range from 5% to 15%. Secondly, there is a ceiling of 10% of gross income on total donations under section 80G. Donations to priority segments(armed forces, government relief funds etc.,) offer 100% deduction. Hence the effective rebate ranges from 10% to 30%.

Kelkar Committee suggests that everyone be offered the same tax rebate of 20%. The ceiling on donations should also be removed.

For instance, a taxpayer makes a donation of Rs.2000/- to a trust for which 50% deduction is allowed u/s 80G. In that case, the qualifying amount for deduction would be Rs.1,000/-(50% of Rs.2,000/-). Suppose, the income of taxpayer is more than Rs.1,50,000/- for which marginal rate of tax is 30%. Under the present arrangement, he will get a tax relief of 30% on the qualifying amount for deduction i.e.Rs.300/-. However, under the proposed scheme, he will get a rebate of 20% on the qualifying amount for deduction i.e.20% on Rs.1,000/- =Rs.200/- only.

Deduction under Section 80GGA, 35(1)(ii)(iii)

The same treatment has been suggested for donations under section 80GGA and 35(1)(ii)(iii) also. This will result in some loss to bigger donors who may be paying tax at 30%.

REPRESENTATION TO DR. KELKAR

A delegation comprising of NGO leaders and experts met Mr. Vijay Kelkar on 4th

December 2002 in his office at North Block, New Delhi to present the view of the NGO sector on the recommendations of the task force as well as to share the difficulties faced by the sector in practice. The members of the delegation were:

Ms. Pushpa Sundar, Executive Director, Sampradaan Indian Centre for Philanthropy, N.Delhi

Mr. V. Rethinam, FCA, New Delhi

Mr. Sanjay Agrawal, FCA, New Delhi

Mr. Sanjay Patra, Executive Director, Financial Management Service Foundation, New Delhi

Mr. Anil Singh, VANI, New Delhi

Mr. Ajay Mehta, Executive Director, National Foundation for India, New Delhi.

Point of View of the Delegation on the recommendations of the Kelkar Committee :

ã The recommendation that there should be no requirement of statutory notification to be issued by CBDT has been welcomed, since delays in getting exemption are a major problem.

ã A time limit should be prescribed for disposal of applications under section 35AC and 80G as it takes sometimes upto 2 years.

ã Regarding the grading system suggested by the Task Force, on one hand it could be a safeguard against excessive power with the Income Tax Officer since an independent rating agency may be more independent and objective. However, the following problems would arise in relation to this:

***** Firstly, which are these rating agencies? Do they exist or will they be formed now? How will they grade the charity and what method will they use?

***** Secondly, what is the appeal procedure against the grading done by one agency?

***** Thirdly, who will bear the cost of this exercise? Will the Government pay the rating agency? If so, the fees will be quite low, and, the rating agency may be tempted to accept favours from the concerned charity. On the other hand, if the charity is to pay the rating agency, then there may be some loss of objectivity, as also the question of having funds to pay the fees.

***** Another related question is the negative fallout of an adverse rating. At the moment, if one loses one's exemption because of violation of specific provision of the Income Tax Act, it does not necessarily mean that the organisation is not charitable. This may also affect its image with the donors, public and the beneficiaries.

ã The recommendation to replace the existing tax benefits under section 80GGA and 35AC with a uniform tax rebate of 20% may reduce the charitable contributions in cases where the benefit under above sections is sought by affluent donors who may be paying tax @ 30%.

New suggestions made to Dr. Kelkar by the Delegation on 4.12.2002:

ã In the Finance Act, 2002, there was a reduction in the quantum of accumulation of income allowed from 25% of annual income to 15%. This is very restrictive and unnecessary, as charitable trusts sometimes require more funds and sometimes less. There should be flexibility in spending of funds or accumulating them.

ã Payment to other trusts out of accumulated funds was disallowed. The inter-charity donation out of accumulated funds should be allowed with the condition that the composite accumulation of both donor and donee should not exceed 5 years.

ã The provision for application in Form 13 to Assessing Officer for certificate in Form 15AA should be dispensed with the self declaration Form, as this is causing unnecessary paperwork and delay.

ã Exemption for donations in kind should be allowed for tax benefit.

ã Income for taxable purpose should be clearly defined, and all income from other sources should not be liable to tax.

ã Scope of section 80G needs to be enhanced by providing 100% tax exemption for all organisations.

