

# INTERface

Vol. XIII

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## Highlights:

- Choosing between a Trust, Society or Company
- Suspension of Registration under FCRA
- Treatment of Capital Gains for NPOs
- Internal Control Procedures
- CEO Evaluation
- Board Evaluation
- and many more.....



*for private circulation only*

## *Between Us ....*

### ***Perfect Peace***

*During a painting competition in a school, the students were asked to paint a picture on the theme, 'peace'. Two paintings were selected from the entries for identifying the final winner. The scrutinizing committee of experts examined the two paintings critically. One painting portrayed a beautiful scenery. There were lofty mountains covered by luxuriant green vegetation and a calm lake with still water reflecting with clarity the green mountains and the beautiful blue sky with fluffy white clouds. Around the lake were shown green trees bearing fine fruits and fantastic flowers. A pretty bird was enjoying a safe rest in a nice nest on a tall tree with no disturbance. Every part of the pretty picture portrayed perfect rest.*

*The second picture displayed barren mountains and a wild and disturbed sky with dense black clouds and bright lightning indicating a heavy thunderstorm. A strong waterfall was raging with a torrential stream of foamy water on a rocky hillside. The trees had bent their branches in response to the intense and violent wind. In a cleft in the huge rock, a tiny tree was shown with a small nest on it. Within the nest a small bird was seated, with a slightly opened beak, obviously singing a melodious music, in a state of perfect peace though surrounded by the ferocious forces of nature.*

*The experts examined the two pictures and awarded the first prize to the second picture. Perfect peace is being calm in one's heart while in the midst of all unavoidable disturbances, troubles, hard work and noise. Real peace is not the state of rest one may enjoy in serene and silent surroundings without any disturbance or distractions. The peace of God will keep us in perfect peace through the tempests of life.*

*Sanjay Balm*

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The opinions  
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# CHOOSING BETWEEN A TRUST, SOCIETY OR COMPANY

- Dr. Manoj Fogla, FCA

### INTRODUCTION

**1.1.01** Under the laws applicable to Indian NGOs, there are three forms of registration, for creating a legally valid NGO, which are as under :

Registration as society under the Societies Registration Act, 1860.

Registration as a company not for profit under the Companies Act, 1956.

Registration as a trust under the Indian Registration Act, 1908.

**1.1.02** The Societies are registered under a state statute at district and state level. Each state in India has enacted an independent Societies Registration Act, within the overall provisions of Societies Registration Act, 1860.

**1.1.03** Registration as a not for profit company under the Companies

Act, 1956 is the only Central Statute for registering a charitable organization in India.

**1.1.04** There is no statute for registration of a public trust in India. Infact only trust deed is registered under the Indian Registration Act, 1908.

**1.1.05** Recently Govt. of India has issued a draft bill titled "**Multi States Society Registration Bill, 2012**". The Central Government through Ministry of Corporate Affairs has released the proposed Multi State Societies Registration Bill, 2012 (hereinafter called MSSR Bill, 2012). This bill is proposed to regulate the various types of NPOs in India through a Central Statute. The idea is to enhance transparency and accountability in the voluntary sector. However, the proposed bill raises many questions and concerns which need to be addressed immediately before it becomes a

law. The proposed bill has many arbitrary and disconcerting features. If it becomes a law in its current shape, it may create unwarranted regulations and hardships for various existing and proposed societies.

## **CHOOSING A PARTICULAR FORM OF REGISTRATION**

**1.2.01** There is very little to choose between the three modes of registration available in India, though each one of them comes with its distinct characteristics, advantages and disadvantages. The comparative advantages or disadvantages are not alarming enough to recommend any particular form of registration. Registration as company would be a more professional and organized way of working, entailing more paper work and compliances. On the other hand, registration as a trust would be the simplest way with minimal paper work and procedural hassles. Registration as a society will come in between; probably that is why it is the most popular form of registration. See comparative table for three forms of registration for NGOs in India given hereunder.

## **REGISTRATION FROM CONTROL POINT OF VIEW**

**1.3.01** The control of an organization depends directly on the number of members or the voting power.

**1.3.02** In the case of a society, minimum 7<sup>1</sup> members are required to register. There is a two-tier structure comprising the general body and the governing body. It is a fairly open structure with all the members having equal voting rights.

**1.3.03** A company also has a structure similar to a society but it has certain distinct advantages. For instance, a company can be formed with only two persons and the voting rights are not based on the basis of the number of persons. The voting rights are based on the basis of the number of shares held. The Company form of registration can be used for planning control mechanisms, by exploiting the rule of unequal voting powers. Even one individual may have the control by holding more than 50% shares.

**1.3.04** A trust can also be formed with minimum of 2<sup>2</sup> persons. It does not have a two-tier structure like the company or society. Therefore, a trust is a relatively closed structure.

---

1 In some state the number may differ

2 A trust technically can be formed even with one trustee. However, in a public trust it is desirable to have minimum 3 trustee. Some authorities also prescribe the minimum number of trustees. For instance the Bombay Charity Commissioner requires at least 3 trustee.

**1.3.05** In the company or society, the general members have the power to remove a Director or a board member but in the case of a trust it is not possible. However, a trust deed can also be drafted with a two-tier structure like a society.

**1.3.06** Above all, the drafting of the memorandum and Articles of Association, bye-laws or trust deed is most crucial in determining the control and governance aspects of a charitable entity.

#### **REGISTRATION FROM ACTIVITIES POINT OF VIEW**

**1.4.01** There is more or less no difference between these three forms of registration as far as the activities or the areas of operation are concerned, because activities/area of operation and other bye-laws are based on the constitution of the registered entity and the laws of the State generally do not interfere.

#### **COMPARATIVE INITIAL AND RECURRING COST**

**1.5.01** The costs of registration are minimal for all the three forms of registration. The company form of registration involves a slightly longer process; therefore, the cost will be marginally higher. The statutory fees and costs are negligible in all the three forms of registration.

**1.5.02** Regular annual returns are required to be filed in the case of a Society as well as a Company, but the cost involved again should not be an issue for consideration.

**1.5.03** The Societies are regulated by the State Government, therefore, the fee structure and regulations vary from State-to-State. Therefore, the geographical location and the State laws can also influence the mode of registration.



**Comparative table for Forms of Registration for NGOs in India**

<b>Description</b>	<b>Society</b>	<b>Trust</b>	<b>Company</b>
Act under which it is registered	The Societies Registration Act, 1860	The Registration Act, 1908	The Companies Act, 1956
Ease of Formation	Relatively simple, it may take 1-2 months	Very simple, it may take a week	Relatively difficult, it may take 2-3 months.
Authority with whom to be registered	of the concerned State	Registrar of Societies Registration at District level	Sub-registrar of Registrar of the concerned State.
Approval of Name	Separate application not required. Name is generally granted if available	Not required	Separate application is required to be made. There are strict guidelines for approval of name.
Minimum No. of subscribers/trustees required	7 (Seven)	3 (Two)	2 (Two)
Cost of Registration	Less than Rs. 10,000	Less than Rs. 10,000	Less than Rs. 25,000
Governing Structure	Two tier structure (a) General body (b) Board of Directors	Single tier structure the trustees are the ultimate authority	Two tier structure (a) General body (b) Board of Directors
Voting Rights	All members have equal rights	All trustees have equal rights	The voting rights may vary on the basis of shareholding. This provision can be used for control purposes.
Types of activities allowed	Not much of a difference between these 3 forms. Any kind of charitable and public utility activity can be undertaken.	Same	Same
Annual Documents to be filed	The Act requires a list of managing body to be filed every year. But different States have different requirement for filing additional document every year. Normally the annual audited accounts, directors report and the list of governing body member should be filed every year.	No documents are required to be filed.	Annual return and audited accounts are required to be filed every year.

General and Board meetings	General and Board meetings are required to be held as prescribed in the bye-law of the society.	No provisions are laid down. Adequate rules should be framed in the trust deed, in this regard.	Specific provisions have been laid down. At least 1 Annual General Meeting and 2 Board meetings are required to be held every year.
Transfer of Membership	Membership is not transferable.	Membership is not transferable.	Membership can be transferred. Restriction on transfer can also be placed.
Payment to functionaries	Permitted as the general body may decide.	Provision in the trust deed should be there for any such payment.	Permitted as the general body may decide.
Recurring expenditure and Balces required minimal.	Consequently recurring expenditure are also negligible.	The statutory compliance along with certain fees	No statutory Sheet are filed Again the quantum of expenditure is not significant.
Area of operation	Can operate throughout India even if registered in one particular State. No separate registration is required for operating in another State.	Can operate throughout India.	Can operate throughout India as the registration is granted by the Central Government.
Income Tax Registration	Compulsory within 12 months of registration.	Same	Same
FCRA Registration or Prior Permission	Compulsory for receiving foreign funds.	Same	Same
Labor and other relevant laws	To be complied as per applicability.	Same	Same
Foreigner as a member/trustee	Possible	Same	Same
Threat in having foreigner on board	Difficulties may be faced in getting FCRA registration. No other threat perceived.	Same	Same

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*(Dr. Manoj Fogla - Senior Chartered Accountant and a Consultant with many Voluntary Organisations.)*



# SUSPENSION OF REGISTRATION UNDER FCRA

- Dr. Manoj Fogla, FCA

**1.1.01** Section 13 of FCRA 2010 provides the power to the Central Government to suspend the registration pending cancellation of certificate, for a period up to 180 days. During suspension, the organization cannot receive any foreign contribution without prior approval. The provision of section 13 on suspension of registration certificate is as under:

**“13.** (1) Where the Central Government, for reasons to be recorded in writing, is satisfied that pending consideration of the question of cancelling the certificate on any of the grounds mentioned in sub-section (1) of section 14, it is necessary so to do, it may, by order in writing, suspend the certificate for such period not exceeding one hundred and eighty

days as may be specified in the order.

