Diploma in Financial Management & Accountability

- a joint initiative of TISS & FMSF

Course Material

Control Systems
Paper - VI

Module - III
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UNIT- 6
CONTROL SYSTEM BEING INFLUENCED BY OTHER STAKEHOLDERS

6.1. Introduction

Control system for an NGO is to ensure the safeguarding of assets, to fulfill the goals and objectives as per plan and to ensure reliable financial reports so as to demonstrate the accountability of an NGO towards all its stakeholders.

For an NGO the main stakeholders are :

a) the funding partners or donor agencies

b) Statutory Authorities, like FCRA, Income Tax authority, etc.

c) The direct beneficiaries or the direct groups as well as the community at large.

The NGOs are in a peculiar position as funds received from the donors, tax exemption being provided by the statutory authorities and all the funds are meant for the beneficiaries, but none of these stakeholders have direct control over the management and control system of an NGO.

However we find that in practice the donor agencies influence the decision making of an NGO and therefore also influence the control mechanism.

The statutory authorities though do not have any formal or informal influence over the decision making of an NGO, but they have statutory powers based on which enactments have been made to regulate NGO and thereby controlling the activities of an NGO towards the stated purposes and also securing the funds of the organization.

Similarly beneficiaries, for whom all the funds have been received, have no direct or indirect influence over the control system of the organization though they are the direct sufferer from a loose control system. However certain practices of the

NGOs have been successful in involving the beneficiaries in decision making and therefore enabling them to influence the control system of an organization.

This chapter deals with the influence by other stakeholders viz, donor agencies, statutory authorities and the beneficiaries over the control system of an NGO.

6.2. Influence of Resource Sharing Agencies on the control system of an NGO

The person who provides the fund to an NGO as a grant may be for specific or for non-specific purposes are called donors/resource sharing agencies.

Though donors provide most of the finances to an NGO, but they are not a part of the governance and therefore they cannot directly control the use of the funds as given by them and they have to depend mostly on the organisation's self control mechanism.

However donors for the purpose of assuring the use of the funds for the indicated purposes, influence the organisation for necessary and relevant control system and at the same time it follows some specified tools for monitoring the fund which includes the following :

6.2.1. Comprehensive Contract/Memorandum of Understanding:

Comprehensive contract/MOU is being executed in between the donors and the NGO clearly specifying the purpose of the grant, amount of the grant, time frame and other necessary aspects to reduce the scope of any ambiguity in understanding between donors and NGO as regards the agreed project.

6.2.2. Requirement of Reports:

1. Asking for periodical financial and activity reports in order to monitor the progress of the work and expenses incurred in terms of approved budget.

2. Asking for audited financial statements concerning the project funds in order to ensure that the periodical reports as shared with them are correct and duly certified by an independent person.
3. Asking for the consolidated financial statement of the organization as a whole to verify the status of the specific funded program in terms of total finance of the organisation

6.2.3. Monitoring Visits:

The representative from the donor agencies undertake monitoring visits from time to time to monitor and compare the actual performance with the planned performance.

6.2.4. Independent assessment/evaluation :

1. Appointing auditors or suggesting for finalizing the terms of reference with the auditors so as to ensure the independence of auditor.
2. Conducting assessment and evaluation both for finance and program by the independent person for assessing the success of the program in terms of agreed budget proposal.

6.3. Influence of Statutory Authorities over the Control System

Though the Government does not contribute directly to the funds of the NGO but by allowing tax exemption to the donors, the Government is indirectly contributing to the funds by allowing additional funds in the hands of the NGOs to the extent of tax exemption amount provided on the income.

However again the Government has no direct control over the management and control system of an NGO but through the following enactments the Government is regulating an NGO for the purpose of ensuring that the organization is working for the stated purposes and the funds lying with the organization are secured.

6.3.1. Under Income Tax Act, 1961:

1. The Income tax provides for utilizing a minimum of 85% of the income during the year and therefore indirectly influencing the NGO to use the funds for the purpose for which it was received instead of holding the funds for future for its own sustainability.

2. The Income tax act also provides to invest the surplus funds lying with the organization in specified securities and therefore ensuring the safety of funds lying with the organization.

3. The Income tax Act also provides for the full disclosure of the direct or indirect payments made to the specified persons so as to have a control over the use of the funds by the NGO for the benefits of its board and key persons.

4. The Income Tax Act also restricts the transfer of assets of the organization to a non-charitable organization, thereby ensuring the use of the funds for the purpose for which these are being received.

5. The Income tax Act provides for submitting yearly Tax returns and the audit report in the specified formats.

6. The Government also have a power to examine the books of accounts and other records of an NGO while granting the renewal of Section 80G or assessing the income to assess that NGO has really worked for the purpose for which it has been established. In case of any default by the organization, the Income tax Authority takes necessary penal actions.

6.3.2. Under Foreign Contribution (Regulation) Act :

1. This Act also requires the maintenance of separate books of account for the foreign funds received and to file the returns on year to year

basis disclosing therein the purpose for which the grants have been received and the purpose for which the grants are actually utilized.

2. The FCRA authorities have also power to review the books of account of an NGO and take appropriate actions wherever felt necessary.

6.4. Control system being influenced by Beneficiaries/Target Group

The funds are received by the NGO's for the beneficiaries but beneficiaries have no direct or indirect control over the actions of an NGO.

Hence this puts excess responsibility for an NGO for self control and also to demonstrate that it is working for the beneficiaries and also in terms of agreed budget proposal.

The efforts are being made to find out ways through which beneficiaries can also be involved in the process of control so as to achieve more transparency and accountability. Though a lot of work is still to be done in this area but the following initiatives can be considered as some of key control tools involving beneficiaries :

6.4.1. Participation of beneficiaries :

The involvement and participation of the people at all stages of planning, implementation and monitoring is a pre-requisite for good control system. Very often, plans are misplaced because they are not reflective of the actual requirements of the people and are not culturally and socially sensitive to the ethos of the people for whom they are meant. People must feel a sense of ownership of such plans/programs and most participate in their planning and implementation. This could be done by involving the people through local bodies, self-help groups, women's groups, user groups, associations and trade unions.

6.4.2. Public Audit:

Financial Audit verifies whether the money has been actually spent and properly accounted for. It does not look into the qualitative aspect of the work done. In most of the cases, physical verification of the work is also not possible under financial audit. Public Audit like Social Audit is a way of measuring, understanding, reporting and ultimately improving a system's social and ethical performance.

Public Audit or Peoples Audit primarily refers to the public review of public services, or development programs/projects initiated by the government. It is a review of how an activity is planned and implemented, whether it is effective in terms of achieving its development objective in accordance with people's needs. It also looks into the financial aspects i.e. whether it is achieving those objectives efficiently and at a reasonable cost.

Like Social Audit, Public Audit also creates an impact upon governance. It is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies. It creates a lot of public pressure on the political establishment to take corrective steps.

SELF ASSESSMENT QUESTIONS:

1. Whether Statutory Authorities, donors and the target beneficiaries can be considered as a part of management?

2. How donors influence the control system of an NGO?

3. What are the safeguards taken by Income tax Act,1961 to protect the funds of the organization and to ensure that the funds are used for charitable purposes?

4. What is the meaning of participatory approach of planning, and monitoring?