ã Exemptions under section 35AC, 35(1)(iii) and 35 CCB should all be amalgamated and allowed 100% tax deductibility.

Final Report

During last week of December 2002, Kelkar Committee presented the final report. The final recommendations are as follows:

The exemptions under Section 10(21), 10(23B) and 10(23C)(iiiab) to (vi a), 10(29A) should be merged with Section 11 to 13A of the Income Tax Act. However, the requirement to file a return of income by such trust and institutions as proof of fulfilling the various conditions stipulated u/s 10(23C), should continue.

Returns to be identified for scrutiny / audit only through a computerised risk assessment system.

Where a return is identified for scrutiny and the assessing officer is of the

opinion that the activities of the trust are not charitable in nature, such a case will be referred to a rating agency from amongst the panel drawn up by the C&AG. An “A+” rating for the trust will mean that it is indeed a charitable trust. An “A” rating for the trust will mean that it will enjoy exemption during the current year and will be subjected to review again in the following year. A “B” rating for the trust will disqualify it from any tax exemption.

Since a large number of provisions in the Income Tax Act are regulatory in nature, it is recommended to create a National Charities Board to assist the government in regulating and promoting charities on the lines of the National Charities Commission, UK. Since, a number of States in India already have Charity Commissions, the proposed Board may have to be advisory.

The Income Tax Department should reimburse to trusts, the fees payable to the rating agency.

Consequent to the merger of all the provisions, there will be no requirement for any statutory notification to be issued by the CBDT. The Board will hereafter be able to devote more time on designing tax enforcement strategy rather than deal with individual cases of exemptions.

Analysis & Conclusion

The overall impact of the recommendations of the Kelkar Committee report relating to Charitable Trusts and Institutions appears to emphasise on simplifying the procedures of the Income Tax Act related to the registration under specified sections and claiming deductions for the donations made to Charitable Trusts and Institutions. Now it is upto the Government that how far it takes up the suggestions of the Task report in the Finance Budget, 2003.

Highlights Of Union Budget, 2003 for Individuals and Charitable Institutions

Budget is an annual exercise undertaken by the Finance Minister to present the estimates of receipts and expenditure for the next financial year. Linked to this is the presentation of Finance Bill every year. Through this Finance Bill every year, a large number of amendments are carried out in various central taxation laws particularly in Income Tax Act, 1961.This year is no exception. The Finance Bill 2003 has proposed some changes in the Income Tax Act, 1961. The changes, when passed by the Parliament would be applicable for the Financial Year 2003-04 (Assessment Year 2004-2005).

The major proposals pertaining to Individuals and Charitable Institutions are categorised as below for easy understanding:

- **Tax rates**
- **Charitable Institutions and Trusts**
- **Exempt Income**
- **Salary Income**
- **Deductions**
- **Rebate and Relief**
- **Procedure for filing of returns**
- **Tax Deducted at Source**

Tax Rates

There is no change in the rates in case of all assessee for A.Y. 2004-2005. Surcharge has now been proposed to be removed for the individuals and HUFs having income below Rs.8.5 lakhs.However in the case of individuals and HUFs having income over and above Rs.8.5 lakhs, surcharge is applicable @10%.

Income of Charitable and Religious Trusts

The restriction of transferring /applying the funds by a trust to other trusts, institutions is now removed for those charitable or religious trusts, which are desirous of getting dissolved.

Exempt Income

LIC premiums

It has been proposed that where the annual premiums paid by the assessee are more than 20% of the capital sum assured computed in the manner specified, the amount received in respect of the said life insurance policy on its maturity would be taxable. However, the benefit of exemption in respect of any sum received on death of a person is retained.

Voluntary Retirement Scheme Receipts

The VRS exemption is now proposed to cover such amounts received in instalments subsequent to the retirement.

Transfer of certain securities

Any income arising of transfer of units of US-64 is proposed to be exempt if such transfer takes place after 1.4.2002It is now proposed to exempt any income arising from sale or transfer of equity shares listed in any recognized stock exchange held for a period of more than 1 year if such equity shares are acquired on or after 1.3.2003 but before 1.3.2004.

