

AuditAble

4. FCRA Audit
Apr-Jun 2008 (Released: May'09)

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NGOs in India cannot receive foreign contribution without registration or prior-permission under FCRA¹. Further, they must file an annual return in form FC-3. This has to be filed by all NGOs registered under FCRA, even if they have not received any foreign contribution. NGOs which have obtained prior-permission should continue filing the form till the time they use up the entire contribution. Before filing the form, they must also get it audited by a Chartered Accountant.

In this issue of AuditAble, we discuss the points that an auditor must keep in mind while conducting the FCRA audit.

FCRA Audit Report

Let us first look at the specified form of audit report for FCRA purposes. This is given in form FC-3 itself:

¹ Foreign Contribution (Regulation) Act, 1976

Certificate to be Given By Chartered Accountant

I/ We have audited the accounts of
..... (name of Association and its full address including State, District and Pin Code, if registered society, its registration number and State of registration), for the year ending 31st March, and examined all relevant books and vouchers and certify that according to the audited accounts:

- (i) the brought forward foreign contribution at the beginning of the year was Rs.
- (ii) foreign contribution of / worth Rs. was received by the Association during the year
- (iii) the balance of unutilised foreign contribution with the Association at the end of the year was Rs.
- (iv) Certified that the Association has maintained the accounts of foreign contribution and records relating thereto in the manner specified in section 13 of the Foreign Contribution (Regulation) Act, 1976 read with sub-rule (1) of rule 8 of the Foreign Contribution (Regulation) Rules, 1976.
- (v) The information furnished in this certificate and in the enclosed Balance Sheet and Statement of Receipt and Payment is correct as checked by me/us.

Place _____ Date _____

Signature of Chartered Accountant with seal, address and Registration No.

Main Features

The format is a mixture of an audit certificate and an audit report. It asks the auditors to certify five items:

1. How much contribution was brought forward from the previous year?
2. How much contribution was received during the year?
3. How much contribution remained unutilized at the end of the year?
4. Whether accounts and records, for foreign contribution, have been maintained as per the rules?
5. Whether the information:
 - a. Given in the Certificate is correct?
 - b. Given in the Balance Sheet is correct?
 - c. Given in the Receipts & Payments Account is correct?

The above audit statements are to be given on the basis of audit of accounts and examination of 'all relevant books and vouchers'.

Let us now consider each of these in a little more detail:

Opening balance

The opening balance of unutilized foreign contribution would be taken from the previous FCRA certificate. If this is the first FC-3 return, then the opening balance would be Nil.

Receipts

This is a key item of information. Distinction should be made between the amount of income and receipts. For instance, if a loan is received from a foreign source, then it would be treated as a receipt for this purpose. Money recovered from micro-finance beneficiaries is also treated as receipt.

Further, receipts do not include money alone. If contribution has been received in kind (materials), then it should be valued and included in this certificate. Shares or securities received from a foreign source (such as an MNC) will also be foreign contribution.

Closing balance

This is a derived figure, showing the unutilized balance of foreign contribution funds and material at the end of the year.

To arrive at this figure, you also need to work out on how much funds/material have been utilized during the year. The concept of utilization includes both - expenses of a revenue nature as well as money spent on acquiring fixed assets etc. Similarly, any money given out as loan to a micro-credit group is also treated as utilization.

Closing Blance of Foreign Contribution	XXXX
Less: Value of materials per FC-6	XXX
Less: Loans and advances recoverable from staff/others	XXX
Less: Cash in hand	XX
Less: any other item....	
Closing FCRA bank balance per account books	XXXX

You should also reconcile the closing balance with the balance in FCRA Bank account:

Accounts and records

The NGO needs² to maintain a separate set of account books for the FCRA funds. This would mean a cash/bank book and separate ledgers for separate projects. Ideally, there should be only one FCRA cash book at one location, but many NGOs keep separate cash books for each project.

