



Auditing NGO Service Delivery Arrangements

INSTITUTE OF INTERNAL AUDITORS – AUSTRALIA
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Sententia Consulting

Agenda

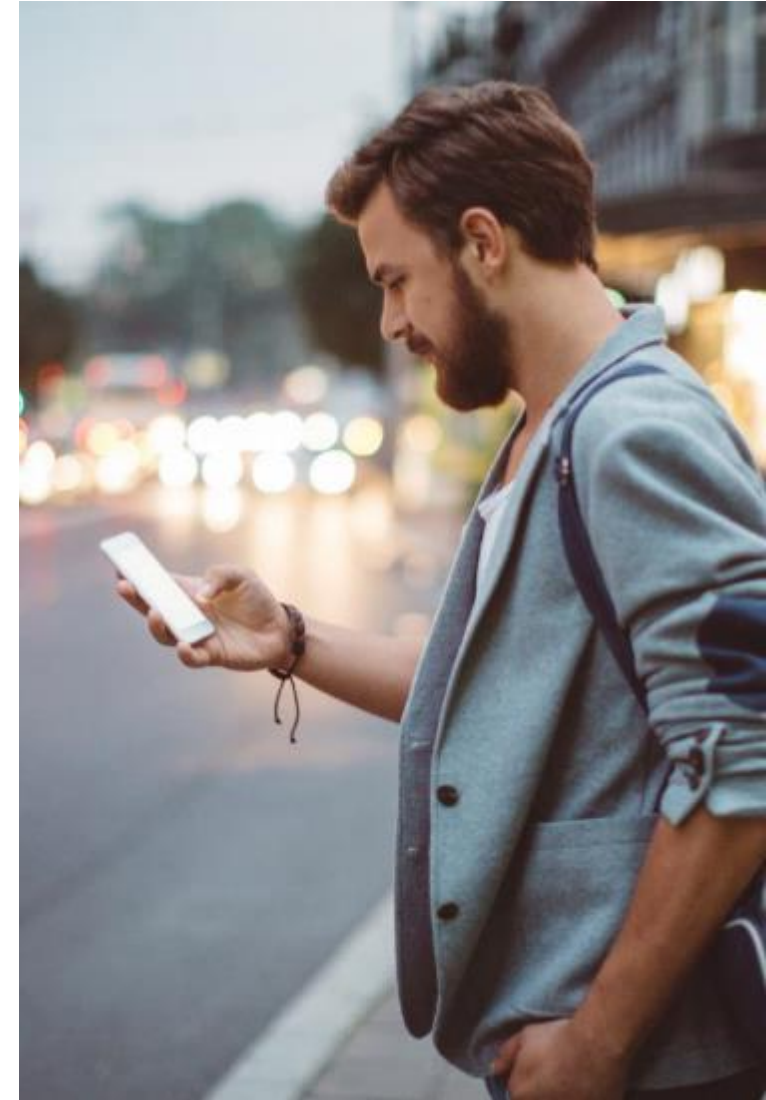
NGOs, their unique features, and features of their accountability systems

The relationships between Government agencies and NGOs

Why should internal audit be involved in auditing NGOs

What to audit and how to audit NGOs as an internal auditor

Tricks and traps in conducting internal audits in NGOs



About NGOs and their Accountability Arrangements

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What are NGOs



A non-government organisation is an organisation that is not funded by a state and, therefore, is typically independent of governments. Although the definition can technically include for-profit organisations, the term is generally restricted to social, cultural, legal and environmental advocacy with primarily non-commercial goals. NGOs are usually non-profit organisations that gain at least a portion of their funding from private sources.

NGOs are a heterogeneous group – including: INGOs, BINGOs, RINGOs, ENGOs, GONGOs and QUANGOs.



Unique Features of NGOs

Unique features influence NGO organisational behaviour

- Not-for-profit
- Deep dedication to their cause
- Low paying and variable staff turnover
- Often lower investment in governance, technology, process and control
- Performance can be difficult to measure
- Often delivering services in difficult circumstances

The unique features of NGOs drive important aspects of their organisational culture, risk profile, operating approach to business (and to auditors), control environment and governance arrangements.



Key features of NGO accountability systems



Increased scrutiny and pressure to demonstrate they are using resources in an efficient, accountable and transparent manner.

Accountability is (more than corporations and Government) primarily enforced through self-regulatory mechanisms and internal rules and procedures

Consequently, the quality of internal governance, integrity, accountability and related processes and systems are highly influential

NGOs reflect an accountability to a wide range of stakeholders, including internal stakeholders, donors, regulators, beneficiaries, organisations influenced by NGO activities, ecosystems and society. (The typical focus is to donors and to beneficiaries.)

