RTU Finance & Accounts Systems and Controls

Contents:

1. Finance Operation:Background of the Accounts Department:

The growth of RTU is best illustrated by the growth of funding levels over the years.

- In 1975 total funds received and utilized by RTU was approximately 25 lakhs.
- In 1992 this figure is almost 2 crores.
- In 2000 this figure was 3.5 crores.
- In 2007 this figure was 6.5 crores.
- In 2013 this figure was 8.5 crores.

The level of funding grows substantially in the years 1984, 85 and 86. RTU did have an accounts department then which followed traditional accounting methods, and was not at all geared for major growth in funding levels. As funding levels increase, the emphasis on accountability for funds increase and more sophisticated systems are necessary to handle the load of recording and reporting financial information.

In 1988, concerted efforts were initiated to study the requirements of accounting, budgeting and reporting and a new structure was developed for the accounts department. Today the accounts department is responsible for accounting for the source and use of funds. We are not only book keepers of funds but also monitor, pre-defined budgets and guide various departments of RTU for the optimal utilization of funds.

1.1. Finance Classifications:

RTU has two major classifications of finance transactions as follows:

1.1.1. Foreign Contribution (Currency) (FC):

1. Transactions related to funds received from Foreign or Foreigner (not a Indian Citizen) and expenditure through Indian or Foreign Currency, which includes Donations, Delivery of goods and transfer of funds are FC Money.
2. Government of Foreign Country or Foreign Trust/Foundation/Organization including individuals of foreign origin but excludes any UNO or its specialized agencies indicated in the notification by the Home Ministry.
3. Transactions related to this head should comply with “Foreign Contribution (Regulation) Act, 1976” and new act specified in section 19 of the Foreign Contribution (Regulation) Act, 2010 (42 of 2010) read with rule 17 of the Foreign Contribution (Regulation) Rules, 2011.

1.1.2. Local Contribution (Currency) (LC):

Transactions related to the receipts from Indian Citizens and Indian Government.

1.2. Department structure:
The Manager of the Accounts department has overall responsibility for the accounts activities.

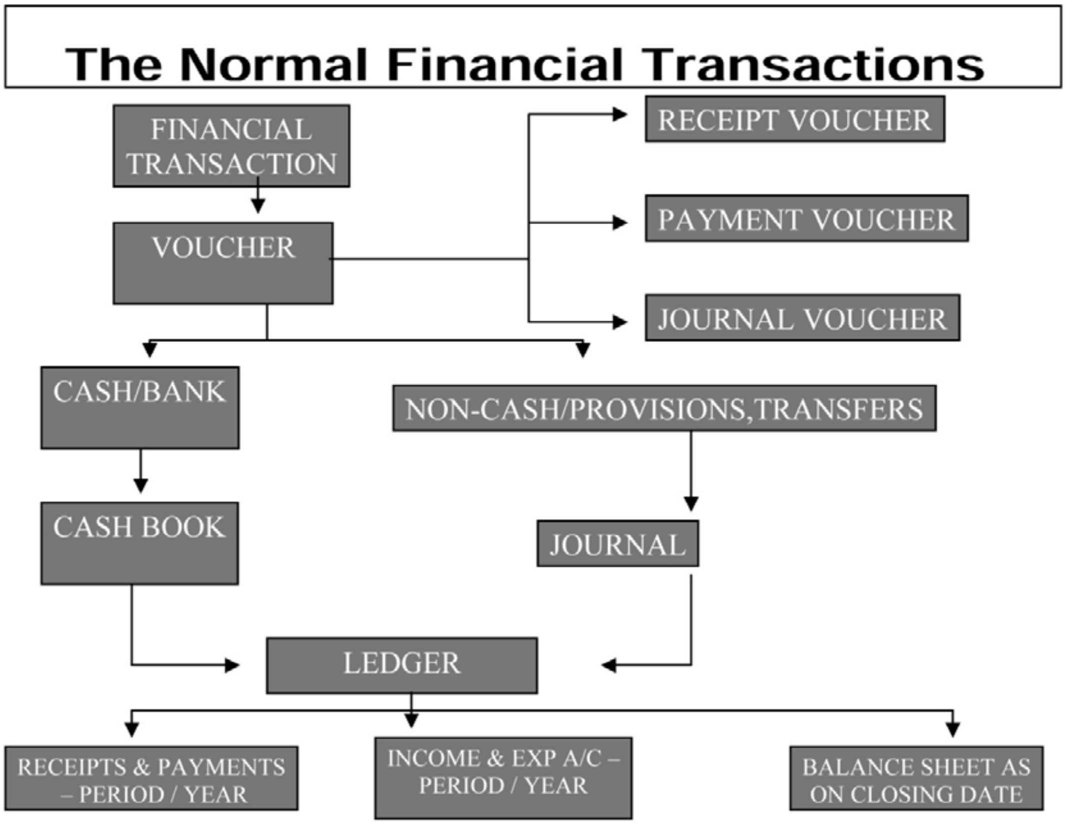
1.3. Objectives of the Accounts Department:
- The primary objectives of the accounts department are the following:
- Ensure the accountability of funds to the donor
- Implement and monitor accounting policy guidelines in day-to-day transactions.
- Record and maintain accounting data and prepare reports that give accurate information on the financial status of the project and programme
- Staff Welfare (PF & Gratuity)