(2) Every person whose certificate has been suspended shall

(a) Not receive any foreign contribution during the period of suspension of certificate:

Provided that the Central Government, on an application made by such person, if it considers appropriate, allow receipt of any foreign contribution by such person on such terms and conditions as it may specify;

(b) Utilize, in the prescribed manner, the foreign contribution in his custody with the prior approval of the Central Government.

## OPPORTUNITY OF BEING HEARD BEFORE SUSPENSION AND REASONS IN WRITING

**1.2.01** FCRA 2010 does not specifically provide for any opportunity of being heard before affecting the suspension order. The section 13(1) also does not provide for reasons to be recorded in writing. However, the provision provides that the organization shall be provided opportunity of being heard during the period of 180 days of suspension. After the completion of 180 days and depending on the findings, the registration will either be cancelled or restored. The issue arising out of the provision is whether FCRA department can suspend registration without providing any opportunity of being heard or without giving any reasons in writing. Based on legal interpretation and judicial precedence, it seems that FCRA department cannot suspend registration without providing any opportunity of being heard or without giving any reasons in writing.

On plain reading of the provision, it can be seen that section 13 uses the word “may” as highlighted in the text of the section reproduced below:

**“13 Suspension of certificate.–(1)** Where the Central Government, for reasons to be recorded in writing, is satisfied that pending consideration of the question of cancelling the certificate on any of the grounds mentioned in sub-section (1) of section 14, it is necessary so to do, it may, by order in writing, suspend the

certificate for such period not exceeding one hundred and eighty days as may be specified in the order.”

**1.2.02** The use of word “may” implies that there is a discretion provided in the act which may or may not be exercised. If the FCRA department wants to exercise such discretion, then it has to provide opportunity of being heard as well as reasons in writing. The Honorable Delhi High Court in the case Indian Social Action Forum (INSAF) v. Union of India W.P. (C) 4982/2013 & CM 11248/2013 ruled that the language of section 13(1) does not empower the FCRA department to suspend registration without providing opportunity of being heard or reasons in writing. The relevant extract is reproduced as under:

The scheme of the Act, therefore, is that if the Central Government, after making such enquiry as it may deem appropriate in this regard, is of the opinion that it is necessary in the public interest to do so, it can cancel the certificate after giving a reasonable opportunity of hearing to the organization concerned. If, while considering the cancellation of registration in terms of Section 14 of the Act, the Central Government is satisfied that it is necessary to suspend the certificate, during such

consideration, it can suspend the certificate of the organization concerned for a period not exceeding 180 days provided reasons for such suspension are recorded by the Government.

Admittedly, by the time the suspension order dated 30.04.2013 was passed, the Central Government neither had neither issued any notice of hearing / show-cause notice in terms of sub-section (2) of Section 14 nor had it initiated any enquiry in terms of the said Section. Therefore, there was no occasion to suspend the certificate of the petitioner in terms of sub-section (1) of Section 13 of the Act. The respondents wrote to the petitioner seeking certain information for the first time vide letter dated 02.05.2013, i.e., after the registration of the petitioner-society had already been suspended. The suspension, therefore, was contrary to the scheme of the Act which envisaged such suspension only when the issue of cancellation is already pending consideration of the Central Government. For this reason alone, the impugned order dated 30.04.2013 is liable to be quashed.

## **REASONS FOR SUSPENSION**

**1.3.01** If the Central Government has any information/evidence about the following, then a cancellation proceeding may be initiated preceded by suspension:

(a) The holder of the certificate has made a statement in, or in relation to, the application for the grant of registration or renewal thereof, which is incorrect or false; or

(b) The holder of the certificate has violated any of the terms and conditions of the certificate or renewal thereof; or

(c) In the opinion of the Central Government, it is necessary in the public interest to cancel the certificate; or

(d) The holder of certificate has violated any of the provisions of this Act or rules or order made there under; or

(e) If the holder of the certificate has not been engaged in any reasonable activity in its chosen field for the benefit of the society for two consecutive years or has become defunct.

**CONDITION TO BE FOLLOWED DURING  
SUSPENSION**

- 1.4.01** Every person whose certificate has been suspended shall not receive any foreign contribution during the period of suspension of certificate; such person can receive foreign contribution with prior permission only. The Central Government, on an application made by such person, if it considers appropriate, allow receipt of any foreign contribution by such person on such terms and conditions as it may specify;
- 1.4.02** Every person whose certificate has been suspended shall not utilize the foreign contribution in his custody without the prior approval of the Central Government.

**EXTENT OF AMOUNT THAT CAN BE UTILISED  
DURING SUSPENSION**

- 1.5.01** In terms of Rule 14 of FCRR, 2011, in case the certificate of registration is suspended, then up to twenty-five per cent of the unutilized amount may be spent, with the prior approval of the Central Government, for the declared aims and objects for which the foreign contribution was received. The remaining seventy-five per cent of the unutilized foreign contribution shall be utilized only after revocation of suspension of the certificate of registration.

## INSAF CASE

## IN THE HIGH COURT OF DELHI AT New Delhi

Date of Decision: 19.09.2013

W.P. (C) 4982/2013 &amp; CM 11248/2013

INDIAN SOCIAL ACTION FORUM (INSAF)... Petitioner

Through: Mr. Sanjay Parikh, Mr. Kabir Dixit and  
Ms. Bushra Praveen, Advs.

Versus

UNION OF INDIA .....Respondent

Through: Mr. Amrit Pal Singh, CGSC with  
Mr. Pankaj Bansal, Assistant Director CORAM:  
HON'BLE MR. JUSTICE V.K.JAIN JUDGMENT

V.K.JAIN, J. (ORAL)

The petitioner before this Court is a society registered under the Societies Registration Act, 1860. Vide order dated 30.4.2013 issued by the Director to the Government of India, Ministry of Home Affairs, Foreigners Division (FCRA Wing), the permanent registration of the petitioner association was suspended in exercise of the powers conferred upon the Central Government under Section 13 of the Foreign Contribution

(Regulation) Act, 2010. While suspending the said registration, it was also directed that the petitioner association can utilize the funds available with it, only after taking prior permission of the Central Government in terms of Section 13(2)(b) of the FCRA,

2010. Being aggrieved from the aforesaid order dated 30.4.2013, the petitioner is before this Court seeking setting aside of the said order.

2. In their counter-affidavit, the respondents have stated that reports were received by the Government which revealed that foreign funds received by the petitioner were being transferred to other FCRA registered as well as non-FCRA registered NGOs, which were utilizing the said fund for organizing the protest, etc. against the welfare policies of the Government and such utilization of foreign contribution may prejudicially affect the public interest. In its rejoinder, the petitioner has denied having transferred funds to any non-FCRA registered NGOs.
3. Section 13(1) and 14(1) and (2) of the Foreign Contribution (Regulation) Act, 2010, read as under:-

- “13. Suspension of certificate.** (1) Where the Central Government, for reasons to be recorded in writing, is satisfied that pending consideration of the question of cancelling the certificate on any of the grounds mentioned in sub-section (1) of section 14, it is necessary so to do, it may, by order in writing, suspend the certificate for such period not exceeding one hundred and eighty days as may be specified in the order.
- 14. Cancellation of certificate.** (1) The Central Government may, if it is satisfied after making such inquiry as it may deem fit, by an order, cancel the certificate if
- (a) The holder of the certificate has made a statement in, or in relation to, the application for the grant of registration or renewal thereof, which is incorrect or false; or
  - (b) The holder of the certificate has violated any of the terms and conditions of the certificate or renewal thereof; or
  - (c) In the opinion of the Central Government, it is necessary in the public interest to cancel the certificate; or
  - (d) The holder of certificate has violated any of the provisions of this Act or rules or order made there under; or
  - (e) If the holder of the certificate has not been engaged in any reasonable activity in its chosen field for the benefit of the society for two consecutive years or has become defunct.”
- 4.** The scheme of the Act, therefore, is that if the Central Government, after making such enquiry as it may deem appropriate in this regard, is of the opinion that it is necessary in the public interest to do so, it can cancel the certificate after giving a reasonable opportunity of hearing to the organization concerned. If, while considering the cancellation of registration in terms of Section 14 of the Act, the Central Government is satisfied that it is necessary to suspend the certificate, during such consideration; it can suspend the certificate of the organization concerned for a period not exceeding 180 days provided reasons for such suspension are recorded by the Government.
- 5.** Admittedly, by the time the suspension order dated 30.04.2013 was passed, the Central Government had neither issued any notice of hearing/show-cause notice in terms of sub-section (2) of Section 14 nor had it initiated any enquiry in terms of the said Section. Therefore, there was no occasion to suspend the certificate of the petitioner in terms of sub-section (1) of Section 13 of the Act. The respondents wrote to the petitioner seeking certain information for the first time vide letter dated 02.05.2013, i.e., after the registration of the petitioner-society had already been suspended. The suspension, therefore, was contrary to the scheme of the Act which envisaged such suspension only when the issue of cancellation is already pending consideration of the Central Government. For this reason alone, the impugned order dated 30.04.2013 is liable to be quashed.

