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# FINANCE AND ACCOUNTING MANUAL

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Lhak-Sam (Bhutan Network of Positive People)



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LHAK-SAM (BNP+)  
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## SECTION 1: GENERAL PRINCIPLES AND RULES

### 1.1 Lhak-Sam mission

Lhak-Sam aims to be a premier organization in Bhutan committed to providing and promoting leadership, education and capacity building to all people living with HIV and their families, empowering them to improve their quality of life, by reducing stigma and discrimination and through access to appropriate prevention, care and support services.

### 1.2 Finance department mission

Finance department of Lhak-Sam is responsible for up-to-date, accurate, reliable finance and accounting event of the organization.

We work with the director, staff, board, donor, partner, supporter, well-wisher, member, beneficiary, supplier, community, government and the general public to ensure all financials pertinent to Lhak-Sam are managed and reported with highest degree of care, integrity, personal honesty, professional competency, transparency, accountability, economy, efficiency, effectiveness and consistency in line with Lhak-Sam mission to counteract HIV/AIDS challenges.

### 1.3 Significant accounting policy, concept, convention, principle and standard

Every aspect of accounting and reporting of all daily financial transactions and finance events of the Lhak-Sam shall be recorded, prepared, presented and reported in accordance with Generally Accepted Accounting Principles (GAAP), under the historical-cost convention, at the going-concern assumption, with all these continuing to be applicable unless and until otherwise reviewed, amended or stated.

**Note:** *Lhak-Sam acknowledges United States GAAP is similar to and same as an International Accounting Standard (IAS) for its understanding the theoretical and practical application of accounting and finance generally.*

Some of the concepts and conventions are discussed concisely as follows:

#### 1.3.1 Generally accepted accounting principles (GAAP)

It is the international accounting rules, accounting concepts, and accounting standards followed by accountants generally in measuring, recording, summarizing, and reporting financial transactions.

**Note:** *Any accountant from anywhere around the world should be able to understand the Lhak-Sam's system for keeping financial records because Lhak-Sam is maintaining accounts in line with GAAP followed by accountants all over the world. In addition to doing accounting according to GAAP, Lhak-Sam shall also have the requirement to state that its financial statements conform to GAAP and this shall be obligatory and statutory.*

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Historical-cost convention and the going-concern assumption are part of GAAP and they are discussed in the context of Lhak-Sam's application of them.

### 1.3.2 Historical-cost convention

It is a method under which assets are carried in the books of account of Lhak-Sam at their historical cost. Accounting based on the original costs incurred in a transaction has advantages of being relatively objective, easy to apply, difficult to falsely manipulate, suitable for audit verification, and fulfils the stewardship function of resources entrusted to Lhak-Sam by the resource providers that's donors and supporters of the Lhak-Sam.

### 1.4 Going-concern assumption

It is the assumption that Lhak-Sam will continue in operation for the foreseeable future, that's there is no intention or necessity to liquidate or significantly curtail the scale of the Lhak-Sam's operation. The implication of this principle is that assets are shown at cost, or at cost less depreciation in accounts and financial statements of Lhak-Sam.

### 1.5 Accounting Standards-Setter

By being follower of Financial Accounting Standards Board (FASB) in the USA, Lhak-Sam recognizes and identifies FASB as master accounting standards-setter for the world of accounting and reporting of the Lhak-Sam.

Financial records and statements of the Lhak-Sam shall be prepared, presented and reported in compliance with the guidelines and rules of the FASB:

- (a) Statement of Financial Accounting Standards (SFAS or simply FAS) No. 116 accounting for contributions received and contributions made, and
- (b) Statement of Financial Accounting Standards (SFAS or simply FAS) No.117 Financial statements of non-profit organization.

#### 1.4.1 Financial Accounting Standards Board (FASB)

FASB is the designated organization since 1973 in the USA, which sets, issues and improve Statement of Financial Accounting Standards. These accounting standards are generally accepted accounting principles (GAAP) and should be followed by accountants responsible for the maintenance of financial accounts and preparation of financial statements and/or reporting.

In addition to setting Generally Accepted Accounting Principles (GAAP) in the USA, FASB is also an active working group established jointly with International Accounting Standards Board (IASB) with the aim of improving International Accounting Standards (IAS) topic.

**Note:** *The GAAP set or established by FASB is what Lhak-Sam is following in doing its day-to-day accounting and constant financial management exercise, and in preparing and presenting financial accounts/statements/reports monthly and annually.*

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#### 1.4.2 Statement of Financial Accounting Standards (SFAS or FAS) 116

SFAS or FAS 116 is a statement issued by FASB detailing the financial accounting and reporting requirements related to accounting for “**contributions received and contributions made**” where it instructs contributions should be classified – **unrestricted, temporarily restricted, permanently restricted** based on absence or existence of donor- imposed restriction on the use of contribution they have provided. These **unrestricted, restricted** contributions result into increases of **unrestricted, restricted net assets**.

*Note: Lhak-Sam has unrestricted & temporarily restricted contributions but does not have permanently restricted contributions.*

#### 1.4.3 Statement of Financial Accounting Standards (SFAS or FAS) 117

SFAS or FAS 117 is a statement issued by FASB detailing the financial accounting and reporting requirements related to “**Financial statement of non-profit organization**” which focuses on net asset classification in 1 of 3 categories – **unrestricted net assets, temporarily restricted net assets, permanently restricted net assets** determined by either the absence or existence of donor imposed-restriction on the use of fund.

*Note: Since full-grown inception in 2011 and started bookkeeping Lhak-Sam has unrestricted net assets & temporarily restricted net assets but does not have permanently restricted net assets.*

*With thanks to FASB, Lhak-Sam prided itself on possessing ability to classify incomes and categorize net assets into unrestricted and restricted for accounting and reporting.*

*Now Lhak-Sam uses “**term net assets** instead of the traditional and original term **accumulated fund, fund balance and/or capital fund**”.*

*Lhak-Sam has the ability to realize that before FAS 116 & 117 were issued, problem in the past for the contribution and net assets in NPO was that they could not easily tell from the financial documents what funds were restricted and unrestricted and whether their contributions were being spent properly in line with agreed restrictions or requirements between the donor and NPO.*

*FASB made its FAS 116 and FAS 117 effective for NPO fiscal year beginning after December 15, 1994.*

*NPO with less than \$ 5 million in total assets and less than \$ 1 million in annual expenses effective date is fiscal year beginning after December 15, 1995.*

*These FAS 116 & 117 accounting standards have been effective for Lhak-Sam since full-fledged establishment with an office at Olakha based in Thimphu and commenced bookkeeping and accounting in 2011.*

*Lhak-Sam is a NPO and known and called more commonly as CSO in Bhutan and sometimes referred to as NGO. Whatever way regarded and referred to is similar and same and acceptable to Lhak-Sam.*

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## 1.6 Currency, fiscal year and accounting method

### 1.5.1 Currency

All day-to-day financial transactions undertaken by Lhak-Sam shall be measured and recorded at the monetary value of the goods or services or fair market value of the donated goods or services, and shall be accounted for and reported in the home-based Currency that's Ngultrum. Where there are, transactions involving foreign currency, it shall be converted to Ngultrum at correct foreign exchange rate.

**Note:** *Ngultrum is currency of the kingdom of Bhutan. Records in foreign currency shall be maintained in required cases.*

### 1.5.2 Fiscal year

The fiscal year for accounting of financial transactions carried out by Lhak-Sam shall be English calendar year that begins from 1<sup>st</sup> January and ends at 31<sup>st</sup> December every year, and shall consist of 12 monthly accounting periods.

**Note:** *In addition to preparing and presenting general-purpose annual financial statements, Lhak-Sam shall also prepare interim monthly/quarterly specific-purpose donor reporting.*

### 1.5.3 Accounting method

Accounting method of the Lhak-Sam shall be accrual based principle as opposed to cash basis for maintenance of its accounts and reporting.

**Note:** *In accrual basis of accounting income or revenue is recognized and recorded when it is earned rather than when it is received, and expenses or expenditures are recognized and recorded when they are incurred, rather than when they are paid.*

*So when Lhak-Sam buys an item on credit, records the date when bought them, rather than the date when paid the bill. Accrual based accounting is generally preferable because it gives a better idea and picture of the Lhak-Sam's overall financial status and performance that shall be accurate, reliable and comprehensive. However, for specific donor reporting cash basis of accounting shall be usually used in conformation with the donor demand where ever applicable.*

*Lhak-Sam shall understand accrual based accounting is required to be used as to conform to generally accepted accounting principles (GAAP). Lhak-Sam cannot claim or describe that its accounts have been maintained in accordance with GAAP if Lhak-Sam does not use and follow accrual basis of accounting.*

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## 1.6 Accounting and bookkeeping procedures

### 1.6.1 Accounting and bookkeeping purpose

**Lhak-Sam's accounting and bookkeeping has two basic purposes:**

- (a) Show the income, expenses, assets, liabilities and net assets of the Lhak-Sam for financial management and economic decision making.
- (b) Provide the data needed to prepare accurate financial report and/or financial statements to provide enough financial information of the Lhak-Sam for the user's needs.

**To meet these basic objectives, accounting and bookkeeping must be:**

- (a) Up-to-date
- (b) Accurate and reliable
- (c) Accounted for according to proper accounting standards, principles, conventions, concepts, policies, methods, systems and rules.

**Note:** *Up-to-date, accurate and reliable accounting and bookkeeping records are essential to demonstrate how Lhak-Sam uses its financial resources. Reliable accounting and bookkeeping is vital for sound financial management and reporting of the Lhak-Sam.*

## 1.7 Users of financial statements and their information need

Lhak-Sam shall keep up-to-date, accurate and reliable records as to receiving grant and donation and spending them for conduct of organization's mission to counteract HIV/AIDS.

These bookkeeping records of grant and donation shall be accounted for in terms of income, expenses, assets, liabilities and net assets for financial management exercises and economic decision making purpose.

Then further process them for production of statement of activities, statement of financial position, statement of functional expenses, statement of receipts and payments.

Foregoing financial statements, together with accompanying supporting notes and schedules, shall provide information needs of a wide range of different groups for different purposes.

Some examples of information required by different users pertinent to financials and accounts of Lhak-Sam are listed below:

### **Donors**

- (a) Is Lhak-Sam qualified to achieve agreed beneficiary objectives?
  - (b) Does Lhak-Sam demonstrate sound stewardship of financial and other resources?
  - (c) Is Lhak-Sam run efficiently and effectively?
  - (d) Is Lhak-Sam accountable – should support be extended or continued, reduced or stopped?
  - (e) Are the resources utilized as agreed and within the identified mandate of the Lhak-Sam?
  - (f) Does Lhak-Sam adhere to agreed restrictions/requirements in the use of resources?
  - (g) Does Lhak-Sam have the structure and/or capacity to implement the projects as agreed?
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**Members**

- (a) Are the resources utilized in conformity with given guidelines by Lhak-Sam?
- (b) Is Lhak-Sam run according to given governing rules (By-laws or similar)?
- (c) What is the underlying statute or regulation and are such regulations being met by Lhak-Sam?

**Beneficiaries**

- (a) Does Lhak-Sam provide support/services according to guidelines?
- (b) Does Lhak-Sam possess the ability to provide future support/services?
- (c) Does the system of Lhak-Sam work as expected?

**Employees**

- (a) Is Lhak-Sam a safe, secure working place?
- (b) Is Lhak-Sam able to pay timely salary and other agreed benefits?
- (c) Is Lhak-Sam financially able to carry out its objectives and provide the service as has been indicated?

**Suppliers**

- (a) Is Lhak-Sam credible?
- (b) Is it able for Lhak-Sam to settle its dues by the due date?

**Authorities**

- (a) Does Lhak-Sam comply with applicable statutory and legal requirements? (Registration, tax, audit, report requirements etc.)?
- (b) Should Lhak-Sam's activities be made subject to further regulation?
- (c) Is there transparency and accountability in its activities and in the utilization of resources of Lhak-Sam?

