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## Acronyms

AWP	Annual Work Plan
BDO	Block Development Officer
BE	Budget Estimates
BLF	Block Level Federations
BMMU	Block Mission Management Unit
CAAA	Controller of Aid, Audit and Accounts
C&AG	Comptroller and Auditor General
CBS	Core Banking Solution
CEO	Chief Executive Officer (JSLPS)
CGA	Controller General of Accounts
CPSMS	Central Plan Scheme Monitoring System
COA	Chart of Accounts
COM	Community Operational Manual
COO	Chief Operating Officer (JSLPS)
CSS	Centrally Sponsored Scheme
DMM	District Mission Manager
DMMU	District Mission Management Unit
DRDA	District Rural Development Agency
EC	Empowered Committee
ECS	Electronic Clearing System
FM	Financial Management
FMM	Financial Management Manual
GB	Governing Body
GOJ	Government of Jharkhand
HR	Human Resources (Manual)
ICT	Information and Communication Technology
IUFR	Interim Unaudited Financial Reports
JSLPS	Jharkhand State Livelihoods Promotion Society
MIS	Management Information System
MoRD	Ministry of Rural Development 5

MoU	Memorandum of Understanding
NMMU	National Mission Management Unit
NRLM	National Rural Livelihoods Mission
NRLP	National Rural Livelihoods Project
PAD	Project Appraisal Document
PFT	Project Facilitation Team
PIP	Project Implementation Plan
RBI	Reserve Bank of India
RDD	Rural Development Department (Government of Jharkhand)
RE	Revised Estimates (of Budget)
SA	Statutory Audit
SHG	Self Help Group
SRLM	State Rural Livelihoods Mission
ToR	Terms of Reference
WB	World Bank

## Executive Summary of Financial Management Manual

The Financial Management Manual for Jharkhand State Livelihoods Promotion Society has been prepared keeping in mind the various plan schemes that the Society has been implementing or would implement in future. The manual is not specific to any particular project or scheme and instead shall be applicable to all such projects / schemes being implemented by the Society. Following is the summary of various recommendations incorporated in the manual.

### Summary of Recommendations

A brief summary of recommendations citing the areas from which they emanate has been described below

#### 1. Enabling Document of Society

Financial Management Manual is an enabling document for the Society to respond to its mandate bearing in mind the larger objects of the Society and their anticipated requirements in terms of financial management, fund flow, accounting, auditing, procurement of goods and services and delegation of powers and responsibilities. As part of Management Accounting, the document is intended to facilitate dexterous and responsive performance based decision-making as warranted by the Society's rationale and objects. It would ensure greater transparency and accountability in all financial transactions of the Society using an IT enabled system that shall have an audit trail for all transaction. The manual shall facilitate and strive to achieve better Program management by providing almost real time information on financial aspects and on key performance indicators to the Program management. It is intended to meet the financial reporting requirements of various stakeholders without compromising on the autonomy of the Society and capture for each program vertical separately, tenured (monthly, quarterly and yearly) budget and account information keeping track of fund allocation and its subsequent utilization.

The manual shall assist the society provide seamless accounting and reporting structures at all levels towards producing financial reports depicting budget v/s actual reflecting component-wise, category-wise and account head wise expenditure. It would also create an Internal Control Mechanism at the State and below level and perform audit at all levels including social audit and facilitate in forecasting of the estimated budgetary requirement and expenses.

#### 2. Integration of JSLPS Finance and Accounts with that of Central Plan Sector Monitoring Scheme (CPSMS)

Central Plan Schemes Monitoring System (CPSMS)<sup>1</sup> has been established towards creating an online and real time comprehensive Decision Support System (DSS) and Management Information System (MIS). The intended outcome is to generate and monitor Scheme-wise and State-wise releases for Central Plan and Centrally Sponsored Schemes. Since the system is

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<sup>1</sup> The Central Plan Scheme Monitoring System is a Central Sector Plan Scheme of the Planning Commission and is being implemented by the Office of Controller General of Accounts, Government of India.

envisaged to track fund disbursement from Government of India up to the last beneficiary under Plan Schemes and ultimately report on fund utilization at different levels of implementation on a real time basis it has been recommended to be most useful, effective and efficient fund flow as well as account tracking tool for JSLPS. It is thus recommended that the society shall get all its agencies ranging from SMMU to BMMU and below wherever funds would be transferred for receiving the releases. This would not only allow JSLPS to maintain and track record of component-wise releases, progress and expenditure at all cost and accounting centers in State, District, Block and Villages, but also would allow to transparently maintain a record of beneficiary-wise including payment to ultimate beneficiary and component-wise fund utilization under various Plan Schemes of Government of India on a real time basis. This shall not only make monitoring of the Plan Schemes more effective but shall also augment efficiency of financial management in the public domain.

### **2.1 Paradigm Shift from Traditional Accounting Mechanism**

The FM Manual depicts an exemplar move from the '*prescriptive fund release system*' to '*just in time*' fund release, minimizing float with the banks thereby leading to better cash management and reducing the cost of project financing and funding and making funds available for 'need and not greed'. The recommendations advise moving from the system of booking fund releases as '*expenditure*' to a system of booking fund releases as '*transfers*' and actual utilization reported from the field as '*expenditure*'. Thus it shall be providing an on-line status of fund utilization on a real time basis, leading to a better Decision Support System.

### **2.2 Generation of Financial Management Information System (FMIS) on a Real Time basis**

The CPSMS is designed to generate a robust and reliable Financial Management Information System (FMIS) in tandem with the Core Banking Solution of the banks. Unlike, traditional MIS applications based on ex post facto data feeding, the fund utilization data fed into the CPSMS facilitates one-to-one correlation with the banking transactions of the programme implementing agencies. Thus, the FMIS available from CPSMS facilitates automatic reconciliation of accounts with banking operations.

## **3. Fund Flow Mechanism Using State of the Art Technology**

The SMMU, state level apex implementation agency, will meet all expenditure on state level activities. SMMUs transfer funds required by DMMUs on the basis of approved annual work plans and subject to the overall ceilings imposed by the states as indicated in the Annual Action Plan. The SMMUs transfer the funds electronically to the dedicated bank accounts of the DMMUs. Annual budgetary allocation for each DMMU (each cost center) will be approved by the SMMU against specific budget lines. The cost center is required to generate sanctions and draw down from a centralized state level bank account using the online banking services subject to the budget limits and adhering to the agreed delegation of financial powers. Similarly, SMMUs will approve funds for the block units against the approved plans and subject to overall ceilings and the block units will generate sanctions and draw down funds from the approved heads subject to limits. Further, fund releases are also expected to be made from the SMMU to SHG federations and other institutions (producer companies, NGOs, training institutions etc..) through electronic systems to the extent feasible and on the basis of MOUs or financing

agreements. All releases will be made in installments as per the agreed milestones/achievement of outputs or results.

### **3.1 Modus Operandi of Fund Flow**

The system shall use a web-enabled application (CPSMS Web Portal) developed by the apex accounting authority of the Government of India under Ministry of Finance. In the first step, every agency receiving funds is registered on the system, including registration of all the bank accounts of the agency; this information is shared with the respective banks' Core Banking System (CBS) for authentication.

Post registration, CPSMS shall enable one to one validation or payment authorization of each release of funds, whether expenditure, advance, or transfer. The corresponding instrument number and amount for any release would need to be entered in the system at the time of approval, before the actual transaction. Through the CPSMS-CBS interface, this information would be shared with the banks' CBS and an instrument of payment will be honored by banks only when the corresponding entry is received through the CPSMS. The CPSMS-CBS interface is a fully functional system, capable of providing real time information exchange with the banks.

## **4. Accounting**

The Accounts of the Society shall follow the 'Going-concern Concept' and shall be maintained on a double entry basis adopting cash basis of accounting. The global developments for the standards of accounting shall be adopted as per the project requirements. Each transaction must not only be carried-out transparently but also be recorded in the respective book and voucher / receipt or other record stipulated in that regard. The Manual also envisage that the Executive Committee of the Society shall adopt sufficient safeguards to ensure that the principles of Transparency, Accountability and Responsibility (TAR) are fully reflected in the financial statements and that the project requirements are adequately served with particular emphasis to the fund components. A necessary training / capacity building on the financial manual in general and accounting in particular is being suggested as to provide satisfactory accounting data. The manual identifies various cost centers and provide guidance for book keeping at each of them. The lowest level where the book keeping has been advised is at the Community level accounting centers though it may not involve an elaborate process since it is envisaged that the BMMU should be the lowest level of accounting where shall be a trained accountant. Various accounting codes have been developed and advised to be developed in the manual. Care has been taken that the charter of accounts (COA) as advised by the MORD for CPSMS shall be adhered to in order to provide uniformity in accounting at the National level.

## **5. Budgeting and Planning**

The main objective of the JSLPS's budget in the manual is to create an efficient budgeting system in order to facilitate timely approval of the annual work plan, draw down of resources from MoRD and Govt of Jharkhand, budgetary control i.e. monitoring of performance at regular intervals and fixing accountability for variances at different level. The aim of State Mission is to reduce poverty in the state and help the poorest of the poor. This shall be the bottom line while addressing any initiative towards budgetary control. Budget shall be prepared for the whole year but broken up into quarterly segments enabling quarterly performance review through variance

analysis. The budget shall focus on the key deliverable(s) for the budget period and shall match the resources towards this central target. Hence a link between physical and fiscal aspects shall be required to be established. The Mission planning process will follow an **“Inverted Approach”** i.e. it will grow out of Village level plans and get consolidated into Block, District and State level annual work plans. The Annual Work plan and Budget shall have to be approved by the Executive Committee of SRLM, Jharkhand. The state and district level units shall facilitate an effective budgetary control system for monitoring of performance and accounting for variances. The format followed for budgeting shall be uniform across SMMU and all DMMUs.

## **6. Institutional Implementation Arrangements**

The Implementation arrangement framework consists of simplified arrangements to ensure transparency and accountability at all levels of the proposed Institutional set up of the Mission. The institutional architecture has been designed keeping in mind the various multilevel efficiencies and implementation arrangements between them ranging from highest state level bodies to the ones at the grass root namely, village level federations. However, it should be distinctly understood that the implementation arrangements including the multi level hierarchal committees are only indicative in nature and chapter 5 is confined only to the financial aspect of the institutional design. The society is free to use its judgment to form such committees as it might find appropriate in the project and hence not binding.

## **7. Internal Controls and Reporting**

Internal Control System comprises all the policies and procedures adopted by the management of JSLPS to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its affairs. JSLPS shall generate timely, accurate and reliable financial statements reflecting the performance of the project for its effective monitoring and control. Financial reports should facilitate timely decision making and achievement of project objective and provide for an exceptional reporting leading to further check and internal controls that should be self sustainable and more on an auto pilot mode. Internal Controls are essential to ensure compliance with rules and regulations and applicable local laws, authenticity of financial and operational reporting and effectiveness of operations. Various internal controls are evaluated as to the risks associated with Mission finance management to ensure utilization of funds from the MoRD and to ensure accuracy and reliability of the books of accounts and financial statements. The proposed Financial MIS has been designed to provide Mission implementing agencies with relevant information that would enable them to plan, monitor and control the various Mission activities. It shall identify and report critical areas of information which are relevant at different levels of Mission implementing agencies and would facilitate in decision making at those levels. It shall not only provide a basis for evaluation of various Mission activities by regular comparison of actual with the budgets but also provide a basis for taking remedial actions to correct any adverse trend. Such mechanism would facilitate ‘management by exception’ by presenting critical and select information to the top management of the program, donor agencies like the World Bank (WB) and State Government.

The Manual suggest that there shall be comprehensive real time information, reaching up to the last mile including transaction details that shall be made available across agencies- both at vertical and horizontal levels (geographic location wise). They would capture transactions straight from bank accounts of agencies and shall be disclosed as component wise transactions captured that would strengthen internal controls.

## Chapter –1 INTRODUCTION

### Annotation

This chapter starts with sections on nomenclature, preamble and jurisdiction of the Financial Manual. It also brings out the main purpose and objectives of the Financial Manual. It is followed by an introduction to NRLM / NRLP, its various aspects including its objectives and roles. Next section deals with implementation set of Mission in Jharkhand including the SMMU, DMMU and BMMU. Finally, it ends with a section that provides for definition of various terms used in the manual.

### The Society

The Jharkhand State Livelihoods Promotion Society, JSLPS<sup>2</sup> (hereinafter also the ‘Society’) has been established as a response to the need for an autonomous organization for promotion, coordination, implementation, monitoring and evaluation (M&E) of livelihoods initiatives in the State of Jharkhand under the administrative control of the Rural Development Department (RDD), Government of Jharkhand (GoJ). Registered under the Societies Registration Act 1860, its stated objects are to:

- Alleviate poverty in the State, especially among the disadvantaged groups
- Support effective implementation of ongoing government and other interventions
- Facilitate knowledge and experience sharing among a range of stakeholder groups
- Train and build capacities of government, community and other development agencies
- Support partnerships among key players for livelihood promotion
- Support development of new ideas and innovative programs
- Foster inter-departmental collaboration at State and district level for poverty alleviation
- Provide technical advisory support to various stakeholders whenever possible

### 1.1 Nomenclature

**Nomenclature:** This Manual shall be officially be called the ‘**Financial Management Manual**’ of the **Jharkhand State Livelihoods Promotion Society** (JSLPS), hereinafter called as the ‘Society’ for the **Jharkhand State Rural Livelihoods Mission** (JSRLM) hereinafter called as the ‘Mission’.

This Manual shall come into effect from the date of approval by the Executive Committee. It shall be placed before the General Body for ratification at its next meeting. The General Body shall decide any other issue of the Society having financial and / or administrative implications and not covered under this Manual.

### 1.2 Preamble

The Manual should proactively contribute towards achieving the overall vision of **Jharkhand State Livelihoods Promotion Society** (JSLPS) by laying down principles, guidelines, rules / norms to ensure effective and efficient use of funds. This Manual shall contribute towards

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<sup>2</sup> Further details on Society and its mandate are mentioned in the chapter on ‘Institutional Architecture’

effective and efficient accounting and reporting structure at all Mission Units including Community level. This Manual would encourage in building a transparency and accountability in all financial and accounting related matters of the Society.

### **1.3 Jurisdiction**

This Manual shall apply to the financial transactions relating to project implementation by the Jharkhand State Livelihoods Promotion Society (JSLPS) in the entire state of Jharkhand and is not specific to any project. However, certain areas in the manual are specifically designed and mentions about the NRLM / NRLP. This Manual shall be administered in the manner given below:

- Governing Body of the Society will authorize and approve the manual.
- The manual shall remain a dynamic document and may be amended by the Executive Committee as and when required and as learning accumulates within the Mission. All participants in the Program are thus encouraged to share their learning and experiences of the program implementation so as to improve the proposed arrangements made to attain the program objectives.
- All amendments made to the Manual shall be circulated to all the implementing units by the SMMU. The circular / notification shall clearly state the subject, chapter, paragraph/(s) and line/(s) to be replaced or amended. All such circulars / notifications shall be serially numbered and shall mention the date from which the change shall be effective.
- This manual shall govern the Financial Management system of Jharkhand State Rural Livelihoods Mission under the Society and should be maintained by the CFO of the SMMU.

### **1.4 Purpose and Objectives**

With the expansion of various activities of the Society and the onset to the National Rural Livelihoods Mission and Jharkhand being one of the States, it was felt necessary to create a manual that would be in line with the requirements of the National Mission Management Unit on one hand and provide guidance and fiduciary clarity to the stakeholder staff on the other. The purpose of the Manual is to guide over the consistent and concerted implementation of financial and finance related administrative procedures and build internal management controls across the State, District and subordinate Offices of the JSLP Society. The purpose of the document is also to collate and document the financial rules and procedures for the projects implemented by the society, incorporating best practices prevailing in other Societies / Special Purpose Vehicles and similar bodies. The ultimate aim is to provide all employee with a ready reference rulebook / handbook and ensure that these are fully understood and implemented uniformly and consistently across the State.

The manual lays down the financial management system for and to be followed by the implementing agencies of the Society viz SMMU, DMMU, BMMU and at the community level with the last mile connectivity.

The contents of this Manual are intended to:

- Enable the Society to respond to its mandate all provisions contained herein have been proposed bearing in mind the larger objects of the Society and their anticipated requirements in terms of financial management, procurement of goods and services and delegation of powers and responsibilities.
- Facilitate nimble and responsive decision-making as warranted by the Society's rationale and objects. Manual provides for the delegation of powers and responsibilities to various governance and management structures and individuals and simplifies the procurement process providing for various types of approaches in different circumstances
- Balance the governance and project management imperatives of the Society; thus, even while respecting the role of the GB and EC in taking forward the Society's Mission and retaining their oversight, the Manual provides space for project-level structures and individuals to respond to project-specific requirements (the governance roles remain with the GB and EC)
- Ensure that accountability and transparency are maintained in all activities of the Society; thus, the powers and responsibilities of project-level structures and individuals remain under the overall scrutiny of the GB and EC and are complemented by robust financial and procurement practices

Practices in other similar entities as well as NRLM documents and their projects have been referred to while determining the contents and structure of this Manual.

#### **1.4.1 Objectives and Structure of Financial Management Manual**

The broad objectives of Financial Manual primarily are:

- a. Provide greater transparency and accountability in all financial transactions using an IT based system that shall be open to audit at any time and shall carry an audit trail for each and every transaction performed by the employees.
- b. To achieve better Program management by providing almost real time information on financial aspects and on key performance indicators to the Program management. In this connection there shall be an integration with the Government of India's Central Plan Scheme Monitoring System (CPSMS) as designed and developed by the Controller General of Accounts and as mandated by the relevant Ministry for the NRLM.
- c. To meet the financial reporting requirements of various stakeholders without compromising on the autonomy of the Society.
- d. Capture for each program vertical separately, tenured (monthly, quarterly and yearly) budget information in physical and financial terms keeping track of fund allocation and its subsequent utilization.
- e. To ensure that all program related activities are reflected in the Program Financial Reporting Statements and the same be closely aligned with the Program components.
- f. Provide seamless accounting and reporting structures at all including community level towards producing financial reports depicting budget / actual expenditure reflecting component-wise, category-wise and account head wise expenditure

- g. Create Internal Control Mechanism at the District and below level and perform audit at all levels including social audit.
- h. Highlight financial aspects and key performance indicators to monitor financial progress against action plan and to facilitate management decision making.
- i. Facilitate forecasting of the estimated expenses.

### 1.5 National Rural Livelihoods Mission<sup>3</sup>

The Union Cabinet, Government of India approved establishment of National Rural Livelihoods Mission (NRLM) on June 24, 2010 and mandated the newly established mission with the task of adopting a comprehensive 'livelihoods approach' to reduce rural poverty.

The Swarnjayanthi Gram Swarozgar Yojana (SGSY), a centrally sponsored programme of MORD, GOI, has been restructured and implemented as National Rural Livelihoods Mission (NRLM) in a Mission mode since FY 2011-12. The central objective of the Mission is to eliminate rural poverty through innovative social mobilization and financial and economic inclusion strategies. Thus in a significant departure from earlier programs, NRLM proposes a strategic shift in financial resource allocations by the Government of India, from a 'population and entitlement' –based approach to a 'demand-driven approach', wherein financial and technical support would be provided to states on the basis of poverty reduction strategies and time-bound action plans linked to specific outcomes.

NRLM is a Centrally Sponsored Scheme and the financing of the program would be shared between the Centre and the States in the ratio of 75:25<sup>4</sup>. The Central allocation earmarked for the States would broadly be distributed in relation to the incidence of poverty in the States. A phased implementation approach is adopted in NRLM. NRLM would reach all districts and blocks by the end of 12th Five-year Plan.

The NRLM will be pivot of all poverty reduction efforts in the country. The mission will have strong results orientation and in a significant departure from conventional program management, it has proposed the following:

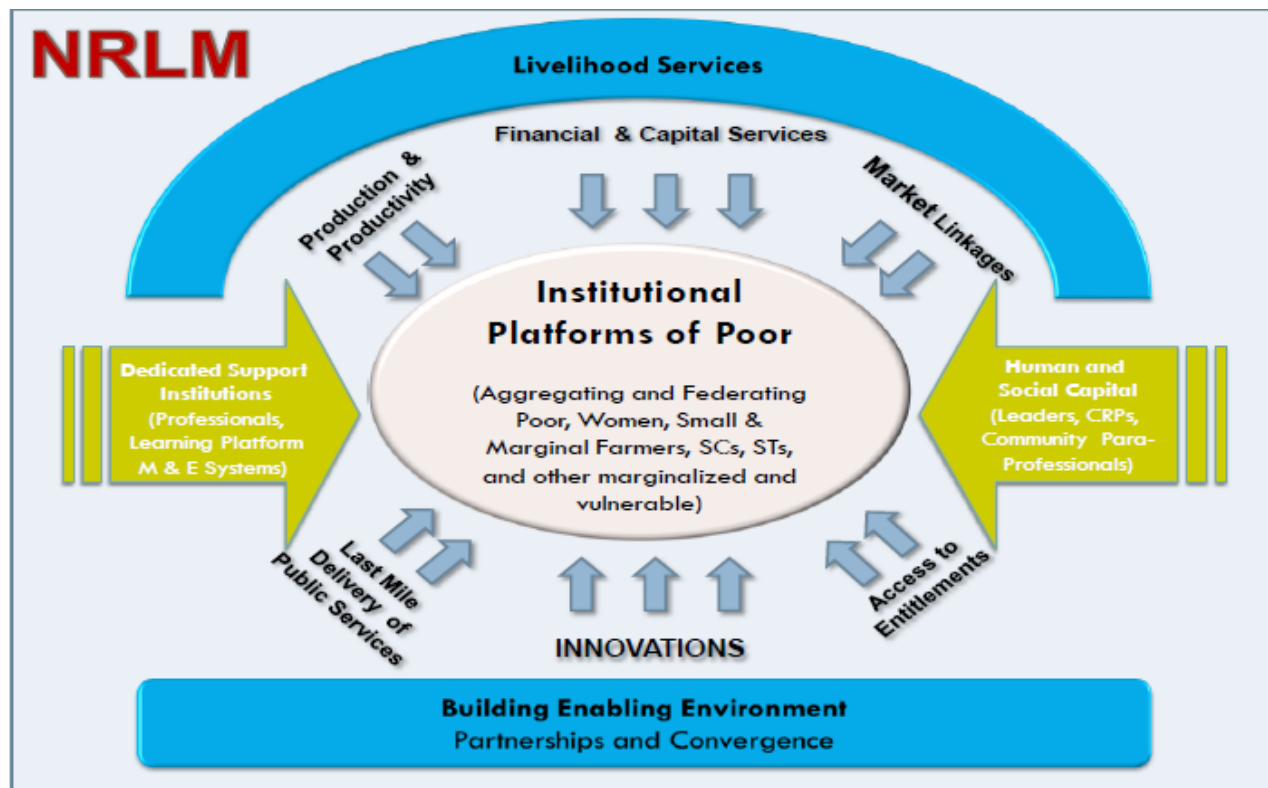
- Providing high quality technical assistance to the states to enhance their program implementation capacities to reach mission goals in an effective manner
- Shifting from entitlement and allocation based strategies to a demand driven strategy that enables the states to determine poverty reduction priorities and formulate own plans
- Bringing time perspective in program planning with focus on targets, outcomes and time bound results achievement as opposed to the current year on year planning effort driven by expenditure targets
- Continuous capacity building, imparting requisite skills and creating linkages with livelihoods opportunities for the poor, including those emerging in the organized sector
- Introducing innovations and incubating alternate models for program delivery in the last mile.

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<sup>3</sup> This section has been reproduced from various Mission Documents of the NRLM of the Ministry of Rural development, Government of India. All documents are in public domain.

<sup>4</sup> It would be 90:10 (GoI: State) in case of North Eastern States including Sikkim; completely from the Centre in case of UTs

- Creating knowledge and learning platforms that bring together good practices and facilitate cross learning



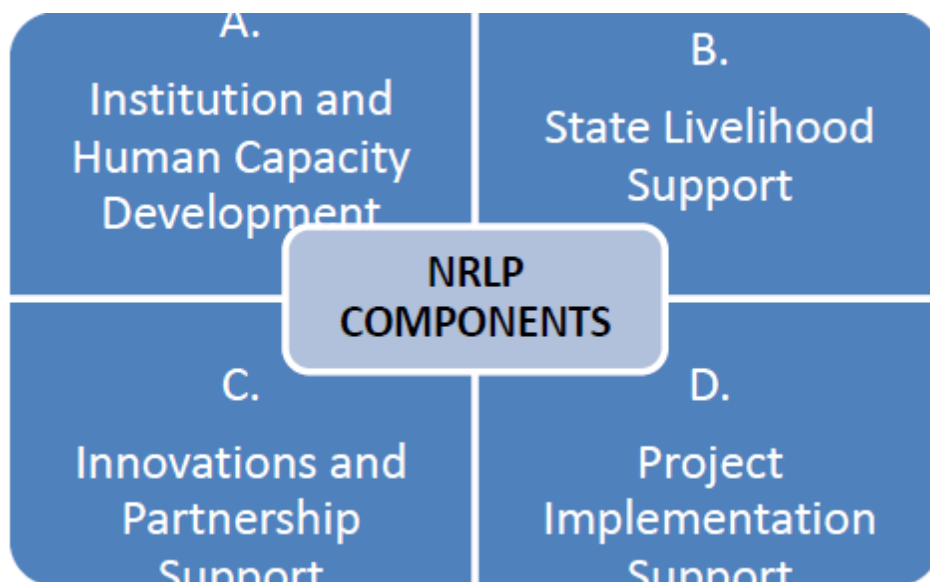
**Figure 1.1 National Rural Livelihoods Mission**

In order to augment the resources required for the implementation of NRLM in certain less developed States (13) including the state of Jharkhand and Districts (103), the GOI has entered into an agreement with the World Bank (IDA credit) for an assistance equal to USD 1.00 billion over XII Plan period. The part of the NRLM that will be implemented with the support of the World Bank in select states, districts and blocks is called National Rural Livelihoods Project (NRLP). But NRLP falls under the overall ambit of NRLM in terms of strategy and component activities.

### 1.6 National Rural Livelihoods Project

The proposed NRLP intends to support systemic reform and transformation of MoRD from focusing on allocation, disbursement, and monitoring of central government resources, to one of providing quality technical assistance to states implementing the NRLM.

Following diagram depicts the various components of the project.



**Figure 1.2 Project Components of NRLP**

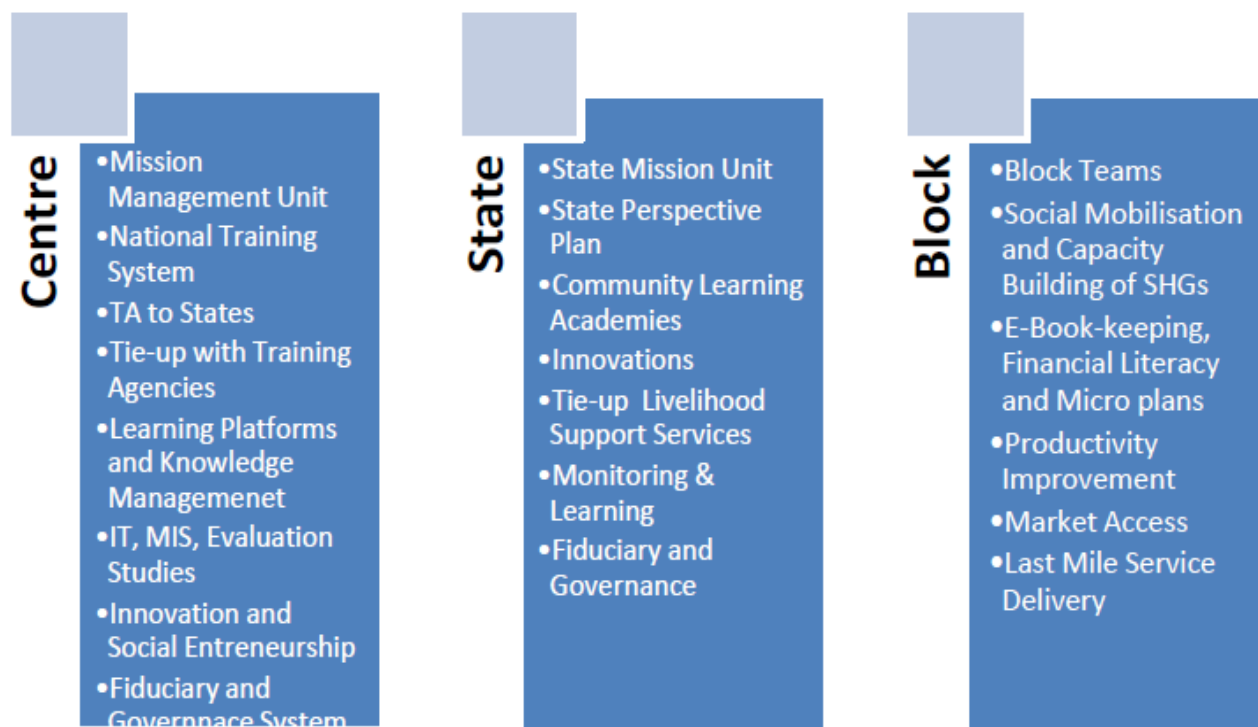
### 1.7 Development Objectives of Project

The development objective of the proposed project is to establish efficient and effective institutional platforms of the rural poor that enable them to increase household income through sustainable livelihood enhancements and improved access to financial and selected public services. The activities to be supported under the proposed NRLP intend to achieve the following key outcomes:

- Enhance effectiveness of public expenditure on NRLM
- Leverage resources for the poor
- Increase access to other government programs

### 1.8 Roles Under Project

The diagram below summarises respective roles of the centre, states and blocks in NRLP. Key responsibilities of NMMU include building capacity of states for implementing NRLP, providing funds for the project and overall project management. Key responsibilities for SMMUs include planning and implementation of NRLP activities at state level, including setting up infrastructure at block level for NRLP.



