

AccountAble

NGO Auditors

Issue 39 for October 1997 (Revised July 2000)

Most human beings consider audit as an unnecessary evil. Fortunately for the profession, there are some who differ: they think that it is a necessary evil.

There is much confusion among NGOs and agencies as to what an audit means. An auditor's rubber stamp is often thought to be the ultimate certificate of financial propriety. On the other hand, if an employee fudges his travel bill, someone is bound to ask: 'what were the auditors doing?'

This issue tries to provide a perspective on the auditor's role, duties and liabilities.

Does an auditor's stamp mean that everything is all right?

No, the stamp simply identifies the accounts which the auditors have checked. The stamp is put both on good accounts as also bad accounts. You have to read the audit report to understand whether accounts show a proper picture.

You mean a report like: 'checked and found correct'...

These reports (technically called 'audit statement') are not sufficient. For example, these do not tell what was checked. Someone may say that they simply checked the totaling of the accounts and found it correct. Another person may say that they checked the spellings only! The ICAI (Institute of Chartered Accountants of India) discourages such brief reports as these can be misleading.

What does a proper audit report look like?

Good audit reports are typed on the letter-head of the auditor. They show what was the scope of the audit, what type of checking was done and what are the findings. The details of the report depend on the type of audit. An example of a proper audit report is given in the box.

All audit reports are same — should we really read each one?

It is true that most audit reports are not very exciting or different. The language used is very stereotyped and standard. Firstly this is because each phrase in the report has been selected carefully for its exact meaning. Secondly, the clients prefer to correct whatever mistakes the auditors find. If they don't correct the mistake, then the auditors may give a qualification. You should look for qualifications when reading a report.

What is a qualification?

Qualifications are sometimes called 'notes' or 'comment' also. A qualification means that auditors are not very happy about something in the accounts. Qualifications are made only when the matter is quite serious — small errors are normally ignored. A strong qualification normally starts with the words '... subject to note number ...'. Milder qualifications are indicated by the words '... read with note number'.

How does a qualification affect the accounts?

This depends on the wording and the amounts involved. Each qualification has to be read carefully and its meaning understood. Qualifications can be very embarrassing for the organization concerned.

What is statutory audit?

Any audit that is required under a law (statute) is a statutory audit. Audit under Income Tax (form 10-B), FCRA (form FC-3), Societies Act are all statutory audits. CAs normally refer to company audits as statutory audit.



Auditors' Report

We have audited the attached Balance Sheet of _____ (Society) as at 31st March 1997 and also the Income & Expenditure Account and Receipts & Payments Account for the year ended on that date, annexed thereto and report as follows:

- 1 We have obtained all the information and explanations which to the best of our knowledge were necessary for the purpose of our audit;
- 2 In our opinion, proper books of account as required by law have been kept by the Society so far as appears from our examination of the books;
- 3 The Balance Sheet, Income & Expenditure Account and Receipts & Payment Account dealt with by this report are in agreement with the books of accounts;
- 4 In our opinion and to the best of our information and according to the explanations given to us, the accounts give a true and fair view:
 - a. in the case of the Balance Sheet, of the state of affairs of the Society as at 31st March 1997;
 - b. in the case of the Income & Expenditure Accounts, of the surplus of the Society for the year ended on that date; and,
 - c. in the case of the Receipts & Payment Account, of the receipts and payments of the Society during the year ended on that date.

for xyz & Co.
Chartered Accountants

Place:
Date

(abc) Partner

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...statutory audit

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What is 10-B report?

This audit report is issued under Income Tax and covers various issues. These include questions on the amount of salary etc. paid to Governing Body members, investment of funds in private companies etc.

What is internal audit?

Larger organizations set up internal audit system so that some one can review their accounting systems regularly. This results in less mistakes and makes internal controls strong. This may be done by some experience person or a CA firm. However, the statutory auditors of an NGO should not take up its internal audit.

What do CAs do, apart from audit?

CAs help NGOs mainly with registration, income tax, sales tax, computerization of accounts, certificates, FCRA matters and book-keeping. Discuss your accounting problems frequently with your auditors. This will give them a better understanding of your work and they will be able to give you good advice.