**Partners**

- (a) Are available resources utilized as agreed, in conformity with applicable objectives/guidelines by Lhak-Sam Board
- (b) Is Lhak-Sam using resources wisely in conducting its mission, running the secretariat and the branch offices properly?

**General Public**

- (a) What Lhak-Sam raises and spends for society and all population benefit and gain services?

**Note:** *Financial statements or reports of Lhak-Sam shall include (1) statement of financial position (2) statement of activities (3) statement of functional expenses (4) statement of receipts and payments instead of statement of cash flows (5) accompanied by schedules and notes to accounts and financial statements.*

*Statement of cash flows is dropped in the case of Lhak-Sam because when prepared such statement does not provide additional useful piece of information since Lhak-Sam has no or few investing and financing activities due to limited financial resources. And when Lhak-Sam prepares statement of cash flows it bear close resemblance to the transactions on the statement of activities.*

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*So, statement of cash flows is replaced by receipts and payments which show more useful information. Year-end financial statements issued by finance department, together with supporting schedules and notes, and the Executive Director's narrative report on progress of the Lhak-Sam's activities and the auditor's report thereupon shall constitute "annual accounts and report of Lhak-Sam".*

## **1.8 Key objectives of financial information (Or Qualitative characteristics of accounting information)**

Qualitative characteristics are the attributes that make information provided in financial statements and/or reporting of Lhak-Sam as useful as possible to users.

Among number of such characteristics, the four principal qualitative characteristics of accounting information that Lhak-Sam shall upkeep and maintain are understandability, relevance, reliability and comparability. These are concisely discussed as follows:

### **1.8.1 Understandability**

Information provided by financial statements/reporting of Lhak-Sam should be easily understandable by users.

**Note:** *However, information that might be complex but relevant should not be excluded merely on the grounds that it may be too difficult for some users to understand.*

*Recent changes in legislation and the increasing complexity of accounting standards have resulted in financial statements that are likely to be understood only by the financially sophisticated.*

### **1.8.2 Relevance**

Information provided by financial Statements/reporting of Lhak-Sam must be relevant to the decision-making needs of users.

### **1.8.3 Reliability**

Information provided in financial statements/reporting of Lhak-Sam should be reliable for use by decision makers.

### **1.8.4 Comparability**

Information provided in financial statements/reporting of Lhak-Sam should be comparable with other similar organizations anywhere around the world.

**Note:** *Lhak-Sam is also using other characteristics in addition to above mention in the course of doing accounting and bookkeeping.*

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## 1.9 Basic rules of bookkeeping and accounting

In doing accounting basic rules must be understood and followed by Lhak-Sam to maintain proper accounting records and prepare accurate financial statements/reporting. Basic rules of accounting are listed below:

- (a)  $\text{Assets} = \text{Liabilities}$ , or  $\text{Assets} = \text{Liabilities} + \text{Net Assets}$ , or  $\text{Assets} - \text{Liabilities} = \text{Net Assets}$ .
- (b) Instead of above you can have an expanded accounting rules or equation that's  $\text{Assets} = \text{Liabilities} + \text{Net Assets} + \text{Income} - \text{Expenses}$

In accounting, these are the formula underlying a balance sheet or financial position and usually known as accounting or balance sheet equation and the Lhak-Sam's accounting/bookkeeping system of measurement and reporting of financial or monetary transactions/events/activities are based on this accounting equation/balance sheet equation/financial position/financial condition.

Lhak-Sam commonly uses  $\text{Assets} - \text{Liabilities} = \text{Net Asset}$ .

This formula expresses resource providers' contributions and support in the Lhak-Sam or resource providers' view meaning their contribution and support in the Lhak-Sam to fight HIV and AIDS. Lhak-Sam's accounting system of measuring and reporting financial transactions shall be based on this accounting equation.

**Note:** *Assets always balance the liabilities and net assets since each asset must be funded by resources provided by donors and supporters or Lhak-Sam itself.*

*An increase or decrease in assets of Lhak-Sam must be accompanied by an equal increase and decrease in the liabilities and net assets in order to ensure that a balance sheet will always balance.*

Debits = Credits and Credits = Debits of all financial transactions or accounts of Lhak-Sam.

**All financial transactions of Lhak-Sam need to be either debited or credited determined by debit and credit rules.**

### 1.9.1 Assets Accounts of Lhak-Sam:

- (a) Opening balances and normal balances are Debits
- (b) Increases are recorded as Debit entries
- (c) Decreases are recorded as Credit entries

### 1.9.2 Liability and Net Assets Accounts of Lhak-Sam:

- (a) Opening balances and normal balances are Credits
  - (b) Increases are recorded as Credit entries
  - (c) Decreases are recorded as Debits entries
-

**1.9.3 Income Accounts of Lhak-Sam:**

- (a) Normal balances are Credits
- (b) Increases are recorded as Credit entries
- (c) Decreases are recorded as Debit entries

**1.9.4.1 Expenses Accounts of Lhak-Sam:**

- (a) Normal balances are Debits
- (b) Increases are recorded as Debit entries
- (c) Decreases are recorded as Credit entries

**Note:** *Assets, liabilities, net assets, income and expenses are accounting equation based classification of accounts, and are part of accounting records of Lhak-Sam for financial management purposes, and they are shown on the financial statements/reporting of Lhak-Sam to provide useful financial information.*

**1.10 Double-entry bookkeeping along with fund accounting**

In general, entire day-to-day financial transactions made by Lhak-Sam and the financial accounts record shall be maintained on a double-entry bookkeeping system using fund based accounting that must be adequate to enable Lhak-Sam to prepare its annual financial statements, internal reporting, and other management and specific donor reporting. Double-entry system enables keeping all the books of account of Lhak-Sam balanced and achieve basic rules of accounting mentioned above in clause 1.9 of this manual.

Double-entry system is discussed in the context of Lhak-Sam application of it as below:

**1.10.1 Double-entry book-keeping**

It is a method that recognizes the principle that each and every financial transaction; event, activity, record, dealing of the Lhak-Sam shall have dual aspect, an aspect that give rise to a debit entry and an aspect that gives rise to credit entry therefore needs to be recorded in at least 2 accounts in the book of Lhak-Sam.

Double-entry system used by Lhak-Sam maintains equality of accounting/balance sheet equation and is critical to and backbone of accounting of the Lhak-Sam.

**Note:** *Entry in the books of account of Lhak-Sam shall be made using double-entry system. If Lhak-Sam does not use it then accounting is outside of GAAP that is a serious wrong and non-conformation to GAAP. Single-entry bookkeeping is not suitable and shall not be used by Lhak-Sam unless required for just a mere memorandum required cases.*

**1.10.2 Fund based accounting**

Lhak-Sam shall maintain separate set of account records for tracking income, expenses, assets, net assets and liabilities for each restricted contributions and restricted net assets of individual groups of funders and should be able to provide disaggregate information of these fund groups for purposes of internal reporting, management reporting, specific donor reporting. This fund based accounting records for internal, management; donor reporting shall be combined into one cohesive financial

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statement for external all-purpose or general-purpose reporting of the Lhak-Sam as a whole organization.

**Note:** *Fund based accounting shall report income, expenses, assets, net assets, liabilities accurately for each fund, project, program, grant and be able to combine all funds into 1 cohesive financial statement for external reporting.*

### 1.11 Accounting vouchers

All accounts and/or financial transactions of Lhak-Sam shall be first measured and recorded in detail on the accounting vouchers by creating appropriate account heads, based on the double-entry system, using fund accounting and balance sheet equation, according to rules of debit and credit, following accounting concepts, principles, standards, qualitative characteristics and by using anything helpful imagination and intuition as much as possible to render record up-to-date, accurate and reliable finance and accounting information.

From these vouchers, accounts or transactions are transfer for making entry into respective books of account namely cash book, journal proper, ledger and sub-ledger that ultimately lead to summarization and compilation of final accounts.

**Note:** *Accounting Data on these vouchers shall stand for authoritative and accessible coverage of all aspects of financial accounting of the Lhak-Sam; showing accounting record of incomes, expenses, assets, and liabilities for financial management exercise, and as well as for, preparing accurate financial statements/reporting.*

**Types of accounting vouchers used by Lhak-Sam and their functions are briefly explained below:**

- (a) **Contra/Internal Fund Transfer Voucher:** It shall record all fund transfers from cash account to bank account, bank account to cash account, bank account to bank account, and cash account to cash account.
- (b) **Receipt/Credit Voucher:** It shall record all fund receipts into bank or cash accounts.
- (c) **Payment/Debit Voucher:** It shall record all fund payments from bank and cash accounts.
- (d) **Journal Voucher:** It shall record all transactions that are not recorded in any other accounting vouchers.
- (e) **Debit Note Voucher:** It shall record debit note entry for over-charging by a supplier or purchase returns.
- (f) **Credit Note Voucher:** It shall record credit note entry for mistakenly under-charging by a supplier.

### 1.12 Books of account

All financial transactions and/or accounts of the Lhak-Sam that are initially detailed on an accounting voucher shall be passed-through into books of account.

There are four books of account Lhak-Sam maintains that satisfactorily provide authoritative and accessible coverage of all aspects of accounting and financials of the organization.

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**Four books of account Lhak-Sam maintains are:**

- (a) **Cash Book:** It is a book of prime entry that records all banks and cash receipts and payments in date order; the balance will be included in the trial balance. Cash books are regularly reconciled with the bank statements as an internal control check.
- (b) **Journal Proper:** It is a book of prime entry in which all other accounts and/or transactions not recorded in the cash books are entered.
- (c) **Ledger:** It is a book of secondary entry also called **general ledger** in which posting of accounts and/or transactions from book of prime entry (cash book & journal proper) are made in a collection of accounts of a similar type; it acts as control accounts.
- (d) **Sub Ledger:** It is a book of secondary entry in which the sub ledger, or **subsidiary ledger**, provides details behind entries in the ledger or general ledger used in accounting according to donor wise.

The sub ledger shows details for part of the accounting records such as property and equipment, prepaid expenses, etc donor-wise. The total of the sub ledger would match the line item amount on the general ledger. This corresponding line item in the general ledger is referred to as the controlling account. The subsidiary ledger balance is compared with its controlling account balance as part of the process of preparing a trial balance.

### **1.13 Income/revenue/contribution**

Grant, donation and contribution from organizations and individuals constitute absolute sources of income/revenue for Lhak-Sam since establishment in 2011, except for interest from fixed deposit and staff absence deduction.

**Note:** *Fixed Deposit was broken in 2014 during funding shortfall for use to financing mission activities, running the secretariat and regional offices. Deduction on staff absence from duty amounted to just a mere small amount that makes no difference to financing mission activities.*

#### **Income Type**

- (a) **Unearned:** Grants received or receivable from organizations shall be known as unearned income and shall be termed and recorded as grant fund, or grant contribution or simply grant and shown under voluntary contribution in statement of activities. Donations received from organizations and individuals shall be known as unearned income and shall be termed and recorded as voluntary contribution or simply donation.
- (b) **Earned:** Income from staff absence deduction shall be known as earned income and shall be termed and reported as miscellaneous income/other income/self-generated income.

Grant and donation in moneys shall be known as cash, monetary or financial contribution.

Grant and donation in goods and services shall be known as non-monetary or in-kind contribution and support.

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**Note:** *Lhak-Sam shall understand contribution is the broad term used for grants and donations. Definition according to SFAS 116: “contribution is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by entity acting other than as an owner. Other assets include securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give those items in the future”.*

### 1.13.1 Contribution recognition and accounting

Contribution that’s grant and donation shall be recognized and treated as income in the period in which they are earned or received at their fair value; irrespective of whether the contributions are for a month, single year or multi-year period, providing there is reasonable assurance that the contribution will be received, and where relevant that the Lhak-Sam will comply with the obligation(s) attached to it, and shall be accounted for under the “**restricted fund method**” as opposed to “**deferral method**”.

