INTER*face*

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Financial Accountability

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Beauty and the Beast

*This is the story of **Beauty and the Beast**, the animated film nominated for the Oscar Award in 1991. In that film, Beauty stepped into the ugly world of the Beast, not because he was loveable, not because he deserved her, but because she loved her father. But the world of the beast did not change right away, even though Beauty was there. The servants, who shared the curse of the Beast, warned him that Beauty might be the one they had been waiting for, but the Beast continued to rage and scream and roar, finally sending Beauty away. On her way home, she was attacked by the wolves and the Beast saved her. As Beauty returned and nursed the wounded Beast back to health, they began to bicker and blame each other, until in one beautiful moment, Beauty stepped into the heart of the ugly Beast. From that moment on, the Beast began to change slowly. He started to laugh and play. And then, finally, Beast realized that he loved Beauty, and in an amazing act of love, he released her to find her father. Beauty and her father returned to the ugly world of the Beast to warn him of the danger of the townspeople's attack, but they were too late. In the fighting, Beast was stabbed, and as he lay dying, Beauty confessed her love for him. And the spell was broken. Beast was changed by the love of Beauty. Because Beauty stepped into the ugly world of the Beast, Beast was changed, little by little, until one day he was transformed into a wonderful handsome prince.*

As we celebrate Christmas, we remember that God stepped into the ugly world, expressed his love and care for us and died on the cross for our sake. May our lives be transformed by the beauty of God's love.

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Good Governance:

Role of Board vs Management

Rev. Kennedy Dhanabalan

Introduction:

Role clarity between the Board and the Management is an important issue for good governance. Stories of two organizations (Organization A & Organization B) sets the tone for this paper. **Organization A** was started by an individual who had a vision to serve the poor. The visionary formed a Society with the support of his well wishers. The Board members meet once or twice in a year to approve the decisions made by the Visionary and act as a rubber stamp without any power to question. **Organization B** has a Board which appointed the Executive Director (ED) of the organization. The ED is expected to report to the Board on a daily basis and copy all correspondences he has with supporting partners (donors) or other stakeholders to the Chairperson of the Board. Treasurer of the Board visits the office almost daily to check the accounts despite the fact that the organization has a manager for finance.

Many of us come across Organizations resembling A & B or may be in leadership in their Board or work in such organizations. Organizations A & B both represent the extremes of what is not good governance. So what is good governance? What is the role of the Board and Management? To explain this, the paper has heavily drawn from "The Roots Series" published by Tearfund.

Organizational Governance

Organizational governance is the process of overseeing an organization. It is about having overall responsibility. This involves ensuring that an organization's work contributes to its vision, mission and purpose and that its resources are used wisely and effectively. Governance is about overseeing and ensuring, rather than doing. It means ensuring that the organization is well-managed, without having to be involved in the management.

Most institutions have some sort of governing body called a board, advisory committee or council. The members of the governing body may be referred to with terms such as board members, trustees, elders or governors.

If an organization is to function well, it is important that all stakeholders understand their roles. Stakeholders include the board, committees, members, donors, staff members and the CEO. If roles are not clearly stated, the following problems could arise:

- Conflict between people who want to take responsibility for the same thing.
- Some important aspects of the organization's work may be ignored.

If an organization is to function well, it is important that all stakeholders understand their roles. Stakeholders include the board, committees, members, donors, staff members and the CEO

- Effectiveness could be lost, because people take on too much responsibility and become overburdened and unable to carry out any of their tasks well.
- Efficiency could be lost because some people are better equipped to take on certain roles than others.

A key issue that affects the well-being of organizations is the confusion surrounding the role of the board and the role of the Chief Executive Officer (CEO) and staff. The key difference is that the board is responsible for the **governance** of the organization and the CEO and staff are responsible for the **management**.

Role of the Board Vs Management

The board thinks about the wider issues while the CEO and staff are concerned with designing and implementing projects that help to fulfill the organization's mission.

The difference between governance and management can be better explained if the organization is viewed as a car:

BOARD – governance responsibility	CEO/STAFF – management responsibility
Identify the car's destination – board ensures that vision and mission are identified.	Identify the route the car will take to get to the destination – CEO and staff use their development knowledge, experience and skills to fulfill the mission. They work out a clear strategy and methodology to fulfill the mission. However the Board has to approve the strategy for involvement.
Identify the type of car to be used to reach the destination– board agrees on values and organizational structure.	Look after the car and maintain it to ensure that it can reach its destination – CEO and staff manage the systems and processes that help the mission to be achieved.
Identify the driver – board recruits the CEO	Driver steers the car and identifies the passengers – CEO recruits appropriate staff through appropriate means.
Provide the fuel – board ensures there are adequate funds to fulfill the mission and perhaps identifies potential donors.	Get fuel during the journey and ensure that it is used efficiently – staff submit proposals for funding and ensure that the funds are used efficiently and wisely and provide proper reports on implementation.
Regularly assess progress and travel conditions – board ensures that the organization's work is staying on track and remains aware of external changes and influences.	Provide regular reports on the car's progress – CEO informs the board what is being achieved and identifies problems.
Check that the driver is driving safely – board regularly reviews the CEO's performance and ensures the welfare of the CEO.	Attend training about how to drive the car safely, have comfortable seating and rest while driving – CEO and staff include training and time for rest in their schedules and have proper pay scale and benefits while serving the organization.

Board Accountability and Power

Many Board members do not realize that legally they will be held personally liable for the organization. If the organization fails and owes money, the board members themselves will have to repay the debt. This benefits the organization because the 'duty of care' increases. It requires that the board members should consider issues more thoroughly before making decisions because they have a lot to lose if bad decisions are made. However, it needs to delegate some of its responsibility and authority to enable the CEO to manage the operations of the organization and make its work efficient and effective.

The board is accountable to a number of groups. It is accountable to those who give it authority and to those who are affected by the organization's work. Therefore members of staff, donors and the people the organization seeks to help are the various groups to whom the board should be accountable. The board is also accountable to the government of the country, since there are legal requirements that the organization should fulfill. If the organization is part of a network, other organizations in that network can keep it accountable. If the organization fails or falls into ill-repute, it could be forced to leave the network.

Since the board consists of a group of people, there is a degree of self-accountability. Each member of the group keeps the other members accountable.

The accountability of the Board members mainly will be exercised during the Board and Society meetings. So, all Board members should try to be present in all board meetings. They should read all documents that are circulated before board meetings. The Management should provide Board files earlier to the members with sufficient time to read prior to attending the Board and Society meetings. The Board should understand the organization's current work and be up-to-date on the issues that the organization is seeking to address. This may involve visiting a project, meeting with staff or reading literature that the organization produces about its work.

