Assessing Financial Management Capacities

Of

NGOs associated with MERC programme
and managed by Aga Khan Foundation, India

REPORT

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REPORT

by

Subhash Mittal & Associates
Chartered Accountants

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Volume I

(Main Report)

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SMA

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ABBREVIATIONS

AFPRO	-	Action for Food Production: Udaipur Unit
AKF	-	Aga Khan Foundation, India
ARAVALI	-	Association for Rural Advancement through Voluntary Action and Local Involvement
ASA	-	Action for Social Advancement, Dahod
CBO	-	Community Based Organisation
CEO	-	Chief Executive Officer
CTO	-	Chief Training Organiser
DRDA	-	District Rural Development Agency
DSC	-	Development Support Centre, Ahemdabad
FCRA	-	Foreign Contribution Regulation Act
FO	-	Field office
GRASP	-	Grass Roots Action for Social Participation, Aurangabad
ICEF	-	India-Canada Environment Facility
IP/IPs	-	Implementing Partner/s
MERC	-	Management of Environmental Resources by Communities Programme
NGO	-	Non Government Organisation
ODI	-	Overseas Development Institute
RBKS	-	Rajasthan Bal Kalyan Samiti
RDSN	-	Rajasthan Development Support Network
SAVA	-	Saurashtra Voluntary Actions, Jamnagar
SMA	-	Subhash Mittal & Associates
VBKVK	-	Vidya Bhawan Krishi Vigyan Kendra, Udaipur
VLO	-	Village Level Organisation
WDC	-	Watershed Development Committee

EXECUTIVE SUMMARY

1. INTRODUCTION

1.1 ICEF and AKF Canada have committed a fund of Rs 121.5 millions for next 5 years for MERC project. Under the project, ICEF provides the funds to various Implementing Partners (IPs). In addition, ICEF has also contracted AKF India to route part of these funds to certain other IPs. Though AKF does not have a direct implementing responsibility, however as it is the contracted party, it certainly has accountability in overseeing the proper utilisation of these funds.

1.2 As part of this responsibility, AKF has appointed within its organisation a Programme Officer and a Project Accountant who would coordinate the needs and activities of the different IPs. Currently AKF is operating through eight IPs.

1.3 To standardise the reporting and other financial requirements of ICEF, it issued comprehensive financial guidelines in the form of a Financial Systems Manual.

1.4 AKF considered these guidelines and felt that a number of its IPs were involved at the grass-root level and they may not be sufficiently equipped to deal with such financial requirements. It hired the services of SMA, after establishing their credentials, to identify the present financial management capacity status of each of its IP and suggest mechanisms, which would enhance these capacities.

2. METHODOLOGY

2.1 SMA has used following tools in the process of fulfilling its responsibilities of completing the above task.

- inquiry
- examination and verification
- analysis
- extensive discussions, and
- SMA's own cumulative exposure

2.2 While formulating standards of financial management capacities, which the IPs should possess, the consultant, S. Mittal, drew heavily upon his own experience of almost two decades (cumulative experience of the team would be much higher). Discussions were also held with Snr. AKF personnel. Based on these initiatives a document entitled ' A Note on Financial Management

Requirements of Implementing Partners' was prepared and submitted to AKF.

2.3 Visits to individual IPs were organised to facilitate the assessment of IP-wise financial management capacities. During these visits inquiries were made into IPs financial systems, with the concerned IP personnel. Systems were also examined based on certain test checks. The purpose of this check was not to carry out any audit but to identify the major financial systems and the related weaknesses. Before finalising the observations, these were discussed with the concerned IPs.

2.4 Analysis was carried out based on these observations, and mechanisms identified, which could help the IPs in strengthening their financial management capacities.

2.5 Discussions have taken place at all levels, that is, between SMA & AKF, between SMA & IPs and between AKF and IPs.

2.6 The draft report has been shared with the IPs, majority of them have responded positively to the recommendations in the report. Comments of IPs have also been included in the report wherever appropriate.

3. MAJOR FINANCIAL MANAGEMENT CONSTRAINTS

Major constraints, which appear to be common among most IPs, are as follows.