6. Yet another reason which warrants quashing of the impugned order dated 30.04.2013 is failure of the Central Government to record the reasons which necessitated suspension of the certificate in terms of sub-section (1) of Section 13 of the Act. Though on account of use of the word 'may' in sub-section (1) of Section 13, the respondent has taken the plea that recording of the reasons is not a mandatory requirement, the plea, in my view, is wholly misconceived. A careful perusal of subsection (1) of Section 13 would show that the requirement of recording reasons which necessitate suspension of the organization is a mandatory requirement and the word 'may' has been used only in the context of giving a discretion to the Central Government whether to suspend the registration or not. In other words, the Central Government may or may not suspend the certificate of an organization, pending consideration of cancellation of the said certificate but, if the Government decides to suspend such certificate it can be done only for reasons to be recorded and such reasons, in my view, need to be incorporated in the suspension order itself so that the organization is in a position to know what were the reasons which impelled the Government to suspend its registration and in case the organization feels that certificate has been suspended for the reasons which are not envisaged under subsection (1) of Section 13 or are not otherwise cogent, objective and transparent, it can challenge such suspension by way of appropriate proceedings. Such reasons cannot be given, by way of extraneous evidence at a later stage. In the absence of reasons, it would not be possible for the organization to challenge the suspension.
7. For the reasons stated hereinabove, the impugned order dated 30.04.2013 is hereby set aside. It is, however, made clear that this order will not come in the way of respondent initiating a fresh action in terms of the provisions of the Act in the light of this order. The respondent is directed to release the account of the petitioner forthwith.

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*(Dr. Manoj Fogla - Senior Chartered Accountant and a Consultant with many Voluntary Organisations.)*



# TREATMENT OF CAPITAL GAINS FOR NPOs

- Dr. Manoj Fogla, FCA

## SUMMARISED OVERVIEW

**1.1.01** The capital gain earned by NPOs is also considered a part of the Income and therefore, it is subject to 85% application during the year. However, the Income Tax act provides exemption against such gain if the entire amount of sale proceeds is reinvested in another capital asset.

**1.1.02** 'Income', as defined under section 2(24), includes capital gains. Therefore, for the purposes of section 11(1) (a), capital gains are also considered as a part of the income. Therefore, all NPOs have two options (i) they can apply 85% of capital gain for charitable purposes or invest the entire amount in another capital asset.

**1.1.03** If capital gains are also applied for charitable and religious purposes, then it will amount to depletion of the corpus of the organization. In

order to overcome this disadvantage, the Income-tax Act has provided another option under section 11(1A), by virtue of which capital gains can be re-invested in another capital asset. It will be treated as valid application of income.

**1.1.04** Under section 11(1A), if the entire amount of net consideration is invested in another capital asset, then the entire capital gain will be deemed to have been applied for charitable or religious purposes.

**1.1.05** Under section 11(1A), if a part of the entire amount of net consideration is invested in another capital asset, then the appropriate fraction of the capital gain will be deemed to have been applied for charitable or religious purposes.

**1.1.06** The capital gain has to be re-invested in another capital asset in the same year, unless the assessee exercises

the option available under the Explanation to section 11(1), to apply the income in the subsequent year. In other words, if the capital gain is earned at the end of the year, then the organization can apply to the assessing officer and exercise the option available under the Explanation to section 11(1), to apply the income in the subsequent year.

**1.1.07** The Explanation (ii) to section 11(1A) provides that the cost of the transferred asset should be ascertained as per sections 48 and 49. Section 48 provides for indexation of the cost of the asset and therefore, indexation benefit can be claimed.

**1.1.08** Indexation benefit will not be available if the entire sale proceed is used for purchase of another capital asset. Indexation benefit should be claimed only when the income earned from the sale of the asset is applied for charitable purposes. In other words, the benefits of section 11(1A) are optional and the assessee may apply the capital gain for charitable purposes without availing of the benefits of section 11(1A).

**1.1.09** Investment in fixed deposit is considered as an investment in capital asset. The CBDT Instruction No. 883, dated 24-9-1975, specifies that such fixed deposits should be for 6 months or more, but various High Courts have held that such 6 months time-limit is legally not valid. The nature of asset is important and not the time-frame.

**1.1.10** Capital gain normally arises at the time of transfer. Therefore, normally the reinvestment period should be after the date of transfer. However, in case of charitable organizations, it is reasonable to re-invest in a new capital asset only after the consideration is received. Similarly, if the trust or NGO receives advance amount even prior to the transfer of the capital asset, the reinvestment can be done prior to the sale of asset.

**1.1.11** No time-limit has been provided under section 11(1A), for retention of the new asset. Under the prevailing provisions, each year's income and its application are treated separately for the purpose of exemptions. Therefore, if the asset is held at the year-end of the relevant previous year and is disposed of in the subsequent year, then the exemptions cannot be denied nor can they be withdrawn in the next year.

## **BACKGROUND OF THE LAW PERTAINING TO CAPITAL GAINS**

**1.2.01** Section 11(1A) deals with capital gain for NPOs. In fact this provision has been inserted to provide NPOs an additional option to preserve their corpus. Section 11(1A), which deals with treatment of capital gains, was not there during the inception of the Act. In the absence of any provision related with capital gains, all charitable or religious organizations were required to apply the capital gains for charitable purposes under the provisions of section 11(1)(a).

This provision was enacted after lot of representations were made before the Government and the Central Board Direct Taxes (CBDT), since earlier the NPOs were compelled to spend capital gains for charitable purposes and as a result their corpus/assets were reduced.

- 1.2.02** Necessity was felt to allow an option to charitable and religious organizations whereby they could re-invest the sale proceeds from capital assets in new capital assets, so that in the long run the corpus would remain intact. The concerns of charitable organizations were recognized in Circular No. 2-P (LXX-5), dated 15-5-1963. In this circular, it was stated that when the capital assets forming part of the corpus are transferred with a view to acquire further capital assets for the use and benefit of the trust, the amount of capital gains should be regarded as having been applied for religious and charitable purposes within the meaning of section 11(1). Further, the CBDT Circular No. 52, dated 30-12-1970, clarified that the intent of the Legislature was not in favor of imposing tax liabilities in cases where the capital gains as well as the consideration were applied for acquisition of new capital assets. The

charitable organizations were afforded an advantage in getting an option of claiming benefits of re-investment with regard to capital gains.

- 1.2.03** The Finance (No. 2) Act, 1971, inserted sub-section (1A) in section 11 regarding the treatment of capital gains. It provided that the capital gains would be deemed to have been utilized for the purposes of section 11(1) (a), if the net consideration received was re-invested in another capital asset. The insertion of section 11(1A) seemed to be the logical outcome of the two circulars issued earlier, as discussed above, more so, because the newly inserted sub-section (1A) in 1971 was made retrospectively effective from 1-4-1962, i.e., the date of commencement of the Act.

#### COMPUTATION OF GAINS TO BE REINVESTED

- 1.3.01** Under clause (a) of sub-section (1A), capital gains arising from transfer of capital assets shall be deemed to have been applied for charitable or religious purposes as indicated in the following chart:

Situation	The quantum of capital gains deemed to have been applied for charitable or religious purpose
<ul style="list-style-type: none"> <li>Whole of net consideration is utilized in acquiring new asset</li> </ul>	The whole of capital gain in acquiring the new capital asset
<ul style="list-style-type: none"> <li>Only a part of the net consideration utilized in acquiring the new capital asset</li> </ul>	Capital gains equal to excess of utilized amount over cost of the transferred asset. In effect, capital gains minus shortfall in Reinvestment of net consideration.

**Illustration:** The following illustration clarifies the treatment of capital gains under Section 11(1A).

Cost of the Asset	Rs. 40,000
Sale Proceeds/Net consideration	Rs .1, 00,000
Re-investment in Capital Assets	(i) Rs. 80000 (ii) Rs. 1,00,000

The computation of capital gain deemed to have been applied for the purposes of section 11(1) (a) is as under:

	(i)	(ii)
	Rs.	Rs.
<b>(i) Net consideration</b>	1, 00,000	1, 00,000
<b>(ii) Cost of the Asset</b>	40,000	40,000
<b>(iii) Capital gains</b>	60,000	60,000
<b>(iv) Investment in New Asset</b>	80,000	1, 00,000
<b>(v) Shortfall in re-investment (i) – (iv)</b>	20,000	Nil
<b>(vi) Capital gains deemed to have been applied for charitable purposes (iii) – (v)</b>	40,000	60,000

#### WHETHER INDEXATION OF THE COST OF AN ASSET CAN BE CLAIMED?

**1.4.01** The indexation of the cost of the asset of a charitable organization is often confused and misunderstood. The Explanation (ii) to section 11(1) (a) provides that the cost of the transferred asset should be ascertained as per sections 48 and 49. Section 48 provides for indexation of the cost of the asset. Therefore, indexation benefit can be claimed, but indexation benefit will not be available if the entire sale proceed is used for purchase of another capital asset, as is

apparent from the previous illustration. Indexation benefit should be claimed only when the income earned from the sale of the assets is applied for charitable purposes. In other words, if an organization is not availing of the optional benefits available under section 11(1A) and is applying the capital gain for charitable purposes along with other income, the organization may determine the capital gain after indexing the cost of asset and thereafter, may apply 85 per cent of it for charitable purposes in India. The issue would be clear

with the help of a following illustration:

**Illustration:** A trust sells assets for Rs. 1, 00,000, the cost of acquisition of which is Rs. 20,000 and its indexed cost is Rs. 40,000. The organization (i) purchases another asset for Rs. 1, 20,000, (ii) purchases another asset

for Rs. 80,000, (iii) decides to apply the capital gain for charitable purposes in India.

