



# Masterclass on CSR Compliance Readiness for NGOs

18th August, 2021

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# Introduction

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# Agenda

#	Topic	Duration
1	Introduction	5 minutes
2	CSR Compliance Webinar Recap	10 minutes
3	Project Level Compliance	30 minutes
4	FAQ Session on Project Level Compliance	30 minutes
5	Organizational Level Compliance	20 minutes
6	FAQ Session on Organizational Level Compliance	25 minutes

# Speaker Profile



## **Parth Joshi**

Founder, Arvaksha Consultants

Parth is the founder of Arvaksha Consultants, a mid-market focused consultancy firm that provides compliance, investment banking and consultancy services. Parth's areas of expertise include finance, operations, compliance & cadence, policies & documentation, taxation and company law, among many others.



# CSR Compliance Webinar Recap

# Compliance as a way for NGOs to build capacities and foster partnerships

## 1 Statutory/ Legal Compliance

- NGO registration
- 80G, 12AB and MCA registration
- MoA/ AoA/ Trust deed

## 2 Finance and accounting

- GST and PAN number
- IT returns
- Documentation, Financial and utilization reports
- Break-up of Budget

## 3 Planning and reporting

- Annual reports
- Program plans and budget
- Annual audit by certified CA
- Self-audited project reports

## 4 Registrations & declarations

- FCRA registration and account maintenance
- Third-party accreditation
- Self-declaration statements

## 5 Governance and MIS

- Quarterly donor meetings
- MIS systems and personnel

## 6 Volunteering and branding

- Volunteering opportunities
- Branding opportunities

# Project level compliance



# Today's session will focus on understanding the finance and accounting best practices for three key cost heads

- NGO partners are to have certain policies and submit them to the appointed consultant prior to the disbursement of the grant & during the submission of the initial budget estimates.
- The NGO is expected to draft any missing policies within the first quarter of the grant.

## Key Cost heads



**Travel and  
Reimbursement**



**Human Resource**



**Procurement**



# Travel and Reimbursement : Best Practice



## Process related

- ✓ In case of event related travel costs, the organization shall have a detailed reimbursement policy and timeline for claiming the expenses - what expenses qualify for reimbursement, lag in claim cannot exceed 1 month, claim procedure
- ✓ An exhaustive list of other costs that are expected to be spent shall be provided (project travel to the field for supervision)

## Documentation and evidence

- Travel reimbursement sheet from all the employees claiming a reimbursement along with necessary approvals
- Supporting petrol bills, toll tax receipts etc to be attached with the voucher
- Vendors contract for air, train, bus, cab bookings along with comparative quotations obtained
- Hotel lodging bills and other details

# Procurement: Best Practices



## Process related

- ✓ Unit wise breakdown of material and consumables costs that is directly attributable to the project deliverable and the timing of the spend.
- ✓ A clear procurement policy on vendor selection; estimates are expected to be backed by quotations unless justified
- ✓ Procured assets such as laptop, mobiles as part of materials, are to be used exclusively by/for the project beneficiaries and shall be tagged/maintained in a fixed asset register.

## Documentation and evidence

- Vendor onboarding mechanism & a plan with outputs, outcomes & milestones.
- Contracts / agreements / MOU copies.
- Invoices as per tax invoice guidelines of the GST Act.
- Vendor invoice where payment is to be released on work completion basis, and the project is obtaining a work completion certificate from an expert in the field to support the validity of the payment.
- RFQ and comparative analysis report from at least 3-4 vendors as per the organisation procurement policy.
- Self-attested work completion reports / Self attestation on material receipt.
- Asset / inventory register maintained by the organisation.
- Bank payment advice for disbursement of vendor payments.

# Human Resources: Best Practices



## Process related

- ✓ Breakdown of the no of resources and period
- ✓ Cost allocation methodology for project if the resources are used for multiple projects
- ✓ Changes in staff has to be timely communicated to the donor. Underspent staffing costs cannot go to cover additional OH absorption
- ✓ Costs of services like manpower consultant services for hiring resources should not be a part of project cost
- ✓ Services like manpower, accounting & finance, M&E that are not directly linked to the project shall not form part of staffing costs and should be included only as OH absorption

## Documentation and evidence

- Monthly salary registers of the project along with necessary proof for employee attendance.
- EPF, ESIC, TDS Form 24Q for the month/quarter for verifying the statutory compliances; provide challans, returns and supporting workings.
- Bank payment advice for disbursement of salaries & salary expenses and payment vouchers from the books of accounts.
- In case of apportionment of a salary cost, provide % allocation to each project in order to maintain transparency. Ensure confidentiality at any level of data sharing w.r.t salary costs.
- Any attrition of project members is to be notified to donor with a replacement w.r.t vacancy, adequate communication to be done with donor.