3.1 <u>People related</u>

a) Certain IPs have experienced and trained accounting staff (ASA, AFPRO, DSC), who carry out the accounting duties, however in most other cases it is a major problem. It was also seen that sometimes even if an IP has been able to employ an experienced accounting person, it has not been able to retain such a person. GRASP has had 3-4 accountants in last 2 years.

b) In case of DSC it was noted that though volume of accounting work had increased considerably but the staff in the accounting dept. has remained static. This has put tremendous pressure on the time available to the staff concerned. Ultimately this could result in poor quality of service.

c) Account personnel employed with different IPs have varying level of exposure. As they are operating individually in different environments, therefore their reaction to similar situations would be different. It would be useful to make efforts to bring some form of uniformity to their reactions to similar type of transactions.

d) In most cases it was observed that the participation of the governing bodies in laying down the policies and monitoring of functioning of the IPs needs to be further enhanced.

3.2 Accounting Policies (ICEF Accounting Manual)

a) There appears to be inadequate compliance of ICEF Financial Systems Manual. Even where compliance has been noted, it is more due to the fact that compliance is not a conscious decision by most IPs but simply coincidental. In majority of the cases no serious effort was made to study the ICEF accounting manual. This could be because of lack of proper expertise at the IP level.

- Other reasons appear to be that the manual is quite exhaustive in its approach, and has included a large number of areas, which are not applicable in case of a number of IPs. For example, it includes 16 different formats for reporting, while AKF requires its reporting by IPs in mainly 2 formats. (Though it is understood that some of these formats are required on annual basis and would therefore be applicable, however several of these are not applicable to most of the IPs.) Similarly the whole chapter on Chart of Accounts is not relevant for the IPs working with AKF under the MERC programme.

- There are other areas, where ICEF has verbally agreed with AKF not to insist upon following certain accounting policies, mainly treatment of advances.

- There are areas where certain IPs do not fully agree with ICEF policies. Particularly relating to opening of a separate bank account for the project, or in case of method of sharing of common costs, etc.

b) Lack of interest in the ICEF accounting manual is mainly due to two factors. One, the manual is probably not understandable for the level of expertise available at the IPs, and the other, that no specific effort has been made to make these IPs gain an understanding of the issues included in the accounts manual.

3.3 Internal Control

a) In most cases, apart from demarcating expenditure authorisation authority, no major internal controls have been developed in most IPs.

b) In none of the projects adequate system of segregation of duties exist.

c) In most cases vouchers appear to have been approved more on personal knowledge of transactions and trust of the employees concerned, rather than the presence of an underlying system which helps the authorising person to take an independent opinion based on details.

d) A formal system of safekeeping and maintenance of the fixed assets is not present in most cases.

3.4 Planning Mechanisms

Requests for funds is based on the budget allocation rather than needs of the project.

3.5 Monitoring Process

a) In most cases the audit process presently adopted covers only the financial aspects of transaction verification, without considering the programme verification.

b) The audit process would require considerable enhancement, as none of the auditors have carried out audit in accordance with ICEF requirements.

c) In case of certain IPs capacity of the auditors to conduct a management audit as required under ICEF guidelines is doubtful. ASA stated that its auditor's capacities were rather limited.

4. RECOMMENDATIONS

SMA has included following major recommendations in its report.

4.1 AKF to help individual IPs in evolving a recruitment policy to ensure that proper accounting expertise is available at the IP level. This policy should be broad-based so that suitable amendments can be made to take care of local conditions of the individual IP concerned.

4.2 An annual workshop of the finance officers of all the IPs associated with MERC project should be held. This would help in a number of ways. It would reduce the different interpretations of ICEF accounting manual. It would become a forum for finance officers from different projects to discuss related issues.

4.3 AKF should prepare a simplified version of ICEF accounting requirements. It should be concise and contain only those sections, which are relevant to the IPs. The document to be prepared should be based on participatory approach and IPs need to be fully consulted in the process. There should be sufficient discussions with ICEF officials also, to ensure that any sticky points are resolved. The document should be got approved from ICEF. This would avoid any future misunderstanding on the accounting policies and system that AKF and its IPs follow.

