

AccountAble™

132. Financial Accountability of NGOs-4

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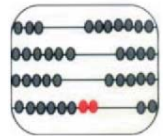
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A History of Unaccountability

One of the earliest fiascos in corporate history was the South Sea Bubble (1694-1722 CE). This led the British Government to introduce measures to prevent a recurrence. Similarly, the Great Depression (1930's) led to the setting up of US Securities and Exchange Commission in 1934. However, problems have continued, as witnessed during the recent Enron debacle, which led to the Sarbanes-Oxley Act of 2002.

In an article in the New Yorker¹, Mr. John Cassidy offers an interesting historical perspective on the link between executive compensation and accountability in 'The Greed Cycle'. He has demonstrated how each corporate solution to the problem of executive accountability led executives to introduce ever more creative ways of bypassing the same.

What can we learn from four hundred years of experimenting in corporate accountability? The lesson is simple: the corporate model is not fail-safe.

This is so despite the fact that it is an extremely expensive model, requiring battalions of accountants, analysts, auditors, and regulators. Enormous amounts are spent each year by the corporate sector on maintaining the system.

The Flaw

What then is missing from the model? It is difficult to say, but perhaps the term² 'Soulless Corporation' may hold a clue. A corporation has no soul, no conscience. It is not weighed down by the original sin, neither does it accumulate *karma* (कर्म). It doesn't seek salvation or *moksha* (मोक्षे). It merely wants to



go on making money forever.

In some cases, a CEO or promoter may lend his or her soul to the corporation. However, in most cases, a modern corporation's sins are not seen as the responsibility of any particular executive.

This lightness of conscience can lead a corporation to stretch legality to the limits. In fact, some believe that a corporation can and should do anything within the limits of law to promote shareholders' wealth. This approach eventually leads many corporations to play tag with law, paying professionals huge fees to re-interpret law and accounting standards to suit their needs.

¹ Pp. 64-77, The New Yorker, September 23, 2002

² 'The Soulless Corporation', William Futhey Gibbons, Revel Press, 1902

A model for NPO Accountability?

What should a model for NPO accountability look like? It is difficult to say. Typically, it is easier to say what it should *not* look like!

Sophistication

For instance, it is difficult to imagine that the NPO model requires the same level of complexity as the corporate model. It will also be difficult to marshal the kind of resources that the corporate model uses.

Maintenance Costs

Then there is the question as to who will pay for all this. For example, most Governments are reluctant to spend large amounts of money on Registrars of Societies or the Charity Commissioners. They expect the NPO sector to pay for its own regulation. In Maharashtra and Gujarat, NPOs pay around 2% cess annually to pay for the upkeep of the Charity Commissioner's office. Other states too have seen a sharp rise in filing or registration fees in recent years.

However, the Registrars and Commissioners are capable only of modest impact when it comes to financial accountability. Most find it difficult to even locate documents filed with them. At this stage, they cannot even think of any analysis or systematic intervention.

Objectives

An NPO model will also probably have different

The Registrar of Malgudi

When we entered the Registrar's room, it was full of files. There were files on the floor, on the desk, and on the chairs. There were files on the wall, in short, the files were everywhere except the ceiling. We then managed to locate the Registrar- he had almost disappeared behind the files.

He gave us some useful insights into the functioning of the office. His office looks after both firms as well as societies. There are about 20 people in the office. Though he is the registrar, he has no definite idea about the total number of societies in the state. His guess is that there are

around 50,000 societies. Could be more also.

Each society has to file their accounts once a year. A filing fees is to be paid by them. However, they are asked to bring the file also with them, as the Registrar doesn't have money to buy file covers.

Or the space to store them. The documents are sort of tossed into a pile in one of the halls. Once you have filed the accounts, and been issued a receipt, you can relax. No one will ever be able to locate them again.

The Government is thinking of computerizing the Registrar's office. However, this is being resisted by

some of the employees, who are worried about loss of jobs. There is also the question of finding the money for it.

[Malgudi, of course, exists only in Sh. R.K. Narayan's versatile imagination. But the place we have described could be any one of many across South Asia.]

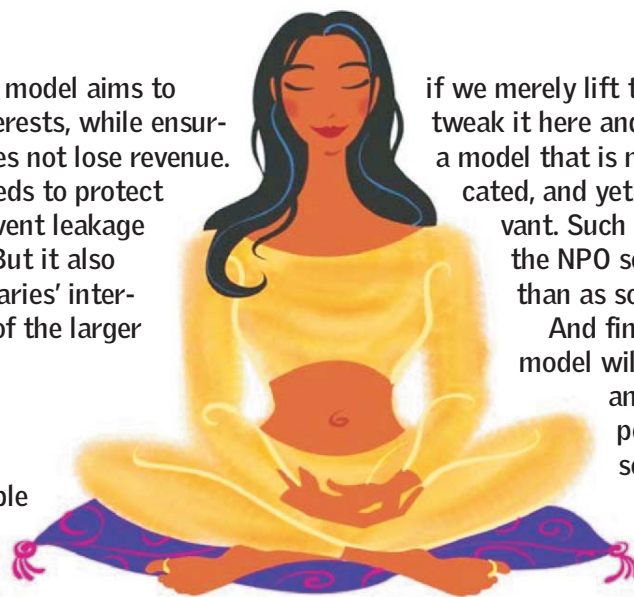


objectives. The corporate model aims to protect shareholders' interests, while ensuring that Government does not lose revenue.

