

# Role of Chartered Accountants in India's NGO Sector – An Emerging Opportunity



**CA. M. Kandasami**

*(The author is a member of the Institute.  
He can be reached at [mksami@touchtelindia.net](mailto:mksami@touchtelindia.net))*

**There are nearly 1.2 million Non-Profit Organisations (NPOs) in the country and this sector offers challenging and rewarding opportunities to accounting professionals in particular. NGOs are increasingly taking the services of accounting professionals for various crucial functions, including external auditors, internal auditors and advisors. NGOs have begun to view Chartered Accountants as pathfinders rather than faultfinders. This article provides an overview of the NGO sector and the challenging and rewarding opportunities for CAs in the sector.**

Gradually, some private organisations came up to effectively complement the government efforts, particularly in the educational and medical sectors. Encouraged by the results, the Government started funding many of the above-mentioned private institutions, and thus began the story of the successful co-existence of private players and government institutions for the larger good of all in civil society.

In the early 1970s, a new breed of private organisations emerged called voluntary organisations. Most of these organisations were started by men and women, committed to the cause of the poor and downtrodden. In the late seventies and early eighties, such organisations multiplied and spread all over the country. Soon, they started receiving both local and international donations for various programmes and activities. Of late, these organisations have started utilising the services of various professionals to improve upon the quality as well as impact of the organisations' works in different areas of activity.

## Evolution and Growth of NGO Sector Organisations

**A**fter its independence in 1947, India became a welfare state and, as such, had to take care of crucial needs of its people in education, health, social welfare and development. Subsequently, as part of the federal system of governance, both the Central and the State Governments started doing their bit to meet the educational, medical and social needs of the citizens.

## Definition and Classification of NGOs

There are many definitions for a Non Government Organisation (NGO). Even the term NGO is used inter-changeably for Non Profit Organisation (NPO) or Not for Profit Organisation (NFPO), Voluntary Organisations (VOs), Voluntary Development Organisations (VDOs), Non Government Development Organisation (NGDO). Also, there are also Government-promoted NGOs, which are otherwise known as GONGOS.

In addition to traditional organisations, new types of organisations have also emerged in the last five or ten years for promotion and protection of the rights of children and women for the eradication of child labor, preventing exploitation of women, etc. by creating awareness about their rights. These organisations are known as rights organisations and they include human rights programmes that protect the people especially the poor, from abuse of authority by the Government and vested interest groups.

Instead of attempting a definition, it may be advisable to understand the various nomenclatures used to describe this category of organisations. They are as follows:

NGO Sector/Third Sector/Independent Sector: By the nineties, the above organisations were small but it is not the case any longer as they have emerged as an independent sector next to that of the Corporate and Government sectors and have come to be known as either:

- § The third sector organisations or
- § The independent sector organisations

In the beginning of the third millennium, it has become very clear that the above sector has come not only to stay but also to play a very vital role in the lives of the people and civil society.

Non Profit Organisations Vs Profit Organisations: Non Profit organisations exist for rendering service and not for making profit.

S.No.	Nomenclature	Types of organisations
1.	Development Organisations	Voluntary Organisations, Social Service Societies, Research Institutions, Non Government Organisations (NGOs), Government Non Government Organisations (GONGOS).
2.	Social Welfare Organisations	Implementation of the Government's welfare programmes, Orphanages, Hostels, Homes for the Aged and the Handicapped.
3.	Educational Institutions	Schools, academic colleges, professional colleges, non formal educational centres and adult education centres.
4.	Health Sector Organisations	Hospitals, Dispensaries, Health Centres, Outreach programmes, health research institutions (heart, eye, kidney, diabetics etc.), AIDS control and AIDS prevention programmes.
5.	Vocational Training Centres	Printing schools, Polytechnics, Vocational Training Centres, Workshops, Tailoring, Weaving and Carpentry Sections, etc.
6.	Bilateral Programmes	Government-to-Government programmes through multilateral funding (e.g. Dutch Government to Indian Government).
7.	Human Rights Programmes	Formed to protect the people, especially the poor, by abuse of authority by the Government, vested interest groups etc.
8.	Advocacy and Lobbying Groups	Taking up issues of people or peoples' organisations with the Government or Government agencies and other such institutions to facilitate people oriented laws, rules, regulations and policies.
9.	Ecology & Environment	Action for the protection and promotion of ecology and environment.
10.	Consumer Protection Organisations	Promoting and protecting the rights of consumers.