2. Registration of an NGO
An Non Governmental Organization (NGO) has to be registered under the Societies Registration Act 1976 at Tamil Nadu.

2.1. The common characteristics are:
1. Any Society having the objective of promoting Education, Relief of Poor, Medical Relief, Social, Literature, etc., may register itself under Act.
2. Societies must have Memorandum and Bye-Laws, Which will be the constitution for the Societies.
3. There must be a minimum of seven members to form a Society. The Bye-Laws and Memorandum may be amended after passing a special resolution in the General Body and it must be registered with the Register.

2.2. The following statement have to be sent to the Register of Societies every year:
1. Consolidated Statement of Accounts of the Organization for the year ending 31st March.
2. Continuation / Functioning Certificate
3. Activity Report
4. List of Executive Committee members / Changes
5. List of General Body members / Changes
6. The Amendments if any in the objective clause and major amendments in memorandum and rules have to be approved by the Annual General Body meeting by a special resolution.

3. Foreign Contribution (Regulation) Act, 1976
1. Acceptance and Utilization on Foreign Contribution Registers itself with the Home Ministry either permanently or by obtaining prior permission.
2. Agrees to receive such FC only through specified account of the Bank.
3. Submit the following in duplicate to the Home Ministry before 31stDecember every year.
   - FC-6 Returns for the year ending 31stDecember.
   - Receipts and Payment Account, Balance Sheet and Income & Expenditure A/C. Duly certified by the Chartered Accountant.



4.1. All accounts can be classified under either of two categories: (1) Capital, (2) Revenue.

1. Capital expenditure may be described as expenditure resulting in the increase of acquisition of an asset. Example: Land, Building, & Vehicle etc.
2. Revenue expenditure is recurring expenditure incurred for the activities to the organization. Example Administrative Expenses, maintenance charges, programme Cost which arises from day to day transactions.

4.2. The following statements have to be prepared separately for Foreign Contribution, Local Contribution and a combined one for the whole organization.

1. Receipts and Payments account for the year ending 31st March.
2. Income and Expenditure account for the year ending 31st March.
3. Balance Sheet as on 31st March.
4. Auditor’s Report.
5. In the case of IGP Account, Separate statement of transaction to be attached.