Key responsibilities of the board

Key responsibilities of the Board are as follows:

- *Recruit and support the CEO to manage the work:* The board should recruit someone to manage the work of the organization with transparency and accountability. This person is often referred to as the Chief Executive Officer (CEO) and given a title such as Executive Director, General Director.
- *Ensure that the vision, purpose, vision and value are clearly identified and defined:* This facilitates the effective functioning of the organization. The vision motivates the staff to work towards achieving the same. If the mission is not well defined, the organization can spread its work too thinly and lose its focus. Clarity of the purpose is required for the staff to have a good sense of direction. The quality of the organization is dependant on its values.
- *Ensure that strategic planning is in place:* In smaller organizations the board may be involved in strategic planning. In larger organizations it may be more appropriate for the CEO and staff to do strategic planning as the board may not have the time to do it. However, the board should critically review and approve the strategic plan to ensure that the organization's resources are directed towards its mission. Where the board develops the strategic plan, the plan should set boundaries and give direction. Within those boundaries the staff should have freedom to develop tactical plans as they think best.
- *Legal requirements.* The board should ensure that all legal requirements are considered. It can therefore be helpful to have a board member with a legal background, who knows the legal environment or who at the least is able to engage with complicated legal documents.
- *Raise resources:* The Board should ensure that the organization has enough resources to fulfill its mission. The board is responsible for protecting the organization's assets and ensuring that it is able to fulfill its mission.
- *Finance Management:* The board should write or approve the annual budget, according to the organization's needs for the coming year. It should also ensure good use of the organization's finances as it is accountable to God, to beneficiaries and to donors. In doing this, the Board also appoints the Statutory Auditor and Internal Auditor.
- *Set policies:* The Board should look into policies of the organization while systems and procedures such as working conditions, job descriptions, staff appraisal and grievance procedures are to be developed by the management. It should oversee the setting and review of salary scales.
- *Assess progress.* As the board is responsible for ensuring that the organization's mission is achieved, it is important to assess progress. This enables the organization to learn lessons in order to improve performance in the future. Systems and procedures should be set by Board for assessing the organizations performance.

> *Board members work for the organization on a voluntary basis and they are not to be paid. This enables a degree of impartiality in governance in being focused on the vision and the confidence to think radically.*

Payments to Board members

Board members work for the organization on a voluntary basis and they are not to be paid. This enables a degree of impartiality in governance in being focused on the vision and the confidence to think radically. If they receive payment, there exists the possibility of making decisions in their own interests (such as being promoted and earning more money), rather than in the interests of the organization.

Key responsibilities of the Management represented by the CEO

- Responsible to further the objectives of the Society and implement the decisions of the Board as per the guidelines and policies provided by the Board.
- Make all necessary temporary appointment of the staff or workers and pay wages for carrying out

the objectives of the Society and work out welfare measures for the staff and get it approved by the Board.

- Responsibilities may include designing projects, and allocating budgets within the boundaries set by the Board.
- Shall have the custody of all assets, monies, movable and immovable properties, subscriptions and investments of the Society.
- Shall also exercise such powers and functions as the Board may specifically delegate to him/her from time to time.
- Prepare the strategic plans for the organization and get it approved by the Board.
- Communicate with supporting partners (donors) to raise fund and report on the fund received.
- Ensure proper systems are there in place to manage, monitor and to report on the finance of the organization to the Board.
- Promote the work of the organization.
- Ensure proper systems and procedures are in place in managing the staff and their benefits.

Conclusion

Governance is like being a parent. Good parents give freedom to their children depending on their ability to handle it, together with clear limits, and expectations, and with the hope to see them thrive. Parents who 'manage' their children's activities will have children who under-perform without ever learning and growing from their mistakes ...

Governance is like being a parent. Good parents give freedom to their children depending on their ability to handle it, together with clear limits, and expectations, and with the hope to see them thrive. Parents who 'manage` their children`s activities will have children who under-perform without ever learning and growing from their mistakes ...

... It is normal for newer, smaller organizations to have managing boards, particularly before they are large enough to hire a chief executive officer. However, every managing board should seek to move towards governance as the organization grows and becomes more complex. Sadly, the managing board remains the most common type of board today. Even boards that have adopted a governance model ... often drift back into managing. Becoming an effective governing board requires a new way of thinking. The best way I describe it is in the usage ... 'Think parenting, not managing.' (*Adapted from Stahlke L. (2003) Governance matters p.140*)

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Budgeting in the Context of NGOs

K. N. Gupta, FCA

Budget involves a system of financial planning, executing the plan and evaluating performance and financial working of an organization in which activities are planned in advance.

The philosophy behind the budget is that nothing would be allowed to occur in a haphazard manner but there should be an objective towards which the organization is to progress in an orderly and pre-planned manner. In order to aid this process of planning, the mechanism of a plan (which is the picture at a given point of time, the planning process would lead to) is adopted. Thus the plan is the commitment to a set course of action required to realize the results and objectives that are depicted in the plan. The planning process stipulates thinking at all levels of management and serves as a measure of performance.

Hence the organization should plan its activities in advance, carry out the plan and institute appropriate techniques of monitoring and reporting to ensure that the deviations from plan are properly analyzed and corrective measures taken.

In this system of control, performances are checked with the pre-planned figures and the variances are analyzed. Hence, following are the important characteristics of a budget:

(a)It is a financial and/or quantitative statement;
(b) Prepared well in advance;
(c)For a definite period of time;
(d)For the attainment of objectives and measures agreed upon.

It would therefore be advisable for every organization to prepare a budget since this would enable it to plan out the activities of the ensuing year/so This also helps in planning the commitments and to activate resource mobilization to meet such commitments.

Institutions which receive funds from National and International Funding Agencies are usually required to present a budget of programme activities for a specified period.

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Preparation of Budget

The voluntary organizations dealing with funding agencies prepare a

- Cost plan
  and
- Finance plan

to budget their activities for ensuing year/years in Foreign currency and in National currency.

The project budgets are generally for three year period. However, in case of pilot phase, it could be for one year period. On the other handsome projects are also prepared for for more than three year period.

A 'Cost Plan' is a schedule of budgeted costs divided into two major parts, namely:

- Programme Activities Budget
- Administrative Budget for Project/Programme Co-ordination.

A 'Finance Plan' is a schedule of budgeted sources of funds.

Cost Plan-Programme Activities Budget

This would include programmes/projects undertaken/to be undertaken by the organization for a specified period. This would include:

- Capital costs
- Programme costs
- Administration/Office costs
- Reserves

Detailed sub-schedules should be prepared for each of the sub-Heads.

Capital costs would represent expenditure of capital nature. For example:

- Construction of lift irrigation system including pipe systems and land development;

A project may include one specific target and the programme component to achieve it or several targets and accordingly several programme components to achieve the same.

- Construction and equipping of a school building and teacher's accommodation;
- Setting up a training and demonstration farm, land development, irrigation etc. (... acres);
- Land development and sowing oil seeds;
- Construction of lift irrigation units (including canals/pipe systems).

A Project is understood as an undertaking which clearly spells out operational targets, a specific time horizon and limited financial outlay. This could be:

- an adult education project to make 10,000 Harijan women and men in 50 villages of Nalgonda district in Andhra Pradesh State functionally literate within a time horizon of 3 years; or
- an immunization project to immunize 10,000 children under 6 years in the same villages against DPT (Disease) within 3 years.

A project may include one specific target and the programme component to achieve it or several targets and accordingly several programme components to achieve the same.

Programme costs would include:

- Activity Costs
- Administration/Office costs
- Capital costs (with limited utilization)
- Reserves

These costs should be clearly related to and necessary for achieving the specified targets within defined period of time. The overhead expenditure independent of specific programme of an institution or organization is not programme costs.

Administration/Office costs would normally include salary of the administrative staff which is involved in the implementation of the project/programme.

Cost item "Reserves" is primarily meant to be utilized for:

(a) Price increase in the main budget items not anticipated earlier (but accounted for under respective cost items);
(b) Financing unforeseen measures for which prior approval of the funding agencies is to be obtained.

