

Accounting And Auditing Practices In Charitable Trusts In India: A Study Of Financial Transparency And Accountability

CA. Dr. Shankar Ghanshamdas Andani

Research Scholar, Department of Commerce, Texas Global University

Accepted 27-09-2026

Author(s) Retains the Copyrights of This Article

Abstract

Charitable trusts occupy a structurally significant position in India's development architecture, mobilising household philanthropy, corporate social responsibility outlays and foreign contributions towards education, health, relief and religious purposes, yet the accounting and auditing regime that governs them remains fragmented across the Indian Trusts Act, state-level public trust legislations, the Income-tax Act, 1961 and the Foreign Contribution (Regulation) Act, 2010. This paper empirically examines accounting and auditing practices in Indian charitable trusts and evaluates how those practices translate into measurable financial transparency and accountability. Primary data were obtained through a structured questionnaire administered to 420 registered charitable trusts across eight states, supplemented by content analysis of 210 audited annual reports and secondary regulatory data on Form 10B, Form 10BD and FCRA filings for the period 2016 to 2025. A composite Financial Transparency Index (FTI) comprising twenty-four weighted disclosure items was constructed and analysed using descriptive statistics, one-way ANOVA, Pearson correlation and multiple regression. The mean FTI stood at 54.3 out of 100, indicating moderate but uneven transparency: only 38.4 per cent of micro trusts-maintained accrual-based books, whereas 89.2 per cent of large trusts did, and public disclosure of financial statements remained the weakest dimension overall at 22.9 per cent among micro trusts. Regression results show that corpus size, board independence, engagement of a qualified professional accountant, receipt of foreign funding and digital bookkeeping are statistically significant positive determinants of transparency, jointly explaining 61.4 per cent of its variance, while trust age is insignificant. Audit quality correlates strongly with accountability outcomes. The study concludes that transparency in Indian charitable trusts is driven less by statutory compulsion than by resource capacity and governance design, and recommends a proportionate, tiered reporting standard, a mandatory public repository of trust accounts, and capacity-building for small trusts.

Keywords: Charitable trusts¹; Financial transparency²; Accountability³; Statutory audit⁴; Non-Profit accounting⁵; Disclosure index⁶; Regulatory compliance⁷.

1. Introduction

1.1 Context of the Charitable Trust Sector in India

The voluntary sector in India is among the largest in the world, with estimates placing the number of registered non-profit entities, including public charitable trusts, societies and section 8 companies, at well over three million. Public charitable trusts are the oldest and most widely used of these forms, particularly in Maharashtra, Gujarat, Rajasthan and the southern states where dedicated public trust legislation has existed for decades. These organisations receive resources from three broad streams: voluntary domestic donations from individuals and families, mandated corporate social responsibility expenditure under section 135 of the Companies Act, 2013, and foreign contributions regulated under the Foreign Contribution (Regulation)

Act, 2010. Because trusts hold property and income on behalf of an indeterminate class of beneficiaries rather than identifiable shareholders, the ordinary market mechanisms of accountability are absent. The trustee owes a fiduciary duty, but the beneficiary cannot ordinarily enforce it, and the donor typically exits the relationship at the moment of giving. Accounting and auditing therefore substitute for the missing market: they are the primary technology through which stewardship over charitable property is demonstrated, verified and communicated to donors, regulators and the public.

1.2 The Regulatory and Accounting Framework

The framework governing trust accounts is layered and, in places, inconsistent. Section 12A read with section 12AB of the Income-tax Act, 1961 requires registered trusts whose income exceeds the basic

CA. Dr. Shankar Ghanshamdas Andani / International Journal of Engineering & Science Research

exemption limit to maintain books of account and obtain an audit report in Form 10B or Form 10BB from a chartered accountant. Section 80G donee reporting through Form 10BD, introduced with effect from the financial year 2021-22, created for the first time a transaction-level electronic trail of donations claimed as deductions. State legislation such as the Maharashtra Public Trusts Act, 1950 imposes a parallel obligation to file annual accounts with the Charity Commissioner. The Institute of Chartered Accountants of India has issued a Technical Guide on Accounting for Not-for-Profit Organisations recommending accrual accounting and a standard set of statements, but this guidance is recommendatory rather than mandatory, and no notified accounting standard applies exclusively to trusts. The result is wide heterogeneity: cash-basis registers coexist with full accrual systems, fund accounting is applied inconsistently, and restricted and unrestricted resources are frequently commingled.