Our auditors don't know anything about FCRA...

FCRA is not a major area of practice for most CAs. However, your auditors have been trained to understand and interpret various laws and their financial implications. If you share some relevant training material and the FCRA act with them, they will be able to help you much better.

Is it all right if my auditors write my accounts also?

No, it is not. Your auditors or their staff should not write your account books. If this is allowed, it becomes difficult for them to do a proper audit.

Our auditors refuse to type the Balance Sheet on their letter-head...

They are right. The ICAI discourages use of letter-heads of CA firms for typing Balance Sheets etc. These can be typed on plain paper. The auditors then put the stamp of their firm to authenticate the accounts. The letterhead should be used only for typing the audit report.

Can audited accounts be checked again by another auditor?

Yes. Firstly, auditors merely express their opinion on accounts. One auditor's opinion may be different from another.

Secondly, each audit may have a different scope of work. A normal audit of financial statements is concerned with true and fair view. An audit commissioned by a funding agency may be concerned with proper utilization of funds. Both audits may result in differing reports.

Who can audit our accounts?

In a general sense, almost any person can audit or check your accounts, whether or not they are professional auditors. This includes gazetted officers and donor agency representatives. However, for a proper audit of the Balance Sheet, Income & Expenditure, Receipts & Payments Accounts, the concerned person has to either a practicing Chartered Accountant, a part-B state auditor or a person approved by the government. Of these, practicing Chartered Accountants are governed by rules of ICAI.

What is ICAI?

ICAI means Institute of Chartered Accountants of India. It has been established by the Chartered Accountants Act, 1949. It trains new CAs, conducts examinations and declares results.

The CA profession is very strictly controlled as compared to other professions in India. After a CA qualifies, he has to become a member of the Institute if he wishes to practice as a CA or conduct certain types of audits. All members of the ICAI are subject to disciplinary action by the Institute if they are negligent in their work .

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Unkindly yours, ...



"In about 1979, I received a letter from an aspiring anthologist who had been commissioned to write a book on the subject of humor in accountancy — a potentially slim volume, if ever there was one. I replied that the only two accountancy jokes I knew were a secret between me and the (Income Tax Department). I don't think the book was ever published..."

"According to a writer in Time Magazine, accountancy is a profession whose idea of excitement is sharpening a bundle of No.2 pencils..."

— Guinness Book of Humorous Anecdotes by Nigel Rees

"... in your report here, it says that you are an extremely dull person. Our experts describe you as an appallingly dull fellow, unimaginative, timid, spineless, easily dominated, no sense of humor, tedious company and irrepressibly drab and awful. And whereas in most professions these would be considered drawbacks, in accountancy they are a positive boon."

— Penguin Dictionary of Modern Humorous Quotations, compiled by Fred Metcalf

Audit Under	CA	B-State Auditor	Approved person
FCRA	Yes	No	No
Income Tax Act	Yes	Yes	No
Bombay Public Trust Act	Yes	No	Yes
Societies Registration Act (as amended by states)	Yes	In some states	In some states

...ICAI

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What is negligence?

If a CA does not perform their work properly or according to professional standards, they may be treated as negligent.

Can any one complain against the auditors?

Yes. If the matter is serious, the complaint can be made on plain paper by writing to the ICAI. The reason for complaint and relevant documents should be sent along with the complaint. The name and membership number of the concerned CA should be given. You should also give your name and address so that ICAI can ask you for additional facts, if required.

Can the auditors be sued by the funding agency?

Yes. Apart from complaining to the ICAI, the funding agency can also file a civil suit against the auditors, if their negligence has caused loss of money to the agency.

How many CAs are there in India?

Some people do not take up or continue membership of the ICAI after qualifying. Excluding these, there are 90,366 CAs in India according to latest figures (1.4.99). Out of these, 53,829 are practicing full-time as auditors. Most of the CAs are working in the five major metros. However, you will also find CAs in small places such as Akhnoor, Banga, Jakkhal, Mansa, Sardoolgarh or Udhampur. Their addresses are published each year by the ICAI in a directory of firms and a list of members. These are available from the ICAI offices.