Cost Plan-Administrative Expenses Budget (for project/ programme Coordination)

This would include administrative expenses incurred for co-ordination of various programmes i.e. staff salary and benefits (excluding project staff which is directly involved in implementation of the project/programme); travel and conveyance; operating costs of vehicles, rent, rates & taxes, water and electricity expenses; office up-keep; communications; legal expenses etc.

As per the requirements, separate sub-schedule for details should be prepared.

Finance Plan-Schedule of Budgeted Sources of Funds

A finance plan is a schedule of budgeted sources of funds for financing project/programme related expenditure. The normal pattern of financing the' Programme Activities Budget and Administrative Budget (for project/ programme co-ordination) is as under:

- Contribution by the Funding Agencies; and
- Contribution by the Project-Partner.

There are good reasons for the project-partner to participate in the expenditure (upto a certain percentage) to be incurred on a programme/project. For example:

- strengthening of responsibility and decision making, as principles of co-operation;
- motivation of the beneficiaries to contribute to their project / programme; better co-operation between beneficiaries and credit institutions in case of bank financing;
- educational effects for the beneficiaries; and
- Creating conditions for the continuation of the project after contributions from funding agencies have been exhausted.

Contribution to be made by the project-partner can be either in cash or in non-cash inputs.

Generally, Funding agencies are contributing a specified percentage to the actual expenditure but not more than amount sanctioned in foreign currency. In cases of exchange variations or over-spending of budget, the responsibility for financing such costs lies primarily with the project-partner. There is however; a possibility for applying for additional funds which can be considered by the funding agencies on case to case basis.

The project partners are expected to contribute/utilize their share of contribution as per the agreed finance plan. Any shortfall or higher contribution affects the share of contribution of the funding agencies. Therefore, it is important to adhere to the share of funding. In case of difficulty, this needs to be communicated to the funding agencies well in advance. This will help to take corrective action like revision of budget or revision of the finance plan. It shall however, be ensured that the contribution to be made by the funding agencies and the project-partners should be finalized and agreed upon at an early date so that there is no ambiguity later.

Contribution to be made by the project-partner can be either in cash or in non-cash inputs.

It is necessary that the project-partner is in a position to assess separately the quantum of its contribution in cash and non-cash inputs in the beginning itself. Further, the composition of non-cash inputs may be in the form of donations of land, building, capital equipments, labour, material and other services.

It would be advisable if non-cash contribution in various identifiable forms is estimated by the project-partner at the time of working out the source of funds for financing a particular project/programme so that there is no room for difference of opinion between the funding agencies and the project-partner at a later stage.

Cash and non-cash contributions can be 'within` and 'outside` finance plan. Cash and non-cash contributions are treated 'within` finance plan, if they can be recorded in the books of account of the partner organization. Otherwise, they have to be estimated and reported 'outside` or separate from the budget and the financial statement e.g. if contribution to the programme comes from third parties directly to the beneficiaries.

The budget estimates prepared initially for a specified period for each project/ programme should be further split into monthly/quarterly/half-yearly targets so that actual results could be compared with budgeted figures and timely corrective action is taken for achieving the planned measures and objectives.

Use of "Own Means" for Financing Projects/ Programmes

As explained above, contribution by project-partner which is termed as "Own Means" can be in cash or in non-cash inputs.

Cash and non-cash contributions can be 'within' and 'outside' finance plan. Cash and non-cash contributions are treated 'within' finance plan, if they can be recorded in the books of account of the partner organization. Otherwise, they have to be estimated and reported 'outside' or separate from the budget and the financial statement e.g. if contribution to the programme comes from third parties directly to the beneficiaries.

Cash and Non-cash contributions within Finance Plan:

These could be as under:

- 'Cash' contribution within Finance Plan:
  - Own cash contribution by project partner
  - Grant from other Funding Agencies
  - Subsidy from State/Central Govt.
  - Loans from banks (provided re-payment of loanis arranged independently)
- Non-cash contribution within Finance Plan:
  - If such non-cash inputs relate to the project e.g. it represents one of the items of the approved budgeted costs-cost plan.
  - If such inputs can be easily evaluated and recorded in monetary terms in books of account

  -Cash and non-cash contributions within "Finance Plan" should be reflected in the "financial statement" to be submitted to the funding agencies.

Cash and Non-cash contributions outside Finance Plan:

These could be as under:

- Cash contribution outside "Finance Plan":
  - Loans granted by banks directly to beneficiaries
- Non-cash contribution outside "Finance Plan":
  - Other services/materials provided by third parties directly to the beneficiaries (target group)

Cash and Non-cash contributions outside finance plan should be reflected as an annexure to the "financial statement" to be submitted to the funding agencies and explained adequately in the progress reports.

Contribution in Cash

Contribution in cash can take the form of partner's cash, donations in cash, membership and other fees of the beneficiaries, loans from banks, subsidy/grant from Central/State Govt. and funds for co-financing received from other funding agencies.

Donations: Donations received in cash (including cheques/money-orders/postal orders etc.) by project-partner for implementing a project/programme shall be accounted for on the receipt side of "Cash Book" on the basis of receipts issued to the donors.

It shall be ensured by the project-partner that all contributions received in cash/by cheques/money-orders/postal orders etc. are promptly deposited intact into separately designated bank account of the project.

The concept of "Own Means" can be clearly understood with the help of a chart given below.

Finance Plan		Own Means	
	Within	Own cash contribution by Project – partner. Other Sources: Grant from other funding agencies Subsidy from Govt Loan from Banks Cash income from fees for attending Seminars/ Training Courses	Non-cash inputs: If such non-cash inputs relate to the project Such inputs can be easily evaluated and recorded in monetary terms in books of account
	Outside	Loans granted by Banks directly to target population (beneficiaries)	Other services/ materials provided by third parties directly to target population group

Loans from Bank: As a part of "Own Means" of financing, the project-partner can obtain loans from bank for implementing the project/programme. It shall, however, be ensured that the project/its beneficiaries are in a position to repay the bank loan independently.

It shall however, be ensured by the project-partner that no part of the land, building and movable assets are pledged/hypothecated or charged with the bank without prior consultation and consent of the funding agencies if the funding agencies grant has been involved in the purchase of such assets.

It shall however, be ensured by the project-partner that no part of the land, building and movable assets are pledged/hypothecated or charged with the bank without prior consultation and consent of the funding agencies if the funding agencies grant has been involved in the purchase of such assets.

Subsidy/ Grant from Central/State Government.: If the capital casts forming part of an approved 'cost plan' of a project/programme is eligible for subsidy/grant from Central/State Government, the amount of subsidy/grant so received can be treated as a part of "Own Means" of financing by the project-partner.

Contribution in Non-Cash Inputs:

As explained earlier, contribution in non-cash inputs can be in the form of donations of land, building, capital equipments, labour, materials and other services.

Before making commitment of an expenditure (either of a capital or revenue nature) to be financed by funding agencies/own means it shall be ensured by the project-partner that the proposed expenditure forms part of the approved "Cost Plan". If not, the ways and means of financing the same should be explored outside the project. If the project-partner is not able to arrange outside finance, consent of the funding organization should be taken in advance and in exceptional cases well before the accounts are submitted for audit.

Particular care should be taken in making out vouchers in support of expenditure representing the project-partner's own non-cash contribution to ensure that they explain adequately and in sufficient detail the nature and make up of such expenditure.