4.3. Receipts and Payments Accounts.

1. It is summary of the cash book for the year/period.
2. The statement will start with opening cash and bank balances.
3. The receipts either grant-in-aid or corpus are shown on the receipt side.
4. All payments are shown on the payment side.
5. Closing bank and cash balances are shown as the last item on the payments side

Receipts	Payments
Opening Balance Donation/Grants Bank Interest Other Receipts	Personnel Expenses Programme Expenses. Administrative Exp. Closing Balance

4.4. Income and Expenditure A/C.

1. Income and Expenditure account is drawn up in the case of non-profit Organizations. It is equivalent to profit and loss account in the case of profit making Organization.
2. It must include only revenue income and revenue expenditure.
3. It must not include transactions which are of capital in nature.
4. It may include all the transactions relevant during the accounting period depending on the basis of accounting policies being followed, and expenditures like pre-paid payments must be excluded.
5. Income is show on the right side and expenditure is shown on the left side.
6. Surplus of deficit is the difference between the two sides. This amount will be transferred to the general Fund in the balance sheet.
7. Depreciation for the Assets may be charged in the General Income and Expenditure account.

4.5. Balance Sheet

This is a statement of the financial position of an organization on a particular date. It has two sides namely Assets and Liabilities.

Liabilities	Assets
Funds – e.g., Capital Fund, Life Membership Other earmarked funds – e.g. Capital, Balance of Grants Corpus Fund Excess of Income over Expenditure Loans and , Over Drafts Current Liabilities	Fixed Assets Movable Assets Investments Loan & Advances Other Current Assets Excess of Expenditure over Income (To be carried Over) Cash and Bank Balance

4.6. Records / Books to be maintained:

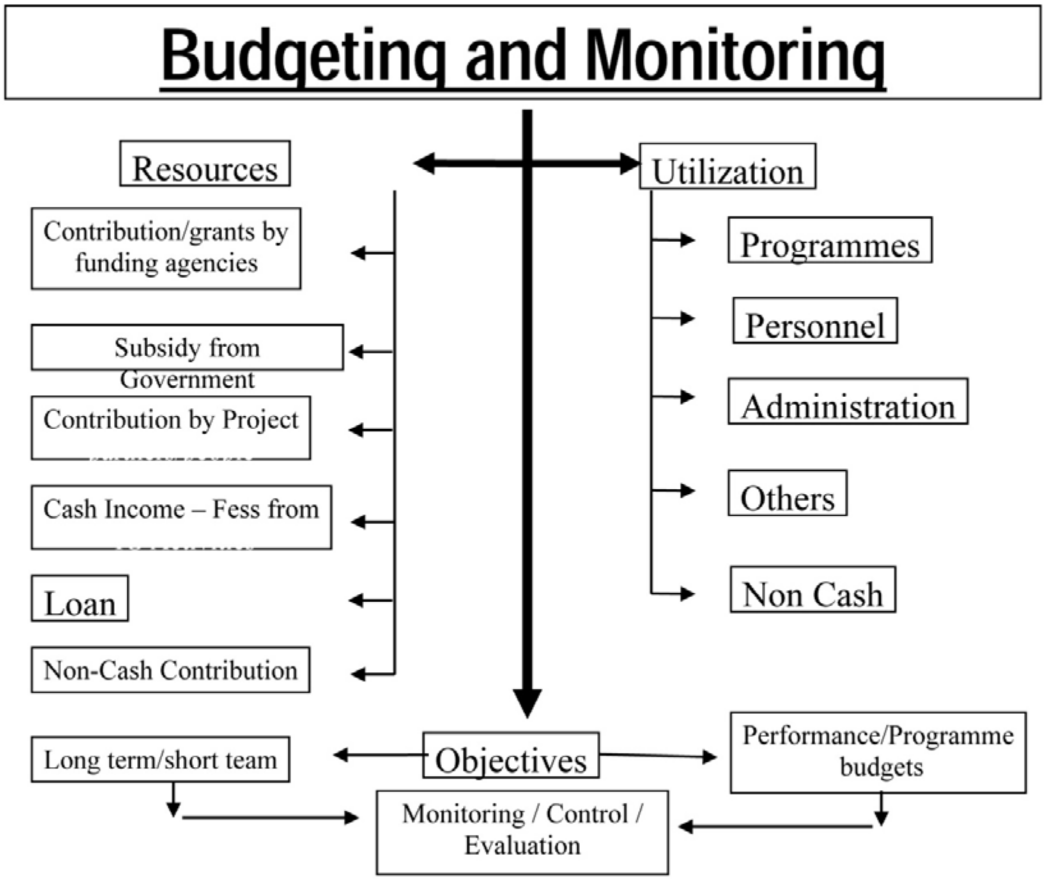
1. Vouchers
2. Receipts
3. Cash Book
4. Journal
5. Ledger
6. Trail balance
7. Bank reconciliation
8. Receipts & payment A/C.
9. Income and Exp. A/C.
10. Balance Sheet.
11. Control Records

