

BRLF

Advise, Awake)

Session-7

**Risk and controls for
Charitable organisations**

Key concepts

- **Threat:** A danger in the environment, a potential cause of harm.
- **Risk:** The probability, and the potential impact when encountering a threat.

- **Residual risk:** The risk which inevitably remains after all reasonable mitigation measures have been taken.

Therefore, no organisation is completely free from risks. The environment will always contain risks.

Types of risks facing Organisations

- Ethical risk: due to unethical behaviour
- Operational risk:

Key concepts

- **Risk management/mitigation:** Organizational practices, procedures, and policies that reduce the probability of risks being realized and limit harmful consequences.
- **Enterprise/Integrated risk management:** An organizational approach to risk management that considers, combines, and prioritizes assessed risks in all risk areas (security, fiduciary, operational, informational, and reputational) in order to strategize and implement mitigation measures.

STEPS IN RISK MANAGEMENT

A. Identify: Identifying key risks within time

B. Analyse: Analysing and assessing the likelihood of risks occurring and evaluating their impact upon organization, e.g. high, medium, low

C. Prioritise: Establishing the priorities for allocating resources available for control

D. Setting and enforcing actions/controls: selecting and implementing appropriate control options including regulatory measures, communicating them to the right people: interactive exchange of information and opinions concerning risk among the risk assessors, risk managers, consumers etc

E. Monitor: Monitoring and follow up.

Internal Controls

KEY AREAS OF INTERNAL CONTROLS FOR CHARITABLE ORGANISATIONS

1. Legal compliance
2. Governance
3. Budget
4. Income
5. Expenditure
6. Purchase/Procurement
7. Human Resource Management
8. Assets/Inventory Management
9. Accounting
10. Cash and Bank
11. Donor Reporting
12. Program Implementation

1. Internal Controls around Legal compliance

Statutory and regulatory compliance-difference

- All applicable statutory registrations are in order and valid (12A, 80G, PAN, TAN, FCRA, NGO Darpan, MCA, Shops & Establishments Act etc)
- All annual and periodic regulatory filings upto date (ITR, TDS, EPF, ESI, PT etc)
- Proactively check adverse proceedings/pending matters under various laws
- Continued education/awareness/knowledge for changes happening in statutory and regulatory landscape.

2. Internal Controls around Governance

- Governance structure as per bye laws/rules
- Meetings as per bye laws, documentation of proceedings in minutes
- Changes to be notified to various statutory bodies and approvals obtained as per law
- All statutory business by governance body on time
- Legal action/violations by board members
- Section 13 disallowances for transactions with board members

3. Internal controls around Budgeting & Budgetary Controls

- What is a budget?
- How budget helps organisation in planning and execution of grant projects
- What is Budgetary Controls-process, periodicity, ownership of program and finance teams
- Course correction/Budget revision to address deviation/variance (favourable or adverse)

Note:

Participants, we have studied this in detail in the session on Principles of Grant Accounting and Management

4. Internal controls around Grant receipts and other Incomes

Receipt of grant funds in designated Bank account, Monthly bank reco

Treatment of interest

Periodic grant Reconciliation

Segregation of duties in Finance

issuance of money Receipt and donation certificate to donor

Timely reporting

Proper receipt and recording of income other than grants which include rent, interest, income from incidental business activity etc.

5. EXPENDITURE

Types of Expenditure

- Programme Expenditure
- Revenue or Capital Expenditure
- Head Office Expenditure
- Field Level Expenditure
- Administrative Expenditure