**Figure 1.3 Institutional Roles under NRLP**

## 1.9 Implementation Set up for Mission

The Mission<sup>5</sup> shall be managed by the **Jharkhand State Livelihoods Promotion Society (JSLPS)** a registered Society of Government of Jharkhand under the Department of Rural Development.

### 1.9.1 State Rural Livelihoods Mission (SRLM)

The State Mission Management Unit (SMMU) of the Jharkhand State Rural Livelihoods Missions (JSRLM), has been constituted by the state governments for the implementation of NRLP activities. JSRLM would implement the NRLM activities in the state through an SMMU, at the state level, headed by a full-time State Mission Director (SMD) called the Chief Executive Officer (CEO). The major responsibilities of the SMMU include:

- Lead all NRLM activities in the state
- Drafting policies and implementation guidelines of the mission at the state level
- Handholding support to district and sub-district implementation/support structures
- Ensuring quality implementation of different components/thematic interventions

<sup>5</sup> This is only indicative based on the HR Manual, the final structure, implementation arrangements and hierarchy would be as per HR Manual.

- Managing convergence and partnerships

### **1.9.2 District Rural Livelihoods Mission**

Support Structures at the District Level and Block Level SRLM shall be set-up by the District Mission Management Unit (DMMU) and Block Mission Management Unit (BMMU) for meeting NRLM objectives and implementing NRLM activities in the district and sub-districts. Suitable linkages with DRDAs would be explored during implementation after undertaking a capacity assessment. The DMMU and BMMU will:

- Facilitate and support units for field structures
- Interface and forge convergence with District/Block Administration and line departments, banks, NGOs and corporate agencies.

### **1.9.3 Community Level Rural Livelihoods Mission**

The SHG Federations and SHGs will be the main community level institutions and their roles related to financial management have been described at relevant places in this manual.

## **1.10 Organization Structure of Jharkhand State Rural Livelihoods Mission.<sup>6</sup>**

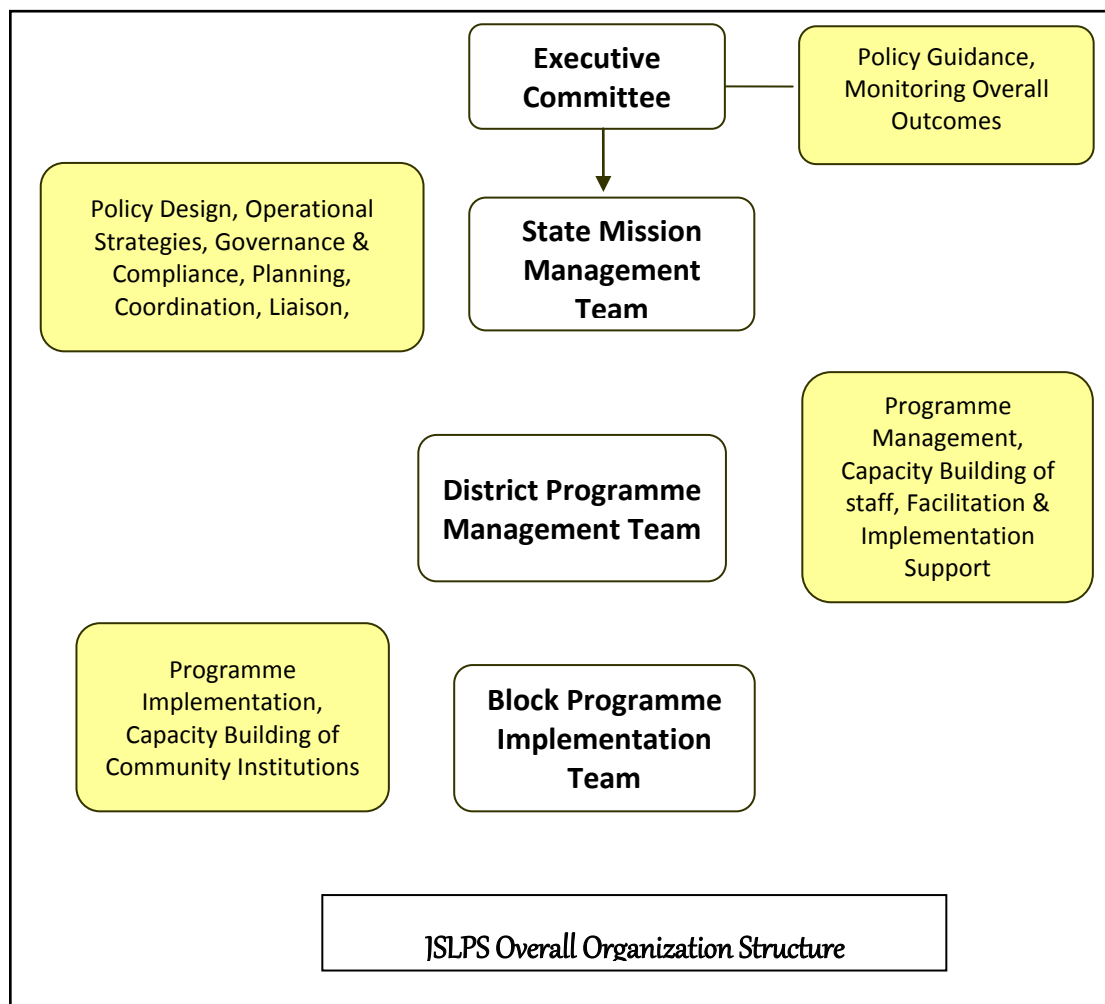
A four level implementation structure has been created under the Executive Committee to guide JSLPS achieve its vision. The structure has been created keeping in mind clear division of roles and responsibilities across the organization, need for specialist functions and managerial functions and their cohesion and unified communication across the levels. The Organization structure has been created to implement all programmes undertaken by JSLPS. The present structure would implement the NRLM, Sanjeevani, IAY, SECC, Johar schemes of the Rural Development Department. As and when new programmes/ schemes are started, the Executive Committee may create new positions at various levels for smooth implementation of these new programmes. The structure would try to integrate the various programmes/ schemes of JSLPS and would have functional/ domain specialists and line staff cutting across programmes/ schemes.

### **1.10.1 Implementation Structure at State Level : State Mission Management Unit (SPMU)**

The SMMU Team of JSLPS would play a crucial role towards guiding JSLPS towards its vision and mission. Broadly, the SMMU would design policies for various programmes, set up operational procedures, ensure governance / compliance, guide the planning, coordination, quality assurance, and monitoring the programmes across the state. The team would also play a pivotal role in liaising with stakeholders and building partnerships. The SMMU would be located at Ranchi. It would be headed by a Chief Executive Officer (CEO), who would report to the Executive Committee of JSLPS. The Government of Jharkhand would appoint the CEO of JSLPS.

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<sup>6</sup> This is only indicative based on the HR Manual and NRLM Document. The final structure would be as per HR Manual.



**Figure 1.4 Society Organogram.<sup>7</sup>**

The CEO would have a team of dedicated development professionals in various domains/ programmes, lead by a Chief Operating Officer (COO). The functional specialists for key themes would support the COO as State Programme Managers for their respective domains. They in turn would have managerial level staff reporting to them to carry out programmes in their respective domains/ units. A Programme Coordinator would be appointed to manage each programme being implemented by JSLPS. The Programme Coordinator, who would be at the level of a Programme Manager, would report to the COO. A Chief Finance Officer in the form of State Programme Manager, Finance would be appointed to ensure the fiduciary governance of JSLPS. S/he would be assisted by a team of finance, procurement and accounts staff to ensure smooth funds flow and meeting all statutory requirements for JSLPS. S/he would directly report to the CEO.

<sup>7</sup> This is only indicative based on the HR Manual, the final structure and organogram would be as per HR Manual.

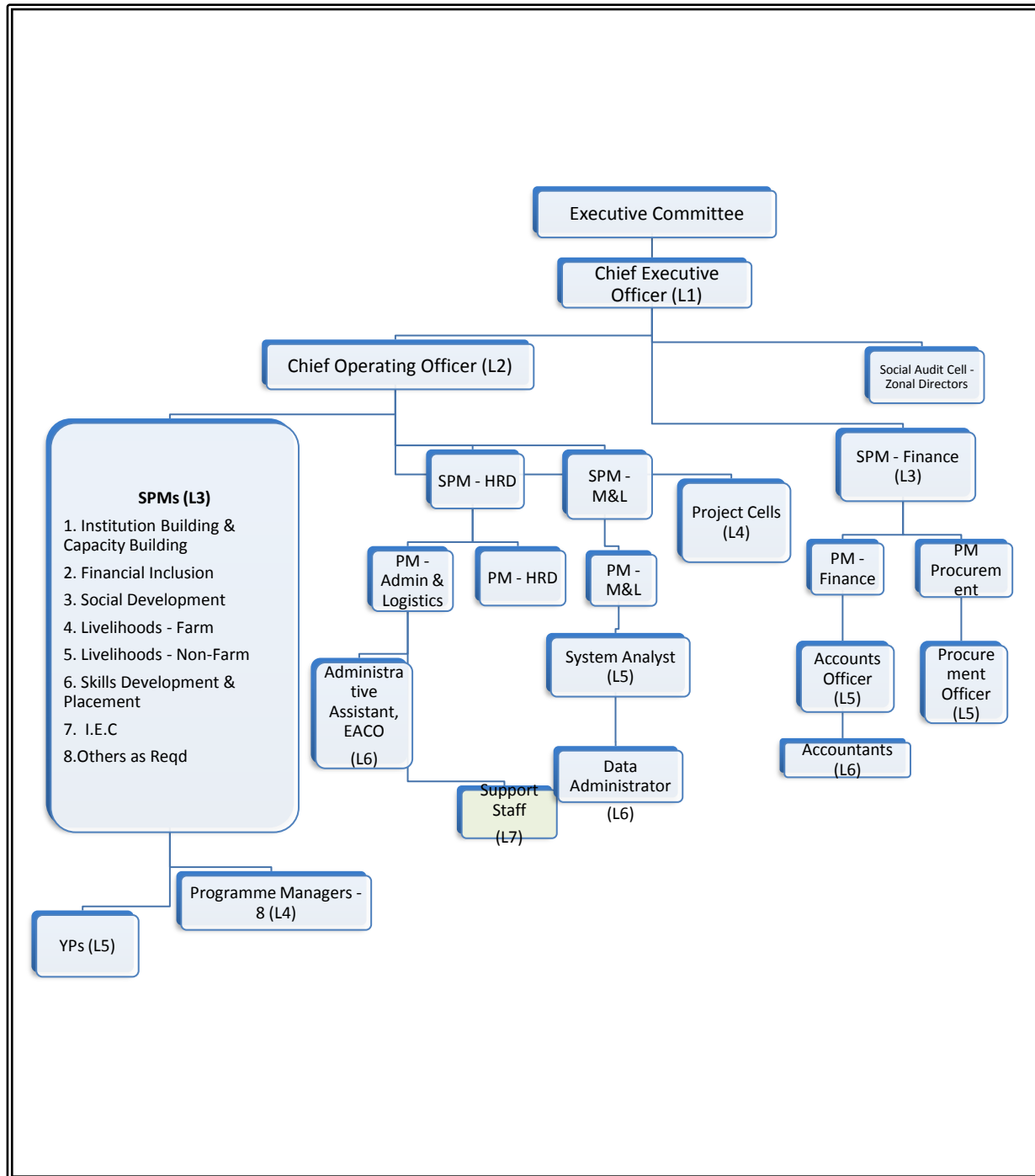
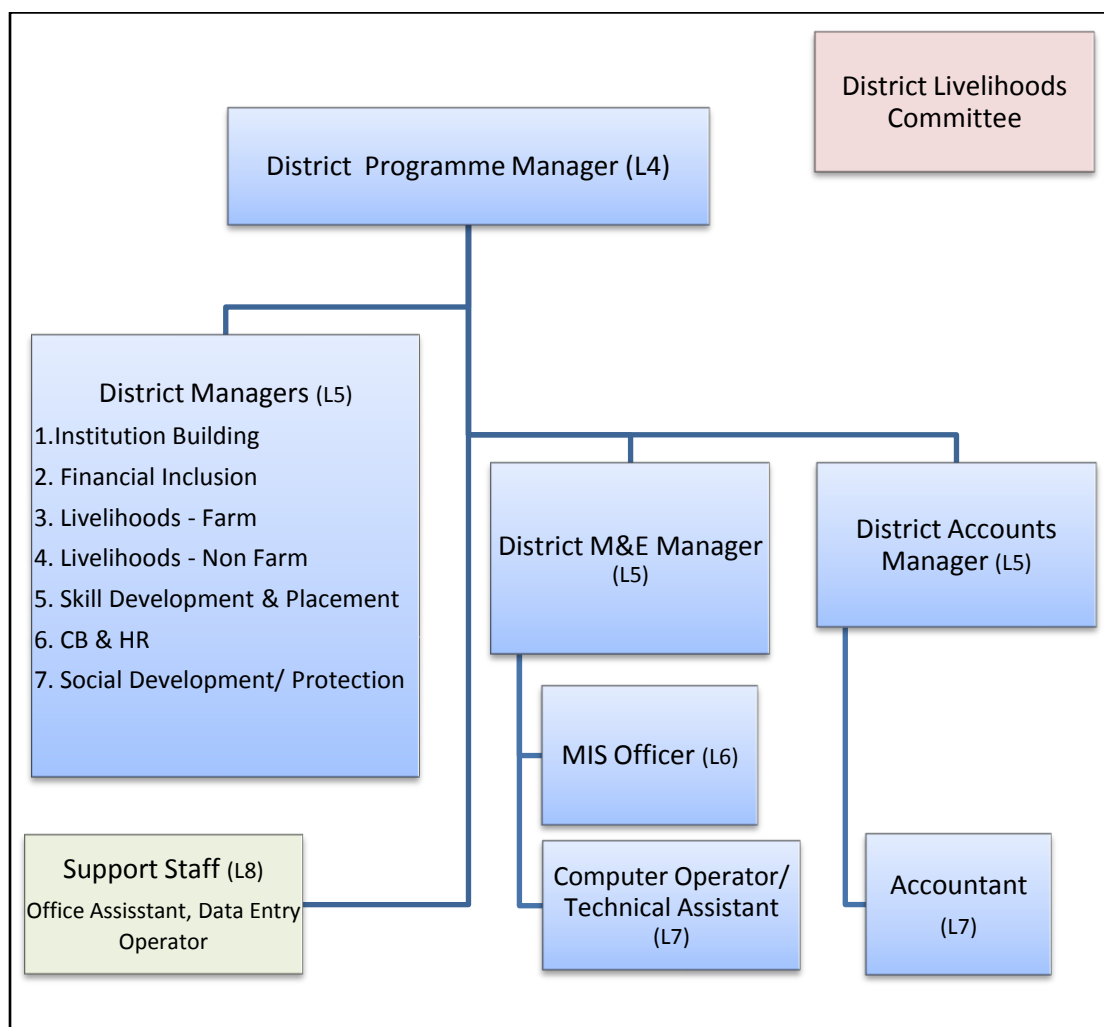


Figure 1.5 - State Mission Management Unit (SMMU)

**1.10.2 Structure at District Level – District Programme Management Unit (DPMU)**

**District Livelihoods Committee (DLC):** Each district would have a DLC, which would be chaired by the District Collector of the concerned District. The members of the DLC would comprise of district officers from the relevant technical departments, representatives of NGOs and the academic community. The role of DLC would be to facilitate convergence of government programmes related to rural development. It would also provide direction and guidance to the JSLPS District Unit (DPMT). The DLC would meet at least once in a month to review the progress of JSLPS’s interventions/ programmes. The District Programme Manager, in consultation with the District Collector, would convene the meeting of the DLC.



**Figure 1.6 - District Mission Management Unit (DMMU)**

**Implementation Structure at the District Level:** JSLPS would have District Programme Management Units (DPMU), headed by a District Programme Manager in each District where it operates. The DPM would report to the COO for all programme related activities. Administrative and financial delegation of authority at the District Level will ensure that the DPMU functions as a mini JSLPS. To support the DPMUs, functional/ Domain Specialists will be placed in each district along with administrative and finance staff. The DPMU is the crucial link for coordinating, implementing and managing all implementation activities across the blocks within the district. It would also build capacity of the block and field teams, monitor and ensure quality implementation of programmes. The number and functionality of the domain specialists may vary from one district to another, depending upon the focus of the programmes being implemented by JSLPS in that District.

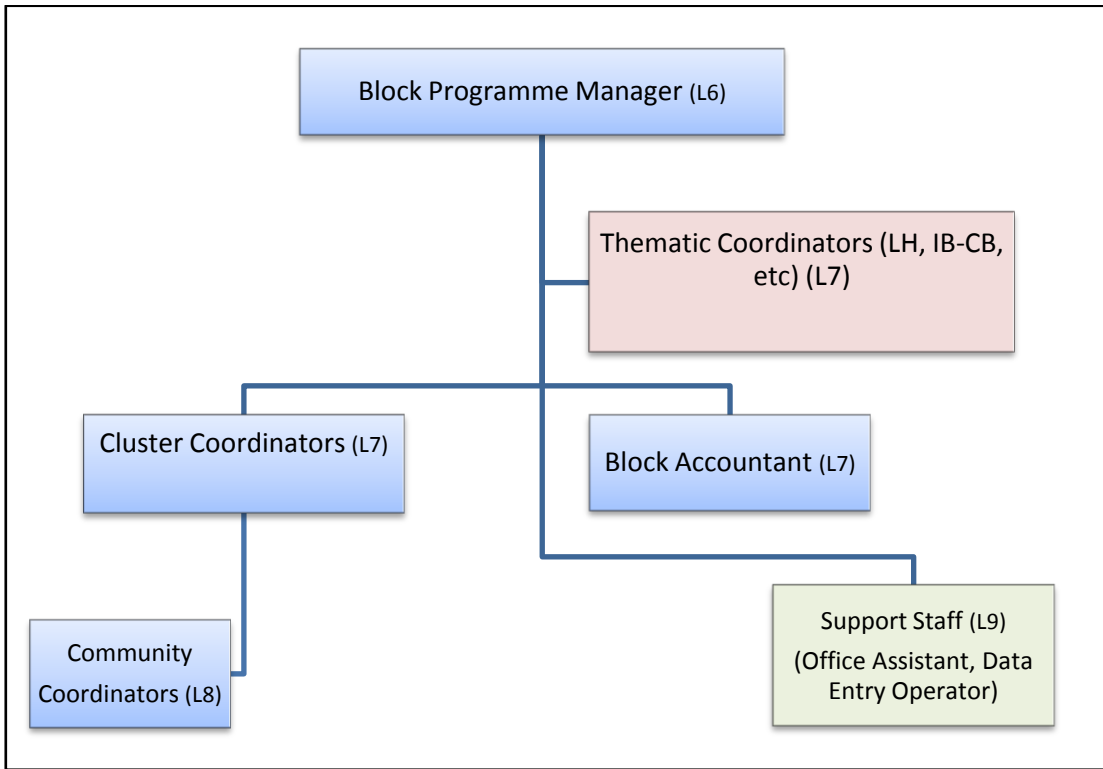
### **1.10.3 Structure at Block Level – Block Mission Management Unit (BMMU)**

The Block Units would be the most crucial arm of JSLPS as they would directly interact with the communities and be responsible for programme implementation in the various villages under the Block.

Given the nature and intensity of the programmes of JSLSP, the BMMU would need to be given powers and authority to implement the programmes smoothly. To achieve this, necessary delegations for financial, programmatic and administrative functions would be made. The BMMU would directly supervise the Field Teams functioning under the Block and provide a platform for sharing of resources and cross learning across the Field Teams. Each BMMU would be headed by a Block Mission Program Manager. S/he would report to the District Programme Manager of the concerned District. Each BPMU would have Cluster Coordinators and Community Coordinators to implement the programmes. The BPMIU would also have a support staff structure comprising of accountant and computer operator.

**Programme Facilitation Teams (PFTs) :** JSLPS may appoint special teams to function as PFTs for certain programmes, where such an intensity of engagement with the community is essential. These PFTs would be responsible for programme implementation in a cluster of approximately eight to ten Gram Panchayats or as per operational efficiency. Depending on the nature of programme being implemented, each of these PFTs may consist of a team of three to five members specializing in the relevant domains of the programme being implemented. A PF Team Leader, who would report to the Block Programme Manager, would head each PFT Unit.

JSLPS may engage reputed NGOs to function as PFTs. The selection and engagement of NGOs would follow the procurement policy of JSLPS. The PFT will work under the overall supervision of the BPM, but will also be jointly accountable to the GPs in the cluster.



**Figure 1.7 Block Mission Management Unit (BMMU)**

### 1.11 Definition

Unless the context requires otherwise words and expressions, used in these regulations but not defined, shall have the meanings assigned to them under Rule ..... of the Society.

- **Additional Central Assistance (ACA)** linked schemes provide central assistance to the states for the state plan schemes. This assistance is meant for special programs as per the needs of the State, sectoral priorities and cover subjects not on the union list. The ACA linked schemes are funded by the ministry of finance and administered by the sectoral ministry concerned.
- **Administrative approval** means formal acceptance by the competent authority of the proposals for incurring expenditure on a work.
- **Asset** An asset is a resource from which future economic benefits are expected to flow to the entity. Assets are further classified as Fixed Assets, Current Assets etc.
- **Auditor** means the auditor appointed by the Executive Committee to audit the accounts of Society or Mission as the case may.
- **Bank** at State, District and Sub-district level means a scheduled bank or its subsidiary institution, where the funds of the Project may be kept in current / savings account or medium to long-term deposit accounts. At the district and sub-district level, where a branch of a nationalised public sector bank is not available, Bank means the District Central Cooperative Bank or Regional Rural Banks (RRB), popularly known as Kshetriya Gramin Vikas Bank of the District.
- **Beneficiary Institution** refers to a Federation i.e., a group comprised of poor households, duly established under the law of a participating state, managed by an executive committee elected by the group which may receive Investment Support under the project.
- **Books of Account** refer to the basic records to be maintained as part of the accounting system. They comprise the following:
  - **Balance Sheet:** The Balance Sheet shows the assets (what the Society owns) and the liabilities (what the Society owes) as on a particular date. The Fund Balance on the liabilities side shows the net worth as a result of operations.
  - **Cash Book** – All cash and bank transactions are recorded in the Cash Book. Separate Cash Book is to be maintained for each bank account. The cash book is a record of all receipts and payments. This is the principal record for preparation of the Receipts and Payments Statement
  - **Cash Flow Statement:** The Cash Flow Statement is a statement showing the actual inflows and outflows of cash during the period. This is summary of Receipts and Payments.
  - **General ledger** In this book revenues and expenditure are recorded under each account head separately. The entries from the Cash Book are posted to the General ledger. This ensures that the dual aspect of the transaction is complete. Journal entries are also posted into the ledger from the Journal Register.
  - **Journal Register** The Journal Register is used to record all the journal entries passed. Journal entries are those accounting entries which do not

involve receipt or payment of money and hence do not appear in the Cash Book.

- **Revenue and Expenditure Statement:** The Revenue and Expenditure Statement shows the revenues earned and expenditure incurred by the project during the period under various account heads. It shows the revenue and expenditure irrespective of whether cash has been received or paid against them.
- **Budget** means the statement of estimated income and expenditure of the Project for any Financial Year as approved by the Competent Authority.
- **Capital Expenditure** means expenditure involved in the acquisition of assets of permanent nature including a portion of revenue expenditure which is specially treated so under orders of the competent authority.
- **Capital items** are items that are of long term nature (generally extending beyond one financial year). For e.g.: Building is a long term item, loan from bank that is to be repaid in 10 years is also a long term item. Both of these are referred to as ‘capital items’ though Building is an “asset” and the loan is a “liability”.
- **Capital Receipts** means receipts realised from the sale or disposal of assets, equipments or any specific portion of revenue receipts so treated.
- **Cash** includes legal tender coin, currency and bank notes, cheques payable on demand, DDs, Indian postal orders, postage stamps and revenue stamps.
- **Central Sector Schemes** are those that are implemented by a central agency and 100% funded by the center on subjects within the union list.
- **Centrally Sponsored Schemes** as defined by the National Development Council are: those that are funded directly by the central ministries/ departments and implemented by states or their agencies, irrespective of their pattern of financing, unless they fall under the centre’s sphere of responsibility i.e. the union list. This assistance is deliberately in areas that are State subjects, with the centre wishing to motivate the States to take up such programs.
- **Competent Authority** means the authority in whom powers to accord approval, administrative and / or financial or sanction of expenditure vests or has been delegated. This delegation could be the State Mission Management Unit (SMMU) where the authority is the Chief Executive Officer or equivalent and at the District Mission Management Unit (DMMU) where the authority is the District Mission Manager.
- **Contingencies** shall include all incidental and other expenses, incurred for the management of the SMMU or DMMU.
- **Day** means a Working Calendar day.
- **Detailed head** means a break-up below a Sub-head. A detailed head indicates the nature of expenditure on a scheme/activity in terms of inputs, such as, salaries, office expenses, etc.
- **District Finance Officer** means Finance Officer in the DMMU.
- **District Mission Management Officer** means Head of the Office at the District Mission Management Unit who has been appointed so.

- **Drawing and Disbursing Officer** means the officer designated and authorised to draw and disburse salary and other expenditure related to Society or Mission.
- **Dual Aspect** concept requires that every transaction must have two aspects namely 'debit' and 'credit'. Dual aspect is the single most unique feature of double entry accounting system.
- **Expenditure** refers to those operating items like salary, rent, etc. that are related to periodic consumption of a resource. Expenditure includes both 'Revenue' and 'Capital' items.
- **Federation Livelihood Plan** means a plan of Federation livelihood activities, prepared by a Beneficiary Institution and approved by the relevant Participating State, which consists, inter alia, of an aggregation of household investment plans for financing the purchase of goods, works and services needed to create assets, generate household income, develop technical skills, access educational and health services and meet specific household consumption needs.
- **Finance Coordinator (State)** means an officer of the Project or Mission at the State Mission Management unit designated so by the CEO for dealing with all financial and accounting matters of the Mission. He will support the CEO and the COO for dealing with finance, accounts and employee and office administration functions; banking, funds management and financial reporting to donors, other stakeholders; formulation and compliance with financial policies and internal controls; maintenance, consolidation and audit of accounts; budgetary control; procurement; employee appointments and administration; etc.
- **Financial Sanction** means sanction accorded by the Competent Authority to the expenditure by a separate order or by signature or counter-signatures on bills or proposals either in Material form or electronically.
- **Financial Year** means the year commencing on 1st April of a calendar year and ending on 31st March of the following calendar year.
- **Gender** words importing either gender shall be taken to include those of the other gender, if the circumstances so require.
- **Head of Account** means the sector of component programme provided in the budget with the object of classifying the income and expenditure of the Mission.
- **Head of Office** means the Coordinator (Administration) at the State level and an officer declared so under an order issued by the CEO at the district level.
- **Imprest** means cash maintained for routine office expenses, travel and other personnel advances
- **Investment Support** means a grant made or proposed to be made by a Participating State out of the proceeds of the Financing allocated from time to time to Part B of the Project, to a Beneficiary Institution to finance, in whole or in part, the technical assistance needs of a Federation, or a Federation Livelihood Plan all in accordance with the selection criteria and procedures set forth in the SPIP.
- **Liability** A liability is a present obligation arising from past events or transactions settlement of which is expected to result in the outflow of economic resources.

