



# **MULTI DIMENSION IMPACT ACCOUNTING (MDIA)**

**FOR DISCUSSION**

**COMMUNITY ACCOUNTANCY**

**FUNCTIONAL STRUCTURE**

**Peter Burgess (2008)**

## **Background Note**

The following was prepared in 2008. This paper was written while a book length analysis of development assistance was being prepared, and the focus is largely on the systemic failure of this segment of the global socio-economic system.

Subsequently it has become clear that there are also major systemic issues in other segments of the global society and economy.



**The Tr-Ac-Net Organization**  
**Transparency and Accountability Network**

URL: [www.tr-ac-net.org](http://www.tr-ac-net.org) Email: [peterbnyc@tr-ac-net.org](mailto:peterbnyc@tr-ac-net.org)  
Mobile: +1 212 772 6918, Landline: +1 917 432 1191

# **Community Accountancy**

**PUTTING ACCOUNTANCY TO  
WORK FOR ALL OF SOCIETY**

# **FUNCTIONAL STRUCTURE**

**FOR DISCUSSION ONLY**  
**Peter Burgess**  
**The Tr-Ac-Net Organization**

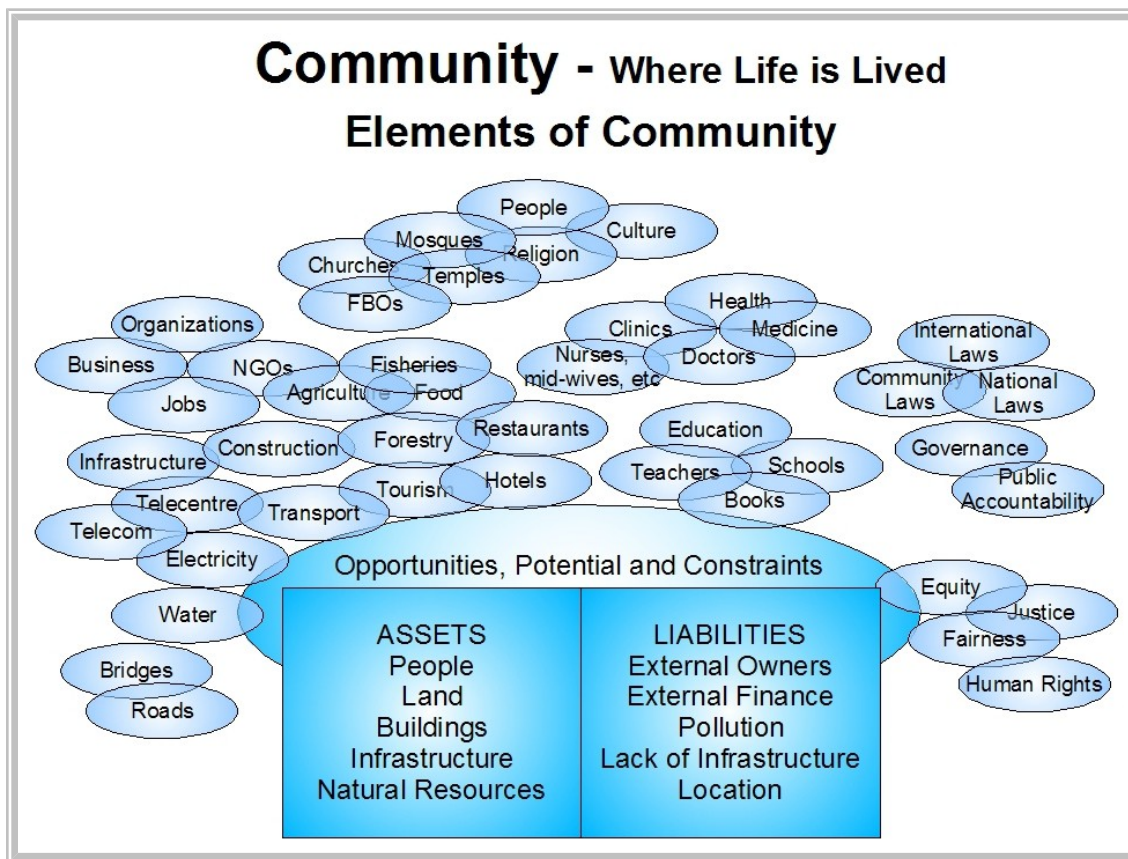
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# FUNCTIONAL STRUCTURE