4.4 Some minimum basic internal controls should be followed by all the IPs. Such minimum internal controls can be defined by AKF through a circular.

4.5 AKF should look into the present practices, of charging common costs to the project, being followed by the individual IPs and consider their appropriateness. It should evolve a system for charging of such common costs in consultation with IPs.

4.6 AKF to take responsibility of carrying out management audits as per the format of ICEF.

5. CONCLUSION

5.1 The above recommendations are made on the basis of an understanding that AKF has a long-term commitment towards its Implementing Partners. As part of this commitment AKF would like to build all round capacities of its partners, the financial management of which is an important constituent.

5.2 The recommendations proposed are made in this background and are part of a continuous process of building capacities. It is SMA's opinion that if these recommendations are implemented in right earnest, it will considerably enhance the financial management capacities of AKF's implementing partners. Considering that enhancing the capacities of IPs is more of a process, therefore these recommendations need to be reviewed on a regular basis and modified as the situation demands.

C o n t e n t s

Volume I

MAIN REPORT

Volume II

1.1 BACKGROUND

1.1.1 India-Canada Environment Facility (ICEF) and Aga Khan Foundation (Canada) have presently committed a funding of INR 108 million and INR 13.5 million respectively for a five-year programme on Management of Environmental Resources by Communities (MERC) in India.

1.1.2 Under this programme Aga Khan Foundation (AKF) receives funds from ICEF, and transfers these funds to eight different projects in the states of Gujarat, Rajasthan, Madhya Pradesh and Maharashtra. AKF is not involved in the day to day management of these projects, but is responsible for the supervision and capacity building of these organisations.

Considering MERC is a community based resource-management programme and has non-FCRA funding, it is understood that AKF has involved grass-root organisations, which may not necessarily have the desired capacities but have better impact. In this regard it is quite possible that such organisations' financial management capacities may also require upgradation.

1.1.3 ICEF has recommended certain financial guidelines for the implementing partners (IPs) in the form of a document entitled Financial Systems Manual. As the AKF has the reporting responsibilities for these projects, it would like to see that the implementing NGOs follow ICEF's accounting policies and reporting requirements. It further considers that NGOs financial records should be such that these not only accurately report the financial transactions but also can stand any subsequent scrutiny by ICEF. Therefore it is important that the implementing NGOs financial management capacities are assessed and if necessary these are upgraded.

1.1.4 With this objective in view AKF appointed SMA to carry out an assessment of the financial management capacities of its eight IPs under the MERC project.

1.2 OBJECTIVES

1.2.1 The objective of this assignment is defined in Terms of Reference (see Annexure A) issued to vide AKF's letter dated 28 June 1999. These have been reproduced below.

- establish the minimum required capacities which the implementing partners (NGOs) should have,
- know the financial management capacities of the individual NGOs involved in the implementation of MERC, and
- to have a plan to upgrade financial management capacities of the individual NGOs to the minimum required.

1.3 METHODOLOGY ADOPTED

1.3.1 ICEF Financial Systems Manual was studied. SMA also had extensive consultation at AKF.

1.3.2 Outcome of this consultation is documented in the form of a paper entitled 'A Note on Financial Management Requirements of Implementing Partners'. The document served as a benchmark while making assessments for each IP.

1.3.3 SMA visited each IP at its office where detailed financial transactions take place. For example, in case of AFPRO, though Delhi office, which is responsible for bookkeeping and reporting, was visited, major time was spent at its Udaipur Unit where detailed transactions take place. As certain IPs work mainly through VLOs, etc., wherever considered necessary visits were made to such organisations to understand their financial management capacities to utilise the funds transferred.

1.3.4 AKF Project accountant accompanied SMA on each of these visits. The purpose was two fold, one to facilitate SMA to ensure that each of these visits, duration of which generally was 1.5 – 2 days, remain most productive and the other was to enable AKF to gain first-hand knowledge of each partner's financial management capacities. In the process it was anticipated that AKF would also further enhance its own inhouse financial management capacities.