- **Non-recurring expenditure** means expenditure on an item or a work incurred occasionally.
- **Pay** means the amount to which an employee is entitled to and is drawn by him/her monthly in respect of the post held by him/her and includes, personal pay, special pay, deputation pay and any other emoluments which may be classified as pay by the competent authority. In case of employee paid from contingencies, or on consolidated pay, the monthly-consolidated pay drawn by them will be treated as 'pay' for purposes of these rules.
- **Recurring Expenditure** means expenditure incurred on an item or a work at regular intervals.
- **Regulations** mean the financial and / or administrative regulations of the Mission framed under Rule ..... of the Rules of the Society.
- **Revenue Expenditure** means expenditure other than Capital and debt expenditure on items of routine nature, such as, pay and allowances of staff, office expenses, expenditure on minor repairs etc.
- **Revenue items:** Revenue items are items that generally do not extend beyond one financial year. Examples of revenue items are fee revenues, salary expenses etc.
- **Revenue Receipts** means receipts other than capital and dept receipts, of routine nature, such as, rent receipts, interest on bank deposits, etc
- **Revised estimates** are estimates of probable receipts or expenditure of a financial year revised in the course of a financial year based on the actual up to a certain period in the year and the likely transactions for the remainder period of the year.
- **Rules** mean the Rules of the Society registered along with the Memorandum of Associations and modified from time to time in accordance with the procedure laid down in this regard.
- **Secured advance** means an advance made on the security of materials brought at site of work.
- **Society** means the Jharkhand State Livelihoods Promotion Society with registration No. .... dated ..... of the Registrar Firms & Societies, Ranchi.
- **Sub-Head** means a head sub-ordinate to a Head of Account indicating a series of activities within a programme.
- **Technical Sanction** means sanction given by a Technical Competent officer to a properly detailed estimate of the cost of a work of construction or repair proposed or to be carried out for the Mission.
- **Tour** means when an employee is on duty away from his head quarters.
- **Travelling Allowance** means a compensatory allowance granted to an employee to cover the actual travelling expenses which he incurs in the interest of Society. It is so regulated that on the whole it is not a source of profit to the recipient.

## Chapter –2 ACCOUNTING PRINCIPLES & PRACTICES AND METHODS & PROCEDURE

### Annotation

The aim of the Second Chapter is to understand the principles, practices, methods and procedures that shall be adopted by JSLP Society while handling the financial transactions. The chapter begins with a note on principles and canons of financial propriety and discusses the principles of financial management of NRLP including the control framework at State and Community level. The next part this chapter discusses the accounting concepts and policies adopted for the Society including the ones that account for various receipts, expenses, assets, liabilities etc. this is followed by the Methods and procedures for accounting and identifies various cost centers and policies adopted for each of them located at state, district, block and community level. The sub section also includes various aspects of book keeping and accounting and describes them at length for multiple levels of accounting centers.

### 2.1 Principles and Canons of Financial Proprietary

Every officer and employee who incurs or authorises the incurring of expenditure from the funds of the Society shall ensure that it does not contravene the following canons of financial propriety and it shall be observed by all officers and employee of Society vested with powers of incurring expenditure and sanctioning expenditure:

- To enforce financial order and economy at every step and to ensure that financial regulations and directions are observed by their own office and by subordinate offices.
- Every officer and employee should exercise the same vigilance in respect of expenditure incurred from the funds of Society as a person of ordinary prudence would exercise in respect of the expenditure of his / her own money.
- No officer or employee should exercise the powers of sanctioning expenditure to pass an order which will directly or indirectly be to his own advantage. The funds of Society should not be utilized for the benefit of a particular person or a section of the community unless
  - a claim for the amount could be enforced in a court of law, or
  - the expenditure is in pursuance of a recognized policy.
- The expenditure should not be prima-facie more than the occasion demands and
- No officer or employee shall sanction any expenditure which is likely to involve or at a later date involve expenditure beyond his own powers of sanction
- The amount of allowances, such as the travelling allowance, granted to meet expenditure of a particular type should not be a source of profit to the recipient.

It shall be the duty and responsibility of every officer and employee to maintain complete integrity in all financial matters.

#### 2.1.1 Principles of Financial Management of NRLP

The guiding principles for the financial management arrangements for the project would be twin fold:

- Use the country fiduciary systems, to the extent feasible and considered satisfactory and meeting the essential fiduciary requirements.
- Build upon successful models developed and tested in the World Bank funded rural livelihood projects implemented across eight states.
- Review of Good practices in National Programs in other sectors (education, health).

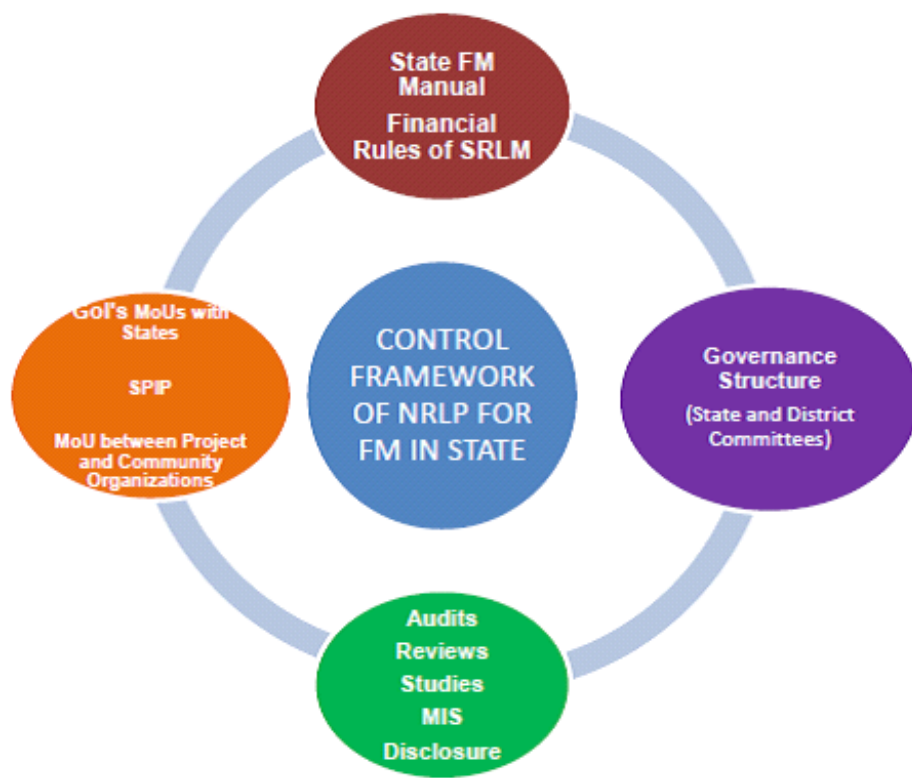
Within this broad framework, the parameters of the financial management arrangements are being incorporated in this manual. Implementation of FM procedures at all levels (national / state / community) will be monitored continuously during the project period.

The state of Jharkhand shall have a State Rural Livelihoods Mission that shall put in place acceptable internal audit arrangements, commensurate with the size of the operation. The project will implement a regular system of review of audit process, including quality of audit at state level, audit observations and monitoring compliance of the observations by implementing units.

### 2.1.2 Control Framework for Financial Management of NRLP – State Level

The key elements of control framework for financial management for NRLP at state level are as follows:

- **Financial Management Manual** FM procedures applicable at state (SMMU/DMMUs/Blocks). Key areas include budgeting, planning, flow of funds, accounting, financial reporting, audits, internal control, FM Monitoring, FM disclosure, FM staffing and training.
- **Financial Rules:** Financial controls including delegation of financial powers etc. to be documented in the FM Manual / Administrative rules of the state societies.
- **Governance Structure** :Executive Committee of the Society shall approve state FM manual, state plans and budget, review of project activities etc.
- **Memorandum of Understanding** between GoI and State of Jharkhand. The MoU will include FM clauses which the states will have to adhere to.
- **State Perspective Plan (SPIP)** SPIP means each Jharkhand's operations manual, which provides state level guidance in respect of the Project, including procedures and criteria for the selection, appraisal and implementation of Federation Livelihood Plans, including the relevant audit requirements for each of the Participating States (as necessary).



**Figure 2.1 Control Framework for Financial Management of NRLP – State Level**

**2.1.3 Control Framework for Financial Management of NRLP – Community Level**

The project shall sign an Memorandum of Understanding (MoU) with the Community Organization which will specify the support to be provided by the project and duties and obligations of both parties, including procedures for maintenance of records and financial reporting. The SHG Federation/s annual accounts will be subject to statutory audits as required by state laws. The SRLMs will enter into draw down contracts with select CA firms at State and district levels and agree on fixed price budgets as well as the audit ToRs and templates for the annual financial statements. SHG Federation audit reports will be monitored at the state level and will not be considered a part of NRLP’s audit requirements.



**Figure 2.2 Control Framework for Financial Management of NRLP – Community Level**

### 2.2 Accounting Concepts

The accounts shall be maintained on a double entry basis adopting cash basis of accounting. The global developments for the standards of accounting shall be adopted as per the project requirements.

Each transaction shall be handled in a manner to demonstrate utmost transparency in execution thereof. It should conform to the instructions received from SMMU in respect of all the projects and sub-projects. Authority, higher to the executing one, must be kept informed of the decisions. Each transaction must not only be carried-out transparently but also be recorded in the respective books and vouchers / receipts or other records stipulated in that regard. Similarly, the constraints of time limit shall be adhered to at all levels of the organization.

The EC of the Society shall review the accounting policies from time to time and ensure that the following are adequately taken care of:

- The principles of Transparency, Accountability and Responsibility (TAR) are fully reflected in the financial statements,
- The project requirements are adequately served with particular emphasis to the fund components,
- The necessary training / capacity building is being provided such as to provide satisfactory accounting data.

The Mission of the Society shall follow the 'Going-concern Concept' in all cases except that no depreciation shall be charged and that no distinction shall be made between Revenue expenditure and Deferred Revenue expenditure.

The capital and revenue items shall be regarded and classified as: Capital items are items of long term nature, the benefits of which generally extend beyond one year. Revenue items are items pertaining to that particular financial year (short term). Similarly, capital expenditure is an expenditure intended to benefit future periods. Thus an expenditure is treated as capital expenditure if it increases the value of the asset. If the expenditure is incurred to benefit the current period, it is considered as revenue expenditure.

### **2.3 Accounting Policies**

Accounting policies followed by the Mission shall be as per the general principles discussed below:

#### **2.3.1 General Principles relating to Revenue**

- All officers and employee of the Society / Mission shall ensure that all receipts due to Society or Mission are properly assessed, collected and accounted for.
- The receipts should not be left uncollected without valid reasons. Where any such amount becomes irrecoverable, orders of the competent authority to write off such amount with reasons shall be obtained.
- The receipts shall be appropriated for expenditure only on the specific guidelines issued by the Executive Committee.

#### **2.3.2 General Principles relating to Expenditure**

- No expenditure from the funds of Society / Mission shall be incurred unless the following conditions are satisfied:
  - The expenditure must have been sanctioned by a general or special order of the competent authority, delegated with such powers of sanction.
  - Sufficient budgetary provision and funds must have been provided for the expenditure in the budget estimate of the year or shall be covered by an order of re-appropriation of funds issued by the competent authority, and
  - Money shall not be withdrawn from the funds of Society / Mission unless it is required for immediate disbursement.

#### **2.3.3 General Principles relating to Assets/Accruals**

- Any asset which is deployed for attaining the objectives of the organization and for enhancing its revenue earning capacity, which has a life of more than one year, shall fall under the definition of Fixed Assets.
- Classification: Assets shall be classified as
  - Infrastructure assets such as roads, dams, land, building etc created as part of the activities of the Mission
  - Vehicles for the purpose of utility in the Mission
  - Furniture and fittings
  - Equipments,

- Others
- Valuation of Assets: Existing Assets if any, shall be valued at the cost of acquisition or the amounts incurred on it (in the case of infrastructure assets). If no such records are available, an estimate shall be made by a competent valuer, either from within the organization or by hiring experts from outside. (Such cases arise where the project inherits some assets from Government). New Assets are to be valued at the cost incurred by the project either to purchase them out right or which can be expended over a period of time. Additions which permanently / substantially enhance the value can be added to the original cost.
- Assets transferred from other entities shall be transferred to Society's / Mission accounts at the agreed valuation, generally at cost price or book value of the same, whichever is lower.
- Register: A Fixed Assets Register shall be mandatorily maintained wherein all the details pertaining to the asset acquisition, its location, its maintenance and disposal shall be shown.
- Disposal : An asset may cease to exist if
  - It is sold by the order of the competent authority,
  - It is scrapped by the competent authority,
  - It is transferred to some other agency by the competent authority,
  - It is destroyed by natural calamities i.e fire, floods, cyclones tidal waves etc.,
  - It is damaged beyond resurrection.
- The value of the compensations: Sale proceeds or scrap realization shall be credited to the Asset Account. The Profit or Loss on sale of the Asset shall be respectively credited or debited to the Revenue and Expenditure Statement. Necessary entries closing the balance in the General Ledger and the Fixed Assets Register shall be made in this regard.
- Disclosure: The fixed assets shall be booked against the proper code as per the chart of Accounts. It shall be reflected in the Asset side of the Balance sheet at cost.
- Assets which have a short duration of less than one year such as stocks, loans and advances, cash and bank balances will fall under the definition of current assets. They shall be reflected under the prescribed broad heads.
- **General Principles relating to Liabilities / Provision**
- Liabilities that are likely to arise in future out of the past and present activities shall be reflected in the books of accounts by creating accrual entries through Journal Vouchers by crediting the concerned liability account. This process is referred to as 'provide for' in this rule.
- The Mission shall provide for the following liabilities:
  - Contractors' payment
  - Employee payments
  - Statutory liabilities in connection with third parties
  - Contingent liabilities (off Balance Sheet)
  - Others

- Liabilities on vendor's or contractor's payments relate to amounts withheld from contractor's bills, retention money or deposits which are repaid to them after a period of time on satisfactory performance. Besides there can be other deductions as well which are covered in the terms of agreements. These shall be recorded against the names of the respective contractors as shown in the liabilities side of the Balance Sheet.
- The liabilities with respect to employee for Provident Fund, Gratuity, and Income Tax (TDS), etc. shall be remitted on the due dates to the concerned authorities. The amounts shall be deducted from the gross earnings as fixed by the Government / the governing statutes. Records shall be maintained in the prescribed forms and the payments shall be made on the due dates. They shall remain as liabilities till the time of settlement.
- Statutory deductions to third parties arise due to various legal enactments. The most common deduction is Tax – Deducted at Source (TDS) which is applicable to works / consulting contracts. These amount are deducted from the bill of the contractors and remitted to the Income Tax authorities.
- Liabilities occurring due to various legal and contractual obligations like Workmen's Compensation Act shall be paid, in specific instances, if the liability is established. They shall remain as liabilities in the books of accounts, until discharged.
- In case of liabilities which are expected to accrue but cannot be precisely quantified on a given date, such as cases pending in the Court of Law, provision for the same shall be accrued if
  - there is a distinct likelihood of a liability becoming due and
  - a liability exists but the precise amount of it is not known.In the latter case a reasonable estimate shall be made and the necessary provision created.

## 2.4 Methods and Procedures of Accounting

This section describes the accounting and financial procedures that should be followed by various accounting center for accounting of program transactions. The accounting aspects in this section cover various Mission offices to whom the funds shall be made available for execution of Mission activities. Accounts at various offices/units of the Mission shall be maintained through an Accounting Software package (to be decided by the Society) in addition to manual entry, until all stakeholders of the accounting processes are comfortable with the software package and a complete dependence could be enthralled. All units/offices will also maintain manual Cash Book, Bank Book and other Books of Accounts as mentioned in the Manual. As mentioned elsewhere this accounting package should be made compatible with CPSMS that would be adopted by the Society.

As mentioned elsewhere, the Accounts shall be maintained on double entry system adopting cash basis of Accounting. Each transaction must not only be carried out transparently but also be recorded in the respective books of accounts and vouchers/receipts or records stipulated for that purpose. The proposed accounting system is discussed under the following broad sub heads:

### 2.4.1 Accounting Centers

The accounting centers are the offices where the basic accounting in respect of expenditure on the Mission activities shall be carried out. These accounting centers shall be responsible for maintaining the relevant books of account and shall account for all the financial transactions entered into by each of them.

The Accounting centers for the Mission shall be as follows:

- State Mission Management Unit (SMMU): The overall Mission monitoring office.
- District Mission Management Unit (DMMU): The Mission implementation office at the district level. The accounts and finance management for BMMU shall be the Controlled by DMMU . The accounts/finance personnel of BMMU shall be posted and placed in DMMU.
- Community Accounting Centers:
  - Block Level Federation / Cluster Level Federation.
  - Village Organization
  - Self Help Group.

For the initial two years of the Mission, Accounting at Mission Accounting Centers will be done through Accounting Software Package. In addition, all the Books of Accounts of Initial Entries (Cash Book, Vouchers, Cheque issue Register, Fixed Asset Register) shall also be maintained manually. The Mission will review the existing system after two years regarding implementation of fully Computerized financial Management system at Mission and Community Level.

### 2.4.2 Accounting Policies, procedures and systems at Multilevel Accounting Centers:

A common set of “back office’ rules on financial management, including accounting and financial rules at the State, SHG Federation and SHG level will apply uniformly across all activities and all sources of funds, including NRLM.

- **Project Offices: Accounting system.**

SRLM and its constituent district and block units and SHG Federations will maintain its books of account on a cash basis following the double entry principle of accounting. SMMUs will maintain separate records of NRLM activities. A computerized accounting system will be maintained. SMMU will prepare consolidated state level accounts for NRLM.

- **Fund Release:**
- **Fund Release to Project Offices:** All funds released by the state to the district and block level units will be treated as inter unit transfers until expenditures are incurred at these levels. The transfers would be effected only on tap demand.

- **Fund release to SHG federations for Community Investment Support:** All such fund releases to SHG Federations made in accordance with Federation Grant Agreement will be considered as eligible expenditures for the purposes of the project and accounted for as grants (expenditures) in the books of accounts of the SRLM. Such fund releases will be based on achievement of certain defined milestones / triggers. SHG Federation will maintain books of accounts for the receipts and loans provided to SHGs and will prepare regular financial statements. SHGs will in turn, provide loans to their constituent members to fund economic activities to enhance livelihoods or other consumption needs.
- **Fund Release to other Institutions:** The accounting for fund releases (grant) to other institutions, including Producer Companies, livelihoods federations, NGOs partnership and other service providers will be guided by the terms & conditions of respective contractual arrangements or financing agreements/MOUs.
- **Fiduciary Assurance for Community Investment support:**

The project shall obtain fiduciary assurance for the use of Community Investment Support provided to the SHG Federations from a combination of the following two processes:

- Periodic assessment of robustness of the loan portfolio at the Federation level and monitored through rigorous processes and use of eligibility indicators of profitability, capital and portfolio quality, acceptable levels of loan collections, appropriate capacity for appraisals and supervision etc.; and
- Assessment of the fiduciary oversight arrangements established at the Federation level to monitor and verify the use of funds for intended purposes, including verification mechanisms for assets and other uses of funds, as applicable.

The Mission / project will be required to invest in developing detailed assessment criteria for grading of SHGs and Federations and providing handholding accounting technical assistance (book keepers, accounting hubs etc.) to the Federations to help maintain accounting records and prepare monthly / annual financial statements for the Loan portfolio.

- **Community Level.**

The SHG Federations will maintain books of accounts on cash basis following double entry principle of accounting. SHG Federations will maintain books of accounts for the receipts and loans provided to SHGs and will prepare regular financial statements. The federation annual accounts shall be subjected to Statutory audits.

Over the medium and long term, a separate platform will be developed for accounting and financial reporting for SHG Federations (and SHGs). This will ensure standardization and consistency in the quality of accounting. This will also provide online access to financial information for community level at the aggregate as well as standalone basis. The accounting

system at the SHG / federation level will be automated through e-bookkeeping using different front-end devices.

### 2.4.3 Chart of Accounts

In order to prepare financial statements for a period it is essential that every transaction accounted shall be properly classified under a proper head indicating whether it is an item of Revenue, Expenditure, Asset or Liability.

Such classification should happen at the voucher preparation stage. In order to achieve this account heads shall be created. The structure and grouping of the account heads is called 'Chart of Accounts'. Every account head in the Chart of Accounts shall be one of Revenue, Expenditure, Asset or Liability. The Chart of Accounts shall have three levels of groupings namely, Major Head, Minor Head and Account Head.

Society shall require financial statements and reports which give the fund wise details of receipts, expenditure and balance. These funds shall be created as cost centers, such that when the account head is selected to pass an entry, the fund name shall get captured as cost center.

**Procedure for making additions to COA:** Major & Minor Heads – If there are changes to the budget head classifications, the CEO shall after consulting the Finance Specialist direct the Accounts Officer to create the new account and intimate the DMMUs. Account Heads – In case any of the DMMU require additional account heads (Level 3), they shall send a request to the SMMU and after obtaining the approval make such additions to the Chart of Accounts.

The Chart of Accounts have been developed in a manner to facilitate Accounting for the expenditures by Project Components, sub-components and main activities and sub activities / Account Head. This will enable comparison of actual expenditures with annual work plan.

### 2.4.4 Book Keeping and Accounting:

The books of account are the basic records which have to be maintained as part of the accounting system. The Books of Account shall be updated and tallied regularly and the balances in the books of accounts shall be taken to the Trial Balance. The books of Accounts shall be maintained at all level of administration viz. SMMU, DMMU, BMMU through the Accounting package and in addition to the computerized Accounting, a manual accounting will also be done in the books of initial Entry like Cashbook, Bank Book etc.

Following principal books of account and records shall be required to be maintained at the Mission accounting centers like the SMMU / DMMU / BMMU.

- Cash and Bank Book
  
- Journal register
  
- General Ledger
  
- Bank Reconciliation Statement.
  
- Trial Balance.

- Register of advances.
- Register of Cheques and Bank drafts received / Dispatched
- Cheque issue register / Bill Register / Establishment Register like Salary Register, Acquittance Register etc.
- Dead Stock Register
- Fixed Assets Register
- Temporary advance Register to staff and on TA / DA advance
- File Register

All the Mission Units must update Cash and Bank Books daily for all receipts and transfers from the Project fund Account. Cash/Bank collections, Cash/Bank payments and withdrawal/ deposit of cash to bank must be accounted in the Cash and Bank Book daily. While all receipts, remittances / deposits must be debited in the Cash Book and all payments shall be credited, the Cash Payment Voucher, Bank Payment Voucher, Cash Receipt Voucher, Bank Receipt Voucher,

**Vouchers:** The basic document for recording of all accounting transactions shall be vouchers. The type of voucher to be used shall depend upon the nature of the transaction. Voucher numbering shall begin with one at the beginning of each financial year for each type of voucher. The different type of vouchers and the situation when each one shall be used is given below.

- BRV – Bank Receipt Voucher: The BRV shall be used to account for receipts through bank / instruments such as cheque, etc
- CRV – Cash Receipt Voucher: The CRV is used to account for cash receipts. Examples may be contributions, the collection of fixed charges for using the official vehicle, etc.
- BPV – Bank Payment Voucher: The BPV is used to account for payment transactions through Bank/instruments. The payment may be made to incur some expenditure, discharge a liability or disburse some advance.
- CPV – Cash Payment: The CPV is used to account for cash payments. Examples of such items may be conveyance, petty cash expenses, loss due to embezzlement of cash, etc.
- JV – Journal Voucher: The JV is used to account for transactions where no bank or cash account is involved. JVs are passed to effect transactions amongst two or more ledger accounts. Examples of transactions requiring passing of JVs may be provision

entries, accrual entries for revenue and expenditure, etc. Journal Vouchers shall not be used for cash and bank receipts and payments. Journal voucher shall be passed for:

- Prepaid expenses such as insurance and taxes.
- For adjustments and non –cash transactions.
- Rectification entries such as errors of omission, commission, posting etc.

In addition, the SMMU, DMMU & BMMU may, with permission of CEO of the Society, also maintain petty cash Book to meet the expenses of small amounts and of high frequency such as payments for stationery, postage, telegrams, carriage, conveyance and other petty expenses for which payments may not be made by Cheque but need to be updated daily. It may also include larger payments like the POL etc. Unless the suppliers are willing to provide credit for the same.

**Detailed Books of Account:** Books of account shall be the basic records which shall have to be maintained as part of the accounting system. There shall be the following principal books of account:

- **Cash and Bank Book:** The Mission shall maintain three Cash and Bank Books:
  - **Cash book for Project fund account:** All receipts and transfers from the Project fund to DMMUs /
  - **Office Administration account:** All receipts and payments of the office administration not related to project shall be recorded in this cash book. Cash book for Office Administration A/c - All receipts, including transfers from Project Fund A/c, unspent advances and other miscellaneous receipts shall be recorded in this cash book. All expenditure relating to SMMU such as salaries, wages, honorarium, travel expenses, contingencies etc. shall be recorded in this cash book
  - **Petty Cash Book:** In order to meet the expenses of small amounts and high frequency such as payments for stationery, postage, telegrams, carriage, conveyance and other petty expenses for which payments may not be made by Cheque, an amount of Rs 10,000 only shall be initially transferred from office Administration A/c to Petty cash A/c. The cashier shall make all such petty expenses for which he is authorised and record them in petty cash book. All these payments shall be supported by cash payment vouchers. The petty cash book shall have the as many columns as the type of expenditure; in the credit side so that the amount spent on each type shall be easily obtained. At the end of the month the cashier shall submit the account to the Accounts Officer who shall examine the same and make the payment of the amount spent by the cashier.

Cash / Bank collections, cash / Bank payments and withdrawal / deposit of cash to bank shall be accounted in the Cash and Bank Book. All receipts, remittances / deposits shall be debited in the Cash Book and all payments shall be credited. The Cash Payment Voucher, Bank Payment Voucher, Cash Receipt Voucher, Bank Receipt Voucher, Transfer Voucher shall be the basis of recording transactions in these Books of Accounts.

- **Journal Register:** The Journal Register is used to record all the journal entries passed. Journal entries are those accounting entries which do not involve receipt or payment of money and hence do not appear in the Cash and Bank Book. Journal Vouchers shall be the basis of preparation of Journal register.
- **General Ledger:** The General Ledger shows the details of transactions effected during the period of each account head other than cash and bank accounts. Entries from the Journal Register and Cash and Bank Book shall be posted in to this General Ledger. The balances of each of the accounts shall be obtained by equalizing both the sides of the account by putting the difference on the side in which the amount is short. Thus if the debit side of an account exceeds the credit side then the difference is put on the credit side. This balance is called 'debit balance' and if the credit side of an account exceeds the debit side of an account the difference is put on the debit side. This balance is called 'credit balance'. The debit balance shall be brought down to the debit side and credit balance to the credit side of the account while opening the account. The Books of Account shall be updated and tallied regularly and the balances in the books of accounts shall be taken to the Trial Balance.
- **Trial Balance:** Trial balance shall be the list of balances of all ledger account heads, debit balances on one side and credit balances on the other side. The total of the debit side must be equal to that of its credit side. The Trial Balance shall always be prepared as on a particular date. The Trial Balance shall be used to check the arithmetical accuracy of the entries for the period.
- **Financial Statements:** The Mission / Project shall prepare the following financial statements:
  - A Revenue and Expenditure Statement for the period from 1st of April to 31st of March which shows the revenues earned and expenditure incurred by Society / Mission during the period under various account heads. It shows the revenue and expenditure irrespective of whether cash has been received or paid against them. If there is excess of Income over Expenditure the same shall be transferred and shown as an addition to the Capital Fund. In case there is an excess of Expenditure over Income, the same shall be shown as a deduction from Capital Fund in the Balance Sheet.