**Restricted fund method, deferral method is discussed as follows:**

- (a) Under restricted fund method, contributions; grants and donations are recognized and treated as income regardless of expenditure directly related to them are incurred or not.
- (b) Under deferral method, contributions; grant and donation are recognized and treated as income when expenditure directly related to them is incurred.

**Note:** *Lhak-Sam shall recognize only those contributions; grant and donation for which there is some verifiable documentation between the donor and Lhak-Sam, or an agreement, award letter.*

*Lhak-Sam shall use “restricted fund method of accounting for contribution earned or received”. For example, grant or donation that are intended for use over a multi-year period say 3year Nu.7, 000,000, When Lhak-Sam signs the agreement or award letter is received, Lhak-Sam shall record the full Nu.7, 000,000 as income in the book.*

### 1.13.2 Contribution Classification

Contributions; grants and donations shall be recorded and reported in 1 of 3 class - **unrestricted, temporarily restricted, permanently restricted**, which increases that 3 categories of **unrestricted net assets, temporarily restricted net assets, permanently restricted net assets** based upon presence and absence of donor-imposed restriction.

Lhak-Sam does not have any permanently restricted contribution.

**Classification are defined and discussed as follows:**

- (a) **Unrestricted:** These contributions/funds are free from any donor- imposed restrictions and available for general use. Many individual and some organization contributions are unrestricted, as are general operating and unrestricted grants.

Practical example related to Lhak-Sam includes cash/cheque/direct deposit send by some organizations and individuals to support Lhak-Sam’s work.

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**(b) Temporarily Restricted:** These contributions/funds have donor –imposed restrictions that can be fulfilled in one of two ways – passage of a defined period of time (time restriction) or by performing defined activities (purpose restriction). These contributions/funds most often come from a grant received to operate a specific program or project or individual contributions given with the intent of supporting a particular program or campaign.

Practical example related to Lhak-Sam includes grant award received from some organization to operate a specific program or project e.g.

- (a) Prevention of drug use among youth in context of HIV
- (b) Expanding network and building capacity of People living with HIV etc...
- (c) Supporting MSM & transgender community etc...;
- (d) Donation received from some organizations and individuals with intention of supporting financially disadvantaged PLWH to pay for their travel cost to take CD4 count testing etc...

**(c) Permanently Restricted:** These contributions/funds are restricted by the donor for a designated purpose or time restriction that will never expire. The intent is that the principal balance of the contribution will remain as an investment forever, and the organization will utilize the interest and investment returns, such as with the endowment. As mentioned above Lhak-Sam does not have permanently restricted income/contribution.

**Note:** *Lhak-Sam has dealt with number of grants in the past and presently dealing with 3 different categories of grants and all of them have both time and purpose donor-imposed restriction, therefore are all temporarily restricted. Major portion of donation are unrestricted and some donation are temporarily restricted for Lhak-Sam.*

### 1.13.3 Reclassification of temporarily restricted income

Expenditure that are related to temporary donor-imposed restricted purposes and period of time result in **temporarily restricted net assets being released from restriction, increasing unrestricted net assets and decreasing temporarily restricted net assets. These temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as released from restriction.** Expenditure incurred are deducted from unrestricted net assets rather than directly from temporarily restricted net assets by employing an account called **Net Assets Release from Restriction.**

**Note:** *Lhak-Sam's policy to use net assets release from restriction and reclassification from temporarily restricted net assets to unrestricted net assets shall not be recorded at the point of time the expenditure being incurred that are related to temporary donor-imposed restricted purposes and period of time but rather at year-end through journal and shall be reported in the statement of activities as net assets release from restriction.*



## SECTION 2: INTERNAL CONTROL

### 2.1 Internal controls to strengthen financial management

Lhak-Sam should have the insight to basically acknowledge the truth and fact that there is no one organization big, medium and small in which error and fraud, waste and loss, ineffectiveness and inefficiency is not taking place in the whole world including Lhak-Sam because this is universally said, believed, proven and accepted across the world.

Being a leading responsive public benefit and gain providing and promoting service organization to fight common enemy HIV/AIDS in the kingdom of Bhutan, Lhak-Sam should endeavor to be good steward of the public trust and confidence, ensuring the resources entrusted to Lhak-Sam by international and national organizations and, people from all walks of life from around the world for purpose to campaign against HIV/AIDS through Lhak-Sam are well protected and used efficiently and effectively to accomplish the mission for which the Lhak-Sam exist to respond to HIV/AIDS to the benefit and profit of all society and population.

Lhak-Sam shall also make certain that the financial management practices ensure the long-term sustainability of the Lhak-Sam to combat HIV/AIDS on the going concern basis.

Sound policies, procedures and internal controls help enable to promote effective financial management, accurate accounting, high-quality reporting and, effectiveness and efficiency of mission operations.

### 2.2 Internal controls definition

Internal Controls in context of Lhak-Sam means the financial process/measures/checks and counter checks/check and balances/policies and procedures that enable the organization that opportunities for fraud or misfeasance are minimized or prevented with reasonable and decisive assurance to safeguard its resources, whether cash or other assets, and used solely for authorized purposes to crusade against HIV/AIDS.

**Note:** *All finance and non-finance office staff of the Lhak-Sam should develop and cultivate awareness and familiarization with the internal control mechanism that are put in place here in a way that most closely fit to meet the needs for particular scale of operation of the Lhak-Sam and adopt them seriously in their daily work in order to excel themselves in helping finance department spearhead excellence in the field of accounting and reporting, financial-resource mobilization and utilization toward confronting HIV/AIDS.*

**Internal controls of the Lhak-Sam shall be conducted within the following guidelines/framework/criteria but not limited to:**

### 2.3 Basic principles of financial control

- (a) As steward of public resources and trust to fight HIV/AIDS, Lhak-Sam's financial management shall be based on the principles of "Economy, Efficiency, Transparency and Accountability" to the benefit and profit of society at large.
  - (b) All employees shall serve Lhak-Sam with the highest degree of fiduciary integrity, personal honesty, and professional efficiency.
  - (c) Vigilance shall be observed at all levels in the same manner that a person of normal prudence would exercise when undertaking his/her own personal financial affairs.
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- (d) All relevant laws, rules and regulations shall be stringently adhered to and upheld seriously.
- (e) All resources of the Lhak-Sam shall be utilized solely for the Lhak-Sam's business purposes to fight HIV/AIDS under proper authority.
- (f) All donor-imposed restricted funds and other resources shall be utilized exclusively for the designated purpose only.
- (g) All receipts and payments shall be supported with necessary documentation.
- (h) All funds belonging to Lhak-Sam shall be promptly banked into the designated bank accounts.
- (i) All significant accounting policies, principles, concepts, conventions, systems, standards, rules and methods shall be complied to and followed to apply.
- (j) No funds shall be transferred to non-official accounts except for making legitimate, documented payments.
- (k) No monies shall be paid out of the Lhak-Sam's account except in pursuance of an approved appropriation.
- (l) If a loss of Lhak-Sam's money or property occurs, the individual in direct custody of the money or property shall be legally liable if he/she has not taken reasonable steps to prevent such loss.

## 2.4 Bank accounts and banking

Lhak-Sam shall maintain one or more bank accounts with Board- approved financial institutions in Bhutan.

### Bank accounts shall be named and called as:

#### (a) Core Fund bank account:

It shall comprise of Lhak-Sam's own monies commingled with those Grant Fund, in which case there is absence of donor advice to use separate, grant-dedicated, specific bank account.

**Note:** *Lhak-Sam shall use fund based accounting for each Grant Fund for different donors to track and control fund segregation from their source to their use.*

#### (b) Grant Fund bank accounts:

It shall consist of Grant Fund, in which case there is presence of donor advice to use separate, grant-dedicated, specific bank account.

### Account type & Number, currency and Bank name shall be as:

#### Core Fund bank account shall be maintained in:

- (a) Current Account No. 2070022524650019 in Ngultrum at Bank of Bhutan Limited (BOBL).

#### Grant Fund bank accounts shall be maintained in:

- (a) Current Account No. 20700220758390010 in Ngultrum at Bank of Bhutan Limited (BOBL).
- (b) Current Account No. 0100016670001 in Ngultrum at Bhutan National Bank Limited (BNBL).

### Lhak-Sam's bank accounts shall be used as:

#### Core Fund bank account shall be used for:

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- (a) Conduct of Program Expenditures, running of the Secretariat based in Thimphu and 3 Regional Service Support Centre present at Samdrupjongkhar, Gelephu, Phuentsholing.
- (b) Exclusively use for Conduct of specific Grant Activities.
- (c) Grant Fund bank Accounts shall be used exclusively for conduct of specific Grant Activities.

Two signatures enshrined in the bank mandate, shall be always required for undertaking transactions on all bank accounts of Lhak-Sam, and the relevant financial institution(s) shall be clearly instructed to observe this rule.

- (a) Lhak-Sam's bank accounts shall be operated jointly by the Executive Director (ED) and Finance Officer (FO).
  - (b) Or Program Officer (PO) and FO in the ED's absence for bank payment transactions up to Nu. 50,000/- only.
  - (c) Or ED and PO in FO's absence.
  - (d) In the absence of both the ED and FO, the PO and Fundraising Officer (FRO) may jointly operate the Lhak-Sam's accounts for bank payment transactions up to Nu. 50,000/- only.
  - (e) Moneys in both the Core Fund and Grant Fund bank accounts shall be steward-owned and controlled solely by the Lhak-Sam based on the principle and practice of economy, efficiency, transparency, and accountability, and it shall not consider monetary and signature rights to donor for access to any bank account of Lhak-Sam.
  - (f) Donor advice for a new bank account to be opened in connection with establishing a grant shall be accepted by Lhak-Sam; the new bank account details & specimen authorized signatures as may be required shall be send within reasonable time with the reassurance that any changes to the signatory of such account over the course of grant performance shall be formally informed to the donor.
  - (g) Any transfer of money toward grant, donation, charity, financial assistance to Lhak-Sam from foreign source shall be routed through a bank of Lhak-Sam.
  - (h) Bank accounts of Lhak-Sam shall be limited to banking of deposit, payment and withdrawal only; it shall not have access to overdrafts, or any line of credit, loan and borrowing.
  - (i) Payment and withdrawal transfers made from all bank accounts of Lhak-Sam shall be through use of cheque only; it shall not adopt Internet Banking, Electronic Transfer of Funds (ETF), Automatic Teller Machine (ATM), and any other variety of corporate credit or debit cards, but it shall avail SMS alert facility just for the communication of transactions date and fund balances for all of its accounts from the banks.
  - (j) Moneys of Grant Fund account(s) shall not be used for other activities or investment elsewhere outside of the account other than use exclusively for conduct of intended grant activities. At the end of grant cycle any remaining balance of unspent money in the Grant Fund account shall be reprogrammed by mutual agreement between the donor and Lhak-Sam. If it cannot be reprogrammed then it will be reimbursed. Lhak-Sam shall then take steps to finally seek release from fiscal accountability with donor or granting agency and will close the related bank account, in case, the grant fails to be renewed again.
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## 2.5 Cash management and disbursements

### 2.5.1 Cash/fund receipts

- (a) All cash/cheques/wire transfer received must be issued with pre-printed official money receipt with machine made serial numbers.
- (b) Any grant and donation cheques received in the name of any officer of the Lhak-Sam must be immediately endorsed to Lhak-Sam by that officer.
- (c) All cash/cheques received must be immediately handed over to the accountant.
- (d) All cash/cheques/wire transfer received must be entered in the daily cash register/log by the accountant.
- (e) All cheques received shall be photocopied by the accountant and keep on file.
- (f) Accountant must provide an appropriate account head and identification of funding source and purpose or classified correctly on the money receipts for which purpose the cash/cheques are received.
- (g) Accountant should prepare an intact deposit slip listing all cash/cheques and then promptly deposit into designated bank accounts.
- (h) All cash/cheques received must be deposited within a day. If it cannot be deposited on the same day it must be kept in a safe drawer overnight under lock and key and deposited into bank account next day.
- (i) Accountant should prepare a receipt/credit voucher attached with a copy of the money receipt and obtain signatures of the ED and FO on the voucher and then make an entry in the cash book followed by posting in the ledgers and sub ledgers.
- (j) All deposit slip must be attached with the listed cheque and keep on file.
- (k) All money receipts must be taken good care by keeping in a safe place in the office.
- (l) Finance officer should supervise and assist the accountant whenever required and review the record keeping work.