# Checklist of documents to be shared with the project auditor

- ✓ MIS report of the project
- ✓ Tally backup / books of accounts registers in excel format
- ✓ Budget vs Actual spend budget head wise in excel format
- ✓ Variance analysis and reasons for the same head wise in excel format
- ✓ Bank statements (If entire bank statements can't be shared then extract from the same for DONOR transactions)
- ✓ Expense Vouchers (Vouchers + Supporting invoices, contracts etc)
- ✓ Planned expenses for the next quarter
- ✓ Carried forward expenses of previous project year if any
- ✓ Unit wise details of annual target vs actual achieved
- ✓ 80G receipt sent to Donor

*Any additional document which can help in carrying out a smooth due diligence process*

# FAQ Session

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# Organizational Level Compliance

# New IT forms & rules as per notification no. 19/2021 dated 26/03/2021

Form Name	Form Particulars
<a href="#">Form 3CF</a>	Application for registration - Scientific Research Programme
<a href="#">Form 10A</a>	Application for provisional registration - Revalidation process
<a href="#">Form 10AB</a>	Application for registration - Charitable & Religious Trust
<a href="#">Form 10AC</a>	Order for registration / provisional registration
<a href="#">Form 10AD</a>	Order for registration - approval, cancellation or rejection
<a href="#">Form 10BD</a>	Statement of particulars w.r.t donations received
<a href="#">Form 10BE</a>	Certificate of donation

# New provisions in the procedure of 12AB and clause (ac) in subsection 1 of section 12A in Income-Tax Act, 1996

1

Getting provisional registration

- **Time Limit:** 1 month before commencement of FY
- **Validity:** 3 years from AY registration is sought

2

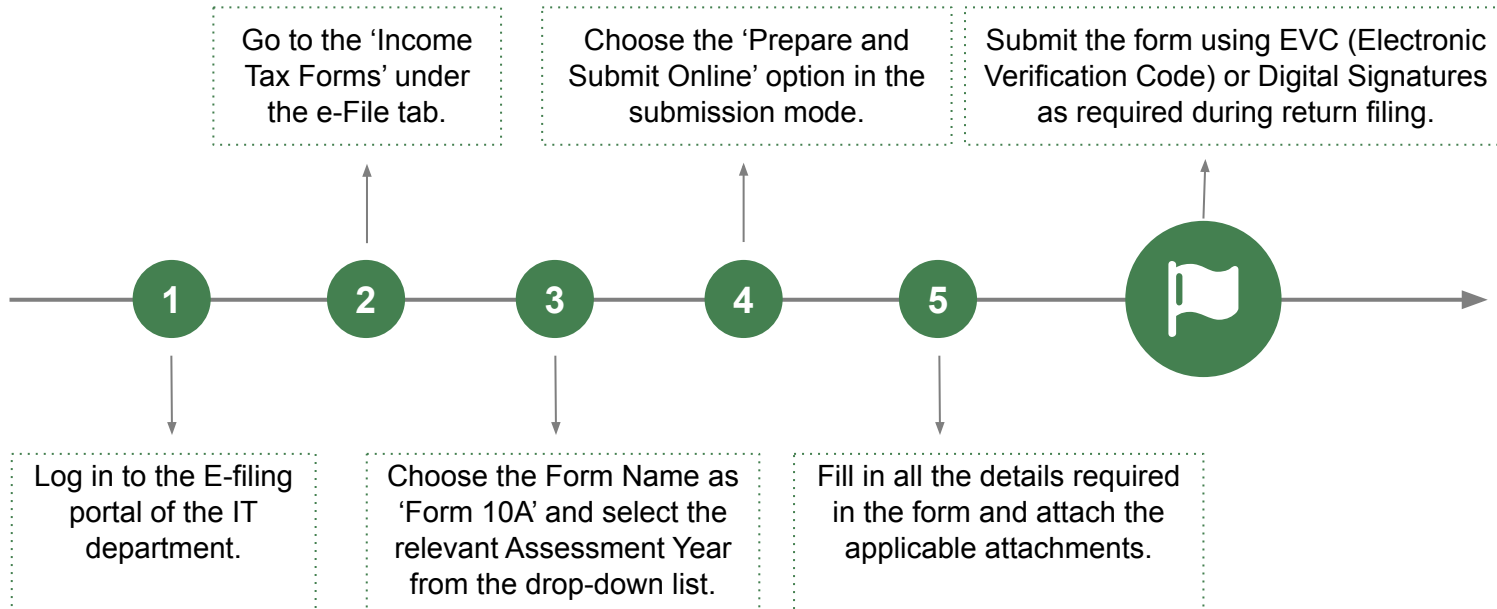
Converting provisional registration into final registration

