

AccountAble™

129. Financial Accountability of NGOs-1

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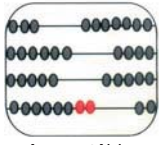
IN THIS ISSUE

Perceptions NGOs versus Corporations pg1

Defining Financial Accountability Different Strokes pg2

Regulatory Authorities pg3

The Three Wise Monkeys pg4



People often talk about accountability of NGOs. Sometimes this makes scandalous headlines. Other times, it may lead to a heated argument in a drawing room.

What is financial accountability?

How is it enforced in the context of NGOs?

How do NGOs look at it?

What are public expectations in this connection?

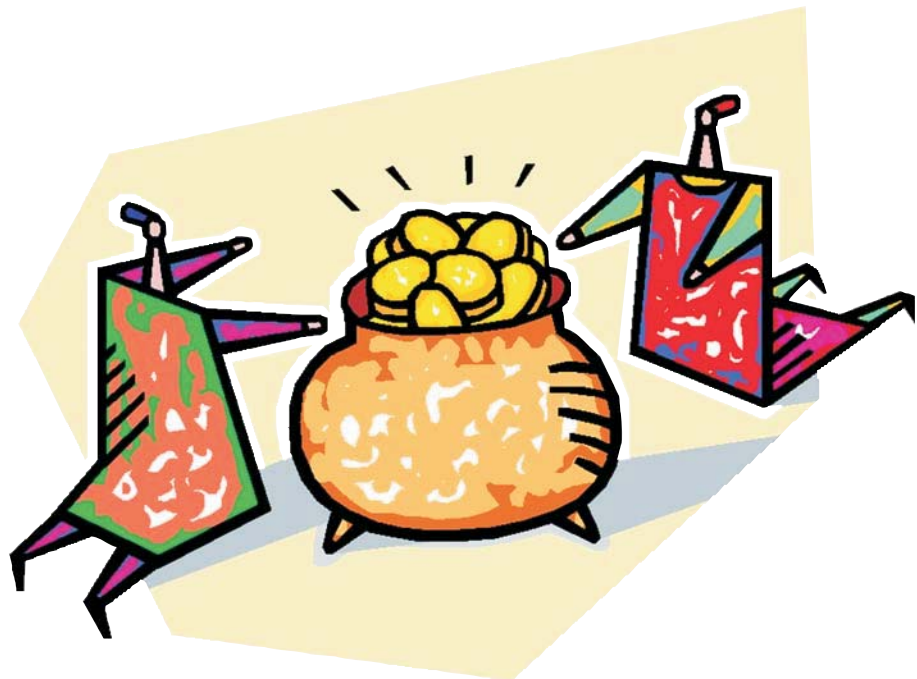
How does the corporate sector deal with this issue?

This issue of AccountAble attempts to answer some of these questions.

Perceptions

Different people have widely differing views of financial accountability of NGOs. Some believe them to be extremely honest; others argue equally vehemently that they are all corrupt. As always, the truth lies somewhere between these two extreme views.

In our experience, there are some NGOs who may not be doing any real work, but maintain their accounts very nicely. These NGOs may be primarily vehicles for self-enrichment or for tax evasion.



Then again there are many NGOs whose work is exemplary but the quality of accounting is quite poor. Sometimes this is due to lack of accounting personnel or skills. Other times, this may be due to faulty budgeting policies or organizational pressures.

There are also some NGOs whose work and accounts both shine equally well. These can be held up as models to be emulated by all.

NGOs versus Corporations

Financial problems at an NGO make more interesting news than corporate corruption. In reality, corporate corruption is much more widespread and spectacular than corruption among NGOs.

Possibly, this is because people automatically expect higher standards of behavior from NGOs. When this expectation is not met fully, people feel

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cheated. A small stain on a white sheet will be more visible than a larger stain on a gray sheet.

On the other hand, the corporate sector is much larger and has been able to institutionalize its fight against corporate fraud. This has not happened among NGOs, which tend to follow Gandhi ji's advice in this matter: See no evil, hear no evil, and say no evil.

However, NGOs constitute a part of the society they work in. People running them are also a little bit like us all. These people also have similar aspirations in their social and family lives. In such a situation, is it fair to assume that they will be very different from the rest of the society? Therefore, if financial corruption exists in the larger society, some part of it will be found in the NGO sector as well.

At a deeper level, the larger society may also be uncomfortable with the constant criticism that seems to emanate from the NGO sector. It is not always easy for us to follow Sant Kabir's advice¹ when it comes to people talking about our faults. Therefore, there is a somewhat perverse sense of satisfaction when we find that our critic may also be as bad as the rest of us!

Defining Financial Accountability

The word accountability has many different interpretations in the NGO sector, and is a complex, multi faceted concept. In the present context, the discussion is limited to financial accountability. Fortunately, this is simpler to deal with.

Simply put, financial accountability is the ability to account for money properly. This would mean that a person is able to show how they have used the money. They should also be able to show that the money was used properly and accounted fairly. Finally, their financial reports should be financially true and not misleading.

Different Strokes

How is this to be translated in practice? This is where we see a divergence of objectives and attitudes among the different stakeholders or players.

¹ निन्दक नियर रोखिए, आगँनि कटुीबधँइ
बिन साबनु पानीबिना, निरमल कर सभुइइ

(Always keep your critic near you. Build a hut for him in your yard. Without water, without soap, he keeps cleansing your character.) Kabir Vangmaya: Part III, SAKHEE, Dr. Jaidev Singh and Dr. Vasudev Singh, 3rd Edition 2000, Vishwavidyalay Prakashan, Varanasi-1

However, Sant Kabir's advice may not always be apt. One of the reasons why Karn lost to Arjun was due to the constant barrage of belittling comments he received from King Shalya, who was handling his chariot. (Mahabharat, 8. Karn Parv, chapters 35-45)

Simply put, financial accountability is the ability to account for money properly.