The calculation of capital gain and the amount to be applied to charitable purposes will be as under in each of the above circumstances:

(i)

(a) Sale proceeds	Rs. 1,00,000
(b) Cost (without indexation)	Rs. 20,000
(c) Capital gain (a-b)	Rs. 80,000

As the organization has invested Rs. 1, 20,000 towards purchases of new asset, therefore, the entire capital

gain is deemed to have been applied for charitable purposes.

(ii)

(a) Sale proceeds	Rs. 1,00,000
(b) Cost (without indexation)	Rs. 20,000
(c) Capital gain (a-b)	Rs. 80,000

The organization has invested Rs. 80,000 towards purchase of a new asset, then the amount of capital gain deemed to have been applied to charitable purpose is [cost of new asset - cost of old asset (without indexation)], i.e., Rs. 80,000 - Rs.

20,000 = Rs. 60,000. Therefore, only Rs. 60,000 out of the capital gain of Rs. 80,000 will be treated as applied to charitable purposes. The remaining 'Rs. 20,000 will become subject to tax or has to be applied for charitable purposes.

(iii)

(a) Sale proceeds	Rs. 1,00,000
(b) Cost (without indexation)	Rs. 40,000
(c) Capital gain (a-b)	Rs. 60,000

In this case since the organization is not purchasing a new capital asset it can avail of indexation benefit and the capital gain which has to be applied for charitable purposes is ‘

60,000. This capital gain should be applied for charitable purposes subject to a minimum of 85 per cent along with other income of the organization.

## **CAN CAPITAL GAINS BE APPLIED FOR CHARITABLE PURPOSES UNDER SECTION 11(1) (A)?**

**1.5.01** The definition of “income” under section 2(24), includes capital gains and, therefore, income for the purposes of section 11(1) (a) includes capital gains. The historical background under which section 11(1A) was enacted and the statute as it existed before 1-4-1971 provides ample testimony to the fact that capital gains form a part of the income available for application under section 11(1)(a). Circular No. 2- P (LXX-5), dated 15-5-1963 and Circular No. 72, dated 6-1-1972 discussed the problems faced by the organizations and the gradual erosion of the corpus, prior to the insertion of sub-section (1A). The purpose behind insertion of sub-section (1A) was to provide an option to the assessee, in order to keep its corpus intact. This option did not imply withdrawal of exemption of capital gains under section 11(1) (a). An organization, therefore, can utilize the capital gains for charitable purposes under section 11(1) (a). The portion of capital gains which was not considered as deemed to have been applied for charitable purposes under section 11(1A), can also be applied for charitable purposes under section 11(1)(a).

**1.5.02** In the case *Al Ameen Educational Society v. DIT (Exemption)*, Bangalore [2012] 26 taxmann.com 250 (Bang.) it was held that, “if

capital gain is applied for charitable purpose of assessee not by acquiring a new asset but for other charitable purpose, then there is no reason why it should not be considered as application of income for charitable purpose enabling assessee to claim exemption under section 11(1)”

## **TIME-LIMIT FOR RE-INVESTMENT**

**1.6.01** Section 11(1A) does not provide any time-limit for re-investment in new capital asset, but as capital gains are considered as income under section 11(1) (a), they have to be utilized within the year of receipt, unless the gain is received towards end of the year and the organization applies for the option under the Explanation to section 11(1), in which case it is possible to utilize in the immediately succeeding year. Therefore, the time-limit for utilizing capital gains is within the same year subject to the option available under the Explanation to section 11(1). In *CIT v. East India Charitable Trust* [1994] 206 ITR 152 (Cal.), it was held that ‘income’, for the purposes of section 11(1)(a) included capital gain and, therefore, it was possible to exercise the option of spending income in the subsequent year.

## **ACCUMULATION OF CAPITAL GAINS FOR 5 YEARS UNDER SECTION 11(2)**

**1.7.01** Capital gains being available as income under section 11(1)(a), should be entitled to accumulation

for 5 years under section 11(2), but once they are accumulated under section 11(2), they have to be applied for the declared charitable or religious purpose for which they were set apart and accumulated. They will lose their separate identity as capital gains eligible for re-investment into another capital asset. In other words, such accumulated funds have to be applied for charitable purposes and cannot be invested in capital asset, unless such assets are acquired for project. In *Trustees of Dr. Sheth's Charitable Trust v. Seventh ITO* [1982] 2 ITD 649 (Bom.), the assessee was refused exemption when the unutilized capital gain was invested in another capital asset in the subsequent year.

- 1.7.02** In the above case, it seems that the Tribunal was in favor of allowing the benefit of section 11(2), even for re-investment in another capital asset, but the accumulation can only be made for specified charitable or religious objectives, in which the income is to be applied within the next five years. Since the investment in capital asset was towards the corpus of the organization, it would not be possible to invest in capital assets out of accumulated income. The capital gains if they are made available for religious or charitable purposes and they are, subsequently accumulated under section 11(2), then they along with other accumulated income have to be applied for religious or charitable purposes and not in purchase of capital asset.

## **INVESTMENT IN FIXED DEPOSITS WITH BANK**

- 1.8.01** Section 11(1A) does not provide a specific definition of 'capital asset', and, therefore, in the light of the definition provided in section 2(14), investment of capital gains is permissible in fixed deposits with scheduled banks. CBDT vide Instruction No. 883, dated 24-9-1975, has clarified that investments in fixed deposits with a tenure of more than 6 months are considered as capital assets for the purposes of section 11(1A). There are case laws where it has been held that fixed deposits with tenure of less than 6 months will also be treated as capital asset. However, for practical purposes it is a settled law that creation of fixed deposits with tenure of more than 6 months will be treated as reinvestment into another capital asset.

## **DEPOSITS WITH PUBLIC SECTOR COMPANIES**

- 1.9.01** The issue of treating investment in deposits of Public Sector Companies - In *CIT v. East India Charitable Trust* [1994] 206 ITR 152 (Cal.), the issue of treating investment in deposits of Public Sector Companies, as an eligible capital asset was debated. It was held that the scope of the CBDT's Instruction No. 883, dated 24-9-1975, could not be confined to fixed deposits with bank only. Any investment in deposits of Public Sector Companies or Government



undertaking should also be considered as acquisition of new capital assets for the purposes of section 11(1A). In this context it may be noted that such deposits of Public Sector Companies should be permissible under section 11(5) of the Income Tax Act.

#### **TIME-LIMIT FOR HOLDING THE NEW CAPITAL ASSET**

**1.10.1** As such no time-limit has been prescribed for retention of the new asset for a specified period for availing of the exemptions under section 11(1A). The main intent of section 11(1A) is to provide an

opportunity of keeping the corpus intact to the organization. Therefore, whenever a capital asset is disposed of the benefits of section 11(1A) can be availed of by re-investing these into other capital assets. The capital gains under section 11(1A) are not distinguished as 'short-term' or 'long-term' capital gains; any capital gains are permissible under section 11(1A). In *Dalmia Charitable Trust v. ITO* [1986] 27 Taxman 46 (Mag.), the Delhi Tribunal held that when the amount of capital gain was invested in a new capital asset and the new asset was also disposed of in the same year, then the exemption under section 11(1A), was not permissible.

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*(Dr. Manoj Fogla - Senior Chartered Accountant and a Consultant with many Voluntary Organisations.)*

# TDS ON AWARD BASED ON COMPETENCE & MERIT CONTEST

- Dr. Manoj Fogla, FCA

## INTRODUCTION

**1.1.01** Tax Deduction at Source (TDS) is normally required to be deducted on any lottery or award given to anybody. However, there are many competition and awards where prizes are given to organizations or individuals based on the merit or performance. It has been legally debated whether TDS should be deducted against such awards.

**1.1.02** The provisions of Section 2(24)(ix) read with Section 194B of the Income Tax Act, 1961 require that TDS should be deducted against any prize money or award given to anybody in a game of 'lottery' or any other game whatsoever. In this context the issue arises whether award money given to various candidates/entities for their merit will also be subjected to TDS. For instance, if a Chamber of Commerce or Trade Association grants award to the best

entrepreneur or innovator in a particular field, will such payment attract TDS provisions under Section 194B, or an NPO is awarded prize money for best presented annual report will attract TDS provisions? In this article we shall discuss the TDS implications on those awards which are not based on 'chance' or 'lottery'.

**1.1.03** In this issue we shall concentrate on the law and controversies in this regard. A summarized overview is provided as under:

- (a) Any award or lottery based on participation fee and chance is subject to TDS under section 194B of the Income Tax Act, 1961.
- (b) However, awards given based on merit and performance may not fall under the provisions of section 2(24)(ix) read with section 194B.

- (c) The short listing of such award process should be based on the merit and past work/performance of the applicant. In other words, the process should only unravel the pre-existing or inherent merit and competence. The participants should not win through lot or chances.
- (d) Such award money is not covered by the definition of "income" section 2(24)(ix), as it cannot be considered as a lottery or game of any sort, with or without an element of chance.
- (e) Section 194B is not applicable where the money is given in recognition of preexisting or inherent merit and competence.
- (f) The award given to the winners should be treated as voluntary grant towards advancement of the objectives.
- (g) For the purposes of TDS, in our opinion there is no other provision which applies to voluntary grants given to the winners of this particular event.
- (h) The TDS provisions shall remain the same even for grant given by commercial organizations though deductibility of such award as business expenditure might be a subject matter of case to case applicability.

