THE ACCOUNTABILITY OF NGOs

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As early as the 1970s, the World Bank observed that the benefits derived from development loans did not accrue to people who were supposed to benefit from them. To correct this, the World Bank initiated a strategy of requiring that nongovernmental organizations (NGOs) be tapped as implementors of projects funded by loans through agreements it entered with the government. In turn, the government required nongovernmental organizations (NGOs) to enter into memoranda of agreement (MOAs), which identified the outputs expected by government organizations (GOs) for NGOs to accomplish as well the manner such accomplishments were to be evaluated. Auditing of NGOs is usually done by a special audit team (SAT), which looks into the compliance by NGOs with the provisions of the MOA and not the rules and regulations of the GOs. Based on the evaluation of assistance to selected NGOs, it is believed that there is a need to strengthen the NGOs-GOs accountability.

Introduction

In recent years we have seen a proliferation of non-governmental organizations (NGOs) undertaking government projects for government organizations (GOs) which are supposed to implement them. Funds of the GOs are being transferred to NGOs in the form of financial assistance. Are the NGOs being made accountable for those funds? To whom are they accountable? What is the extent of that accountability? This paper will try to answer these questions. It will see whether or not the NGO is accountable. It will also look into the accountability relationship, if any, between the NGO and the GO and the public which it is supposed to serve.

The paper is divided into three parts. Part I deals with the NGO and why it is now given so much importance in the service delivery system of the government. Part II focuses on the accountability relationship between the GO and the NGO and the role of auditing in the relationship. Part III presents an analysis of the audit reports on a number of NGOs which implemented projects of the Presidential Management Staff (PMS) in the Office of the President.

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The NGO as Alternative Mechanism for Service Delivery

The Need for an Alternative Approach to Service Delivery

The Philippine Government is organized in accordance with the bureaucratic model of governance. As such, it has a hierarchical structure with the central organization doing the planning and the supervision of plan implementation even for the lowest levels of the hierarchy. It is envisioned that with this type of organization, the effectiveness of the development programs and projects can be achieved efficiently and economically. But experience has shown that such is not the case. The benefits of the development efforts hardly trickle down to the targeted beneficiaries, especially those in the rural areas. A clear manifestation of this is the increasing migration of rural people to urban centers where they expect to have a better life.

The following are some of the causes why the bureaucracy cannot address the needs of the people:

(1) Those who are skilled and properly trained are not assigned/do not like to be assigned to the rural areas.

(2) Those assigned in the rural areas lack the commitment since they may be not be from the locality and do not emphatize with the people or may not understand/appreciate their needs.

(3) Local government units (LGUs) are weak and lack the necessary staff support. The support they have is undermined by the people from the central unit.

(4) Departments are highly centralized and do not have strong field offices at the local level.

(5) The bureaucracy is sectorally structured and coordination among implementing units is difficult. Implementors tend to protect the interest of their respective turfs.

The foregoing circumstances necessitate the determination of service delivery approaches other than the bureaucratic mechanism. Although planning for activities in the central units may also be one of the constraints because it does not encourage flexibility in implementation, this may no longer be a critical factor in view of the implementation of the Local Government Code which requires that plans be made at the local level.

The NGO as an Alternative Mechanism

In the 1970s, the World Bank realized that the benefits of the development loans it had been granting did not really accrue to the people who were supposed to benefit from them. The poor who were the intended beneficiaries of the projects funded by the World Bank have remained poor. Poverty is not good for the Bank's business. Poverty results in low productive capacity which in turn, results in low income for the government, hence, its inability to pay its debts. To take care of its interest, the Bank initiated a strategy that would ensure that the benefits of the loans it granted would reach their intended beneficiaries. So through agreements it entered into with borrowing governments, it required that NGOs be used as implementors of projects to be funded by the loans. The Bank hoped that the NGO, with its smaller organization, would be more flexible in project implementation and could readily respond to the needs of the people (de Fonseka 1991).

During the period, however, the Philippines was under a dictatorship which did not encourage people participation in governance. To meet the Bank's requirements, government-sponsored organizations and cooperatives, such as the electric and farmers' cooperatives and other agricultural sector associations, were organized. Although there were NGOs during the period organized by the Church and the business sector, those not recognized by the government could not get financial assistance from the Bank since the funds released were channeled through the government.