4.7. Control Records.

1. Attendance Register
2. Salary Records
3. Stock Records
4. Assets / equipments number
5. Staff Appointment order
6. Staff file
7. Fixed Assets Register
8. Investment Register
9. Telephone Register
10. Postal Inward & Outward
11. Vehicle Log Book
12. Cheque/Register
13. Advance
14. Payment / Adjustments
15. FC Receipts & Register

4.8. Voucher Check List

1. Arithmetic Accuracy
2. Above Rs. 5000 – Sign on Revenue Stamp
3. Details of Narration
4. Relevant a/c head
5. Dept. Manager Sing in all original support Vrs.
6. Original Bills
7. Advance Details
8. Purchase / Works Committee approval
9. Measurement Book (M' Book) for constructions
10. Deduction of TDS (IT & SC) & Security Deposits
11. Proof of money disbursement / Details of original support Vrs.
12. Compare bill with estimate
13. Goods received (Stock book # / Service completion proof)
14. Budget approval & Budget Control



5.1. Budgeting Systems:

Based on a consolidated annual budget for the organization, specific programme budgets are arrived at that help to plan for activities for the year. Budgets are prepared for 3 to 5 years and annual plans; these budgets are discussed with individual departmental heads before they are finalized. Once finalized, these budgets are sacrosanct and progress is monitored on the basis of these budgets. Budgets also provide a safety net for controlling expenditure.

5.2. Model for Budget monitoring

S.No.	Account Code & Head	Approved Budget	Utilization	Balance	Payment Request

5.3. Expenditure control and Internal Audit:

To stay within budgets, an organization needs to monitor expenditure and investments. With several departments and several lakhs of rupees of funds, this may tend to become a complex task. Therefore expenditure control systems play an important role. Specific expenses/investment transactions go through a process of approvals from the president and the director.

Further there is a system of internal audit where one department head audits progress of activities and financial transactions of another department. Audit reports are presented in inter departmental committee meetings.

6.Reporting:

To gather a consolidated picture of the progress of activities of RTU and the financial status of the organization, it is essential to collect information in a standardized manner. Individual departments provide two kinds of reports about progress of programmes and financial information. Today it is possible to get an accurate picture of the progress made in various programmes primarily due to prompt and periodic reporting by individual departments.

Due to the inherent flexibility built into the systems, it is possible to report financial information on scheme wise, programme wise and donor wise. Reporting is a very important function primarily because they convey progress to the donors, the society members and the outside world. Moreover, we have provided meaningful internal information to help plan and implement activities better.