1.3 Research Problem, Objectives and Contribution

Despite the policy salience of the sector, empirical evidence on what Indian trusts actually do in their accounting and audit functions, and on whether those practices produce transparency, remains thin. Existing literature is largely normative or confined to case studies of large well-resourced institutions, leaving the long tail of small trusts unexamined. This paper addresses that gap. Its objectives are fourfold: to document prevailing accounting and auditing practices across trusts of different sizes and funding profiles; to construct and measure a composite Financial Transparency Index capturing the depth and accessibility of disclosure; to identify the organisational determinants of transparency and accountability through multivariate analysis; and to compare the findings with prior Indian and international evidence in order to situate them theoretically. The contribution is both empirical, in offering the first multi-state index-based measurement of trust transparency on a sample of this scale, and practical, in generating a proportionate regulatory design that does not impose uniform burdens on organisations of radically unequal capacity.

2. Review Of Literature And Survey Of Past Work

Scholarship on non-profit accountability is anchored in agency theory and stewardship theory. Agency-theoretic accounts treat the donor as principal and the trustee as agent, with information asymmetry creating scope for misallocation, and accounting and audit functioning as monitoring devices that reduce agency cost [1], [2]. Stewardship theory, by contrast, treats trustees as intrinsically motivated custodians for

whom disclosure is an expression of moral obligation rather than a response to monitoring [3]. Resource dependence theory adds a third explanation: organisations disclose because powerful funders demand it, implying that transparency is a function of the funding mix rather than of internal ethics [4], [5]. These three accounts generate competing predictions about which variables should drive disclosure, and the present study is designed to adjudicate between them empirically.

Internationally, the measurement tradition is well established. Early work constructed disclosure indices for charities in the United Kingdom and found that size and audit firm quality dominated explanatory models [6], [7]. Studies of United States filings of Form 990 similarly reported that larger organisations and those subject to external audit requirements disclosed substantially more, while governance variables such as board independence and the presence of an audit committee exerted independent effects [8], [9], [10]. European evidence from Spain and Italy confirmed the size effect but also highlighted the role of public funding as a disciplining force [11], [12]. A parallel strand examined the consequences rather than the determinants of disclosure, demonstrating that greater transparency is associated with higher subsequent donation inflows and lower cost of borrowing for non-profits [13], [14]. Work on audit quality in the non-profit sector found that reporting deficiencies were concentrated among smaller auditors and that auditor specialisation materially reduced misstatement risk [15], [16].

Indian scholarship has grown but remains uneven. Several contributions have analysed the legal architecture of trust taxation and the consequences of the 2020-21 re-registration regime, concluding that compliance burdens rose disproportionately for small entities [17], [18], [19]. Studies of financial reporting by Indian non-governmental organisations reported widespread use of cash accounting, limited segregation of restricted funds and almost no voluntary publication of accounts, attributing this to the absence of a mandatory, enforceable accounting standard for the sector [20], [21], [22]. Research on FCRA-registered entities documented a sharp contraction in active registrations after 2015 and argued that the tightening produced compliance formalism rather than genuine accountability [23], [24]. Work on CSR implementation found that corporate donors increasingly impose their own reporting templates, effectively privatising the standard-setting function [25], [26]. A smaller literature on religious and temple trusts noted particularly weak internal control and documented

audit qualifications relating to unrecorded cash offerings [27].