Regulatory Authorities

Different Government departments approach this issue from different perspectives.

For example, Ministry of Home Affairs is concerned with whether some NPOs², which receive foreign funds, could use these to influence electoral politics. It is also concerned with whether the funds could be used to influence media or effect religious conversions. The new FCRA Bill 2006 takes it further to whether foreign funds could be used for anti-national activities.

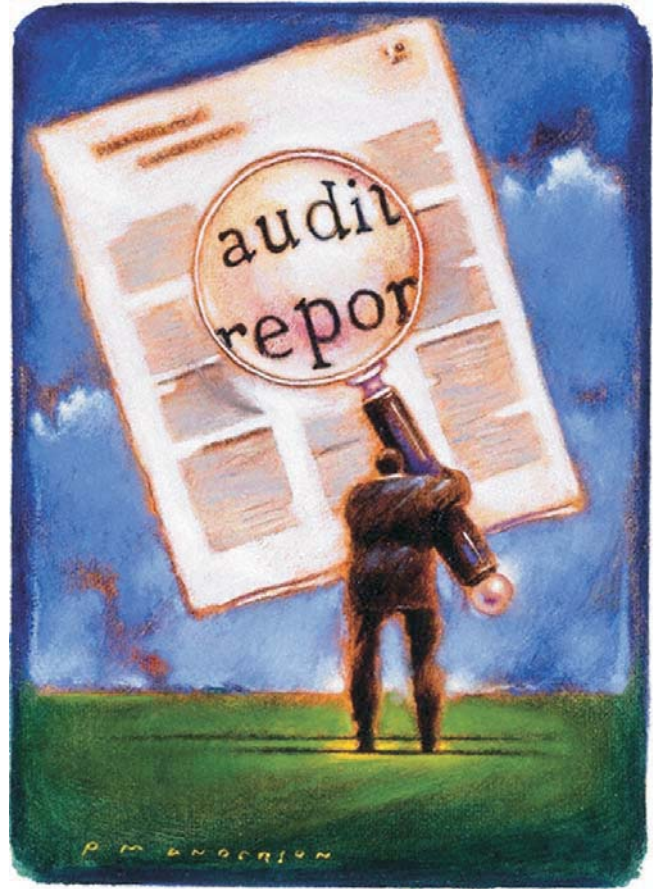
The Income Tax Department is focused on whether the tax exemptions granted to NPOs could be misused as a tax shelter and thus cause the Government to lose revenue. This normally happens when people set up paper-based NPOs and use these to mask their business activities. Or they could use these to provide fake tax deductions to taxpayers.

Contrary to general perceptions, the society registrars are normally not concerned with ensuring accountability of NPOs. They essentially function as a public record office. This role varies from one state to another³.

However, in some states, such as Maharashtra and Gujarat, the Charity Commissioner is also concerned with preventing theft of funds or properties entrusted to trusts and societies. Similarly, the Companies Registration office also tries to ensure that section 25 companies are not used for personal enrichment.

Thus, it can be seen that Government authorities are primarily not concerned with financial accountability of NPOs. They do not see themselves as arbiters of good financial management.

There are some exceptions to this rule, as in Maharashtra or Gujarat. Similarly, the proposed FCRA rule of limiting administration expenditure to 50% is also indicative of a new interventionist mind-set.



Contrary to general perceptions, the society registrars are normally not concerned with ensuring accountability of NPOs.

² The term NPOs includes public benefit organizations (NGOs), which are engaged in social action or relief of poverty etc., as well as other public utility organizations (educational, health and religious organizations), which are not treated as NGOs.

³ For instance, in Tamilnadu, the registrars can and do intervene to prevent mismanagement of societies. *Power of Registrar to enquire into the affairs ...* the Registrar by order in writing in this behalf to hold, an enquiry, into the constitution, working and financial condition of that registered society. ...

[Section 36 (1) of Tamilnadu Society Registration Act, 1975.]

Continued in AccountAble 130...

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Each issue of 'AccountAble' covers a different topic related to NGO regulation or accounting and is mailed to about 3,500 persons in NGOs, Agencies and audit firms. AccountAid encourages reproduction or re-distribution of 'AccountAble' in workshops or NGO newsletters for non-commercial use, provided the source is acknowledged.

Interpretation of law

Interpretation of law given here is of a general nature. Please consult your advisors before taking any important decision.

The Three Wise Monkeys

See no evil,
hear no evil,
say no evil.



Where did Gandhi ji's three monkeys come from? The set, one of the few possessions he had, was gifted to him by a group of visitors from China. Gandhi ji became so attached to them that he always kept the figurine with him. As a result, the monkeys became enormously popular in India.

Tracing the history of the three monkeys, it seems that the earliest known illustration is on a 17th century shrine in Nikko, Japan. In Japanese, the saying also rhymes very nicely: '*mizaru, kikazaru, iwazaru*'.

Some people believe that the saying was brought to Japan from China by an 8th century Buddhist monk. A similar phrase exists in the Chinese *Analects of Confucius*.

Some also say that the concept originated in India. While monkeys are very popular in Indian works such as *Panchatantra*, and the Jataka tales, there seems to be no direct reference to the saying itself in Indian lore.

Sources: www.wikipedia.org;
Mark Scumacher at www.onmarkproductions.com;
Majorie Sykes at www.gandhimuseum.org

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AccountAble in Hindi

अकाउण्टबेल हिन्दी में 'लखो-यागो' के नाम से उपलब्ध है।

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