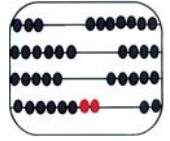


# AccountAble<sup>TM</sup>

ASIA

Audit Certificate

Issue 11; Rel.: Mar '08



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could vary from a simple "Checked and found correct" to an elaborate report.

So what is the problem with these? Well, often the report misses the mark. The Agency may find it difficult to correlate the report with their grant. Sometimes the report does not contain an opinion<sup>1</sup>. In case the report is very detailed, the Agency may get bogged down in details. This may lead to endless letters and explanations.

## 2. Audit Certificate Format

This problem can be solved if we use a format closer to Agency needs.

The last two pages show such a format.

What is special about this format? First, it follows established standards on audit reporting. Second, it gives the information needed by most Agencies. For example, it contains information on amounts utilized, unutilized balances and exceptions. Third, it does not call for special book-keeping<sup>2</sup>.

Of course, proof of a pudding is in eating it. This format has been tested, developed and used at a number of grant-making agencies over the last several years.



**W**hen donor agencies give large grants to NPOs, they often ask for special accounting reports also. These reports help them ensure that funds have been utilized properly.

There are two kinds of utilization reports:

1. Self-certified utilization report,
2. Audited Utilization reports.

Audited reports can be in two formats:

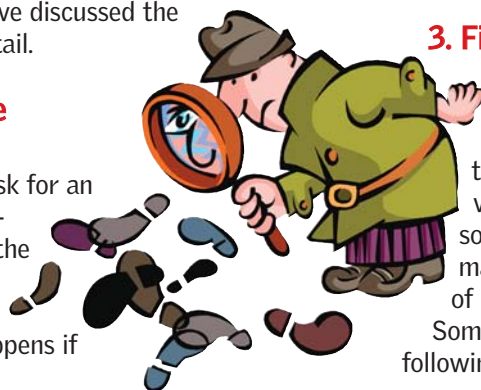
1. Traditional Balance Sheet format,
2. Special audit certificate.

In this issue, we have discussed the audit certificate in detail.

## 1. Audited Balance Sheet Format

Some Agencies also ask for an audit report on utilization of their funds. If the Agency has given a format, then the NPO follows this. What happens if no format is given?

In many cases, the NPOs prepare separate Balance Sheet and Receipts & Payments account for the particular project. The auditors then check this and give a report. This report



## 3. Filling up the certificate

The certificate must be prepared by the auditors on their firm's letterhead. The certificate is filled up based on the accounting records of the NPO. The accounting records themselves are verified by the auditors. Often auditors will ask some additional questions. Some auditors also make a record of the replies by asking for a letter of representation from the NPO.

Some other technical matters are discussed in the following paragraphs.

<sup>1</sup> Such as in the case of a report, which only says: 'checked and found correct'.

<sup>2</sup> For example, a separate cash book

## Scope

The scope of the review is defined in paragraphs a, b and c of the certificate. It is limited to funds spent for a particular project or from a particular source. The period of spending is also clearly spelt out in para b. Para c confirms that the expenditure has been incurred properly.

## Tests

Para a also defines the kind of examination that was done by the auditors. For example, they explain that they have examined the accounts and the vouchers. They have also studied the grant agreement and the budget. Later, in para d, they make other important statements regarding the audit tests.

## Certification

Three issues are certified by this document:

1. Amount of expenditure incurred under the project (para b);
2. Nature of expenditure and its conformity with the budget (para c);
3. Compliance with donor agency requirements (para d. 4).

## Expenditure

Table A provides a summary of the expenditure incurred for the project. This table should only show expenditure out of the donor Agency's funds. Expenditure from own funds or from community contribution etc. should not be included here.

The suggested format is for a multi-year project. If your donor gives single-year grants, then some of the columns can be deleted. The columns may then look as shown here:

Budget line item	Amount budgeted	Amount spent	Variance
------------------	-----------------	--------------	----------

**About AccountAid:** AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NPOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NPOs and grant-makers. It also provides advice to donor agencies on grant management systems.

**What is AccountAble:** Each issue of 'AccountAble' covers a different topic related to NPO regulation or accounting and is mailed to about 4,500 persons in NPOs, Agencies and audit firms. AccountAid encourages reproduction or re-distribution of 'AccountAble' in workshops or NPO newsletters for non-commercial use, provided the source is acknowledged.

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**AccountAid Capsules:** Short items of information on NGO accounting and related issues. To subscribe, send e-mail to [accountaid-subscribe@topica.com](mailto:accountaid-subscribe@topica.com).

## Unutilised Balance

Table B provides a cash flow summary for the reporting period. At the bottom of the table is shown the unutilized balance at the end of the period. Would this be different from the cash balance of the grant?

In many cases, the answer would be yes. In actual practice, some of the unutilized balance may be with staff as program advance, some may be in bank on current or term deposit, and rest may be in form of cash.