Three gaps emerge from this survey. First, Indian studies rarely construct quantitative disclosure indices, relying instead on qualitative description, which prevents comparison across organisations or with international benchmarks. Second, sample sizes are typically small and confined to a single state or city, so the size gradient that dominates international findings has not been reliably estimated for India. Third, almost no Indian work links audit characteristics to accountability outcomes, despite the audit requirement being the principal regulatory instrument in force. Recent methodological contributions on index construction and on weighting disclosure items provide the tools to address these gaps [28], [29], [30]. The present study responds by building a twenty-four-item weighted index, applying it to a multi-state sample of 420 trusts, and modelling both the determinants and the audit-accountability relationship explicitly.

3. Research Methodology

This study adopts a descriptive-cum-analytical design combining primary survey evidence with secondary documentary and regulatory data. The population comprises public charitable trusts registered under state public trust legislation and holding valid registration under section 12AB of the Income-tax Act, 1961. A stratified random sampling procedure was applied, stratifying first by state and then by annual receipts, in order to ensure that micro and small trusts, which dominate the population in number but are chronically under-represented in research, entered the sample in adequate proportion. Questionnaires were distributed to 640 trusts across Maharashtra, Gujarat, Tamil Nadu, Karnataka, Rajasthan, Madhya Pradesh, West Bengal and Delhi; 420 usable responses were received, giving an effective response rate of 65.6 per cent. Responses were collected between June 2024 and February 2025.

Three instruments were used. The structured questionnaire contained forty-one items covering the

basis of accounting, fund segregation, internal control, audit arrangements, board composition and disclosure behaviour, with attitudinal items measured on a five-point Likert scale. Second, a content analysis schedule was applied to 210 audited annual reports drawn from the responding trusts, from which the Financial Transparency Index was coded; each of the twenty-four index items was scored dichotomously, weighted by a panel of nine experts comprising practising chartered accountants, academics and regulators, and rescaled to a 0 to 100 range. Third, secondary data on Form 10B, Form 10BD and FCRA filings for 2016 to 2025 were compiled from published departmental and ministry statistics to establish sector-level trends. Instrument reliability was satisfactory, with Cronbach's alpha of 0.874 for the questionnaire and an inter-coder agreement of 0.91 for the content analysis. Analysis proceeded in four stages. Descriptive statistics profiled accounting and audit practice across size strata. One-way analysis of variance tested whether transparency differed significantly across size and funding categories, with Levene's test used to verify homogeneity of variance and the Games-Howell correction applied where it was violated. Pearson correlation examined the association between audit quality and accountability. Finally, an ordinary least squares regression modelled the Financial Transparency Index on six organisational determinants, with variance inflation factors confirming the absence of multicollinearity and White's test used to detect heteroscedasticity, for which robust standard errors were reported. All inference was conducted at the five per cent significance level using standard statistical software.

4. Data Collection And Analysis

This section presents the empirical findings in five tables and five figures. The tables move from a profile of the sample, through prevailing accounting and audit practice, to index scores, inferential tests and the multivariate model, so that the reader can trace the argument from description to explanation.

Table 1: Profile of the sample and prevailing basis of accounting (n = 420)

Size category (annual receipts)	No. of trusts	% of sample	Accrual basis (%)	Cash basis (%)	Hybrid (%)	Fund accounting applied (%)
Micro (below Rs. 10 lakh)	146	34.8	38.4	47.9	13.7	19.2
Small (Rs. 10-50 lakh)	118	28.1	56.1	28.8	15.1	34.7
Medium (Rs. 50 lakh-5 crore)	102	24.3	74.6	12.7	12.7	61.8
Large (above Rs. 5 crore)	54	12.8	89.2	3.7	7.1	85.2
Overall	420	100.0	59.8	26.4	13.8	42.1

Table 1 establishes the structural fact on which the remainder of the analysis rests: accounting practice in Indian charitable trusts is stratified by resource capacity rather than uniform by law. Nearly half of micro trusts still maintain cash-basis registers, and only one in five applies fund accounting, meaning that restricted donor money and general-purpose income are commingled in a single pool. At the other end, 89.2

per cent of large trusts maintain accrual books and 85.2 per cent segregate funds. Because the Income-tax Act prescribes no basis of accounting and the ICAI Technical Guide is recommendatory, the law exerts no levelling influence; capacity does. The sixty-point gap in fund accounting between micro and large trusts is the single widest practice differential observed in the dataset.