1.3.5 A meeting was also held with AKF after the first leg of field visits, to appraise AKF of the approach taken by SMA during these visits and of its initial findings. The purpose of the meeting was to review the methodology being adopted by SMA for the financial management assessment during the visits.

1.3.6 After the visits were completed, an analysis of essential attributes, which make up a good financial management system, was carried out. The general constraints of IPs as these emerged, both from the field visits and during the discussions with AKF, were identified.

1.3.7 Recommendations have been made in the report with a view either to remove such constraints or reduce their impact.

1.3.8 Draft of Volume I has been shared with each IP, alongwith the respective visit report. A majority of IPs have given their comments. They have found the analysis in the report useful and recommendations supportive of their efforts to strengthen the financial systems. Wherever applicable, their comments have been incorporated in the report. A few excerpts from these comments are given below:

The report is extremely useful to us and has made very valuable observations that will certainly go towards strengthening and tightening accounts, administration and other management systems in DSC. *- DSC, 14/9/99*

The report is well written. *- ARAVALI, 17/9/99*

We are agreed (sic) *to most of his comments. Will do our homework suggested by them. I find their role very much important for the smooth functioning of SAVA / MERC in long run.*
- SAVA, 22/9/99

1.3.9 A final debriefing meeting was held between AKF and SMA. Most persons at the meeting found the draft report very useful. Recommendations were discussed and certain further suggestions were made. These have been considered while finalising the report.

1.4 REPORT FORMAT

1.4.1 The report is organised in two volumes. Volume I contains SMA's overall conclusions and recommendations, while Volume II consists of IP-wise Visit report.

1.4.2 There are five chapters in Volume I, including this introductory chapter. Chapter 2 discusses essential attributes of a successful financial management. These attributes can be broadly divided into two major categories. Chapter 3 covers those attributes which are people related. Key persons and the qualities and skills required by them to manage a finance-management system are identified and dwelt upon. Chapter 4 covers the critical aspects necessary for such a system. The comments are illustrated with observations made during SMA's visits to the projects. Wherever considered necessary steps have been recommended which will help in strengthening the financial management system.

1.4.3 Volume II consists of the visit reports to IPs. There is a chapter on each IP. The report consists of SMA's observations under major attributes. It also gives project specific suggestions on steps required to remove various weaknesses identified and help strengthen the system.

1.4.4 At the end of the Volume II, a comparative table of major ICEF requirements and their compliance by each IP has been recorded to provide an overview of the strengths and weaknesses of each IP.

2.1 DEFINITION

2.1.1 Simply defined, financial management can be said to be ‘managing of money matters’. However this small little phrase is a very broad one and would cover a large number of activities. In fact any activity that is relating to money could be said to be part of the financial management. It is recognised that in a non-profit organisation financial management may not be as complex as in case of commercial environment, however it still covers a large number of areas.

2.2 MAJOR ATTRIBUTES

2.2.1 A good financial management system has a number of attributes. These start right at the time of formation of organisation. Legal frameworks as well as policies are laid down for the running of the organisation and taking decisions. While defining such frameworks, the promoters should make efforts to see that the framework is such, that it promotes clarity, transparency and accountability in the working of the organisation. Therefore it is important to look at the constitution of the Governing Body of the NGO.

2.2.2 Often the qualities of chief executive officer (CEO) of an organisation will determine the quality of financial management of an organisation. A CEO with a vision, lays down the general policies of the financial management, with adequate checks and controls, and leaves the system to work on its own. It is likely that such a system will have better financial management capacities, as compared to where the CEO finds it difficult to delegate, and wants to ensure that he controls the financial system, as it involves money.

2.2.3 The person incharge of the finance function is again a key attribute in successful implementation of a good financial management system. A person incharge of the finance function should have adequate knowledge and skills to be able, not only to perform independently, but also guide the organisation in financial matters.

2.2.4 Accounting system is the backbone of any financial management system. It should be able to capture the data, process it and provide the results in the required form. A good system should be simple to operate and quick in providing the results.

2.2.5 Accounting policies that an IP follows should be such that these can stand test of any subsequent financial scrutiny. These policies should be reasonable, logical and should comply with any requirements of ICEF accounting guidelines.