Donation of Land and/or Building: Donation of land and/or building made to a project/ programme can be accounted for as "Own Means" by the project-partner if the same forms part of the approved "Cost Plan". For this purpose, the following criteria should be adopted:

Land

- The acquisition of land should be budgeted in the approved "Cost Plan";
- Total area of land;
- Prevalent market rate per acre/hectare;
- Cost of registration of land;
- Legal title to the property;
- Physical possession of the property;
- Acknowledgement from the donor; and
- Registration of land in favour of the organization.

Building

- Construction/acquisition of building should be included in the approved "Cost Plan";
- Total covered area;
- Type of construction;
- PWD rate of construction per sq. ft.;
- Prevalent market rate as per certificate of architect/approved Civil Engineer;
- Legal title to the property;
- Acknowledgement from the donor;
- Physical possession of the property; and
- Registration of building in favour of the organization.

Donation of Capital Equipments: There may be cases where the Farmers/Inhabitants/beneficiaries of a particular area may donate capital equipments for a project/programme (tractor, vehicle etc.)

It shall, however, be ensured that:

- Capital equipments financed out of funds provided earlier are not charged to the project again.
- In case of second hand capital equipments, they are not more than two years old.

The following points shall be taken into account while arriving at the value of the capital equipments donated to the project:

- Nature of the capital equipment;
- Acquisition of capital equipment should be budgeted in the approved "Cost Plan";
- Present condition of the equipment;
- Estimated realizable value, if sold in the market;
- Legal title to the property;
- Physical possession of the property;
- Acknowledgement from the donor; and
- Transfer of name in the vehicle registration book.

Donation of Labour: In a Project Implementation Programme, 'Shramdaan' (Donation of Labour) given by a group of farmers/beneficiaries/labourers shall be evaluated as "Own Means" of financing on the basis of the following criteria:

- There should be a provision in the approved "Cost Plan";
- Actual number of farmers/labourers worked in a project;
- Actual number of days/hours worked;
- Category of farmers/labourers worked i.e. skilled, semi-skilled and unskilled;
- Nature of work done;
- Rate per day/hour keeping in view the provisions of Minimum Wages Act prevalent in the States;
- Piece rate/volume of work done and payments made for normally such services rendered;
- Certificate from each farmer/labourer regarding "Shramdaan" given for a project; and
- Estimated and actual measurement of work done before and after the completion of the assigned job.

Donation of materials (Like Bricks/Cement/Badarpur/Sand/Stones/Bamboos), Seeds, Fertilizers etc.. : Donation of materials, seeds, fertilizers etc. can be accounted for as "Own Means" of financing in the books on the basis of the following guidelines:

- Materials, seeds, fertilizers etc. should form part of the approved "Cost Plan";
- Nature of materials (seeds, fertilizers etc.) received;
- Actual quantity received and used in the project;
- Standard usage per Sq. feet/cubic feet/acre/hectare as per PWD or other standards;
- Market price of such materials/seeds, fertilizers etc.; and
- Acknowledgement from the donor.

Free Use of "Capital Equipments": In case of free use of capital equipments for a specific purpose/period, the value of the same can be ascertained as "Own Means" on the following basis:

- Name of Capital Equipment (e.g. tractor, jeep etc.);
- Number of days/hours used;
- Cost for running and maintenance of capital equipment in the form of:
- · Salary
- · Repairs and Maintenance
- · Other direct expenses, if any
- · Depreciation

or

- · Equivalent hire charges if the equipment would have been taken on hire.

The above mentioned points are various suggested mechanism for assessing the non-cash contribution. However, it important to take the consent of the funding agencies and auditor before finalizing and including the said contribution in the budget and eventually in the reports.

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FCRA 2010

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Introduction

1.1 The Foreign Contribution (Regulation) Bill 2010 has been passed by both houses of the Parliament recently. Now it awaits the assent from the President to be enacted. In this issue the main amendments and the implications thereof are discussed.

Foreign Company & Foreign Source

1.2 The existing FCRA 1976 considers Indian companies, where more than 50% of equity is held by foreigners, as foreign source. For example : companies like ICICI Bank, Infosys etc. are foreign source and donations can not be accepted from them without FCRA registration. Unfortunately this provision has been retained in the proposed FCRA 2010, though the stated intent of the Government was to exclude such companies. This provision could be a drafting error and needs to be corrected.

1.3 The FCRA 2010 has defined a foreign company under clause (g) of Section 2, which does not include Indian Companies. This clause is apparently inserted to exclude Indian companies having more than 50% of Foreign equity holding. However section 2(j) which defines the term 'foreign source' includes an Indian company under the category of foreign source if more than 50% of its equity is held by foreigners.

1.4 ***Concern :*** Section 2(j)(vi) of the FCRA 2010 should have been amended to exclude Indian companies.

Business / Consultancy Income of an NGO

1.5 The definition of 'foreign contribution' includes all kinds of foreign receipts. It does not distinguish between a commercial receipt or a voluntary contribution.

1.6 This definition has largely been retained as per the existing FCRA 1976. However explanation 3 to section 2(h) excludes income from business, trade or commerce. This amendment was very necessary but it comes with a lot of potent controversies and trouble for the NGOs. This section states that any fee or cost against business, trade or commerce shall not be considered as foreign contribution. In other words, such receipts can be treated as local income. However the problem is that this provision is in contradiction with the amended section 2(15) of the Income Tax Act which prohibits trade or business related receipts beyond Rs.10 lakh. Therefore, NGOs should be careful in treating consultancy income and other receipts as local income even though it is now permissible under the proposed Act.

Persons Specifically Debarred from Receiving Foreign Contribution

1.7 Section 3 of FCRA 2010 specifies that the following persons cannot receive foreign contribution:

(a) candidate for election.

(b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper.

(c) Judge, Government servant or employee of any corporation.

(d) member of any legislature
(e) political party or office-bearer thereof.
(f) Organisation of a political nature.
(g) Association or company engaged in broadcast of audio or visual news.
(h) Correspondent, columnist etc. related with the company refered in clause (g)

However the problem is that this provision is in contradiction with the amended section 2(15) of the Income Tax Act which prohibits trade or business related receipts beyond Rs.10 lakh.

1.8 it may be noted that the category of persons debarred from receiving foreign funds have been increased. The clause (f), (g) and (h) have been added by theFCRA 2010.

1.9 The above mentioned persons cannot receive foreign contribution subject to certain exceptions specified in section 4 which are as under:

"(a)If they receive foreign funds by way of salary, wages or remuneration for services rendered. Or if they receive payment in ordinary course of business transaction in India by such foreign organisation or source.
(b) If the funds are received in the course of international trade or commerce or in the ordinary course of business transacted outside India.
(c) Payment is received as an agent of a foreign source of organisation in relation to any transaction made by such foreign organisation with the central or state government.
(d) If the payment is received by way of gift or presentation as a part of any Indian delegation within the norms of acceptance described by Central Government.
(e) From his / her relative.
(f) By remitance under normal course under FEMA 1999.
(g)By way of Scholarship, stipend etc.

1.10 This section is more or less the same except the fact that remittance from specified person has not been restricted to Rs.8000/- as was under FCRA 1976.

Can an Organisation of Political Nature Receive Foreign Contribution

1.11 Under FCRA 2010 organisations of political nature are not eligible for registration under FCRA. Such organisations can not apply for prior permission and are prohibited from receiving foreign contribution. The Central Government has published a list of organisations which are considered as organisations of political nature.