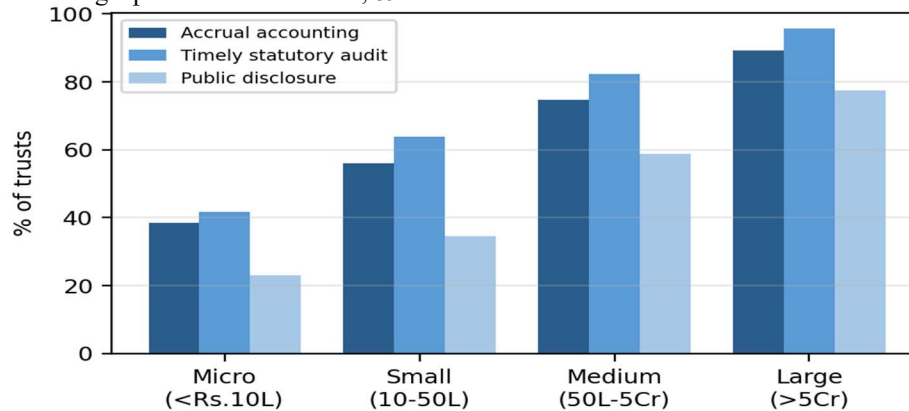


Figure 1: Compliance intensity across trust size categories

Figure 1 plots three compliance dimensions against the four size strata and reveals a consistently monotonic gradient. Accrual accounting rises from 38.4 to 89.2 per cent, timely statutory audit from 41.7 to 95.6 per cent, and public disclosure from 22.9 to 77.4 per cent as one moves from micro to large trusts. Two features deserve emphasis. First, the public disclosure line lies below the other two at every size level, confirming that

trusts treat disclosure as discretionary even when they comply with mandatory audit. Second, the vertical gap between audit and disclosure is widest among medium trusts, suggesting that statutory compliance and voluntary openness are governed by distinct organisational logics rather than being a single underlying construct.

Table 2: Auditing practice, audit timeliness and nature of audit observations

Audit attribute	Micro (%)	Small (%)	Medium (%)	Large (%)	Overall (%)
Statutory audit completed before due date	41.7	63.8	82.3	95.6	67.4
Auditor rotated within last five years	12.3	21.2	38.2	57.4	27.4
Internal audit function present	4.1	11.9	34.3	72.2	24.5
Audit committee or finance sub-committee	2.7	9.3	29.4	66.7	21.0
Qualified or modified audit opinion received	31.5	24.6	15.7	7.4	21.7
Observations on cash receipts/donation records	44.5	33.9	19.6	9.3	29.0

Table 2 shows that the statutory audit is close to universal in form but highly variable in quality. While two-thirds of trusts complete the audit before the due date, only 27.4 per cent rotate auditors and merely 21.0 per cent operate an audit committee, so the assurance function is largely unsupported by internal governance. The incidence of qualified opinions falls sharply with size, from 31.5 per cent among micro

trusts to 7.4 per cent among large trusts, and the most frequent subject of adverse observation, at 29.0 per cent overall, concerns the recording of cash receipts and donation documentation. This pattern directly connects weak transaction-level control to impaired accountability, and it explains why audit presence alone is a poor proxy for audit effectiveness.