In some cases NGOs operate in environments of endemic corruption

Relationship between Government and NGOs

2

Relationship from Governments Perspective

The NGO is a service provider (but typically not on a service delivery contract).

The NGO is essential to delivery of important policy outcomes – and there is a clear expectations of outcomes (which can be hard to measure).

The NGO has a close relationship with important Government constituents.

The NGO is (sometimes) receiving a lot of money

The NGO is doing work that the Government funder is not skilled to do

A unique third-party delivery arrangement

Ultimately an NGO relationship is a third-party delivery arrangement, with a difference. It has many of the same features and characteristics as an outsourcing or a service arrangement. However the contractual basis is sometimes different (can often use grant arrangements), the marketplace of suppliers is often different (and more limited), the ability to measure outcomes is challenging, and the impacts of non-delivery are often more impactful for Government.



Relationship from the NGO's Perspective

The NGO is (often) highly reliant on the funding provided, with limited financial head room (as it is a not-for-profit).

The NGO is deeply invested in the service being provided (and will be doing it before and after Government funding has gone).

The NGO will (often) perceive a high compliance burden from working with Government (which it may not be well equipped to respond to).

A dependence, and a deep desire to deliver, but sometimes without the rigours that Government would like

NGOs are typically highly skilled at delivering “soft” services that are highly impactful on society, but can be difficult to measure. They want to deliver to the satisfaction of Government as that provides them with a license to operate, and a funding stream to exist. However the bureaucratic overlay that comes with working with Government can be hard to understand and support (and can be perceived as getting in the way of delivering the service they have been appointed to).