- **Time Limit:** 6 months before expiry of Prov Regn or commencement of activities
- **Validity:** 5 years from AY registration is sought



# Procedure of revalidation under section 12A and 80G

In order to claim exemption, an NGO should make an application to the Principal Commissioner of Income Tax or Commissioner of Income Tax online in Form 10A.



# Checklist of documents required for revalidation of 12A & 80G

- ✓ Self-certified copy of the incorporation document of Societies/Trust
- ✓ Self-certified copy of the registration with the Registrar of Companies or Registrar of Societies or Registrar of Firms or Registrar of Public Trusts, as the case may be
- ✓ Self-certified copy of registration under the FCRA [Foreign Contribution (Regulation) Act], 2010, if the applicant is registered under the respective Act.
- ✓ Self-certified copy of the existing order of registration under section 12A/12AA/12AB, as the case may be
- ✓ Copies of the annual accounts for a period not exceeding three years immediately prior to the year in which the application is made, in the case of existing entities
- ✓ Where the income of the organisation includes the profits and gains of business or where a business undertaking is held by the organisation under the provisions of Section 11(4A), copies of the annual accounts and audit report under Section 44AB for three years immediately prior to the year in which the application is made
- ✓ Self-certified copy of the documents showing/evidencing modification or adoption of the objects
- ✓ Notes on the activities of the trust or institution
- ✓ The details of the DARPAN registration, if the organisation is registered on the DARPAN portal

# FAQ Session

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# Tools and Templates Archive



# Financial Audit Methodology

## Invite documents based on audit framework

- Utilisation certificate
- Income & Expenditure Account
- Variance Analysis

## Verification of auditable evidence

- Sample vouchers
- Materiality concept
- Bank statement & organisation policies

## Follow up on specific financial queries

- Discussion of audit observations with management
- Resolution and best practices

## Corroboration with programmatic progress

- Physical targets achieved and expenses incurred
- Carry forward and reallocation of project activities

## Present financial status & Recommend fund disbursement

- Financial status of the project
- Fund recommendation rational
- Disbursement as per MOU and next quarter plan

# Evidence verified

Cost Component	Sample Evidence verified
<b>Direct Cost</b>	<ul style="list-style-type: none"><li>• Documented procurement policy</li><li>• Physical copies of requisition note, delivery challan, invoice, vendor selection approval, bank payment advice</li><li>• Vendor onboarding</li><li>• approval process</li><li>• Material distribution receipt</li></ul>
<b>Indirect cost</b>	<ul style="list-style-type: none"><li>• Documented HR policy</li><li>• Recruitment process</li><li>• Salary and attendance register</li><li>• EPF, ESIC, TDS challans</li><li>• Expense approval matrix</li><li>• Supporting documents like air ticket, boarding pass, train ticket, cab receipts etc.</li><li>• Vehicle running costs calculation</li></ul>
<b>Administration cost</b>	<ul style="list-style-type: none"><li>• Registration copies of all legal acts applicable</li><li>• Tds returns and challans</li><li>• Agreement copies of the vendors</li><li>• Copy of rent agreement</li><li>• Invoices of infrastructure procurement</li></ul>

**Extra slides**

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# Vouching & Audit Requirements (1/2)



## Date

Of the supporting voucher for expenses



## Signature

Of the cashier/ accountant



## Supporting Docs

which will validate the amount of expense claimed

Only expenses vouched and validated by M&E partners shall be considered for actuals.

Once submitted, the NGO may be contacted for any queries & clarifications or be requested to submit any additional documentation required for the vouching exercise. Once the exercise is completed, and the observations are communicated to the partner, there will be a window of 5-7 working days given to the partner to revert to those observations.



