

COMMON AUDIT ISSUES IN NGO'S

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Classification & recognition of revenue

- The classification of revenue is one of the most common management letter comments.
- Differentiate between restricted & unrestricted funds.
- **How to avoid it**
- Establish an understanding with the grantor or donor
- clearly communicate to all employees the requirements for properly classifying and recognizing revenue.
- It is very important that this communication be documented in a written format so everyone can refer to it going forward.

Grant Reporting and Reimbursement Request

- Where there are government grants or government funds
- The grants may impose very specific and stringent operational or reporting requirements
- **How to avoid it**
- timely & accurately, according to the requirements of the grant.
- ensure all support documentation is adequate and attached to the report.
- have management review the reports before filing them.
- You should document in your organization's policies and procedures a report review process that should occur *before* filing.

Board Monitoring of Accounting Functions

- For smaller NPO's segregation of critical duties is not well done
- This leads to weak internal controls within the organization.
- **How to avoid it**
- One recommendation is to involve the board in monitoring and approving cash disbursements, reviewing bank reconciliations, approving revenue classifications, and any other important process that is relevant to your organization.
- By involving the board it will give your organization strong governance over the internal controls of your organization.

INEFFECTIVE GOVERNING BODY

- The governing body is formed according to the choice of founding executive head.
- The governing body does not oppose the executive head's opinion and decision.
- Meetings of the governing body are held only to maintain formality.
- Membership of the governing body is given to people for their social and political reputation although they are not able to give time to the organization.
- Members of the governing body often recommend for recruiting their relatives.
- No action is taken against the executive head although s/he acts against the interest and objective of the organization

Discretion of the Executive Head in decision making process

- Organizational decision is taken only by the executive head; participation of employees is ignored.
- Sometimes decisions are taken to promote organizational interest or of that of the executive head, without considering the need of the beneficiaries/service recipients.
- Concentration of power into the hands of Chief Executive renders him/her owner of the NGO in the eyes of the employees.

Lack of Transparency in Finance

- The chief executive has unlimited discretion in financial decisions.
- The chief executive has complete control over the communication with donors, preparing the project budget, the common fund of the organization and other crucial issues.
- The employees are not given their salary and other benefits according to the project proposal or approved budget.

Institutional Anomalies

- The financial management system is weak in some NGOs.
- Employees are not recruited according to the project proposal.
- One employee, even if s/he works for different projects, gets salary from one project whereas salary drawn against her/him from all such projects.
- There is discrimination with regard to salaries of the high, medium, and lower level staff.
- Properties such as vehicle, computer, and furniture bought for the organization are often used for personal purposes.

Procurement-Related Anomalies

- At the end of the project period, unnecessary procurement is done to use up the allocated fund.
- During the procurement process, one original and two fake quotations are collected from the same vendor.
- Undue payment is collected from the vendor as a pre-condition of procurement.
- The tender procedure is not transparent.
- Per diem and travel allowances are drawn against fake vouchers.
- Fake vouchers are produced against procurement of old properties and machineries.

Payroll matters

- Staff salary is drawn from multiple projects by showing the same employee serving more than one projects whereas the staff is paid for only one.
- The salary mentioned in the circular is often less than that as per approved project proposal.
- Salary is not paid according to the project budget, Income tax is deducted at source, but is not submitted to the Revenue Authority

Bribes & other unethical behavior

- Some NGOs provide speed money in order to get the fund released, or work permits to be processed.
- Some NGOs offer bribe or gift in order to get government projects.
- The concerned government official is often bribed for getting different works done.
- Sometimes NGO's have worked with rebel movements such as Al Shabaab to access certain areas.

Avoiding Tax by NGO Officials

- Many NGO high officials avoid income tax by showing the basic salary less and other facilities high.
- The chief executive often takes salary from many projects, but does not reflect it in the accounts.
- Such irregularities take place with the connivance of tax consultants.

Institutional Management

- The NGO organogram and job descriptions are not maintained according to the rule.
- The employees do not have job security.
- There is no provision of provident fund in many NGOs.

Employee Harassment, Complain System, and Grievance Procedure

- The higher officials often do not show proper respect to the employees.
- The employees often face mental torture, and verbal abuse.
- In some cases there are clear complaints against the chief executive and other higher officials for physical and mental abuses.
- Female employees cannot express harassments committed upon them for fear of a negative impact.
- The jobs of higher officials are secured even after the allegations of physical abuse against female employees are proven.

Corruption in Recruitment & Promotion

- Employees/consultants are recruited according to the unilateral choice of the chief executive.
- Recruitment and promotion are found to take place on the basis of nepotism and personal relationship with the chief executive. Examples of financial transaction were also evident in some recruitment.
- Selection process often lacks transparency – selection board takes place to recruit a preselected candidate.
- Recruitment is often influenced upon recommendations from the donor, politicians, government officials, or other influential persons.
- In some cases retired government officials are employed, who allegedly use their connections for undue advantage.