**Why should internal
audit be involved in
auditing NGOs**

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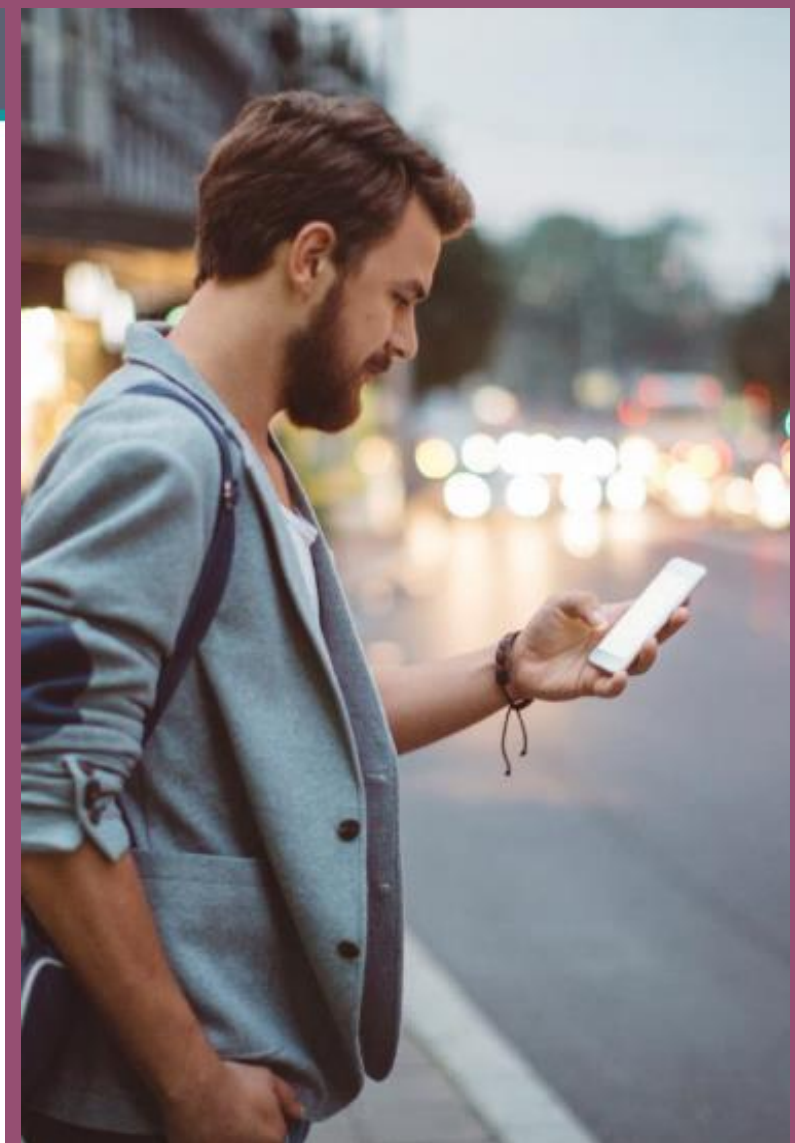
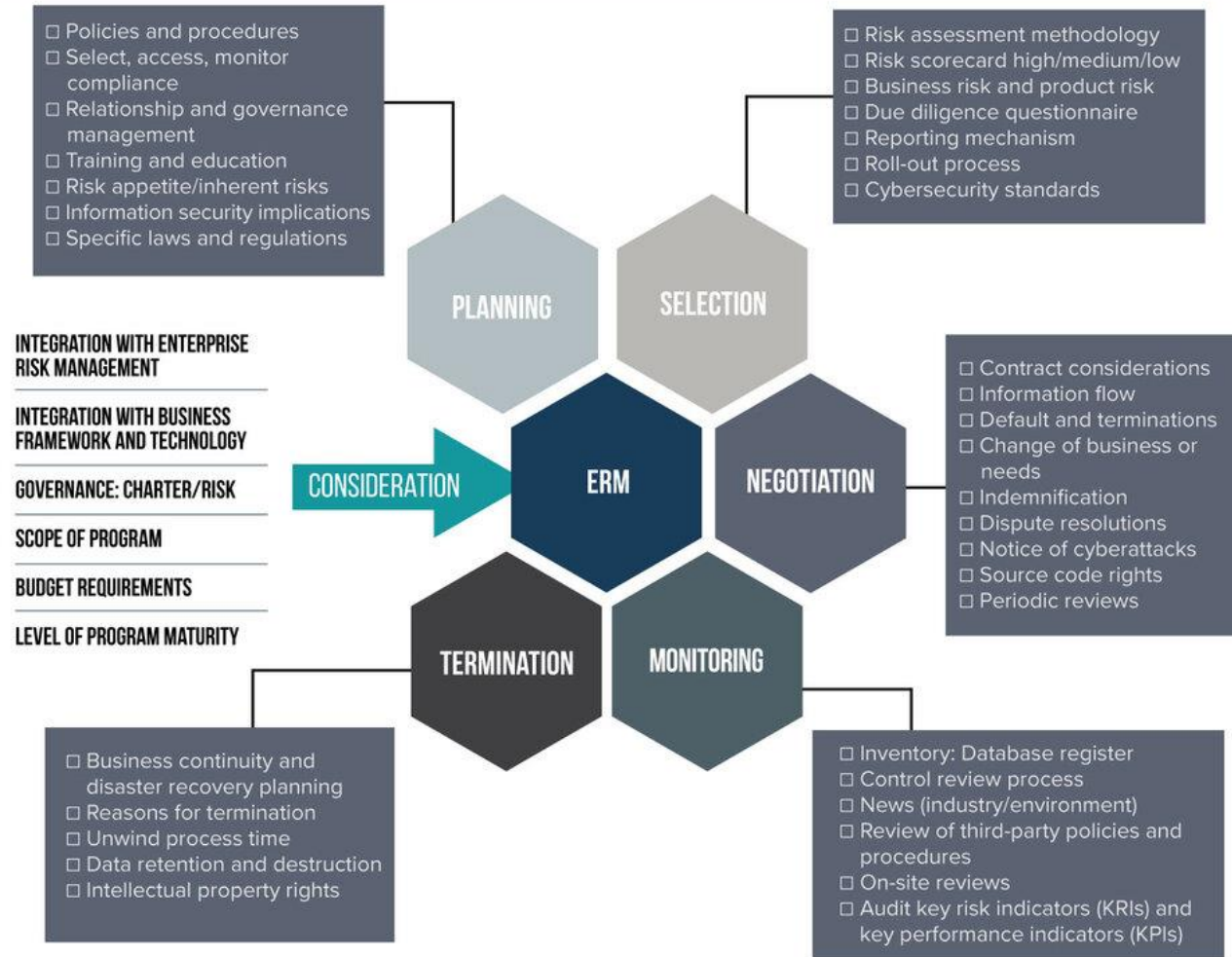


Risks in working with NGOs

- Poor enterprise approach to NGO management
- Lack of risk-based approach to management of NGO arrangements
- Poor visibility of individual NGO performance
- Service levels and performance indicators are poorly defined and/or not measured or monitored
- Poor relationship and interaction with NGO
- Inconsistent or ineffective approach to day-to-day contract management
- NGO risk management not joined up with agency risk profile
- NGO capability issues
- NGO ethical or cultural issues