## COMMUNITY IS THE STARTING POINT

It has been said that all politics is local ... but even more so, all life is local. More than anything else, this is the central concept of Community Accountancy.

People in their own community know what is going on ... and have an ability to hold people accountable most of the time. People in a community often know about things ... even if they cannot do anything about them. People need a structure that will make it possible for what they know to be used for the good of society ... to make their knowledge valuable ... and people need to be able to see metrics about society that have local meaning.

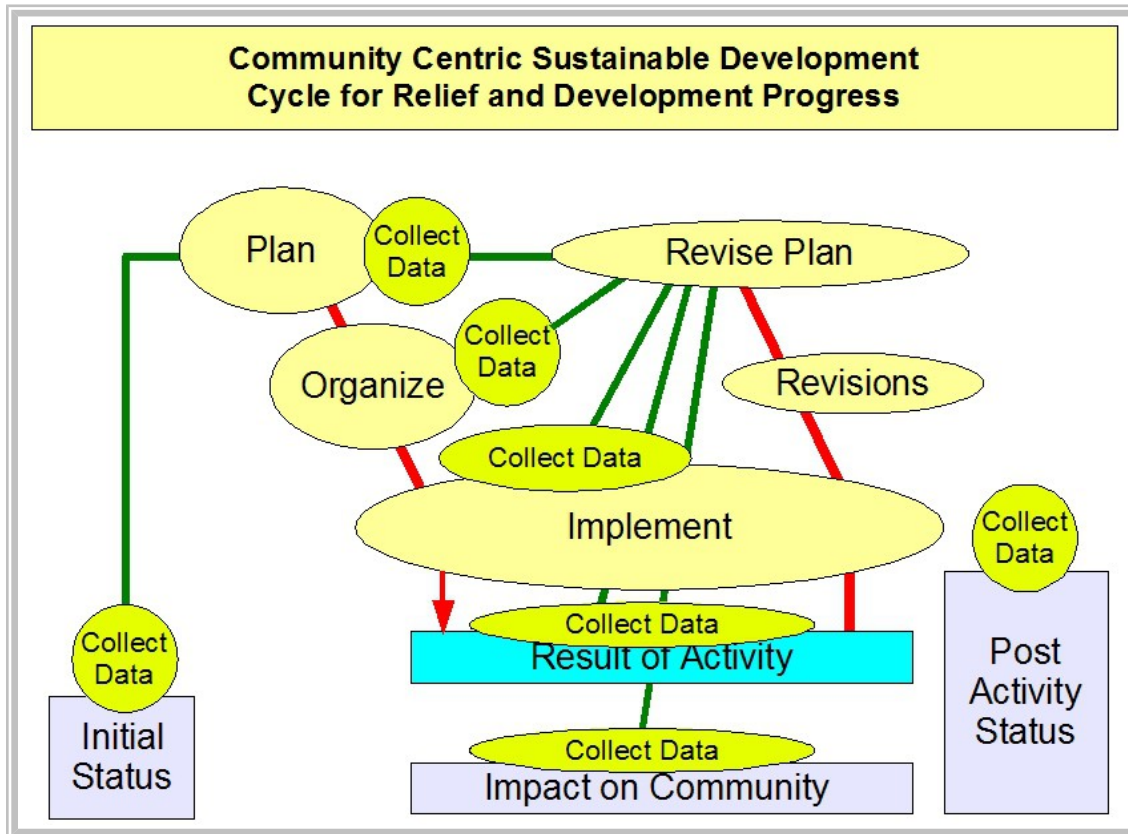


The challenge is to build a structure that does the job of facilitating the collection, transmission and storage of data without the structure becoming the dominant piece of the system. The data are at the center of everything ... with the structure being merely something to facilitate the data related activities.