2.2.6 Good internal controls are essential to the success of a financial management system. However it is important that a proper balance is maintained between the essential internal controls and the speed with which the activities are to be performed. Sometimes too many controls delay the simple procedures, while at other times some of the basic controls may go missing. Following is a list of possible areas where internal controls would be essential.

- Purchase procedures (both recurring & non-recurring)
- Advance requests
- Incurring of expenditures
- Approval of expenditure
- Payment procedures (Both bank and cash)
- Salary payments
- Accounting of costs incurred

2.2.7 A planning process is yet another essential ingredient of a successful financial management. It is important to have a planning system, which adequately plans an organisation's financial needs, and also has in-built monitoring mechanisms to make necessary adjustments and modifications as and when necessary.

2.2.8 Another feature of a good financial control system is to be able to produce a good MIS report, which helps the management in taking management decisions.

This area can be large or small, depending upon the need of the organisation, however the important matter is that MIS systems needs to be constantly reviewed to ensure that information no longer required are not produced just because a precedent has been formed.

2.2.9 Monitoring is the most important attribute of a good financial management system. A regular and systematic monitoring helps in increasing the confidence level of the information generated by the financial system. In fact it also helps to keep the number of internal control mechanisms down to bare minimum, thus increasing the speed at which the activities are performed and thereby making the system more efficient.

2.3 CONCLUSION

2.3.1 From the above analysis it can be said that various attributes of a financial management system can be broadly divided into two categories, one relating to the people who manage the system and second relating to the financial system itself.

2.3.2 The various attributes mentioned above are further examined in detail in the next two chapters.

3.1 INTRODUCTION

3.1.1 Any system has to be managed by persons. Hence the most important aspect of running a system is people around the system. In any system different people have different roles to perform. The same is also true of the financial management system. This chapter dwells upon the different functions that require to be performed in a financial management system, alongwith the necessary skills that the persons managing these functions should have.

3.2 BROAD-BASED GOVERNANCE

3.2.1 Public posturing of a non-profit organisation is like walking on a double-edged sword. Its nature of work is such that it has to adopt a high moral stance in the public. Further, it also receives public funds for which it is accountable. These two situations make a non-profit organisation doubly answerable to the public. It has to ensure that no incident occurs which mars its reputation, as any bad publicity and the whole survival of the organisation could be at the risk.

3.2.2 To minimise such risks, often NGOs have public figures with high credibility on their governing bodies. This helps in establishing credibility of the organisation. Further having senior persons with wide exposure on the governing body, benefits the NGO with expert guidance and direction.

3.2.3 Though it is agreed that there may be highly committed individuals with good track record and who have established their own NGO. However a governing body with persons from wider circle indicates the willingness of the promoters to be open to other persons views, and subject themselves to control and scrutiny of others.

3.2.4 Of course having a broad-based governing body, which hardly meets would be of little consequence. Hence another important factor, is how often the governing body meets and what is the quality of the debate and decisions taken.

Observations

3.2.5 It was observed that though in most cases examined the governing body of the organisations have members from outside the realm of the core promoters, however there participation in laying down policies or monitoring of audit reports can be significantly enhanced.

Recommendation:

IPs should consider placing of audit reports, alongwith the management responses, before the governing body.

3.3 QUALITIES OF C.E.O.

3.3.1 A Chief Executive Officer (CEO) is the pivotal force in all the activities of an NGO. Programme related activities are the core of an NGO, while financial and related activities are the supporting functions.

3.3.2 A CEO is supposed, to and is likely to, concentrate on the core activities of the organisation rather than on the supporting activities. In fact, where the CEO has to spend, or likes to spend more time on the financial activities of the organisation, growth of such an organisation would always be hampered.

3.3.3 A CEO's main responsibility lies in creating a framework for smooth and effective financial management.

3.3.4 If necessary, a CEO may take professional help in creating such systems.

Observations

3.3.5 During the visit to SAVA it was found that organisation's CEO carries out most of the programme as well as financial responsibilities. It has been explained that it is mainly because SAVA till now was working with very low budgets and only in current year they have rec'd a large grant.