Has ICAI fixed some minimum audit fees?

These requirements apply mainly to larger firms having at least four partners. Such firms should charge at least Rs.2,000 p.a. (if the city has a population of less than 20 lacs). If the population is more than 20 lacs, then they have to charge at least Rs.3,000 p.a.. For still larger firms, having at least eight partners, these rates are doubled. In case the work is done on honorary basis (that is, without any fees or by charging Re.1 or so), then the requirements are not applicable. (Sch 2, part 2, cl. 5 of the CA Act; notification # I-CA(7)/29/95 dated 1.3.95)

Can we pay our auditors fees @ 1% of total grants received?

No. This is allowed only in the case of co-operative societies, where fees can be paid as a percentage of paid up capital, gross income, profits etc. (Sch. 1, part 1, cl. 10 of the CA Act; Regulation 192).

Then how much fees should we pay the auditors?

The fees should be calculated on the basis of time spent, complexity of work, whether senior or junior persons are required, and the responsibility associated with the work. Your auditors can give an idea of the fees calculated on this basis. However, amount of fees alone should not be a criteria for appointment of auditors. You should consider other factors such as accessibility, credibility, integrity, professional expertise etc.

Can the auditors leak our secrets?

By training and habit, auditors do not normally discuss matters related to their clients with others if these are confidential in nature. Moreover, all auditors are legally bound by a code of conduct. This includes maintaining client confidentiality. Leaking confidential information to others, without consent of the client is treated as misconduct. It can lead to disciplinary action by ICAI.

However, they can be compelled to disclose such information if required by any law.

Our auditors are too strict...

In the case of commercial concerns, the audit issues are different, accounting department is strong and there is a good internal check system. This is missing in most NGOs. NGO accounts tend to be controlled by the chief functionaries. Most NGOs also do not have sufficient budget allocation for paying competitive salaries to accounts staff. These factors make NGO audits more risky for the auditors.

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Fees as a percentage?

Your views, comments and questions are welcome. Please send these to:

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How strict should the auditors be...

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Secondly, most auditors view NGOs as working with public money. This calls for higher standards of accountability. The presence of funding agencies and involvement of their auditors also may make your auditors more careful and strict. This should be welcomed as it will help strengthen your accounts department.

How can we remove our auditors?

This step should not be considered lightly. If you are dissatisfied about the quality of work or time and attention which you get, discuss this with the auditors. You can also wait till the appointment lapses with the the end of the year. You can then appoint a different auditor.

If for some reason, you have to remove the auditors mid-way, then such removal can only be done by the body which appointed them (General Body or Governing Body). You will have to pass a resolution at the meeting for removal. As a courtesy, you should also intimate the concerned funding agencies regarding change of auditors. In some cases, funding agency insist that they should be informed if the auditors are changed.

The new auditors will first write and discuss the reasons for change with the earlier auditors (*Sch.1, part 1, cl. 8*). When they are satisfied, then only they will accept the audit.

Should we re-appoint auditors each year?

This depends on your by-laws. If the by-laws say that auditors would be appointed by the General Body each year at each Annual General Meeting, then this procedure has to be followed. For this you will have to pass a resolution at the meeting. Generally speaking, it is a good practice for the auditors to be appointed by the General Body. This practice is followed in all companies.

If the by-laws allow Governing body or chief Functionary to appoint the auditors, then they can do so.

What were the auditors doing...?

This question is often heard when some mistake is discovered in the accounts or some employee is found to have cheated the organization. When auditors report on true and fair view, they are not expected to check each mistake or look for minor frauds. Overall they look for reasonable quality of book-keeping, supporting documents, a true and fair view. For this they may check all transactions or pick up a sample. Their responsibility is limited to exactly what they say in their report.



References:

- *Contemporary Auditing*: 5th Edition 1999 ; Author: Kamal Gupta; Pub.: Tata McGraw-Hill Publishing Company Ltd.; Rs.295
- *Compendium of Guidance Notes*; Pub: Institute of Chartered Accountants of India, Indraprastha Marg, N. Delhi-1
- <http://users.aol.com/auditnet>: Links to various sites on Internet for auditors