Training and Workshop

- Shortage of initiatives for increasing the skill of the staff. In many cases there are no regular training programmes.
- Lower level employees have very limited scope to participate in training or workshop, especially if it is abroad.
- Members of governing body are sent abroad for training or workshop although the outcome is not beneficial for the organization.

Exaggerated Evaluation of the Programs

- Efforts are often made to influence consultants or evaluators so that reports produced are favorable to the NGO.
- Inefficient consultants are appointed to evaluate the projects so that the real picture is not revealed.
- Achievements are often exaggerated in the project evaluation report.
- Many times journalists are influenced to publish exaggerated reports on the success of the NGO.
- The success of one service recipient is highlighted by many NGOs.

Secrecy of Information

- NGOs are often reluctant to disclose information especially those on finance and human resource management.
- Employees and service recipients are not informed about the policies.
- Information on accounts are not often documented properly. Project proposals, budget, audit report, evaluation report, general fund, accounts of the organization are often treated as highly confidential.
- There is no strong initiative from donors to make the NGOs disclose their documents.

Sector wide recommendations

- An autonomous NGO Commission should be set for monitoring of the entire NGO Sector.
- Under this commission, registration, monitoring, controlling and other interrelated works will be done. **Mid Term Government**
- Laws that regulate the NGO Sector are backdated. A new set of Rules or Acts should be enacted addressing diverse types of NGOs and their activities. **Mid Term Government**
- A system of Social Audits may be introduced under the proposed NGO Commission or the umbrella bodies of NGOs. Mid Term NGO Commission, NGO, Umbrella Body

Monitoring NGO activity

- Thematic/program based umbrella bodies may be formed by the concerned NGOs for ensuring self-regulation and due diligence.
Mid Term Government, NGO Commission
- Early steps should be taken for infrastructural improvement, logistic benefit, skill development and capacity building of the NGO staff backed up by sufficient resources and incentives. **Short Term Government**

Role of governing bodies

- Executive head's relatives must not be included in the governing body.
- Governing body should empower the chief executive to operate within the policy guidelines set up by the Board.
- Effective check and balance system must be enforced. Specific code of conduct of governing body members should be available. **Short Term - Umbrella Body, Donor, NGO Commission**
- The founder of an NGO may hold the post of Chief Executive or Chairman/Member of the governing body. Term limits can be considered. **Short Term- Umbrella Body, Donor, NGO**
- Decisions should not be made by the executive head unilaterally. Stakeholders and NGO workers' participation must be ensured. **Short Term -Donor, NGO**

Financial transparency

- Disclosure of top officials pay. **Mid Term -Umbrella Body, Donor, NGO**
- The yearly budget of every program must be disclosed. In this regard stakeholders, local citizen, journalists, researchers and government officials may be informed. **Short Term- Umbrella Body, Donor, NGO**
- Enlisted audit firms must conduct the internal or external audit properly. If an audit firm is found to be conniving with corrupt practices, the responsible audit firm must be brought to justice. **Short Term NGO Commission**
- Appropriate legal steps must be taken against responsible individuals in the NGO found to be involved in corruption. **Short Term Donor, NGO Commission, Government**

Human resource development

- The NGO Commission may develop a standard set of policies and rules with regard to human resource, gender, accounts, working hour, competitive salary and benefits and so on. Every NGO must develop and adopt its own Code of Ethics and other policies. **Mid Term Umbrella Body, NGO Commission**
- There should be a cell to receive complaints from NGO workers and take proper actions accordingly. This complaint cell may be set up in the NGO Commission and in every umbrella body. **Short Term Donor, NGO Commission, NGO**
- A set of rules and regulations may be developed for retired government officials who intend to join an NGO. **Short Term Donor, NGO Commission, Government**

Accountability to stakeholders

- The development partner, should monitor and evaluate the activities of the concerned NGO.
Short Term Donor, Umbrella Body, Government
- The development partners should adopt and implement a policy of not receiving different types of hospitality, such as food, lodging or gifts, offered by NGOs. **Short Term Donor, NGO**
- The information provided by the consultants, evaluators or auditors should be checked.

Program implementation monitoring & evaluation

- Monitoring should be strengthened to achieve the goals of the project. **Short Term Donor, NGO Commission**
- NGO documentation process must be further improved, so that anyone may have a look on it when necessary.

Access to information

- All information of an NGO should be made accessible to the public, especially its stakeholders. Information dissemination should be institutionalized rather than being dependent on one individual. Short Term Umbrella Body, Donor, NGO
- Efforts should be made to develop its own NGO website which should be updated regularly. Short Term NGO