## ABOUT MANAGEMENT

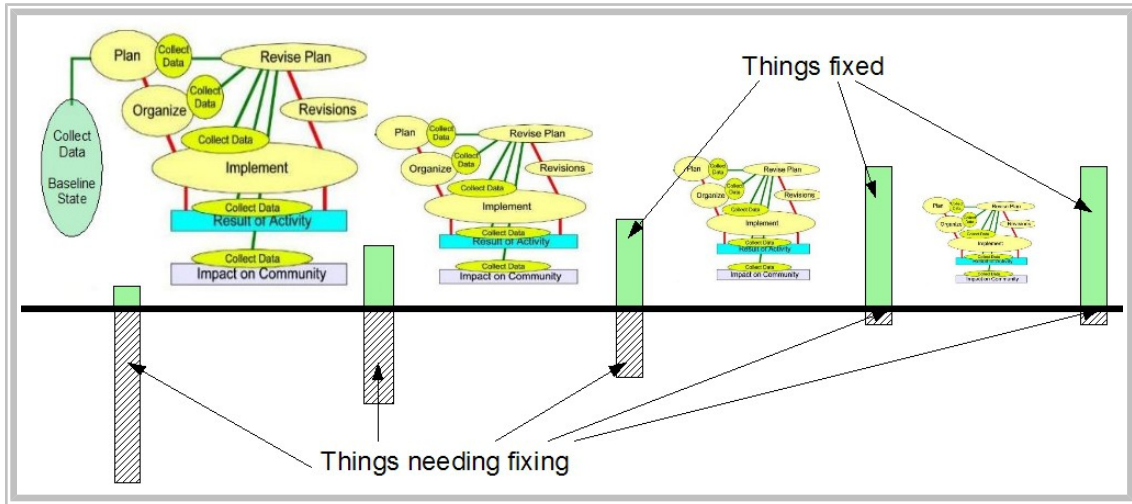
### A datacentric management process

Data are critical to decision making ... and the management process. The following graphic shows how pervasive data need to be in the management process. Without data, decision making is nothing more than guesswork, and the results are unlikely to be very good. Implementation is at the center of making progress ... but before successful implementation there is planning and organizing ... and everywhere there is data collection and the use of data to improve everything so that results and impact are optimized.



The following graphic shows the connection between implementation interventions and results. An initial development intervention may need to be quite substantial because there are many big things to fix. As time goes on things needing fixing get smaller and things fixed have continuing value. When done well, a much smaller intervention will sustain progress into the future ... sustainable development.

TVM ... Community Accountancy ... Functional Structure



## WHAT SORT OF STRUCTURE MIGHT EMERGE

Community Accountancy provides the metrics that put this process “on the record”. Where results are good, there can be replication ... where the results are poor, changes can be made and the responsible organizations and people held to account. Community Accountancy is needed ... it provides some of the essential checks and balances. It is what everyone wants to apply to everyone else, but not for oneself. It is an age old problem that has confounded professional accountants ... and explains why a perfectly good idea has never been implemented.

From time to time conditions arise where unusual things can happen ... and this might be one of those times. Some of these factors are:

- There is much knowledge about the unsatisfactory state of world poverty.
- There is much concern over the corruption of leadership.
- There is an unusually large pool of wealth available for philanthropic and social good
- There is more powerful and more universal Internet capability than ever before
- Ordinary people would love to do something of social value as well as delivering a salary

In this context it is possible that Community Accountancy might emerge and take off. The following shows something of how the Transparency and Accountability Network (Tr-Ac-Net) might serve as the catalyst for the early deployment of Community Accountancy.