In this sense, there are many clear differences between non profit and for profit organisations. While Profit Organisations are focussed on profit maximisation, Not For Profit Organisations are meant to render service to the society.

As such, there are also certain variations in the accounting system and practices followed in the corporate sector and NGO sector organisations. In the latter, the programme-oriented fund based accounting for the different projects and programmes of the organisation linking them to activities and results, is an important accounting practice.

### Funding and resources deployed by the NGO Sector

NGO sector organisations have grown so much that they employ huge financial as well as human resources. In the early stages of this phenomenon, nominal sums of money from contributions, donations were used for charity and welfare programmes. Philanthropists donated funds and their time and efforts. Non Profit Organisations were started and managed mostly by people of goodwill who did not necessarily have professional qualifications or competence. But from the mid-seventies, this sector has started utilising the services of experts from diverse professions. Today, professionals from a number of fields are associated with this sector. No doubt, this sector offers challenging and rewarding opportunities to accounting professionals in particular.

Quantum of Funds and Human Resource employed: A survey conducted by a voluntary organisation - Society for Participatory Research in Asia (PRIA) reveals that as many as 20 million people are associated with NPOs as paid or volunteer staff. The survey titled 'Invisible: Yet wide Spread: The Non-Profit Sector in India' also revealed that more than 60 per cent of NPOs are engaged in religious, community service

and education related activities. Every eighth person in the non-agricultural workforce is engaged in the NPO sector.

The main sources of receipts for NPOs in India are mainly from self-generated funds, loans, grants and donations. Contrary to popular perception, the survey revealed that more than half of all receipts of NPOs in India are self-generated through fees, charges for services, etc. Grants and donations (from domestic and foreign sources) constitute two-fifth (41.9 per cent) of total NPOs receipts in the country. Interestingly, the survey revealed that only 7.4 per cent of total receipts of NPOs are foreign funds. The survey was conducted as part of a Comparative Non-Profit sector Project (CNPS) supported by US-based Johns Hopkins University.

Some of the findings of the above survey are as follows:

- § There are nearly 1.2 million Non-Profit Organisations (NPOs) in the country.
- § NPOs employ nearly 20 million persons on paid or volunteer basis.
- § The estimated total receipts of NPOs during 1999-2000 were Rs 17,922 crore.
- § The four main sources of receipts for these organisations were grants from government and international sources, donations from Indian and foreign sources, donations and self-generated funds.
- § Foreign funds constitute nearly one eighth of total receipts for Tamil Nadu and Delhi. Significantly, the share of foreign funds as share of total receipts of NPOs in West Bengal is insignificant.
- § The share of NPO contribution (based on paid employment only) to the gross product (other services – community, social and personal services sector) at current prices stands at 14.8 per cent.

## Foreign Contributions and International Funding to NGO Sector

According to the latest figures available in the Annual Report of the Ministry of Home Affairs of the Government of India, the following is the flow of foreign contribution to the NGO sector organisations in India

Year	Registered Associations (as on 31st March of Financial Year )	Amount of Foreign Contribution Received (in crores rupees)
1998-99	19,834	3,402
1999-00	21,244	3,924
2000-01	22,924	4,535
2001-02	24,563	4,872
2002-03	26,404	5,047
2003-04	28,351	5,105

The major sources of international funds as found in the website of the Ministry of Home Affairs of Government of India are as follows:

### **Bodies of the United Nations**

- Joint United Nations Programme on HIV/AIDS (UNAIDS), Geneva.
- Office of the UN High Commissioner for Refugees (UNHCR), Geneva.

### **Funds and Programs**

- United Nations Children's Fund (UNICEF), New York.
- United Nations Development Programme (UNDP), New York.

### **Specialised Agencies**

- International Labour Organisation (ILO), Geneva.
- Food and Agriculture Organisation (FAO), Rome.
- United Nations Educational, Scientific and Cultural Organisation (UNESCO), Paris.
- International Fund for Agricultural Development (IFAD), Rome.
- United Nations Industrial Development Organisation (UNIDO), Vienna.

### **The World Bank Group**

- International Bank for Reconstruction and Development (IBRD), Washington D.C.
- International Monetary Fund (IMF) Washington D.C.