## **DOES SUCH AWARD MONEY FALL UNDER SECTION 2(24)(IX)**

**1.2.01** The first important issue to be understood in this regard is whether the award money given to the awardees, falls within the definition of income as defined under Section 2(24)(ix) in order to attract TDS provisions of Section 194B. The text of Section 2(24)(ix) is as under:

"[(ix) any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever;]

[Explanation: For the purposes of this sub-clause,

(i) "Lottery" includes winnings, from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called;

(ii) "Card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game;]"

**1.2.02** Section 2(24)(ix) was amended by the Finance Act, 2001 effective from the assessment year 2002-03. The scope of the section was broadened by insertion of two explanations. The explanation (i) to Section 2(24)(ix) states that "lottery" includes

winnings, from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called; In the instant context the question arises whether the words “or in any other manner whatsoever” could in any way be implicated to deem that the awards given on merit are income for the purposes of Section 2(24)(ix).

**1.2.03** In our opinion the explanation (i) to Section 2(24)(ix) is confined to the term “lottery” irrespective of the fact whether it is awarded through lots or chance or any other manner. Therefore, any award or prize money given to deserving candidates which is not based on equal chance of winning, should not fall within the scope of Section 2(24)(ix). In this context the important thing to note here is that equal chance of winning and equal opportunity of winning are two distinct issues.

**1.2.04** It may also be noted that the Memorandum and the Notes to the Finance Bill, 2001 wherein the amendments to Section 2(24)(ix) were made, also clarify that the section applies only to “lottery” or any other game whatsoever. After the amendment the widened scope of Section 2(24)(ix) now includes any kind of lottery or game whether played on “chances” or otherwise.

#### **IS THE AWARD A CHARITABLE ACTIVITY**

**1.3.01** When the award is given by a charitable organization it is

important to ensure that such award can be considered as a charitable activity towards advancement of general public utility. The issues which makes a merit based award distinct from a lottery or a game are as under:

- The participation is not open to all, only participants fulfilling the criteria of competence and merit can participate.
- The award money is provided without any consideration and the participants do not pay any participation fees. Therefore, it will be analogous to a grant or voluntary contributions.
- The identification of the winners is done through objective and scientific processes where the entire participants do not have equal chance of winning. They have an equal opportunity of winning but the chance of winning is not equal. It is more like unraveling a pre-existing fact. A winner is declared based on a preexisting or inherent attribute/skill.

**1.3.02** The methodology of selecting or short listing the awardees may create an illusion of a chance based scheme. Even then, in our opinion, the methodology used for selecting winners cannot override the overall charitable purpose. The more important issue is whether the programme can be treated as a

charitable activity and whether the awardees can be treated as valid beneficiaries of a charitable programme. There is no plausible infirmity on both counts.

**1.3.03** Further under the current definition of “Charitable Purpose” there is no scope for engaging into lottery or game (the way it is defined under the income tax act) for advancement of charitable activities. Therefore, if the award money were to fall under section 194B then the larger question of charitable nature of the organization/ activity will arise.

#### **WHEN TDS UNDER SECTION 194B IS DEDUCTED**

**1.4.01** Any entity should deduct tax at source under section 194B if it is engaged in (i) lottery (ii) crossword puzzles (iii) card games or any other game of any sort any form or nature whatsoever.

**1.4.02** A merit based award should not be called as “other game of any sort” nor could it be called as “lottery” or “crossword puzzle” or “card games”

**1.4.03** The statutory provisions are fairly unambiguous regarding the applicability of Section 194B. In our opinion Section 194B is not applicable and TDS is not required to be deducted. There are some case laws which are cited below to understand the legal ratio of the issue.

**1.4.04** In the case Income tax officer v. Malayala Manorama Co. Ltd. (2005) 94 ITD 195 (Cochin-Trib), the assessee conducted contest ‘World cup Football Forecast Contest’ and did not deduct tax at source on the winners who were selected on draw only. The facts related to assessment year 1998-99 and at that time the Explanation to section 2(24)(ix) was not there in the statute. Only the Finance Act, 2001 inserted the Explanation to section 2(24)(ix), explaining the term “lottery”. The Tribunal hence held that for to be categorized as a lottery there must be two ingredients, viz., distribution of property by chance or lot among the participants and the participants have either paid or agreed to pay a valuable consideration for the privilege of participation in the scheme. In this case it clear that section 194B applies only to “lottery” and “games” were there is an element of chance and there is a consideration flowing from the participants.

**1.4.05** In this case Sampanna Kuries (P.) Ltd. v. ITO [2004] 141 Taxman 615 (Ker.) the essential elements of ‘lottery’ were discussed and the following was held : (i) a prize or some advantage in the nature of a prize; (ii) distribution thereof by chance; and (iii) consideration paid or promised for purchasing the chance. Thus, unless all the three elements are satisfied, the prize scheme cannot be considered as a lottery. A price must be charged for participating in the draw. The chance

of a person getting the prize could not be treated as part of the bargain unless independent consideration was there with respect to the prize awarded. Similar views were also taken in the case *Canaan Kuries & Loans (P.) Ltd. v. Income-tax Officer* [2005] 142 TAXMAN 249 (KER.).

## **IS TDS REQUIRED TO BE DEDUCTED ON GRANT OR VOLUNTARY CONTRIBUTIONS**

**1.5.01** The payment made to the awardees in case of a merit based award, in our opinion, is a voluntary contribution in the absence of any quid pro quo or any contractual rights on the part of the recipient. Here again the issue arises should TDS be deducted on payment of grant or voluntary contributions. In the case *Addl. CIT v. K. Ramabrahmam & Sons (P.) Ltd.* [1978] 115 ITR 369 (AP), it was decided that any gift or voluntary payments which were not bound by any obligation were not subject to TDS. The relevant extract is as under:

“Payments were voluntarily made by the assessee in connection with its business. The payments represented cash receipts in the hands of the recipient and there was no contractual obligation on the part of the assessee to make payments; nor was there any right on the part of

the non-residents to receive these amounts. In these circumstances, these payments could not be regarded as income chargeable under the Act. There was no obligation on the part of the payer, and no right to receive the same by the recipient. Payments did not arise out of any contract or obligation between the assessee and the recipients. There was no obligation either by virtue of a contract or in law to make these payments. They were made voluntarily by the assessee towards entertainment of the crew. Therefore, it was held that 195(1) was not attracted in the instant case.”

**1.5.02** It may be noted that this case pertains to the period when gifts were not included under section 56 as income but from a TDS perspective this case is still relevant. The TDS provisions shall remain same even for grant given by commercial organizations though deductibility of such award as business expenditure might be a subject matter of case to case applicability

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# INTERNAL CONTROL PROCEDURES

- Dr. Manoj Fogla, FCA

## INTRODUCTION

**1.1.01** Internal Control implies development of systems within the organization to ensure efficient functioning and minimize the possibilities of mismanagement and inefficiency.

**1.1.02** The nature and extent of Internal Control can be developed on the basis of size and activities of the organization. It is very difficult to recommend any universal system of internal control for all organizations. Therefore it is important to understand the features and mechanism of Internal Control. All organizations should develop their own systems of Internal Control depending on their needs and resources.

## BASICS OF GOOD INTERNAL CONTROL SYSTEM

### 1.1.03

- i. Proper allocation of functional responsibilities within the organization.
- ii. Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data and safeguard of assets.
- iii. Quality and competence of personnel with regard to their duties and responsibilities.
- iv. The review of the work of one individual by another whereby the possibility of fraud or error is minimized.



## IMPORTANT FEATURES OF INTERNAL CONTROL

### 1.1.04

- i. An organizational chart depicting the hierarchy of the authority and responsibilities.
- ii. The organizational chart showing a clear allocation of duties and responsibilities of officials and employees.
- iii. Rotation of duties of employees dealing with cash, stocks, stores and other valuables and also at various projects.
- iv. Preparation of an accounting manual.
- v. The budget covering all aspects of expenditure/allocation of funds and receipts of funds.
- vi. System of budgetary control, periodical review of actual expenditures and receipts.
- vii. 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.
- viii. Further the branches or smaller offices are required to send at predetermined intervals i.e. depending upon the size of the organization daily/weekly/fortnightly/monthly/statements of all receipts, expenses, stocks etc.
- ix. Complete reconciliation of figures between different project offices and head office. Any unreconciled element should be looked into immediately.
- x. Advances given to the staff for expenses etc. should be entered as advance in the name of the employee. The entire money unutilized should be returned

immediately to the cashier. Regular review of advances should be done to ensure timely settlement.

- xi. Surprise verification of cash, stock, assets, investments etc. by the internal auditor or the organization executives.
- xii. Maintenance of records as per the requirements of statute in force and as directed/desired by funding agencies, government grant authorities.
- xiii. All the work should be completed within the time frame stipulated and records should be authenticated.
- xiv. 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.
- xv. 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.
- xvi. Regular board meetings and the involvement of the board members in decision making and review of work.

## INTERNAL CONTROL OVER CASH AND LIQUID FUNDS

**1.1.05** With regard to cash in hand and bank the following points should be considered:

- i. The physical custody of cash should remain in the hand of a responsible person and if possible cash in hand should be kept under dual custody.
- ii. The amount of cash in hand should be kept at minimum possible level

- and all surplus cash should be immediately deposited into bank.
- iii. Payments as far as possible should be made through account payee cheques/drafts only.
  - iv. The authority to make payments should be defined in relation to the amount involved. For bigger amount the authority to approve should lie with the senior functionary of the organization. The name of the officials and the limits up to which they are authorized to sign cheques and approve payments should be specified.
  - v. All payments and expenses should be supported by bills, cash memos, invoices, challans with the authorization of the competent authority.
  - vi. The internal auditor or the management should carry out random physical verification of cash in hand, fixed deposits etc., periodically.
  - vii. Where separate petty cash is maintained for small expenditures then a fixed predetermined (Imprest) amount should be given to the petty cashier. The cash holding limit should be low and reasonable.
  - viii. The overall cash holding limit including the petty cash for the organization should be fixed and proper insurance policy should be taken against it.