- **Cash Flow Statement:** It shall summarize all the cash transactions that have taken place during a period according to the account heads and represented in a logical grouping of the receipts and payments side. This shall detail the actual inflows and outflows of cash during the period. The statement shall begin with the opening cash balances and end with the closing balances by effecting the transactions that have occurred during the period.
- A Balance Sheet shall be prepared to show the financial position as on any date and mandatorily on the last date of the financial year. This shall contain a list of all assets (what Society / Mission / Project owns) and liabilities (what Society / Mission / Project owes) as on the 31st of March each year. The Assets and Liabilities shall be represented major fund component wise in order to provide a clear picture of the finance position.

The Financial Statement discussed above being summary statements shall be supported by schedules for every grouping contained therein. The schedules shall reflect the groupings as prescribed in the Chart of Accounts and shall not deviate from the same.

#### **2.4.5 Accounting and Financial Procedure at Mission Units**

This sub section outlines the accounting and financial procedures that shall be followed by various accounting centres for accounting project transaction. The fund shall flow to various accounting centres as per the system of flow of fund described elsewhere. The Proposed Accounting procedures at the SMMU, DMMUs, BMMUs are outlined below.

- **Receipt Accounting:**

The fund shall be made available to the SMMU through electronic fund transfer. The DMMU, BMMU shall receive funds from SMMU for project activities as advances. The funds shall be received at periodic intervals based on demand from the subordinate offices. There could be other receipt on account of interest on bank accounts, receipt of security deposits, receipts of earnest money deposits, etc. The receipts would generally be in the form of bank receipts. There could be cash receipts also, for example settlement of advance by an employee in cash etc. Based on the mode of receipts, the receipts transaction shall be classified as bank and cash receipts.

On receipt of funds, a bank /cash receipt voucher shall be prepared. The Bank /cash receipt vouchers shall be allotted a serial number and will be filed sequentially. The vouchers after being approved by the competent authority maintaining accounts in various level shall be posted in cash/bank books. In case of receipt of security deposit/ earnest deposits the entry shall be made into the register of security deposits/earnest money. The register of security deposits/earnest money shall contained voucher wise details of the following.

- Opening balance of deposits
- Amount received during the period.
- Amount refunded during the period.

- Closing balance of the deposits
- Expected date of refund of deposit.

The Mission offices shall periodically review at least once in a month, the register security deposit / earnest money deposit to keep track of deposits nearing date of maturity and deposit overdue for payments.

- **Payment Accounting**

The payments shall mainly be in respect of the following:

- Release of funds by SMMU to DMMUs / BMMUs
- Payments made by DMMU to BMMU
- Payments made by BMMU to BLF / VLF, Or BMMU to SHGs
- Other payments both at SMMU, DMMU, BMMUs (such as payment for goods and services, preparation/procurement of training material/publications, payment for operational expenses, refund of security deposit/EMD etc.)

The payments would mainly be made through electronic bank transfers. Very low priority shall be accorded to transfer payment by cheques/ DD etc.. However there could be cash payments also, e.g. payment of daily wages, repairs and maintenance, etc. The accounting for payments shall be done as per the mode of payment i.e. bank payment or cash payment. All cash / bank payments shall be accounted for through payment voucher. At the time of making the payment, all the details of the payment transaction shall be mentioned on the voucher. The bank /cash payment voucher shall be allotted a running serial number and will be filed sequentially unless an electronically generated number is generated. In order to avoid preparation of cash payment voucher for petty expenses an advance shall be given to an administrative official of the office for the purposes of meeting the office expenses of a routine nature and small amounts (nature and amount to be specified by the competent authority of the project). At regular intervals the official shall submit a statement of expenditure incurred classifying the expenses according to the general ledger code classifications. After authorization of expenses by the competent authority, a Cash payment voucher shall be prepared to account for the expenses as per the statement of expenditure and the amount shall be reimbursed to the concerned official.

The payment to BLF shall be made as per the terms of the MOU entered into between DMMU and BLF / VLF for the project activity. Generally, the payment shall be released in achieving certain pre-decided milestones.

- **Bank Reconciliation Statement.**

The SMMU, DMMU & BMMU shall reconcile bank balance as per the bank statement and the bank book on a monthly basis and prepare a monthly Bank Reconciliation Statement by 7th of the succeeding month. For this purpose, the accounting staff shall match and compare the bank

statement and bankbook and will generate a list of unmatched transactions. The unmatched transactions would be grouped under the following heads:

- Cheque deposited but not credited
- Cheque issued but not presented
- Excess/ less amount debited / credited by bank
- Bank interest
- Bank charges
- Debits against standing instructions like payment of telephone bills, electricity bills etc., if any.

The project office shall pass appropriate correction entries wherever necessary for the differences in the bank statement and bankbook. The Bank reconciliation statement shall be regularly reviewed for cheques issued but not presented for payment for more than 3 months. These cheques shall be treated as stale cheques. The project offices shall prepare a bank receipt voucher crediting stale cheques account to account for stale cheques. No activity shall be credited at the time of passing such entry.

A fresh Cheque shall be issued on demand from the party and necessary entry shall be made in the books of account. The activity shall not be debited / credited on issue of fresh cheque. A stale cheque register providing details of the stale cheques shall be maintained. If a cheque is reversed by the project authorities and no fresh cheque is issued against it for a period of three years from the date of issue of the original cheque, then the project authorities shall debit the activity account and credit the other income account in the books of account. In the district units, the District Accounts officer will prepare the Bank Reconciliation Statement (BRS) every month and District Project manager will sign the BRS. In the Block units, Block Accountant will prepare the BRS and signed by Block Project Manager.

- **Accounting for Advances**

The project offices shall release advances to Suppliers/ Service Providers (as per terms of the contract/ Purchase Order/ Rate Contract/ Service Contract). The advance shall be recorded in an Advance register. The advance to staff shall also be recorded in a separate “staff advance register” that will have a similar format. The advances shall be adjusted on receipt of goods/ services, through journal voucher. The release of advance shall be done through payment voucher. The expenditure account head shall be charged only on posting of journal voucher through which the expenditure shall be recorded. On posting of the journal voucher the Journal book and the General Ledger shall be updated regularly. In respect of these advances the main activity and the activity for which the advance has been given shall be mentioned on the payment voucher. This shall facilitate claiming of these advances for disbursement from doner agencies.

The advances outstanding for the project shall be analysed at the end of each month to monitor the advances outstanding for long period. An “Age-wise analysis of advances” shall be prepared

and the reasons for advances, which have been outstanding for long periods, should be ascertained and should be reported by DMMUs to SMMU.

- **Accounting for fixed assets.**

The accounting for fixed assets shall be done in all Mission units offices from State to Block level. Accounting of fixed assets shall be done in respect of assets acquired for the project. The various cost components that shall form part of cost of fixed assets shall be as per the accounting policy on fixed assets.

The fixed assets register shall be maintained by all Mission Units including BLF/VLF, producer groups. The procedure of maintenance of the fixed assets register is as follows:

- Whenever a fixed asset is purchased a payment voucher shall be prepared whereby the respective account head is debited and bank/ cash account is credited.
- The relevant asset code and description is specified in the voucher itself
- The fixed asset register shall give details as regard the nature of asset, date of purchase and its location
- Cost
- Asset code
- Voucher reference of purchase

The fixed asset register shall be updated as soon as the Cash/ bank payment voucher is passed for purchase of the fixed asset.

The SMMU shall conduct physical verification of the fixed assets (at least half yearly or when incumbent using the fixed assets is transferred). The procedure for physical verification shall include generation of a list of the assets acquired in the project from the fixed asset register by the SMMU. The project office shall physically verify the fixed assets at its location with respect to the physical presence, condition of the asset and its workability (i.e., whether the asset is in running condition or not). Any discrepancies or otherwise noticed during the physical verification shall be noted. The SMMU shall explain in detail, the reasons for the discrepancies noticed during physical verification and a certified copy of the fixed asset register shall be sent by each of the DMMU and BMMU. A comparative statement indicating fixed assets as per records and assets as per the physical verification conducted, variation, if any, and reasons thereof shall be appended with the annual audited statements of accounts.

- **Correction of entries**

Journal voucher shall be passed with the supporting sheet explaining in detail the reason for the correction made, giving reference to the earlier accounting entry. The posting of the voucher shall update the journal book and general ledger.

- **Closure of books of accounts at DMMUs/BMMUs**

All BMMUs / DMMUs under this Mission shall close their books of account by 31st March of the succeeding financial year on a provisional basis. Adjustments subsequent to provisional closure of books shall be made by journal vouchers, which shall update the trial balance. On finalisation of accounts the provisional balances will be adjusted accordingly. For the purposes of closure of accounts on a provisional basis, a provisional trial balance shall be generated and all the ledger accounts shall be taken to the final accounts. A provisional balance sheet, income and expenditure account, receipts and payments account and relevant schedules, which shall form part of the annual accounts, shall be prepared. A copy of the provisional accounts so prepared shall be sent to the SMMU for consolidation latest by April 7<sup>th</sup> of the succeeding financial year. The practise shall cease to exist the moment all electronic accounting and transfers are attained at the SMMU level itself which would then be in a position to consolidate the date and produce final accounts at its level.

- **Closure of books of accounts at SMMU**

Similar procedure (as that being followed at the DMMU/BMMU) shall be followed at the SMMU for account closing purposes. The SMMU shall receive the provisional accounts from DMMUs/BMMUs by April 7<sup>th</sup> of the succeeding financial year and it shall generate its own provisional accounts and the provisional accounts for the Mission as a whole by April 15<sup>th</sup>. After getting copies of final accounts from the DMMUs, SMMU shall prepare the final accounts for the Mission as a whole in the manner provided in the consolidation of accounts section of this report.

- **Book keeping & Accounting at Community Level Accounting Centres.**

Books of Account at the Community level will be prepared manually. Accounting shall be done at the level of SHG, Village Organisation and Block Level Federation. The Accounting at SHG level shall be done to ensure that savings, Inter loaning among the members, Utilisation of Funds received from the Mission against CIF and from other sources are properly recorded and also to ensure that grant and loan received by the SHGs are properly managed and utilised for the purpose it was intended.

SHG shall be required to maintain following books of Accounts –

- Cash/ Bank Book
- Minute Book
- Loan Ledger
- Savings Ledger
- Ledgers for Fund received from different sources.
- Monthly receipt and payment Registers/Sheets.
- Vouchers.
- Visitors Register.

The accounting at the offices of the BLF/ VOs shall be done to ensure proper recording of utilisation of funds received from the Mission and from other sources as per the terms and conditions of the agreement. They shall maintain the following books:

- Cash / Bank Book
- Minute Book
- General Ledger
- Fixed Asset Register
- Stock Register
- Monthly receipt and payment Registers/Sheets
- Vouchers.
- CIF Ledger & Other Documents

Apart from above the CBO's can maintain other registers as per the requirement.

- **Community Investment Fund (CIF) Accounting**

The SMMU / DMMU / BMMU shall maintain separate sets of the Registers and documents for the fund released against CIF. Following Records and Documents are required to be maintained at different Accounting centers for CIF Management-

- SMMU shall maintain the following Books and documents:
  - Administrative Sanction
  - District /Block wise Allotment Letters
  - Summary Sheet of CIF Allotted
  - District/Block wise separate Ledgers for the entire sub Components of CIF with control Account.
  - Block wise / District wise consolidated Utilization certificates
  - Separate Bank Account.
  - Audit related file
  - Monthly financial reports of CIF utilization from DMMU.
- The DMMU shall maintain the following Books and Documents

- Administrative Sanction
  - Block wise Allotment Letters
  - Summary Sheet of CIF allotted
  - District/Block wise separate Ledgers for the entire sub Components of CIF with control Account.
  - Block wise consolidated Utilization certificates.
  - Separate Bank account
  - Audit related file.
  - Monthly financial reports of CIF utilization from BMMU.
- 
- The BMMU shall maintain the following Books and Documents
    - Administrative Sanction
    - Block wise Allotment Letters
    - Summary Sheet of CIF allotted
    - VO (till BLF is formed) wise separate Ledgers for the entire sub Components of CIF with control Account.
    - Separate Bank account
    - CIF Proposals from VO/BLF
    - Appraisal Report
    - Memorandum of Understanding / Agreements
    - Proceeding
    - Utilization certificates from BLF/CLF/VO (till BLF is formed)
    - Audit related file.
    - Monthly financial reports from Community organizations,
    - Management of complaints.

## Chapter –3 BUDGETING AND PLANNING

**Annotation:** This chapter opens up with the objectives and philosophy on Budgeting and provides guidelines on the budgetary processes and timelines. The purpose of the chapter on Budgeting and Planning is to provide for guidance on preparation, approvals, execution, appraisal, compilation, updating and review of various budgetary processes different levels of execution. The chapter ends with tools and techniques of budgetary control mechanism.

The Society / Mission shall prepare an Annual Financial Statement in the form of Budget and submit to the General Body as per the requirement of the relevant rule of JSLPS to ensure proper appropriation of Project's resources for its operations in the next fiscal year. Annual Financial Budget is a management tool for planning and control of financial and non-financial aspects of the Project implementation. This budget shall be placed before the GB and subsequently submitted to State Government for incorporation and approval. The approved Budget shall be the document based on which the entire operations are performed and monitored during the fiscal year. The approved budget shall not be exceeded unless the approval of the GB same is obtained.

### 3.1 Objectives and Philosophy Behind Budgeting

The main objective of an efficient budgeting system is to facilitate timely approval of the annual work plan, draw down of resources from MoRD and Govt of Jharkhand, budgetary control i.e. monitoring of performance at regular intervals and fixing accountability for variances at different level.

#### 3.1.1 Budget Philosophy

The aim of SRLM is to reduce poverty in the state and help the poorest of the poor. This shall be the bottom line while addressing any initiative towards budgetary control. Budgets follow the financial year concept and hence the financial period to be followed shall be the 12 months from April to March. It shall be prepared for the whole year but broken up into quarterly segments enabling quarterly performance review through variance analysis. The budget shall focus on the key deliverable(s) for the budget period and shall match the resources towards this central target. Hence a link between physical and fiscal aspects shall be required to be established.

#### 3.1.2 Stakeholders of Budget

Budget shall not be a mere statement of finance and accounts and confined to the Finance Section of the Society. Budget shall reflect the composite wisdom of all the functionaries, and hence shall be prepared on a participatory basis. At the time of budget preparation, the budget for the previous year should also be reviewed. While the overall supervision of the budget preparation lies with the Finance Specialist, the review shall take into account the actual

performance of the operations team for the six months and the estimates for the next six months of the current year.

### **3.2 Budget Process and Timelines:**

The function of budgeting shall be carried out by all the accounting centers, i.e., SMMU, DMMU and BMMU. At the outset, the SMMU shall issue instructions to DMMUs for budget preparation specifying the focus areas / activities identified in the annual action plan for the district.

Based on the annual action plan for each district, DMMUs shall prepare a detailed work plan for each district (block-wise and village-wise) also considering any proposed activities and requirements of the village as per the Village Plan approved by the Gram Sabha, etc., in consultation with the Project Facilitation Teams. The District Mission Manager shall prepare a financial budget proposal based on the detailed work plan of the year after considering the requirements of the PFT. The budget proposal shall be placed before EC for approval. After the approval, it shall be sent to SMMU. The Finance Specialist in consultation with COO / CEO shall compile all the DMMUs proposals and consolidate the same with SMMU's Budget Proposal. The level three of Chart of Accounts (Budget Head) shall be the standard Budget classification that shall be followed across the DMMUs and SMMU. However, under the Major Budget head, each unit may have a break up of items to suit their convenience.

The proposal shall clearly distinguish the Revenue items (Such as Interest Income, Employee Costs, Office running expenses, etc.) and Capital items (Such as purchase of fixed assets) in the Budget and specify expenses to be incurred from various funds. The Budget proposal shall be placed before the EC for approval. After the EC approves the proposal, the same becomes the Budget plan for the SMMU and DMMUs.

The budgeting system below has been discussed under the broad categories of Budget period, Budget calendar, Budget preparation and approval process and Approval of Executive committee and Allocation of budget.

#### **3.2.1 Mid Year Review and Budget Calendar**

At the time of budget preparation for the next year the budget for the current year should also be reviewed. The review should take into account the actual performance for the nine months and the estimates for the next three months of the current year. The process of preparation, review and approval of budget shall normally take around one month. The budgeting process for the budget year shall start after the completion of six months of the current financial year, thereby leaving six months for budget preparation, review, consolidation, revision, approval and

allocation of approved budgets to the various Mission Units. The milestones in the budgeting process along with the target dates are laid down in the budget calendar below

**Table 3.1 Suggested Timelines for Budgetary Activities**

Sl	Activity	Responsible Agency	Completion Date
1.	Approved District Level plan sent by DMMUs to SMMU.	DMMU	15 <sup>th</sup> Oct of Previous year.
2.	Preparation of Annual Budget by SMMU for the Expenditure incurred by it.	SMMU	15 Oct of Previous year.
3.	Consolidation of Estimates in Budget at State level	SMMU	31 <sup>st</sup> Oct of Previous year.
4.	Revision of Estimates in Consolidated Budget by SMMU.	SMMU	15 Nov of Previous year
5.	Submission and approval of annual budget by EC and submission to MoRD and State Govt (Finance Department)	SMMU / EC.	30 <sup>th</sup> Nov of Previous year
6.	Allocation of the annual Budget to DMMU / BMMU based on approval of EC / State Govt.	SMMU	After 15 March of new Financial year.

### 3.3 Budget Processing At the State Level:

The Mission planning process will follow an “Inverted approach” i.e. it will grow out of Village level plans and get consolidated into Block, District and State level annual work plans. The Annual Work plan and Budget will have to be approved by the Executive Committee of SRLM, Jharkhand.

#### 3.3.1 Coordination by Finance and Accounts Division

The basic estimates of the budget shall be prepared by the respective accounting centers embracing all the activities to be undertaken. As mentioned elsewhere, it shall be co-coordinated by the finance and accounts section of the concerned accounting centers. Though the budget is always prepared on an annual basis, it shall be prepared for the fiscal year but broken up into quarterly budgets. This would enable periodical performance review through quarterly variance analysis and preparation of quarterly financial reports. Normally, budgets would be applicable

for a full year. However, if the original assumption made while formulating budgets change of significant variations arise in actual performance or in the environment, it may be necessary to review the budgets during the year also.

### **3.3.2 Budget Preparation and Approval Process:**

As part of the budget preparation, the SMMU shall (based on the achievements of the previous year, progress made up to the Mission period and the annual targets in the overall work plan, type of requirements emanating from the ground level) prepare an annual action plan for the budget year broadly identifying the focus areas/ activities for the Mission in the budget year. This annual action plan shall be prepared in consultation with the Mission offices at district levels. The SMMU shall issue instructions to the DMMU for budget preparation and shall specify the priority focus areas / activities identified in the annual action plan for the district. Based on the annual action plan for each district, DMMU shall in consultation with the Block Mission Management Unit (BMMU) prepare a detailed work plan for each district block / village-wise taking into consideration any proposed activities and requirements of the Block level federation, VO / Village Level Federations and Producer Organisations and Collectives.

The budget preparation activity shall be co-coordinated by the account section of the concerned accounting centre at DMMU, BMMU level under the overall supervision of the head of the accounting centre.

### **3.3.3 Basis for Budgeting**

The SMMU / DMMUs / BMMUs shall (based on the achievement and actual figures of the previous years, progress made upto the period and the annual targets in the overall work plan) prepare an annual action plan for the budget year broadly identifying the focus areas / activities for the mission in the budget year. The responsibility of preparing Annual Action Plans lies with the SMMU. The AAP shall highlight the focus areas / activities for the mission in the budget year. The AAP shall be prepared in consultation with the project Units at district & Block level. The Action plan for the first year shall be based on the Overall Work Plan. Revisions can be made to the annual work plans based on the changed requirements after Quarterly or half yearly review. The formats of Annual Work plan prepared along with supporting worksheets are provided in Annexure

The SMMU / DMMUs shall prepare the annual financial budget based on the Project progress and the project targets as reflected in the following plans:

- Overall work plan (OWP): The OWP is prepared in advance for the project and provides the inputs for the Annual Plan. All stakeholders including the funding agencies should mutually agree on the OWP.
- The OWP shall comprise

- Year-wise Physical targets,
- Year-wise Budgeted cost per unit of physical activity and
- Year-wise break up of the activities during the total life of the project.
- The Annual Action Plan (AAP): The AAP shall be based on the actual figures of the previous year, Cumulative Project Progress and Annual Targets.

The responsibility of preparing AAP lies with the SMMU. AA shall highlight the focus areas / activities for the project in the budget year. The AAP shall be prepared in consultation with the project offices at district level. The action plan for the first year shall be based on the Overall Work Plan. However, periodic revisions can be made to the annual work plans based on the changed requirements after quarterly or half yearly review.

**3.3.4 Finance & Technical Committee of SMMU:**

There shall be a technical committee at the SMMU level that would appraise the budgetary planning for the SMMU. It shall have member from the SMMU and would be composed as below:

**Table 3.2 The Finance & Technical Committee at SMMU**

Chief Operations Officer	Chairperson.
Chief Finance Officer	Member
State Project Manager	Member
Departmental Heads / Director’s of Concerned Line Departments / Technical Institutes.	Member.
Experts (may be co-opted as and when required).	Member.
Sr Financial Advisor, NRLM	Member

**3.4 Preparation of Budget at District Level**

The DMMU shall prepare annual physical (only for measurable activities) and financial budget (with quarterly break-up) for their respective offices after taking into consideration the budgets proposed by BMMUs. While preparing the budgets, the DMMUs shall analyse the actual Vs budgeted performance of their offices for the previous year. (However in the case of first year of project implementation the analysis for the actual Vs budget performance for the previous year shall not be undertaken). Initially the budget will be reviewed and vetted by the DMMU at the district level and then it shall forward the budget to the SMMU for review, finalization and consolidation. The DMMU shall provide explanations if there are major deviations between the targets as envisaged upon them by the SMMU and the budgets proposed by them.

**3.4.1 Finance & Technical Committee of DMMU.**

Similar to the line of the Technical Committee at the SMMU, there shall be a replica of the Committee at the district level and would be composed of the following:

**Table 3.3 The Finance & Technical Committee at DMMU**

<b>DMMU</b>	<b>Position</b>
District Project Manager	Member Secretary
Representatives from SMMU	Member
District Functional Expert (Of Concerned Discipline)	Member
District Heads of various Line Departments/Technical Institutes.	Members.
Executive Engineer, DRDA	Member.
FAO, DRDA	Member.

### **3.5 Preparation of Budget at Block Level:**

The BMMUs will be the nodal point for preparation of budgets at the Block level. As they shall be in direct contact with the Community Based Organisations, they shall be responsible for assimilating and compiling G.P. wise information as to their needs, future plans both in physical and financial terms. While preparing the budgets, (with quarterly break-up) the BMMUs shall analyse the actual Vs budgeted performance of their blocks for the previous year. (However in the case of first year of project implementation analysis for the actual Vs budget performance for the previous year shall not be undertaken). BMMUs shall forward their budgets to the respective DMMU for review, finalization and consolidation. The BMMUs shall provide explanations, if there are major deviations between the targets as envisaged upon them by DMMU and the budgets proposed by them.

### **3.6 Compilation/ Updating of Budget at SMMU Level**

On receiving the budget from DMMU, SMMU shall verify the budgets to ensure that these are in line with the annual action plan. It shall hold discussions with the DMMU for this purpose. SMMU shall compile the budgets submitted by the DMMU along with its own budget and finalize the consolidated budget for the Mission as a whole. The Budget may be subjected to revision within prescribed period in case if any discrepancy arises. After that it shall then be subsequently submitted to the MoRD / state government after getting it approved from GB.

### **3.7 Approval by the Governing Body & Allocation of the Budget**

After the annual budget has been approved by the Executive Committee, the SMMU shall allocate the budget to BMMUs & DMMUs after setting aside the financial budgets for SMMU office. The basis of allocation of physical and financial budgets shall be the budget proposals submitted by various BMMUs & DMMUs. Essentially, the process of budget allocation to the Project Units should be completed before the start of the accounting year.

### **3.8 Budget Control Mechanism**

#### **3.8.1 Budget Review**

Budget shall be applicable, in the normal course for a full year. But if there are significant variations in actual performance, or the original assumptions change or external environments

warrant any modifications, it may be necessary to review the budget during the year. Revised estimates to the budget for the current year shall be prepared along with the budget estimate for the following year as per the mentioned time period in Budget Calendar. The revised estimates shall be compiled at the SMMU along with the revised estimates for the DMMU.

### **3.8.2 Budgetary Controls**

The state and district level units shall facilitate an effective budgetary control system for monitoring of performance and accounting for variances. The format followed for budgeting shall be uniform across SMMU and all DMMUs.

Budgetary control mechanism shall also consider the following aspects:

- The budget shall be prepared on a participatory basis and not on a top down approach.
- There shall be a system of periodic variance analysis both in physical and financial terms based on budgeted and actual activity and financial levels.
- There shall be a mechanism to take executive action on the basis of the variance analysis.

The system envisaged shall meet donor agency for example World Bank's requirements of Quarterly Project Management Reports etc. While the budget Variance Report shall be prepared every quarter and the reasons for variation analyzed and documented. All the stake holders from the Districts and the State shall participate in the Budget Analysis and provide explanations wherever necessary. Any variations due to errors in estimation/assumptions shall be taken into consideration during the preparation of next Budget. CFO, FO at SMMU and DPM and BPM shall be responsible for preparation of Budget variance analysis in their respective units. CFO/FO at SMMU shall be responsible for documentation of explanations and formulation of action plan for corrective measures.

### **3.9 Money Fungibility**

Money shall be made available from one project / scheme to the other for an interim and short period within the society only under exceptional circumstances. These exceptional circumstances shall be noted in writing and be approved by the competent authority as described hereunder. The idea of money fungibility within the budgetary provision is to ensure that no running project or scheme shall be adversely impacted only for 'in the interim' want of fund or delay in procurement of funds on a temporary basis. The philosophy behind money being made fungible is to ensure that existing running projects or schemes shall continue to function in the interim period by means of funds being made available for the short and interim period only by any other scheme / project / fund available at the disposal of the Society. However prudential principles of management of budgetary allocations and funding shall be adopted by the society so that no project, neither the underfunded nor the surplus funded be adversely affected.

In case of shortage and / or delay in budget availability for a particular project or scheme the society shall be permitted to use the available resources including fund for short term in order to maintain the continuity in the project or scheme under the following circumstances:

1. Temporary Non availability of Funds or delay in transfer of funds for an approved (budgeted) project for a period of one quarter or three months with special approval of the CEO
2. Temporary Non availability of Funds or delay in transfer of funds for an approved (budgeted) project for a maximum period of two quarters or six months with special approval of the EC

However, wherever the Budget has not been approved by the competent authority no funds shall be made available by any other project or on the pretext of fungibility in anticipation of budgetary approvals.

## Chapter – 4 FUND FLOW MECHANISM

### Annotation

The chapter on Fund Flow Mechanism serves the purpose of guiding the need, process and validations on the flow of funds from various entities. The chapter has been created in line with the flow mechanism as designed by and in line with the requirements of the NRLP/M. However, the flow mechanism mentioned in this manual is not specific to the project but is specific to the society. While the first section is generic for flow of funds within the society under various projects, the second section is specific to NRLM project though not different from the first one. It also shows conditionalities for fund flow in NRLP and various arrangements envisaged at multilevel. Finally the chapter ends with various validations that are necessarily designed for efficient and effective flow of seamless funds that would create an audit trail by means of an auto pilot mechanism.