In order for community accountancy to work, there has to be system management, and this system needs to operate independent of the entities needing measurement. The basic framework provides for the following:

- Independence
- Reliability
- Objectivity
- Neutrality
- Low cost
- Timeliness

## **FUNCTIONAL STRUCTURE**

### **Design of the structure**

The structure or framework must be totally unobtrusive. There is a need for a framework but it is merely present to facilitate what needs to be done to have data. The goal is (1) to have data; and, (2) to have progress. Structure is needed to frame the data, to facilitate the data collection and is not an end in itself.

There are different functions that a structure must facilitate ... and the best structure is one that does not in any way distort the connection between the reality and the data representing the factual reality.

### **The Cost of Community Accountancy**

The cost of community accountancy must be small relative to the economic activities that are going on.

Because community accountancy aims to be useful in low income communities, the cost of the system is designed to be very very low ... and using only ultra low cost technology and systems.

This is possible ...

A good accounting system does not come free, but it should not be excessively expensive. Good design especially of analytical codes helps to reduce cost without sacrificing analytical power.

A Community Accountancy system can be deployed with very low costs making use of existing available infrastructure. Good design, together with effective use of the Internet and relational database systems makes Community Accountancy much lower in cost than its value.

The purpose of Community Accountancy is to facilitate the easy access to data that will help improve decision making and help the public to hold decision makers and their organizations accountable.

### **Comparison with corporate structures**

In the following table the structure needed to facilitate universal deployment of Community Accountancy is contrasted with the Corporate Accountancy functional structure. There are similarities between the structure of the accountancy functions for accountancy in a large global organization ... with Community Accountancy not constrained within organizational boundaries but reaching into everything.

The dislike for objective accountancy in the corporate world is likely to be replicated in Community Accountancy ... objective neutral data about performance are not the first step in winning popularity contests ... rather a declaration of war on those that have unfair advantage and want to keep it that way.

## Accounting

### Accounting organization

In a typical corporate setting, the Chief Financial Officer is responsible and there is an accounting department to do the work. Accounting is essentially something that is done within the organization and for the organization.

In Community Accountancy there is a need for data ... but the organization to collect data is not obvious. What is clear is that no single organization should have the responsibility for collection of data nor control of the data.

So Community Accountancy looks to have multiple flows of data that relate to the same fact so that together they provide data that are reliable.

An organization with a interest in the facts my be a very reliable source of data ... but this is only going to be so when there is a strong independent system that validates the data.

### Accounting for whom?

Corporate accountancy provides data and reports for the corporate stakeholders. In efficient corporate organizations accounting data are used for reporting to management and to the stockholders. Accounting is used for day to day analysis and for the control of corporate resources. The same data are serving many purposes.

Reporting to the public is not a part of the corporate accounting system. The public may get information from the public but it is because of either legislation or public relations, and not an integral part of any system of accounting that embraces community issues.

Community Accountancy is a system that aims to provide important data for the public ... all the stakeholders in society.

The public ought to know how resources are being used in their community, who benefits and who does not. The role of knowledge is to make the market mechanisms of economics work, and to make it more difficult for those that have unfair advantage to keep it in perpetuity.

Reporting to the public is the essential core of Community Accountancy. But who are the public? The simple answer is that “we” are the public ... but that is not enough since most of this community has little appreciation of either rights, responsibilities or the use of data to build understanding and opportunity.

The accountancy profession and legislators and regulators have spend hundreds of years trying to ensure that corporate investors should not be defrauded by those entrusted with the investors' money.

Nobody has seen fit to do the same to ensure that the interest of the public is similarly protected. Rather the system has been allowed to develop into a rule of law where due process stands too frequently to protect crooks and those in power at the expense of everyone else.