#### **INTERNAL CONTROL OVER BANK TRANSACTIONS**

- 1.1.06** In India it is mandatory to have a separate bank account for Foreign

Contributions notified by the Ministry of Home Affairs. It should be ensured that only foreign contributions are received in this account and no domestic receipts of any nature should be deposited in this account.

- 1.1.07** For local funds, separate bank accounts should be opened and such funds should not be mingled with the FC account.

- 1.1.08** Bank accounts should be reconciled every month and bank reconciliations statements should be prepared and filed for verification by the internal auditors and statutory auditors.

- 1.1.09** Bank account should be operated on joint signatory basis. Postdated cheques should not be issued. Further the authorized signatories should never sign blank cheques in any case.

- 1.1.10** It is desirable to have two or three approved authorized signatories for operation of bank accounts. No person should be allowed to operate the accounts individually even for small amounts.

- 1.1.11** The NPO should maintain a cheque issue registers. In **Annexure-49** the performa of Cheque issue register is provided.

- 1.1.12** Cheques issued should only be "Account Payee cheques" unless it is office cash withdrawal.

- 1.1.13** Cheque books should be under the lock and key of some responsible and accountable person.

**1.1.14** Cheques received should always be deposited on the same day or the next day. Any delay should be reported with reasons.

**1.1.15** The organization should issue cheques only if sufficient balance is there in the bank account. It may be noted that bouncing of the cheque is a serious crime as per Indian laws.

**1.1.16** At the end of the year Bank Balance Confirmation Certificate should be obtained from each of the banks for the purpose of audit.

#### **INTERNAL CONTROL OVER SALARY & WAGES**

**1.1.17** The employment should be approved by competent authority and the pay structure and all other perks of each employee should be given in writing to the accounts departments.

**1.1.18** All adjustments from payroll on account of new appointments, leave, allowances, recoveries, deductions, termination, suspensions etc., shall be made only after receiving proper authorization from the competent authority.

**1.1.19** The Accounts Department/Head of Accounts/Accountant shall be responsible for accounting of all payroll adjustments, monthly payroll processing and payment of salaries to the staff.

**1.1.20** All information relating to the payroll is confidential and care must be taken to maintain confidentiality.

**1.1.21** Records for each employee showing following particulars should be kept :

- i. Date of Employment
- ii. Complete resume of employee with references.
- iii. Rates of pay.
- iv. Increments & promotions.
- v. Leave availed/encashed.
- vi. Retirement /dismissal.
- vii. Advances outstanding.

**1.1.22** Attendance Register with checking in and out time.

**1.1.23** All payments of salaries and wages is preferably to be made in account payee cheques or otherwise cash. Salary register is to be maintained.

#### **INTERNAL CONTROL OVER CAPITAL EXPENDITURES & FIXED ASSETS**

**1.1.24** Purchase of fixed assets and capital expenditures should be approved by the board and should be as per the budget.

**1.1.25** The purchase should be done after inviting tenders/quotations. The most suitable supplier should be identified after making comparative statements and accordingly purchase order should be issued.

**1.1.26** The fixed assets should be recorded at actual cost in the books of accounts. The following are a part of the actual cost of a fixed asset:

- i) Taxes, Customs/Excise Duties and or other Duties/Levies

- incurred on the asset
- ii) Cost of Insurance and Freight
- iii) Cost of Commissioning and erection, if any
- iv) Legal Charges
- v) Consultancy Fees:
- vi) Architectural Fees
- vii) Interest on Loans taken specifically for the project until completion of the Project

**1.1.27** When land is purchased, the actual cost of land shall include stamp duty, legal fees and cost of development of the land.

**1.1.28** In case of additions or repair to the assets, it should be noted that large amounts which result in creation of new asset or increase the capacity of the asset should be added to the actual cost. Small amounts spent on repair maintenance etc. should not be capitalised and should be treated as revenue expenditure.

**1.1.29** Record of fixed assets should be maintained in a register. The format of such register is available as per **Annexure-09**.

**1.1.30** The location of each asset should be explicitly mentioned in the register and any changes therein should be noted.

**1.1.31** Physical verification of all assets, with correctness of location is to be annually made by the internal auditor or organization personnel.

**1.1.32** All assets requiring insurance should be insured and periodically renewed.

## INTERNAL CONTROL OVER INVESTMENTS

**1.1.33** All NPOs should pay careful attention with regard to the investments. Firstly under Section 11 (5) of the Income Tax Act investments are to made in specified securities only. Secondly judicious planning and use of funds depends largely on proper investment decisions. It has been seen that huge amount lie in savings bank and current account yielding negligible interest.

**1.1.34** An investment register should be maintained, showing:

- i. The nature and description of the investments.
- ii. in the case of investments in companies, the name of company in which the investment has been made.
- iii. Certificate numbers.
- iv. Distinctive numbers.
- v. Cost, amount paid-up and face value.
- vi. The names in which the investments have been made.
- vii. Due dates for receipt of interest.
- viii. Date on which dividends are ordinarily received.
- ix. Maturity dates.
- x. All the investments kept by an authorized official with adequate security measures.
- xi. All investments should be periodically verified physically with the Register.
- xii. Periodic review of all investment income, to ensure timely receipt.

xiv. All transactions of investments should be authorized by the board or a person to whom power has been delegated.

## INTERNAL CONTROL OVER INVENTORY

**1.1.35** In the context of an NPO, inventory means items such as consumables, durables which are normally used / exhausted within a year.

- i. Even though the consumables and durables are to be used in a year there should be a proper inventory control.

- ii. NPOs should maintain a stock register showing the opening balance, receipts, issues and closing balance.
- iii. The purchases and issues should be based on proper requisition slips.
- iv. It should be ensured that valuable funds of the society are not locked unnecessarily in slow moving stocks.
- v. If large inventories of blankets, food packets etc, for distribution are held they should be under the proper custody of one/two person, who should be accountable for it.

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*(Dr. Manoj Fogla - Senior Chartered Accountant and a Consultant with many Voluntary Organisations.)*

# CEO EVALUATION

- Mr. Sanjay Patra, FMSF

### 1.1.01 INTRODUCTION

The board members of an organization collectively referred to as Board set the vision, mission, strategy and structure of the organization. However, the board vests the responsibility of management and day-to-day operations of the organization to the Chief Executive Officer (CEO) (here CEO refers to the Chief Functionary)

The chief executive officer is the key link between the organization and the board. The primarily responsible is to carry out the strategic plans and policies as established by the Board.

Since the CEO is the head of management there is generally a relationship of trust between the board and the CEO. On one hand the board holds the CEO accountable for running the organization and on the other hand the board also sets the mandate of the CEO by providing set of guidelines and roles/responsibilities. The board should also provide a clear reporting

framework to the CEO to be accountable. Generally, on behalf of the board the Chairperson acts as the reporting officer for the CEO.

The CEO owes the board accurate, thorough and timely information about the organization, its environment and its activities by providing quarterly/ six monthly reports. Further, processes like evaluation and appraisal of the CEO can also act as mechanisms for ensuring his/her accountability to the board.

The CEO's performance should be measured in relation to his or her job description, and the evaluation may cover the following activity areas:

- staff relations;
- administration;
- planning;
- leadership;
- fiscal management;
- external public relations;
- effectiveness in working with the board to fulfill the annual plan;

- and, effectiveness in helping the board fulfill and demonstrate its accountability to external stakeholders.

### **1.2.01 CEO's BOARD OR BOARD's CEO**

This is an issue which has plagued the nonprofit sector for many years. This is also due to the way in which the NPOs evolve. In the evolution of NPOs, sometimes it is founder driven. The founder has the vision, the ideas and the connections to bring success to the organization. At the same time the founder also leads the organization as CEO. In such a scenario, the board plays a more supportive and advisory role and it becomes a CEO's board. On the other hand when the board appoints, manages and evaluates the CEO then it is a Board's CEO.

The success of CEO's evaluation depends on the relationship between CEO and Board and vice-versa. It is important to understand the level of involvement of CEO in the Board matters. Similarly, the Board's level of involvement in day to day affairs of the organization which fall under the domain of CEO, would determine the success of the evaluation process. Ideally, the role of the CEO in the board is to proactively communicate, to have transparency, to seek Board's input on strategic matters and demonstrates commitment to the organization and not policy making. Thus, if the CEO leads rather than being led by the board, the purpose of evaluation fails.

While the Board and the CEO are on the same team, they do not have the same roles. The Board's job is to govern and the CEO's job is to manage. It is important not to confuse the two. The healthiest Board/CEO relationships occur when both parties work closely

together with a common aim of furthering the organization's goals and objectives.

The CEO and the Board share responsibility for leadership within the organization but they fulfill this responsibility in different ways. The Board has the authority to set the vision, mission, strategies, policies etc whereas CEO's role is more immediate, involving day-to-day management. It is important that both the Board and the CEO are fully aware of where their roles begin and end. If there is any confusion in an organization about roles and responsibilities, it can lead to conflict, inefficiency and low morale.

Board members need to have enough confidence in the CEO to trust that the operational issues are managed well and they do not pay too much attention on operational issues while neglecting their governance role.

Thus, the Board/CEO has to play an act of balancing and be aware of the line i.e. where their roles and responsibilities start and end.