### **Regional Development Banks**

- Asian Development Bank (ADB), Manila.

### **Other Bodies Related to United Nations**

- International Atomic Energy Agency (IAEA), Vienna.
- Organisation for the Prohibition of Chemical Weapons (OPCW), The Hague.
- Provisional Technical Secretariat (PTS) for the Comprehensive Nuclear Test Ban Treaty Organisation (CTBTO), Vienna.
- International Consultative Group on Food Irradiation (ICGFI), Vienna.
- International Narcotics Control Board (INCB), Vienna.
- International Trade Centre UNCTAD/ WTO (ITC), Geneva.

(Notified in the Gazette of India, Extraordinary, and Part II-Section 3- Sub-section (ii) vide S.O. No. 1014 (E) dated the 13th November, 2000).

Note: The above is only an illustrative list from the website and not the exhaustive list of sources.

In addition to the above, the NGO sector receives funds from the Governments of other countries, numerous funding organisations who provide from their own funds, funds raised from the public or their respective Governments.

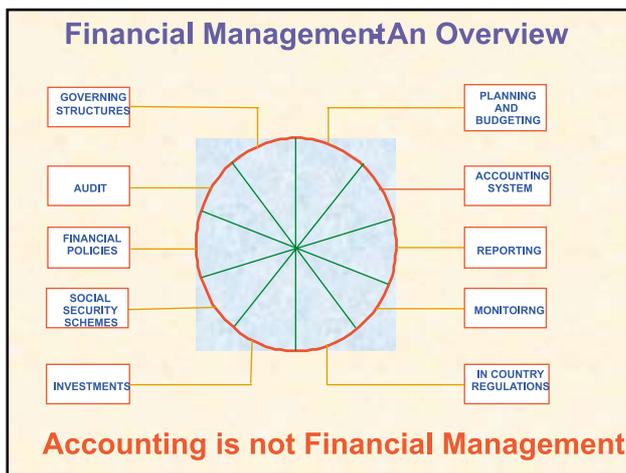
The Government of India and the State Governments also provide large amounts of funds from the social sector allocation and make it available to the various organisations working in the NGO sector in India.

It is evident from the above-mentioned statistics that the NGO sector employs huge financial resources to implement their programmes as well as in meeting their administrative and related expenses.

### Financial Accountability, Transparency and Good Governance

Financial accountability, transparency and good governance are the need of the hour in the NGO sector. It has been noted that as the financial and human resources employed in this sector grow year after year, the need for proper financial planning, financial management and financial accountability is also increasing accordingly. Various components of financial management for a non-profit organisation are explained in the following chart:

In as much as a profit organisation has to be accountable to its share holders, a non

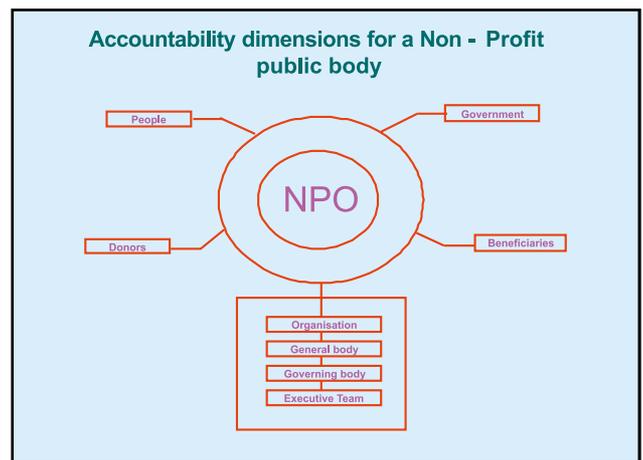


profit organisation has a great responsibility to be accountable to its stakeholders, which is explained in following chart:

Although the list above represents the main stakeholders, this list could be longer depending upon the character, activities, funding sources, etc.

### Major Categories of Professional Work for Auditors in the NGO Sector

The accounting professionals are perhaps one of the last categories of people to make



a visible entry into this sector. This does not mean that accountants have not entered the scene at all. As a matter of fact there are many accounting professionals who already make contributions with their professional expertise.

Accounting professionals are employed in NGO sector organisations in different important responsibilities. These practising professionals serve the NGO sector as external auditors, internal auditors and advisors.

