

MicroSave India Focus Note 54

SHG Audit – A Field Balance Sheet Approach

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Introduction

In India, there are about 6.12¹ million Self Help Groups (SHGs) promoted by both government and non-government agencies. SHGs, though they mobilise savings, are largely credit driven and in general, the accumulated savings are insufficient to meet group members' credit demand. As a result, most of the SHGs source funds from external financial institutions including banks and microfinance institutions (MFIs).

To minimise their risk exposure, external lenders assess the quality of the groups before lending. For instance, NABARD has come out with an SHG assessment tool called CRI (Critical Rating Index), which has been adapted by many of the banks; while MFIs use their own rating tools. However, one shortcoming in most of these tools is that they place a premium on quantitative aspects like number of meetings conducted, regularity of saving, repayments etc. Equally important facets such as accuracy and validity of the numbers recorded, protection of member savings, existence of retained earnings, members' concerns about the group, etc. are largely left unaddressed. To address such issues, *MicroSave* has supported BWDA Finance Limited (BFL)² to develop a SHG-Audit Tool based on a "Field Balance Sheet" approach, tested in one of their branches during October 2009-January 2010.

Why the Need for an SHG-Audit Through a Field Balance Sheet Approach?

Compared to other record-keeping tasks of SHGs, preparing a balance sheet is a relatively infrequent, challenging, and abstract event.³ Accounts are typically maintained on a running basis, sometimes for many years. As a result, periodical reconciliation of accounts does not occur. The Field Balance Sheet approach uses a simple estimation of savings and earnings of the SHG since inception, and reconciles this with the actual figures to assess deviations. It seeks to provide a snapshot of the financial position of the group and to ascertain the capital of the SHG. It is useful to locate disparities between actual asset and liability positions and that which appears in the records. Filed Balance Sheet approach provides an opportunity for reconciliation of entries in the books with those in the members' passbooks and as a result, contributes to enhancing the members' confidence in the group.

In one instance, prior to the audit of one mature SHG headed by an active group leader, branch staff thought that auditing may not be required since the SHG had been running successfully for many years. However, after the audit, staff members were shocked at the level of deception going on in the group. The leader was using a major portion of the group's corpus for personal purposes without informing the members. Auditing helped the branch manager provide the required direction to the field staff to address the issues.

Applying the Field Balance Sheet Approach

The entire process should take about 3 to 3.5 hours per group. The following are the individual steps that are taken during the audit.

Step 1: Background Review (1 hour)

During a background review, a preliminary examination of the group level records, including the cash book, is conducted. The auditor also does a general review of the group level records and member passbooks to verify/cross-check data entries for their accuracy and correct posting.

Step 2: Prepare a Field Balance Sheet (1 hour)

S No	Assets	Amt Rs.	S No	Liabilities	Amt Rs.
1	Cash in hand		1	Voluntary savings	
2	Cash in bank		2	External Loan Outstanding	
3	Loan Outstanding with members		3	Equity	
4	Fixed Deposits		a	Compulsory savings	
5	Fixed Assets		b	Retained Earnings	
	Total			Total	

The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG, and to validate these by counter-checking the balance with the cumulative income and expenses of the SHG. The Field Balance Sheet also provides data, which is useful in estimating the individual member's savings and actual portfolio yield, and in

¹ Status of Microfinance in India 2008-09, NABARD

² BFL is a SHG-based MFI working in Tamil Nadu state

³ SHGs Should Balance or Break, *MicroSave* India Focus Note 19

reconciling the same with potential savings and portfolio yield.

Step 3: Private Meetings with Members: (40 minutes)

The auditor conducts private interviews with 25% of total members to triangulate information collected from the background review, as well as from the Field Balance Sheet and to ascertain the decision-making pattern in the group. If issues come up in this review, an SHG meeting involving all members may be conducted.

Step 4: Meeting with the SHG Group (30minutes)



If serious issues were raised during the course of the audit, the auditor will meet with the entire group for further discussion. The objective of the meeting is to triangulate the information collected

through document review and private interviews. It also provides an opportunity to ascertain the level of awareness and involvement of the members in the SHG's activities.

Step 5: Reporting (20minutes)

Once the auditing is complete, the auditor summarises any weak practices that put savings at risk or make records unreliable, and recommends any better methods. S/he submits the Field Balance Sheet, along with a summary report to the MFI/bank, to all group members and adds relevant comments to enable decision making regarding provision of credit.

Scope of Application

The SHG-Field Audit tool can be applied with minor modifications to any small, village-based financial intermediary. For instance, it can be used in village banks, ASCAs⁴, small thrift cooperatives (e.g., MACS⁵, PACS⁶) etc.

Advantages of Using Field Balance Sheet Approach

- The audit tool helps to ensure portfolio quality of the lenders by influencing credit decisions.
- SHG members can use the results of the audit to improve their systems and procedures. Since a reconciliation is done at the SHG level during the audit, members can pinpoint the irregularities and deficiencies in the system
- Members can obtain accurate information regarding their balances (both savings and credit) and regarding the retained earnings of the group. As a result, they will

have more faith in the system, encouraging a higher use of the services offered, such as savings.

- Risk of dominance or fraud committed by one individual, such as by an SHG group leader, is minimised. SHG members have a chance to discuss the affairs of the SHG through private interviews, allowing them to provide sensitive information in a non-threatening environment.

Issues and Challenges in Using the Approach

In spite of its many advantages, the Field Balance Sheet approach also has some issues and challenges, which need to be addressed:

- Many of the lenders are oriented towards microcredit disbursement and may not display any strategic commitment to quality of the groups or protection of SHG capital/savings.
- The responsibility for the auditing and reporting processes may end up with the lending institutions, rather than with the SHG directly.
- If SHGs are interested only in external loans and not in mobilising savings, the findings of the tool may be used only for accessing loans, and the larger objective of client protection may be ignored.
- The group leaders may resist discussing pitfalls of the group with group members.
- If SHGs do not record their transactions in the required books of accounts, it would be difficult to audit the SHG by using this tool.
- The scalability of this system may be difficult to implement. A full census of SHGs may simply not be feasible or cost effective, and therefore a significant and random sample would need to be implemented, perhaps ensuring that all SHGs are audited at least once every one or two years. The use of (mobile) technology could help to make this process simpler and easier to implement across many groups at a time.

Conclusion

MicroSave supported BFL to develop the SHG Audit through Field Balance Sheet Approach.⁷ Auditing SHGs using this method is useful for both lenders, as well as SHGs, to protect their resources. BFL piloted this method in one of their branch offices and now implementing this tool throughout their branch offices by using barefoot SHG auditors. SERP⁸ is preparing to use "Field Balance Sheet Approach" for auditing their SHGs by using Community Resource Persons (CRPs).

⁴ Accumulating Savings and Credit Associations

⁵ Mutual Aid Cooperative Societies

⁶ Primary Agriculture Cooperative Societies

⁷ With Brett Matthews, consultant, who conceptualised the approach

⁸ SERP is the largest poverty alleviation programme implemented by government of Andhra Pradesh