The cash balance that most agency-wise Receipts & Payments Account, is mostly a theoretical figure only.

## Exceptions

The auditors may have some doubts about a particular expense item. It may be that the auditors are not satisfied about the quality of supporting documents. Or they may be unsure that the item should be booked under this project. They can tabulate such cases in para c.

## Confirmation

Para d provides several important confirmations. These reassure the reader as to the quality of the audit. They also tell the reader whether the NPO is following the terms of the agreement or not.

## Signatures

Along with the signatures, additional contact information is also provided. The auditors should put their seal on all the pages. They should also sign all the pages for additional authenticity.

If possible, the certificate can be printed back to back. This saves stationery and reduces the risk of mix-up of pages from different years.



**Your Accounts On Internet:** Your accounts can be summarised and published on Internet. You can also include them in your annual report. Examples can be seen at [www.AccountAid.net](http://www.AccountAid.net). For details, write to [accountaid@gmail.com](mailto:accountaid@gmail.com).

**Comments:** Your comments and suggestions can be sent to AccountAid India, 55-B, Pocket C, Siddharth Extension, New Delhi – 110 014, India; Phone: +91-11-2634 3128; Phone/Fax: +91-11-2634 3852; e-mail: [accountaid@gmail.com](mailto:accountaid@gmail.com).

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यदक्षरं पदं भ्रष्टं मात्राहीनं च यद्भवेत् ।  
तत्सर्वं क्षम्यतां देवि प्रसीद परमेश्वरि ॥

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#### 4. Format of the Audit Certificate

To, \_\_\_\_\_  
 (Name and location of the Donor Agency)

a. We, \_\_\_\_\_ (name of the audit firm), the Auditors of \_\_\_\_\_ (name of Society / Trust / NPO) have examined the books of Account and other records, including vouchers and supporting documents, of \_\_\_\_\_ (name of Society / Trust / NPO). We have also carefully examined the agreement / letter containing terms & conditions for support, dated \_\_\_\_\_ (date of the letter), signed between \_\_\_\_\_ (name of donor agency) and \_\_\_\_\_ (name of Society / Trust / NPO) for the grant of funds covered by this certificate and the budget approved by the donor agency. We have also obtained such explanations and clarifications from the Secretary/ Chief Functionary as we considered necessary for the purpose of this certificate.

b. On the basis of the above examination, we certify that \_\_\_\_\_ (name of Society / Trust / NPO) has incurred the following expenditure during the period from \_\_\_\_\_ (date) till \_\_\_\_\_ (date).

Title of the Project: \_\_\_\_\_

#### A: Expenditure (All amounts in Rupees)

Budget Line Item <sup>3</sup>	Total Sanctioned Budget	For this reporting period		
		Budget	Actual Spent	Variance
<b>Grand Total</b>				

#### B. Unutilised Balance of Funds (amounts in Rupees)

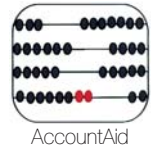
##### 1. Agreement and Disbursal

Total amount sanctioned so far by (name of donor agency) \_\_\_\_\_

Total amount disbursed so far \_\_\_\_\_

<sup>3</sup> Please add more lines if required.

accountable-subscribe@topica.com



## 2. Unutilised balance

Opening balance of unutilised funds	_____
Add: Total grant received during this period	_____
<b>Total funds available</b>	_____
Less: Amount spent during this period (Grand Total of Table A)	_____
<b>Closing balance of grant Funds</b>	_____

c. We also certify that the above expenditure has been truly and properly incurred in accordance with the Budget and agreement referred to above, except for the following items<sup>4</sup> :

Item	Amount (Rs.)	Comments

d. We further confirm the following:

1. We have carried out the above examination according to applicable Auditing and Assurance Standards.
2. We are adequately satisfied about the reliability, authenticity and genuineness of the records and supporting documents produced before us.
3. (name of Society / Trust / NPO) has maintained the books of account properly, in accordance with the law and Generally Accepted Accounting Principles.
4. (name of Society / Trust / NPO) has complied with all the essential accounting and financial requirements laid down in the agreement / letter referred to in para 'a', except for the following:

- 
- 
- 

5. To the best of our knowledge and belief, and according to the examination of accounts carried out by us, (name of Society / Trust / NPO) has not received / has received other funds for purposes similar to the above grant.

Yours faithfully

for name of Audit Firm

( Name of Auditor ) \_\_\_\_\_ Membership No. \_\_\_\_\_ Date: \_\_\_\_\_ Phone: \_\_\_\_\_

Partner / Proprietor

Note: Auditors should put their seal on all pages. They should sign other pages as well.

<sup>4</sup> Please write 'Not applicable' in the table if there are no such items. This requirement relates to substantive variations, such as those related to nature of the expenditure / payment. There is no need to report over-spending or under-spending here.

accountaid@gmail.com