### **1.3.01 WHY EVALUATION OF CEO IS IMPORTANT?**

The evaluation process identifies areas of strength and weakness and suggests opportunities for improvement. The performance of the CEO, and the relationship between the CEO and the Board, are critical factors in successful governance and fulfillment of the organization's vision & mission.

CEO performance evaluation requires asking key questions in terms of what the objectives were and whether they were



achieved, what is working well, and what needs improvement.

The evaluation brings the CEO and the board together to discuss how the performance and priorities contribute to the effectiveness of the organization.

The CEO evaluation process should be designed to:

- Assess how well the organization's vision and mission are fulfilled
- Examine and reset, if necessary, goals for the organization and the CEO
- Support the CEO by providing constructive feedback on performance
- Develop plans to address issues that arose during the evaluation process
- Foster communication between the board and CEO

Through evaluation, boards can systematically ensure accountability for the actions of the CEO. The evaluation process should be a regular and formal to avoid or reduce subjective judgments of performance. By employing a formal evaluation process, performance expectations can be made clear for CEO.

#### **1.4.01 TYPES OF CEO EVALUATION**

The CEO evaluation can be conducted at two levels. At the first level it can be done by the Board and at the second level, evaluation of CEO at 360 degree.

##### **i. EVALUATION BY BOARD**

A good practice for conducting an evaluation is to appoint a

Committee to lead the evaluation process. The board must clearly understand its role in order to set up the most appropriate system to achieve the best results from the process.

A template of the self assessment form and questionnaire is given in the **Annexure A & Annexure B**.

There are two stages to the evaluation process. In the first stage a written Self Assessment form is prepared based on the objectives and agreed-upon goals. The self evaluation gives the opportunity to the CEO to be a part in the evaluation and have a voice in the process.

In the second stage a questionnaire is designed to assess the CEOs performance. The questionnaire covers a wide range i.e. from the CEO's role in achieving the vision and mission of the organization to the staff relationship. The Board members are asked to fill in the questionnaire, individually. After filling up the questionnaire, it is collected by the evaluators. At the end of the second stage, the evaluation Committee sits together and analyzes the questionnaires as well as self assessment form. Then the evaluation Committee comes up with a short report and key recommendations which is presented in a formal discussion with CEO.

##### **ii. 360° DEGREE EVALUATION**

In the 360 Degree evaluation process, the board invites multiple people to

provide feedback about the CEO. Feedback may be requested from the board, senior staff or any staff under the CEO, donors etc.

A 360 degree evaluation takes a good deal of time not only from the board but from everyone who is asked to give input, and it makes the most sense to use the opportunity not only to learn about the CEO, but about the organization. The 360° evaluation can be practiced over a period of time as it is very helpful for a board to get a sense of how it's CEO and the organization as a whole is perceived by volunteers, staff, patrons, clients, members, funders, collaborative partners, and others. The questionnaire used for evaluation by Board can be used in this process or it could be modified based on the needs of the organization.

The process of conducting evaluation is the same as discussed in the first method.

#### **1.5.01 WHEN TO CONDUCT CEO EVALUATION**

The CEO evaluation is the primary and most formal process the Board has for measuring

CEO performance. The evaluation should include reference to the responsibilities listed in the job description and goals for the year.

Ideally, the evaluation should be conducted once in two years, as it provides sufficient time to a CEO to perform. However, for a newly appointed CEO, the evaluation can be done annually for the first 3 years as the initial years are crucial and it is important to provide feedback on job performance regularly

#### **1.6.01 CONCLUSION**

The objective of a CEO evaluation process is to enhance the relationship between the CEO and the board, performance measurement and in addition improving the overall performance of the organization. The feedback from the CEO performance evaluation process is important to the CEO as well as the Board. Through the evaluation process the CEO gains a clear understanding of the Board's goals, receives feedback on accomplishments, and gets an opportunity to clarify the Board's expectations around performance of the CEO role. However, it should be kept in mind that evaluation is a learning process and not a fault finding process.

\*\*\*\*\*

*(Sanjay Patra - Senior Chartered Accountant and Executive Director of FMSF.)*

## SELF ASSESSMENT FORM A

S.NO	Key Result Areas	Key Activities  This includes the specific responsibilities assigned to the CEO  <i>To be filled by the Board</i>	Key Result Indicators  This includes the indicators to measure the performance  <i>To be filled by the Board</i>	Achievements  To be filled by the CEO
1.	Compliance to the Board Requirement			
2.	Strategic Planning and Management			
3.	Personnel Quality Development- Self and Staff			
4.	Resource Mobilization- Knowledge, negotiation and direction and new initiatives			
5.	Linkages external and face in the larger society			
6.	Standards Setting			
7.	Linkages between various departments and units			

### SELF ASSESSMENT FORM B

1. What are the primary objectives and responsibilities of your position as chief executive, as you understand them?

2. What have been your major accomplishments of the last year?

3. What difficulties did you have in achieving your job expectations and objectives over the last year? What prevented you from achieving these goals?

4. In what ways could the board better support you in your work?

5. What are your short-term personal development goals for the next year? How do you plan on achieving them?

## QUESTIONNAIRE

### 1- Vision, Mission and Strategies

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1	The chief executive selects and cultivates qualified senior staff, models effective behaviors and skills, and builds morale among staff and volunteers?					
2	The chief executive ensures that there are appropriate systems in place to facilitate the day-to-day operations of the organization in the areas of development and delivery of programs?					
3	The chief executive has made progress in accomplishing the personal and organizational management objectives established by the board (or appropriate committee) during his or her last annual review?					
4	The chief executive demonstrates substantive knowledge regarding the organization's programs and services?					
5	The chief executive works with the board to develop appropriate policies to ensure the efficiency and effectiveness of programs?					
6	The chief executive, through effective oversight and staffing, sets high standards of quality for the organization's programs?					

## 2- Accomplishment of Management Objectives/Programs

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1	The chief executive selects and cultivates qualified senior staff, models effective behaviors and skills, and builds morale among staff and volunteers?					
2	The chief executive ensures that there are appropriate systems in place to facilitate the day-to-day operations of the organization in the areas of development and delivery of programs?					
3	The chief executive has made progress in accomplishing the personal and organizational management objectives established by the board (or appropriate committee) during his or her last annual review?					
4	The chief executive demonstrates substantive knowledge regarding the organization's programs and services?					
5	The chief executive works with the board to develop appropriate policies to ensure the efficiency and effectiveness of programs?					
6	The chief executive, through effective oversight and staffing, sets high standards of quality for the organization's programs?					

## 3- Financial Management

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1	The chief executive is knowledgeable regarding financial planning, budgeting, management of the organization's investments and endowment, and understands the place of each in the organization's overall financial picture?					
2	The chief executive has established a system linking strategic and operational planning with the organization's budgeting process?					
3	The chief executive presents financial reports to the board on a regular basis and submits an annual budget for board review, revision, and approval?					
4	The chief executive ensures that a clear and accurate accounting system is maintained, allowing the board to monitor the organization's finances and operations in relationship to the approved budget and to make informed financial decisions?					

## 1- Operations Management

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1	The chief executive is knowledgeable regarding the operations of an effective office environment?					
2	The chief executive has assured the organization has in place:					
	Appropriate personnel policies and systems for staffing?					
	Accounting, payroll, and cash management systems?					
	A sound risk management policy, including adequate insurance coverage?					
	Appropriate space management plans, which help build an efficient and harmonious work place?					
	Plans for the appropriate use of technology and technological systems?					
3	The chief executive ensures compliance with all legal and regulatory requirements?					

## 5- The Chief Executive/Board Partnership

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1	The chief executive and the board are clear about the differences between their respective roles?					
2	The chief executive is treated as a respected professional by members of the board?					
3	The chief executive has been delegated the authority necessary to manage the organization effectively?					
4	The chief executive raises issues and questions and provides adequate information to the board for discussions?					
5	The chief executive receives the annual review to which he or she is entitled in a timely and thoughtful way that articulates specific strengths and areas for Improvement?					

### INTERPRETING RESULTS

Score	Interpretation	Action Taken
40 and More	Highly Effective	Well Done. Keep it up
30 to 40	Effective	Can still do better
20 to 30	Average	Identify areas to work further
Below 20	Poor	Require serious intervention



# BOARD EVALUATION

- Mr. Sanjay Patra, FMSF

## 1.1.01 INTRODUCTION

As discussed previously, the Board is the final and highest decision-making body within an organization. Mandatorily, it is required that every organization has a duly constituted Board. However, in actual practice it has been seen that while some Boards work in a very effective manner, there are others who exist for the sake of records. These are the two extreme scenarios in Non-Profit Organizations. In the previous chapters, we have already discussed about the benefits of having an effective and pro-active Board. A regular, well-structured Board evaluation process helps in enhancing efficiency and effectiveness. However, it is important to have a clear political will at the highest leadership level to implement a Board evaluation process.

## 1.2.01 WHY SHOULD A BOARD UNDERTAKE EVALUATION?

- Reviewing the past performance of the Board as a whole and of

individual Board members

- Examine what has changed in the external environment that shapes the work of the NPO and the Board for example; Are there new risks that threaten the NPO, like change in legal framework, resource crunch, etc?
- Looking at what can be done to improve the way the Board functions and conducts meetings
- Making future plans based on realistic assessment of what has happened in the past

There are no legal or statutory compulsions on the part of the Board to undertake its own evaluation. However, for a learning and pro-active Board, it always adds value to its functioning and effectiveness to evaluate itself. Further, it also needs to be recognized that the Board being part of the organization also faces challenges from external as well as internal environment, from time to time. At the same time, with the growth of the organization it becomes necessary for the Board to review itself in order to ensure that

it is equipped in terms of the systems and processes to meet the governance requirements of the organization.