Salary Income

Standard Deduction

It is proposed in the budget that the standard deduction would be as follows:

In the case of an assessee whose income from salary
a) does not exceed five lakh rupees, a deduction of a sum equal to forty percent of the salary or thirty thousand rupees whichever is less
b) exceeds five lakh rupees, a deduction of a sum of twenty thousand rupees

Deductions

Deductions from Gross Total Income

It is proposed that the physically handicapped persons (under section 80U) or persons with such dependents (under section 80 DD) be entitled to a deduction of Rs.50,000 and an enhanced deduction of Rs.75,000 in case of severe disability. The highlights of the above stated sections are stated below:

Deduction under Section 80 DD

Section 80DD has been proposed to be amended as follows:

Where an assessee, being an individual or a HUF, who is resident in India, has, during the previous year-
a) incurred any expenditure for the medical treatment (including nursing),training and rehabilitation of a dependant person with disability or
b) paid or deposited any amount under a scheme framed in this behalf by the LIC of India or any other insurer or the specified company subject to the conditions specified and approved by the Board in this behalf for the maintenance of a dependant ,being a person with disability the assessee shall be allowed a deduction of a sum of fifty thousand rupees from his gross total income in respect of the previous year.

However where such dependent is a person with severe disability the amount of deduction shall be seventy five thousand rupees.

Deduction under section 80U

Under this section, it has been proposed to provide a deduction of Rs.50,000 to an individual being a resident with disability as defined under the Persons with Disability Act, 1995.It is further proposed to provide a higher deduction of Rs. 75,000 to a resident individual with severe disability as defined under the Persons with Disability Act,1995.

Deduction under Section 80DDB

The proposed amendment under the above section is as follows:

In case an assessee who is resident in India has, during the previous year, actually incurred any expenditure for the medical treatment of such disease or ailment as specified by Board either for himself or his dependants in case of an individual or for any member of a HUF in case of the assessee is a HUF, then the assessee will be allowed a deduction of the expenditure actually incurred or a sum of forty thousand rupees, whichever is less. However where the expenditure incurred is in respect of the assessee or his dependent or any member of a HUF of the assessee and who is a senior citizen,the amount of deduction shall be sixty thousand rupees.

Deduction under section 80L

The maximum deduction allowable in respect of the interest or dividend incomes referred to in section 80L has been increased from Rs.9,000 to Rs.12,000 .An additional deduction of Rs.3000 is allowable in respect of interest from Government securities. Thus the total deduction available under section 80L will be Rs.15,000.

The dividend will not be taxable in the hands of the recipient from next year.

Introduction of new section 80QQB allowing deduction to an Author and section 80RRB allowing deduction to patentee.

It has been proposed to give deduction to an author of a book having artistic, literary or scientific nature, deriving royalty/copyright income and to an individual who is a patentee. The deduction upto Rs.3 lakhs per annum in respect of such income is proposed to be allowed.

Rebates and Relief

Rebate under section 88

It has been proposed that any sum paid as tuition fees whether at the time of admission or thereafter, to any university, college, school or other educational institution situated within India for the purpose of full-time education of any two children of an assessee as does not exceed Rs.12,000 in respect of each such child will be allowed as deduction. However the eligible amount shall not include any payment towards any development fees or donation or payment of similar nature. And the deduction in respect of this payment shall be available within the eligible limit of rupees of seventy thousand.

Under the existing provision, payment made toward premium or any other payment made towards an insurance policy is eligible for rebate u/s 88 of the Act. It is proposed to insert a new sub-section (2A) in section 88 which seeks to restrict the amount eligible for rebate to maximum of 20% of the capital sum assured computed in the specified manner.

Rebate under Section 88B

The amount of tax rebate available to senior citizens above the age of 65 year has been proposed to be increased from Rs.15,000 to Rs.20,000.

Procedure for filing of returns

Filing of returns in electronic forms

The facility to file return in electronic media is extended from the salaried employees to all the persons and accordingly the return could be filed through floppy and diskette etc.

Tax Deducted at Source

TDS on Professional service by Individuals and HUF

It has been proposed that all payments of professional fees made by the individuals and HUFs for personal purposes would not attract TDS provisions.

No TDS for Senior Citizens

As per the proposed amendment, tax is not required to be deducted at source in case of payment of interest made to senior citizen if he furnishes a declaration stating that his income would not be taxable.

Tax Clearance Certificate

As per the proposed amendment, the requirement of obtaining certificate for tax clearance who wants to travel abroad has been done away with.

However such person will have to furnish the Permanent Account Number allotted to him, if any, to the prescribed authority.

Further he will be required to furnish the details like purpose of his visit and the estimated period of stay outside India.