

Comparing Financial Management of NGOs: Trust vs. Society Act in Tiruchirappalli

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Abstract

Background: In the management of Non-Governmental Organization, the core areas are legal compliance, accountability, and financial management. Among these, NGO priorities program implementation over financial reporting and bookkeeping maintenance, necessitating a primary focus on financial management.

Objective: The study examined the financial management of NGOs comparing the Indian Trust Act and Societies Registration Act in Tiruchirappalli District of Tamilnadu.

Methods and Material: The Tiruchirappalli District has 224 registered NGOs, of which 60 were chosen through the lottery system and simple random sampling techniques. The chosen research design is descriptive.

The semi-structured questionnaire was prepared and utilized. The questionnaire was distributed via email and Google Forms. The Statistical Package for Social Science, version 20, was used to analyze the gathered data.

Results: The study reveals that NGOs registered under the Societies Registration Act are a higher number in complying with basic books, computerized accounting, project-wise books of accounts, all financial transactions are recorded, vouchers are supported by adequate documents, statutory audits are conducted, and annual reports are published than NGO registered under the Indian Trust Act

Conclusion: The study suggests that NGOs have to comply with statutory requirements in maintaining the books of accounts, regular reporting to the government and donors, and ensuring transparency in keeping recent legal amendments to the Finance Bill 2021.

Keywords: Financial Management of NGOs, Accounting, Book Keeping, Books of accounts

Background of the study

The general consensus is that the objective of non-governmental organizations (NGOs) is to implement the program in line with their vision and mission of the organization. In contrast to the financial management, the main focus of non-governmental organization is legal compliance, programme implementation, accountability, and financial management. The main elements of financial management, include organizing the program and overhead budget, maintaining a separate bank accounts, recoding daily transactions, maintaining books of accounts, ensuring that expenses are recorded on the appropriate

projects and not mixed in with other projects, ensuring that vouchers are recorded, supported by sufficient supporting documentation, and subject to internal control mechanisms. Regular audits and statutory audits, and annual activity report is published. Dawson (1998) highlighted that when the auditing process is integrated with other associated systems like financial audits, yearly reporting, and strategic planning and assessment, the efforts and the resource used are probably going to decrease over time.

Effective financial management requires compliance with the aforementioned regulations; NGOs that fail to do so risk having their legal licenses revoked by the government, having their names placed on a blacklist, and losing their good name, which would discourage donors from giving the NGOs financial support. Lastly, there is the issue of their appropriateness. Thus, there is a resource interdependence-albeit one that is frequently asymmetric-where donors depend on NGOs for funding and NGOs depend on donors for their development reputations (Ebrahim, 2002)

Method and materials

The objective of the empirical study is to compare the financial management of NGOs of the Societies Registration Act and the Indian Trust Act, as well as to investigate how NGOs manage their financial management.

Study area and sampling method

In the Tiruchirappalli District, there are 224 registered NGOs. Of these, 60 NGOs were selected by adopting the lottery method and simple random sampling techniques.

Research design and method of data collection

A Descriptive research design has been adopted. The semi-structured questionnaire was developed and utilized. The questionnaire was shared by email, and Google Forms. Statistical Package for Social Science version 20 was used to analyzed using the data. To get at the significant conclusion, a statistical test such as the chi-square statistical test was applied.

Ethical consideration

The researcher got approval on the questionnaire from the research ethical committee, in order to ensure the confidentiality of the data results, disclosure, the researcher obtained informed consent from the selected organizations. It stated that the collected data will be used only for academic purposes.

Results

The collected data on the financial management of NGOs among executive members in Tiruchirappalli was analyzed using the Statistical Package of Social Science version 20.

Table 1. Distribution of the organizations in terms of their years of establishment, registration, age of executive members, Gender, Education

SL.NO			n:60	%
1	Years of establishment	1918 to 1999	26	43.3
		2000 to 2021	34	56.7
2	Type of registration	Indian Trust Act	30	50.0
		Societies Registration Act	30	50.0

3	Age of executive members	20 to 40 Years aged	5	8.3
		40 to 60 Years aged	51	85.0
		60 Years and Above	4	6.7
4	Gender	Male	34	56.7
		Female	26	43.3
5	Educational qualification	Doctor of philosophy	1	1.7
		Master's Degree	37	61.7
		Master's Degree in SW	2	3.3
		Bachelor's Degree	20	33.3

While analyzing the organizations in terms of their years of establishment, registration, age of executive members, gender, and education, it was observed that more than half (56.7 percent) of the organizations have established 2000 to 2021 years; half of them (50.0 percent) of the organizations have registered under the societies registration act, the majority (85.0 percent) of the executive members were in the age of 40 to 60 years; more than half (56.7 percent) of the executive members were male; and less than three-fourths (61.7 percent) of them executive members were completed a master's degree.