### 2.5.2 Cash/fund Disbursements

- (a) All payments/disbursement, whether in cash or cheque, shall be made only against payment/debit/disbursement voucher properly prepared by the accountant accompanied by the supporting documents, FO certify/verify the supporting documents in the form of original bills, claims are preapproved by PO & FRO in required cases and ED authorize/approve the disbursement.
  - (b) No money shall be withdrawn from the bank accounts except for settlement of legitimate claims against Lhak-Sam or payments for advances in pursuant of approved budget or approved advances for staff or regional centre or others or petty cash.
  - (c) All claims received or prepared in an office shall be registered in the bills payment register by the account officer. The register shall be reviewed at least once a month by the FO and the result of the review recorded in the register.
  - (d) All the cheque books of all bank accounts shall always be kept in a drawer under lock and key in the office by the accountant.
  - (e) Accountant shall ascertain and the FO (who is a Drawing and Disbursement Officer of Lhak-Sam appointed by ED) should certify there is sufficient fund before making payment to any party.
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- (f) Finance Officer shall be responsible for proper utilization of the budget once approved by the board and/or donor.
- (g) All vendor/supplier/rent payments shall be made by cheque only against their bill verified by the relevant verifying officer(s) and approved by the ED through accounting voucher prepared by the accountant.
- (h) All vendor/supplier/rent and all other payments for salary, travels, DSA, petty cash etc. shall be made in cheque after statutory deductions and recoveries have been made at correct rates and amounts, other than program beneficiaries' travels and DSA that can be paid in cash if they (claimant) don't have bank account and petty cash expenditures.
- (i) Remittances against recoveries/receipts are made to proper authorities in timely basis. The expenses, expenditures and recoveries (if any) have been classified correctly by the account officer.
- (j) All vouchers and supporting documentation shall be properly stamped "paid" before cash/cheques are dispatched.
- (k) Accountant should provide appropriate account head and the budget lines on the voucher with all supporting documents like verified bills, sanctions, approvals attached with the voucher and make an entry in the cash book followed by posting in the ledgers and sub ledgers.
- (l) The entry in cheque issue register is simultaneously attested when the cheque is signed.
- (m) Separate cashbooks, journals and sets of account records shall be maintained in respect of each of the bank accounts.
- (n) For withdrawal of cash from bank account for office use for example advances for expenses/expenditure, a cheque drawn on 'self' shall be issued giving full details with a supporting vouched checked, verified, certified and approved by all the competent authority.
- (o) Finance officer should supervise and assist the accountant whenever required and review the recordkeeping work.

## 2.6 Bank reconciliation

All bank statements must be properly and timely reconciled monthly at the least and necessary corrections entered by the accountant and the FO and submitted to the PO, FRO, ED for review and approval.

## 2.7 Petty cash account and transactions

Cash transactions are to be limited only for petty/small office expenses and when/where banking facilities are not available. **No claim exceeding Nu. 5,000/- should be settled through cash payments, these should be by account payee cheque payments only. As a matter of procedure and control, the attempt should be to minimize the number of cash transactions.**

- (a) **A petty cash not exceeding Nu. 5,000/- shall be entrusted to the accountant and the expenditure incurred and paid shall be accounted for after preparing the payment voucher.**
  - (b) The voucher has to be approved by the competent authority before payment (as per the requirement of individual projects).
  - (c) **No cash payment of more than Nu. 5,000/- is permitted per transaction**
  - (d) The payee must sign the voucher for having received the payment
  - (e) The number of cash payments has to be reduced by converting settlements through cheque payments.
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- (f) Accountant shall provide appropriate account head, budget head if applicable on the voucher and make entry in the cash book followed by posting in the ledgers and sub-ledgers in normal manner.
- (g) Accountant shall maintain a daily petty cash log that shall be checked, certified, verified and approved by the concerned competent authority.
- (h) FO shall supervise and assist the account officer in the work.

### **2.8 Regional centers and field offices**

- (a) Where Lhak-Sam has multiple projects and/or field offices and/or regional centers located at Samdrup Jongkhar, Gelephug, Phuentsholing as part of one grant and/or program, district bank accounts shall be introduced.
- (b) The two signers of cheque for operation of the district bank accounts shall be one of the support leaders of the respective center and the other one selected by the secretariat or nominated by members located at the district or sub-district of the center.
- (c) The secretariat in Thimphu shall bear overall responsibility for distribution of funds to field offices and/or regional centers or projects.
- (d) The transfer of funds to the district bank account shall be made according to the program budget, project milestones and shall be sufficient to meet the project or program requirements. The main office shall monitor and ensure proper expenditure accountability by the field offices and/or regional centers.
- (e) In addition, the secretariat shall also consolidate expenses incurred at the field offices and/or regional centers level for reporting purposes.

### **2.9 Loss and misappropriation**

- (a) Every official of the Lhak-Sam shall understand clearly that he/she will be held personally responsible for any loss sustained by the Lhak-Sam because of acts of fraud or negligence on his/her part whether at the secretariat, regional centers, or field offices.
  - (b) An officer shall submit a full detailed report to the next higher authority, ED which shall be further submitted to the board as soon as the loss or shortage of Lhak-Sam's moneys, stores, equipment or other properties has taken place.
  - (c) The head of local office/secretariat shall arrange a full investigation and subsequently submit a complete report to the board and try to make the responsible party makes good such loss in other words recover the loss.
  - (d) All major cases of losses or accidental losses due to events such as suspected acts of sabotage or burglary or theft, fire, earthquake, flood and road accidents shall be reported at once to the police, and documentary evidences such as police report and court order must support accidental losses.
  - (e) Accounting procedure for writing of the losses in case of loss of cash through a disbursement voucher. Entries for loss of equipment, stores, and properties shall be carried out through journal voucher.
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## SECTION 3: BUDGET AND EXPENDITURE

### 3.1 Budget and expenditure procedure

The Executive Director and the Finance person will be responsible for the following activities related to budget and expenditure:

- (a) Prepare annual work program and budget along with operational budgets and this must be submitted to the Board for approval. The activities shall be undertaken only on approval of the Board.
  - (b) The Finance person shall record the original (or revised) budget for the financial year.
  - (c) The budget book shall be maintained on a computer spreadsheet.
  - (d) All daily expenditure shall be posted to the budget book, record cumulative expenditure and monitor remaining budget.
  - (e) The Executive Director shall obtain donor approval in advance for revisions of budgets.
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## SECTION 4: FIXED ASSETS AND DEPRECIATION

Fixed assets are defined as tangible assets, which have been acquired either through purchase or donation with the intention of being used on a continuing basis for a period exceeding one year. All assets shall be included in Lhak-Sam's fixed asset register.

### 4.1 Fixed assets group

To facilitate proper financial and management control, fixed assets shall be grouped into eight categories subject to further grouping expansion in future:

- (a) Motor Vehicles (MV)
- (b) Office Equipment (OE)
- (c) Office Furniture and Fittings (OF)
- (d) Audio-Visual Equipment (AVE)
- (e) Office Heating Facility (OHF)
- (f) Office Decoration (OD)
- (g) Office Kitchen Appliance (OKA)
- (h) Leasehold Improvements (LI)

Fixed assets shall be recorded at cost of purchase price or fair market value for donated assets.

### 4.2 Fixed asset tag numbers

Recording in the fixed asset register shall use a three-digit tag number in the format of the following example: BMS/OE/015. BMS designates the donor. The digits OE indicate the asset category (Office Equipment) while the last three digits represent the asset number in chronological order. For motor vehicles, the registration number shall be sufficient for identification purposes.

### 4.3 Fixed asset procedures

- (a) Opening balances of existing fixed assets shall be recorded in the **asset register** (either at cost for asset purchases or fair market value for asset donations).
- (b) The asset register shall be updated for additions in the month of purchase or donation.
- (c) The asset register shall be updated for disposals in the month of disposal.
- (d) All additions and disposals of fixed assets shall be recorded in the general ledger as well as sub ledgers.
- (e) All fixed assets shall be depreciated and recorded in the asset register or depreciation schedule.

**To have an effective fixed asset register, the following steps shall be followed:**

- (a) Prepare a listing of fixed assets donated by each donor during the year
  - (b) Prepare a listing of fixed assets purchased by Lhak-Sam during the year
  - (c) Verify existence of each item on the lists above by performing a physical inventory count
  - (d) Assess the condition of the assets and their location
  - (e) Assign asset tag number to each asset
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**To create an asset register, individual assets in the register shall be recorded by entering the following headings:**

- (a) *Name and description* – Record the name and description of the asset.
- (b) *Cost* – Original purchase price or fair value donated.
- (c) *Supplier* – Record the source of the asset.
- (d) *Purchase reference* – Provide a reference to the procurement/ payment documents.
- (e) *Date of purchase* – Record the date of purchase.
- (f) *Location* – Record the present location of the asset through inspection.
- (g) *Condition* – Record the present condition of the asset (excellent, good, fair and poor).
- (h) *Asset number* – Record the asset number (tag number) where numbers are being assigned.

**The account officer and the finance officer shall update the fixed asset register as follows:**

- (a) Perform an annual physical inventory count to confirm the existence and condition of the fixed assets
- (b) Record any fixed asset additions
- (c) Record any fixed asset disposals
- (d) Fully depreciated or obsolete assets that are still in use must be recorded in the fixed asset register at a value of Nu.1 for identification purposes.
- (e) Remove fully depreciated or obsolete assets that are not useable from the fixed asset register
- (f) Loss of fixed assets due to theft, fire and natural calamities such as earth quake and flood shall be written off in the books of account and removed from asset register.
- (g) Expenses for the maintenance and repair of fixed assets are classed as operating expenses and should be written off in the year the work is carried out.
- (h) If the maintenance or repair substantially enhances the value of an asset then the expenditure shall be capitalized and depreciated accordingly.

**Method of depreciation and rates:**

- (a) Depreciation shall be calculated on the straight-line method (SLM) on a pro rata basis from the date of purchase or donated this is to comply with Rules there to Income Tax Act of the Kingdom of Bhutan 2001.
- (b) All assets costing up to Nu.500.00 shall be capitalized and charged depreciation.
- (c) Depreciation shall be charged up to maximum rates prescribed in Rules on the Income Tax Act of the Kingdom of Bhutan 2001.

**Note:** *No member of Lhak-sam shall stake any personal claim on any movable or immovable property of the Organization or make any profit, whatsoever, by virtue of his/her membership.*

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## SECTION 5: TRAVEL PROCEDURES

### 5.1 Travel within Bhutan

All official business travel within Bhutan in the interest of the Lhak-Sam to serve or conduct specific purpose mission by the members, staffs, beneficiaries shall be undertaken as per annual work plan or an ad hoc travel program.

An employee, member, beneficiary who intends to travel must submit in detail his/her tour program with prior verification or sanction accorded by the relevant competent authority (PO, FO, FRO, RCC) that shall be approved or authorized by the Director.

#### 5.1.1 Submission of Tour Report

Upon return from tour, it is mandatory for every member, staff, beneficiary to submit a comprehensive tour report (report on specific purpose mission for which they are fielded or sent to fulfill or accomplish) to the immediate competent authority or Director within 5 days.