## Accounting by whom?

<b>Accounting by the public?</b>	
In the corporate setting, there is no mechanism for public input into the corporate accounting system. There is no role for data that are important to the public ... from a corporate accounting perspective the public does not exist.	Community Accountancy on the other hand has a place for everything that is important to the public. Community Accountancy puts everything in its place as accurately and as meaningfully as possible.
<b>Accounting by whom?</b>	
Corporate Accountancy provides reports that are useful for analysis ... but in areas of significant public interest the reports suggest more questions than they provide answers. The corporate entity is rarely required to give meaningful answers to the stakeholders of society, merely to its own stakeholders.	Community Accountancy is accounting for the public ... for everyone ... with dataflows about socio-economic transactions and issues originating anywhere and everywhere. Community Accountancy provides a system and repository for these data so that the data may be used for analysis and conclusions drawn about socio-economic performance.
	<p>Bits of the needed oversight have been set up ... but it is by no means a universal system, and is hardly recognizable as a system. It is largely missing in most countries. Examples are rules about safety, about product labeling, checks and balances in government financial management ... but the whole thing does not work an an integrated coherent way, and is not very effective viewed from a global perspective.</p> <p>Community Accountancy is accounting for the public ... to let the public know how well resources are being allocated and how well resource are being used</p>

## Audit

Corporate Accountancy	Community Accountancy
<b>Audit</b>	
<p>Audit has its name because in the early days of accountancy someone listened to the account. In modern times, independent audit has been a requirement in most corporate and organizational settings. The aim of audit is to get an independent assessment of the accounting system and the reports being prepared for the stakeholders.</p>	<p>Audit is not a big part of the Community Accountancy system. There is a need to have valid data, but this is done by means other than independent external audit.</p>
<b>Audit - conflict of interest</b>	
<p>In recent times, audit has been weakened by an inherent conflict of interest. The fees for conducting and audit are paid by the organization being audited ... and it is to be expected that the client that is paying the auditor would want one that sees things from the client perspective. Accountants need to be paid ... and it is easier to be nice to the client in order to continue being paid for their work.</p>	
<b>Internal audit</b>	
<p>Internal audit helps to make the independent audit less costly.</p>	
<b>Government audit</b>	
<p>Government accounts are usually subject to audit, and normally done by government auditors that, while independent of the operating units, are still a part of the civil service.</p>	
<b>ODA sector</b>	
<p>Audit has been used excessively in the official relief and development sector to compensate for bad accounting ... a misguided approach that has failed to solve major accountability issues.</p>	

## Internal check and internal control

Corporate Accountancy	Community Accountancy
<b>Internal check and internal control</b>	
<p>Good corporate accounting systems put accurate and reliable data into the record. This is done by the use of internal check, which can be described as the technique where all data are given some form of double check to ensure that the data are good and valid.</p> <p>Internal control is another element of a good accounting system ... and is used as another level of effort to ensure that the accounts have good data and there is control over these data and the underlying transactions.</p> <p>The labels used to describe internal check and internal control do not matter ... what does matter is that the system has good reliable data in the records (referred to here as internal check) ... and that the system has the depth to stop inappropriate transactions being undertaken (referred to here as internal control).</p>	<p>Community Accountancy needs to work with reliable data ... and must handle the data at the least possible cost.</p> <p>The techniques if internal check and internal control form the basis for validation of data that flows within the Community Accountancy system.</p> <p>Data must be an accurate reflection of the fact that is measured. This is a simple idea ... and must remain simple and very clear even as Community Accountancy as a whole scales.</p>
<b>Internal audit</b>	
<p>Internal audit helps management with oversight of the accounting function of the organization. It helps to get feedback about the performance of the accountants and the correctness of their reporting.</p> <p>Internal audit exists in many forms in the GAAP environment. Internal audit may serve as a way for an external audit to be done at less cost or to ensure tat internal rules are followed.</p> <p>Internal audit has a role in Community Accountancy. Every possible step has to be taken to help get the data as accurate as possible as as reliable as possible ... and for reports to reflect a responsible interpretation of what is going on and what could be improved.</p>	<p>There is a role in Community Accountancy for a similar activity ... but this is the mainstream oversight of the system.</p> <p>The oversight element of the system is essential and central to success.</p>