### 4.1 Transfer of Funds:

The Government of India has been releasing funds from the World Bank and other agencies through Government of Jharkhand for implementation and execution of various projects by JSLPS, an autonomous society functioning under the aegis of Dept. of Rural Development promulgated with the objective of ensuring rural prosperity. With a view to achieve transparency, efficiency and optimum utilisation of the funds the JSLPS must ensure that the funds released by both Government of India and Government of Jharkhand shall transfer funds to wherever there is expenditure using an e-transfer mechanism. Thus there shall be a mechanism for the implementation of the Electronic Fund Management System as a financial management package for JSLPS. However, the facility has been provided under the Central Plan Scheme Monitoring System by the office of the Controller General of Accounts, Government of India. Besides, JSLPS shall be entering into MoU with a few leading banks to act as the ‘Nodal Banks’ for EFMS and each nodal bank will be given designated areas for facilitating payments from Society to its field units in those areas. The nodal banks will upgrade / adjust their IT system to allow smooth implementation of EFMS. As many as 50 + banks are already tied up for CPSMS.

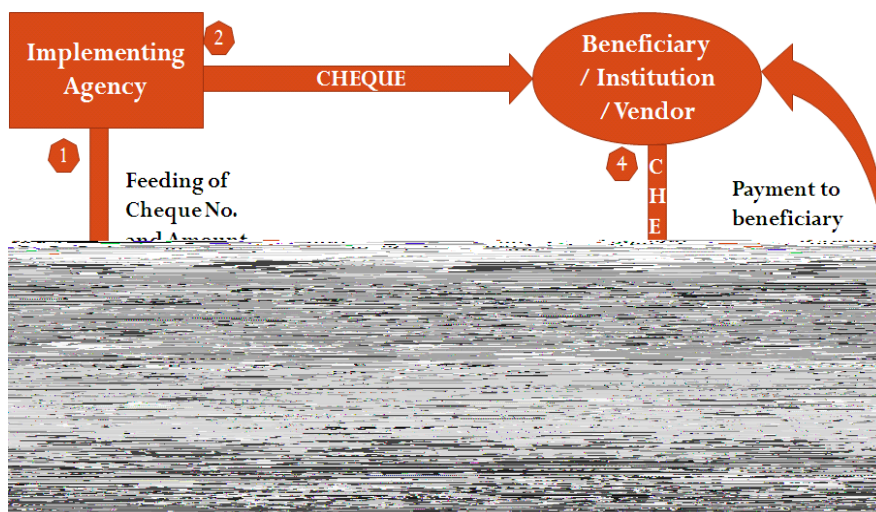
Given the magnitude and multiple sources of funds on the one hand and the implementation levels and CBOs involved in the Mission, it is important to ensure efficient flow of funds, their timely disbursement and use by the intended stakeholders. This would require continuous monitoring of funds flow at all levels and their disbursement and utilization on a real time basis. Ex-post information on funds flow, often with a substantial time lag, is not always useful for taking quick corrective actions. The emergence of Core Banking Solutions (CBS) has made real time monitoring of funds flow and transactions relatively easy and has contributed to financial

management and decision-making in the government. It is in this context that the NRLM has decided to adopt CPSMS for tracking funds flow and utilization at all levels. Apart from facilitating real time monitoring of fund flow and use, adoption of CPSMS by NRLM would facilitate quick corrective decisions at different levels. The information tracked through CPSMS can be imported into NRLM MIS and FMS and facilitate decision-making. Adoption of the system will also facilitate monitoring by Controller General of Accounts, who is the chief accounting authority for GOI.

Authorised disbursing accounts: Bank account numbers and related information of every cost centre shall be entered in a master list, after due authentication by concerned office. After entry, the master list can be edited only at State level. It is essential that JSPLS ensures a robust software that has been developed under the aegis of CPSMS is developed within the internal fool-proof security systems to facilitate the online payments covering all disbursements to be made at, block, district and state level.

#### **4.1.1 Fund Flow of Mission : Core Banking Solution**

**Opening of Bank A/c:** State Mission Management Unit, Jharkhand shall maintain a separate scheme wise Bank A/c in a Scheduled Bank for the Mission fund and notify the same to MoRD. The transfer of funds from MoRD to states will be through ECS / NEFT. The CPSMS is designed to generate a robust and reliable Financial Management Information System (FMIS) in tandem with CBS of the banks. Unlike, traditional MIS applications based on ex post facto data feeding, the fund utilization data fed into the CPSMS facilitates one-to-one correlation with the banking transactions of the programme implementing agencies. Thus, the FMIS available from CPSMS facilitates automatic reconciliation of accounts with banking operations. The CPSMS-CBS interface is depicted in Fig.-1.



**Figure 4.1 CPSMS – CBS Interface**

**4.2 Procedure for release of funds to States:**

The National Rural Livelihood Mission (NRLM) would fund states against appraised and approved annual action plans and state perspective and implementation plans that outline the results and the processes towards these results, and as per FM provisions of MoU which will be signed between MoRD and the state of Jharkhand.

National Mission Management Unit (NMMU) would review the performance against these plans half-yearly and annually and funds flow to the states would be based on the revised annual plans. Funds will be released in two tranches each year through direct transfers into SRLM bank accounts. For all fund releases following the first tranche, the states will be required to submit audit reports and utilization certificates, as per established GoI procedures.

The following table depict the various conditionalities for release of each tranche.

**TABLE 4.1**  
**Conditionalities for Tranche Release to States under NRLM.**

<b>Tranche</b>	<b>Months</b>	<b>Condition of Release.</b>
First Tranche	April-May	1) Approval of the State Annual Action Plan and 2) Terms and Conditions stipulated from time to time.
Second Tranche	October-December.	On the request of SRLM, Jharkhand in prescribed proforma and on fulfilment of the following conditions: 1) Utilization of at least 60% of the available funds including the opening balance. 2) The opening balance of the SRLM should not exceed 10% of the allocation of the previous year (in case, the opening balance exceeds the limit, the Central funds would proportionally reduced). 3) Audit Reports, Utilizati

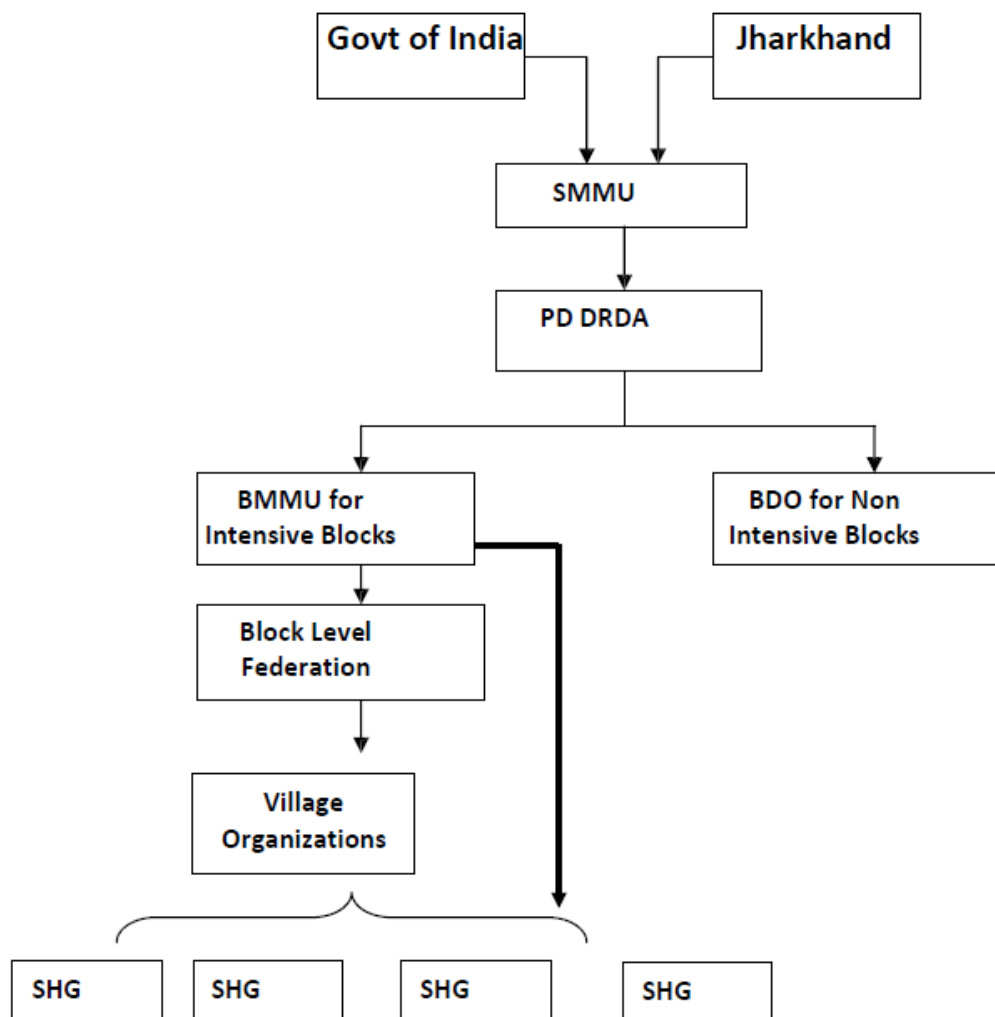








**4.3.3 Fund Flow to Non Intensive Districts:**



**4.4 Expenditure and Payment of Money**

No officers or authority of the Mission Fund shall incur any expenditure or transfer of money from the Mission Fund unless such expenditure or transfer of money has been sanctioned by a general or special order of the authority competent thereof under the regulations. Similarly, no expenditure from the Mission Fund shall “be made in excess of the limits specified for the purpose in the sanctioning order or the budget, as the case may be. Every officers or authority incurring or authorizing or sanctioning any expenditure from the Mission Fund shall be guided by the actual financial priority and shall exercise the same caution in respect of the expenditure which he would have, under the circumstances, exercised had the expenditure been from his own money and the occasion been for his own benefit. The Mission Fund shall not be utilized for the

benefit or any particular person or a particular section of people unless in accordance with a decree passed by a court of jurisdiction or in pursuance of a policy recognized or accepted by the Mission.

#### **4.5 Sanctioning of Expenditure:**

All sanction of expenditure shall indicate the details of the provisions under the relevant budget head. A sanction shall unless specially mentioned by the authority passing the order come into effect from the date of its issue. No authority shall exercise his sanctioning power in respect of the expenditure, in which he either directly or indirectly has some interest. In such a case the matter shall invariably be referred to his next higher authority for according the sanction in otherwise.

##### **4.5.1 General principles governing all expenditure to be incurred from the Mission Fund**

Following general principles shall be adhered to while incurring any expenditure from the fund:

- That there shall be adequate provision of fund authorized by a competent authority fixing the limits within which the expenditure shall be incurred.
- That there shall be proper sanction, either general or special, accorded by the authority component therefore authorizing the particular item of expenditure.
- Each head of officer shall be responsible for enforcing the financial order and strict economy at every step and also for observance for all the relevant financial rules regulations and discipline.
- All bills presented for payment shall be examined in accordance with the relevant provisions of the rules and these regulations and disbursing officer shall if the claim is admissible and proper, the signature of the claimant is true, the bill is in order and the receipt is a legal acquittance, make an order to pay the bill under his hand seal on the bill. The order shall specify the amount payable both in words and in figures.

#### **4.6 Linkage of District (DRDA) with DMMU on Financial and Technical matters.**

The DMMUs will operate as branches of State Society with close coordination and consultation with State Government agencies like the DRDAs. The DMMU will be responsible for implementation of mission Programme in the district in close coordination of DRDA. The DMMUs will maintain linkages in following financial and technical matters and shall keep the DRDA in loop. SMMU will keep the Project Director, DRDAs informed about the fund flow mechanism and fund released to DMMUs and BMMUs. This will help the Project Directors to keep track of the fund flowing into DMMUs and BMMUs.

##### **4.6.1 Relationship on Financial and technical matters.**

DMMU will follow the existing financial and technical rules and regulations being followed by Society. The District Project Officer will open an account for the management of the Society fund. As the mission fund will be placed in an account and informed to the Project

Director, DRDA will have to be kept informed at all time on regular intervals to keep track of the financial flow to the DMMU as well as the expenditure made out of it. It shall be the responsibility of the head of the DMMU to ensure that the expenditure by DMMU are incurred as per the rules of the Society. The Project Director, DRDA will also ensure that expenditure are made on eligible / permissible items as per plan and budget by the DMMU. As the Project Director, DRDA will be apprised by the District Mission Manager of DMMU it will be the responsibility of the DMMU to supervise the matters relating to the maintenance of financial discipline in the office of DMMU.

#### **4.6.2 Review of the progress and performance.**

A broad based district advisory group / review and coordination committee will be formed under the Chairmanship of the District Collector / Deputy Commissioner. Project Director, DRDA will also be a member of the committee wherein review of the performance and progress of the DMMU will be undertaken. As per implementation framework, SMMU is supposed to establish linkages between DRDAs and DMMUs. So it has been proposed that DMMUs while submitting report to SMMU will also send copies of the reports to the Project Director, DRDAs as the Project Directors will have to keep track of the progress and performance before signing for withdrawal of fund from the joint accounts. Similarly copies of audit reports will have to be sent by the DMMUs to the Project Directors of DRDAs.

#### **4.6.3 Collaboration for financial inclusion.**

DMMUs will also have to establish strong linkages with DRDAs and agencies like NABARD and RRBs to roll out its effort for financial inclusion as there will be many cases to be sorted out jointly at the initial stage at the level of banks and financial institutions for a meaningful financial inclusion.

There are bankers committees at district level wherein the Project Director, DRDA is an important member. Membership of the District Manager, DMMU should also be ensured so that the District Manager, DMMU along with the Project Director can coordinate with bankers for various matters relating to financial inclusion.

#### **4.6.4 Finance and Technical Appraisal Committee.**

A Technical Appraisal Committee will be constituted at district level to technically scrutinise the plans and projects prepared by DMMUs and BMMUs. Apart from technical members from Line Departments, technical institutes will be invited. The Technical Appraisal Committee will give an opportunity to the Project Director to go through the plans and projects prepared by BMMUs and DMMU in the light of the development already taken place in the district so far as SGSY is concerned. Project Director, DRDA will supervise the plans and Project reviewed by this committee as he has been implementing SGSY and has already created infrastructures and collectives in the district.

#### **4.7 Linkages of the BMMUs with Block Development Administration**

The Block Project Manager will open a joint account with Block Development Officer for management of the mission fund. As the mission fund will be placed in the account under the Block Project Manager, the Block Development Officer only be required to be apprised about the financial flow to the BMMU as well as the expenditure made out of it. It will be the responsibility of the head of the BMMU to ensure that the expenditure by BMMU is incurred as per the financial and technical rules and manuals. The BDO shall also be apprised of the expenditure that is made on eligible and permissible items as per plan and budget by the BMMU. It will also be the responsibility of the BDO to supervise the matters relating to the maintenance of financial discipline in the officer of the BMMU. DMMU will keep the BDOs informed about the fund released to the BMMUs. This will help the BDOs to keep track of the fund flowing into the BMMUs

##### **4.7.1 Review of the progress and performance.**

There will be a block review and coordination committee to review of the progress and performance of NRLM at block level. The BDO will be an important member of this committee wherein plan, performance and progress of BMMU will be reviewed. BMMUs while submitting reports to DMMUs & SMMU will also send copies to the BDOs as the BDOs will have to keep track of the progress and performance Similarly copies of audit reports will also have to be sent to the BDOs by BMMUs.

##### **4.7.2 Collaboration for financial inclusion.**

BMMU will also establish strong linkages with block administration for financial inclusion as there will be many issues to be sorted out jointly at the initial stage at the level of banks and financial institutions for meaningful financial inclusion.

#### **4.8 Validations:**

The CEO, shall fix upper validations for each of the category of the payment and fix up budget ceiling and daily expenditure limit for each cost centre and also for each head of account so that they will not exceed uploading payments in online system.

Designated Officers and the operating procedure: State Program Manager (Finance) in case state, District Accounts Manager (Finance) in case of District and Block Accountant in case of Block shall be the 'Designated Officers' (DOs) who would upload the Debit Vouchers to central server. A secure password system should be developed by the IT service provider / CPSMS so that only 'designated officer' can upload the Debit Vouchers into central server. Designated Officers (DOs) will be responsible for all transactions done using their password. The following would be the procedure to be adopted by the DOs:

The DO shall examine the proposal for payment first; and only after approving on paper by CEO / concerned officer, shall proceed to upload the Debit Vouchers on the computer. The Debit

Vouchers shall be prepared based on the existing system.

The DO will be responsible for all e-Debit Vouchers generated by him/her.

The DO shall operate personally for generating Debit Vouchers once or twice a day depending on his convenience.

After uploading all Debit Vouchers accumulated up to the point of uploading, the DO shall record the details of the same in hardcopy attested with proper signature. All the hard copies of approved uploaded Debit Vouchers shall be maintained in an exclusive file.

The DO shall maintain a register on the lines of cheque issue register. The DO would also need to do reconciliation every month, duly reconciling Fund Transfer Registers with reference to payments actually made. In case of any discrepancies or delays, they shall be brought to the notice of the CEO / concerned officer.

Online processes in the transfer of funds: There shall be online transfer of funds as and when Debit Voucher from is generated and as and when payment is made in the field, SMMU / DMMU (Finance) / BMMU generates Debit Voucher. All Debit Voucher shall only be generated in electronic format. Each Debit voucher will trigger one Fund Transfer Request (FTR). Each FTR shall have the name of the account holder, name of the bank and branch where to be deposited, amount to be deposited, and address of account holder, Bank IFSC code number and purpose of the payment. Each day the central server will cumulate all the FTRs of the day, segregate them for each nodal bank and transmit the same to the nodal bank server using an electronic process without any manual intervention.

The servers of the nodal banks will process the FTRs automatically and the funds are transferred from the central account to the district nodal accounts maintained by respective DMMU or BMMU, from where Nodal banks will transfer funds to the field level bank accounts. Once the Nodal Bank adjusts the amounts in the accounts they shall send the information regarding the status of the transaction to the Society server on a daily basis.

#### 4.9 Recapturing Modules of CPSMS

- Agency registration module:
  - Agencies get mapped in scheme hierarchy.
  - Level wise bank account balances and daily transactions available.
- e-Payment module:
  - Direct credit to beneficiaries (scheme and bank independent).
  - e-transfers to vendors, employees and other institutions.
  - Ensures compulsory expenditure filing.
- Expenditure filing module:
  - Component-wise Fund Utilization available - Expenditure/Advances/Transfers.
  - Cheque validation facility for ensuring exp. filing.
- Interfaces:
  - Treasury , Banks (PSBs, Pvt Banks and RRBs)

## Chapter – 5 INSTITUTIONAL ARCHITECTURE (INDICATIVE ADMINISTRATION AND IMPLEMENTATION ARRANGEMENTS)

**Annotation:** This chapter deals with the Institutional Arrangements that would be applied towards the administration and implementation of the project. This ranges from the arrangements envisaged at the Governing Body upto the Village level federation. However the chapter is only indicative about the roles and responsibilities of each institution as well as that of every unit of administration and implementation. It should however be distinctly understood that mostly the matter related to Finance and Accounts have been incorporated into this chapter and the society is free to frame its own institutional arrangements over multiple level of hierarchy.

### 5.1 Financial Management Cycle

The Implementation arrangement framework consists of simplified arrangements to ensure transparency and accountability at all levels of the proposed Institutional set up of the Mission.



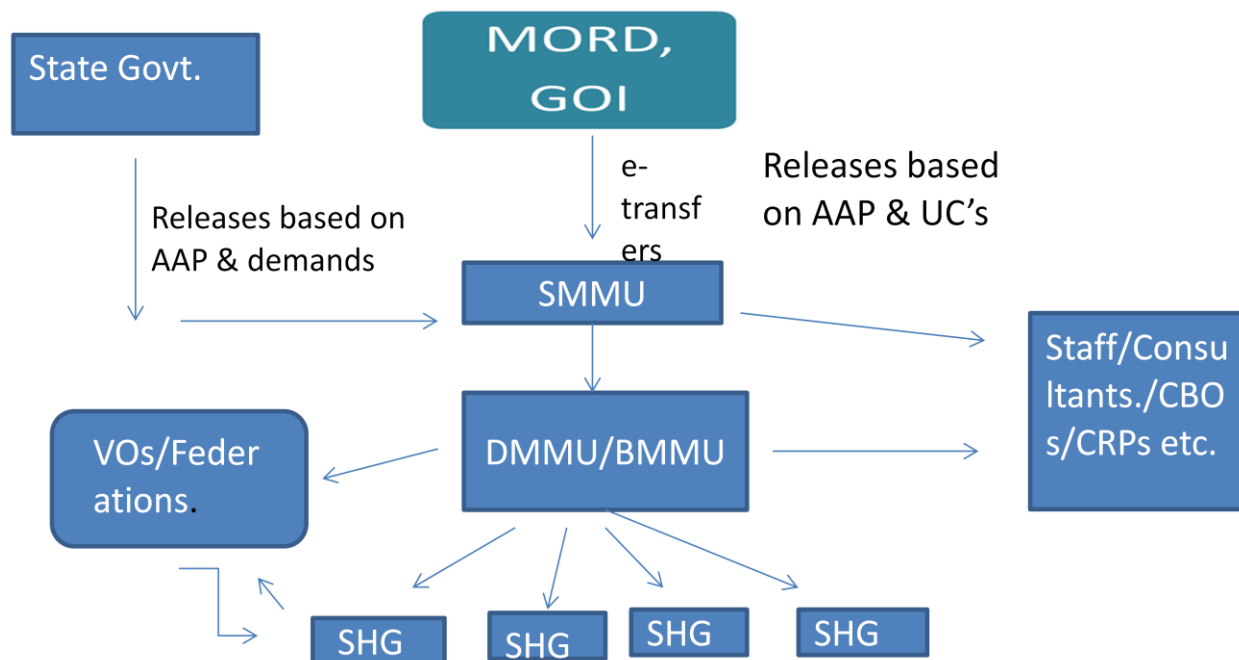
**Figure 5.1 Financial Management Cycle**

Within the broad framework of principles mentioned earlier and Control Framework described later in the manual, this section provides an overview of financial management arrangements for NRLP.

**5.1.2 Management and Flow of Fund from Central to State Government**

The Ministry of Rural Development, Government of India shall release funds to the state of Jharkhand against agreed annual work plans and as per FM provisions of MoU which are signed between MoRD and the state of Jharkhand. The SRLM Project Office in the State

- SMMU will incur expenditure for state level activities directly.
- DMMU:SMMU will transfer funds to DMMUs against annual work plan into a separate bank account opened for the project.
- Common Costs at State and District level: SRLMs will establish up-front, appropriate criteria to apportion common costs (state and district levels) across the various projects and document the same in the SPIP.



**Figure 5.2 NRLM Flow**

After the approval of AAP / SPIP funds shall be released to State Society. Funds will be released from NRLM allocation of the state and from NRLP in two installments. State Society will further release funds to Districts as per their requirement / AAP of the district. A District can have all non intensive blocks or both intensive & non-intensive blocks or all intensive blocks. For NRLP identified blocks funds will be released from NRLP funds (except for interest subsidy) and for non intensive blocks funds shall be released only from NRLM allocation.

### 5.1.3 Funding of SHG Federations by the Project in State

In order to ensure that there is no risk in duplication of financing to the same SHGs / federations, it has been agreed that NRLP will not be implemented in the same blocks as the ongoing WB-supported state livelihood projects. Thus all fund releases to SHG Federations will be made in accordance with Federation Grant Agreement. Such fund releases will be based on achievement of certain defined milestones / triggers as defined in the description elsewhere.

## 5.2 State Level

The State level of administration and implementation arrangements range from the functions, roles and responsibilities of the Governing Body upto the State Mission Management Unit. The following sub sections describe the institutional and implementation arrangements.

### 5.2.1 Functions of Governing Body of the Society

This sub section has been adapted from the rules of the society and has been merely reproduced from the existing manual on HR and Finance of the Jharkhand State Livelihoods Promotion Society.

- Rule # 7 of the Society envisages that the business of the society, as per its aims and objectives, shall be managed and carried out by the Governing Body.
- Rule # 8 of the Society envisages that the GB shall comprise the following:
  - **Chairperson:** Development Commissioner, Jharkhand (ex-officio)
  - **Ex-officio Members:** Principal Secretaries/ Secretaries of the following State Government Departments: Rural Development (President); Agriculture and Sugarcane Development; Animal Husbandry and Fisheries; Cooperative; Food, Public Distribution and Consumer Affairs; Forest and Environment; Finance; Labor, Employment and Training; Panchayati Raj; and, Welfare; and the Joint Project Director (JPD), Livelihood Promotion Project, RDD
  - **Nominated Members:** Up to three representatives of project non-government organizations (NGOs) and any other project non-officials not exceeding three or as desired by the Chairperson; there is a provision for special invitees to GB
- Rule # 10 of the Society envisages the following functions for the GB:
  - Providing overall policy guidance and direction for efficient functioning of the Society and bringing about strategic and policy changes that may be necessary for the support of projects assigned to the Society by the State Government.

- Reviewing project performance and securing active involvement and participation of institutions, NGOs, voluntary agencies and individuals committed to poverty alleviation and providing necessary financial assistance to them
  - Bringing about effective decentralization in basic planning for poverty alleviation by involvement of the people through a process of training and awareness building and creation and/ or utilization of structures, formal or otherwise
  - Securing constructive and participatory involvement of local people and grass root-level leadership for the achievement of project objectives and, for this purpose, establishing and/ or utilizing formal as well as informal structures
  - Considering and approving the balance sheet and annual audited accounts of the Society as presented by the President
  - Considering the annual report and ratifying budgets
  - Considering evaluation and special reports commissioned by the project administration
  - Ensuring that the Society considers any comments made by funding agencies on the progress and requirement in the implementation of Project sponsored and funded by them
  - Ensure technical and non-technical resources by harnessing the existing institutions and establishing new ones, if required
  - Advising on the organization of conferences, symposia, workshops, etc. on matters related to the Society and to its projects
  - Advising the State Government in implementation of poverty alleviation programmes
- Rule # 16 of the Society empowers the GB to:
    - Undertake all activities necessary for the fulfillment of the objective of the Society
    - Expand/ modify the strength of its membership
    - Add, modify or amend the Memorandum and Articles of Association and bye laws, provided that all such additions, modifications or amendments are aimed at promoting the objectives of the Society
    - Create duly empowered administrative mechanisms through such participation, as may be deemed necessary, of various departments and agencies of the Central and State Government and other organizations for the achievement of the objectives of the Society
    - Create academic, technical, administrative, managerial, training and other posts in within the Society or in its projects
    - Ratify the rules and regulations for the conduct of the affairs of the Society and to amend them from time to time
    - Accept grant of money, securities or property of any kind and undertake and accept the management of any endowment, trust, fund or donation, not inconsistent with the objectives of Society or its projects

- Acquire movable property by purchase, lease, hire, exchange or otherwise and to alter, maintain any building or buildings as may be necessary for carrying out the objectives of the Society and its projects
- Delegate to the Executive Committee (EC) or to any of the officers and authority of the Society such powers and impose such duties as it deems proper
- Approve the annual report, balance sheet and annual audited accounts of the Society
- Undertake all such activities, form such committees/ task groups as may appear necessary or incidental to the achievement of the objective of the Society and of its projects
- Exercise all powers as deemed fit designated to the EC

Thus the GB not only undertake all activities necessary for the fulfillment of the vision and objectives as laid down in the Memorandum and Articles of Association, but also add, modify or amend the Memorandum and Articles of Association and these bye-laws provided that all such additions, modifications or amendments shall be aimed at promoting the objectives of the State Society. It is also empowered to approve the Annual Report, Annual Action Plan, Balance Sheet and the Annual Audited Accounts of the Society. Approve the appointment of the auditors of the State Society. Delegate to the Executive Committee or the SMMU any of the above powers.

### **5.2.2 Functions of the Executive Committee of the Society**

This sub section too has been adapted from the rules of the society and has been merely reproduced from the existing manual on HR and Finance of the Jharkhand State Livelihoods Promotion Society.