Table 2. Distribution of the organizations in terms of their vision & mission, program linkages, and visibility

SL.NO			n:60	%
1	Vision and Mission	Yes	60	100.0
		No	0	000.0
2	Program linkages	Linked with V/M	57	95.0
		Sometime	3	5.0
		Not linked	0	000.0
3	Visibility	News Letter	5	8.3
		News Letter, Own publication	5	8.3
		News Letter, OP, Website, SM	6	10.0
		Own publication	18	30.0
		Own publication, Website, SM	6	10.0
		Social media	5	8.3
		Website	14	23.1
Website and Social Media	1	1.7		

About the organizations in terms of their vision and mission, programs linked with vision and mission, and visibility, cent percent (100.0 percent) of the organizations were having vision and mission, significance (95.0 percent) of the organizations were linked their programs with vision and mission, and less than one third (30.0 percent) of the organizations were publishing their organization's activities through their own publication.

Table 3. Distribution of the organization in terms of their maintained basic books of accounts, Project-wise books of accounts

SL.NO			n:60	%
1	Basic books of account	Maintained	58	96.7
		Not maintained	2	3.3
2	Computerized books of account	Maintained	38	63.3
		Not maintained	22	36.7
3	Project-wise books of account	Maintained	38	63.3
		Not maintained	22	36.7
4	Administrative expenditure	Recorded	37	61.7
		Not recorded	23	38.3

While analyzing the maintained basic books, project-wise & computerized books of accounts, and recorded program and administrative expenditure, it was noticed that significance (96.7 percent) of the organizations did maintain basic books of accounts, the same percent(63.7) that is less than three fourth of organizations had maintained project-wise and computerized books of accounts and less than three fourth (61.7 percent) of the organizations had recorded their program and administrative expenditure.

Table 4. Distribution of the organization in terms of their financial transaction recorded, voucher supported by document and voucher files available

SL.NO			n:60	%
1	Financial transaction recorded	Recorded	40	66.7
		Not recorded	20	33.3
2	Voucher supported by the document	Recorded	55	91.7
		Not recorded	5	8.3
3	Voucher files availability	Available	57	95.0
		Not available	3	5.0

Concerning the organization in terms of their financial transaction recorded, maintained vouchers are with adequate supporting documents and availability of vouchers files, less than three fourth (66.7 percent) of the organizations were recorded their financial transactions, the vast majority (91.7 percent) of the organizations which maintained vouchers are with adequate supporting documents and significance (95.0 percent) of the organizations did maintain voucher files.

Table 5. Distribution of the organization in terms of their reporting on statutory audit, Auditor letter to management, and Annual report published

SL.NO			n:60	%
1	Statutory Audit	Reported	55	91.7
		Not reported	5	8.3
2	Auditor letter to management	Received	33	55.0

3	Annual report	Not received	27	45.0
		Published	43	71.7
		Not published	17	28.3

While analyzing the organization in terms of their reporting on statutory audits, Auditor letters to management and Annual report published, the vast majority (91.7 percent) of the organization have reported statutory audits, more than half (55.0 percent) of the organizations were receiving management letter from the auditor and nearly three fourth (71.7 percent) of the organizations were published annual report.

Table 6. Association between the types of registration concerning maintained project-wise, computerized books of accounts, recorded program & administrative expenditure, recorded financial transaction and annual report published.