Does FCRA Apply To Commercial Or Business Organisations

1.12 Movement of foreign funds in the normal course of commerce and business is outside the purview of FCRA. Therefore, business organisations are not covered by FCRA 2010 also. However, the provision of Foreign Exchange Management Act, 1999, which is a financial legislation, would be applicable.

Restriction on Utilisation and Administrative Expenses

1.13 Section 8 of FCRA 2010 provides that FC funds cannot be used for speculative business. The government will notify the meaning of speculative business through rules which are yet to be framed.

1.14 Further section 8 also states that the administrative expenses shall not exceed 50% and any expenditure of administrative nature in excess of 50% shall be defrayed with prior approval of the central government.

Subsequent Recipient And CBOs

1.15 Section 7 of FCRA 2010 provides that foreign contribution can be transferred only to those organisations which also possess FC registration or prior permission. In other words, it is not possible to transfer FC funds to non FC organisation. However the FCRA 2010 provides a clause wherein transfer to non FC organisation can be made with prior approval. The rules in this regard are to be framed.

1.16 ***Concern :*** This provision is self defeating in nature. The original idea was to exempt small CBOs and village level organisations from the vagaries of FCRA, as one can not expect small village level organisations to have FC registration. However, instead of providing any relief to such organisations the FCRA 2010 has added yet another complication by proposing prior approval for transfer of FC funds to such organisations. There is an urgent need to exempt CBOs and other village level organisations upto a certain limit, say, 5 lakhs per annum without any requirement of prior approval.

Renewal of Registration Every 5 Years

1.17 The FCRA 2010 provides for renewal of registration of NGOs every 5 years. However, the Act has provided relief to all the existing NGOs for the first 5 years from the date of enactment. In other words, all existing NGOs have to renew their registration at the end of the period of 5 years from the date of enactment of FCRA 2010.

1.18 As per Section 16 of the proposed Act, all NGOs should apply for renewal of the certificate within 6 months prior to the expiry of the five year period.

1.19 ***Concern :*** This provision will create undue hardship to genuine NGOs and will perpetuate Inspector Raj, where every 5 years one has to manage the renewal. The Government probably should have kept only the defaulting NGOs under this category. The organisations which are already under scrutiny and assessment of the department on yearly basis and duly comply with the law, should not be subjected to yet another five yearly ritual.

Time Limit for Processing the Application for Registration

1.20 There was no time limit mentioned under the FCRA 1976 either for granting or rejecting the application. However, FCRA 2010 provides that both regular registration and prior permission shall be granted or rejected within a period of 90 days from the date of receipt of application.

1.21 ***Concern :*** The 90 days time limit is a very positive change. However, the Act is silent about the way forward if an order is not passed within 90 days. It is necessary that either a deemed permission or an redressal/appeal mechanism should be there within the FCRA Department if the application is not processed within 90 days.

No "Deemed" Prior Permission

1.22 FCRA 2010 provides that application for 'prior permission' shall be granted or rejected within a period of 90 days from the date of receipt of application. It may be noted that under the FCRA 1976 there is a provision for deemed prior permission if the application is not processed within 120 days. The new FCRA 2010 does not have any provision of deemed prior permission. In other words, now onwards organisations can not receive foreign funds in case of delay in processing of a 'prior permission' application.

This provision will create undue hardship to genuine NGOs and will perpetuate Inspector Raj, where every 5 years one has to manage the renewal.

Questionable Powers for Rejecting an Application

1.23 The FCRA 2010 has provided sweeping powers to the authorities for rejecting an application for prior permission or registration. Under Section 12 various strict conditions have been provided which include that the applicant should not have been prosecuted or convicted for indulging in activities aimed at conversion or creating communal tension. It may be noted that the word 'prosecuted' has been used which implies that even if there is a false Court proceeding is pending, then also FCRA registration could be denied. The power to deny FC registration or prior approval merely because some prosecution for any offence is pending seems very harsh, arbitrary and unconstitutional.

Further FCRA 2010 also provides that in case of rejection the Central Government shall provide reasons in writing to the applicant. The reasons to be provided by the Central

Government shall be restricted to the obligations as provided under Right to Information Act, 2005.

1.24 ***Concern :*** The powers to refuse registration or prior permission merely because some prosecution is pending is very harsh and unfair.

Power to Prohibit Sources from which FC can be Accepted

1.25 The Act provides power to the Central Government under section 11(3)(iv) to notify such source(s) from which foreign contribution shall be accepted with prior permission only. It implies that the Central Govt. may notify specific donors or countries from which foreign funds could not be received or shall be received with prior permission only.

Power to Cancel Registration & Nil Returns

1.26 The FCRA Department may cancel the certificate under Section 14 under various circumstances including lack of activity for a period of 2 years. In other words, now onwards NGOs cannot retain their FC registration just by filing NIL returns, because the registration certificate can be cancelled if there are no reasonable activities for a period of 2 years. The reasons for cancelling the certificate are :

(i) Providing false information
(ii) Violating the terms and conditions like filing of return, etc.
(iii) Violating the Act or the Rules
(iv) Acting against public interest
(v) No reasonable activity for 2 years.

Any person whose certificate has been cancelled shall not be eligible for registration or prior permission for a period of 3 years from the date of cancellation.

In other words FC assets created since the inception of the organisation can be implicated if the registration certificate is cancelled.

1.27 ***Concern :*** The term "reasonable activity" has not been defined. It may so happen that an NGO may have activity from local sources. Therefore, it should be provided that reasonable activity whether from FC or local sources should be there for retaining FC registration.

Power to Manage FC after Cancellation of Certificate

1.28 FCRA 2010 provides that after cancellation of registration certificate all the foreign contribution and assets thereof shall vest with such authority as may be prescribed. The government authorities shall take charge of the foreign contribution and the FC assets till the registration is restored. This seems to be a very harsh provision because it is open ended. In other words FC assets created since the inception of the organisation can be implicated if the registration certificate is cancelled.

1.29 ***Concern :*** The section 15 of the FCRA 2010 should be supported by appropriate rules so that FC assets would not come under the purview of the Govt. authorities as it will create needless complications and controversies. The Government managing fixed assets created since inception will be practically not possible and would create hardship.

Suspension of Certificate

1.30 The Central Govt. may suspend the registration certificate for a period of not more than 180 days under section 13. The suspension of certificate may be done while the cancellation proceedings are pending. During the suspension period the Govt. (on application) may allow receipt of foreign contribution from specific sources on specific terms and conditions.

Multiple Bank Account

1.31 Section 17 of FCRA 2010 provides that multiple bank accounts can be opened for the purposes of utilisation provided only one bank account is maintained for receiving foreign contribution. This amendment provides a great reilef to all the NGOs which were struggling under the arbitrary disallowance of multiple bank accounts under current FCRA.

Section 17 of FCRA 2010 provides that multiple bank accounts can be opened for the purposes of utilisation provided only one bank account is maintained for receiving foreign contribution.

Disposal of Fixed Assets on Dissolution

1.32 Section 22 of the FCRA 2010 provides that, in case of dissolution, the Central Govt. shall have the power to determine the process of disposal of FC assets. The Central Govt. may specify the manner and procedure in which such asset shall be disposed off.

