

Diploma in Financial Management & Accountability

- a joint initiative of TISS & FMSF

Course Material



Control Systems
Paper - VI

Module - III
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UNIT- 3

ESTABLISHMENT OF STANDARDS

3.1. Introduction

Under this step organization has to discuss and set the various guidelines and standards for the formulation of budget, policy guideline and the internal control system so that it facilitates the overall control system.

3.2. Budget :

3.2.1. Formulation of Budget :

- The budget is used as a planning document as well as a monitoring document.
- Hence the structure of the budget should facilitate the implementation of the programme and easy monitoring. The budget prepared should include both quantum of activity & the amount to be incurred. The budgeted expenditure should be bifurcated as capital costs, administrative costs including administrative salaries, programme expenses, programme salaries & Program administrative cost.
- The yearly budgets should be prepared for funded programme, Income generation program & for unrestricted fund.
- A master budget on yearly basis should also be prepared by consolidating all the program budget, budget for income generation program and for unrestricted funds.

3.2.2. Operational Plan

Once the yearly plan is approved, it is bifurcated into monthly plan depending upon the activities to be implemented during each month. This bifurcation of yearly plan into sub plans on the basis of month or quarter is known as operational plan. These operational plans are necessary for allocation of duties to each of the staff and as well as for preparation of cash flow statements required to plan for availability of funds in timely manner.

Hence operational monthly activity as well as financial plan should be prepared based upon the yearly-approved budget for the purpose of planning of funds & the implementation of the program.

3.3. Formulation of various policies:

The Governing Board of the organization controls organization through policies rather than managing the daily affairs of the organization. The Executive head should work within the policy framework set by the Governing Board.

The Policy framework normally includes:

3.3.1. Finance Policy:

The finance policy of an NPO can include its accounting policies, disclosure policies, travel, payment, support documentation, advance, investments and audit policies of the organization. The policy is formulated:

- To set out the minimum level of financial control expected by different stakeholders like general body/executive body/government authority and various development partners/donors.
- To provide guideline to program and finance staff and can be used as a monitoring tool by the management.
- To provide a framework for external auditors when assessing the systems and procedures.

- To ensure both consistency and a basis for good financial practice across all working areas.
- To be used as organizational induction of the staff.

3.3.2. Program Policy:

The program policy should include the key objectives stated in the vision & mission of the organization and the activities planned to achieve them.

3.3.3. Human Resource Policy:

This would include personnel recruitment, staff appraisal, staff salary, staff welfare schemes like P.F., Gratuity, etc. Normally the human resource policy include :

- 3.1. Classification of staff
- 3.2. Appointments.
- 3.3. Office hours.
- 3.4. Staff appraisal system
- 3.5. Staff compensation including scale of salaries and staff benefits.
- 3.6. Conduct & discipline.

3.3.4. Administrative Policy:

The administrative policy should include the details of maintenance & use of office equipments, leave procedures, internal discipline & overall management.

3.4. Designing an inbuilt Control System

3.4.1. Introduction

Internal Control system in an organization is meant to provide reasonable security to the finances and assets of the organization. Further, control systems provide checks and balances, which help to keep the system in its

place, to avoid frauds and misappropriation or deviations from accepted policies and procedures.

Though the internal control is a necessary feature for every well-organized organization but there is a greater need of internal control mechanism in the NGO Sector as this sector faces the peculiar situation whereby:

- a) It is not always possible to achieve the segregation of duties and only one person is responsible for keeping cash, preparing the vouchers as well as maintaining accounts.
- b) The payments at fields in most of the cases are found to be made in cash.
- c) In most of the cases supporting for expenses incurred at fields are on plain papers.
- d) Requirement of maintenance of multiple books on the basis of each funding arrangement also has its own implications.

Hence there is a greater need of internal control mechanism in the NGO Sector so that the reliability & security of the financial reports is ensured.

3.4.2. Basics of Good Internal Control System

- a) Proper allocation of functional responsibilities within the organization.
- b) Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, and safe guarding of assets.
- c) Quality and competence of personnel with regard to their duties and responsibilities.
- d) The review of the work of one individual by another whereby the possibility of fraud or error is minimized.

3.4.3. Important Features of Internal Control

- a) An organizational chart depicting the hierarchy of the authority and responsibility should be prepared.
- b) The organization chart should show a clear definition and allocation of duties and responsibilities of officials and employees.
- c) Rotation of duties of employees dealing with cash, stocks, stores and other valuables and also at various projects.
- d) Preparation of an accounting manual.
- e) The budget, to cover all aspects of expenditure/allocation of funds and receipts of funds.
- f) System of budgetary control, periodical review. Actual expenditures and receipts should be compared with the budgeted figures.
- g) Where an organization has more than one project or office expending or receiving funds, all the above six points stated are required to be adhered to at each centre/office.
- h) Further the branches or smaller offices are required to send at pre determined intervals (depending upon the size of the organization) i.e. daily/weekly/fortnightly/monthly statements of all receipts, expenses, stocks etc.
- i) Complete reconciliation of figures between different project offices and head office. Any unreconciled element should be looked into immediately.
- j) Surprise verification of cash, stock, assets, investments etc. by the internal auditor and the organization executives.

- k) Maintenance of records as per the requirements of statute in force and as directed/desired by funding agencies, government grant authorities.
- l) All the work should be completed within the time frames stipulated and records should be authenticated by proper authorities.
- m) All the surplus funds should be properly invested keeping in view the provisions of income tax as well as the safety and return on investments.
- n) The organization should have adequate insurance cover for all its assets including cash in safe and in transit. It is advisable to get fidelity cover for employees handling cash.
- o) Regular board meetings and the involvement of the board members in decision making and review of work.

SELF ASSESSMENT QUESTIONS:

1. What is a Budget?
2. What is Operational Plan?
3. Why policies are framed?
3. What is the purpose of framing a financial policy?
4. Why Internal Control systems are needed in an NGO?
5. Explain key requirements for a good Internal Control System.