



# **Audit Policy**

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## 1. Overview of NGO Audit

NGOs are defined as the non-profit making organisations which raises funds from its members or donors or contributors apart from receiving donation of energy, time and skills for achieving social objectives like imparting education, economic assistance to poor, providing medical facilities, managing disasters and emergent situations. DFY as an international humanitarian organisation renders an extremely wide scope of services. DFY as such is required to maintain their books of account under the accrual basis as per the provisions of various legislations. If the accounts are not maintained as per the requirement then it would be considered as non-compliance of the concerned legal provisions.

As a non-Profit Organisation (NGO) DFY is an organisation which is operating its social activities with public donations. So, the NGO needs to make accounts and financial statements to show its performance to the general public. The most important sources of fund include donations and grants however other sources of income are also taken in including advertisements, fund raising programmes, fees from the members, technical assistance fees / fee for services rendered, subscriptions, sale of produce, gifts or publications, etc. In case of capital /corpus or project based grant, the donors have to specify whether the donation/grant provided by them shall be part of the corpus of the NGO or not. Such grants are generally provided with reference to the total funds required by an NGO. NGO's which accept donations and grants for the acquisition of some specific fixed assets have the primary condition before accepting the they should either purchase, construct or otherwise acquire the assets for which the grant is given.

As an NGO, DFY can receive contributions in kind also. These contributions includes assets such as land, buildings, , office equipment, vehicles etc. and articles related to programmes / projects such as food, , building materials, books, clothes, , and raw material for training purposes, e.g., Wool, reeds, cloth, beds etc. Areas of application of funds for DFY may include Establishment Costs, Maintenance Expenses, office and Administrative Expenses, Programme / Project Expenses, Donations, Charity, and Contributions given, etc.

The audit programme of DFY should include all in money and kind contributions DFY receive over the audit period, in a sequential order of all assets, liabilities, income and expenditure ensuring that no material item is omitted.

- (i) **Corpus Fund:** The contributions / grants received towards corpus be vouched with special reference to the letters from the donor(s). The interest income be checked with Investment Register and Physical Investments in hand.
- (ii) **Reserves:** Vouch transfers from projects / programmers with donors letters and board resolutions. Also check transfer of gross value of asset sold from capital reserve to general reserve and adjustments during the year.
- (iii) **Ear-marked Funds:** Check requirements of donors institutions, board resolution of NGO, rules and regulations of the schemes of the ear-marked funds.
- (iv) **Project / Agency Balances:** Vouch disbursements and expenditure as per agreements with donors for each of the balances.
- (v) **Loans:** Vouch loans with loan agreements, counterfoil of receipt issued.
- (vi) **Fixed Assets:** Vouch all acquisitions / sale or disposal of assets including depreciation and the authorisations for the same. Also check donor's letters/ agreements for the grant. In the case of immovable property check title, etc.
- (vii) **Investments:** Check Investment Register and the investments physically ensuring that investments are in the name of the NGO. Verify further investments and dis- investments for approval by the appropriate authority and reference in the bank accounts for the principal amount and interest.
- (viii) **Cash in Hand:** Physically verify the cash in hand and imprest balances, at the close of the year and whether it tallies with the books of account.
- (ix) **Bank Balance:** Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.
- (x) **Inventory:** Verify inventory in hand and obtain certificate from the management for the quantities and valuation of the same.
- (xi) **Programme and Project Expenses:** Verify agreement with donor/contributor(s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/project and accordingly, in the case of programmes/projects involving contracts, ensure that income tax is deducted, deposited and returns filed and verify the terms of the contract.
- (xii) **Establishment Expenses:** Verify that provident fund, life insurance premium, employees state insurance and their administrative charges are deducted, contributed and deposited within the prescribed time. Also check other office and administrative expenses such as postage, stationery, travelling, etc.

And the receipt of income of NGO may be checked in terms of the following lines:

- **Contributions and Grants for projects and programmes:** Check agreements with donors and grants letters to ensure that funds received have been accounted for. Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.
- **Receipts from fund raising programmes:** Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited in the bank daily.
- **Membership Fees:** Check fees received with Membership Register. Ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to be received during the year.
- **Subscriptions:** Check with subscription register and receipts issued. Reconcile subscription received with printing and dispatch of corresponding magazine / circulars / periodicals. Check the receipts with subscription rate schedule.
- **Interest and Dividends:** Check the interest and dividends received and receivable with investments held during the year.

The source of Income for an DFY is donations from the Government and other donors who are willing to contribute to society. DFY will maintain books of accounts related to the incoming and outgoing funds. DFY can also get the book audited for their own interest by an independent auditor to assure the donors to rely on the reports. DFY also file mandatory Income Tax returns as applicable for legal compliance in respective country of operation.