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Direct Tax Code for NPOs

Manoj Fogla, FCA

Opening Remarks

1.01 The Union Cabinet has approved the proposed Direct Tax Code. However, there are some harsh clauses in the Direct Tax Code (DTC) about NPOs. If the proposed DTC is enacted, then the NPO sector will be very adversely impacted.

1.02 Few key highlights of the proposed DTC are as under:

(i) No re-registration required

(ii) 10% of gross receipts or 15% of income, whichever is higher, will not be taxed provided it is spent in next 3 years. In other words, 85% of income or 90% of gross receipts will be taxed if not spent during the year.

(iii) If any income is received in the last month of the financial year, then it will not be treated as surplus and will not be taxed.

(iv) Religious organisations are also included.

(v) The term "Charitable Purpose" has been retained, earlier it was coined as "permissible welfare activity".

(vi) basic exemption limit has been provided, surplus in excess of limit shall be taxed.

(vii) NPOs have to follow Cash Basis of accounting. However section 25 companies can follow mercantile basis of accounting.

(viii) The government can notify some NPO as exempt entity.

(ix) All receipts except loan and corpus donation shall be considered as part of income.

(x) Any surplus from receipt and cash expenditure during the year will be taxable @15%

(xi) NPOs can not transfer any amount to their corpus without paying taxes. Currently 15% of income can be accumulated indefinitely.

(xii) If the NPO is unable to spend the income during the year, then it can only accumulate 15% of income to be spent in the next 3 years.

(xiii) The funds or assets shall not be used for the benefit of interested persons, whether directly or indirectly.

(xiv) Anonymous donation will be exempted to the extent of 5% or 1 lakh rupees whichever is higher. The remaining amount will be taxed @30%.

Some of the serious but untouched provisions of the proposed DTC which are likely to have adverse impact are discused as under.

Application & Accumulation of Income

2.01 The proposed DTC has re-affirmed that the NPOs have to apply 100% of their income for charitable purposes. The current provision of 15% indefinite accumulation has been withdrawn. The proposed DTC does not permit NPOs to save or accumulate even a single rupee. In other words, 100% of the income has to be utilised. As per present law, NPOs can transfer 15% to their corpus every year. If the NPO is not able to spend the remaining 85%, then it can accumulate and spend it in next five years. However, the proposed code has totally deleted the privilege of 15% saving every year. It has further restricted accumulation to future years to the extent of 15% only, which can be applied in the next 3 years.

2.02 Even Supreme Court has held that it is reasonable to have upto 15% of surplus in a year for future and expansion. Kindly see the case of *P.A. Inamdar & Ors. vs. State of Maharashtra & Ors.[2005] AIR 3226 SC, [2005] SCC 537 SC.*

2.03 The proposed provision implies that every year 100% of income has to be applied for charitable purposes and if the NPO is not able to apply 100%, then it can only accumulate 15% to be applied in next 3 years. This provision will create hardship to NPOs engaged in long term projects. For instance, in a disaster rehabilitation project the NPO may receive contribution for constructing houses which can not be completed in one year. Therefore, even if the government wants the NPOs to apply 100% of their income for charitable purposes, there is no reason why the NPOs should not be permited some additional time if the circumstances so required.

2.04 ***Recommendation:*** The Government should consider allowing some reasonable income for future sustenance. Accordingly the proposed DTC should be amended and the NPOs should be allowed at least 10% as indefinite accumulation for future sustainability and to negate inflation.

2.05 The Government should also allow reasonable time for execution of projects which can not be completed within one year. A provision may be added to allow the NPOs to accumulate the gross income (in deserving cases) subject to 100% utilisation in the next 3 years.

NPOs will not be Permitted to Claim Depreciation

3.01 The proposed DTC does not allow depreciation as an expenditure towards charitable purposes. This is a unfair and a unsustainable proposal. It is erroneously presumed that no corpus assets or capital asset shall be used for permitted welfare activities, which is not a correct assumption.

3.02 It is absolutely necessary that the depreciation and other non cash expenditures are permitted to NPOs on par with other assessees. The rationale of discriminating NPOs is unfounded and unfair.

3.03 ***Recommendation:*** The Government should allow the NPOs to protect the erosion in capital and assets by allowing legitimate depreciation. The proposed DTC should be amended and the word "outgoings" should be replaced with the word "application for permitted welfare activity" and the condition for cash basis of expenditure should be deleted. NPOs should be allowed all legitimate expenditures, whether cash or non cash.

The Government should allow the NPOs to protect the erosion in capital and assets by allowing legitimate depreciation.

Business Activity of an NPO

4.01 Presently the incidental business activity is allowed under the Income tax Act for the specified category of NPOs.

4.02 The proposed Code has restricted the coverage of incidental business activity and has allowed only those business activities which are carried on while actually undertaking the welfare activities.

4.03 This is a proposal in the right direction. However, after this change there is no need to deprive the sixth category NPOs from engaging in business activities. The current law and the proposed code prohibit business activities in case of NPOs engaged in 'Advancement of any other object of general public utility'.

4.04 Now, since the new Code has redefined the incidentality of business, no NPO can engage in unrelated business activities. Therefore, there is no need for prohibiting one category of NPOs from engaging in business activity, since in any case all categories of NPOs have to engage in incidental business activities only. If the business activity is incidental, then there is no reason why all NPOs shall not have the benefit.

4.05 ***Recommendation :*** The above proposed provision in DTC should be deleted, because no NPO should be allowed to have business which is not incidental and all NPOs should be allowed business if proved incidental to charitable purposes.

Exempt Income as per Sixth Schedule

5.01 As per section 9 of the Code, total income for a financial year of any person shall not include any of the income mentioned in the Sixth Schedule. It may be noted that the Sixth Schedule specifies various exempt incomes including agricultural income. Such income shall not be considered as a part of income and therefore should not be subject to 100% application during the year.

5.02 The term 'person' defined under the act includes Non-Profit Organisation. Hence, the income mentioned in Sixth Schedule should also be exempt even in the hands of NPO. The NPOs should not be compelled to pay tax on those receipts which are tax free for all other assessees.

5.03 Recommendation : The DTC should allow those exemptions which are otherwise available to other assessees, like agricultural income etc.

Conversion of an NPO into Commerical Organisation

6.01 It is provided that if the NPO :

(i) Converts itself into an organisation which does not qualify for exemption

(ii) Ceases to be an NPO in the financial year and any two financial year out of the preceding four years.

(iii) Fails to transfer, on its dissolution, assets to another NPO,

then it shall be liable to be taxed at the rate of 30% of its net worth.

6.02 This provision seems to be harsh as it proposes to tax the entire networth accumulated over the years. This provision also assumes that the entire networth has been created out of the exempted income. The networth may include initial and capital contribution by members which is any case is exempt from tax. Therefore, something which normally is not within the purview of income should not be subjected to tax at maximum marginal rate. Further, since all surpluses are subject to tax at 15%, the NPO may have created networth by legitimately paying taxes in the past. In such circumstances taxing the networth will result in double taxation. Therefore, portion of the networth will be taxed twice because all accumulation of the NPOs need not necessarily be tax free.

6.03 It may further be noted that such provisions will be attracted if the NPO is not allowed exemption in three financial years. In other words, such NPO would have already paid taxes on the entire income during these years and again the networth will be subjected to tax, which will result in double taxation.

6.04 The NPOs who once enjoyed total exemption now will be subjected to double taxation. This can not be the intent of the government and Tax authorities.