It was after the February 1986 People's Power Revolution that NGOs were officially recognized as partners in the development efforts of the GOs. The 1987 Philippine Constitution gave authority to such partnership when it provided that "the State shall encourage the non-governmental, community-based or sectoral organizations that promote the welfare of the nation" (Article II, Section 23).

In compliance with this constitutional provision, the Five Year Medium Term Philippine Development Plan (MTPDP) for 1987-1992 provides that "non-government organizations and private voluntary agencies shall take the lead in undertaking and sustaining programs and projects aimed at improving the socio-economic situation..." and NGOs can "develop and implement low-cost, innovative approaches that emphasize community participation in the building up of beneficiaries capacity for examining and solving their own problems." These authorities given to the NGO have been restated in the 1993-1998 MTPDP.

The Local Government Code has also institutionalized NGOs as active partners in local governance. It requires that a representative of a community-based People's Organization (PO) or NGO be a member of local special bodies such as the Local Development Council, the Pre-Qualifications, Bids and Awards Committee, the Health, Education and Law Enforcement Boards and the Peace and Order Councils. The LGU may also enter into joint ventures with NGOs in the delivery of certain basic services. NGOs or POs are also given preferential treatment with regard to the use of aquatic resources and in the grant of franchises in the construction and operation of such facilities as ferries, wharves, markets, etc. The LGU may also extend financial assistance to the NGO for its economic, socially-oriented environment and cultural projects.

What are the NGOs?

The MTPDP has distinguished NGOs from POs when it defined NGOs as:

> ...non-profit, voluntary organizations that are committed to the task of socio-economic developments and established primarily for service. Such service may involve assisting citizens or people's organizations in various ways by educating, training, or giving financial assistance to them (MTPDP 1993).

POs, on the other hand, refers to:

> ...independent community and/or class-based associations established to protect and advance the interest of specific causes or sectors, e.g., laborers, farmers, fishermen, peasants, women, and students. POs are concrete expressions of the people's participation and concerted action at the grassroots level, functioning as a vehicle for mobilizing communities in the pursuit of their aspirations. They likewise serve as schools for raising the people's consciousness on key issues that affect their lives and training the people's own leaders and organizers (MTPDP 1993).

There are different classifications of NGOs. They may be classified according to the line of service they render or the expertise they have such as management consultancy, training and education, information, etc.. They may also be classified by their sectoral interests such as housing, environmental protection, science and technology, etc.. Or they may be classified according to their concerns like the urban poor, youth, women, children, farmers, etc.

Support by the Government

Since the NGOs are considered partners in development efforts, GOs are more flexible in the selection of NGOs. Public bidding is dispensed with. GOs only require that NGOs undertaking its projects be properly accredited. The following are some criteria for accreditation:

(1) The NGOs should be registered with the Securities and Exchange Commission (SEC). This is to ensure that NGOs have a legal

personality, with officers who are responsible and accountable for its operations.

(2) It has a stable financial condition to ensure that the financial support it will receive from GOs will not be its sole source of funds and that such support will not be utilized by NGOs for its own interest.

(3) It has experience in fund or budget management to ensure that the funds it will receive will be managed efficiently and economically.

(4) It should have experience in implementing projects being applied for to ensure program effectiveness.

(5) It should be community-based and that in its implementation of projects, there will be no conflict of interest. (NEDA 1990: 6-9)

A duly accredited NGO may apply for duty-free importations with the Department of Finance under section 105 of the Tariff and Customs Code.

As a general policy, GOs require NGOs to enter into a memorandum of agreement (MOA) with the former when projects are undertaken. The MOA provides the guidelines in the implementation of the projects and usually covers the following areas:

(1) Identification of the project.

(2) Standards for project accomplishment by NGOs and acceptance by GOs.

(3) Systems and procedures for project implementation such as procurement of goods and services by NGOs and schedule of release of the fund assistance by GOs.

(4) Reporting, monitoring and inspection requirements.

The Accountability of the NGO

Are NGOs Accountable?

To determine if NGOs are accountable, there is a need to examine this basic element of public administration. Accountability has been defined as "holding people answerable to someone for doing specific things, according to specific plans and timetables to accomplish tangible performance results." It is "a person's obligation to carry out responsibilities and be answerable for decisions and activities." Also, it is the "control of expenditures and responsibilities and formally accounting for them" (COA Research and Foundation Inc. 1983).

