

AccountAble

Audit Certificate

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When donor agencies give large grants to NGOs, they often ask for special accounting reports also. These reports help them ensure that funds have been utilized properly.

There are two kinds of utilization reports:

1. Self-certified utilization report,
2. Audited Utilization reports.

Audited reports can be in two formats:

1. Traditional Balance Sheet format,
2. Special audit certificate.

In this issue, we have discussed the audit certificate in detail.

1. Audited Balance Sheet Format

Some Agencies also ask for an audit report on utilization of their funds. If the Agency has given a format, then the NGO follows this. What happens if no format is given?

In many cases, the NGOs prepare separate Balance Sheet and Receipts & Payments account for the particular project. The auditors then check this and give a report. This report could vary from a simple "Checked and found correct" to an elaborate report.

So what is the problem with these? Well, often the report misses the mark. The Agency may find it difficult to correlate the report with their grant. Sometimes the report does not contain an opinion¹. In case the report is very detailed, the Agency may get



¹ Such as in the case of a report, which only says: 'checked and found correct'.

bogged down in details. This may lead to endless letters and explanations.

2. Audit Certificate Format

This problem can be solved if we use a format closer to Agency needs. The last two pages show such a format.

What is special about this format? First, it follows established standards on audit reporting. Second, it gives the information needed by most Agencies. For example, it contains information on amounts utilized, unutilized balances and exceptions. Third, it does not call for special book-keeping².

Of course, proof of a pudding is in eating it. This format has been tested, developed and used at a number of grant-making agencies over the last several years.

Filling up the certificate

The certificate must be prepared by the auditors on their firm's letterhead. The certificate is filled up based on the accounting records of the NGO. The accounting records themselves are verified by the auditors. Often auditors will ask some additional questions. Some auditors also make a record of the replies by asking for a letter of representation from the NGO.

Some other technical matters are discussed in the following paragraphs.

Scope

The scope of the review is defined in paragraphs a, b and c of the certificate. It is limited to funds spent for a particular project or from a particular source. The period of spending is also clearly spelt out in para b. Para c confirms that the expenditure has been incurred properly.

Tests

Para a also defines the kind of examination that was done by the auditors. For example, they explain that they have examined the accounts and the vouchers. They have also studied the grant agreement and the budget.

² For example, a separate cash book

Later, in para e, they make other important statements regarding the audit tests.

Certification

Three issues are certified by this document:

1. Amount of expenditure incurred under the project (para b);
2. Nature of expenditure and its conformity with the budget (para c);
3. Compliance with donor agency requirements (para d.4).

Expenditure

Table A provides a summary of the expenditure incurred for the project. This table should only show expenditure out of the donor Agency's funds. Expenditure from own funds or from community contribution etc. should not be included here.

The suggested format is for a multi-year project. If your donor gives single-year grants, then some of the columns can be deleted. The columns may then look as shown here:

Budget line item	Amount budgeted	Amount spent	Variance
------------------	-----------------	--------------	----------

Unutilised Balance

Table B provides a cash flow summary for the reporting period. At the bottom of the table is shown the unutilized balance at the end of the period. Would this be different from the cash balance of the grant?

In many cases, the answer would be yes. In actual practice, some of the unutilized balance may be with staff as program advance, some may be in bank on current or term deposit, and rest may be in form of cash.

The cash balance that most agency-wise Receipts & Payments Account, is mostly a theoretical figure only.

Exceptions

The auditors may have some doubts about a particular expense item. It may be that the auditors are not satisfied about the quality of supporting documents. Or they may be unsure that the item should be booked under this project. They can tabulate such cases in para c.

Confirmation

Para d provides several important confirmations. These reassure the reader as to the

quality of the audit. They also tell the reader whether the NGO is following the terms of the agreement or not.

Signatures

Along with the signatures, additional contact information is also provided. The auditors should put their seal on all the pages. They should also sign all the pages for additional authenticity.

If possible, the certificate can be printed back to back. This saves stationery and reduces the risk of mix-up of pages from different years.

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AccountAble in Hindi: Akã%{qbl ihNdl m% 'l ða-yaç' kenam se%pl Bx hç

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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2. Unutilised balance

Opening balance of unutilised funds	_____
Add: Total grant received during this period	_____
Total funds available	_____
Less: Amount spent during this period (Grand Total of Table A)	_____
Closing balance of grant Funds	_____

c. We also certify that the above expenditure has been truly and properly incurred in accordance with the Budget and agreement referred to above, except for the following items⁴:

Item	Amount (Rs.)	Comments

d. We further confirm the following:

1. We have carried out the above examination according to Standard Auditing Practices.
2. We are adequately satisfied about the reliability, authenticity and genuineness of the records and supporting documents produced before us.
3. (name of Society / Trust)..... has maintained the books of account properly, in accordance with the law and Generally Accepted Accounting Principles.
4. (name of Society / Trust)..... has complied with all the essential accounting requirements laid down in the agreement / letter referred to in para 'a', except for the following:
 -
 -
 -
5. To the best of our knowledge and belief, and according to the examination of accounts carried out by us,(name of Society / Trust)..... has not received / has received other funds for purposes similar to the above grant.

Yours faithfully

forname of CA Firm..

Chartered Accountants

(.....Name of CA.....) Membership No.

Date:

Phone:

Partner / Proprietor

Note: Auditors should put their seal on all pages. They should sign other pages as well.

⁴ Please write 'Not applicable' in the table if there are no such items. This requirement relates to substantive variations, such as those related to nature of the expenditure / payment. There is no need to report over-spending or under-spending here.