# The Following Supporting Documents are Required to Validate Expenses (2/2)

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## Human Resources

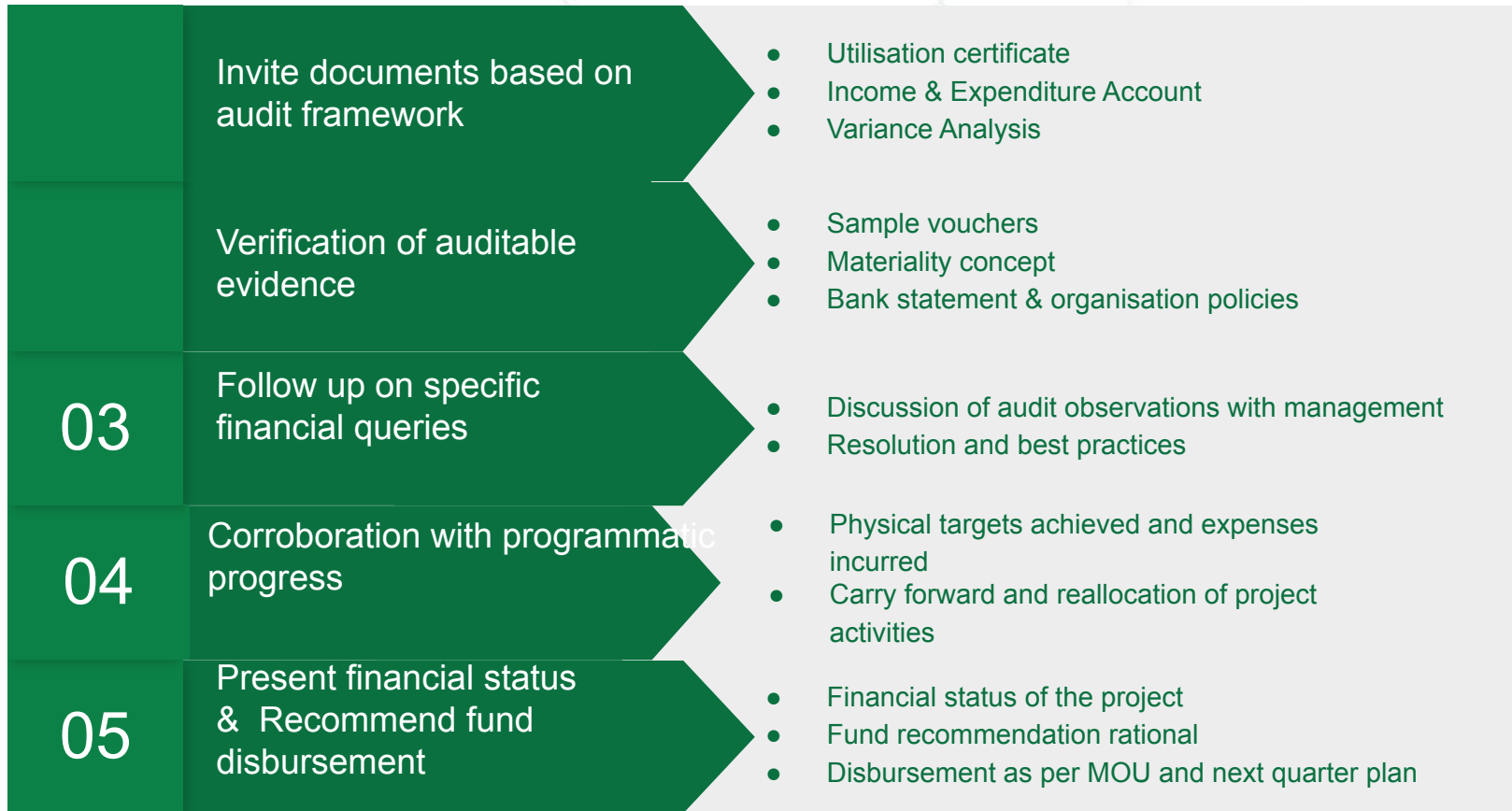
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# Financial Audit Methodology



# Key best practices under selected areas of compliance



## Finance and Accounting

- Vendor onboarding mechanism
- Vendor contracts / agreements
- Payment policy for vendors & contractors
- Salary cost constitution
- Cost allocation methodology
- Inter head budget adjustments
- Indirect cost apportionment



## Planning and Reporting

- Budgeting
- Short term plans for achieving the targets
- Compliance calendar
- SPOC for due diligence
- CFO Certification for donors
- Project activity variance analysis
- Utilisation certificates
- Audit documentation