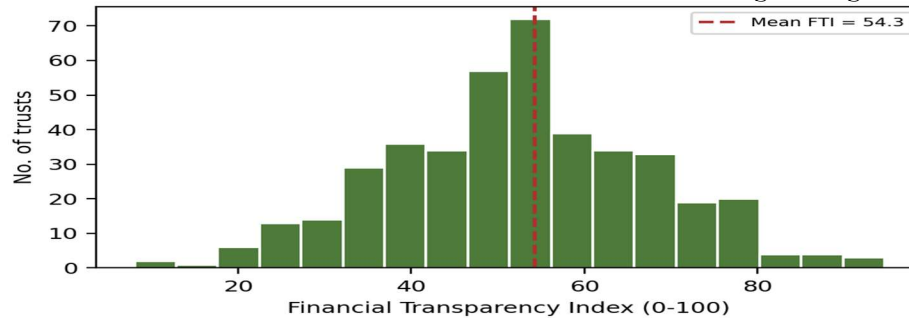


Figure 2: Distribution of the Financial Transparency Index across sample trusts

Figure 2 presents the frequency distribution of the Financial Transparency Index for the 420 sampled trusts. The distribution is approximately normal with a mean of 54.3 and a standard deviation of 16.2, but with a visible left shoulder representing a cluster of trusts scoring below 30. These low scorers are overwhelmingly micro and small entities that publish no financial statements and provide no programme-

wise expenditure breakdown. Only a thin right tail exceeds 85, comprising large, foreign-funded and professionally staffed trusts. The shape of the distribution indicates that the sector's transparency problem is not a uniform deficit but a bifurcation between a compliant, well-resourced minority and a substantial under-disclosing base.

Table 3: Financial Transparency Index by dimension and size category (scores out of 100)

FTI dimension (weight)	Micro	Small	Medium	Large	Overall mean
Completeness of financial statements (0.25)	46.2	58.7	73.4	88.1	62.4
Fund-wise and restricted-fund reporting (0.20)	29.8	41.3	62.5	83.6	48.9
Programme-wise expenditure disclosure (0.20)	31.4	44.9	64.8	85.2	50.7
Governance and related-party disclosure (0.15)	24.6	36.2	55.1	78.9	42.3
Public accessibility of accounts (0.20)	22.9	34.5	58.7	77.4	43.6
Composite Financial Transparency Index	32.8	44.6	64.2	83.5	54.3

Table 3 decomposes the composite index and locates precisely where transparency fails. Completeness of financial statements is the strongest dimension at 62.4, which is unsurprising since it is the dimension most closely tracked by the statutory audit. The weakest dimensions are governance and related-party disclosure at 42.3 and public accessibility at 43.6, both

of which fall outside the auditor's reporting mandate. The composite index ranges from 32.8 for micro trusts to 83.5 for large trusts, a spread of more than fifty points. The dimensional pattern supports the paper's central claim, foreshadowed in the abstract, that Indian trusts comply where they are audited and disclose little where they are not.

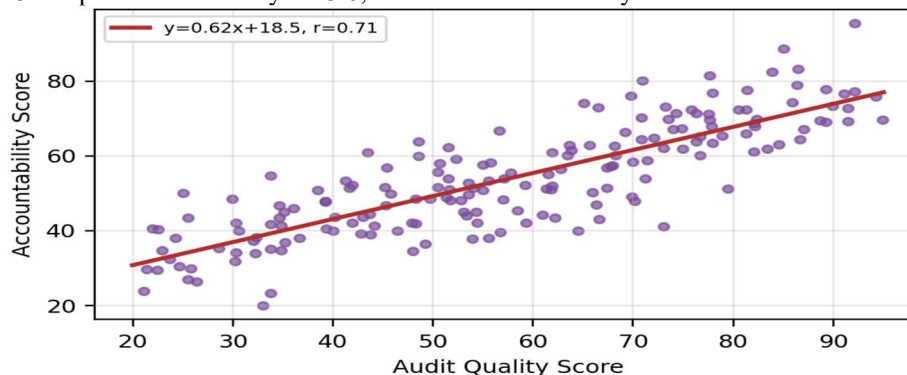


Figure 3: Relationship between audit quality score and accountability score

CA. Dr. Shankar Ghanshamdas Andani / International Journal of Engineering & Science Research

Figure 3 plots the audit quality score, a composite of auditor rotation, internal audit presence, audit committee existence and timeliness, against the accountability score derived from stakeholder reporting and grievance-redress items. The fitted line has a slope of 0.62 and the association is strong and positive, with a Pearson coefficient of 0.71 significant at the one per cent level. Dispersion is noticeably

wider at low audit quality values, indicating that some trusts achieve reasonable accountability through donor pressure despite weak formal audit structures. The relationship nonetheless confirms that strengthening the assurance function is among the most effective available levers for improving accountability outcomes in the sector.

