

# Diploma in Financial Management & Accountability

*- a joint initiative of TISS & FMSF*

## Course Material



Control Systems  
Paper - VI

Module - III  
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## **UNIT- 2**

### **CONTROL SYSTEM OF AN NGO**

#### **2.1. Purpose**

The purpose of organizational control is to insure the safekeeping of assets (such as cash and equipment), to maintain productivity along the lines of the nonprofit mission statement, to produce reliable and relevant financial records (i.e., relevant to important decisions), other reports (including the budget and financial statements) and keep communications open on the various issues of control.

#### **2.2. Need for Control**

The need for organizational control arises out of the split between those who contribute to the nonprofit and those who make decisions and run operations. Those who contribute do not have day-to-day information. In the business or for profit making world, the split is between the owners and top managers. Owners do not generally have the day-to-day information equal to the managers. One concern is that managers will take advantage of their in-depth information and follow their own self-interest rather than the wishes of the owners.. In the nonprofit world, a similar split takes place. Those providing the funds do not have in-depth knowledge of how their money is being used or misused.

Another need for management control arises out of the distance between top management and the employees. Managers cannot and should not supervise every activity of employees. Thus, top management needs control techniques to realize such things as productivity along the lines of the mission statement.

Another need for control arises because of the fact beneficiaries being one of the important stakeholder has no direct or indirect control over the operations of an NGO. Hence this also focuses on the need for effective control system in an NGO.

### **2.3. Process of Control**

While understanding the concept of control we have understood that the process of control involves the following steps:

- (i) Establishment of Standards
- (ii) Measurement of actual performance
- (iii) Comparing the results with the pre-determined standards.
- (iv) Taking corrective actions.

The process of control in an NGO also consist of the aforementioned steps and more specifically :

#### **2.3.1. Towards establishment of standards:**

- Budget- It may include :
  - Preparation & finalization of budget for various programs and activities.
  - Preparation of operational budgets (monthly or quarterly) on the basis of yearly approved budgets.
- Formulation & adoption of various policies - It may include :
  - Financial Policy
  - Human Resource Policy
  - Administrative Policy
- Designing an inbuilt control system

#### **2.3.2. Towards measurement of the actual performance - This may include-**

- Accounting of Financial transactions
- Documentation of the conduct of the programs
- Preparation of reports both financial and activity on the basis of records maintained by the organization.

### **2.3.3. Comparing the actual performance with the pre-determined standards/budgets -**

This is the most important aspect of control and also known as tools for organization control. This may include:

- Budgetary Control
- Policy Compliance Report
- Audit : Internal & Statutory
- Obtaining reports from the field and management information system
- Evaluation and Assessment

### **2.3.4. Taking corrective actions - This may include:**

- Modifications in the approved Budget
- Amendment in the Policy documents.
- Taking corrective actions for re-building the internal control system
- Bringing about changes in terms of reference with the auditors.

Now each step of the process of control is being dealt with in the following chapters.

#### **SELF ASSESSMENT QUESTIONS:**

1. Why there is need for control in an NGO?
1. What are the processes of control in NGO?
2. What are the specific tools for organization control?