- Rule # 19 of the Society envisages that the EC shall comprise the following:
  - Principal Secretary/ Secretary, RDD, GoJ (President)
  - JPD, Livelihood Promotion, RDD, GoJ (Vice- President)
  - Commissioner, National Rural Employment Guarantee Scheme (NREGS) (Member)
  - Tribal Welfare Commissioner, GoJ (Member)
  - Director, Panchayati Raj, GoJ (Member)
  - OIC, Watershed Programme, RDD, GoJ (Member)
  - Representative, Finance Department, GoJ/ Internal Financial Advisor (Member)
  - Principal Chief Conservator of Forest, GoJ (Member)
  - Director, Agriculture/ Soil Conservation, GoJ (Member)
  - Representative, Department of Land Resources (DoLR), GoJ (Member)
  - Chief General Manager, NABARD (Member)
  - State Project Manager, JSLPS (Member)
  - All Members of the State Advisory Committee (SAC)
- Rule # 24 of the Society envisages that it shall be the responsibility of the EC to endeavor to achieve the objects of the Society and of its projects and to discharge all its functions

subject to the Rules of the Society. The EC is also envisaged to ensure that the Society considers any comments made by funding agencies on the progress and requirement in the implementation of projects sponsored and funded by them.

### 5.2.3 State Advisory Committee (SAC)

According to rule 28 of the Society, there shall be a State Advisory Committee at the State level.

- Rule # 28 of the Society mentions the SAC's functions. These are meant to:
  - Provide direction and guidance to the Society in the design, implementation and monitoring of livelihood programs and schemes in the State
  - Undertake field research/ studies and provide guidance for policy level changes
- Similarly, Rule # 29 of the Society discusses the composition and membership of the SAC. As per this:
  - The SAC shall comprise seven members, including three from leading State-level NGOs with at least 15 years of field experience in the field of livelihoods, preferably in Jharkhand; two senior academicians from leading State Universities / educational institutions with significant contribution in the field of livelihoods; and, two eminent development personalities.
  - The EC may change the composition and strength of the SAC as and when required.
  - Membership of the SAC can be terminated through majority voting in the EC or by the President of the EC.
  - A SAC Member can leave her/ his job by tendering a resignation to the President.

### 5.2.4 Project Steering Committee (PSC)

The Project Steering Committee may be established for specific projects to:

- Ensure that projects goals and objectives are achieved in a defined time frame
- Review the project progress and suggest implementation strategies periodically
- Review project expenditure against activities, outputs and outcomes
- Approve Annual (AWP), Quarterly (QWP) and other Work Plans

The composition of the PSC will be as agreed by the Society with the Funding Agency. It may be noted that the PSC is a project-level governance and management structure unlike the GB, EC and SAC which are institutional-level governance and management structure.

### 5.2.5 Functions of SMMU

Following section has been envisaged from the perspective of the Financial Manual and does not emanate from the Memorandum and Articles of Association or the rules of the society. In view of the Financial Manual following functions should be performed by the SMMU:

- Compile annual Budget of Mission based on annual action plan for SMMU, DMMUs

- and BMMUs and submit the same to the State Government for sanction of the Budget.
- Receive funds into its bank account from the MORD as per the allocated Budget.
  - Distribute funds to DMMUs and BMMUs on a timely basis as per agreed annual work plan
  - Institute mechanism for proper accounting and auditing of Mission funds at state, district, block and village level
  - Maintain database on district/block wise, component wise fund releases and expenditure
  - Compile and forward regular quarterly / annual financial reports to State Government of Jharkhand and the Government of India.
  - Submit regular claims for reimbursement of Mission expenses.
  - Implement Capacity Building measures for financial management for staff at SMMU, DMMU and BMMU.
  - Develop policy and strategy for book keeping capacity building at block & village level and implement the same.
  - Review financial progress at District & Block level.
  - Appoint auditors for a sample audit of Block level Federations, VO and SHGs.
  - Liaise with statutory auditors for the audit on an annual basis and place the audited accounts before the general body of state society and filing of returns with Registrar of Societies.

**Administrator of the system:** The State Project Manager (Finance) of the JSLPS shall be the designated administrator for the purpose of administering the software with the IT Service Provider like the CPSMS and Bankers. While the COO of JSLPS shall be required to take immediate steps for operationalising this system before the commencement date covering the following:

- Collect the data regarding disbursing accounts along with IFSC code numbers from each of the districts, mandals and other field units to develop a master list in the software.
- Complete all other preparatory activities as outlined
- Train all Project Heads, District Project Heads and Block level officers at the State level. Develop a simple training module to build awareness among all the functionaries on this new fund management and online payment system.
- Withdrawing funds from field level accounts: Funds lying with the various units of JSLPS above certain threshold level shall be transferred to the central account without further delays.

The CEO, JSLPS reserves the right to make any amendments to the above said clauses and processes as and when need arises from the field.

### 5.3 District Level

At the district level, a District Mission Management Unit shall be established with District Project Manager as its head and shall be assisted by Accounts Team headed by District Finance Accounts Officer.

### **5.3.1 District Mission Management Unit (DMMU)**

Rule # 31 of the Society envisages the establishment of a District Management Unit in every district of the Society's operations. Deemed to a constituent unit of the Society with its offices at the district headquarters in the Deputy Commissioner's offices, the DMU is envisaged to be headed by a District Coordinator (DC).

### **5.3.2 Implementation Arrangements at District Level**

At the district level the following implementation arrangements are envisaged:

- Coordinate with BMMUs to institute mechanisms for proper accounting and auditing of Mission funds at state, district, block and village level.
- Compile annual Budget for the district and submit the same to the SMMU.
- Receive funds into its Bank Account from the SMMU as per allocated Budget.
- Coordinate and forward regular monthly/quarterly financial monitoring reports to SMMU.
- Coordinate with BMMU to ensure regular and timely audit for district level and block level activities.
- Submission of Quarterly Mission Expenditure reports.

### **5.4 Block Level Implementation Arrangements**

At the Block level, a Block Mission Management Unit (BMMU) shall be established with Block Mission Manager as its head and shall be assisted by Accounts Team headed by Block level Accountant.

#### **5.4.1 Implementation Arrangement at Block Mission Management Unit (BMMU)**

At the Block district level the following implementation arrangements are envisaged:

- Compile and submit annual budget for the Block and submit the same to the SMMU.
- Receive funds into its Bank account from SMMU as per allocated budget
- Appraise Community Based Livelihoods Business Plans and verify milestone certificates and release payments to Block Level Federations, VO and SHG on a timely basis as per agreed activities and relevant contractual arrangements and utilize funds for its own activities at Block Level.
- Compile, prepare and forward regular monthly / quarterly financial monitoring reports to DMMU / SMMU.
- Ensure implementation of capacity building activities for building skills in Financial management for Village level, Cluster Level and Block level Institutions etc.
- Facilitate linkages for easy flow of funds for community
- Assist the Block Level Federations, Cluster Level Federation and VO in implementing the accountability framework (including public displays and external audits).
- Train and provide handholding support to Master Book Keeper in Book Keeping functions and in preparing monthly and annual reports.
- Monitor the maintenance of Books of Accounts at the Block, Cluster & Village level and
- Submission of quarterly Mission Expenditure Reports

#### **5.4.2 Block Level Federation (BLF) General Body**

There shall be a Block level federation general body and all the members of the Village Level Federation (VLF) shall be members of the BLF general body. The BLF general body meeting should be held twice in a year. The BLF general body meeting shall be convened to review the economic status of VLF and financial progress of BLF and approve formation of various committees.

#### **5.4.3 Block Level Federation (BLF) Executive Committee**

There shall be a Block level federation Executive Committee and Two members of the Village Level Federation shall be members of the BLF EC. The committee shall have the following functions:

- Approve Block Level Federation plan for the Block.
- Approve Business Plan Completion reports of Block Level Federation.
- Appoint Sub Committee and call for action taken reports.
- Approve and submit accounts for the fund received from BMMU.
- Sign financing agreements for BLF Fund with State Society.
- Receive funds from BMMU against BLF financing agreement and deposit in Bank.
- Plan, implement and supervise activities under Block Level Federation Funds.
- Engage an Accountant and ensure that all Mission expenditures and income are accounted for in the Books of Accounts.
- Request for funds from BMMUs.
- Provide all Books of accounts and other records for Mission audit.
- Appoint Finance and Procurement Sub- Committees with approval of General Body and entrust them with specific financial management and procurement functions.
- Ensure that all financial management and procurement decisions are documented in the Minutes Books of the Block Level Federation, Finance and Procurement Sub-Committee meetings.
- Provide all Financial information to Social Audit Committee.
- Submit monthly, quarterly, half yearly and annual financial reports to BMMU.

#### **5.4.4 Block Level Federation (BLF) Office Bearer Committee**

There shall be a Block level federation Office Bearer Committee. The committee shall have the following Selection of 5 Members of BLF Executive Committee to Office Bearer Committee. Criteria for selection of 5 members in office bearer committee:

- SC, ST, OBC, Minority, general members.
- Senior most / active / social person.
- Treasurer-Book Keeping and record keeping knowledge.

The Office bearer committee should consist of President, Vice President, Secretary, Joint Secretary, Treasurer. Office Bearer committee meeting should be held twice in a month.

#### **5.4.5 Block Level Federation (BLF) Community Investment Fund (CIF) Committee**

There shall be a Block level federation CIF Committee. Members of Executive Committee of BLF will be members of CIF Committee. The CIF Committee, with the assistance of BMMU team, shall prepare and submit CIF plans to BMMU. It would be responsible to appraise the Micro credit plans submitted by villages and recommend for sanction. It shall also monitor the administration of CIF funds. It shall prepare the utilization certificates and submit the same to the BMMU and provide capacity building support to the groups regarding CIF Fund.

#### **5.4.6 Block Level Federation (BLF) Finance and Procurement Sub Committee**

There shall be BLF Finance and Procurement Sub Committee. Members from Executive Committee of BLF will be members of Finance & Procurement subcommittee. The committee shall guide the Block level Federation in their procurement functions and ensure that the Financial and procurement guidelines are complied with. They would also assist the VOs to negotiate for highest quality and best prices. It would ensure that all financial management and procurement decisions are documented in the Minutes Books of BLF / VO, Finance and Procurement sub-committee meetings and would guide BLF in its financial management functions. The committee shall also ensure that the financial and accounting guidelines framed are complied with and facilitate audit Process. It would also conduct periodic surprise cash checks to ensure cash management and recovery of loan from members. It would also help in Bank Linkages of eligible SHGs after their completion of grading.

#### **5.4.7 Block Level Federation (BLF) Social Audit Committee (Sub Committee)**

Members from Executive Committee of BLF shall be the members of the Social Audit Committee. They would be required to carry out periodic audits (including financial) of Block level Federation, VO and SHG handled activities. They would also certify all Utilization Certificates (UCs) and submit regular reports to BMMUs.

#### **5.4.8 Block Level Federation (BLF) Health & Insurance (Sub Committee)**

Members from Executive Committee of BLF shall be the members at the Health and Insurance Committee. They would be required to promote medical assistance, health and hygiene awareness programme to Community and would promote life and assets security to members by means of promoting general and life insurance.

#### **5.4.9 Block Level Federation (BLF) Education (Sub Committee)**

The BLF Education sub committee shall be managed by the members from the Executive Committee and shall be required to promote educational support to the VLF members families and to the Community.

### **5.5 Village Level Implementation Arrangements**

At the Village level, an institutional arrangement for implementation has been envisaged where an General Body, Executive Committee etal are envisaged that shall serve the purpose and objectives of the Mission.

### **5.5.1 Village Level Federation General Body**

All the SHG members should be included in the VLF General body. As many as Ten (10) SHGs shall form One (1) VO. The General Body meeting should be held twice a year to review the financial progress and economic status of its members.

### **5.5.2 Village Level Federation Executive Committee**

Two (2) members from each SHGs will form the Executive Committee of VO. Executive body meeting should be held twice in month to know the economic status of SHG members. There shall be a campaign for social awareness with a periodic review of financial progress among members. The Committee will approve the VO Plan, approve Business plan completion Reports of the VOs, appoint the sub Committees and call for action taken reports (ATR), approve and submit accounts for the funds received to BMMUs. Sign Financial agreements for VO fund with State Society through BMMU.

The EC shall receive funds from BMMU against VO financing agreements and deposit the same in Mission Bank a/c to be operated by two members among the SHG representatives who are also the members of VO, will be called Secretary and Treasurer. It will Plan, implement and supervise activities under VO fund. It would also strive to engage an Accountant and ensure that all Mission expenditures and income are accounted for in the books of accounts. It shall also provide all Books of accounts and other records for Mission Audit. It will appoint Finance and Procurement sub- committees with the approval of general body and entrust them with specific financial management and procurement functions.

### **5.5.3 Village Level Federation Office Bearer Committee**

There shall be a Selection of five (5) members of Executive Committee (EC) to the Office Bearer Committee. The criteria for selection of these five (5) members in office bearer committee shall be as follows:

- SC, ST, OBC, Minority, general members.
- Senior most / active / social person.
- Treasurer-Book Keeping and record keeping knowledge.

The Office bearer committee should consist of President, Vice President, Secretary, Joint Secretary, Treasurer. The Office Bearer committee meetings should be held twice in a month.

### **5.5.4 Village Level Federation Community Investment Fund (CIF) Sub Committee**

There shall be a VLF CIF sub committee whose members are formed from the Executive Committee. With the assistance of BMMU team / Block Level Federation, the subcommittee would prepare and submit CIF Plans to the BMMU. It would also prepare Micro Credit Plan (MCP) for the VO and would appraise the Micro Credit Plans submitted by Groups and recommend for sanction. It would also be responsible for monitoring the administration of the CIF Funds. It would prepare the Utilization Certificates (UCs) and submit the same to BMMU / DMMU / SMMU.

### **5.5.5 Village Level Federation Finance and Procurement Sub Committee**

There shall be a VLF committee on Finance and Procurement. Members from the Executive Committee would also be the members of Finance & Procurement Sub Committee. The

committee would guide the VO in their procurement functions and ensure that the procurement guidelines elaborated in the community operational manual are complied with. It would also assist the VOs to negotiate for highest quality and best Prices and ensure that all financial management and procurement decisions are documented in the Minutes Books of VO, Finance and Procurement sub-committee meetings. Overall, the committee would be required to guide the VO in its financial management functions and ensure that the financial and accounting guidelines framed are complied with. It would facilitate an audit process and conduct periodic surprise cash checks. It would also be responsible for recovery of loan from VLF / SHG members and help in Bank Linkages of eligible SHGs after completion of grading.

#### **5.5.6 Village Level Federation Education Committee (Sub Committee)**

Members from Executive Committee shall also be the member of Education Sub Committee and shall promote educational support to the VLF members families and to the Community.

#### **5.5.7 Village Level Federation Health and Insurance Committee (Sub Committee)**

There shall be a Health and Insurance Committee at the VLF whose members would be selected from Executive Committee. They would be required to promote medical assistance, health and hygiene awareness programme to Community. They would also promote life and assets security to members.

#### **5.5.8 Village Level Federation Social Audit Committee**

Members from Executive Committee shall become the member of the VLF Social Audit Committee. The committee shall carry out periodic audits (including financial) of the VO, community producers group etc. It would also be supposed to certify all milestones certificates and submit regular reports to BMMU.

### **5.6 CPSMS Integration Subject Areas**

There shall be an account validation for agencies and beneficiaries / vendors. Since the banks validate them between 10 minutes to 3 Hours, it would capture the daily transaction data of all validated agency accounts and historical data from the beginning of financial year. The Cheque Book Data for in use cheque book(s) for agency accounts when account is registered and as and when cheque book issued shall get integrated with the system. Similarly, cheque return data for all agency accounts on instances where cheque is returned with reason for analytics / corrective action shall be disclosed.

There shall be different ways to ensure compulsory component-wise fund utilization for generating FMIS. E-payments through CPSMS and printing of advice that is duly signed by authorised signatories of bank account. Internet banking through authorisation of batch by officials and authorisation through digital signatures. The CPSMS shall also provide a mechanism for reaching non-CBS Post Offices / Coop Banks-Models at a later stage

## CHAPTER – 6 INTERNAL CONTROL AND FINANCIAL REPORTING

**Annotation:** The idea of clubbing internal controls with financial reporting is to maintain greater transparency where the internal control mechanism would depict to the stakeholders the level of reporting externally. The chapter starts with a note on need and objectives of Internal Controls and Financial Reporting and later explains the processes and reporting structure and mechanism. Next section brings out the various features of the internal control mechanism followed by guiding the frequency and periodicity of various reports. The chapter also deals with various types of reports that need to be generated at multilevel centers for various stakeholders and ends with a note on Financial Management indicators.

### 6.1 Need for Internal Controls and Financial Reporting

Internal Control System comprises all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its affairs. On the other hand financial reporting entails an accurate, objective and to the point reporting and disclosure of financial statements in bold relief that could be used for Management Accounting purposes.

JSLPS shall generate timely, accurate and reliable financial statements fully reflecting the performance of the project for its effective monitoring and control. Financial reports should facilitate timely decision making and achievement of project objective and provide for an exceptional reporting leading to further check and internal controls that should be self sustainable and more on an auto pilot mode. Internal Controls are essential to ensure compliance with rules and regulations and applicable local laws, authenticity of financial and operational reporting and effectiveness of operations. Various internal controls are evaluated as to the risks associated with finance management to ensure utilization of funds from the MoRD and to ensure accuracy and reliability of the books of accounts and financial statements.

Internal controls are integral part of any sound financial management system. It needs to be exercised at various levels to ensure the accuracy and reliability of the financial transactions It will ensure proper use of funds for the purpose for which it is provided and protects the assets of the organisation. The internal control system proposed also detects any arithmetical mistakes, errors, wrong classification and alarms or cautions any abnormal transactions and variations in the budget etc, with checks and balances at various levels. The success, efficiency and the effectiveness of the financial management depend to a great extent on the “Quality” of the Internal Controls and the “Financial Discipline” adopted by the organization.

A strongly designed internal control mechanism qualifies for a strong reporting mechanism. There is a strong need for a structured financial reporting system as the same is also a part of the internal control mechanism. The proposed Financial MIS has been designed with the following main objectives:

- To provide Mission implementing agencies with relevant information that would enable them to plan, monitor and control the various Mission activities.
- To identify and report critical areas of information which are relevant at different levels of Mission implementing agencies and would facilitate in decision making at those

levels.

- To provide a basis for evaluation of various Mission activities by regular comparison of actual with the budgets
- To provide a basis for taking remedial actions to correct any adverse trend.
- To facilitate 'management by exception' by presenting critical and select information to the top management of the program, donor agencies the UNDP / World Bank and State Governments.
- To assist consolidation at various levels.

## 6.2 Reports Associated with Internal Control Mechanism

As mentioned elsewhere, internal control mechanism plays an important role in identifying the grey areas that need to be plugged in and create exceptional reports. The routine as well as these reports can be divided into two parts namely, Internal Reports and External Reports. The CPSMS would create a Decision Support System (DSS) for all levels of programme administration (Centre, State, District and Local Government, i.e. Panchayat / Municipality) and hence would facilitate an auto control mechanism of tracking of budget versus actual.

### 6.2.1 Internal Reports:

Reports that are generated by the Project, which will assist in preparation of the External Reports, are Internal Reports.

S.NO	TITLE OF REPORT	PERIODICITY	BY WHEN	PREPARE BY	SUBMIT TO
1	Interim Financial Report by Project Components- Consolidated & Summary by each Block	Monthly	15 <sup>th</sup> of following month	BMMU /DMMU	SMMU.
2	Statement of CIF Funds released for which UC has not been received.	Quarterly	15 <sup>th</sup> of following Quarter	BMMU / DMMU	SMMU.
3	Executive summary of internal audit report with actions taken on the findings	Quarterly	15 <sup>th</sup> of the following Quarter	BMMU/DM MU	SMMU.
4.	Financial Management Indicators	Half Yearly	15 <sup>th</sup> of the end of each period of 6 Months	BMMU/DM MU	SMMU.

### 6.2.2 Features of Internal Control System

It is recommended that the internal controls should be incorporated in the accounting system

(built-in) and adhered to on a routine basis – as a financial discipline to derive the optimum benefits of the FM system.

Internal check means the checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the objective being prevention or early detection of errors or frauds. It is the responsibility of the auditors to examine the system of Internal Control existing in a PRI in order to assess its efficacy before planning the audit and determining the extent or quantum of checks to be exercised.

As mentioned earlier, Internal Controls System provides for an auto check based on management's policies and procedures in order to assist achieve management's objective and ensures the orderly and efficient conduct of its affairs. It shall include adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. On the other hand, the internal audit function shall constitute a separate component of internal control with the objective of determining whether other internal controls are well designed and properly operated.

### **6.2.3 Bank Reconciliation**

As a part of internal control system, the Accounts personnel at State Society shall undertake the following activities to ensure proper internal controls.

There shall be a Bank Reconciliation that shall be prepared on a monthly basis. It shall analyse:

- Reviewing the details of the variations such as reasons for long outstanding bank credits (cheques deposited not yet credited). It might reveal that cheques were not deposited in- time.
- Long delay in encashment of cheques issued by the project / its implementing offices. It might reveal that cheques were not physically handed over in-time / posted as indicated in the books.
- Unusual credits and debits in the bank transactions.
- Delay or not accounting of bank charges or interest credited by bank etc,

At the district units, the District Accounts officer shall prepare the Bank Reconciliation Statement (BRS) every month and District Project manager will sign the BRS. In the Block units, Block Accountant will prepare the BRS that shall be signed by the Block Mission / Project Manager.

### **6.2.4 Monthly Review of Receipts, Payments and Expenditure**

There shall be prepared a monthly Receipts and Payments statements. It would provide for a control mechanism on the following:

- To analyse the utilization of funds provided and raised by the organization.
- Preparation of monthly Trail Balance.
- To ensure accuracy and correctness of the books of accounts

Similarly, a monthly reconciliation of payments with expenditures shall be performed to ensure that proper accounting as all payments are not expenditures.

- Monthly Review of financial progress against Annual Budget (quarterly target)

identifying the variance to ensure that project is progressing as planned and to plug any deviation or to take necessary steps to set right to achieve the target.

- Monthly monitoring of major works/contracts with respect to time and cost over-runs to ensure that all major contracts are progressing as per the contract terms/mile stones/benchmarks and to alarm slow progress or stagnation in execution, if any, are addressed immediately instead of waiting till the end of the contract period
- Monthly analysis of advances – schedule with agewise analysis to ensure financial discipline and to avoid any blockage of project funds for a long duration.
- Monthly analysis of statutory payments – deductions and remittances such as sales tax and income tax etc. to ensure that legal and statutory deductions and remittances are made in time and avoid any legal action or penalty for the delay.

### 6.2.5 Assets Review

There shall be a review of all assets including the fixed and current assets.

- **Fixed Assets:** shall be codified and half yearly physical verification undertaken to ensure accountability for the assets provided and to ensure its proper utilization. The payments / purchase of asset, its procurement procedure, sanction order etc. shall be subject to monthly review to ensure that assets have been purchased adhering to the procurement guidelines and properly accounted for. Similarly, insurance policies such as assets insurance, etc. shall be reviewed periodically for timely renewal and to ensure all assets of the projects and its implementing offices are fully and adequately protected against all risks.
- **Cash and Bank Balances:** Monthly confirmation of cash and bank balances / statement of accounts from all the implementing offices shall be obtained to keep a check on whether the accounts personnel properly update books. This helps detect errors and mistakes as well Half yearly bank confirmation of balances shall be obtained.
- **Cash Payment and Limits**
  - The Cash voucher has to be approved by the COO in case the amount is up to Rs.5,000/- and by the CEO if the amount is above Rs.5000/- The Payee has to sign the voucher for having received the payment.
  - As per Income Tax Rules, no cash payment of more than Rs.20,000/- is permitted. Internally, JSLPS shall limit this to Rs.10,000/-.
  - All cash payments exceeding Rs.5,000/- should be receipted with a revenue stamp.
  - The number of cash payments has to be reduced by converting settlements through cheque payments.
  - JSLPS shall minimize cash transactions to extent possible and shall insure movement of cash and cash holdings.

### Cash Count And Verification

This shall be a manual cash count register and required to be maintained by the staff responsible for cash handling, ideally in a register (preferable size 12" x 4") which will show the following entries on a daily basis:

Date:

Opening Balance	Rs. _____(A)
Cash Receipt	Rs. _____(B)
Total	Rs. _____(A+B=C)
Payments	Rs. _____(D)
Closing Balance	Rs. _____(C-D)

- The denomination of the closing balance of the cash should be entered below this and signed by the Cashier. This register is to be maintained from the beginning of the financial Year and a fresh register should be opened, bringing forward the previous years closing balance at the beginning of the next financial year.
- The cash balance along with the denomination needs to be physically verified on a daily basis by the Finance Officers. This needs to be verified by the District Programme Managers in DMMU and State programme Manager ( Finance) in SMMU at-least once in a month.
- Any discrepancy noticed during the physical verification should be recorded and reported in writing to the State Finance Manager and the appropriate authority.
- **Procurements and Contracts:** Monthly procurement limits shall be monitored to ensure that project has adhered to the procurement limits and there is no mis- procurement. The mechanism shall monitor all contracts by reviewing quarterly its financial progress and timeline adherence. An annual confirmation of balances of outside parties shall be obtained.
- **Fund Flow:** “Request Letter” shall be submitted for seeking releases after ensuring the balance available, amount spent and the projected expenditure. Annual review and reconciliation of the status of disbursement in terms of Rupees with the Government of India and State Government shall be undertaken to:
  - Confirm the disbursements with the GOI have been received.
  - Obtain accurate status of disbursement.

In addition, following are the select features, which need to be followed at regular intervals as a financial discipline to achieve the objectives of the FMS:

#### 6.2.6 Requisition Form Submission

A “Requisition Form” shall be submitted for seeking grant

- To check the requisition for funds after considering the balance available and the projected expenditure.

#### 6.2.7 Monthly Review and Monitoring

There shall be a monthly review of the following activities and transactions

- Monthly Review of financial progress against Annual Budget (quarterly target) identifying the variance. This would be targeted to ensure that project is progressing as

planned and to plug any deviation or to take necessary steps to set right to achieve the target.

- Monthly analysis of advances – schedule with aging analysis shall be done to ensure financial discipline and to avoid any blockage of project funds for a longer duration.
- Monthly analysis of statutory payments – deductions and remittances such as sales tax and income tax etc, shall be performed to ensure that legal and statutory deductions and remittances are made in time and avoid any legal action or penalty for the delay.
- Numbering of assets and its periodic physical verification shall ensure accountability for the assets provided and to ensure its proper utilization.
- Monthly review of the various insurance policies, such as cash insurance etc, and its periodic renewal. This would also ensure that all assets of the Society and its implementing offices are fully protected / secured in case of any eventuality such as accident/ fire/ theft etc.

Obtaining quarterly confirmation in addition to monthly confirmation of transactions such as cash and bank balances / statement of accounts from all the implementing offices shall provide a check on the accounts personnel to update his books and verify with the Bank balances and detects errors and mistakes if any.

#### **6.2.8 Quarterly Review and Monitoring (Time and Cost Overruns)**

There shall be Quarterly / Monthly monitoring of all Works / contracts / partnership agreement with respect of time and Cost Over-runs. It facilitates that all contracts / Works / agreement are progressing as per the terms of contract / milestones / benchmarks and to alarm slow progress or stagnation in execution, which enables the Mission to take necessary corrective action for any deviations or slow progress identified.

Similarly, quarterly and monthly monitoring of the procurement limits especially the force account and local shopping, etc, shall ensure that project has adhered to the procurement limits and avoids any mis-procurement or ensures control over the procurements.

**6.2.9 Reports to be submitted by SMMU to NMMU:****Table 6.1: External Reports to be submitted by SMMU to NMMU**

<b>Sl No</b>	<b>Report Type</b>	<b>Periodicity</b>	<b>Timeline</b>
1.	Consolidated IUFRR of State	Quarterly	Within 30 days of end of each quarter.
2.	Utilization Certificate.	As and when due for the tranches as per MoRD guidelines.	As and when due for the tranches as per MoRD guidelines.
3.	Consolidated Audit Report of State.	Annually	31 <sup>st</sup> July of every Financial year of previous financial year.
4.	FM Indicator for states	Six Monthly.	Within 30 days of end of each period of six months.

SMMU shall prepare quarterly IUFRR for its expenditure, which will be signed by the Head of SMMU / COO / CEO.

**6.2.10 Consolidated IUFRR of State:**

The SMMU shall further prepare one consolidated quarterly IUFRR for the entire State which shall be signed by the Head of SMMU and send it to NMMU within 30 days of completion of each quarter. The SRLM financial reports will reflect all sources (GOI and State Share) and uses of funds with detailed statement of NRLM related expenditures.