#### 5.1.2 Entitlements for Porter and pony (Pack/Riding Animal) and Claim Settlement

- (a) While on tour where there is no road communication or where vehicle do not ply, an employee, member, beneficiary shall be entitled to get the hire charges of porters and pack or riding animals (ponies/horses/mule/yak) at the prevailing market rate.
- (b) Standard schedule for number of animals and porters' entitlements shall be as follows:
  - (1) Director - 1 Pack/Riding Animal Plus 3 Porters
  - (2) Officers - 1 Pack/Riding Animal Plus 2 Porters
  - (3) Members/Beneficiaries - 1 Pack/Riding Animal Plus 1 Porter
- (c) There is no requirement to submit supporting documentation such as hire charges bill/receipt of animals and porters when claiming expenses upon return from the tour, but mission accomplishment report is mandatory.
- (d) No pack/riding animal charges and porter charges shall be paid by the Lhak-Sam if the travel is fully funded by the donor or an entity other than the Lhak-Sam.

#### 5.1.3 Entitlements to Daily Subsistence Allowance (DSA)/Per Diem and Claim Settlement

- (a) Employees, members, beneficiaries travelling beyond 10 kilo meters from the office or place of dwelling on authorized official business shall be eligible for full DSA/Per Diem provided his/her absence from duty or station is more than eight hours.
  - (b) DSA shall be paid in accordance with the standard schedule of rates structured/estimated solely and exclusively on flat rates and lump sums (all-inclusive charges) without having the requirements to break down Lhak-Sam's total contribution towards such charges as lodging, meals, gratuities, transport cost involved for travelers at all levels included as follows:
    - (1) Director - Nu. 2,000.00 Per Day
    - (2) Officers, Members and Beneficiaries - Nu. 1,500.00 Per Day
  - (c) There is no requirement to submit supporting documentation such as food/room and other bills/receipts etc. when claiming DSA upon return from tour, but mission accomplishment report is mandatory.
  - (d) No DSA shall be paid by the Lhak-Sam if the travel is fully funded by the donor or an entity other than the Lhak-Sam.
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#### **5.1.4 Entitlements to Travelling Allowance (TA) and Claim Settlement**

- (a) If a pool vehicle meaning Lhak-Sam vehicle is not available for authorized official business travel, employees, members, beneficiaries shall be eligible to claim mileage at the rate Nu. 16.00 per kilo meter across-the-board, computed on the most direct and economical route by road irrespective of whether his/her means and mode of actual travel was undertaken by air plane/private vehicle/hired vehicle/car/bus/taxi/truck/bike/scooter.
- (b) There is no requirement to submit supporting documentation such as air ticket/vehicle hire charges bill or receipt, bus ticket/taxi fare etc. when claiming TA upon return from tour, but mission accomplishment report is mandatory.
- (c) No TA shall be paid by the Lhak-Sam if the travel is fully funded by the donor or an entity other than the Lhak-Sam.

### **5.2 Travel outside Bhutan**

Prompted by the fact that Lhak-Sam does not possess sufficient fund of its own to contribute towards official business travel outside Bhutan, such travel for employees, members and beneficiaries shall be undertaken provided there is prior budget approval of the donor or an ad hoc travel program which shall be fully funded by an entity other than the Lhak-Sam.

Donor funds used to sponsor international travel shall be undertaken on International Airlines. All international air travel shall be economy class irrespective of grades and position and the ticketing for all international travel shall be done through competitive bidding process unless otherwise the mode and class of air travel is determined and the ticketing is done by the concerned funding agencies/donors themselves.

#### **5.2.1 Submission of Tour Report**

Upon return from tour, it is mandatory for every member, staff, and beneficiary to submit a comprehensive tour report to the immediate competent authority or Director within 5 days.

#### **5.2.2 Entitlements to Daily Subsistence Allowance (DSA)/Per Diem and Claim Settlement**

- (a) DSA entitlements, rates and claim settlement in connection with official business travel outside Bhutan by the employees, members, beneficiaries of Lhak-Sam shall be in accordance with funding agencies rules, policies and procedures.
  - (b) In no cases the funding agencies DSA rates should be lower than those established in this manual for Travel within Bhutan (In-country Travel).
  - (c) In addition to DSA: terminal expenses, ground transportation, airport tax, visas, passport renewal, vaccinations, etc. can be advanced or reimbursed when supported by proper receipts and the responsibility falls on Lhak-Sam management to ensure access to all these entitlements are availed by the employees, members and beneficiaries who undertake official foreign business travel fully funded by the donors or any entity other than Lhak-Sam.
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## SECTION 6: PROCUREMENT

### 6.1 Procurement of Goods, Works and Services

The ED, FO, PO, FRO and AO of Lhak-Sam shall also serve as the committee for procurement/acquisition/purchasing of goods, works and services. They shall serve as the tender committee to evaluate tenders and shall also approve call for quotations.

No employee, officer or agent or relative of Lhak-Sam shall participate in the selection, award or administration of a contract and/or procurement if a real or apparent conflict of interest would be involved. Where there is a violation of this clause, the board shall be informed and disciplinary action shall be taken against them which will be final and binding. No contractor/supplier involved in developing or drafting specification requirements, statements of work or request for proposal shall be considered for such procurement.

Procurement rules or procedures shall be aimed at promoting an effective procurement policy, an effective and efficient use of Lhak-Sam's fund/money, on following principles:

- (a) Observe economy and efficiency in the acquisition/purchase/procurement of goods and services or the contracting works;
- (b) Ensure suppliers/vendors/contractors/consultants get fair and equal access to the award of contracts for the supply of goods, works and services;
- (c) Observe transparency in public procurement;
- (d) Achieve regularity and uniformity in the procurement of goods, works and services.

Procurement/acquisition/purchase of goods, works and services should be carried out using one of the following guidelines/framework/rules or in other words based on fulfillment of either one of the criteria to ascertain classifications or categorizations or methods:

### 6.2 Notice Inviting Tender (NIT)

All goods, works and services valued ranging at Ngultrum 300, 000.00 and over shall be procured by tendering through public advertisement. The tender shall include complete, clear and accurate information on:

- (a) Responsibilities of contractor/specifications of tasks/ type of goods and services required
  - (b) Minimum qualifications and experience required
  - (c) Terms of service
  - (d) Identification of Lhak-Sam as the originator, giving full details of where and by when (date and time of bid closing) the offer must be submitted
  - (e) Time frame for the proposed order, from issue of order to final delivery
  - (f) Ever since the establishment of Lhak-Sam in 2011, the organization didn't have the opportunity to float tender in its history to date. Should Lhak-Sam face event to float tender then it shall be as per either Royal Government of Bhutan Procurement Rules 2009 or Global Fund to Fight HIV/AIDS procurement rules or UNDP procurement rules or any other substantial donors' own PR whichever best fits the needs relative to situation at hand and the Lhak-Sam's existing tender committee shall be reinforced by representation from the respective donor agencies and board members to build strong standard committee procedures.
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### 6.3 Micro-purchasing (MP) or Petty cash purchase (PCP)

All goods, works and services valued ranging at Ngultrum 50,000.00 and less or below shall be procured/purchased after making diligent enquiry from local market, obtaining the approval of the Executive Director by following guidelines described on Part III clause Micro-Purchasing on page 20 of the UNDP sub-recipient manual for grants financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (SR Manual) a copy of which has been provided to Lhak-Sam.

### 6.4 Request for Quotation (RFQ)

All goods, works and services valued ranging at Ngultrum 50,000.00 - 300,000.00 shall be procured through quotation in written. The quotation shall include complete, clear and accurate information and the procedures shall be as follows:

- 1) Obtain a list of known suppliers for the required goods, works or services
- 2) Obtain quotations in written from at least three different reputable licensed and non-licensed suppliers/vendors/contractors/consultants from the list above
- 3) Fill in the Comparative Quotation Chart (CQC) to analyze and document justification for recommending a particular vendor
- 4) In compiling the CQC above, in addition to prices, other factors such as reliability, previous satisfactory performance with the grant recipient, quality products/services and delivery schedules shall be considered.
- 5) In addition to aforementioned, goods, works or services shall be procured/purchased after obtaining the approval of the Executive Director by following guidelines described on Part III clause Micro-Purchasing on page 20 of the UNDP sub-recipient manual for grants financed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (SR Manual) which has been provided to Lhak-Sam.

### 6.5 Limited Bidding

Limited bidding shall involve express invitations to predetermined consultants or firms. However, to exercise the limited bidding process, an executive committee meeting must be held and enforced only upon its approval bound to when and where;

- (a) Contracts are in small quantities;
- (b) The failure of competitive public bidding;
- (c) The acquisition of highly complex or specialized products;
- (d) A limited number of suppliers of a specific article or service;
- (e) An urgent need for key materials and services; or
- (f) The need to standardize equipment.

### 6.6 Ex-Country Purchase

Direct purchases from outside the country and/or online through the Internet may be made under the following conditions:

- (a) Substantive price difference is observed between local vendors and ex-country sources (quoting for *c.i.f.* Thimphu or project site), with the ex-country prices being substantively less than local vendors' and quality being substantively higher or better than domestic vendors;
  - (b) Local vendors are not able to meet the required quality and specifications of items to be purchased;
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- (c) Items are required within in short period of time to prevent further deterioration or delay of grant implementation;
- (d) Under any other unavoidable circumstances with prior Board approval;
- (e) For such procurement, price quotations or catalog information from at least three different reputable licensed suppliers shall be documented.

**Note:** *Lhak-Sam shall afford authorized representative of the CSO Authority and all Donors and their agents, the board, the auditors the opportunity at all reasonable times to inspect activities financed by grants and donations received and the utilization of goods or service financed by the grants and donations, and agreement books and record.*

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## SECTION 7: REPORTING PROCEDURE

### 7.1 All-purpose (Or General-purpose) public reporting

The Executive Director of the Lhak-Sam shall prepare an annual all-purpose public reporting by writing on the Lhak-Sam's mission accomplishments against HIV/AIDS in the kingdom of Bhutan. This shall have to be completed within 3 months of the end of the Lhak-Sam's fiscal year before the following 31<sup>st</sup> March each year and submit it to the Board to discuss during the meeting.

The Board shall take on the responsibility for reviewing an annual report and assist to edit the style, form, substance and content with provision of oversight to the report in the interest to fight HIV/AIDS.

### 7.2 Annual report by the Executive Director

**Annual report by the Executive Director of the Lhak-Sam shall include the following:**

- (a) An update on the milestones Lhak-Sam has accomplished against HIV/AIDS to date since the year it intervened to embark upon to fight HIV/AIDS.
- (b) The progress of the Lhak-Sam's mission operation to fight HIV/AIDS over the last year meaning during that fiscal year.
- (c) What is working, what is not and why when Lhak-Sam is planning, programming, budgeting and performing to fight HIV and AIDS?
- (d) Current situation and future prospects of the Lhak-Sam existence and progress.
- (e) An explanation on how people and organizations can access HIV programs and services provided by the Lhak-Sam.
- (f) List of Board members, management staff and contributors of Lhak-Sam.
- (g) Current HIV status in Bhutan and emerging HIV/AIDS significant issues.
- (h) Lhak-Sam's involvement in various capacities with other organizations, internationally and nationally to fight HIV/AIDS.

### 7.3 Annual accounts or financial reporting by the finance department

The accountant and finance officer of the Lhak-Sam shall prepare and issue an annual all-purpose or general-purpose public reporting or financial statements of the Lhak-Sam intended to provide financial transparency and accountability information, summarizing Lhak-Sam's performance of activities and state of affairs that is useful to a wide range of stakeholders' consumption within 3 months of the end of the financial year before the following 31<sup>st</sup> March each year.

These full/complete set of annual accounts called financial report or financial statements accompanied by notes on accounts (notes to financial statements) and schedules, and relevant other financial information of the Lhak-Sam shall consist of the following:

#### 7.3.1 Statement of activities (Income and Expenditure Statement)

For 1<sup>st</sup> January through 31<sup>st</sup> December each financial year that's for the past one year, all revenue and expenses recognized on accrual basis in keeping with the Generally Accepted Accounting Principles with qualitative characteristic of understandability, relevance, reliability and comparability.

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This statement of activities shall be transparently reflecting and accountably presenting true and fair information on accurate gross total amount of monetary and non-monetary contribution and support of moneys, goods, works, and services received on account of **donations and grants**.