Internal Controls around Expenditure

Alignment of expenditure plan with field requirement

Monitoring to prevent misappropriation/excessive spend

Qualified Finance Staff for supervision to avoid inaccurate/delay in payments

Proper recording of transactions, report and invoices

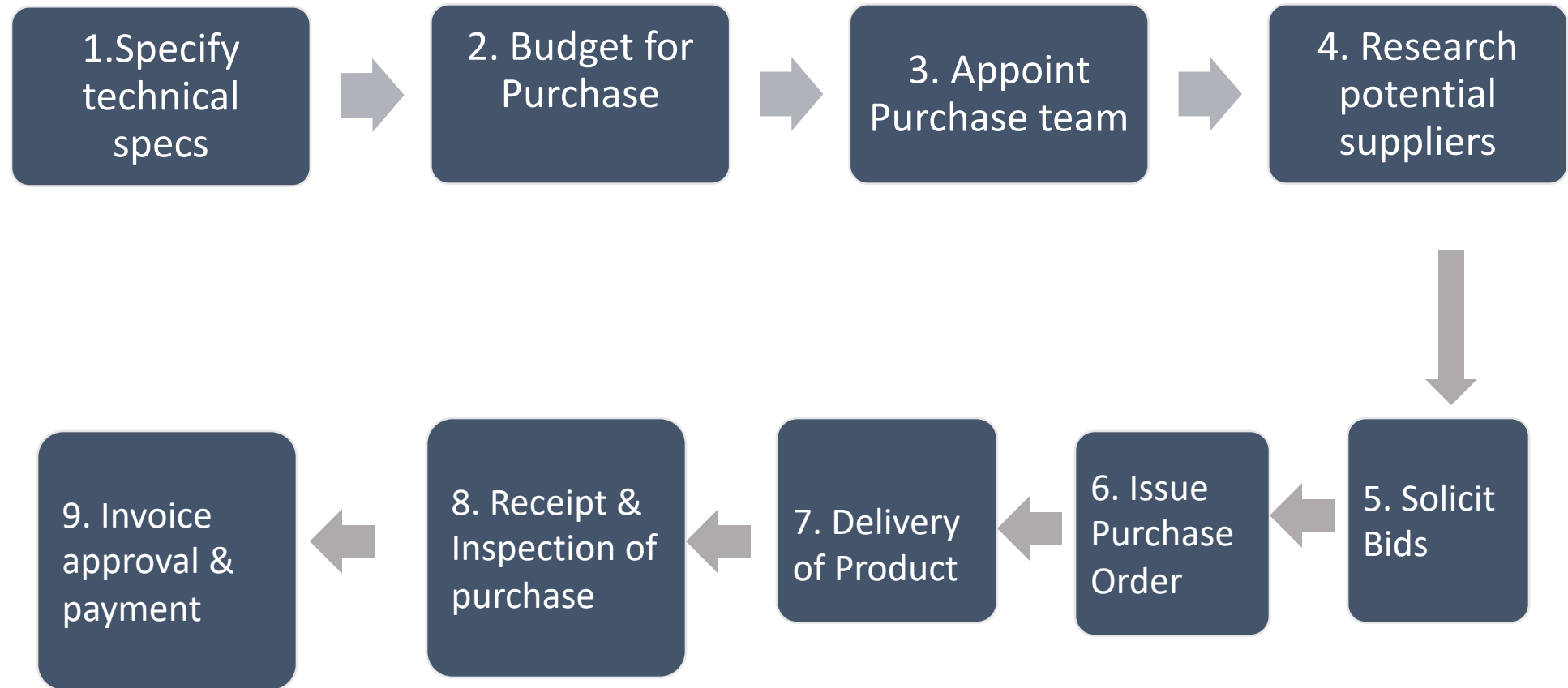
Maintaining over-utilisation and under-utilisation of resources under budget head for donor budgets

Proper filing/documentation(bills, vouchers , invoices)

6. Internal Controls around Purchase/Procurement

- Procurement is act of buying or obtaining goods/services. It includes preparation and processing of a demand until the end receipt is obtained and payment is approved and released
- Procurement process cycle

Procurement Process



Internal Controls around Purchase/Procurement

Initiate procurement after checking budget provision

Identify and solicit eligible vendors after proper assessment

Obtaining appropriate bids/tenders

Competitive bids for price discovery

Proper scrutiny of bids by the PC

Contract clauses

Correct details of vendor (name, goods/services, Regn)

Issue of Purchase Orders (PO) by authorized staff only

Accurate and complete information in the PO

Authorized vendor data entry in system

7. Human Resource (HR) Management

- Management of people who work in an organization is HR Management
- Need to manage HR
 - a. For better management of an organization
 - b For better performance and results
 - c. For better resource mobilization and funding for the organization

Controls around HR Management

HR Planning

Recruitment of staff as per JD

Proper orientation for new recruits

Avoid Nepotism

Identification of capacity building needs and training of HR

Correct assessment for performance of staff

Proper handing over for employee leaving organisation

Discontinue access to database for resigned employee

Maintaining Employee personal information

Basis for fixing salaries and benefits

Grievance and complaints redressal mechanism

Compliance with social security laws for employees

8. Fixed Assets & Inventory Management

FA is item of economic value which has a life of more than 1 year

Inventory refers to items such as consumables, durables that are normally consumed within a year.

Controls around Fixed Assets & Inventory

Procedure for asset management in finance policy

Purchase of consumables based on need

Purchase of fixed assets to be approved by PC and as per grant budgets

Specification of asset matches with PO

Asset Identification No. and FA Register

Stock Register of consumables

Annual verification of fixed assets and consumables

Assets which are disposed off are removed from FA Register

Sale of FC assets

Disposal of building, land or higher value assets after Board approval and treatment of CG

9. Internal Controls around Accounting

Accounting is the process of recording, summarizing, analyzing and reporting financial transactions

Cash, accrual, hybrid, cash hybrid basis of accounting-which method to choose

Accounting Software

Controls in accounting:

- a. Accuracy
- b. standard formats for recording
- c. evidence and supportings
- d. Complete and transparent
- e. Audit

10. Controls around Cash and Bank transactions

Cash is kept in cash box and cash transaction limited with online options

Cash Receipts are duly authorized and duly accounted for

All payment vouchers are numbered

Monthly bank statements and BRS

Bank accounts in name of organization

Bank signatories and KYC

11. Controls around Donor compliances

Timely and accurate preparation of reports

Activities are in line with activity schedule

Data properly collected with reference to objectives of program

Donor reporting guideline and formats are adhered to

Note:

Participants refer to the session on Grant Accounting and Management for this area of control

12. Controls around Program Implementation

Project Implementation plan carried out as per proposal

No/ minimal mismatch between LFA and budget

Impact of adverse events are effectively monitored

Program implementation is effectively monitored in audit

Appropriate tools of assessment are used

Data representation is properly done

Outcome of program is properly reported

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Thank You!

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