The NPO may have created networth by legitimately paying taxes in the past. In such circumstances taxing the networth will result in double taxation.

6.05 ***Recommendation :*** The proposed DTC should be amended and only the portion of the networth created out of exempted income should be subjected to tax.

Compulsory Activity Every Year

7.01 The proposed DTC provides that all NPOs are compulsorily required to have welfare activities every year. If an NPO does not have charitable activity, then it will not be considered as an NPO for that year. Further, if such NPO does not have activity in two out of four preceding years then its entire networth will be subjected to tax at the rate of 30%.

7.02 ***Recommendations :*** This provision should be deleted. If the NPO does not have any activity, its income in any case will be taxed because it would not have utilised the required percentage of income during the year. On the contrary, if the NPO does not have any income, then there is no reason to tax.

NPOs can not Do Business and Business can not Support NPOs

8.01 The proposed DTC is very harsh against NPOs and does not create an environment for encouraging the charity sector. The law says that most of the NPOs can not do business and business can not support NPOs. On one hand, the government is severe on business activity of NPOs and on the other hand the proposed DTC does not allow tangible incentive to the donors to support NPO sector. The maximum benefit permissible to the individual donors in case of most of the NPOs would be 50%. The existing provisions like Section 35AC which allow 100% incentive to the donor have been deleted.

8.02 The government should create an enabling environment for participation of the corporate sector and business houses into the NPO sector. That can only happen if the donation is allowed as expenditure at the hands of the donor, both for individuals and corporates.

8.03 ***Recommendation :*** The proposed DTC should be appropriately amended in order to provide 100% deduction to the donors in case of donation to legitimate NPOs. The proposed DTC should encourage flow of funds from business and corporate sector to NPOs.

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Around Human Resource Audit

CA. Ravi Holani

An organisation being a combination of people, affected by complex internal and external environment, creation of several groups among groups creates conflicting and absurd situation which is a common phenomena. Since it is a combination of inter-personal relations, most of the key problems are because of conflicting nature of people, their behaviour, attitudes, and desires as individual and in groups. Now the real issue is how organisation behaviour can become increasingly effective which might be titled as "human resource audit."

Leadership is concerned with interpersonal relations, which are supplemented by giving guidance, effective communication with an ability to lead. Stimulation creates inter-personal relations while the phrase "human behaviour" refers most complex situation so perceptual awareness is a required condition for effective inter-personal relations. Since individuals are living together in groups, creation of groups in a group is not a mere accident, so to influence people for achieving group goals is the essence of inter-personal relations while to understand the human behavior in operations, employment of various techniques of communication being a part of inert-personal relations is the key issue of any human resource audit.

In any organisation, individuals involve their own needs and objectives while to utilise the potential is a skill to achieve group goals specifically in the situation where each individual may have his own perception, value, identity dignity and ego. Though people act differently but at the same time, they are also unique because of different needs, attitudes, aspirations, level of ethical philosophy, skill, levels of accountability with different potentials. Since all characteristics may interact with each other, their predominance in a specific situation changes quickly and unpredictably because of influenced by various external factors [their family, their group, society, etc.,] also. This fact must always be recognised and the management should prepare to deal with them. In other words, to understand the complexity and individuality of behaviour is the first stage of Human Resource Audit.

Now various models have been developed to understand the complexities which are based on assumption about people, which also creates an influence on managerial behaviour. Among various models, one is Theory X and Theory Y proposed by Douglas Mc- Greor which points out that individuals are two types – one is pessimistic while second is optimistic. Another model is Rational-Economic Theory developed by Edgar H. Schein which lays down four conceptions about people i.e. rational-economic man, social man, self-actualising man and complex man, and accordingly he suggested the employment of different strategies to stimulate them. Raymond E. Miles expressed three types of models i.e. traditional models, human relations models and human resource models. H. J. Reitz postulated patterns in perception and analysed the factors influencing the perception. For example, a reprimand in front of a group shall be perceived differently in comparison to a situation made in the privacy of the office. In other words, in addition to understanding how perception affects behaviour, individuals should also be seen and understood in their interactions with others in group situations. It means creation of groups in a group, their characteristic, interactions and communication i.e. influence is another step while conducting the human resource audit.

To create effective interpersonal relations i.e. creating and maintaining the environment to achieve group goals, another process is to employ motivational systems. The reason being the preponderance of individuals in democratic system always lies on negative side with reference to any existing or potential organisation. Even this fact could also be concluded in professional organisation.

Motivation is a process under which a leader stimulates the individuals in the group to induce them to act in a desired manner. Since each individual is unique because of having different perception, motives may be quite complex and often conflicting. For example, an individual may be motivated by desires of his economic needs but at the same time, he also wants selfesteem, status, a feeling of accomplishment, peaceful environment. Since motivation implies a drive towards an outcome, while satisfaction involves outcomes already experienced, it means high job satisfactions does not mean a reasonable level of motivation for such job or vice-versa. In other words, highly motivated person with low job sanctification shall look for another position, while an individual having their position reasonable, but because of considerable lower level of their package, he shall search another job. In this way, determination and analysis of the existing degree of jobsatisfaction and the level of motivation is an important step of human resource audit.

While determining the level of motivation and its influence, various theories of motivation must also be kept in mind. One among various leading theories of motivation is "the carrot and the stick" i.e. the use of rewards and penalties in order to induce desired behaviour. Another most widely referred to theories is the "hierarchy of needs" theory put forth by physiological Abraham Maslow by identifying in an ascending order such as physiological

Motivation is a process under which a leader stimulates the individuals in the group to induce them to act in a desired manner.

needs (e.g. food, water, clothing, shelter, etc.); security needs; affiliations needs, esteem needs (e.g. power, prestige, status, and self confidence) and at last, need for self-actualisation which is the desire to become what one is capable of becoming to maximize his potential and to accomplish something. Similar type of the classification was also put-up by Bray-field and Crocket in "Employees Attitudes and Employers Performance" – Psychological Bulletin Vol. 52 No. 5 page 396 - 424 (1955). Another approach for motivation is Expectancy Theory proposed by Victor H Vroom in Works and Motivation (New York: Jhon Wiley & Sons, Inc 1964). The perception is, individuals will be motivated to do things to achieve some goals to the extent that they expect that certain actions on their part will reach them to achieve such goals. In other words, everything done in world is done in hope. Another model was laid down by Porter and Lower as "effort depends on the value of reward" i.e. "perceived effort and probability of reward" and the result is performance. For executive motivation, Arch Patton identified some thoughts.

In the sequence, money, positive reinforcement, participation, job enrichment are some techniques. Since human behaviour is quite complex and absurd, it could be desired to be looked as a system of variables and interactions in which certain motivating techniques are key element. It is the essence of system and contingency approach for motivation. Since everybody is exceptional, influenced by complex environment, the human resource audit is not the discovery but to find out whether management are fully aware of the current state of understanding and apply it as best they can do in the operations for which they are responsible.