These donations and grants are received through voluntary goodwill, solidarity, understanding, cooperation, and partnership from donor organizations and people nationally and internationally to **fight HIV/AIDS through Lhak-Sam**.

These important monetary and non-monetary combined resources entrusted to Lhak-Sam are used in respect of performing works and services to fight HIV/AIDS; delivering the direct mission program services of the Lhak-Sam to the benefit and profit of all population, and the administration and fundraising activities supporting the performance and deliverance of mission related program services.

Lhak-Sam is apolitical, not profit making, public benefiting and profiting to fight HIV/AIDS civil society organization founded by network of people living with HIV that's operating in the kingdom of Bhutan.

### 7.3.2 Statement of financial position (Balance Sheet)

As at 31<sup>st</sup> December each year that's as of the final day of close of the financial year, this statement of financial position shall be transparently reflecting and accountably presenting true and fair accurate total assets, liabilities and net assets **created on behalf to fight HIV/AIDS by the Lhak-Sam** based on the preceding operational activity result of the gross total monetary and non-monetary contribution and support provided by the foreign and domestic donor organizations and individual people to fight HIV/AIDS through the Lhak-Sam in the kingdom of Bhutan to the benefit and profit of all population.

### 7.3.3 Statement of functional expenses

For 1<sup>st</sup> January through 31<sup>st</sup> December each year that's for the past one year, this statement of functional expenses shall be presented in matrix format showing program, administration and fundraising in column with natural expenses in rows.

### 7.3.4 Receipts and payments account

For 1<sup>st</sup> January through 31<sup>st</sup> December each year that's for the past one year, this statement of receipts and payments accounts shall be transparently reflecting and accountably showing true and fair accurate summary of all total cash transactions of the Lhak-Sam. **Statement of cash flows** is replaced by **statement of receipts and payments** in the Lhak-Sam case.

### 7.3.5 Bank reconciliation statement

For the last month of the financial year

## 7.4 Supporting notes and schedules

Afore mentioned **financial statements** will be accompanied by **supporting notes and schedules** forming integral part of the financial statements that explain the information given on the face of the Lhak-Sam's financial statements more fully to facilitate the users' understanding of the Lhak-Sam and its current and future performance and status.

(a) Clear segregation of foreign currency from the Ngultrum shall be maintained, disclosed and reported in required cases.

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- (b) Whenever correction made to past financial statements, records shall be maintained, accounted for, disclosed and reported.
- (c) Disclose disaggregated individual donor-wise group of incomes, expenses, assets, liabilities, net assets for internal interim reporting and control purpose, constant financial management & decision-making needs, periodic and annual specific donor purpose information/reporting and then consolidate and/or merge and/or combine them into one cohesive **aggregated all-purpose and/or public reporting and/or external financial statements at the fiscal/financial year end.**

### **7.5 Forwarding unaudited annual accounts and report to concerned authorities**

These unaudited principal financial statements issued by the finance department of Lhak-Sam which is accordingly endorsed by the Board, together with the Board-authenticated Executive Director's report of the progress and achievements of the Lhak-Sam's mission activities will be submitted on or before 31<sup>st</sup> March each year to:

- a) Royal Audit Authority (RAA) of Bhutan
- b) Regional Revenue & Customs Office (RRCO) Thimphu, Bhutan of the Department of Revenue and Customs (DRC) under the Ministry of Finance (MOF) of the Bhutan.

### **7.6 Forwarding audited annual accounts and report to concerned authorities and stakeholders**

Once the financial and non-financial concerns audit and tax assessment was completed by the RAA and RRCO respectively, the audited financial statements of the Lhak-Sam and the auditors' report thereon, and Board-authenticated Executive Director's report shall represent **annual accounts, report and return of Lhak-Sam** and within 10 days copies of it shall be submitted in paper form with a covering letter addressed to:

- (a) Civil Society Organization Authority of Bhutan (CSOA)
- (b) Secretariat of the His Majesty's Office of Bhutan (SHMO)
- (c) National HIV & AIDS Control Program (NHACP) of Bhutan
- (d) Board members of Lhak-Sam based in Thimphu, Bhutan.
- (e) And to any donors, groups, stakeholders and members of public wishing to receive it in either electronic or paper form.

Lhak-Sam may also decide upon having printed out annual accounts and report in booklet for mass general distribution if funding permit.

### **7.7 Putting into the public domain**

This audited annual accounts, report and return of Lhak-Sam shall be promptly put in the public domain through the organization's website intended to:

- (a) Meet public information rights/needs and promote public relations to fight HIV/AIDS;
  - (b) Demonstrate transparency and accountability requirements of fund mobilization and utilization to fight HIV/AIDS;
  - (c) Demonstrate transparency and accountability requirements of performance to fight HIV/AIDS and mission achievements against HIV/AIDS.
  - (d) Inform to remind HIV/AIDS is still most severe disease in the modern time that's serious threat that all population must fight to conquer it.
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## 7.8 Specific-purpose donor reporting

Lhak-Sam shall also be subject to grant agreements entered into with some donor organizations and individuals, thereby committing to perform work, deliver service, and act to fight HIV/AIDS supported by financing or funding by the respective donors.

A detailed description of what, where and when specified activities to take place to fight HIV/AIDS with a corresponding budget, project work plan and a list of terms, provisions and conditions, documentation, filing and record keeping, audit arrangements, including the **reporting requirements** shall almost always form an essential part of the agreement entered into by the Lhak-Sam with these specific group of donors collaboratively to fight HIV/AIDS in the kingdom of Bhutan.

Lhak-Sam shall also have the obligation in addition to **general-purpose public reporting** the constant needs to fulfill **Specific-purpose donor reporting** requirements; in a timely, accurate, reliable, completely and responsible manner, usually on a **quarterly basis**, often using cash basis of accounting as opposed to accrual method during the course of the project implementation with transparently accountable, financial and programmatic information, often specifically demanded by the donors that will in essence be spelled out in the grant agreements by these particular group of donors for the Lhak-Sam.

### 7.8.1 Specific-purpose donor reporting orientation, compilation, analysis and interpretation

The basic requirements of the report shall normally include progress variance report, measuring actual eligible and substantiated expenditure against approved activity-based budget; account reconciliation & adjustments related to the grant project activity, cash flows together with a parallel narrative progress report, procedural steps relating to funding request and payment processing and, any other events surrounding specific donor reporting.

Lhak-Sam shall report to these specific donors normally using the prevailing format, template, form, model or design established by the respective donor organizations or individuals.

Where there are no specific formats set by some donor organizations or public individuals, for example non-itemized budget based grant solely on flat rates and lump sums:

- (a) and/or small amount grant projects, and/or small contribution/donation given for specified purpose/activity,
- (b) and/or contribution/donation given for general purpose/activity

Then Lhak-Sam shall follow its own reporting system using either cash or accrual based method whichever donors opt to prefer upon consultation with them.

This quarterly basis, especially activity-itemized budget based specific donor reports, generated on a self-declared or self-assessed basis by the Lhak-Sam over what, where and when specified activities were performed and delivered the resultant services which the Lhak-Sam forwards to the donor shall often serve to determine review, assessment, control, decision-making aspects, needs, policies, feedback of the respective donors as to whether or not approve the funding request made by the Lhak-Sam & allow funding payment by the donors relating to the ongoing grant project collaboratively to fight HIV/AIDS.

This quarterly based specific donor reporting by the Lhak-Sam shall also often provide a useful tool to the donors in assessing the degree of completion of the activity, budget and balance status, accomplished milestones, problems that have arisen, positive impacts or unexpected benefits that have occurred, failure and success story since the start of the ongoing project, and to determine whether or not agreed objectives and conditions between the donors and the Lhak-Sam are being achieved to fight HIV/AIDS.

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Listed below are some examples of basic examination that the donor might carry out over self-assessed and then declared financial and program performance report submitted periodically/quarterly by the Lhak-Sam may include but not limited to:

- (a) Improper, weak reporting condition and quality that does not satisfy the donor at the very first glimpse of the report.
- (b) Quick test on Logical and reasonableness on the level of relevance and reliability of the financial and program information provided by the report.
- (c) An arithmetical check on the figures submitted for each budget line item.
- (d) An arithmetical calculation of the overall budget and balance for that specific quarter, together with previous periods to date.
- (e) If any error and omission is committed.
- (f) Names, sign, seal of project management team with date are given.
- (g) Copies of supporting documents are attached/enclosed, if stated required during reporting when the agreement is made.
- (h) Account control & reconciliation is correct/wrong.
- (i) Transparency of the information provided by the report.
- (j) Claim of any ineligible or unsubstantiated expenditure
- (k) Report submission is before/on time/late than report due date
- (l) Claim of any undue expenditure outside of agreed activities, budget line item, work plan

In addition to above basic assessment and analysis by the donors over reports of the Lhak-Sam, several chances are available to the donors to raise similar questions or the same questions listed in section 1 clause 1.7 of this manual that is brought down for reminder again which Lhak-Sam need to equally consider seriously with care and caution:

- (a) Is Lhak-Sam qualified to achieve agreed beneficiary objectives?
- (b) Does Lhak-Sam demonstrate sound stewardship of financial and other resources?
- (c) Is Lhak-Sam run efficiently and effectively?
- (d) Is Lhak-Sam accountable – should support be extended or continued, suspended, reduced or stopped?
- (e) Are the resources utilized as agreed and within the identified mandate of the Lhak-Sam?
- (f) Does Lhak-Sam adhere to agreed restrictions/requirements in the use of resources?
- (g) Does Lhak-Sam have the structure and/or capacity to implement the projects as agreed?
- (h) Does Lhak-Sam comply with all required reporting procedures?
- (i) Is Lhak-Sam disclosing transparency and accountability requirements?
- (j) Is information provided on the Lhak-Sam financial and program report and/or statements reliable and relevant to decision making needs of users?
- (k) Is there fundamental error and omission with information provided in the Lhak-Sam's report and/or financial statements?

Lhak-Sam should note that the failure to submit reports on timely basis, incompetency, misstatement of facts and figures, making mistakes in reporting may result in delayed release of funds and/or suspend, reduced funding amount and/or denial of eligibility for future grants from such funding sources thereby rendering loss and failure on the part of Lhak-Sam to fight HIV/AIDS owing to late funding disbursement and/or absence of financing support from these specific donor sources.

In such instances of specific donor reporting Lhak-Sam's Program Officer is the writer of programmatic report and the Accountant will be responsible for reporting the financial part of the grant for each budget

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line item, in line with the activities and procedure agreed in the work plan between the donor agencies and the Lhak-Sam.

Specific donor reports of the Lhak-Sam shall be compiled and completed going by the instructions on the reporting dedicated guidelines if any that are made available by the donors to the Lhak-Sam.

And this more generally and familiarly called **program progress report & financial progress report** prepared by the Program Officer and the Accountant of Lhak-Sam shall be reviewed by the Executive Director, Finance Officer and Fundraising Officer of the Lhak-Sam before it is being forwarded to the respective donors.

This type of reporting is known and referred to as **specific-purpose donor reporting** broadly used term by Lhak-Sam and it is intended to serve explicitly the needs of a particular group of users specially granting agencies/partners/donors whom Lhak-Sam rely heavily upon financing and technical assistance supportive of conducting its mission work and services to fight HIV/AIDS to the benefit and profit of all population.

Apart from small grants/donations from peoples and organizations, Lhak-Sam is presently dealing with three different categories of major grant projects financed by the Global Fund, United Nations and look forward to constantly receive finance, support, understanding, cooperation and partnership for the foreseeable future from these funding sources to fight HIV/AIDS.

Amongst all the donors/funding agencies of Lhak-Sam, United Nation and Global Fund are the two substantial resource providers of Lhak-Sam to fight HIV/AIDS that required to be reported by Lhak-Sam using their standard form, template generally available which are known and referred to as:

- (a) Fund Authorization and Certificate of Expenditure (FACE) for United Nation.
- (b) Progress Update and Disbursement Request (PUDR) for Global Fund.