Accountability flows upwards and downwards in the management hierarchy. Managers are accountable to their superiors and in turn their subordinates are accountable to them. Both the superiors and the subordinates share the responsibility for the decisions and the actions undertaken as a result of the authority given to them. Accountability also flows outwards since each one in the hierarchy is accountable to the public, the ultimate source of their authority.

Based on the foregoing definitions, for a true accountability to exist, the following must be present:

(1) Responsibility and authority are delegated by one organization or person to another.

(2) A set of objectives, expectations and performance evaluation is established for the exercise of that responsibility and authority.

(3) A rendition of the account is required.

(4) Approval or discipline may follow.

Using the foregoing components as standards, NGOs can be said to be accountable to GOs not as a subordinate since there is no superior-subordinate relationship between them, but as a partner who has been delegated to undertake projects for GOs. The MOA entered into and the funds granted become the authority for such delegation. The MOA identifies the outputs expected by GOs for NGOs to accomplish and the manner such accomplishments shall be evaluated. The Agreement also requires NGOs to submit its report to GOs on both financial and operational matters. Approval is manifested by the acceptance of the project by the GO concerned. In a number of instances, acceptance by the representatives of the project beneficiaries is also required. Discipline is imposed through the withholding of future releases. For more serious violation of the provisions of the MOA, sanctions are provided for by existing laws and rules.

The Role of the Commission on Audit

Since auditing is an integral part of public accountability, there is a need to analyze the role of the Commission on Audit (COA) regarding GOs versus NGOs accountability relationship. The 1987 Philippine Constitution gives the COA

> ...the power, authority and duty to examine, audit and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charter, and on a post-audit basis: (1) constitutional bodies, commissions and offices that have been granted fiscal autonomy under this Constitution; (2) autonomous state colleges and universities; (3) other government-owned or controlled corporations and their subsidiaries; and (4) such non-governmental entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of the subsidy or the equity (Article IX-D, Section 2).

The Constitution also gives the Commission the "exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties."

Pursuant to this mandate, the COA has adopted a comprehensive audit system (COA 1986, Section 21). The system includes financial audit, compliance audit and performance audit. The latter is composed of efficiency, economy and effectiveness audits.

Financial auditing determines whether or not the funds and property of GOs are properly accounted for and safeguarded. It is concerned with how controls over these funds and property are effected. Controls may be through the records and the books of accounts or they may be through the actual physical control.

Compliance audit is concerned with the extent of compliance by GOs with existing laws and regulations promulgated by Congress and by the President during emergency situations. Regulations may include the budgetary guidelines issued, administrative policies developed and contracts and agreements entered into by GOs, and guidelines issued by regulatory authorities such as the Department of Budget and Management, the Department of Finance, the Civil Service Commission and the Central Bank of the Philippines.

Performance audit or the three E's audit looks at whether or not GOs have utilized their resources in an economical and efficient manner and whether or not the objectives of the programs have been attained. It also determines whether or not there may be other more economical or efficient strategies which can be followed by the GOs concerned in order to achieve the same result. Efficiency and economy audit is an evaluation of benefits against the cost incurred. Dr. Leo Herbert has established the standards that may be used to evaluate how efficient or economical are the operations of GOs.

> Efficient operations include: (1) holding the cost constant while increasing the benefits; (2) holding the benefits constant while decreasing the costs; (3) increasing the costs at a lower rate than the benefits; and (4) decreasing costs at a lower rate than the benefits. Economical operation is the elimination or reduction of needless costs. Thus, economy and efficiency, as they both pertain to reduction or elimination of costs, are equivalent in meaning. Only when costs remain constant or increase in relation to increasing benefits are the meanings different (Herbert 1981).

Effectiveness audit determines whether or not the intention of the law or the regulation which authorized the program/project has been achieved. It looks into the attainment of the objectives and whether or not the same objectives can be achieved through the implementation of another program/project.

Comprehensive audit is focused on the four levels of accountability which have been identified by the Commission. These are fiscal accountability, accountability for compliance with laws and rules, accountability for the efficient and economical use of resources and accountability for program results.

