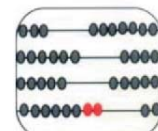


AccountAble™

131. Financial Accountability of NGOs-3

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Future of Accountability

Over the last thirty years, the NPO sector has grown in importance and influence. This can be seen from a vastly increased awareness of NGOs among public, politicians as also corporations. No dialogue about any social or economic issue is possible today without considering the views of the NGO sector.

Trends

As philanthropy becomes more organized and specialized, the distance between the donor and the beneficiary will increase. Already the new NGOs have developed a global reach. Funds raised in one part of the world are spent in a different part, which may be thousands of miles away. This creates a special type of monitoring problem.

Secondly, the NGO sector has increasingly becoming 'corporatized'. This means that it is no longer responsible to a real individual. It is now responsible to an idea or a mission. This is similar to a corporation, which focuses on a set of corpo-

rate goals.

The main difference that remains between corporations and NPOs is that of profit-orientation and distribution.

This kind of structure and growth is fertile ground for issues related to accountability. Sometimes, there is also a backlash from sections of society, which are adversely affected by the work of NGOs. These sections, representing powerful political, business or cultural interests often hit back at NGOs, using financial accountability as a weapon.

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Looks good. I am sure no one will be able to understand it.

Providing support on the sidelines are numerous players such as consultants, lawyers, analysts, and various Ministries of the Government

The Corporate Model of Accountability

Corporations the world over are subject to extensive controls. These are designed to protect shareholders' interests and Government revenue.

The controls start with a Board of Directors who supervises an accounting and finance team, and often an internal audit team.

The next layer of control is an audit by independent auditors. To ensure that auditors behave responsibly, they are regulated by a public accounting body, such as the ICAI¹ in India. Accounting bodies also design detailed accounting and disclosure standards to prevent manipulation of financial results.

The system is also overseen by regulatory bodies such as SEBI² or SEC³. Then there are powerful

laws, such as the Companies Act, 1956, overseen by the Company Law Board and Registrar of Companies.

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Despite such a sophisticated system, corporate accountability remains something of a joke among insiders. And this is not a new development.

¹ Institute of Chartered Accountants of India

² Securities and Exchange Board of India

³ US Securities and Exchange Commission

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Enron Corporation was formed in Texas, USA in 1985, but its roots go back to the 1930's. At its peak in 2001, it employed more than 20,000 persons and had operations around the world. Its annual revenues were claimed to be 111 billion dollars (nearly 50 kharab Rupees). It was also called 'America's Most Innovative Company' by Fortune for six consecutive years.

However, much of the innovation apparently lay in its accounting methods. As investors found out in 2001, Enron was systematically overstating its results by moving losses into offshore subsidiaries. These losses were not consolidated with accounts of the main corporation. As a result, its shares fell from 90 dollars (Rs.4,000) to 30 cents (Rs.13).

Enron's directors were sued for willful manipulation of accounts and settled by paying huge sums personally. The discovery also led to the dissolution of Arthur Andersen, one of the Big Four audit firms.

Enron is well known in India where it had entered into a contract for 3 billion dollars with the Maharashtra State

Electricity Board. It later came out that large bribes had been paid and political pressure applied to secure the contract. India was however, not the only country where this happened. Enron was dogged by controversy across the entire South: in South America, Africa, Philippines.

Ironically, Enron's slogan was 'Ask Why?', meant to reflect an enquiring spirit. Apparently, this spirit never moved its auditors, one of the largest audit firms in the world.

Neither did Enron's six hundred executives ask why. They were perhaps marching to a different tune:

..."Forward, the Light Brigade!"
Was there a man dismay'd?
Not tho' the soldier knew
Someone had blunder'd:
Their's not to make reply,
Their's not to reason why,
Their's but to do and die:
Into the valley of Death
Rode the six hundred....

—(Charge of the Light Brigade,
Lord Alfred Tennyson, 1854)

What is AccountAble?

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.

Labyrinths

From where there is no escape.

The word 'labyrinth' comes from Greek tradition. King Minos of Crete had it designed to hold Minotaur. Legend has it that the labyrinth was so cunningly built that the designer himself could escape only with great difficulty!

The first known labyrinth was built in 1800 BC by the Egyptians near Lake Moeries. A more recent one was built around 1176 CE by King Henry II at Woodstock to protect his Mistress, Rosamund Clifford. The Imambara in Lucknow has one from the Moghul period.



However, labyrinths are not always made of bricks. The famous *chakravyuh* in which Abhimanyu was trapped was a circular

labyrinth made of warriors and chariots. He knew how to enter one, but only his father, Arjun, knew how to get out of it.

The latest trend is, however of bureaucratic labyrinths. And even Arjun would find it difficult to get out of one of these!

Sources: www.wikipedia.org; Brewer's Dictionary of Phrase and Fable; *Mahabharat*

Interpretation of law

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

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AccountAble in Hindi

अकाउण्टबेल हिन्दीमें 'लखा-यागे' के नाम से उपलब्ध है।

AccountAid Capsules

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Your Accounts On Internet

Your accounts can be summarised and published on Internet. You can also include them in your annual report. Examples can be seen at www.AccountAid.net. For details, write to accountaid@vsnl.com.

Questions and doubts?

AccountAid provides complimentary advice to implementing NGOs and NGO auditors on matters related to accounting or financial regulation. You can send your questions by e-mail or letter. You can also discuss these over the phone.

Comments

Your comments and suggestions can be sent to AccountAid India, 55-B, Pocket C, Siddharth Extension, New Delhi-110 014; Phone: 011-2634 3128; Phone/Fax: 011-2634 3852; e-mail: accountaid@vsnl.com.

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