audit able

In earlier issues of AuditAble, we have discussed how risk-based internal auditing works in NGOs.[1] This model[2] has been tested at hundreds of NGOs across India over the last several years.

Risks related to budgeting and entrusted funds have already been discussed in earlier issues of AuditAble.[3] We now turn to Accounting.
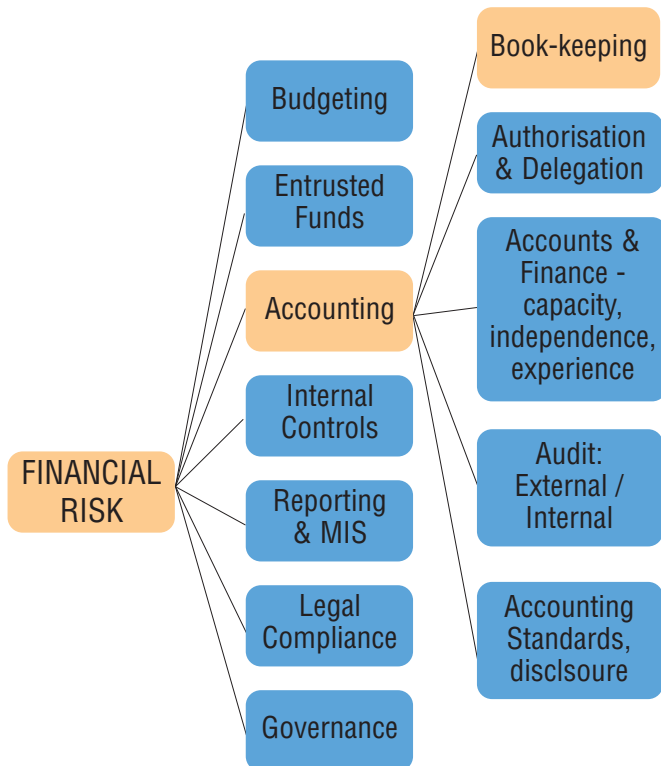
NGO Accounting

Contrary to popular perception, NGOs do more accounting and have more controls than others. However, their systems are often not designed properly and therefore end up delivering less.

In many cases, controls are simply pasted on to existing structures. The NGO staffis often not very clear about the rationale of a control.

Let us first look at NGO book-keeping, which can be quite bewildering.

Book Keeping

One common problem with NGO accounting is fragmentation of books. This can lead to double-dipping.[4] It also makes it difficult

FRAMS+

to get a financial overview of the NGO as a whole. This problem can be reduced by switching to integrated accounting.[5]

However, other issues peculiar to NGO accounting remain.

Risk Statement
Vouchers, bills, receipts or other supporting documents can be reused or accounted in multiple projects.

Issue
This issue becomes critical if account books are separate for each donor / project. In such a case, the vouchers are also

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[1] See AuditAble 5 and 6, www.AccountAid.net
[2] Called Financial Risk Assessment & Mitigation System (FRAMS+)
[3] See AuditAble 13-15, www.AccountAid.net
[4] Same expense being booked twice, often in two different books
[5] See AuditAble 13, p. 2, www.AccountAid.net

filed project-wise. Sometimes, the same voucher or supports are accounted in multiple projects. As the donor-appointed auditors only look at their own project, the same voucher or bill can be shown to different project auditors at different times.

Questions to ask
Are vouchers, bills, and receipts marked with donor fund stamps *(see illustration)*? Or does the NGO merely write the Project name by hand? Are these stamps put on all supporting documents also?

GENERAL FUNDS

CRY FUNDS

SRTT FUNDS
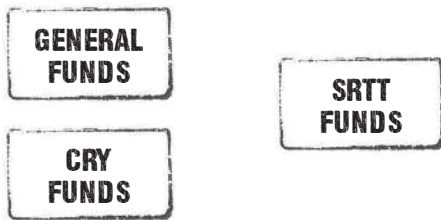
Risk Statement
Transactions accounted and reported under one donor can later be changed or reported to another donor.