**Table 6.2 : Description of Consolidated IFRs**

<b>IUFR Title.</b>	<b>Description of IFRs</b>
Source and uses of Funds-States	The IUFR provides the following information for state: <b>A. Opening Balances.</b> <b>B. Receipts include:</b> i) Grants received from MoRD. ii) State Share iii) Any other Receipts. <b>C. Uses of Funds</b> i) NRLP by Components. ii) NRLM (summary only) iii) Other projects (summary only) <b>D. Closing Balances</b> i) Cash and Bank Balances. ii) Advances.
Expenditures against Annual Work Plans.	Detailed information for state against sub- components for: i) Approved Annual Work Plan. ii) Actual Expenditure Reported: - For quarter. - Cumulative to date.
Forecast of expenditures for two six months period ending....	Forecast for next 2 six monthly periods of expenditure at state by sub-components.
Summary of payments for prior review contracts.	Summary of payments of prior review contracts for state.

### 6.3 Financial Discipline

While the internal and stakeholders reporting mechanism has been described above, there exists a need for bringing in financial discipline amongst the stakeholders by JSLPS. Apart from the above, if necessary the Society can impose any other financial discipline to ensure quality of the finance and accounting records to generate timely, accurate and reliable financial statements:

- Update books on daily basis
- Record transactions legibly
- Providing full and complete description of the Transaction as narration in the “Vouchers” and books of account.
- Providing cross reference such as bill no., invoice no., GRN no., cheque no., purchase

- order no., etc., in the vouchers and books of account and enable audit trail
- Striking Total and balances on daily basis.
  - Checking opening and closing balances of cash, bank and other ledgers and accounts
  - Surprise Physical verification of cash balance by senior officers.
  - Authentication and marking of details of payments on bills and avoiding duplicate payments stamping of bills immediately after payment
  - Preparation of monthly summary of transactions and certification by the Finance officer
  - Ensure serial numbering of all type of vouchers – Payment vouchers, Bill Payables, Journal etc,
  - Receipt books to be pre-numbered with duplicate / carbon copy retained
  - Timely issue of receipt for amount received.
  - Timely Deposit of cheques / Demand Drafts / excess cash into bank preferably on same day or next day.
  - Maintain vouchers and supporting documents of transactions in a separate file
  - Maintain consistency in classification of expenditure
  - Posting transactions to ledgers/sub ledgers regularly
  - Update the latest circulars, orders and implement it without any delay
  - Obtain and update the minutes or proceedings of the meetings or committees of its approvals for any activities and adhere to its decision.
  - Ensure that sundry registers such as Postage registers, telephone registers, logbooks for vehicle, etc., any private use of these need to be recovered from the users.

#### **6.4 Internal Audit**

JSLPS shall engage qualified Chartered Accountant Firm(s) for carrying out internal Audit as per the TOR and Selection Process mentioned in the relevant Chapter - Audit Arrangement, section -Internal Audit. The Internal audit will include payment audit as well as independent appraisal of the financial, operational and control activities of the programme.

6.4.2 Utilization Certificate: The UC is to be submitted to NMMU for release of funds to State. Please refer to Chapter on Flow of funds for more information on tranches and Annexure No 4 for format of UC.

#### **6.5 Financial Management Indicators**

Financial management indicators are a set of parameters which have been developed to monitor whether financial arrangements are working satisfactorily at the SMMU. This shall cover FM aspects such as staffing, Training, accounting, financial reporting etc . SMMU will submit consolidated Financial Management Indicators on a half yearly basis to State Government as well as the NMMU within 30 days of end of each period of 6 months.

#### **6.6 REPORTS FROM VO/BLF TO THE MISSION**

BLF / VOs shall prepare a report each month and submit it to BMMU which would indicate:

- Amount received from BMMU, amount spent on various items and balance in the bank

account or cash.

- Fund released to VOs./SHG
- Recovery made against the loan during the month.
- Any funds received from other sources
- Other reports of the CBOs for administration of the funds and activities

However, accounting at the BMMU would not be based on this statement. BMMU would monitor the regularity of submission of this statement. Updated submission of these monthly reports would be required before release of subsequent installments. This report would not be used at the Block / District either for accounting or for determining the amount of money to be released to the BLF / VOs. Its main objective would be to inculcate a sense of ownership and responsibility in the VO / BLF for regular updating of accounts. The BLF /VO shall maintain the books and records to account for the expenditure as per the system of accounting prescribed in the contract. The BLF / VO shall submit Utilisation Certificate on monthly basis to the BMMU to facilitate monitoring of the expenses. Reports that are generated for the purpose of submission to the BMMU are the Internal Reports. They are further classified into quarterly and annual reports

Following shall be the frequency and periodicity of the reports that would be prepared and submitted.

**Table 6.3: Periodicity and Frequency of Reports**

Sl No	Title of Reports	Periodicity	By When
1.	Receipt & Payment Account	Monthly	By 15 <sup>th</sup> of Next Month
2.	Physical & Financial Statement on CIF release	Monthly	By 15 <sup>th</sup> of Next Month
3.	Audited Financial Statements.	Annual	30 <sup>th</sup> June of following
4.	Utilization Certificates.	As and when required as per JSLPS guidelines.	

## 6.7 Control Mechanism and Disclosure through the CPSMS

There shall be a comprehensive real time information, reaching up to the last mile including transaction details that shall be made available across agencies- both at vertical and horizontal levels (geographic location wise). They would captures transactions straight from bank accounts of agencies and shall be disclosed as component wise transactions captured that would strengthen internal controls. This would create a reliable financial data and potential network with other databases and shall provide potential as baseline for social audit of welfare schemes.

## Chapter-7 AUDIT ARRANGEMENTS

**Annotation:** The chapter on Audit Arrangement deal primarily with the general principles and practice of audit, the technique adopted by the auditors and the process and procedure followed during the course of audit of VOs / Panchayats in particular with special reference to the Act, rules and notifications and instructions issued by the concerned authorities from time to time. It is also designed to examine financial transactions, performance and the social objectives by verifying the receipt and utilisation of funds made available to the Blocks and VOs / PRIs under various schemes, to evaluate their performance and participation of the people in the best interest of the Villages.

### 7.1 Audit Specific to Village Organization / Panchayat

Audit of a VO / Panchayat is much more elaborate than Audit of a commercial undertaking. Besides certifying the correctness of the Balance Sheet and the Income and Expenditure, the Auditor has also to ascertain how far the VO / Panchayat has achieved the objects for which it has been established. Thus, the amount of Profit earned is not the only result expected in the Audit of Panchayat. How far the VO / Panchayat has succeeded in furthering the moral and upliftment of its members is an important aspect of which the Audit is required to focus. Besides the above, audit of VO / Panchayat has to take into consideration the adherence to provisions of the Panchayat Raj Avam Gram Swaraj Adhinyam Act, 1993 & Rules made there under and other relevant Act as well as the Bye-laws of the Panchayat. Various aspects included in the Panchayat are as follows:

- Financial audit
- Physical verification
- Social audit, and
- Performance Audit

#### 7.1.1 Financial Audit

A financial audit, or more accurately, an audit of financial statements, is the examination of the financial transactions (including income and expenditure) of the VO / Panchayat, to ascertain their correctness and authenticity, and to enable the examiner to form an independent opinion whether or not those financial statements gives true and fair view on the affairs of the auditee.

#### 7.1.2 Physical Verification

Physical Verification includes observation, listing, counting, and measuring of :-

- Assets such as cash in hand, bank balances, fixed Deposits, tools and implements, other fixed assets, stocks, etc.
- Expenditure done under various schemes (for example construction of roads, bridges, sanitation, health facilities, education, unemployment, etc.) and
- Other records and documents of a Panchayat.

The frequency and methods used for verification will depend on the type and nature of asset being verified, duration of work, schemes of government etc.

### **7.1.3 Social Audit**

Social audit is the participation of the members of all form of Panchayat in the activities of PRIs. In other words, it is the participation by the members of the Gram Sabha, Gram Panchayat, Janpad Panchayat, Zila Panchayat, as the case may be in approval of financial transactions, conduct and activities of the PRIs to achieve the basic objective of PRIs. It is the process to involve each and every member of PRI in the activities conducted or to be conducted for their benefit. Under PRI, social audit is achieved through holding meeting of members of PRI ensuring their participation in decision making process.

Social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. Social Audit is a process through which an organization or agency is able to understand the social impact of its activities. It values the voice of members, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing governance and for strengthening accountability and transparency in organization. Thus social audit is a process in which the people work with the government to monitor and evaluate the planning and implementation of a scheme or programme, or indeed of a policy or law. The Society shall be required to perform social audit on the prescribed lines.

### **7.1.4 Performance Audit**

Performance audit refers to an examination of execution of schemes, functions, operations or other government initiative, implemented by the VOs / PRI and to assess whether the VO has achieved economy, efficiency and effectiveness in the employment of available resources and may include the detection of fraud, waste and abuse. Thus Performance audit shall be conducted to ensure true letter and spirit in the utilisation of fund for which it was provided. The chapter shall therefore be useful not only to the auditors of VOs but also to the persons who are directly indirectly concerned with BMMU and VOs in any capacity. It shall bring consistency in operation, accounting and auditing.

## **7.2 Statutory Audit**

### **7.2.1 Objective of Statutory Audit:**

The Objective of Statutory Audit would be to provide confirmation to various stakeholders on the accuracy of project financial statements, compliance with credit agreements and legal obligations and overall effectiveness of financial management system of the NRLM.

It may not be possible to pin point all the possible situation and problems to be faced by auditors in course of audit of Mission accounts at all levels in the multi-diversified activities undertaken by them. However, an attempt has been made to deal with major important problems of audit which will be required by a large number of Auditors undertaking audit of Panchayat. In brief, this chapter will provide necessary guidance to the Auditors and shall provide a workable guide to improve professional skill and knowledge for the performance of their duties.

It may be added here that the instructions outlined in the manual are neither complete nor exhaustive on audit techniques and auditing but are limited to the providing a workable guide to

be modified with passage of time according to change circumstance in each case while undertaking audit of particular types of VO / Panchayat. In applying the guidelines given in the manual, the Auditors must apply his common sense and experience in dealing with a particular problem. Difficulties faced during actual field audit and experience gathered by Auditors in the conduct of audit will contribute to supplement this manual for ensuring effective audit..

### **7.2.2 Domain of Audit**

Statutory Audit of JSLPS (SMMU and DMMU) will be conducted by independent Chartered Accountants firms as per terms of reference. A "Draw down" list of CA firms, based on agreed criteria, will be made available for the states for procuring their services by NMMU. However, the accounts of the JSLPS will be open to audit both by C&AG of India as well as by the Principal Accounts Office of MoRD. SMMU will submit consolidated annual audit report for state to NMMU, MoRD.

At the SHG Federations level the annual accounts will be subjected to Statutory audits as required by State laws. The JSLPS will enter into a draw down contracts with select certified CA firms at State and district levels and agree on fixed price budgets as well as the audit of ToRs and templates for the annual financial statements. The SHG Federation audit reports will be monitored at the state level and will not be considered a part of NRLMs audit requirements.

### **7.2.3 Submission of Annual Audit Reports:**

The Consolidated Audit reports of JSLPS will be submitted to NMMU by 30th July every year for previous financial year. The Annual Audit report will consist of:

- Audit Opinion, confirming whether the Mission financial statements have been prepared in accordance with consistently applied Accounting Standards and give a true and fair view of the operations of the Mission during the year and that the withdrawals made from MoRD made on the basis of IFRs, procedures and internal controls involved in their preparation, can be relied on to support the related withdrawals.
- Annual Financial Statements.
- Management Letter highlighting significant issues to be reported to the management.

The Audit report with the management letter will be submitted to NMMU / GOI within 5 months of the close of each financial year. TORs for the audit has been prepared and placed in the Annexure

### **7.2.4 Monitoring of Audit Process by SMMU:**

SMMU will implement a regular system of review of audit process, including quality of audit at state level, district level, audit observations and monitoring compliance of the observations by implementing units.

### **7.2.5 List of Accounts to be audited by Auditors**

- Pay & Allowance, Honorarium & Remuneration
- Training/Workshop Programme
- Procurement of materials & Services
- Stock Accounts
- Civil Works

- Outstanding advances & their adjustment
- Hiring of Vehicles & POL A/Cs
- Stamp accounts & imprest A/Cs
- Receipt & Payment, A/Cs, Income & Expenditure A/C and Balance sheet
- Activity wise Budget & Expenditure
- All expenditure vouchers.
- Checking & verification of Bank Reconciliation Statement (BRS)

### 7.3 Statutory Audit Calendar

The following time table is prescribed for the external audit arrangements which should be strictly followed.

**Table 7.1 : Audit Calendar**

1.	Date of GB's approval for engagement of auditors	Between Jan and March of every year.
2.	Date of engaging CA firm	By April of every year at the outset.
3.	Completion of Audit of SMMU.	By June of every year.
3.	Review and Analysis of State Audit Reports by SMMU and preparation of Summary of Audit Reports of Mission.	By June of every year
4.	Submission of Consolidated Audit Reports to MoRD/NMMU.	By 31 <sup>st</sup> July of every year.

### 7.4 Addressing of Statutory Audit Observations/Recommendations

Any adverse comments of the internal auditors need to be looked into and rectified immediately at State, District and Block Units. Any serious comment shall be thoroughly investigated to see if internal controls exist in the areas reported and if internal controls are missing or lacking, sufficient remedial measures have to be taken immediately to rectify the problem. In such a case, a critical report shall be submitted by the Auditors to the Executive Committee of State Society immediately.

### 7.5 Settlement of Audit Queries/Objections

The Head of Finance, PM Finance, shall be primarily responsible for proper settlement of audit queries. The Accounts heads at the respected units shall also settle the queries by him / her or ensure that the respective official gives the proper explanation to the auditors to settle the audit

queries. The audit queries shall be settled promptly to the satisfaction of the auditing authorities. The following two aspects of the queries shall be attended to by the units audited:-

- **Quantitative Perspective** - it is incumbent upon the units to stick to the schedule prescribed by the Finance Specialist who is responsible for prescribing the time limits for the replies.
- **Qualitative Perspective** – unit shall take actions to improve the quality of accounting and controls

The audit replies shall ensure that all the information desired is provided and the query is addressed in its entirety and suitable corrective actions are taken / initiated wherever required. The systems and procedures are tuned and revitalized in such a manner as to ensure that such mistakes / errors are not repeated in future and the losses to the Mission are recovered from the guilty, and the Institutional Capacity Building mechanism is geared up to educate the employee on the need for better compliance with rules and regulations.

## 7.6 Internal Audit

The Society / Mission shall have an effective Internal Audit function to provide the checks and balances in the financial management systems. It also shall provides value addition by ensuring that the terms and conditions of the doner credit are fully met.

The Mission accounts will also be subjected to quarterly internal audit. Firms of chartered accountants will be engaged by the SMMU to conduct a quarterly audit of the State, District and Block Units and a sample of SHG, VO and BLF and submit management letters to the Management. The TORs of the Internal Audit task have been drafted and attached at Annexure. The Key Internal Audit Functions are:

- Ascertain whether the systems of internal checks and controls operating are effective.
- Ascertain reliability of Accounting financial reports.
- Ascertain the extent to which the systems in place prevent misuse of project assets.
- Ascertain whether the financial rules and procedures as laid down in the Manuals are followed.
- Sample verification of SHG, VO and BLF

### 7.6.1 Objectives of Internal Audit

Internal Audit is a control that functions by examining and evaluating the adequacy and effectiveness of other controls throughout the organisation. The objective of the internal audit is to seek a professional opinion on the financial position of the Mission.

The internal auditor shall ensure that funds received and expenditure incurred for the accounting period are in accordance with the laid down financial regulations, procurement procedures and other orders issued from time to time and that proper accounts are maintained at all levels.

The internal auditor must to visit the Community based Organisations i.e. Block Level, Village Level federations, SHGs, Producer Organisations / Collectives and express their opinion on the functioning of Financial Management System, Funds Flow Mechanism etc. on a quarterly basis. They also provide on the job support to such organisations and give suggestions for

further improvement in different aspects by taking into consideration the field level realities.

The Internal Auditors shall prepare quarterly reports and an annual audit reports. Internal Audit report shall contain results of a 100% check of the accounts. The Internal Audit shall review project financial management systems and adherence to Government orders, office orders, instructions issued by the State Society, adequacy of internal controls etc. The Audit shall check the effectiveness of the overall financial management arrangements of the Mission at all levels.

It shall provide necessary support to the Project Management with timely information on the following:

- Accounting and financial management aspects of the Mission.
- Adequacy of internal controls.
- Compliance with the various financial arrangements as well as stakeholders
- It shall provide data for corrective and follow up measures.

#### **7.6.2 The Key Internal Audit functions are:**

The internal audit shall be conducted on all payments made each month. The Finance Head shall collect monthly FTR reconciliation statements duly signed by the DMMU / BMMU. The Finance Head shall collect and furnish FTR reconciliation statement duly signed by District Officers to Society. The Internal Auditors shall check the reconciliation reports with reference to approved hard copies of Debit Vouchers and carry out the internal auditing. If any discrepancy is seen during reconciliation, the DO shall initiate necessary action immediately. He / she shall also bring such discrepancy to the notice of his / her immediate reporting officer and SMMU. JSLPS shall develop a strong MIS system using the status of Debit Voucher data base for the purpose of monitoring the entire system. SPM (Finance) with the assistance of PM (Finance) shall reconcile all the bank wise payments/transactions taken place in the entire state with bank statements. However, following functions need attention on internal audit.

- Ascertain whether the systems of Internal Checks and controls are effective.
- Ascertain reliability of Accounting financial reports.
- Ascertain the extent to which the systems in place prevent misuse of project assets.
- Ascertain whether the financial rules and procedures as laid down in the Manuals are followed.
- Sample verification of SHG,VO & BLF.

#### **7.6.3 Addressing Internal Audit Observations/Recommendations:**

Any adverse comments of the Internal auditors need to be looked into and rectified immediately by the State, District and Block Units. Any serious comment shall be thoroughly investigated to see if internal controls exist/ed in the areas reported and if the internal controls were /are missing or lacking, sufficient remedial measures have to be taken immediately. In such a case, a critical report shall be submitted by the auditors to the Executive Committee of State Society immediately.

#### **7.6.4 Monitoring of Internal Audit Process by SMMU:**

SMMU will implement a regular system of review of Internal audit process, including quality of audit (at state level, district level, Blocks and Community level), audit observations and monitoring compliance of the observations by implementing units.

#### **7.6.5 Coverage and Standards for the Audit**

The audit would cover the entire Mission i.e., covering the implementing units at the Mission level (SMMU, DMMU and BMMU) and the Village Institutions (SHG, VO, CLF and BLF) on a sample basis the audit would also cover all consultancies or other contracts that may be entered into by the implementing agencies. The internal audit should be carried out in accordance with the Auditing & Assurance Standards prescribed by the Institute of Chartered Accountants of India and will include such tests and controls, as the auditor considers necessary under the circumstances. Specific areas of coverage of the audit will include the following:

#### **7.6.6 List of Books of Accounts/Records to be audited by Auditors (Internal)**

- At the District Office and / or Block Office
- Cash Book
- General Ledger
- Advance Ledger
- Bill Register
- Acquittance Roll
- Cheque issue Register
- Assets Register
- Govt. Deduction Register
- Training/Workshop Programme Register
- History of Vehicle & Logbook.
- Stock Register
- Fund receipt Register.
- Fund Issue Register.
- Audit Objection Register.
- Honorarium register.

#### **7.7 Management Letter**

In addition to the audit report on the Mission financial statements, the auditor may prepare a management letter containing recommendations for improvements in internal control and other matters coming to the attention of the auditor during the audit examination, possibly including matters such as the following:

- observations on maintenance of the accounting records, systems, and controls that were examined during the course of the audit.
- deficiencies or weakness in systems and controls, together with specific

- recommendations for improvement
- compliance with financial covenants in the financing agreements
- matters that might have a significant impact on the implementation of the Mission
- the status of recommendations from previous management letters, including any issues which remain to be addressed and any issues which recurred
- any other matters that the auditor considers pertinent.

The auditor should come up with a copy of the management letter together with the audit report on the Mission financial statements. In the event that no management letter is issued, the auditor should supply a written advice to that effect together with the audit report on the Mission financial statements.

### **7.8 Audit by the Comptroller and Auditor General of India**

The accounts of the Society shall also be subject to the provisions of comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act. 1971 as amended from time to time.

**Certification audit:** Certification of annual accounts involves verification of accounts with reference to books of original entry, ledgers, subsidiary books of accounts, etc., to see that accounts are in accordance with the books. Following are the essential features of the audit:

- to make critical review of the system of maintaining accounts books, accounting and internal control;
- to make such tests and enquiries as the auditors consider necessary to form an opinion as to the reliability of the records as a basis for preparation of accounts;
- the accounts to be certified are complete in all respects and the possibility of any accounts remaining out of the purview of audit is avoided.
- to compare figures of different accounts schedules with those of the connected records in order to see whether they are in accordance with the transactions depicted therein;
- to make a critical review of the accounts in order that a report may be made stating whether, in the opinion of the auditors, the accounts are presented and the items are described in such a way that they properly present the receipts & payments of the PRI.

### **7.9 Submission of the Audited Accounts:**

On receipt of the audit reports, the CEO shall submit the same to the Chairman of EC and the Chairman shall thereupon place the audit reports before the GB for approval. The Mission shall, after taking such action as it may deem fit and proper up to the audit report, audit objections and audit observation or recommendation etc., shall submit two copies of the audited accounts Mission along with the audit report and observation etc. to the State Government with a request to transmit the other copy thereof along with the comments, if any, of the State Government. to the Central Government.

### 7.10 Social Audit:

Social audit is the participation of the members of all form of Panchayat in the activities of PRIs. In other words, it is the participation by the members of the Gram Sabha, Gram Panchayat, Janpad Panchayat, Zila Panchayat, as the case may be in approval of financial transactions, conduct and activities of the PRIs to achieve the basic objective of PRIs. It is the process to involve each and every member of PRI in the activities conducted or to be conducted for their benefit. Under PRI, social audit is achieved through holding meeting of members of PRI ensuring their participation in decision making process.

Social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. Social Audit is a process through which an organization or agency is able to understand the social impact of its activities. It values the voice of members, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing governance and for strengthening accountability and transparency in organization.

Thus social audit is a process in which the people work with the government to monitor and evaluate the planning and implementation of a scheme or programme, or indeed of a policy or law.

The Social Audit functions carried out by the Social Audit Committee will also include financial reviews and audits on all aspects of quality, quantity and procurement etc. The Social Audit will be performed by Different stakeholders including Social Audit Committee of BLF / VLF and by Community comprising members of SHGs, Federations, BPL families etc.

#### 7.10.1 Linkages of Social Audit and Internal Audit.

The output of Social Audit performed by Social Audit Committee shall act as an input to Internal Audit and the output of internal audit performed will be input to Social audit.

Activities to be covered under Social Audit process :

- Raising awareness of rights, entitlements and obligations under the project.
- Specifically , about the right to participate in a Social Audit.
- Ensuring that all forms and documents are user friendly.
- Ensuring all relevant information is accessible, displayed and read out.
- Ensuring that the decision making process is transparent, participatory and as far as possible , carried out in the presence of the affected persons.
- Ensuring that all decisions, and their rationale are made as soon as they are made.
- Frequent meeting/ interaction among implementing units, service providers, federations and Self Help Groups.
- Ensuring that the findings of social audits are immediately acted upon.
- Also ensuring that these findings result in the required systematic changes.

#### 7.10.2 Steps in Social Audit:

Following steps should be adopted to perform Social Audit:

- Identify the various stages of NRLM
- Identification of the vulnerabilities in each stage: Vulnerabilities will be identified in terms of what can go wrong, what can be corrected, what distortions can occur and

what biases creep in.(An analysis has been explained below)

- Identify for each stage appropriate measures to be taken to ensure that the identified vulnerabilities are addressed through relevant Social Audit mechanism.
- Identify the professionals and institutions that will be responsible for ensuring that the
- Social Audit is organized properly.
- Call a meeting of the group, federation and other stakeholders to discuss about the principles and methods of Social Audit
- Public hearing of affected persons
- Follow- up actions on Social Audit.

### 7.10.3 Survey Method under Social Audit:

Different methods can be chosen for Social Audit so as to capture both quantitative and qualitative information of the Self Help Group, Federation and other Stakeholders.

However following indicative methods could be applied:

- **Postal survey:** This method of survey is relatively less expensive and found to be more useful when same instrument can be sent to a large number of SHGs and federations.
- **Group administered questionnaire:** Under this method, a sample of respondent , number of SHGs and Federations is brought together and asked to respond to a structural sequence of questions. This method is ideal for collecting information from the groups who join for village meetings and it is relatively easy to assemble the group in a village setting. This method offers a higher response rate and if the respondents are unclear about the meaning of a question they could ask for clarifications.
- **Household drop-off :** In this approach, the Social Auditor goes to the houses of the members. This method is expected to increase the percentage of respondents. However, the applicability of this method is geographically limited, slow and expensive.
- **Personal interviews** with the members of SHGs, federations and the stakeholders: Interviews are a far more personal form of research than questionnaires and is very useful in finding qualitative remarks. This method helps to learn more about the situation in detail, to discuss issues that would be difficult to address in group situations and to reveal their personal perspectives on a particular topic.
- **Interview with key formants** from SHGs, Federations and other stakeholders: The information collection should be at random, covering representatives from SHGs, Federations etc., who can view point with special knowledge so as to gain insights into particular subjects.
- **Group interview** with representatives of SHGs and Federations: This method of information collection allows a focused discussion on particular issues concerning the community. This method requires less resources compared to personal interviews.
- **Telephonic interview** with SHGs, Federation and other stakeholders: Telephone interviews enables the Social Auditor to gather information rapidly. Like personal interviews, they help to develop some personal contact between the interviewer and the respondent and this method offers the possibility of probing into details.
- **Semi Structured interview :** Semi structured interview will also be used for listening to

the perspective of different stakeholders including members of Self Help Groups and federations.

- **In depth interview:** In depth interview will also be conducted with SHG members, representatives of federations and other stakeholders. In depth interviewing involves asking questions, listening to the answers and then posing additional questions to clarify or expand on a particular issue.

#### **7.10.4 Steps to Check Vulnerability**

As part of the Social Audit there are various areas where vulnerability could be found for various reasons. It shall be the duty of the auditors and responsibility during the social audit to suggest provide for corrective action after transparently identifying and highlighting the issues.

The table below provides an indicative list of areas of vulnerabilities and certain steps that might ensure transparency and promote the cause of social audit.