## 2. Benefits of Audit

There are so many benefits of audit for an NGO. The most basic benefits of audit for the NGO are as follows:

- The audit helps the NGO in providing proof of authenticity and honesty in the financial statements and practices carried them.
- Auditors are updated with the amendments made by the Government.
- Auditors provide valuable advice to the NGO on financial matters and controls.
- An audit allows the NGO to take and apply the knowledge provided by the auditors.
- The NGO also takes the help of an auditor to investigate particular issues.

## 3. Types of the Audit in DFY

Four types of audits are carried out for DFY to examine its activities of it and verify its working of it as per law and order without any interference, i.e., independently. These audits are as follows:

- **External Audit** - An independent external auditor executes the external audit. Such an Auditor gives a professional opinion on the fairness and credibility of the financial statements by conducting an examination of samples of the records. The opinion of this auditor plays a vital role in providing a set of proof of the truthfulness and genuineness of financial report.
- **Internal Audit**- The internal audit is executed by the officers and other staff of the DFY through an internal auditor. Internal auditor is appointed by Governing Body of DFY from time to time who is exclusively hired for the audit. The verification of the NGO's policies and procedures is done in an Internal audit.
- **Donor Audit**- The donor audit is performed by the donor themselves or any external auditors hired by the Donors. This ensures the donors that their donations are duly utilised.
- **Investigative Audit**- The investigative audit is performed in a case where the NGO suspects an issue, and the auditor is required to uncover and investigate all the primary and secondary facts.

## 4. Purposes of Audits

The different purposes of all types of audits are as follows:

- **External Audit**- This audit examines the fairness, authenticity and accuracy of the financial statements of the NGO.
- **Internal Audit** - This audit examines the procedures and policies followed by the NGO.
- **Donor Audit**- This audit examines all the terms and conditions followed by the NGO.
- **Investigative Audit**- This audit searches for the evidence connected to the suspected fraud or any other issue.

## 5. Forms of Financial Statements for the purpose of NGO Audit

The financial statement forms part of the General-Purpose Financial statements of an NGO:

- Balance sheet

- Income and expenditure account
- Cash flow statements

The fund-based accounting is relevant for the NGO. The Income and Expenditure Account has these three columns to provide income and expenses related to the restricted funds as differentiated from unrestricted funds:

- Restricted funds
- Unrestricted funds (Designated and General Funds)
- Column reflecting the total income and expenses of restricted and unrestricted funds.

DFY will separate designated funds from other unrestricted funds in the internal auditing records. The NGO must take care at the time of publishing the accounts. The NGO also provides an integrated balance sheet at the time of auditing. The financial statement is prepared only after confirming the accounting standards and other relevant statutory requirements.

## 6. Steps were taken by the auditor in conducting the audit

The auditor follows different tasks performed or steps while conducting the audit. Following are such tasks or steps:

- The auditor studies the incorporation document and MoU with partners to know the activities and services.
- The auditor keeps a check on the grants received from the foreign institutions and whether it was as per the appropriate rules and regulations or not.
- Auditors check the use of the Government's grant, and a proper account is maintained for keeping a record of such grants.
- The auditor also checks the donation received from any individual or institution and also checks the use of such donation.
- The auditor examines the amount received as a subscription ratifying with the counterfoils of the receipts.
- Auditors study the decision made by the executives.
- The auditor makes physical verification of assets ratifying with the store ledger.
- The auditor also checks the liabilities and proper transfer of them.
- The auditor ensures the legality and other compliances such as the Income Tax Act, ESIC, etc.
- Auditor confirms the applicability of Sections 12AA and 80G.
- Auditors conduct the background check of all the executives and officials of the NGO and other people who are connected with the NGO.

## 7. Contents of the auditor's report in an NGO Audit

The contents of the auditor's report are as follows:

- A balance sheet of society name with address
- Income and Expenditure Account
- Receipts
- Payment account

The format of the auditor's report is as follows:

- The auditor receives all the explanations and information that are necessary for the purpose of the audit.
- The book of account is appropriately maintained as per the law.
- The balance sheet and income and expenditure account dealt with the report

The account gives a fair view of the following:

- The state of affairs of NGO in case of a balance sheet
- The surplus amount in the case of income and expenditure account.
- Payment of the society during the end of the financial year for the receipts and payments account.

