

CHAPTER 12

Internal Control Procedures

“He who knows others is clever, but he knows himself is enlightened.”

Lao-tzu

12.01 Internal Control implies development of systems within the organisation to ensure efficient functioning and minimise the possibilities of mismanagement and inefficiency.

12.02 The nature and extent of Internal Control can be developed on the size and activities of the organisation. It is very difficult to recommend any universal system for all organisations, therefore it is important to understand the features and mechanism of Internal Control. All organisations should develop their own systems of Internal Control depending on their needs and resources.

It is very difficult to recommend any universal system for all organisations, therefore it is important to understand the features and mechanism of Internal Control.

12.03 i) Proper allocation of functional responsibilities within the organisation.

- ii) Proper operating and accounting procedures to ensure the accuracy and reliability of accounting data, and safe guard of assets.
- iii) Quality and competence of personnel with regard to their duties and responsibilities.
- iv) The review of the work of one individual by another whereby the possibility of fraud or error is minimised.

The review of the work of one individual by another whereby the possibility of fraud or error is minimised.

- 12.04** i) An organisational chart depicting the hierarchy of the authority and responsibilities should be prepared :
- ii) The organisation chart should show a clear definition and allocation of duties and responsibilities of officials and employees.
 - iii) Rotation of duties of employees dealing with cash, stocks, stores and other valuables and also at various projects.
 - iv) Preparation of an accounting manual.
 - v) The budget, to cover all aspects of expenditure/allocation of funds and receipts of funds.
 - vi) System of budgetary control, periodical review. Actual expenditures and receipts should be compared with the budgeted figures.
 - vii) Where an organisation has more than one project or office expending or receiving funds, all the above six points stated are required to be adhered to at each centre/office.
 - viii) Further the branches or smaller offices are required to send at pre determined intervals
-

i.e. depending upon the size of the organisation daily/weekly/fortnightly/monthly/statements of all receipts, expenses, stocks etc.

- ix) Complete reconciliation of figures between different project offices and head office. Any unreconciled element should be looked into immediately.
- x) Surprise verification of cash, stock, assets, investments etc. by the internal auditor, the organisation executives.
- xi) Maintenance of records as per the requirements of statute in force and as directed/desired by funding agencies, government grant authorities.
- xii) All the work should be completed within the time frames stipulated and records should be authenticated by proper authorities.
- xiii) All the surplus funds should be properly invested keeping in view the provisions of income tax as well as the safety and return on investments.
- xiv) The organisation should have adequate insurance cover for all its assets including cash in safe and in transit. It is advisable to get fidelity cover for employees handling cash.
- xv) Regular board meetings and the involvement of the board members in decision making and review of work.

*Surprise verification
of cash, stock,
assets, investments
etc. by the internal
auditor, the
organisation
executives.*

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

- i) The physical custody of cash should remain in the hand of a responsible person and if possible cash in hand should be kept under dual custody.
-

- ii) The amount of cash in hand should be kept at minimum possible level, all surplus cash should be immediately deposited into bank.
- iii) Payment as far as possible should be made through account payee cheques/drafts only.
- iv) The authority to make payments should be defined in relation to the amount involved. For bigger amount the authority to approve should lie with the senior functionary of the organisation. The name of the officials and the limits upto which they are authorised to sign cheques and approve payments should be specified.
- v) The bank accounts should be operated jointly by two or more persons.
- vi) All payments and expenses should be supported by bills, cash memos, invoices, challans and the authorisation of the competent authority.
- vi) The internal auditor or the management should carry out random physical verification of cash in hand, fixed deposits etc., periodically.
- vii) The monthly reconciliation of all bank transactions should be made.

The internal auditor or the management should carry out random physical verification of cash in hand,

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

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

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

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

12.10 Records for each employee showing following particulars should be kept :

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

12.11 Attendance Register with checking in and out time.

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

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

12.14 The purchase should be done after inviting tenders/quotations. The most suitable supplier should be identified and accordingly purchase order should be issued.

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

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

- i) Taxes, Customs/Excise Duties and or other Duties/Levies incurred on the asset.
- ii) Cost of Insurance and Freight.
- iii) Cost of Commissioning and erection, if any.
- iv) Legal Charges.
- v) Consultancy Fees.
- vi) Architectural Fees.
- vii) Interest on Loans taken specifically for the project until completion of the Project.

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

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

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

12.18 Record of fixed assets should be maintained in a register.

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

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

12.21 All assets requiring insurance are to be insured and periodically renewed.

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

12.23 An investment register should be maintained, showing :

- a) the nature and description of the investments.
- b) in the case of investments in companies, the name of company in which the investment has been made.
- c) certificate numbers.
- d) distinctive numbers.
- e) cost, amount paid-up and face value.
- f) the names in which the investments have been made.
- g) due dates for receipt of interest.
- h) date on which dividends are ordinarily received.
- i) maturity dates.
- j) All the investments kept by an authorised official with adequate security measures.
- k) All investments should be periodically verified physically with the Register.
- l) Periodic review of all investment income, to ensure timely receipt.
- m) All transactions of investments should be authorised by the board or a person to whom power has been delegated.

*All the investments
kept by an
authorised official
with adequate
security measures.*