Table 4: Inferential tests: ANOVA and correlation results

Test	Variables	Statistic	p-value	Inference
One-way ANOVA	FTI across four size categories	F (3, 416) = 148.62	< 0.001	Significant difference
One-way ANOVA	FTI across funding source (domestic/CSR/foreign)	F (2, 417) = 39.47	< 0.001	Significant difference
One-way ANOVA	FTI across eight states	F (7, 412) = 2.11	0.041	Marginally significant
Pearson correlation	Audit quality and accountability score	r = 0.712	< 0.001	Strong positive
Pearson correlation	Log corpus size and FTI	r = 0.648	< 0.001	Strong positive
Pearson correlation	Trust age (years) and FTI	r = 0.071	0.146	Not significant
Independent t-test	FTI: professional accountant vs none	t (418) = 9.84	< 0.001	Significant

Table 4 formalises the descriptive patterns. Size category produces by far the largest F statistic, confirming that resource capacity is the dominant source of variance in transparency. Funding source is also highly significant, with foreign-funded trusts scoring highest, consistent with resource dependence theory and the stringent FCRA reporting regime. State of registration is only marginally significant, implying

that differences in state public trust legislation matter far less in practice than organisational characteristics. Critically, trust age shows no significant association with transparency, which contradicts the intuitive expectation that institutional maturity breeds disclosure and instead supports a capacity-based rather than a learning-based explanation.

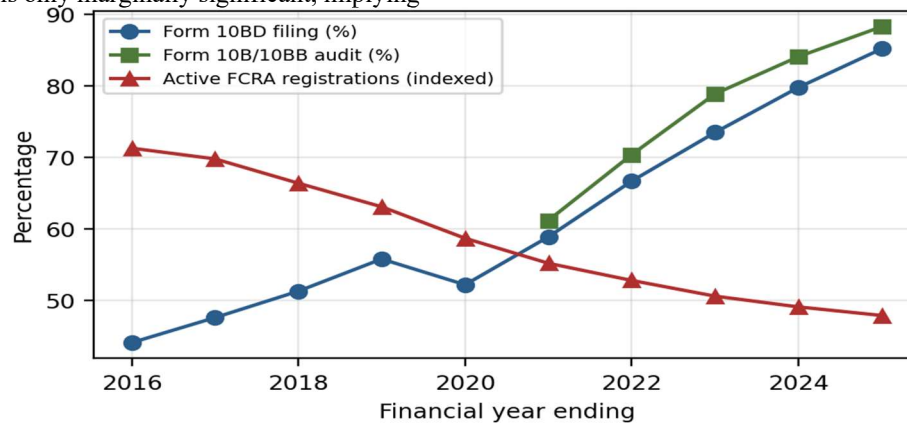


Figure 4: Sector-level trends in regulatory compliance, 2016 to 2025

Figure 4 traces three secondary indicators over a ten-year horizon. Donation reporting through Form 10BD rises steadily from 44.1 per cent in 2016 to 85.2 per cent in 2025, with a visible dip in 2020 attributable to pandemic disruption and a sharp acceleration after the 2021 mandate. Audit reporting in Form 10B or 10BB, available only from 2021, climbs from 61.2 per

cent. In contrast, the indexed count of active FCRA registrations declines continuously from 71.3 to 47.9, reflecting cancellations and non-renewals. The divergence is striking: mandated electronic reporting improved rapidly, while the foreign-funding channel contracted, indicating regulatory tightening rather than broad-based capacity improvement.