COA Auditing of GOs and NGOs

To pursue the constitutional mandate, the COA has assigned auditors to the different GOs. The auditor, called the resident auditor (RA), audits the transactions, accounts and operations of the GO where he is assigned. The COA also assigns audit teams to conduct special audits on specific areas of concern upon the request of the President, Congress, the Heads of GOs concerned or the public or when the COA deems it necessary.

Since the audit is on a post audit basis, i.e., examination after payments have been made, audit is undertaken after the release of the fund assistance. The RA checks whether or not the assistance was granted in conformity with the agency requirements as to amount limitations and the appropriateness of the recipient. The RA verifies the accreditation documents and checks their validity. The financial statements submitted are analyzed. He may request confirmation of the information given with the concerned parties such as the SEC and the Banks.

The RA verifies the contract or the MOA and based on its provisions, determines the standards he may use in his audit especially in the verification of the accomplishments. He compares the accomplishment report submitted with the accomplishment as required in the MOA. To determine the report's validity he conducts or requests inspection of the project.

The RA depends greatly on the inspection and monitoring reports submitted by the GOs in question. To ensure that such reports can be relied upon, the RA evaluates the monitoring and control systems set up by the GOs.

This is an important audit activity since the strengths or weaknesses of the systems will determine the extent of actual verification to be made. The RA recommends measures on how to strengthen weak areas since it might be impossible for him to conduct a physical inspection of the projects undertaken.

The RA also ensures that the fund releases are taken up in the books of accounts so that funds accountability of NGOs are properly recorded. This will also enable GOs to report on that accountability. When reports are made by NGOs which are in turn acceptable to GOs, accomplishment is likewise recorded to clear NGOs of their fund accountability. The RA informs the GOs concerned of any deficiencies found in audit. It is the responsibility of the GOs to bring such findings to the attention of the NGOs and demand that the latter make the necessary corrections and comply with the recommendations given.

Upon request or when it is necessary, an audit is conducted on the accounts, transactions and operations of the NGOs in particular. Although the RA may be given the authority to do the examination, the assignment is usually given to a special audit team (SAT). Unlike the RA who requires compliance with the laws and rules of the GOs, the SAT does not use laws and rules as the standards in auditing but looks into the compliance by the NGOs with the provisions of the MOA. The SAT is more concerned with the efficient, economical and effective implementation of the project.

When the audit calls for the verification of the books of accounts of the NGOs, the SAT follows generally accepted accounting principles and standards even if this may not be specifically provided for in the MOA.

An Evaluation of the Accountability of Selected NGOs

The President's Social Fund

The evaluation is focused on the audits of the assistance given to NGOs from the President's Social Fund (PSF) managed by the PMS. The PSF comes from the Philippine Amusement and Games Corporation (PAGCOR) and is intended for social development projects and concerns not otherwise assisted by funds from the regular budget.

The President as the approving authority for the use of the PSF established priority projects for assistance. They are: school buildings, potable water systems, livelihood, and street children projects. These projects are aimed at improving the quality of life of marginalized Filipinos, particularly those belonging to the bottom 30% of the population. The targeted primary beneficiaries are the small farmers, landless rural workers, *kaingineros*/upland farmers, sustenance fishermen, urban poor which include out-of-school youths, street children, displaced blue collar workers, resettled poor, disabled women and cultural minorities.

The projects to be assisted are not supposed to compete with regular projects of line agencies or the LGUs. To implement the projects, the participation of the NGOs and other organized community groups are encouraged. Projects are chosen from requests and petitions submitted by the LGUs and other GOs, NGOs, POs and other concerned citizens. Upon approval of the evaluated requests or proposals, a Deed of Donation (DOD) is issued if the assistance is for livelihood projects or a MOA is entered into by and between the PMS and the NGOs for the other projects. The MOA/DOD include provisions for the:

(1) commitment of the NGOs to undertake the project per approved plans, including terms as to the time of completion and delivery and the commitment of the PMS as to the release of the fund assistance;

(2) submission of audited disbursement and project status reports;

(3) return to the PMS of the savings after completion or use of the savings for the other needs of the project after its approval by the PMS;

(4) inspection, monitoring and acceptance of the project; and

(5) maintainance of separate bank accounts and separate books by the NGOs to record the receipt and use of the funds (PMS 1989).