Issue
This practice is also known as donor-switching. The expense is first charged to one donor. The donor reports are generated and sent. Later, the expense is switched to another, by simply changing the account head or cost centre. This can be a simple error or it can degenerate into a deliberate pattern.

   This is more common where accounts are computerized. Some accounting software use multi-dimensional accounting *(see box)*, where this problem can become unmanageable.

Questions to ask
Can account heads or cost centres be changed by accountants? Who needs to authorize such changes? Does this leave an audit trail? Are there variations between financial reports sent to donors and the figures in the account books? Are vouchers and bills cancelled with donor fund stamps?[6]

   Does the accounting software feature multi-dimensional accounting? If yes, then is there any way to reconcile totals of amounts reported to various donors, with those in the general trial balance?

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[6] One simple way to manage this risk is to insist on all vouchers and supports being marked with donor funds. This increases the chances of such switches being detected during donor audits.

COMPARTMENTALISED ACCOUNTING

In 2004, a big Tsunami hit the Indian coast, with large scale devastation. This was followed by an outpouring of relief funds, from across the world.

   During an audit of one such relief effort, the auditors visited the field area first and saw how fishing community had been helped with new boats and nets. On reaching the NGO's office, they found it was divided into several glassed-off sections, one for each project. A similar structure of separate compartments was found in the account books also.

   The auditors were taken to one separate room, where the books and vouchers related to the particular donor were brought. The NGO had about 57 companies in Tally, one for each donor. It also had about 60 bank accounts. Will anyone be able to trawl through such data to check for duplicates? Very unlikely.

   So what can happen in such a situation? Relief supplies bought once can easily be accounted in multiple donor books. The same physical items (boats and nets) can also be shown many times to different donors. The money thus 'saved' can be used for other activities.

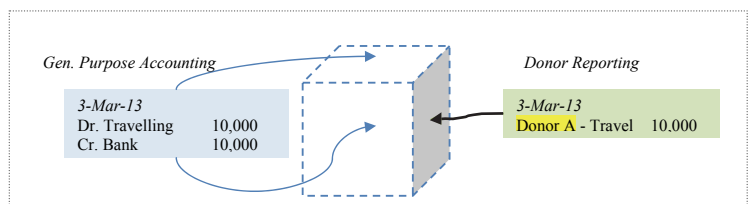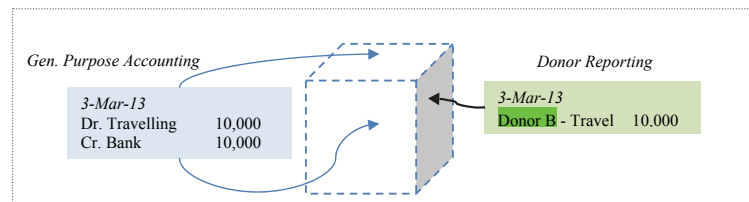Figure 1: ORIGINAL TRANSACTION – REPORTED TO DONOR A (OCT'12-MAR'13)

FIGURE 2: MODIFIED TRANSACTION – REPORTED AGAIN TO DONOR B (JAN'13-JUNE'13)

Risk Statement
Transactions in account books can be inserted in back-date or altered without authorisation or record of change.

Issue
In some NGOs, basic book-keeping rules are not followed. Manual books may be written up with blank spaces, and the balancing done in pencil. This allows the accountant to insert entries or alter them at will.

The same applies to accounting in software such as Tally, which do not track insertion or alteration of entries.

Questions to ask
Are there extra blank lines in cash book or ledgers? Can entries be inserted in these? Are the balances in cash books and ledgers inked once a month?

Do the vouchers use an annual serial?[7] Are voucher numbers written in ink or pen? Is the same voucher number series used in Tally?

Risk Statement
Payments for expenses may not be verifiable with bank records.

Issue
Some NGOs make most of the payments in cash, even where bank payment is feasible. These payments may be supported only by hand-written receipts, cash memos, etc. This increases the risk that some of the payments may not be genuine or may be inflated.

Questions to ask
What kinds of expenses are paid in cash? Are these petty payments, to street vendors or for occasional purchases? Are any regular vendors (e.g. printers) being paid in cash or by bearer cheque? Are major expenses incurred through employee advances? Do these include payments to regular vendors?