**Table 7.2 Vulnerability and Ensuring Transparency**

<b>Stage</b>	<b>Vulnerabilities</b>	<b>Steps to Ensure Transparency and Social Audit</b>
<p>Social Inclusion</p>	<p>Exclusion due to remote place, bad connectivity, poor access etc.</p> <p>Lack of access to mission units, Community Service Providers</p> <p>Physical segregation of primitive tribal groups and lack of access to the services.</p> <p>Exclusion of disadvantaged, marginalized sections.</p> <p>Exclusion of disabled and physically , mentally challenged people of the poorest of the poor category</p> <p>Social exclusion of women because of social and familial proscription.</p> <p>Social Exclusion due to domestic responsibilities</p> <p>Exclusion due to migration</p> <p>Self exclusion for various reasons</p>	<p>Wide publicity and sensitization</p> <p>Selection of Beneficiaries: Effective targeting is a key way to ensure inclusion.</p> <p>Some approaches for effective targeting used by various projects are :</p> <ul style="list-style-type: none"> <li>-Spatial or geographical targeting</li> <li>-Social group targeting</li> <li>-Economic or occupation targeting</li> <li>-A focus on women</li> </ul> <p>Targeting areas using human development indicators.</p> <p>Areas with poor infrastructure development</p> <p>Areas prone to disasters.</p> <ul style="list-style-type: none"> <li>-Conflict- prone zones</li> <li>-Innovative Approaches to include Remote areas.</li> <li>-Participatory identification of poor.</li> <li>-Landless Labourers.</li> <li>-Other occupational vulnerabilities</li> </ul> <p>Focusing on Social Groups and Women:</p> <ul style="list-style-type: none"> <li>-Dalits and Adivasis</li> <li>-Women</li> <li>-Socially invisible groups.</li> </ul> <p>Building institutions of and for the poor:</p> <ul style="list-style-type: none"> <li>-Self Help Groups</li> <li>-Homogeneous Groups</li> </ul>

<p>Institution Building</p>	<p>Exclusion from the groups because of rigidity in the norms of the groups- particularly in case of vulnerable sections.</p> <p>Dropout due to domestic responsibility, social inhibition, familial proscription.</p> <p>Membership criteria may be tilted for dominant groups.</p> <p>Norms and functioning of the institutions may not be friendly to the poorest of the poor.</p>	<p>-Wide publicity and sensitization on the norms of institution building</p> <p>-Proper analysis of the people and the community.</p> <p>-Rapport building with each and every community and their leaders.</p> <p>-Involvement of formal and informal leaders to motivate women to join the Self Help Group movement.</p> <p>-Make them understand the importance and benefits of joining the Self Help Groups.</p> <p>-Involve the excluded women in finding out and analyzing root causes of community problems.</p> <p>-A close relationship with each family and community activities.</p>
	<p>Lack of understanding the vulnerabilities of the poorest.</p> <p>Inadequate access to land and other resources.</p> <p>Poor infrastructure and marketing support</p> <p>Skewed delivery of services.</p> <p>Lack of access to credit</p> <p>Lack of skill and managerial capacity</p>	

<p>Access to institutions / project units</p>	<p>Accessibility to the project units and other institutions and office may not be adequate or easy due to following reasons:-</p> <ul style="list-style-type: none"> <li>-Poor availability of services.</li> <li>-Poor affordability of services.</li> <li>-Social access.</li> <li>-Poor targeting.</li> <li>-Poor quality of services</li> <li>-Poor infrastructure maintenance and supply.</li> <li>-Poor capacities of staff.</li> <li>-Poor governance and accountability.</li> <li>-Poor supervision and monitoring.</li> <li>-Complex and time consuming procedure.</li> <li>-Lack of mechanism for citizen feedback.</li> <li>-Discrimination.</li> <li>-Elite capture.</li> </ul>	<p>The SMMU, DMMU and BMMUs including community service providers adhere to the values/ norms / principles.</p> <ul style="list-style-type: none"> <li>-Well-being of the people</li> <li>-Transparency</li> <li>-Participatory approach</li> <li>-Equity</li> <li>-Inclusiveness</li> <li>-Responsiveness</li> <li>-Consensus</li> <li>-Efficiency</li> <li>-Accountability</li> <li>-Quality of performance</li> <li>-Statutory and procedural standards</li> <li>-Timely service delivery</li> <li>-Timely redressal of grievances.</li> </ul>
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## Chapter 8 FINANCIAL MANAGEMENT DISCLOSURE

**Annotation:** This Chapter summarises Financial Management aspects of the Framework of NRLM. However, at the outset the chapter brings out the tracking mechanism through the Government of India's online tool of CPSMS that shall get integrated into the JSLPS financial transactions.

### 8.1 Web based Electronic Cash Book for the Society

It is highly recommended that an electronic cash book be created and uploaded on the web and be updated at least once a week. This electronic cash book should ideally be a replica of the cash book that shall be maintained by the Society. The cash book would only capture the major heads of account in receipt as well as payment side. While it would broadly depict the cash and bank receipts and payments for the society it would also show the overall situation of the project cash inflows and outflows including transfers made through the CPSMS. However, the web based e cash book would not capture the budget lines of each and every cost center but would transparently show all receipts and payments in the account of the JSLPS. Since the e cash book would be in public domain and would be a 'Read Only' document, enough care for web based security should be taken by the society.

### 8.2 Online MIS Through CPSMS

The Central Plan Scheme Monitoring System (CPSMS) is a Central Sector Plan Scheme of the Planning Commission and is being implemented by the Office of Controller General of Accounts. The scheme aims at establishing a suitable on-line Management Information System and Decision Support System for the Plan Schemes of the Government of India. The system is envisaged to track fund disbursement from Government of India up to the last beneficiary under Plan Schemes and ultimately report on fund utilization at different levels of implementation on a real time basis.

This shall not only make monitoring of the Plan Schemes more effective but shall also augment efficiency of financial management in the public sector. Central Plan Schemes Monitoring System (CPSMS) has been established towards creating a comprehensive Decision Support System and Management Information System. The intended outcome is to generate and monitor Scheme-wise and State-wise releases for Central Plan and Centrally Sponsored Schemes.

### 8.3 Disclosure Management Framework:

NRLM will have a framework for disclosing key information about Mission performance on Mission Websites to demonstrate transparency and accountability towards stakeholders and general public. Disclosure Management framework of the NRLM will be followed at all levels of the Mission units to which the framework is applicable. The SMMU and DMMUs will be responsible for ensuring adherence to disclosure of management policy of NRLM. The Mission progress in all areas, including financial progress, will be made available to the public through Mission website. The disclosure shall include tracking of flow of funds from Centre to the lowest level of implementation. This would be available in the form of on line information on bank balances to facilitate "Just in time" provision of funds to implementing agencies. Real time data on fund utilization including bank reconciliation that would be transaction based. Auto

disclosures on e-Payment to ultimate beneficiaries shall be made available as complete disclosure. Hence there would be a greater dissemination of financial information to citizens and would enhance transparency and accountability in public expenditure.

#### **8.4 Financial Disclosure in Public Domain**

There shall be a well defined set of financial management disclosure that would be displayed in the public domain. The same should be laid of at the website as well as sign boards as detailed below.

##### **8.4.1 Financial Disclosure at SMMU**

Following details regarding the financial management information which should be displayed on the website of the Society

**Table 8.1 Financial Management Disclosure for NRLM.**

<b>Sl</b>	<b>Document</b>	<b>Frequency</b>	<b>Deadline</b>
1	Financial Management Manual (FMM) of the State.	Start of Mission.	NA
2.	I. Circular issued by SMMU regarding FM issues. II. Any Amendments to FMM of State.	As and When issued.	NA
3.	I. FM Guidelines. II. FM Training material and other information about FM Training.	As and When Issued.	NA
4	Annual Approved Estimates for Mission in the State a) Original Estimates. b) Revised Estimates.	Annual	30 April. As and When revised.
5.	Fund Releases to SMMU a)By MoRD b)By State Government.	As and when.	Within 5 days of receipt of funds.
6.	Fund Release by SMMU to  a) Districts b) Other Implementing Agencies.	Quarterly.	Within 5 Days of release.
7.	Consolidated IUFR for the State.	Quarterly.	Within 45 days of end of each quarter
8.	Annual Statutory Audit Report for the State.	Annual.	Within 15 days of submission of Audit Report to NMMU.
9.	FM Indicators Summary for State (SMMU and DMMU)	Six Monthly.	15 November and 15 May.

Similarly, following transactions should be transparently displayed at the website for DMMUs

### District Mission Management Units

SI No	Document	Frequency	Deadline
1.	Annual Budget.	Annual	30 <sup>th</sup> April
2.	Funds Received by District a)From SMMU	As and When	Within 10 days of receipt of funds.
3.	Release by Districts to Community Organizations.		Within 5 days of release.
4.	Quarterly IUFR	Quarterly.	Within 45 days of end of each quarter.
5.	FM Indicators Summary for Districts.	Six-Monthly.	15 November and 15 May.

All information shall be provided as per requirements of the Framework within the stipulated timeliness adhering to frequency and deadlines of information to be displayed as per the framework. The information that shall be disclosed should be done for all FM areas covered in the framework e.g. Budget, Flow of funds, audit etc. For each individual area (e.g. Budget), complete information as per agreed format shall be displayed. The information provided at the website should be accurate in nature and the Head of Finance namely, Program Manager Finance should be personally responsible for its accuracy.

A complete set of Financial Management Disclosure should be placed in Public domain at the level of SMMU, DMMU and BMMU Offices.

Following Financial Management Disclosure should be placed at the SMMU Office in Public Domain in the form of signboards apart from disclosing it in Mission websites.

- Annual approved estimates for the state
  - Original estimates
  - Revised estimates
- Fund released to SMMU from
  - MoRD
  - By state government
- Fund released to
  - Districts
  - Other implementing units
- Statement of CIF funds released to district and utilization.
- Statement of utilization of funds in various components like Community Institutional

Development, CIF, Skill Development and Placements yearly against budget allotment.

#### **8.4.2 Financial Management Disclosure in DMMU Offices in Public Domain**

The DMMUs should disclose the following statements in Public Domain in signboards apart from disclosing it in Mission websites.

- Funds received by districts.
- Funds released by districts to BMMU, Community Organizations
- Statement of CIF funds released and utilized in districts
- Annual Approved Estimate of the districts
- Funds utilized in various components like Community Institutional Development, CIF, Skill Development and Placements yearly against budget allotment.

#### **8.4.3 Financial Management Disclosure in BMMU Offices in Public Domain.**

The BMMUs should disclose the following statements in Public Domain in signboards apart from disclosing it in Mission websites.

- Funds received by Blocks.
- Funds released by districts to BMMU, Community Organizations
- Statement of CIF funds released and utilized in Blocks
- Funds utilized in various components like Community Institutional Development, CIF, Skill Development and Placements yearly in the Blocks against allotment made.

### **8.5 Account Validation in Disclosures**

There shall be Account Validation for various agencies as well beneficiaries / vendors. The banks would validate them within a period of 10 minutes to 3 Hours. There shall be a daily transaction data of all validated agency accounts and historical data from the beginning of financial year that would be made available online as disclosures. There shall also be a disclosure of bank branch incremental data for new branches and change of status of new branch for master data management.

## Chapter 9. ROLES AND RESPONSIBILITIES AND DELEGATION OF POWER

### Annotation

This chapter serves the following purposes:

- It describes the various roles and responsibilities associated with various State and District Officials in relation to Financial Management
- It provides for Financial Delegation of Powers to various authorities / officials of the Society
- It provides guidelines for retaining and /or destroying old records related to Finance and Accounts.

### 9.1 Roles and Responsibilities of State and District Officials

**Table 9.1: Roles and Responsibilities of State and District Officials**

Particulars	State	District	
		Project Level	Community Level
Financial Management (FM) Manual / Procedures	<ol style="list-style-type: none"> <li>1. Develop and update the FM Manual.</li> <li>2. Guide staff at District and Block level on FM</li> </ol>	<ol style="list-style-type: none"> <li>1. Implement FM Manual.</li> <li>2. Guide staff at district level about FM procedures.</li> </ol>	<ol style="list-style-type: none"> <li>1. Facilitate and monitor implementation of FM Manual at community level.</li> <li>2. Ensure Compliance with FM Manual</li> </ol>
Signing of Memorandum of Understanding (MOU)	<ol style="list-style-type: none"> <li>1. Sign MOU with MoRD.</li> <li>2. Implement NRLM in the state as per the MOU signed.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ensure implementation of NRLM in the district as per provision of MOU with NMMU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Sign federation grant agreement with SHG federations.</li> <li>2. Implement NRLM in the district as per federations grants with community organizations.</li> <li>3. Monitor adherence to agreement by Community level.</li> </ol>

<p>Training on Financial Management.</p>	<ol style="list-style-type: none"> <li>1. Participate in training activities organized by NMMU.</li> <li>2. Develop State Specific training material.</li> <li>3. Prepare and implement training plan for district/block level.</li> <li>4. Monitor training needs at district, block district level on a regular basis.</li> </ol>	<ol style="list-style-type: none"> <li>1. Participate in training activities organized by NMMU and SMMU.</li> <li>2. Inputs to providing training at district, sub-district.</li> </ol>	<ol style="list-style-type: none"> <li>1. Monitor training needs at sub-district/community level on a regular basis.</li> <li>2. Inputs to training at community level.</li> <li>3. Develop local level training material, if required.</li> </ol>
<p>Planning.</p>	<ol style="list-style-type: none"> <li>1. Issue guidance for planning to districts.</li> <li>2. Implement planning system at state level.</li> <li>3. Review district plans</li> <li>4. Prepare consolidated plan for state and submit to NMMU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Prepare and submit district level plans to SMMU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Implement system for facilitating planning by community organizations.</li> </ol>
<p>Budgeting.</p>	<ol style="list-style-type: none"> <li>1. Issue guidance for budgeting to districts.</li> <li>2. Scrutinize and approve district budget.</li> <li>3. Prepare consolidated budget at state level and submit to NMMU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Prepare and submit district level budget to SMMU (Project level and community level activities)</li> </ol>	<ol style="list-style-type: none"> <li>1. Compile Budget for community level activities for NRLM.</li> </ol>

<p>Flow of funds.</p>	<p>1. Submit request for funds to NMMU. 2. Provide timely and adequate funds for SMMU activities. 3. Implement system of flow of funds to districts/sub-district levels. 4. Monitor effectiveness of fund flow system of district/sub-district level.</p>	<p>1. Submit request for funds to SMMU. 2. Provide timely and adequate funds for district/sub-district level activities.  Community: 1. Implement system of flow of funds for NRLM to community level. 2. Monitor effectiveness of funds flow system at sub-district/Community level.</p>	<p>1. Implement system for flow of funds to community organizations.</p>
<p>Accounting.</p>	<p>1. Implement accounting system for NRLM at state and district level. 2. Consolidation of NRLM accounts at state level.</p>	<p>1. Accounting of project funds at district level. 2. Monitor record keeping at Block level. 3. Monthly closing of district level accounts. 4. Send monthly / quarterly /annual accounts to SMMU.</p>	<p>1. Implement capacity building activities at community level for maintenance of accounts. 2. Implement system of monitoring community level accounting and record keeping.</p>
<p>Financial Reporting.</p>	<p>1. Implement financial reporting system at state level. 2. Review financial reports submitted by districts/sub-district and prepare state level reports. 3. Regular and timely submission to NMMU / MoRD / Donor Agency</p>	<p>1. Implement financial reporting system at district level. 2. Consolidation and preparation of district level reports to SMMU.</p>	<p>1. Implement and monitor system of financial reporting from community organizations.</p>

Statutory Audit.	<ol style="list-style-type: none"> <li>1. Selection of Auditor.</li> <li>2. Ensure timely finalization of accounts and audit at state level.</li> <li>3. Timely audit of SMMU and compliance of audit observations.</li> <li>4. Ensure timely submission of audit report of State to NMMU.</li> <li>5. Review compliance by district/sub-districts.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ensure timely finalization of accounts and facilitate audit at district level.</li> <li>2. Timely and satisfactory compliance of audit observation in the district.</li> <li>3. Review compliance by sub-district level.</li> </ol>	<ol style="list-style-type: none"> <li>1. Facilitate and monitor financial audit and community level for NRLM.</li> <li>2. Monitor compliance at community level.</li> <li>3. Ensure that key issues arising from the audit are addressed in capacity Building and monitoring activities of NRLM.</li> </ol>
Internal Audit and Internal Controls  Community Level audit.	<ol style="list-style-type: none"> <li>1. Appointment of Internal auditors as per NRLM requirements.</li> <li>2. Regular internal audit of SMMU and district/sub-district.</li> <li>3. Monitor compliance by districts.</li> <li>4. Submit summary of reports for each period and Action taken report to NMMU.</li> </ol>	<ol style="list-style-type: none"> <li>1. Facilitate internal audit at district/sub-district level.</li> <li>2. Monitor compliance by sub-district level.</li> </ol> <p>Submit Action taken report to SMMU.</p>	<ol style="list-style-type: none"> <li>1. Facilitate and monitor financial audit at community level for NRLM.</li> <li>2. Monitor compliance at community level.</li> <li>3. Review of audit observations.</li> <li>4. Ensure that key issues arising from the audit are addressed in capacity building and monitoring activities of NRLM.</li> </ol>
FM Disclosure.	<ol style="list-style-type: none"> <li>1. FM disclosure at State Level.</li> </ol>	<ol style="list-style-type: none"> <li>1. FM disclosure at district level.</li> </ol>	<ol style="list-style-type: none"> <li>1. Implement system of monitoring disclosure at community level.</li> </ol>
FM Monitoring.	<ol style="list-style-type: none"> <li>1. Regular monitoring of FM at district/sub-district level.</li> </ol>	<ol style="list-style-type: none"> <li>1. Regular monitoring of FM at sub-district level.</li> </ol>	<ol style="list-style-type: none"> <li>1. Regular monitoring of FM at Community level.</li> </ol>

## 9.2 Delegation of Powers to Various Officials of Society

The Governing Body shall, on the recommendation of the EC, delegate powers to the officers of the Mission / Project depending upon the nature of expenditure and the requirements of the project. While delegating necessary administrative and financial prudence shall be exercised. While, in general the EC has the ultimate powers, subject to various provisions of these rules and applicable government regulations such powers may be delegated as specified in various clauses of these rules. The delegation of powers may be classified in terms of sanction / approvals, incurring of actual expenditure per payment and entering into contracts on behalf of project.

The powers of the Governing Body (Rule 16), President, Executive Committee, Chairperson and CEO have been laid out and defined under the JSLPS Rules.

Rule # 16 of the Society empowers the GB to:

- Undertake all activities necessary for the fulfillment of the objective of the Society
- Expand/ modify the strength of its membership
- Add, modify or amend the Memorandum and Articles of Association and bye laws, provided that all such additions, modifications or amendments are aimed at promoting the objectives of the Society
- Create duly empowered administrative mechanisms through such participation, as may be deemed necessary, of various departments and agencies of the Central and State Government and other organizations for the achievement of the objectives of the Society
- Create academic, technical, administrative, managerial, training and other posts in within the Society or in its projects
- Ratify the rules and regulations for the conduct of the affairs of the Society and to amend them from time to time
- Accept grant of money, securities or property of any kind and undertake and accept the management of any endowment, trust, fund or donation, not inconsistent with the objectives of Society or its projects
- Acquire movable property by purchase, lease, hire, exchange or otherwise and to alter, maintain any building or buildings as may be necessary for carrying out the objectives of the Society and its projects
- Delegate to the Executive Committee (EC) or to any of the officers and authority of the Society such powers and impose such duties as it deems proper
- Approve the annual report, balance sheet and annual audited accounts of the Society
- Undertake all such activities, form such committees/ task groups as may appear necessary or incidental to the achievement of the objective of the Society and of its projects
- Exercise all powers as deemed fit designated to the EC

In the absence of the President, the Vice-President of the society shall exercise his / her powers on his / her behalf.

As per following orders of Government of Jharkhand, Department of Rural Development, the under mentioned officers of JSLPS have been declared a Head of the Department, Head of Office and Drawing and Disbursing officer:-

**Table 9.2 Authorization Orders**

Order No	Designation in JSLPS	Declared Status
	Chief Executive Officer	Head of Dept.
	Chief Operations Officer	Head of Office
	State Programme Manager (Finance)	DDO
	District Program Managers	Head of Office

Hence the above officers of JSLPS will utilise the powers given to officers of State Govt. in similar capacity as mentioned in “Book of financial powers” and “Jharkhand Stores Purchase Rules” in respect of JSLPS. The exercise of the delegated powers in table below shall be subject to the observance of JSLPS Rules & Regulations. These will be subject to the conditions that a specific budget provision exists for meeting the expenditure in the financial year in which it is proposed to be incurred.

The CEO will exercise all the powers given in the table below. If the provision in the table is silent about any power, the CEO will enjoy powers of the head of the Department of the State Government.

In case the designated authority in table below is absent and an immediate decision is required, a team of three relevant officers will decide on behalf of the designated authority. All such decisions will be communicated to the designated authority at the first possible opportunity. The powers delegated to a lower authority can be exercised by a higher authority. Further detailed regulations and procedures will be laid down by the concerned authorities/specific committees as may be constituted under the project.

**Table 9.3 General Delegation of Power**

Sl.	Nature of Power	Authority to whom the Power is delegated	State Office Extent of Delegation	District Office
				Extent of Delegation
1	To accord administrative approval and financial sanction for procurement of goods. This does not include vehicles but includes expenditure within the project for technical as well as administrative procurement of goods.	1. President	Full Powers	
		2. CEO	Upto Rs. 2 Crore	
		Head of office	Upto Rs. 5 lakh	NA
2	To accord administrative approval and financial sanction for procurement of services.	1. CEO	Full Powers	
		Head of office	Upto 5 lakh	N.A

3	To grade eligibility of experts / resource persons that do not belong to the Government set up.	1. CEO	Full Powers	NA
4	To accord administrative approval and financial sanction for / purchasing books, journals and news letters	1. CEO	Full Powers	
		2. Head of Office	Upto Rs. 10,00,000 pa	Upto Rs.10,000 pa
5	To accord administrative approval and financial sanction for purchase of consumable stores and fuel, oil and lubricants and repairs / maintenance of vehicle.	1. CEO	Full Powers	
		2. Head of Office	Upto Rs.1 lakh pa	N.A
6	Sanction Recurring and Non-recurring Contingent Expenditure Not specified elsewhere. (This does not include office furniture, room coolers, water coolers, air conditioners, computers and peripherals and other capital expenditure)	1. CEO	Full Powers	
		2. Head of Office	Upto Rs. 1Lakh	Upto Rs.10,000
7	Sanction of Capital Expenditure	1. CEO	Full Powers	
		2. Head of Office	Upto Rs. 5 Lakh	Rs.50,000
8	To accord administrative approval and financial sanction on TA Bills and Sanction advance of travelling allowances.	1. CEO 2. Head of office	Full power-Out of state Full Powers Within State	Full Power Within District & Block
9	Sanction reimbursement of cancellation charges for rail / air tickets. When cancellation is made in the interest of Society. or when cancellation is made on account of circumstances beyond the control of the official.	1. CEO	Full Powers	
		2. Head of office	N.A	DMMU / BMMU Staff Only
10	To permit travel by air on medical advice in exceptional cases.	1. CEO	Full Powers	
11	To accord administrative approval and financial sanction for field visits and attending trainings / seminars / workshops within the state	1. Head of office	Full Powers	Within District
12	To accord administrative approval and financial sanction for Exposure/immersion and attending trainings / seminars / workshops Outside the state	1. CEO	Full Powers	
		2. Head of office	Up to Rs. 5 Lakh	NA

13	To accord administrative approval and financial sanction for attending trainings / seminars / workshops and study /exposure tours abroad except CEO	1. CEO	Full Powers for Staff	NA
14	Sanction expenditure on taxi fares of distinguished Visitors use when the need for hiring of taxi arises .	1. CEO /	Full Powers	
		2. Head of Office	Full Powers within State	Only for Jurisdiction
16	To accord administrative approval and financial sanction for petty construction in nature of repairs, and maintenance/ repairs of goods, equipment, furniture and supplies	1. President	Full Powers	
		2. CEO	Upto Rs. 5 Lakh	
		3. Head of office	Upto Rs.1 Lakh	Upto Rs.10,000
17	Sanction installation of one office Telephone / Take furniture for office on Hire	Head of Office	NA	Full Power
18	Sanction and Purchase of Water/ Air Cooler	Head of Office	N.A	Full Power
19	Cheque Signing Authority for JSLPS	1.CEO & COO	Full Power	DPM & DFM- Full Power
		2.CEO & SPM-Finance	Full Power	
		3.COO & SPM-Finance	Upto Rs. 10 Lakh	
20	To accord administrative approval and financial sanction for hosting lunch / dinner or invite VIPs, experts and delegates attending meetings.	1. CEO	Full Powers	
		2. Head of office	Up to Rs. 1 Lakh	NA
21	Approval of Unanticipated activities undertaken by the BMMU	1. SMMU	Full Powers	Upto Rs. 25,000. per Block with a maximum of Rs. 1,00,000 PA.
		2. DMMU		
22	To accord administrative approval and Financial Sanction for programmatic expenditure	1. CEO 2. COO 3. SPM	Full Power Upto Rs.10 Lakhs Upto Rs.1 Lakh	DPM- Upto Rs.1,00,000
23	To sanction claim or approval for making cash payment transaction in exceptional cases	CEO	Full power	N.A
		C.O.O	Upto Rs.5000	

Unless otherwise decided by the Executive Committee, in matters where detailed rules and procedures with regard to the incurring of expenditure are not laid down, Government of Jharkhand's rules and procedures will be followed. Authority to which powers are delegated in the table can be further sub-delegated to lower Authorities with concurrence of CEO.

While the power to enter into Contract shall rest with EC / CEO, the same in specific instances shall be delegated as discussed in various rules provided here in. The EC has full powers with regard to sanction and approvals while the CEO has powers up to Rs. 1 crore. However this limit needs to be used with discretion depending upon the nature of expenditure (capital/revenue) and the actual requirements of the Project. Under this overall limit, specific powers to the CEO and other officers have been provided in Table above to these rules. While the Table gives the summary of monetary limit in specific instances, the actual incurring would be subject to the limits as provided in the last column.

The EC shall, subject to the approval of the GB, amend these delegations of powers as required for implementation of the project. These amendments shall be carried out both in the Table and also specific clauses of the referred rules as may be needed. The availability of funds under a budget head does not entail any official of Society / Project to make a single payment or to incur a single expenditure for the entire amount of the budget provided or available, unless the same is warranted and necessary procedures complied with.

### 9.3 Sanctions

In all sanctions for expenditure, the amount of expenditure shall be expressed in words and figures. The amount sanctioned shall be deemed to exclude local sales tax / service tax. All sanctions shall, unless explicitly provided in the sanction order, take effect from the date of sanction order.

#### 9.3.1 Lapse of Sanction

A sanction for any fresh expenditure accorded by any authority or officer of Project shall lapse, if it has not been acted upon within a period of one year from the date of sanction or the last day of the financial year, whichever is earlier. After such lapse fresh sanction is necessary for incurring the expenditure.

The above stipulation regarding lapse of sanction shall not apply to:

- Sanction for payment of any allowance to holders of any post subject to certain conditions but where the allowances are not drawn because of non-fulfillment of the conditions.
- Sanction of a competent authority for additions to be made to the establishment progressively from year to year
- A Sanction conveyed in an order passed by a court in the judicial capacity.
- Sanction to make estimate of work, will lapse after five years, if the work has not been started.

A sanction is deemed to have been acted upon if payment in whole or in part has been made in pursuance of the sanction within a period of one year from the date of sanction. However,

if there is a condition in the sanction order that the expenditure should be met from the budget provision of a specified financial year, such sanction shall lapse on the expiry of the specified financial year. In the case of purchase of stores, the sanction shall be deemed to have been acted upon if tenders have been accepted or indents for stores within one year from the date of sanction, irrespective of the date of settlement of the claims.

### 9.3.2 Communication of Sanction

A copy of every order issued from any authority / officer of SMMU sanctioning expenditure shall be communicated to the State Programme Manager-Finance at SMMU by the authority which accords sanction.

### 9.4 Preservation of Records:

The following records should not be destroyed:

- Records connected with expenditure of Project work not completed although beyond the period of limit.
- Records pertaining to cases in which litigation is in progress.
- Records connected with claims to service and personal matters affecting persons in the service.
- Orders and sanctions of permanent character until revised.

The following record should be preserved for the period specified:

**Table 9.4 Record Longevity**

Sr. No.	Description of Record	Period of Preservation in Complete Years	Remark
1	Pay bills and acquittance rolls	Permanent	Until final audit is performed and submitted
2	Cash Book	Period of the project	
3	Service Book	3	After death or retirements which ever is earlier
4	Leave Accounts	3	After death or retirements which ever is earlier
5	TA Bills & acquittance rolls	3	
6	Account of service postage stamps	3	
7	Register of Dead stock articles	4	

8	Annual Report on dead stock	1	Till the Audit of all Stakeholders
9	Stationery & forms Register	3	
10	Vouchers	3	
11	Account of expenditure	3	
12	Charge Reports	1	
13	Casual Leave register & Papers	2	
14	Register of cheques drawn	3	
15	Challans / Receipts	3	
16	Office copies of Provident fund schedules	3	
17	Increment Certificate	3	
18	Sanction to advances	3	
19	Government resolutions	Permanent	
20	Agreement with contractors	4	
21	Comparative Statement of Tenders	4	
22	Measurement books	4	After the date of completion of work
23	Register of contracts	4	
24	Register of Deposits / Advances	4	
25	Tender forms	5	

The sanction of Project Coordinator should be obtained for destruction of any of the records of the Project. No account or other record which is subject to audit by the Accountant General or any other Authority should be destroyed unless the audit of the period for which record is maintained is completed and the audit objections are settled. The above list of preservation of record is not exhaustive. Any other record not required for further use may be destroyed on the order of the Project Coordinator.