These granting agencies usually provide finance and programmatic training before or after grant award to the grantees. The program officer and the account officer of Lhak-Sam should participate in such an important training and ought to acquire an adequate working capacity to implement activities involved under the project as economically, effectively and efficiently as possible. Be able to generate timely, sound and excellent donor reporting over the activities that Lhak-Sam has undertaken as transparently and accountably as much as possible, as well as, strive to maintain the respect, confidence and support of these resource providers into Lhak-Sam's functions to fight HIV/AIDS collaboratively.

### 7.8.2 Specific-purpose donor annual and final project completion reporting

In addition to quarterly donor-specific reporting Lhak-Sam shall render the specific donors an **annual and final project completion reporting** covering all-round financial and programmatic information since grant project start date to end date or the actual completion date whichever is first to occur.

To maintain good relationship with the donors Lhak-Sam shall submit the final donor report on or before report deadlines that is prescribed by the concerned donors. Lhak-Sam shall always try to reprogram portion of unspent fund if any at the project completion by mutual agreement between the donor and the Lhak-Sam. If it fails or cannot be reprogrammed, then it will be returned to the respective donor.

**Note:** *Lhak-Sam shall be obligated to provide timely, accurate and reliable financial and programmatic information about the activities it has undertaken to fight HIV/AIDS. People and organizations that use this information are encouraged to provide feedback to help the Lhak-Sam to refine the information and activities and services it performs to the benefit and profit of all population in the direction to fight HIV/AIDS.*

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## SECTION 8: AUDIT AND TAX

Besides the fundamental finance and accounting functions discussed above in this Finance and Accounting Manual (FAM) of the Lhak-Sam, there are various other significant financial functions also for Lhak-Sam that needs to be executed.

Auditing and Taxation are two of them for Lhak-Sam that's required under statute by Civil Society Organizations Act of Bhutan 2007 and Income Tax Act of the Kingdom of Bhutan 2001 with the rules and regulations framed thereto the acts by Civil Society Organization Authority (CSOA) and Ministry of Finance (MOF) respectively.

### 8.1 Audit

- (a) **Audit is defined by Lhak-Sam as:** an independent critical examination of the financial statements and books of accounts to check their accuracy and also to detect and prevent errors and frauds, and the subsequent expression of opinion thereof involving the auditor in collecting evidence by means of compliance tests (tests of control) and substantive tests (tests of detail).
  - (b) An annual audit of Lhak-Sam will be conducted by the Royal Audit Authority of Bhutan or any other auditing firm approved by the CSO Authority, or unless the donors at their discretion has reason or decision to engage separately other auditing firm.
  - (c) The audit shall be financial and non-financial concerns (financial & programmatic aspects) auditing performed in accordance with Generally Accepted Auditing Standards of Bhutan alongside International Auditing Standards.
  - (d) Statutory audit by RAA shall be free of remuneration/fee and other associated costs and the period of the conduct shall be determined by the RAA but Lhak-Sam should request auditing at the earliest possible and submit annual financial statements and non-financial report latest by 31<sup>st</sup> March each year and keep all underlying financial records supported by prime documentation in state of audit readiness and be willing to extend cooperative assistance to the visiting auditing team in order to facilitate smooth and speedy audit proceeding and completion.
  - (e) In case of remuneration plus cost of the auditor(s) other than audit by the RAA, the period of the conduct shall be agreed by the donor fixed with the auditing firm and the cost for audit shall be borne by the donor/funding agency in entirety as Lhak-Sam has not sufficient fund for audit at present.
  - (f) Auditor(s) of the Lhak-Sam shall have right to access all books of accounts and records of the Lhak-Sam and shall be entitled to require from the officers of the Lhak-Sam such information and explanation as the auditor may think necessary for the performance of his/her duties.
  - (g) The auditor shall report to the management of Lhak-Sam, the accounts examined by him/her and shall state whether the said accounts give a true and fair presentation of the Lhak-Sam financial events and affairs as follows:
    - (1) In the case of the statement of financial position (balance sheet), of the state of the Lhak-Sam's affairs as at the end of its financial year;
    - (2) In the case of statement of activities (Income and Expenditure Statement), of the financial activities for the financial year; and
    - (3) In the case of receipts and payments account (substitute for cash flow statement), of the movement of cash during the financial year.
  - (h) Based on his/her opinion, the auditor shall also state:
    - (1) Whether he/she has obtained all the information and explanations to the best of his/her knowledge and belief were necessary for the purposes of his/her audit;
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- (2) Whether proper books of accounts have been kept, so far appears from his/her examination of those books, proper and adequate for the purposes of his/her audit have been received from the respective sources not visited by him/her; and
  - (3) Whether the Lhak-Sam statement of financial position, statement of activities and receipts and payments account are in agreement with the books of accounts and records.
- (i) The audit report shall be submitted to the concerned authorities and to any donor/stakeholder within 10 days after the completion of the audit.

## 8.2 Tax

- (a) Lhak-Sam being a Civil Society Organization (CSO) is a Tax-Exempt Organization registered with the Regional Revenue & Customs Office (RRCO) Thimphu under Department of Revenue and Customs (DRC), Ministry of Finance (MOF) with registration number LAX00012.
  - (b) All charities and donations made to Lhak-Sam are tax-deductible expenditure in the hands of the donors up to 5% of the assessed net profit for Corporate and Business Income Tax (CIT & BIT) donors and 5% of the adjusted gross income for Personal Income Tax (PIT) donors unless otherwise revised.
  - (c) Lhak-Sam shall lose its tax exemption status and donors shall lose their tax-deduction benefit, if the donors receive goods and services of exchange nature in return for their donations other than HIV program and services from Lhak-Sam for the public.
  - (d) All payments made to Lhak-Sam are exempt from Tax Deduction at Source (TDS) unless payments are in connection with unrelated business income transactions.
  - (e) All procurement of goods, works and services made by Lhak-Sam are exempt from all sales tax and customs duties provided Lhak-Sam applies for exemption on it through CSOA and DRC.
  - (f) Lhak-Sam shall deduct TDS at the rate prescribed by Income Tax Rules (ITR) as per TDS guidelines published by DRC, from all bill payments made to all taxable-entities' incomes or transactions *liable* for TDS for goods, works and services supplied to Lhak-Sam.
  - (g) Lhak-Sam shall deduct TDS and Health Contribution from salary payments on each staff earning more than Nu. 16,667.00 Per month at the schedule of rate formulated by DRC.
  - (h) Lhak-Sam shall not deduct TDS from staff salary payments on earning Nu. 5,000.00 to Nu. 16,667.00 Per month but deduct Health Contribution.
  - (i) Lhak-Sam shall not deduct TDS and Health Contribution from staff and intern stipend payments on earning less than Nu. 5,000.00 Per month.
  - (j) Lhak-Sam shall not deduct TDS on all gratuity payments made to its helpful volunteers and fundraising channel partners.
  - (k) Lhak-Sam shall not deduct TDS on on-the-spot or point-of cash purchases in emergency or unavoidable circumstances not exceeding Nu. 20,000 per transaction.
  - (l) Lhak-Sam shall not Deduct TDS on bill payments of goods from outside Bhutan.
  - (m) Lhak-Sam shall deposit to concern Regional Revenue & Customs Office (RRCO) on or before 10<sup>th</sup> day of the month following the date of deduction, all TDS deducted from payments made to various taxable entities.
  - (n) Lhak-Sam shall deposit all TDS and Health Contributions deducted from payroll to concern Regional Revenue & Customs Office (RRCO) on or before 10<sup>th</sup> day of the following month.
  - (o) Lhak-Sam shall make timely deposit of all TDS deducted to avoid any late fine and penalty.
  - (p) Lhak-Sam shall issue TDS certificate to all concerned parties at the time of bill payment or after deposition of TDS.
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- (q) Lhak-Sam shall issue TDS certificate annually at the end of year to staff for Personal Income Tax (PIT) filling, unless otherwise an employee required it for other purposes.
  - (r) Lhak-Sam shall not be responsible for filling of employees' PIT return.
  - (s) All incomes or other gains of Lhak-Sam which it has earned as a result of investing its endowed property or other funds are exempt from payment of income tax.
  - (t) All transfers of in-kind donations from foreign sources to Lhak-Sam shall be in accordance with procedures specified in the Sales Tax, Customs and Excise Act of the kingdom of Bhutan, 2000.
  - (u) Lhak-Sam shall file/submit annual accounts return to concern RRCO of registration before 31<sup>st</sup> March following the end of the fiscal year and shall be subject to assessment or audit of books of accounts by the Tax Authority even there is no taxable income.
  - (v) In the event Lhak-Sam avails opportunities available to diversify income streams besides donations and grants to trading in goods and services then Lhak-Sam shall be liable to unrelated business income tax like that for in profit-making organization in which case annual accounts required to be prepared in addition to GAAP along with Tax Rules, Regulations and Provisions thereto Income Tax Act of the Kingdom of Bhutan for that part of commercial operations and transactions Lhak-Sam has conducted.
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## SECTION 9: COST SHARING POLICY

### 9.1 Lhak-Sam's cost sharing policy recommendations

Lhak-Sam shall have policy recommendations that strongly encourages limiting cost sharing to fight HIV/AIDS that which is mandated by the sponsoring/donor/funding agency or is necessary to make Lhak-Sam's proposal competitive, and strongly discourages offering cost sharing on voluntary basis.

#### **Definition:**

*Cost sharing in the context of Lhak-Sam means that portion of project or program costs to fight HIV/AIDS either direct or indirect expenses or capital expenditures not borne by the particular funding/sponsoring/donor agency for which Lhak-Sam shall make contributions or pay from third-party which include cash and in-kind to an award of grant necessary and reasonable to accomplish the project or program objectives. Cost sharing may include contributed effort, other Lhak-Sam matching funds, unrecovered facilities and administrative costs (F&A, or indirect costs) and third-party in-kind contributions.*

#### **Example:**

*Among many, an example of cost sharing is any personnel listed on the project budget (showing % effort) for whom no salary is requested in the budget, or if salary is requested, it is less than what is needed to pay for the entire % effort. In this instance, the individual's portion of salary equivalent to that % effort not in the budget, in addition to fringe benefits and indirect associated costs, would be considered cost sharing.*

### 9.2 Types of cost sharing

There are two types of cost sharing that must be documented and tracked that are explained as follows:

- (a) **Mandatory committed cost sharing** is required by funding agency/donor/sponsor as a condition of obtaining an award from them by Lhak-Sam. It must be included or a proposal will receive no consideration by the funding agency.
  - (b) **Voluntary committed cost sharing** represents resources offered by Lhak-Sam (documented and quantified in the proposal) when it is not a specific funding agency/donor/sponsor requirement.
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## SECTION 10: CONFLICT OF INTEREST AND ANTI-FRAUD POLICY

### 10.1 Conflict of Interest Policy

The board, employees, members, beneficiaries, donors, volunteers including foregoing person's close family, relative or friend in the best interest of Lhak-Sam shall exercise observance to be alert and aware of and properly manage all real conflicts of interest and appearances of a conflict of interest that they might likely contribute to create often out of unawareness that their activities or personal interests are in conflict with the best interests of Lhak-Sam.

This conflict of interest policy is formulated to help the foregoing people identify circumstances or situations that present potential conflicts of interest and to provide Lhak-Sam with a procedure to appropriately handle conflicts in accordance with legal requirements, aims and objectives of transparency and accountability in the transactions and operations of Lhak-Sam's mission to fight HIV/AIDS to the benefit and profit of all population.

### 10.2 Conflict of Interest defined in the context of Lhak-Sam

Conflict of interest for Lhak-Sam means that a board, employee, member, beneficiary, donor or volunteer including entailing divided loyalties on account of duality of interests holding, family member or relative of any of the foregoing is a party to a contract, or other transaction with Lhak-Sam involving money, goods and services who has a personal interest that is in an actual or apparent conflict with the interests of the Lhak-Sam.