3.4 QUALITIES OF A FINANCE OFFICER

3.4.1 A Finance officer is responsible for carrying out the financial duties of an organisation.

3.4.2 It is often seen that Finance Officer of an NGO has to take most of the decisions on accounting issues, as very little guidance or help is available to him from within the organisation. Therefore it is imperative that a Finance Officer must have adequate level of skills and exposure.

3.4.3 It is understood that AKF may not be in a position to enforce its requirements in relation to employment of the individual staff members, however it could advocate the advantages of certain minimum criteria for such a position, which may help the organisation in long-run.

Observations

3.4.4 Sometimes where no proper accounting staff is available, than their duties may be delegated to other staff members. It was observed that in case of RBKS, except for cash duties, general office staff was performing the accounting duties. In fact the duties were not necessarily formalised, for example, sometimes office secretary did data entry for the accounting records, other times the programme staff may perform some of these functions.

3.4.5 Another problem observed which can affect the financial management of an organisation is too frequent turnover of the staff. In GRASP it was observed that in last 2 years, 3-4 accounts officers have come and gone.

3.4.6 Different Finance officers, employed with different IPs, would have varying level of exposure. They are operating individually in different environments, therefore their reaction to similar situations could be different and it would be useful to make efforts to bring some form of uniformity in such responses. This matter has been further discussed in the next chapter.

Recommendation:

AKF should help individual IPs in evolving a recruitment policy for a finance officer. This policy could cover minimum qualifications, experience and the compensation level.

4.1 INTRODUCTION

4.1.1 A finance-management system has following essential constituents. Each one of these is further discussed in detail in this chapter.

- Accounting Policies
- Accounting System
- Internal Control System
- Planning Mechanism
- Support to MIS
- Monitoring

4.2 ACCOUNTING POLICIES

4.2.1 Accounting Policies can vary for different organisations depending upon a number of factors. ICEF has recommended a set of accounting policies and regulations in the form of 'Financial Systems Manual for Project Implementing Agencies'.

4.2.2 The policies recommended by ICEF have generally been accepted by AKF with certain minor modifications. Therefore it is expected that the IPs would need to follow these policies.

Recommendation:
All IPs should follow ICEF accounting policies. Prior approval of AKF should be taken by the IPs for any deviations.

4.2.3 There are certain areas of accounting policies, included in ICEF guidelines, which AKF considers as not applicable. These include maintaining a specified Chart of Accounts, opening of a separate bank account for ICEF/AKF funds and treatment of transmittal of funds to individual IPs by AKF as an expenditure and not as an advance.

4.2.4 The IPs who give further advances to CBOs, also treat these as expenditure. This is because IPs consider that CBOs should be made accountable for all advances given to them, this is possible only if the CBOs start accounting for such expenditures in their books. This would give them necessary on the job training and would help in enhancing the financial management capacities of the CBOs, thus help in making the CBOs more independent.

4.2.5 AKF considered the above view. Its Snr. officers opined that the above treatment may be acceptable, however the concerned IP must have a system which helps them to have an assurance that funds being transmitted are being utilised for the purpose for which it was initially given.

Observations

4.2.6 In most cases IPs are not maintaining a separate bank account as required by ICEF. Also as mentioned above, funds further transferred to CBOs/NGOs are treated as expenditure and not as advances.

<u>Recommendation:</u>
AKF should identify specific requirements listed in the ICEF finance manual, which it finds not possible to implement due to various reasons, and should take ICEF's approval for not implementing.

4.2.7 ICEF guidelines (para 3.04 & 3.06-3.10) specify that only those costs should be charged to the project which are actually charged to profit & loss account. In fact the guidelines discourage charging of any expenditure which requires detailed record keeping.

4.2.8 It was noted that Udaipur Unit of AFPRO charges a number of costs to the project which are on the basis of financial adjustment entries without identifying direct relation of these expenses to the AKF project. Similarly it charges under the budget head of 'Support to Client NGOs' costs of its technical manpower on the basis of time spent into a standard cost arrived at the beginning of the year.

4.2.9 In case of GRASP (Phase I) Rs 49700/- has been debited to the project account towards services provided by HO. No details are provided.