6.1. Reports to Donors:

1. Quarterly unaudited financial statements & reports
2. Yearly audited financial statements & reports
3. Budget & Fund requests
4. Proposal to the donor agencies

6.2. Government Reports:

1. Annual Income Tax Return to Income Tax Office, Theni.
2. Annual Filing to Registrar of Societies, Dindigul
3. FC-6 Filing to Ministry of Home Affairs, New Delhi
4. Quarterly financial statement to CBI office, Theni
5. TDS quarterly & annual returns to ITO office, Theni
6. Tax exemption certificate renewal to ITO office, Madurai

6.3. Board & General body meeting reports:

1. Finance statement and Auditor's certificates
2. Audit report
3. Action taken report
4. One year activity report
5. Resolutions to be adopted
6. Appointment of Auditor
7. Budget Vs Actuals
8. Investment Portfolio
9. Budget modification request
10. Activity modification request
11. Investment options & Others

6.4. Computerization:

As the level of funding and the scope of programme activities increase, the complexities of recording, maintaining and reporting information increases manual systems, after a specific point, tend to become less efficient in handling such complexity. Our accounts department was quick to realize and started computerizing their financial systems during the year 1991. Today, financial accounting is totally computerized. This will considerably reduce the workload of accounts department and more importantly will help provide up to date information of the financial status of schemes, programmes and the Special projects.

Currently we use “WINGS” software system. We will make necessary modification with existing systems so that they perform more effectively and efficiently in future.

7. Employees Provident Fund

Provident Fund is a **Social Security Benefit to employees**.It is a compulsory saving by an employee during his employment.It is meant for old age.This is required to be availed on retirement from service.An employee who contributes to Provident Fund is also eligible to receive a matching contribution from his employer.Provident Fund is named as “Employees’ Provident Fund”.

7.1. Recovery of Contribution:

- The Provident Fund Account of a member is maintained through the collection of contribution from the employee along with the matching contributions from the employer every month.
- Contribution is determined with reference to the percentage of Wages (Basic+DA) of each member.
- The Rate of contribution payable under the three Schemes (With effect from 22.09.1997) are as under.

Name of the Scheme	Employees’ Share	Employers’ Share
Employee’s Provident Funds Scheme, 1952	12%*	3.67% (amount in excess of 8.33%) (i.e 12% - 8.33%)
Employee’s Pension Scheme, 1995	NIL	8.33 % (No separate recovery. Diverted form & Out of Provident Fund Contributions Only)
Employee’s Deposit Linked Insurance Scheme, 1976	NIL	0.5%

7.2. Benefits Under Employees’ provident Funds Scheme, 1952

1. Every Employee is required to pay contribution to the provident fund @ 12% & 10% of the Basic wages and Dearness Allowance
2. The employer will also pay an equal amount of contribution
3. The provident fund accumulations of the member will earn compound interest calculated on monthly running balance.
4. The members are informed of the balance of their provident fund accumulation every year through the annual statement of accounts (Form 23)
5. The provident fund members can avail advance for Housing, Marriage, illness, closure of establishment etc., through application Form 31 which provides details and documents to be submitted.
6. On retirement of on leaving service, the provident fund accumulations can be withdrawn in full by submitting application in Form 19.
7. In case of premature death, the provident fund is payable to nominee(s)/family members by submission of Form 20 by each beneficiary.
8. A member of provident fund also acquires membership under pension scheme.

7.3. Benefits of Pension Scheme

Type	Service	Age	Nature of benefit eligible
1	Below 10 Years	Below 58 Years	Issue of Scheme Certificate. Or Payment or withdrawal benefit (At the option of the member)
2	Below 10 Years	Attained 58 Years	Only Withdrawal Benefit
3	10 Years and above	Below 58 Years	Only Scheme Certificate
4	10 Years and above	Attained 58 years	Monthly Pension to member
5	10 Years and above(Not in employment)	Completed 50 years of age	Eligible for Scheme Certificate Or For Reduced (early) Monthly Pension.
6	Total and permanent disablement while in service	Below 58 Years	Disabled Pension to members