SL. NO	Registration	Maintained Financial recorders and Annual report		X ²	P
1	Indian Trust Act	Maintained 12(40.0%)	Not Maintained 18(60.0%)	14.067 df=1 CV=.484	.000<0.01
	Societies Act	26(86.7%)	4(13.3%)		
2	Indian Trust Act	12(40.0%)	18(60.0%)	14.067 df=1 CV=.484	.000<0.01
	Societies Act	26(86.7%)	4(13.3%)		
3	Indian Trust Act	14(46.7%)	16(53.3%)	5.711 df=1 CV=.309	017.<0.05
	Societies Act	23(76.7%)	7(23.3%)		
4	Indian Trust Act	14(46.7%)	16(53.3%)	10.800 df=1 CV=.309	.001.<0.01
	Societies Act	26(86.7%)	4(13.3%)		
5	Indian Trust Act	18(60.0%)	12(40.0%)	4.022 df=1 CV=.259	.045<0.05
	Societies Act	25(83.3%)	5(16.7%)		

The Chi-square analysis table portrays that there is a high level of statistically significant association between types of registration and maintained project-wise of books of accounts [$X^2=14.067$, $df=1$, $p<0.01$]. In addition, organizations registered under the societies registration act have maintained a higher number of project-wise books of accounts than the organizations registered under the Indian Trust Act, and the extent of association between types of registration and maintained project-wise of books of accounts are found to be at a moderate relationship [Carmer's $V=.484$]

There is a high level of statistically significant association between types of registration and maintained computerized books of accounts [$X^2=14.067$, $df=1$, $p<0.01$]. In addition, organizations registered under the societies registration act have maintained a higher number of computerized books of accounts than the organizations registered under the Indian Trust Act, and the extent of association between types of registration and maintained computerized books of accounts are found to be at a moderate relationship [Carmer's $V=.484$]

There is a statistically significant association between types of registration and recorded program and administrative expenditures [$X^2=5.711$, $df=1$, $p<0.05$]. In addition, organizations registered under the societies registration act have recorded a higher number of program and administrative expenditures than the organizations registered under the Indian Trust Act, and the extent of association between types of registration and recorded program and administrative expenditure is found to be at a moderate relationship [Carmer's $V=.309$].

There is a high level of statistically significant association between types of registration and recording the financial transaction [$X^2=10.800$, $df=1$, $p<0.01$]. In addition, organizations registered under the societies registration act have recorded a higher number of financial transactions than the organizations registered under the Indian Trust Act, and the extent of association between types of registration and recording the financial transaction is found to be at a moderate relationship [Carmer's $V=.309$].

There is a statistically significant association between types of registration and annual reports published [$X^2=4.022$, $df=1$, $p<0.05$]. In addition, organizations registered under the societies registration act have published a higher number of annual reports than the organizations registered under the Indian Trust Act, and the extent of association between types of registration and recorded program and annual report published is found to be at a weak relationship [Carmer's $V=.259$].

Result of cross-tabulation

The organization registered under the societies registration act has maintained a higher number of books of accounts than organizations registered under the Indian Trust act

The organization registered under the societies registration act have recorded a higher number of vouchers with supporting documents than organizations registered under the Indian Trust act

The organization registered under the societies registration act have maintained a higher number of vouchers files than organizations registered under the Indian Trust act

The organization registered under the societies registration act have conducted a higher number of statutory audits than organizations registered under the Indian Trust act

The organization registered under the societies registration act has received a higher number of management letters from auditors than organizations registered under the Indian Trust act.

Discussion

The study shows the NGOs registered under the societies registration act are better complying in the maintenance of basic books, computerized, project-wise books of accounts, all financial transactions are recorded, vouchers are supported by adequate documents, a statutory audit is conducted and the annual report is published than NGO registered under Indian Trust act because as per the societies registration act

1860 clause four says annual filing to be done with the register of society with makes NGOs comply for their sustainability similarly no clause are present in Indian trust act to comply with the requirements.

Conclusion

The empirical study concludes that more the half of the organizations were established in the 20th century, the executive members were having master's degrees, majority of NGOs were maintaining basic, computerized, project-wise books of accounts, financial transactions are recorded, vouchers are supported with adequate documents, statutory audit and annual reports are published. The chi-square statistical test results portray that there is a high level of statistically significant association between types of registration concerning computerized, project-wise books of account and recording the financial transaction. The chi-square statistical test and cross-tabulation analysis clearly illustrated that NGOs registered under the Societies registration act is better at complying with financial management namely basic books, computerized, project-wise books of accounts, all financial transactions are recorded, vouchers are supported by adequate documents, statutory audits are conducted and an annual report is published than NGO registered under Indian Trust.

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