4.2.10 Similarly VBKVK has charged adhoc amounts of Rs 30,000 and Rs 50,000 to the project on account of phone/electricity charges and salary of technical staff.

<u>Recommendation:</u>
AKF should specifically look into these costs and ensure if the costs being charged to the project in reality are same as costs incurred by the project.

4.2.11 In a number of cases it was observed that ICEF guidelines were not read at all or understood properly. In fact at least in 5 out of 8 cases the copy of guidelines was not readily available. Only in case of ASA, and to some extent in case of DSC, effort had been made to understand the issues involved in the guidelines.

4.2.12 As can be noted from comments under chapter 3, level of skills and understanding of accounting issues available at different IPs may not always be of a very high standard. It is SMA's opinion that the ICEF financial guidelines are quite detailed and may not be understood very clearly by such persons at the IP level.

4.2.13 In view of the above conclusions it would be better if a shorter version which is precise and relevant for such type of projects is prepared and issued to the IPs for guidance.

<u>Recommendation:</u>
A revised version of ICEF guidelines is prepared. It should be concise and contain only those areas which are relevant to the IPs. This version could be issued to the IPs for implementation.

4.3 ACCOUNTING SYSTEM

4.3.1 Half of the IPs are maintaining their accounts in a computerised environment. Different accounting software are being used, generally these are standard commercial software packages that are easily available in the market. Udaipur office of AFPRO, RBKS, ARAVALI and ASA still maintain the books of accounts in a manual form though their are plans to computerise there books of accounts also.

Observations

4.3.2 Generally in most cases books of accounts were up-to-date, however in certain cases delays were observed.

4.3.3 In case of SAVA, books of accounts were being maintained on a consultant's computer in Ahemdabad. On the day of visit (7-7-99) current year's books had not been started.

Recommendation:

For security reasons all project accounting should be carried out by a project person and within the office premises of the IP.

4.3.4 In most cases software being used serves the purpose of accounting of costs. However any further related reports such as a Budget-actual variance or some other MIS report, etc. presently have to be manually prepared.

Recommendation:

Efforts have to be made to outsource software that can provide a number of other useful reports using the accounting data as a base.

4.4 INTERNAL CONTROLS SYSTEM

4.4.1 Internal control systems consists of checks and controls that an organisation builts into its system of procedures and policies, to safeguard against loss of organisation's funds/assets through any unintentional errors and willful acts of omission or commission.

Observations

4.4.2 There are a large number of issues, which require to be looked into. Specific issues are covered under the visit report to each IP. Under this chapter, the major issues that are prevalent in most cases are covered.

4.4.3 Adequate segregation of duties is not taking place. Generally it has been seen that Finance officers are responsible both for accounting of costs as well as the cash payments. The basic minimum requirement is to segregate office cash and accounting duties.

4.4.4 ICEF manual requires prior written AKF approval and 3 quotations whenever assets for more than Rs 50,000 have to be purchased (para 4.24). This requirement has not always been followed.

4.4.5 Generally it has been found that in most cases, proper system of maintenance and safekeeping of assets needs to be implemented.

4.4.6 Vouchers have generally been approved, however the basis of approval normally is not indicated on the voucher. This is indicative of the fact that vouchers are approved based more on personal knowledge and trust of the concerned employees rather than the presence of an underlying system which helps the authorising authority to form its own independent opinion.

4.4.7 As mentioned earlier (para 4.2.11) most of the IPs were not aware of the ICEF requirements. This problem can get further accentuated as the individual Finance officers of each IP, who have different backgrounds, may interpret these requirements based on their own experiences and perceptions. The result would be different ways of handling the same issues. This problem would result in variety of accounting practices under the same programme.

Recommendation:
To narrow down such practices and perceptions of different individuals, it would be useful to have at least an annual workshop of all the Finance Officers. The workshop would not only discuss and familiarise different aspects of the financial management, but also would help individual officers to bring out their specific problems. Thus would be an excellent way of upgrading the individual officer's financial management capacities.

