

CHAPTER 03

Limitations of Existing Systems

“Excellence is going a little beyond : beyond what is expected from others and beyond what we expect from ourselves.”

Azim Premji

03.01 The conventional accounting practiced by individuals and organisations essentially originated from the legal necessity of ownership and the right to transact. In other words, most of the accounting entries are a result of transactions between two persons getting into a legally valid contract (whether written or implied). For example, if an individual contributes some cash or kind to another individual then there will be an accounting entry. But, if an individual saves the life of another individual, say, from drowning then there will be no accounting entry in spite of the fact that the latter act has a greater social importance.

03.02 So before discussing about social accounting we have to understand the context in which our existing accounting practices exist. All our accounting practices are in legal context. Therefore, before making an accounting entry one has to look into the legal entitlement to do so. For instance, an NGO faces great problem in accounting for own means of contribution in a project. The contributions provided by government or beneficiaries do not find a place in the books of accounting of the NGO because it is neither a contributor nor the recipient of the same. The issue is that we are trying to get the total picture

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of a project from the accounts of one particular stakeholder, which is fallacious.

03.04 The conventional accounting practices are proving inadequate and shallow in general.

03.05 In view of the radical changes in the financial environment the traditional balance sheet which we prepare at times seems to be a redundant and notional statement. For instances :

- The market value of shares of various companies is 100 or even 1000 times more than their face value.
- The astronomical prices of transfer of various companies.
- The book value of various metropolitan properties.
- Non-reflection of human assets etc.,

03.06 The story goes that an English charity sold its property in Hongkong just before its accession to China. The book value of the property less than a million rupees but the sale value was 10 billion rupees. In such circumstances how can we say that the balance sheet was showing a true and fair view of the financial position. Such facts about our financial recording systems impose tremendous limitations on the development sector where we deal with the miseries of the world. Therefore, it is of paramount importance on the part of the development stakeholder to possess the skills and understanding to take into account those factors of our existence which our traditional methods and reports fail to convey.

03.07 It is said that while we enjoy the woods the view of the forest is lost. In our obsession to maintain statutory compliance at times we tend to waver away from the purpose and objectives for which we are working.

03.08 Few probable reasons of the inadequacies of our financial system as they exist today could be as follows:

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- all our accounting norms and financial regulations are general in nature. We do not have any specialized development sector accounting or financial modes of operations.
- we fail to account for the varying value of money in its downstream journey to the grassroots.
- our existing financial systems fail to account for various enduring aspects of development
- we generally do not follow the principles of fund accounting which are so crucial for NGOs

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03.09 The World Development Report, 2001 issued by the World Bank cites various dimensions of poverty. It further stresses on the fact that if we do not understand the various causes and dimensions of poverty and all its dimensions, one way is to think in terms of people's assets, the return and the volatility of return on these assets. The report classifies five kind of assets :

- Human Assets
- Natural Assets
- Physical Assets
- Financial Assets
- Social Assets

03.10 I am afraid how many of these assets find a reflection in our Books of Accounts inspite of the fact that they are the determining factors of livelihood of the underprivileged.

03.11 Our accounting practices will ultimately find their roots somewhere in the backyards of economics. The social implication of any financially quantifiable activity is a totally different cup of tea. For instance, a company engaged in manufacture of arms may show great turnover and results from an accounting perspective but how do we measure the social implication of its success keeping in view the damages its product cause. Or for instance, in the case of an NGO organising a rally of 10,000 people how do we ensure that it is worth it in the light of the person days lost and other social disturbances caused.

02.16 In an NGO when we talk of various stakeholders, we are essentially discussing the involvement of various agencies in a project/activity of public importance. Contributions for any project can come in various forms (cash, non-cash, tangible, intangible, etc.) Further, the contributions to any project need not necessarily move through the books of accounts of the implementing NGO. Therefore, the records and statements generated from the formal records of an NGO will seldom provide a holistic picture of the project. This is yet another challenge in addressing the issue of social accountability. Our current legal systems creates certain limitations. All funds, assets and liabilities are always supported by a legal owner. When a donor agency provides grant, the recipient NGO becomes the legal owner of those funds through a valid transfer. An entry in our books of accounts is possible only if there is a valid legal transfer. Therefore, the books of accounts and financial statements of an NGO will reflect only those transactions and assets which have been legally routed through it. A project may have many other components which are not contributed by the NGO, for example, contribution directly made by the community, government or other agencies.

02.18 The other limitations of our financial system is that only monetary transactions gets reflected and the weightage and importance of transactions is also quantified in terms of money involved. Owing to the limitations of recording only monetary terms, many important voluntary contributions and other ethical and humane dimensions of the project are never recorded.

02.19 In the light of the above economic and legal limitations it is very difficult to address the objective of documenting and reporting the social essence and relevance of an NGO.

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Most of the contractual transactions are subject to two way flow of consideration 'give something to get something'. You pay Rs.10, you get a pen, you pay Rs. 20,000 you get a computer and so on. Every thing in thing in this world has a price. The entire commercial and 'for profit firm' work on the principles of 'quid-pro-quo' (give and take). The existence of this principle has an inbuilt mechanism of accountability. If somebody offers you an inferior good, you will not buy and therefore, without having any communicative relationship with that person you are determining the quality of the goods he is going to offer. In the commercial world for your own survival you have to constantly deliver high quality goods and services otherwise the market forces will throw you out. In other words, there is a built in mechanism of accountability.

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02.21 An NGO works on an entirely different set of principles. A donor provides grant and does not expect compensatory tangible goods/services to be paid back. A grant comes with responsibility of trusteeship against which certain forward and downward functions have to be fulfilled. When an NGO is working in the community, the community does not have any in built authority⁸ of making the NGO accountable or throwing it out for its inability to deliver the requisite services. Because of this trusteeship syndrome we have to resort to the ethical dimension and helplessly expect that interest of all the marginal/poor stakeholders will be taken care of by the NGO

⁸ Unlike an ordinary consumer of the commercial world, who will stop purchasing the goods if they are not of appropriate quality. Therefore, even a small marginal consumer has certain degree of power to make the producer more accountable and responsible

06. If we carefully analyse the purpose and mode of the existing system of documentation and reporting it will be evident that our systems are more of product oriented than process oriented. We maintain books of accounts in certain specific manner because it is required to be shown in that particular way as per the law. We prepare various annual return exactly as per the statutory requirements of various authorities. under the Income Tax or any other law. We prepare the financial and the narrative report in a particular manner because the donor requires it. Generally, most of our documenting and reporting processes are greatly influenced by the compliances which we are required to perform before the various authorities and stronger stakeholders. At times it may become extremely difficult to make holistic sense of documents and records prepared for specific purposes. This is another limitation in addressing the issue of social accounting.

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