An NPO model also needs to protect donor intentions and prevent leakage of Government revenue. But it also needs to protect beneficiaries' interest as also the interests of the larger society.

The Bare Soul

All this may not be possible



if we merely lift the corporate model and tweak it here and there. We need to develop a model that is not expensive or sophisticated, and yet remains effective and relevant. Such a model needs to engage the NPO sector as a regulator rather than as someone to be regulated.

And finally, the designers of the model will also have to keep in mind an important fact: unlike corporations, NPOs do have a soul!

What is AccountAble?

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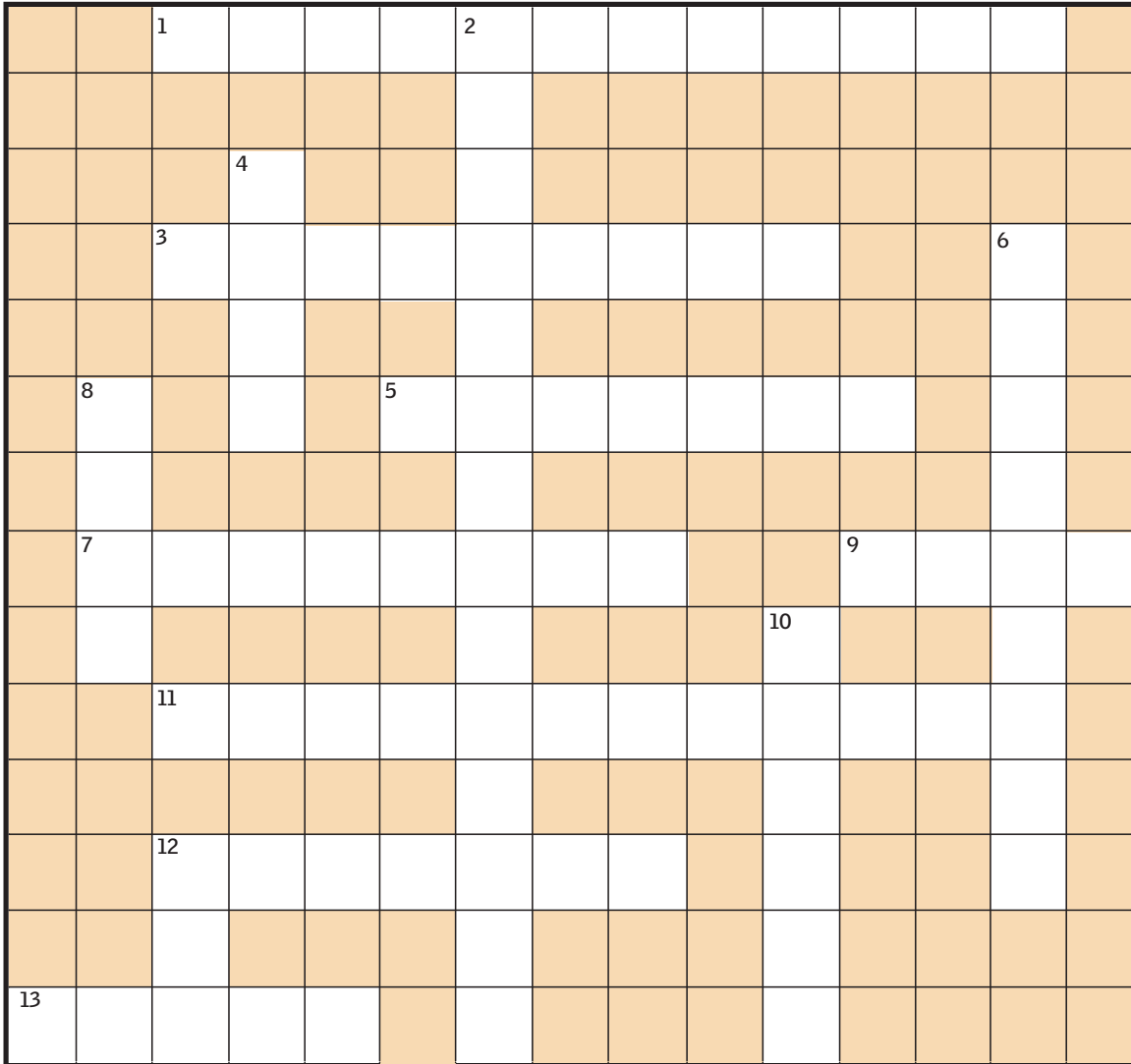
Comments

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PHILANTHROPY AND ACCOUNTABILITY

Crossword



Crossword Clues

Across:

1. Love of all mankind. (12 letters)
3. It is a body without a soul. (9 letters)
5. He who is not outside. (7 letters)
- 7 It comes back to you. (8 letters)
9. The Charity Commissioner loves this. (4 letters)
11. Actually, he does not charge a commission. (12 letters)
12. This should begin at home. (7 letters)
13. A powerful corporation, but it got into serious accounting trouble. (5 letters)

Down:

2. Everyone wants it for others! (14 letters)
4. Corporations do not have this. (4 letters)
6. She keeps a register. (9 letters)
8. Keeps the Indian Stock Exchange and Corporations in line. (4 letters)
10. The highest of four goals of life. (6 letters)
12. Modern acronym for ancient dharmada. (3 letters)