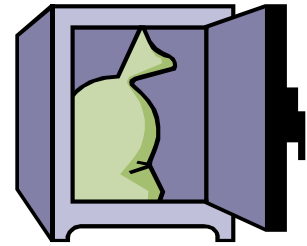


3. Internal Control

a) Cash Box

In most NGOs almost 90-99% of the payments are made in cash. Often cash payments are made because a cheque payment is impractical. But gradually this becomes a habit. This increases the problems in accounting and keeping track of cash.



Wherever possible, try to make payments by cheque. This will reduce the amount of cash you have to handle and keep. It will also reduce the risk that a transaction may be forgotten.

Cash is a key control point in any accounting system. This is the reason why most auditors insist on a cash count. How should you keep your cash¹?

A basic distinction to emphasise here is that we are not talking about *your* cash – we are talking about the Society's cash. It is often difficult to remember this when you do not have a full-fledged accounts dept. including a cashier. As a result, people end up carrying the Society's cash in their pockets.

This would be all right if they had made a voucher and debited themselves with the amount of cash they are keeping. But when this is not done, it becomes difficult to keep track of who owes whom.

It is normally difficult to make entries in formal cash book immediately. In some cases, the head of account or the name of project may not be clear. In others, the accountant may be part-time. To solve this problem, some NGOs keep a diary or note book in addition to the main cash book. All transactions are noted in this immediately. Account-head is not noted – only the person receiving cash and purpose is noted (and the amount of cash paid or received!). This note-book helps them keep track of their cash in hand.

We can look at three type of situations: one, where you may not even have a full time accountant; two, where you have an accountant but not a cashier; and three, where you have both.

Situation	Cash handled by	Suggestions
No full time accountant	Chief functionary or a senior person	<ol style="list-style-type: none"> 1. Keep cash separately in locked drawer or almirah in the office. 2. Maintain diary or note book for entering all receipts and payments immediately. 3. If person handling cash takes advance, enter this amount also immediately in the note book. Such advance should be taken with consent of Chief functionary or another senior person. 4. Periodically tally the cash balance as per note book with cash in drawer or safe.

¹ Amount of cash you need to keep is discussed under 'Cash withdrawals' on page 34.

Situation	Cash handled by	Suggestions
		5. Chief functionary can participate in cash tally once in a while (at least 10-12 times a year) and initial the note book.
Accountant but no cashier	Accountant, Chief functionary or another senior person	<ol style="list-style-type: none"> 1. Keep cash separately in locked drawer or almirah in the office. 2. Maintain diary or note book for entering all receipts and payments immediately. 3. If person handling cash takes advance, enter this amount also immediately in the note book. Such advance should be taken with consent of Chief functionary or another senior person. 4. Periodically tally the cash balance as per note book with cash in drawer or safe. 5. Chief functionary can participate in cash tally once in a while (at least 10-12 times a year) and initial the note book.
Both Full time accountant and a cashier	Cashier; Sometimes extra ¹ cash kept with Chief Functionary or senior person	<ol style="list-style-type: none"> 1. Person keeping extra cash should sign a voucher for receiving the cash. 2. Keep normal² cash separately in locked drawer or almirah in the office. 3. Maintain diary or note book for entering all receipts and payments immediately. 4. If cashier takes advance, he/she should enter this amount also immediately in the note book. Such advance should be taken with consent of Chief functionary or another senior person. 5. Cashier should periodically tally the cash balance as per note book with cash in drawer or safe. 6. Chief functionary can participate in cash tally once in a while (at least 10-12 times a year) and initial the note book.

The above chart shows three different situations. However, a system where cash and account books are handled by two different persons is usually desirable. It is therefore strongly recommended that where feasible, such an allocation of duties should be made.

b) Responsibility Chart

Where an organisation is small, things are easily controlled without any delegation. But as it grows, it becomes necessary to let different people handle things. In such a situation, people should also know what their responsibilities are. This will help them in their work.

To improve clarity on this, many NGOs prepare a simple chart showing who is expected to handle what functions. For example, the responsibilities of the cashier, accountant etc. are clearly specified. The chart also shows who have the authority to approve

¹ In case of large withdrawal, extra cash may not be kept with cashier.

² Cash handled by cashier normally

expenditure. Similarly in a decentralised organisation, the chart would also show who has signing authority for donor agreements, for operating bank accounts etc.