Since, interpersonal relations are because of followership which means willingness of people to follow that makes a person as a leader, leadership and motivation are closely interconnected because leaders may not only respond to these motivators but also arouse or dampen them by means of the organisational climate they develop. Since effectiveness of motivation techniques depends upon contingencies, leadership is required to identify the nature and strength of human needs with designing the way to satisfy them so that all sub-ordinates (or followers) will contribute willingly to organisational goals in accordance with their maximum capability. And there are a series of research to identify various kinds of leadership styles, theories and behavior. Some of them are the trait approach to leadership, the situational approach, managerial grid, path goal approach, etc. Informal groups also contribute too much complexity. Now there is a need to leadership by taking into account the expectations and perceptions of subordinates, employment of motivational techniques, situational factors, interpersonal relations, rewards and punishments. In other words, there is an audit of human behavior and control while performing their duties and job in organisation from top to bottom.

Since there are action guidelines, there is an information system, people are well selected and trained, there must be a periodical audit for maintaining an effective management system.

Staffing involves effective recruitment, selection, placement, appraisal and development of individuals to occupy their roles in the organisation structure. Since staffing is creating internal factors, it is not carried out in vacuum. Selection and then direction in vacuum is sufficient to frustrate the management as a whole by which the organisation may go in liquidation, what is important is human resource planning while considering the ratio of manager – subordinated and their relations in fast changing environment.

The ratio of managers – subordinates depends upon various factors such as size and complexity of the organisation structure, its future plans and staff turnover, age for retirement, vacancies created because of volume of business, promotions and demotions, separations. And

Selection of managers is one of the most critical and difficult task. There should be a clear understanding of the nature and purpose of the position which is to be filled.

for this, position requirement, and accordingly qualification, working knowledge and skill are relevant factor. In other words, there shall be a periodical analysis of manager inventory. It means very close scrutiny and analysis of selection, placement, promotion and demotion, their training, work allocation, performance and their compensation i.e. audit of staffing.

Selection of managers is one of the most critical and difficult task. There should be a clear understanding of the nature and purpose of the position which is to be filled. No challenge or no opportunity for growth or no sense of accomplishment or too much broad job creates dissatisfaction, stress, frustration, organisational conflictsand loss of control. For example, if individuals don't have full time job, they involve in leg pulling, they channel their energy against each other instead of towards the aims of the organisation. In other words, there shall be an audit of managerial skills, their position, authority – responsibility, level of delegation of authorities, superior – subordinate relations i.e. their job evaluation and compensation given by the organisation to them along with their cost.

Now evaluation of communication system prevailing in the organisation is also a required condition for effective human resource audit because it effects on interpersonal relation as well as a tool for effective leadership. There are several approaches and methods for communication. It means there should be a communication audit to find out most effective communication techniques with the focus on interpersonal relations and listening. The four major communication networks that need to be audited are as follows:-

- The regulative networking e.g. policies, procedures, rules, systems and relationships;
- The research network e.g. meetings, group discussions, suggestions, investigations;

Evaluation of communication system prevailing in the organisation is also a required condition for effective human resource audit because it effects on interpersonal relation as well as a tool for effective leadership.

- The motivation network;
- The communication network which includes management bulletin, notice board etc.

And at the end, the process of audit includes inspections, observations, questions, interviews, discussions in groups, analysis of written documents to determine time lag in communication, decision, etc. For each process of techniques, there should be a clear strategy and method of utilisation. Full confidentiality about source of information and analysis must always be maintained otherwise it creates another endless complexity. Opinions of subordinates in reference to function and behavioural attitude of their support might be possible only when they feel full confidentiality with free environment while conducting the audit because from staff themselves, most reasonable level of utilisation of staff could be found out which is a way of organisational life.

Although the human resource audit is highly desirable, it needs to be followed by periodic reports. There may be a graphic representation also, indicating full and independent report about behavioral, personal and working attitudes, with practical recommendations – practical guidelines may help them to overcome weak delegation which is the key for proper decentralisation which includes determining the results to be achieved, assigning tasks and delegating authority. There is a clear recommendation for giving organisation charts and position descriptions to develop and nurture an appropriate organisation culture. The key managerial operations should be presented as checklist questions under appropriate grouping. Various behavioural patterns understood during audit along with recommendations for harmonising objectives and enhancing creativity should also be reported. The complexity of review process and recommendations are also a subject matter of the environmental factors including organisational climate. The levels of freedom to managers and their subordinates have a great deal while preparing a recommendation about leadership. What is relevant is to determine responsibility to achieve predetermined goals. The report should be very brief containing full information by using diagrams, charts, graphic representation. However, it is not a discovery of thought but having great deal in complex environment, it is a continuous exercise at different levels under the given situation to understand the behaviour to search an effective order which is an essence of the audit.

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Workshop on Accounting and Reporting for NGOs for Eastern & North Eastern Region Partners

FMSF organized a workshop on Accounting and Reporting for NGOs for its partner organizations in the Eastern and North-Eastern Region. The first workshop was organised in Imphal for the Network organizations of CSD and RNBA on 29th and 30th July 2010 at Hotel Nirmala.

All the Chief Functionaries and the Accountants of member NGOs of CSD and RNBA were invited for the workshop. Around 30 participants participated in the workshop. The resource team included Ms. S.P. Selvi and Mr. Hari Krishna from FMSF.

The second workshop on Accounting and Reporting for selected EED partners was organised in Kolkata on 26th and 27th August 2010 at Hotel Landmark.

Around 16 participants from 8 EED partner organizations participated in the workshop. The resource team included Mr. Sanjay Patra and Mr. Prabhat Kumar from FMSF.

The objective of the workshops was to specifically reflect on and discuss about accounting, reporting and monitoring of development projects with a specific focus on EED reporting requirements.

Participants were taken through the accounting aspects to reporting and interpretation of the financial statements to present the overall perspective of accounting and reporting. As Accounting and Budgeting play a key role in the NGO sector, they were discussed in length with specific focus on accounting aspects in general and voucher documentation in particular. The monitoring aspect of the project budget was also discussed in detail. A blend of Exercises, Examples and Case Studies made the workshop very interactive and participative.

Workshop on Interpreting Financial Statements

19th and 20th July 2010

FMSF had organized a two day workshop on Interpreting Financial Statements on 19th and 20th July 2010. The objective of the workshop was to impart

- Understanding on the significance of Financial Statements
- Get insight into Fund Accounting
- Understand the Contents of Financial statements and interpret them

It was heartening to note that the announcements of workshop got huge response resulting in over subscription. Therefore, it was decided to organize the workshop in two slots. This workshop(bring thefirst slot) saw the participation of more than 24 representatives from various national and international agencies. The resource person for the workshop was Mr. Sanjay Patra, Executive Director, FMSF. The methodology focused on making it more interactive with real case studies being solved and discussed. This resulted in meaningful and open discussion which was beneficial for the participants.

Some of the topics that were dealt with are as follows:

- Understanding Financial Transaction
- Journey of a transaction upto balance sheet
- Meaning of financial statements and various concepts
- Interpreting balance sheet
- Tools for analysis

The feedback received from the participants was over whelming with an overall score of 82% on the impact of the workshop.

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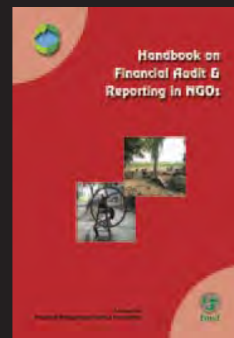

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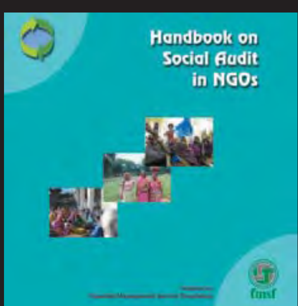

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