7.4. Pension – Benefits to Members & Family Members

Benefits to Members	Benefits to Family Members
1. Withdrawal benefit 2. Scheme Certificate 3. Pension a. Superannuation Pension b. Early Pension c. Disabled Pension 4. Option for Return of Capital	1. Widow Pension(100%) 2. Children Pension (25%) 3. Orphan Pension(100%) 4. Disabled Children Pension 5. Nominee Pension(100%) 6. Return of Capital to Nominee 7. Dependent Parent Pension

7.5. Benefits of Pension Scheme

1. An Employee is eligible for Pension after 10 years of service.
2. The Pension is payable on attainting the age of 58 Years, Whether he is in service of superannuated.
3. Early Pension at reduced rate can be availed on leaving the employment, after attaining the age of 50 years.
4. Where an employee is totally disabled and leaving service on account of disablement, Disablement Pension is allowed. No age and service stipulation is applicable to disablement pension.
5. Pension is based on age, wage and service of an employee at the time of his leaving service.
6. The payment of pension is guaranteed and assured even in cases where the employer fails to deposit the pension contributions
7. Wherever the Pension claims are received three months before the date of Retirement, the Regional Provident Fund Commissioner will deliver the pension payment Order on the day of Retirement.
8. Apart form pension Benefit, a member can commute up to one-third of his pension and in lieu of this, he will receive a lump-sum amount equivalent to 100 times of the commuted value of pension.
9. A pensioner may nominate a person to receive a lump-sum amount after his death, as Return of Capital.
10. To receive the Family Pension, only one application in Form 10-D is required to be submitted by the widow/widower, on her behalf and also on behalf of her/his children.

11. Family Pension is payable even where the death occurs before 10 years of service. Thus, the minimum eligible service of 10 years is not applicable.
12. On death of a pensioner. The pension is automatically payable to the spouse (widow/widower)
13. When a member dies as Bachelor Or Spinster of where there is no spouse of children below 25 years, the Family pension is payable to Nominee till his/her death.
14. When there is no valid nomination, the Family pension is payable to dependent father followed by dependent mother.
15. On death of re-marriage of widow/widower, children will be given enhanced pension treating such children as Orphan.
16. On behalf of the minor children the pension is payable to guardian.
17. Any child in a family with total an permanent disablement will receive children pension till death.
18. The monthly pension is payable through designated Banks and Post Offices of the first day of every month through the Savings Bank account to the pensioner.
19. The pension can be drawn anywhere in India.
20. The employees with less than 10 years of service on the day of superannuation may avail the benefit of withdrawal from Pension Fund.
21. The contribution to Pension Fund can be made beyond the ceiling limit of Rs.6500/- on the joint request of the employee and employer so as to get more benefit.

8. Gratuity

- The payment of gratuity Act of 1972 is applicable to the organization. The Employees after continuous service of not less than 5 years are eligible for gratuity. In the case of death due to accident or diseases, there is no minimum service required. The staff has to be paid at the rate of 15/26 of the pay last drawn for every year of service.
- Gratuity = Last pay drawn X 15/26 X No. of years of service
- The employers who fail to comply with these statutory provisions are liable to penalties.

9. Auditing

- The Auditors are appointed by the General Body of the Organization every year.
- The details of engagement letter and Agreement must be given to the Auditor.
- The Auditor's role and expectations must be clearly spelt out in the engagement letter.
- The Auditor's services may be utilized not only for checking and certifying the statement of accounts but also for getting advice and strengthening the existing Financial Systems and Internal checks which also includes field visits.

9.1. Certified to be obtained from the statutory Auditor:

- FC Statements in Form-6 with Receipts & Payments Accounts and Balance Sheet.
- Consolidated Statement of Accounts to be sent to the Income Tax Department along with 10-B and other Certificates.
- Statement of Accounts to be sent to the Donors, Registrar of Societies and Others

9.2. Types of Audit:

1. Statutory Audit - For certifying the statement of accounts
2. Internal Audit – Review of Programme / Budget
3. Special Type of Audit – Proprietary Audit / Efficiency Audit
4. Donor's Requirement – As per the agreement for Donor agency.