Risk Statement
Accounting software does not control, track or record user access and changes.

Issue
In some NGOs, two or three accountants share the same login id and password. This means that access cannot be tailored according to roles. In other cases, no administrator password is set – if the accountant leaves suddenly, it

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MULTI-DIMENSIONAL ACCOUNTING

Some accounting software (such as VOLAC) feature what we call 'Multi-dimensional Accounting'. This allows an expense to be debited / credited to ledger accounts in the normal manner. The user can generate a trial balance and accounting reports for general purpose accounting and reporting.

The expense entry can also be marked to a donor budget head. This is similar to using cost centres in Tally for donor reporting. This enables the user to generate a budget utilization report for the donors. Thus, this allows dual purpose accounting and reporting, with the same entry.

While this is very useful for NGOs, there is also a peculiar control problem. Typically, the software does not offer reconciliation between general purpose accounts (Apr-Mar) and the amounts reported to different donors for different periods. This means that an NGO which spent a total of Rs.15 crores in 12-13 can easily end up reporting Rs.16 crores to different donors, without anyone being the wiser.

This problem is illustrated here, where the cube represents a single transaction in multi-faceted accounting and budget reporting. The white sides represent Debit and Credit facets. The grey side represents donor reporting facet.

becomes difficult to use the Tally file.

Questions to ask
Are there multiple users for Tally? Does each person have a separate login ID and password? Does the software tag each entry with user ID? Does the organisation have an Admin ID and password?[8]

Risk Statement
Accounting software does not provide a secured audit trail.

Issue
In a number of cases, the accounting software does not

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[7] Some NGOs use monthly serials (or even daily serials!) for vouchers. This increases the risk that vouchers may be inserted later on.

[8] This is used to control software changes, user access and for emergency retrieval of passwords, etc.

have a proper audit trail.[9] Tally's standard audit feature is essentially a supervisory feature – and not useful for year-end audits. However, you can buy a Tally add-on to use a proper audit trail.[10]

The other issue is that NGOs often do not take backups regularly. Sometimes the back-up is stored on the main disk itself. This is as good as locking the duplicate key of a safe-in the safe itself.

Questions to ask

What accounting software is being used?
Does it have a proper audit trail? Has the feature been enabled? Is the audit trail secure? Who has access to the audit trail?

Has an Audit Trail been added to Tally? Can you see voucher alteration history? Is the trail secure?

What are the controls on modifying past entries? Can people change entries at will? Or do they need to pass a rectification entry instead?

Is a backup of the data taken regularly? Where is the backup data stored?

Risk Statement
Basic accuracy of book keeping may not be ensured.

Issue
Many smaller NGOs do not prepare a trial balance. In some cases, the books are fragmented or incomplete. In others, opening balances are taken only for cash and bank balances.

In some NGOs with computerised accounting, the accountant may make multiple copies of the accounts data file. This can lead to confusion about whether you are working on the latest file or not.

Questions to ask
Is a trial balance prepared every month?[11] Are opening balances brought forward after the previous year's audit is over?

Are multiple copies of same Tally data available? Can these get mixed up?

Risk Statement
Accounting records may not be updated regularly or promptly.

Issue
Some NGOs do not rely on formal books of accounts for day to day management. The account books are mostly seen as a donor or legal requirement. Therefore, books are updated only in spurts, when reports or due or an audit is to take

place. Sometimes book-keeping is outsourced to a part-time accountant (or even a BPO). In such cases, this problem may be more pronounced.

Questions to ask
How long do cash book, bank book entries remain pending normally? What is the pendency as on date? If accounts are kept manually, how long does ledger posting remain pending?

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[9] Audit trails in accounting software allow the auditor to review all modifications, deletions or insertions in accounts. A secured audit trail means that only auditors can access the trail – it cannot be deleted or modified by other users.

[10] 'Audit Trail-Track Voucher Alteration History 1.0'. Available from Tally Shop for Rs.240-720

[11] For manual accounts