In my experience and involvement in the NGO sector for more than two decades, I have seen several roles unfolding for the auditors in the above sector as follows:

1. Statutory Auditors and Internal Auditors
2. Auditors on behalf of donors and funding agencies
3. Reviewers of Financial Management Systems
4. Advisors on Financial Management and Systems
5. Trainers / Resource Persons
6. Finance Managers and CFOs
7. Senior Management Team Members and CEOs
8. Members and / or Chairpersons of Advisory Bodies
9. Members in the Board or Governing Boards
10. Advocacy / Lobbying for Accounting standards, laws etc.

1. As Statutory Auditors & Internal Auditors: Non Profit Organisations are generally registered as legal entities in the following three categories:

- ❖ Societies under the Societies Registration Act, Central or respective State Acts.
- ❖ Public trusts under the Indian Trust Act 1882.
- ❖ Companies registered under Section 25 of the Companies Act, 1956.
- ❖ Mutually Aided Cooperative Societies Act (MACS) and Self Help Groups (SHGs)

In addition to the above incorporation laws, some of the major laws applicable to NGO sector organisations are as follows:

- ❖ Income Tax Act 1961.
- ❖ Foreign Contribution (Regulation) Act 1976.

**Audit Under Incorporation Laws:** A Non Profit Organisation is generally registered either as a Society or a Trust or a Section 25 Company under the respective laws namely: The Societies Act, Trust Act or Companies Act 1956. Depending upon the law under which it is registered, it has to get its accounts audited as required under the respective laws.

Hence, there are plenty of opportunities for auditors to play this role in NGO sector organisations.

**Audit Under Income Tax Act 1961:** Where the total income of the organisation exceeds Rs. 50,000/- in any previous year, the accounts of the organisation have to be compulsorily audited as required under section 12A(b) of the Income Act 1961. The auditor has to issue the report in Form 10B, which is mandatory for obtaining exemption under the above Act.

While performing the above function, the auditor has great opportunities to advise the organisation regarding application of income, accumulation of income, investments of funds,

filing application for accumulation and such other requirements to obtain the necessary exemption under the Income Tax Act 1961.

**Audit Under Foreign Contribution (Regulation) Act 1976:** Every organisation in receipt of foreign contribution must get its accounts audited by a Chartered Accountant under Rule 8(2) of the Foreign Contribution Rules 1976. The Audit Report has to be given in Form FC 3 as prescribed under the above Act together with the Balance Sheet as on 31st March and Receipts and Payments for the year ended 31st March.

As there are more than thirty thousand registered organisations in India as of year 2004, there are plenty of opportunities to audit the accounts of the organisations registered under the above Act. In addition, there are organisations that may have received prior permission, who also have to audit their accounts. In the case of a registered organisation, audit is compulsory even though no funds are received during the year.

**2. Auditors on Behalf of Donors and Funding Agencies:** When the donor organisation, both international as well as local, makes grants or provides funds, they enter into an agreement with the recipient non-profit organisation. In the above agreement various important provisions are made regarding the purpose of the grant, manner in which it should be utilised and the time frame, etc. An auditor has to peruse the above agreement to report on the compliance on the terms of the agreement. Most donors require an audit report and an audited statement of accounts. While certifying the report to donors, the auditor should ensure that the project has been implemented in accordance with the agreement executed.

Several times, the auditor is asked by the donors to submit a special audit report to them in addition to signing the financial statements.

In such cases, a special scope of work or terms of reference is given to the auditor.

3. Reviewers of Financial Management System: Financial Management in NGO sector organisations has to be of high standards to meet the demands of the various stakeholders. When the NGO receives funds from international agencies, this is even more important as the NGOs financial management has to meet both, national and international standards. Both the international agencies and the NGOs are interested in improving the standards of accounting, financial reporting and legal compliance aspects.

In the above context, the service of a financial expert becomes very useful for studying the ongoing system and recommending improvements. This is yet another area for Chartered Accountants to provide their expertise to NGO sector organisations.

4. Advisors on Financial Management and Systems: Financial Management and legal compliance in NGO sector organisations is becoming increasingly complex over the years. Donor agencies have several requirements in relation to financial accounting and reporting when they provide funds to the NGO. Also, there are many large NGOs who provide funds to other smaller NGOs who are known as partner organisations. In such a situation, the larger NGOs need good and timely advice regarding applicability of tax laws, foreign contribution (regulation) Act, banking etc.