Although advance payment is not allowed under Section 88 of PD 1445 unless approved by the President, a first tranche is released to the NGOs upon the signing of the MOA. This is because the policies formulated have been approved by the President. The subsequent releases will be dependent on the submission of the required status reports.

Evaluation of the Assistance to the NGOs

The PAGCOR remitted to the PMS ₱291,305,169.42 in 1989, ₱339,096,808.11 in 1990, and ₱222,833,047.37 in 1991 (Official Receipts of 1989-1991 submitted to COA Auditor's Office, PMS). To determine how the NGOs actually utilized the funds given, the Head of the PMS requested the COA in October 1991 to undertake an audit of a number of NGOs all over the country. This evaluation focuses on the 42 NGOs which implemented projects in Cagayan, Bulacan, Benguet, Pangasinan, Ilocos Sur and in Parañaque, Metro Manila. The received assistance in 1989 and 1990 was ₱89,549,982.00 or 14% of the total budget for the years 1989-90 (i.e., ₱630,401,977.53). The projects undertaken are indicated in Table 1.

Table 1

Project Type	Amount
Livelihood projects	₱ 2,841,180.00
Potable water system	5,421,774.00
Street children	3,589,670.00
Scholar day care centers	1,883,700.00
School buildings	75,813,658.00
Total Amount	₱ 89,549,982.00

Source: COA Special Audit Reports, 1992 and 1993

The audits were focused on the economical and efficient use of resources in accordance with the provisions of the MOA. The effects of the projects were not looked into. Table 2 summarizes the audit findings.

Table 2

Deficiency	No. of NGOs	% of the 42 NGOs	Amount	% of the 89 M Allocation
Unreturned Unused funds	12	28%	₱ 1,608,485.13	2%
Uncollected Liquidated damages	8	19%	1,577,038.60	2%
Materials in excess of requirements per plan	18	43%	1,920,730.36	2%
Incomplete Projects	3	7%	1,234,018.00	1%
No separate books of accounts maintained	6	14%	31,579,260.00	35%
Delayed reports/ no reports	14	33%	10,144.734.66	11%
Use of funds not for the Project	4	9%	310,920.90	.3%
Unrecorded earned interest	2	4%	298,567.81	.3%
No counterpart funds	1	2%	75,000.00	.008%
Total	7 ave.	17%	₱ 49,817,433.80	56%

Source: COA Special Audit Reports, 1992 and 1993

The total amount of deficiencies is substantial at 56% of total allocation in 1989-1990. The volume is concentrated in two areas only, the requirements for the submission of reports and the keeping of separate books of accounts. It must be noted that of the six or 14% of the NGOs, five purchased materials in excess of the needs as per the plans in the total amount of ₱600,205.70 or 31% of the total cost of materials purchased in excess of project requirements; one did not return unused funds of ₱734,634.16. The two which did not submit the needed reports used a total of ₱134,496.78 to buy materials not needed for the projects. Out of the 12 delayed reports, five had tampered receipts, seven used ₱766,842 for materials in excess of the plans while seven did not refund to PMS the excess amount of ₱1,299,215.72 or 76% of the total unused funds unreturned (i.e., ₱1,608,485.13).

Conclusions

Based on the foregoing, and in consonance with COA's allowance of 10% as the tolerable limit, it is believed that there is a need to strengthen the NGOs-GOs accountability relationship. Also, a closer coordination with the NGOs and monitoring their activities should be made to ensure compliance with the provisions of the MOAs which they themselves have entered into.

Since savings from the project costs could be used for items not covered by the project, such as classroom desks and chairs that are not included in a school building project, the MOA should stipulate the non-use of savings which are not refunded to PMS. A provision should also be included that would require the NGOs themselves to implement the project and not to subcontract project implementation to a third party. Subcontracting may be a sign that NGOs were organized to avail themselves of the government's assistance with profit or income generation as a motive. In that connection, a study should be made to determine if NGOs should be used as implementors of construction projects. It would be better to harness their assistance in monitoring such projects rather than in the actual implementation. There is a need for the PMS and the other GOs to ensure that the fund assistance given to the NGOs achieves the terminal objective of the support: which is to make the NGOs partners in the development efforts of the government.

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