<b>Corporate Accountancy</b>	<b>Community Accountancy</b>
<b>Monitoring and Evaluation</b>	
<p>Monitoring and evaluation (M&amp;E) is used in the international relief and development industry as a management tool. It is ineffective, and serves as window dressing more than anything else.</p> <p>It is used instead of adequate management accounting and related reports, and has been largely ineffective because standard M&amp;E is always too little and too late.</p> <p>M&amp;E is widely used as a way of showing funding agencies than an implementing entity has done the work responsibly. It is rarely a deep analysis of performance.</p>	<p>Community Accountancy will provide better data than has been available in the past ... and M&amp;E type reports may be prepared from these data. In the Community Accountancy system, there is a strong system of data collection, data analysis and reporting so that all the stakeholders may be informed. Community Accounting is very timely in contrast to M&amp;E that is too little too late.</p>
<b>Int</b>	
Internal audit	

### **Why audit can help**

Studies that might show something about what needs to be fixed seem to drop out of sight. I know of UNDP audit reports that probably show things of considerable interest that were not circulated ... and I wonder how many others were suppressed. These audit reports are essential to accountability ... and essential to making the system better

### **Liberia ... around 1982**

In the Tubman and Tolbert era, some aspects of the Liberian government were quite well run and they stayed working well a long time into the Doe regime.

One such department had responsibility for cooperatives ... and within this department there was an audit office. It did not have a big staff, but the staff it had took their work seriously and almost every, if not every cooperative in the country had been audited by this office.

I was doing work as a World Bank consultant looking into the effectiveness of cooperatives being funded in part with World Bank funds. I did the normal round of visits and interviews and learned merely what the government wanted me to know ... but it was also clear that this did not fit with what I was seeing.

I learned of the audit office ... and asked to meet with the responsible officers. Initially it was refused ... but after some insistence it was agreed, but when I arrived for the meeting the staff had been instructed to show me nothing ... which of course is a signal that the material needs to be seen.

The staff could not help me ... but I was able to arrange to see the material and what it showed was a disastrous state of affairs with funds missing from all the big government controlled cooperatives. The audits were very well done ... but hidden from sight by the more powerful senior staff.

An attempt was made to discredit me so that my feedback to the World Bank would be discounted. Sadly the accountants who were deployed by the government to discredit me were from the same firm that had trained me in London many years before ... which was clearly problematic for them.

But the whole thing was also problematic for the World Bank because the next round of financing was conditional on the cooperatives being effective which they were not ... only effective in funding pet projects of the government staff.

Because my report did not satisfy the government ... our consulting team did not get paid.

And the World Bank did not worry too much about the conditionality ... they changed it so that the disbursement into the next phase of the project could go forward.

Two years after these events the World Bank realized that they needed to do something drastic about their Liberia portfolio and Liberia became one of two countries in the world where the Bank would not lend under any circumstances.

## TVM ... Community Accountancy ... Functional Structure

In Community Accountancy the data are used both to help improve local socio-economic performance through local use of the data, and also to address issues that extent to the national level and to the international level.

The world at large needs data, but data flows are rarely neutral and useful for the public ... rather just a part of the public ... and usually for some specific purpose.

Community Accountancy aims to be different ... essentially a data utility where the data are neutral.

starts with data from the public ... data that are in the public domain but not much used and often either inaccessible or not much use on their own. Lots of people and organizations have bits of the data ... but it does not have much utility or value until it is pulled into a systemic framework.

Community Accountancy provides pieces of the framework so that data that exists in a vacuum can start to be part of a profile ... and be shared in ways that make the data useful. Community Accountancy serves as an accountancy utility that pulls in data from everywhere, organizes the data along lines that are similar to corporate accountancy, but broader to embrace values from the commons and for the commons.

Community Accountancy is a framework for analysis and reporting ... and in turn for holding responsible decision makers accountable to the public in an objective manner.

<b>Corporate Accountancy</b>	<b>Community Accountancy</b>
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