For all of the above, NGOs need good advisors on the financial management and legal aspects for themselves, and other organisations dealing with them. Here again, Chartered Accountants have an excellent opportunity to serve NGO sector organisations. An accounting professional no longer needs to be a faultfinder; instead he / she can be a pathfinder for promoting transparency in the NGO sector.

5. Trainers / Resource Persons in Financial

Management & Related Aspects: The NGO sector attracts many persons for various roles such as staff, management team, board persons and officer-bearers. By and large, they are from diverse fields and not necessarily experts on financial management. Large NGOs employ trained and qualified accountants on a regular basis on attractive pay packages. However, smaller NGOs find it extremely difficult to get qualified persons for accounting and financial management. In the above context, the financial staff of NGO sector organisations need a lot of training on the topics of accounting, reporting and legal compliance aspects. The programme staff also needs some orientation on financial matters as they also deal with funds. Even board members need orientation on financial management so that they can play their role effectively as treasurers or members of Finance Advisory Committee.

6. Finance Managers and CFOs: In larger NGOs, there is a great need for qualified persons to occupy the positions of finance managers. Here again, Chartered Accountants are the best fit to fill the above slots in NGOs. Chartered Accountants are already doing good work as CFOs and Finance Managers in many medium and large NGOs.

7. Senior Management Team members and CEOs: It is a well-known fact that Chartered Accountants have moved up to the top management and leadership positions in many companies in the corporate sector. This trend is picking up in NGO sector organisations also as quite a few national and international bodies have selected Chartered Accountants for the top positions in their organisations. Indeed, it is an interesting responsibility to lead a non-profit organisation whose main goal is changing the lives of people especially the downtrodden and the underprivileged in society.

8. Member or Chair of Advisory Bodies: As the Boards and Governing Bodies of NGO sector

organisations do not always have sufficient time and expertise for financial management and legal compliance; they rely on the advice of sub committees like Finance Advisory Committees. There is a good scope for Chartered Accountants to become members of these Committees and play a useful role. This role may be honorary but for those who would like to contribute to the NGO sector, this is yet another way.

9. Members in the Board or Governing Boards: As much as corporate governance is critical in the corporate sector, good governance is a critical part of the functioning of NGO sector organisations. Hence, there is a great need for financial experts in the Boards, Governing Bodies and Committees of NGO sector organisations. Chartered Accountants can play a vital role in the Governance of the above bodies for promoting good governance and thus increase the performance of these organisations to realise their vision and mission as well as their goals and objectives.

10. Advocacy / Lobbying for Accounting Standards, Laws etc: This is an emerging new role, which is a felt need for NGO sector organisations. The sector faces many challenges due to new laws, rules and regulations; some of which are necessary but some others are neither necessary nor supportive to the well being of the sector. In these circumstances, there is a great need to lobby with the respective authority or the Government Agency to amend the respective legislation or the regulation. This is an area where accounting professionals can play very important roles as no one may be as well placed as the Chartered Accountants.

### An Untapped Area full of Professional Opportunities

As the number of Chartered Accountants grows year after year, there is a great need to augment their role in the emerging new economic and social order in civil society. One of the areas so

far untapped by the accounting professionals is hidden in NGO sector organisations.

The NGO sector offers special opportunities especially for smaller firms, individuals and proprietorship firms of Chartered Accountants and for those in the rural areas and small towns too, as there are many NGOs located in the rural areas and smaller towns.

**There are certain variations in the accounting system and practices followed in the corporate sector and NGO sector organisations. In the latter, a programme-oriented fund based accounting for the different projects and programmes of the organisation linking them to activities and results, is an important accounting practice.**

In addition to the professional opportunities for useful employment and practice of accountancy, it offers excellent methods to fulfil one's social responsibility by contributing professional expertise to the society especially for the cause of the poor, the needy and the downtrodden. In this sense, accounting professionals can make a direct contribution to nation building.

### Conclusion

The NGO sector has noble intentions of serving the society but healthy finances among other things is a critical component for the success of this sector as any faulty financial decision or practice can seriously impair the good work of the sector. Hence, I am happy to conclude this article with two main reasons for Chartered Accountants to play a role in the NGO sector, one that it offers excellent professional opportunity of diverse and challenging nature and the second that the sector will greatly benefit from the professional expertise of the Chartered Accountants. □