As the organization grows in terms of team size, project size and capacity; the organization's need for effective governance and management also increases. The Board needs to keep pace by examining the organization's mission, objectives and processes. Some Boards function well, while some others suffer from lack of shared vision. Board members may also have different perceptions about the organization's purpose.

Increasingly, Boards are turning to self-assessment as an indispensable governance tool. Self-assessment gives the Board an opportunity to deal with crucial issues like internalizing the vision and mission within the Board members. In addition to allowing the Board to reflect on how well they are meeting their responsibilities, self-assessment exercise helps the Board focus on integral aspects of their work from strategic planning and oversight to resource mobilization and reaching out to various new partners. Self-assessments help the Board in channeling their focus to governance issues. It can lead to a more engaged and performing Board. In short, self-evaluation process serves as a tool to check the overall effectiveness of the Board by identifying and narrowing down the gap between the objectives laid down in the Byelaw/ Trust Deed of an organization and the actually achieved goals.

### **1.3.01 TYPES OF BOARD EVALUATION**

The Board Evaluation can take place at two levels. At the first level, it can be at the Board members' effectiveness, at an individual level.

At the second level, it is the evaluation of the Board as a corporate body.

#### **i. BOARD MEMBERS' SELF-EVALUATION**

The process requires members to assess themselves in respect of their effectiveness. Self evaluation is like introspection of oneself. Usually, it is effective where it is not possible for all members to come together at one time for group evaluation. It is cost effective as compared to group evaluation where the group needs to come together. However, the drawback in this form of evaluation is the possibility on the part of the individual to provide incorrect assessment and can be quite subjective. A template of the evaluation tool is given in the ***Annexure A.***

#### **ii. EVALUATION OF A BOARD AS A CORPORATE BODY**

Conducting a Board evaluation is difficult. It is important to allow sufficient time for such evaluation process. The most important aspect of an evaluation process is to decide what is to be evaluated. Each group may want to evaluate something different.

A good practice for conducting an evaluation is to appoint a Committee to lead the evaluation process. Sometimes an external professional is hired to bring in the necessary independence and expertise. Before conducting the evaluation, it is important to develop the necessary

evaluation instrument. Generally, the evaluation instrument is a set of questions or a questionnaire focusing on efficiency and effectiveness of Board functioning, Committees, relationships among Board Members and CEO. A model template is enclosed as **Annexure B**.

After the evaluation instrument is finalized, the next step is to conduct the evaluation. Sometimes the evaluation is conducted in an extended executive session of the Board which is attended only by the Board members. There are two stages to the evaluation process. In the first stage, the Board members are asked to fill in the questionnaire, individually. After filling up the questionnaire, it is collected by the evaluators. Then in the second stage, there is discussion based on certain leading questions. The leading questions are based on the decisions and discussions that took place in the Board during the past period. These can be collected from the minutes of the Board meetings, other relevant files, documents, etc. This session is moderated by the evaluators. At the end of the second stage, the evaluation Committee sits together and analyzes the questionnaires as well as outcome of the discussion. Then the evaluation Committee comes up with a short report and key recommendations which is presented in the next Board meeting and necessary decisions are taken to implement the recommendations. Primarily, the responsibility to implement the recommendations is with the Board Chair.

#### **1.4.01 CERTAIN OTHER EVALUATION PROCESSES USED**

Apart from the above process as described in 3.2, sometimes some other processes are also used. They are:

- Engaging with staff to assess their view on the effectiveness of the Board
- Engaging with various stakeholders .i.e. donors, community and other related organizations to obtain their views

#### **1.6.01 WHEN TO CONDUCT BOARD EVALUATION**

It is ideal to conduct Board Evaluations on a yearly basis. However, in certain organizations it may not be practical to undertake such evaluations every year. In that case assuming that the term of the Board is for three years, one can decide to conduct a mid-term evaluation at the end of one and half years. A mid-term evaluation provides an opportunity to the Board to assess its effectiveness and take necessary measures to change and adapt the recommendations of the mid-term evaluation. At the end of three years a final evaluation can be conducted.

#### **1.7.01 CONCLUSION**

The Board evaluation process, reinforces accountability of the members to the organization, the greater community served and the resources generated and utilized.

Board evaluation aims to help a Board do its job better by improving members' understanding of their roles and responsibilities. It can help the Board become a stronger team, improve their decision-making process and most importantly increase their accountability and effectiveness towards the organization.

## SELF ASSESSMENT FORM A

Sl. No.	Particulars	Yes	No
1.	I have attended all Board/Society meetings.		
2.	I have prepared myself well before attending meetings.		
3.	I have attended the Sub-Committee meetings of the Board where I have been invited to serve.		
4.	I have the required knowledge of the organization's core activities and objectives.		
5.	I have contributed to the organization by:		
	1) Serving in Committees		
	2) Raising resources		
	3) Promoting the organization at various forums		
	4) Visited project areas		
	5) Providing technical inputs in my area of expertise		
6.	I have actively participated in meetings.		
7.	I have been a part of policy making in the organization.		

## BOARD EVALUATION FORM

## Section-A

Sl. No.	Particulars	5 Very High	4 High	3 Moderate	2 Poor	1 Very Poor
1.	Board understands its roles and responsibilities.					
2.	Board members have in depth understanding of mission and purpose of the organization.					
3.	Structure of the Board (Office bearers, Committees, Senior Staff) is clear.					
4.	All policy level decisions are taken by the Board.					
5.	Board monitors program and Budgets periodically.					
6.	Board is involved in resource mobilization.					
7.	Board represents the organization at various forums.					
8.	Board meetings agenda is structured around strategic and organizational issues.					
9.	Board evaluates the performance of Executive Director.					
10.	All necessary skills and diversity are represented in the Board.					

## Section-A

### Section B

Please list three to five points on which you believe the Board should focus its attention in the coming year. Please be specific.

1.

2.

3.

4.

5.

### INTERPRETING RESULTS

Score	Interpretation	Action Taken
40 and More	Highly Effective	Well Done. Keep it up
30 to 40	Effective	Can still do better
20 to 30	Average	Identify areas to work further
Below 20	Poor	Require serious intervention

## Others

### 5th NAN Convention

FMSF has initiated NGOs Accountants Network (NAN) in January 2005. The convention was held in Chennai. NAN is a Network of Fulltime Accountants working in Voluntary Sector. NGO Accountants Network (NAN) was formed with the objective of addressing the need of day to day concerns of the NGO Accountants and promoting accountability. NAN aims at providing a forum for mutual learning and growth. It further aims to provide a knowledge platform for sharing of experiences and inputs for accountants involved in the NGO Sector. The First National Convention of this Forum was held in September 2006.

The National NAN Convention Chennai was attended by 72 representatives from 38 voluntary organizations with a fairly good representation from various regions. The convention focused around grant management & legal compliances in the NGO sector. Special focus was given on the clarification of practical issues in FCRA and Income Tax. Service Tax and CSR were also major topics of discussion in the convention.

The sessions were facilitated by highly expert and eminent professionals having significant experience in voluntary and development sector.

The session provided a platform to various organizations for sharing their experiences and challenges in the field. A blend of exercises, examples and practical case studies made the workshop very interactive and participative. Further, the participants enthusiastically shared their view point thus enabling better understanding of various challenges and learning experiences.



## **Workshop on Internal Control Systems, Mumbai**

On 28<sup>th</sup> and 29<sup>th</sup> November, 2013, FMSF organized a workshop on Internal Control Systems for BftW partners at YMCA, Mumbai. There were 18 participants from 9 BftW Partner Organization based in North India, South India and Maharashtra.

**The learning objectives of the “Workshop on Internal Control Systems” were as follows:**

- To understand the concept and need of Internal Controls in an organization
- To understand risk management
- To understand the various types of Financial Controls
- To understand Policy making and implementation

The topics which were covered in the workshop are internal controls, financial management, risk management, policy setting, BftW Reporting requirements, etc. The resource team from FMSF consisted of Mr. Sanjay Patra - Executive Director, Mr. Sandeep Sharma Head Programme Desk and Mr. Deepanshu Srivastava Project Monitoring Associate.

During the workshop few action points were given which had to be implemented by the participants in their organization post-workshop the key action points are:

- Risk identification & assessment and developing risk mitigation plan with time frame.
- Developing activity and budget monitoring tool
- Developing policies which are not present in the organization and relooking at existing policies from Internal Control perspective

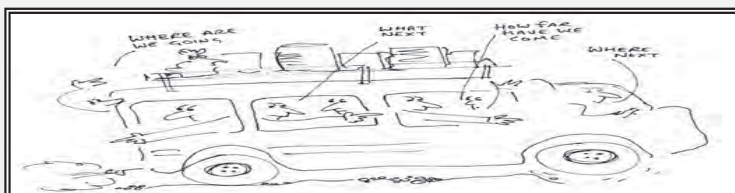
The feedback received from the participants was over-whelming with an overall score of 88% on the impact of the workshop.







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## ELIGIBILITY CRITERIA

- CEOs, Chief Functionaries / Executive Directors of Non Profit Organizations (NPOs).
- Persons working in senior / mid-management level positions in NPOs, Donor / CSR Organizations.
- Individuals serving in the board of Non Profit Organizations.
- Consultants involved in the reviews & evaluation of NPOs.

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\* Inclusive of 12.36% Service

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**Module III**— Board processes and Tools

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		Certificate	Diploma
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