4.5 PLANNING MECHANISMS

4.5.1 The planning mechanisms generally cover areas like budgeting, planning of activities and cash forecasting.

Observations

4.5.2 Almost in all cases budgeting has been carried out at the beginning of the project, when AKF approved its budget. This budget statement has not been reviewed in any case.

4.5.3 It has been observed that in almost all cases the IPs make quarterly request of funds based on budgetary allocation. The correct procedure would be to carry out a cash-flow budget for the forthcoming quarter. This would also give an opportunity to the IP to plan-out its activities.

Recommendation:
Quarterly cash-requests should be based on estimates of cash-flow requirements for the coming quarter. This will help not only in proper planning of activities but also subsequently in preparing budget-actual variation statement.

4.5.4 It was observed that AFPRO, VBKVK and ARAVALI have been contracted to carry out the support activities in the state of Rajasthan under the MERC project. This collaborative network is formalised by the name of Rajasthan Development Support Network (RDSN). The nature of activity in all cases remains that of providing technical support to other CBOs and NGOs.

Though the nature of activity is same, different methods have been used to calculate the budgeted expenditures. While in case of VBKVK and ARAVALI budgeted expenditure has been identified on the basis of cost of persons to be allocated to the project, in case of AFPRO the budget costs have been worked out on the basis of standard costs into number of hours to be provided.

4.6 **SUPPORT TO 'MIS'**

4.6.1 The books of account which constitutes the entire transactions of an organisation is like a data bank, albeit one, the accuracy of which is most reliable. Therefore a number of MIS systems draw heavily on information contained in the books of account.

Recommendation:
Though each organisation has its own requirements of information for ensuring good management, certain standard statements could be developed which help the organisation in achieving its objectives.

4.7 MONITORING

4.7.1 Monitoring can be both of financial transactions as well as the programme activities performed by the IP.

4.7.2 Traditionally under the financial management, monitoring of only financial transactions is undertaken, however SMA is of the firm opinion that certain amount of test-checking needs to be carried out, of an IP's programme activities, to enhance the confidence in the financial statements submitted.

4.7.3 In commercial organisations, when an auditor confirms receipt of funds from a customer after the balance sheet date, he is only confirming that sale actually took place. In other words confirming the activity of the organisation. In case of construction activities, auditors often visit the sites to confirm the volume of construction and other necessary details. Therefore by undertaking activity audits of an NGO, the auditor is only carrying out its traditional duty of confirming the accuracy of financial transactions.

Recommendation:
Scope of audit should cover providing reasonable assurance on the project's programme related activities.

Observations

4.7.4 It has been observed that most audit reports were statute oriented, i.e. issued with a purpose to comply with the statutory requirements. The emphasis seems to be on ensuring that the organisation is complying with various stautory obligations.

4.7.5 In SMA's limited checking, in certain cases (particularly GRASP), a number of costs have been charged to the project without any proper supporting. Certain costs of a period prior to commencement of the project have also been charged against the project funds. Though it is possible that these items did not come in the test checking of the auditor, however fact remains that these were not identified in the report.

4.7.6 ICEF recommends a management audit (para 7.01of ICEF manual), but in none of the cases auditors have conducted this. Hence none of the audit reports issued so far are in the format as required by the ICEF manual. In fact most of the auditors were not aware of these guidelines.

4.7.7 In case of ASA it finds that audit capacities in its local area are rather limited. It would very much like to have its internal controls and other area reviewed, but feels handicapped due to want of skilled resources in this area.

4.7.8 Though appointment of auditor is the responsibility of the project (para 7.04 of ICEF manual), ICEF can appoint special auditor in addition to the one appointed by the project (para 7.14).

Recommendation:
In view of the foregoing, there remains a considerable gap in the audit requirements of ICEF and that being performed presently. Further it appears that there is a considerable scope of interpretations in ICEF requirements. In view of this it is recommended that AKF initially conduct its own management audits at each IP, in addition to the projects' auditors.

4.7.9 Though it is recognised that one of the risks of AKF undertaking this responsibility is that the projects may not take their responsibility of audit all that seriously. Therefore it is suggested that the audit should be undertaken only initially and once the confidence on the project's systems grows, AKF could review this decision.

Volume II

(Visit Report to each IP)