- (a) A board member, employee, key affected member, beneficiary, donor or volunteer including their family, relative with a conflict of interest is referred to as "interested person" and one who is without conflict of interest as "disinterested person".
- (b) Primary interest and secondary interest associated with aforesaid person is discussed here as: primary interest refers to commitments to profession or duty to work within the best interests of Lhak-Sam whereas secondary interest includes not only financial gain but also such motives as the desire for professional advancement and the wish to do favors for family, relative, friends and official of organization having dual interests that do not conform to professionalism or sense of duty.
- (c) The presence of a conflict of interest is independent of the occurrence of impropriety. Therefore, a conflict of interest can be discovered and voluntarily defused before any corruption or fraud occurs and that is what Lhak-Sam should be doing in real practice.

### 10.3 Some common forms of conflict of interest are discussed as follows

- (a) In a broadest sense, conflict of interest shall constitute aforesaid individual's (board, employee, key affected member, and beneficiary, donor, volunteer, family or relative) private interest that differs from his or her professional or sense of obligations to the Lhak-Sam and the conflict occurs when the duty or professional decision made by the individual is questionable.
  - (b) An example of plain straightforward conflict of interest is suppose a board member's relative but not limited, owns a printing company that regularly provides services to the Lhak-Sam. Lhak-Sam always uses this company and rarely gets quotes from other companies. No one on the board is
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aware that the owner of the printing company is a relative of a fellow board member and the board member does not disclose this information. The employee who ordered the printing services also did not know about the potential conflict. Procuring the service of this company is questionable as how can either the board member or employee prove that they did not favor the company for personal reasons?

- (c) An official of Lhak-Sam is a board member of another organization or official of another organization is a board member of Lhak-Sam enters into transaction with one another which benefits the official only.
- (d) An official holding multiple employments with Lhak-Sam as well as other organization could be said as having divided loyalty on account of duality of interest in which the interests of one job conflict with another.
- (e) Nepotism, in which a spouse, child, or other close relative is employed or applies for employment by an individual of Lhak-Sam, or where goods and services are purchased from a relative or from a firm controlled by a relative.
- (f) A spouse, child, or other close relative of an official or board of Lhak-Sam is in the employment of Lhak-Sam and he/she was awarded excessive benefit compared to another staff.
- (g) Gifts, Gratuities and entertainment or other favors provided by Lhak-Sam as an organization or an individual of Lhak-Sam to others or from other entities to Lhak-Sam and individual of Lhak-Sam that can result in conflict or duality of interest when the party providing the gifts/gratuities/entertainment/favor does so under circumstances where it might be inferred that such action was intended to influence or possibly would influence the interested person in the performance of his/her duties.
- (h) Listed above are some common examples of Conflict of Interest (COI) that could be considered in connection with Lhak-Sam, please remember that this is not an exhaustive list.

#### **10.4 Some common examples that seems to be but not conflict of interest**

A situation where there is no conflict of interest could be supposing a board member's relative owns a printing company that has tendered a bid on printing being done by the Lhak-Sam. Three other bids were received however; the bid from the relative's company is by far the most competitive.

The board member first discloses this potential conflict to the board and refrains from the decision-making process on this issue. In this situation, there is no conflict of interest.

However, where there is absence of conflict of interest disclosure then there could still be COI. Following the conflict of interest policy means that no party can question the motivations of the board member or any employee in procuring the services of this company.

- (a) A spouse, child, or other close relative of an official of Lhak-Sam is employed or applies for employment through competition of interests with Lhak-Sam shall constitute apparent conflict of interest but not real COI provided official of Lhak-Sam do not exercise undue influence to provide employment related to him/her.
  - (b) Where goods and services are purchased from a relative or from a firm controlled by a relative that has tendered a competitive bid in terms of price, quality, delivery following standard bidding procedures, terms and conditions etc.
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### 10.5 Who might be affected by Lhak-Sam's Conflict of Interest policy?

Typically, persons who are affected by COI policy are Lhak-Sam's board members, officers, staff and intern. In some cases, major donor, program beneficiary, affected member, volunteer or family member and relative could also be in a conflict situation.

### 10.6 Procedures to manage conflicts of interest

- (a) All transactions shall be dealt with at arm's length basis in which a transaction that is conducted as though the parties were unrelated, thereby avoiding any semblance of COI whether financial conflict, duality of interests' conflict or related party conflict etc...
- (b) In instances of COI the fullest and broadest disclosure (FAM Form No.) possible is advisable so that decision-makers can make informed decisions that are in the best interests of the Lhak-Sam.
- (c) Interested party or person shall not be involved in the decision of what action to take or may not participate in a vote but may serve as a resource to provide other decision-makers with needed information.
- (d) In instances of COI interested party or person shall abstain from sensitive discussion so as not to unduly influence the discussion of the conflict.
- (e) In all instances or cases of COI, decision involving a conflict will be made only by disinterested parties or unrelated parties or persons.
- (f) The Chairperson of the board/ED/Officials of Lhak-Sam will monitor proposed or ongoing transactions of the Lhak-Sam for contracts with vendors and collaboration with third parties for conflicts of interest and disclose them to the board and staff, as appropriate, whether discovered before or after the transaction has occurred.

### 10.7 Anti-Fraud Policy

- (a) **Fraud definition in context of Lhak-Sam:** fraud is an act of crime of cheating Lhak-Sam in order to get money, goods and services illegally which in other words could be said as corruption and theft.
  - (b) If such incidence of fraud occurs Lhak-Sam should at once report the matter to the board, management for administrative actions or the police for investigation or court for judgment.
  - (c) Accepting bribes can be classified as corruption or use of Lhak-Sam's property or assets for personal use is fraud or other improper acts of conflict of interest or other acts of falsely manipulating accounts, reporting, financial management, procurement, undue excessive benefit providing, partiality favoring etc...
  - (d) Measures to curb fraud are amply described in Internal Control System to manage cash and other assets, bookkeeping and accounting, procurement, and all other sections of the Lhak-Sam's Financial and Accounts Manual that required to be followed at all times mandatorily in the interests of the Lhak-Sam.
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## SECTION 11: ANNEXES

### 11.1 Form SOA: Standard Statement of Activities Format

The schedules referred to below form integral part of the Statement of Activities (Income and Expenditure Statement).

This is the Statement of Activities referred to in our Finance and Accounting Manual and this is standard Statement of Activities format of Lhak-Sam.

This Statement of Activities will be furthermore accompanied by Notes to Financial Statements or Notes on Accounts that explains the information given on the face of the Statement of activities more fully to facilitate providing enough financial information toward promoting user's understanding of Lhak-Sam's performance in financial terms.

#### *Sample: Statement of activities for the year ended 31st December 2015*

| Change in net assets   | Schedule | Net assets amount in Ngultrum |                        |                        |                     |
|--|----------|-------------------------------|------------------------|------------------------|---------------------|
|  |          | Unrestricted                  | Temporarily restricted | Permanently restricted | Total               |
| <b>Net assets (contribution and support received or been promised to give) toward responding to HIV/AIDS</b> |          |                               |                        |                        |                     |
| Individuals  | <i>1</i> | 61,118.00                     | 32,505.00              |                        | <b>93,623.00</b>    |
| Corporations   | <i>1</i> |                               | 33,920.00              |                        | <b>33,920.00</b>    |
| Businesses   | <i>1</i> | 52,500.00                     | 16,752.00              |                        | <b>69,252.00</b>    |
| Global Fund  | <i>1</i> |                               | 5,981,753.56           |                        | <b>5,981,753.56</b> |
| UN Agencies  | <i>1</i> |                               | 1,204,457.20           |                        | <b>1,204,457.20</b> |
| Net assets before release from restriction   |          | <b>113,618.00</b>             | <b>7,269,387.76</b>    |                        | <b>7,383,005.76</b> |
| Net assets released from restriction   | <i>2</i> | <b>4,409,179.01</b>           | <b>(4,409,179.01)</b>  |                        |                     |
| <b>TOTAL</b>   |          | <b>4,522,797.01</b>           | <b>2,860,208.75</b>    |                        | <b>7,383,005.76</b> |
| <b>Expenses paid or incurred into delivering works and services toward responding to HIV/AIDS</b>            |          |                               |                        |                        |                     |
| Program services   | <i>3</i> | 3,758,666.04                  |                        |                        |                     |
| Administration, management and general expenses  | <i>3</i> | 1,073,373.37                  |                        |                        |                     |
| Depreciation on fixed assets   | <i>4</i> | 235,311.78                    |                        |                        |                     |
| <b>TOTAL</b>   |          | <b>5,067,351.19</b>           |                        |                        |                     |
| Net assets increase/(decrease)   |          | <b>(544,554.18)</b>           | <b>2,860,208.75</b>    |                        | <b>2,315,654.57</b> |
| Add net assets beginning of year brought down  | <i>5</i> | <b>1,106,301.66</b>           | <b>2,912,516.27</b>    |                        | <b>4,018,817.93</b> |
| <i>Net assets end of year carried forward</i>  |          | <b>561,747.48</b>             | <b>5,772,725.02</b>    |                        | <b>6,334,472.50</b> |

## 11.2 Form SOP: Standard Statement of Financial Position Format

The schedules referred to below form integral part of the Statement of Financial Position (Balance Sheet).

This is the Statement of Financial Position referred to in our Finance and Accounting Manual and this is standard Statement of Financial Position format of Lhak-Sam.

This Statement of Financial Position will be furthermore accompanied by Notes to Financial Statements or Notes on Accounts that explains the information given on the face of the Statement of Financial Position more fully to facilitate providing enough financial information toward promoting user's understanding of Lhak-Sam's status in financial terms.

### *Sample: Statement of financial position as at 31st December 2015*

| Accounts   | Schedule | Amount in Ngultrum   |                      |
|--|----------|----------------------|----------------------|
|  |          | Nu.                  | Total Nu.            |
| Fixed assets (net)   |          |                      | 722,235.90           |
| Office equipment (at cost less accumulated depreciation)                 | 6        | 184,975.75           |                      |
| Furniture, fixtures and fittings (at cost less accumulated depreciation) | 6        | 62,598.80            |                      |
| Audio-visual equipment (at cost less accumulated depreciation)           | 6        | 41,004.00            |                      |
| Office kitchen appliance (at cost less accumulated depreciation)         | 6        | 6,187.00             |                      |
| Office decoration (at cost less accumulated depreciation)                | 6        | 125.00               |                      |
| Office heating facility (at cost less accumulated depreciation)          | 6        | 3,819.50             |                      |
| Vehicle (at cost less accumulated depreciation)                          | 6        | <u>423,525.85</u>    |                      |
| Current assets   |          |                      | 5,771,026.23         |
| Cash in hand   | 7        | 187,735.34           |                      |
| Cash at banks  | 7        | 798,301.84           |                      |
| Accounts receivable  | 8        | 4,702,611.05         |                      |
| Advances   | 8        | 72,378.00            |                      |
| Security deposit   | 8        | <u>10,000.00</u>     |                      |
| Current liabilities  |          |                      | 161,888.53           |
| Payroll tax/health contribution payable                                  | 9        | 12,108.83            |                      |
| TDS on rent payable  | 9        | 1,050.00             |                      |
| TDS on supplier payable  | 9        | 8,230.70             |                      |
| Salary payable   | 9        | 120,800.00           |                      |
| Telephone bill payable   | 9        | 1,292.00             |                      |
| Electricity bill payable   | 9        | 3,407.00             |                      |
| Outstanding cheque   | 9        | <u>15,000.00</u>     |                      |
| Net current assets   |          |                      | 5,609,137.70         |
| Total fixed assets and net current assets                                |          |                      | 6,331,373.60         |
| Financing  |          |                      | 6,334,472.50         |
| Unrestricted net assets carried forward                                  | 10       | 561,747.48           |                      |
| Temporarily restricted net assets carried forward                        | 10       | <u>5,772,725.02</u>  |                      |
| <b>TOTAL</b>   |          | <b>12,989,623.16</b> | <b>12,989,623.16</b> |