While most of the time these responsibilities are known to the people within the organisation, auditors and reviewers sometimes expect to see a written note on this. You may also wish to paste this chart in the accounts office for easy reference. The chart should be updated regularly so that it remains a live document.

Sida requires that such a chart would be prepared and easily available for reference.

c) Advances

Office advances are different from personal advances¹. Here we have discussed office advances only.

Office advances cover money given to a worker as advance for office expenses. Some NGOs record these transactions in the accounts – most do not.

The NGOs who do not record advance transactions, may be using IOUs² or may maintain advance registers. This practice is improper. **All cash transactions are meant to be recorded in the cash book.**

Using IOUs is risky. Maintaining separate advance registers actually increases the work. It is also not a reliable method. As an alternative, you can open advance accounts or use a system of rolling imprest.

(1) Opening Advance Accounts

It would be simpler if you opened separate advance accounts for the staff in your main ledgers³. If a person handles both FCRA projects as also general projects, then you can open two advance accounts, one in each ledger.

When you maintain advance accounts, you would debit the person's account whenever money is given to them. Later when they submit vouchers, the amount would be credited to their account.

If you don't use a journal, entries in the cash book would look like below:

Receipts			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
			4.4.98	<u>Ms. Ramawati</u> <u>Advance: (FCRA -</u> <u>main)</u> Cash given for Balpur mela	5,000

¹ For example, advance against salary or a personal loan

² 'I owe you'; the amount given as advance is written on a slip or a voucher. This is later destroyed when the advance is settled.

³ See chart on page 13.

Receipts			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
10.4.98	Ms. Ramawati Advance: (FCRA - main) Expenses on Balpur mela	4,360	10.4.98	Balpur Mela (SIDA) Expenses incurred by Ms. Ramawati on Balpur mela	4,360

In this system, you don't have to settle the advance account after each transaction. It could be settled once a month or once each quarter. The balance due or recoverable would be paid or recovered in cash.

If you use a journal also, then the second entry can be made through the journal. Using a journal is better than using the cash book for such entries:

Date	Particular	Debit	Credit
10.4.98	Dr. Balpur Mela Exp. (SIDA)	4,360	
	Cr. Ms. Ramawati Advance (FCRA-main)		4,360
	Expenses incurred at Balpur Mela by Ms. Ramawati		

(2) Using rolling imprest

Rolling imprest helps reduce accounting work. Under this system, a person is given a 'permanent' advance. When they incur expenses, they are reimbursed whatever is spent. The original imprest gets replenished.

For example, a person is given Rs.1,000 as a rolling imprest. This is debited to his imprest account. Now he incurs expenses of Rs.780. He is paid the full amount of Rs.780. Now he can again spend upto Rs.1,000. Entries for this are shown below:

Receipts			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
			4.4.98	Sri Venkat Imprest: (FCRA - main) Cash given as rolling imprest	1,000
			10.4.98	Sapling purchase (SIDA) Mango saplings purchased by Sri Venkat from rolling imprest	780

The rolling imprest of Rs.1,000 will be recovered only when the person leaves the organisation or does not need the imprest any more.

Rolling imprest is given only to those people who often incur many small expenses for the office. No time limit is normally kept for settling the imprest – but if you wish, you could clear the imprest once annually for better discipline.

d) Old Records

No time limit is given under FCRA for keeping old records. *But under the Income Tax law, you have to keep old accounting records for at least ten years¹.* For practical purposes also, a period of ten years is sufficient.

What do you need to keep? **Cash books, ledgers, asset and stock registers, cash log (or rough cash book), vouchers, vehicle log books etc. all form part of accounting record and should be kept.** In case your accounts are computerised, you need to keep printed copies of these. Keeping computer files on a floppy or hard-disk is not sufficient.

The registers and cash book etc. can simply be labelled and stored. But how would you keep old vouchers etc. for ten years?

After the audit is over (or even before that), you can have the vouchers stitched. Simple book-binding (using cardboard and thread) is sufficient. The binder would charge you about Rs.15-20 per file. The voucher files are then labelled and kept in tin boxes. You should keep the boxes safely, in a dry place. Keep some moth-balls in the trunks and air them at least once a year.

¹ The actual requirement is for keeping the records for eight years from the end of the assessment year. For financial year 88-89 (1.4.88-31.3.89), the assessment year will end on 31.3.90. You have to keep the records till 31.3.98. This effectively translates to 10 years (April 88 till March 98).