5 COMPONENTS OF A THIRD-PARTY RISK MANAGEMENT PROGRAM



Third Party Risk Management

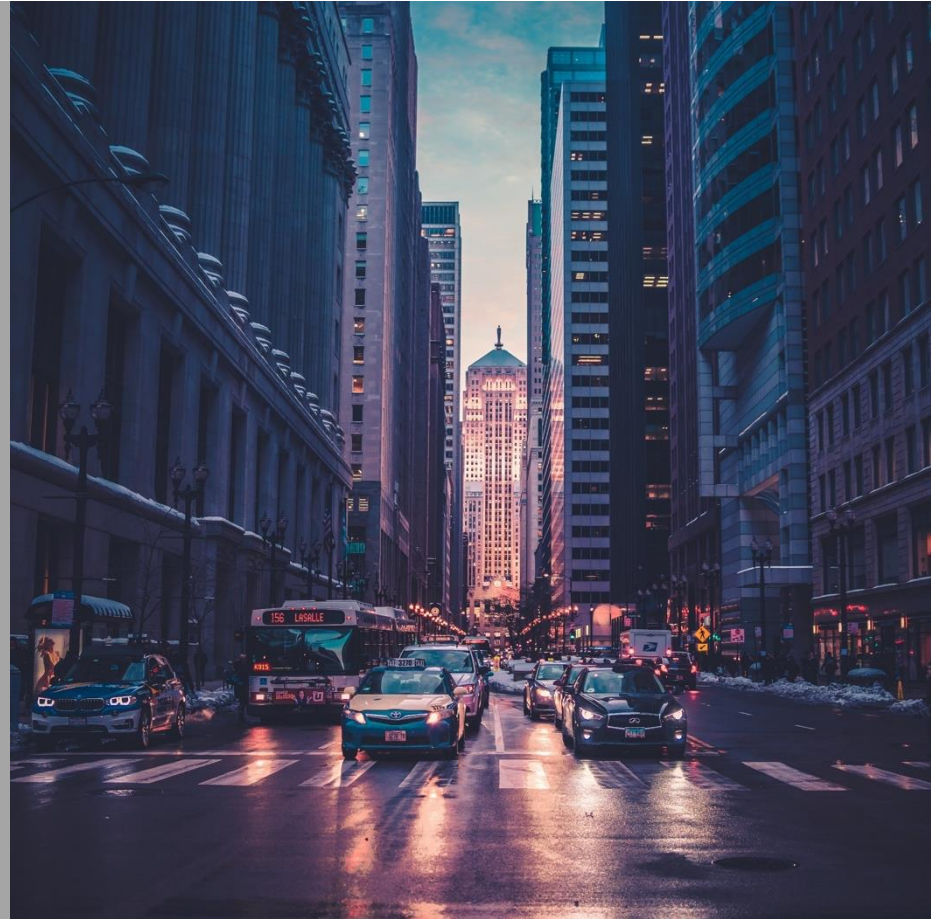
What to audit and how to audit in NGOs

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What to audit in NGOs



- Contract compliance
- Legislative compliance
 - Security controls
 - Financial controls
 - Risk alignment



- Reporting accuracy
- Performance effectiveness
- Business continuity management
 - Cultural/Ethical alignment
 - Partnership arrangements

How to Undertake an Internal Audit of an NGO

The process for undertaking an internal audit of an NGO is no different from undertaking any other audit. There is a logical process that involves planning, risk assessment, testing and fieldwork, assessment against suitable criteria and reporting. Further, there are a set of standards in the IIA's International Professional Practices Framework that are perfectly applicable to internal audits of NGOs.



Relationship management

There will always be some level of tension in instances where an internal auditor is conducting audits of an NGO. There are techniques to manage this.



Use the broader contract management arrangements that are known and accepted (provided they provide for functional relationships)



Be accommodating to business imperatives (within reason)



Ensure highest level sponsorship from both sides and use as required



Focus on building the relationship



Be open, transparent and even-handed



Consider the use of agreed protocols which are signed up to by contract manager, provider and auditor.

Tricks and traps in auditing NGOs

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Tricks and traps

Get involved early to help avoid contract failure

Multidisciplinary teams – policy, contracts, service understanding

Ensure right to audit clauses are retained in the negotiation

Relationship management is essential - in design and conduct of the auditing

Consider the extent to which risk is being jointly considered

Benchmarking can be beneficial, but can also be confrontational

Work closely with the business owner and contract manager

Audit outcomes should be mutually beneficial to all parties

Align audit coverage to risk

Need to coordinate when several layers of assurance

Balance systems-based approach with substantive testing

Vary audit approaches to add value and increase coverage

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