## 8. Documents included in Annual Accounts of NGO Audit

The list of documents that are included in audited annual accounts for NGO audit is as follows:

- Auditor's report
- Balance Sheet signed by Chief Functionary & Board Members of the NGO
- Income and Expenditure Account signed by Chief Functionary & Board Members of the NGO
- Receipts and Payment Account (in case of [FCRA registration](#)) signed by Chief Functionary & Board Members of the NGO
- Notes of Accounts
- Fixed Assets Schedule

- Complete Schedules if your balance sheet, income, and expenditure account mention the same. Each page should be stamped along with the initials of the CA.
- Ensure that the year is correctly mentioned in all schedules and annexures.
- Check that there are no errors or rounding off errors across all pages.
- Ideally, figures for the previous year should be provided in all statements and schedules.
- The pages must be numbered. The original copy of the required documentation must be provided.
- Payment of fees or salary or remuneration or reimbursements to Trustees or Governing Body members or Directors should be tracked and reported separately.
- If your CA/auditor makes any comment/ qualification in their draft audit report, discuss the issues with them. You must also provide your response in a management report so that the CA/auditor can incorporate the same in their final report.
- Share the action report with the Auditor on issues raised on the previous year's report.
- In case the accountant has made separate project wise or location wise accounts and also separately for FCRA and domestic transactions, it is better to ensure that the accountant has also prepared consolidated statements for the organization as a whole.

## 9. The Audit Procedure

Every year DFY carries out its social activities with the help of donations, and so needs to prepare the financial accounts and statements to showcase the authenticity of its performance and efforts to the general public. When an independent CA audits the accounts, it sums up its validity in the eyes of the public. The procedure for auditing is as follows:

- Auditor first checks the books with the previous data, accounts and trial balance.
- Auditor then checks the receipt and payment accounts and also the income and expenditure accounts.
- Then the auditor checks the total amount DFY has received and its expenses. He also checks the nature of expenses.
- The auditor, at last, prepares the audit report after thoroughly verifying and checking all the financial statements.

## 22. DFY Financial Audit

**22.1 External Audit-** A Statutory audit of the overall aggregated accounts will be carried out on an annual basis by the external auditors. Each national programmes (such as India Program, US Office etc) and affiliates are audited as part of the Statutory audit of DFY. Some country programmes will continue to have an annual external audit to satisfy local legal requirements or conditions set by official donors. The choice of external auditors for the local audit is at the discretion of country programmes. Heads of Finance should ensure compliance with local laws and regulations regarding the conduct of external audits. Auditor selection and onboard will be a decision of DFY Governing Body.

- **Audit Arrangements** - All audit fees should be approved by the CEO through Governing body of DFY. The audit plan needs to be prepared by CEO / Country Directors. Audit arrangements are made directly between the Country Programmes and the local audit office, but the scope of the audit is laid down in Audit Instructions issued by Auditor Office as per statutory requirement in countertered geography.
- **Timing /Formats for Accounts-** The timing of the external audit should be agreed directly between the Country Programme and the local audit office, but must be consistent with the international audit timetable. Standard formats for production of year-end accounts will be issued by the Finance function each year. Accounts should be prepared in the required formats by Heads of Finance prior to commencement of the audit. All external audit reports should be circulated to the CEO, Head of Finance, Country Director and Finance Director within two weeks of issue.

## 22.2 Internal Audit

The internal audit function consists of the Head of Internal Audit and Director-Finance. The function is responsible for ensuring the economical, effective and efficient utilisation of charitable funds and the management of the organisation's approach to risk management. The team undertakes a financial and operational audit of every country programme, associate and regional office at least once every two years based on an annual work-plan. In some cases, annual visits may be necessary. The timing of audits and terms of reference will be agreed with the CEO, Country Director and Head of Finance prior to the commencement of the audit. Most medium to large country programmes will have a local internal audit function reporting to the country management team and the international head of internal audit.

### **23. Country Programme Internal Audit Function**

The scope of the local auditors includes all financial and management controls including risk management. It is recommended that country programmes with an annual income of INR 10 million or over should strongly consider the need for an internal audit function.

## **24. International Financial Management Framework**

### **24.1 Independence**

The internal audit function should be sufficiently independent of the activities of the country programme. Internal auditors should have no executive responsibilities. Individual auditors should have an impartial, unbiased attitude and an objective approach to work. They should at all costs avoid conflicts of interest.

### **24.2 Scope of Work**

- Internal audit should review policies, procedures and operations in place to; ensure the economical, effective and efficient use of resources safeguard the organisation's assets, ensure compliance with established policies, procedures, laws and regulations ensure that partner organisations are adequately delivering their objectives
- Internal audit should coordinate and review risk management at the country programme. In conjunction with the Country Management Team, the internal auditor should develop the country programme's risk.

### **24.3 Audit Planning**

A risk-based annual internal audit plan should be prepared by the internal auditor and approved by the Country Management Team before the beginning of a new operational year. The plan should cover all auditable units within the country programme including country office departments, regional offices, development areas and partner organisations.

### **24.4 Reporting**

The country programme internal auditor should report regularly to the Country Director and Audit Committee (where applicable) on the control environment and progress against internal audit plan. The internal auditor should produce regular reports to senior management and the Head of Audit.

### **24.5 Audit Review by Governing Body**

- The Audit report will be reviewed by the Governing body from time to time. The reports will be revised and CEO/President will be asked to work on the findings and a report to be submitted on action points.