FCRA funds should be received and kept only in the des-

² Rule 8. Maintenance of Accounts-

- (1) A separate set of accounts and records shall be maintained, exclusively for foreign contribution received and utilised,-
 - (a) in Form FC-6, where the foreign contribution relates only to articles as referred to in item (I) of sub-clause (c) of clause (1) of section 2;
 - (b) in the cash book and ledger account on double entry basis, where the foreign contribution relates to currency received and utilised, and a separate bank account shall be maintained in respect of such contribution;
 - (c) In Form FC-7, where the foreign contribution relates to foreign securities.
- (2) Every account specified in sub-rule (1) shall be maintained on an yearly basis, commencing on the 1st day of April each year and every such yearly account, duly certified by a chartered accountant in Form FC-3 along with a Balance Sheet and statement of Receipts and Payments, shall be furnished, in duplicate, to the Secretary to the Government of India, in the Ministry of Home Affairs, New Delhi, within nine months of the closure of the year. Explanation- In this rule, "Chartered Accountant" has the meaning assigned to it in the Chartered Accountants Act, 1949 (38 of 1949).

ignated FCRA bank account. No other funds should be deposited in this account. Also, FCRA funds should not be deposited in any other bank account. If the NGO opens an additional bank account for keeping FCRA funds (after receiving these in the designated account), then this will be a violation of FCRA rules.

The NGO should apply and seek permission, from FCRA Department, to open additional secondary accounts, giving adequate reasons for this. FCRA Department is quite liberal in granting this permission, provided it is operationally justifiable.

If the NGO has received any material as donation from a foreign source, then these should be recorded in a register maintained in Form FC-6³. The value entries in FC-6 are made using estimated rates, as explained in AccountAble 58: Maintaining FC-6. Any money received from sale or disposal of these items should be taken to the FCRA cash book / bank account. For instance, if an organization has received books (religious books, children's books, library books etc.) as donation, then the books must be recorded in FC-6 as 'stock item.' Any money received during distribution/disposal of these should be recorded in the FCRA accounts.



How balanced is the balance sheet?

Balance sheet

The Balance Sheet should show all assets and liabilities related to FCRA funds. Assets and liabilities related to the local funds should not be reflected in this Balance Sheet. Money borrowed from local funds section (e.g. for opening

of FCRA bank account) can be shown as a liability to Local Funds. Deficit/surplus in the FCRA Income & Expenditure Account can be shown here, even though the Income & Expenditure Account is not to be filed or reported on.

Receipts and payment account

The Receipts & Payments Account should show all receipts and payments recorded in the FCRA bank book and cash book. Transactions which do not have any impact on bank or cash account⁴ should not be reported here.

With regard to advances, loans etc., NGOs often report only net transactions, needed to balance the Receipts & Payments Account. Ideally the payments and receipts should be accumulated and reported separately on the respective sides.

Some NGOs also show outstanding expenses on the receipts side. This is done due to fallacious treatment of program payments. For instance, if salary was outstanding at the year end, it can be accounted as expenditure, and reported in the Income & Expenditure Account. However, it cannot be reported as a payment in the Receipts & Payments Account, as the payment has not actually taken place.

Similarly, donations in kind should not be reported in the Receipts & Payments account, as these do not involve any inflow or outflow of funds.

Information in the certificate?

The certificate also includes a statement: *"The information furnished in this certificate ... is correct as checked by me/us."*

What does this mean? Are we referring only to the information in the CA certificate or information given in the entire form FC-3?

Prima facie it appears that the auditor needs to be concerned only with the information given in the CA certificate (in addition to the Balance Sheet and the Receipts & Payments Account). This interpretation is literally correct, and also appears to be reasonable considering that it would be very difficult for an auditor to certify the purpose of the expenditure enumerated in form FC-3.

³ FC-6 is like a stock register and is not filed with the FCRA Department.

⁴ i.e. Journal transactions



Standards on Auditing

As the above work falls within the attested functions of auditors, all the Standards on Auditing (SA 100-999) are mandatory. Of these, SA 250⁵ is of particular relevance. SA 250 requires that an audit should be planned and performed keeping in mind the possibility of non-compliance with laws and regulations. Any material non-compliance should be communicated to the senior management or Board. The impact of the non-compliance on financial statements should be considered. The auditor should express a qualified opinion or give a disclaimer as necessary. However, ordinarily the auditor is not required to report the non-compliance to regulatory authorities.

References

AccountAble 20: Filling Up FC 3 - Basics
Accountable 21: Form FC-3
Accountable 28: Form FC-6
Accountable 58: Maintaining FC-6
Accountable 72: Intricacies of FC-3 - Part 1
Accountable 73: Intricacies of FC-3 - Part 2

What is AuditAble:

Each issue of 'AuditAble' covers a different topic related to NGO auditing and is mailed to about 500 NGO auditors in India. AccountAid encourages reproduction or redistribution of 'AuditAble' in professional circles for non-commercial use, provided the source is acknowledged.

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⁵ 'Consideration of Laws and Regulations in an Audit of Financial Statements' (formerly AAS 21)