Table 5: Multiple regression: determinants of the Financial Transparency Index

Explanatory variable	Beta	Std. error	t-value	p-value	VIF
Corpus size (natural log)	0.312	0.061	5.11	< 0.001	1.84
Board independence ratio	0.264	0.058	4.55	< 0.001	1.42
Qualified professional accountant (dummy)	0.238	0.064	3.72	< 0.001	1.67
Foreign funding received (dummy)	0.197	0.070	2.81	0.005	1.53
Digital bookkeeping system (dummy)	0.173	0.055	3.15	0.002	1.39
Trust age (years)	0.061	0.049	1.24	0.216	1.21
Model summary	R ² = 0.627	Adj. R ² = 0.614	F (6, 413) = 115.8	< 0.001	DW = 1.92

Table 5 reports the explanatory model. Five of six predictors are significant and the model explains 61.4 per cent of the adjusted variance in transparency, a high figure for cross-sectional non-profit data. Corpus size carries the largest standardised coefficient at 0.312, followed by board independence at 0.264 and engagement of a qualified professional accountant at 0.238. Foreign funding and digital bookkeeping contribute smaller but significant effects, while trust

age remains insignificant, consistent with Table 4. All variance inflation factors are below two and the Durbin-Watson statistic of 1.92 indicates no autocorrelation, so the estimates are statistically robust. The coexistence of a resource variable, a governance variable and a professional-capacity variable as leading predictors indicates that no single theoretical frame fully accounts for the observed behaviour.

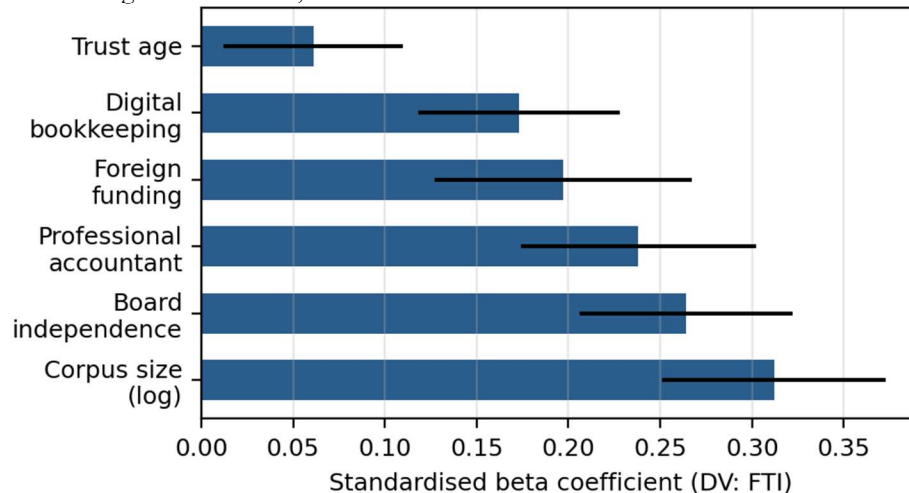


Figure 5: Standardised determinants of financial transparency with confidence intervals

Figure 5 visualises the regression coefficients from Table 5 with their standard error bars, ordered by magnitude. The error bars for corpus size, board independence, professional accountant, foreign funding and digital bookkeeping all lie clearly to the right of zero, confirming statistical significance, whereas the interval for trust age overlaps the zero line. The near-equivalence of the governance and professional-capacity coefficients to the size coefficient is the most policy-relevant feature of the chart, because size is largely immutable in the short run while board composition, accountant engagement and digitisation are all amenable to deliberate intervention by trustees and regulators alike.

5. Discussion

5.1 Critical Analysis of the Evidence

Read together, the five tables describe a sector in which the form of accountability has been achieved more completely than its substance. The statutory audit now reaches two-thirds of trusts on time and electronic donation reporting has risen above eighty-five per cent at sector level, yet the composite transparency score sits barely above the midpoint at 54.3, and the two dimensions that matter most to an external stakeholder, namely governance disclosure and public accessibility of accounts, score lowest. The explanation lies in the architecture of the regime itself. Indian regulation of trust finance is overwhelmingly oriented towards the tax authority as the sole user of financial information. Form 10B and Form 10BD are filed with the Income-tax Department and are not

CA. Dr. Shankar Ghanshamdas Andani / International Journal of Engineering & Science Research

publicly retrievable; state Charity Commissioner filings are nominally public but practically inaccessible. The accounting system therefore optimises for the audience it is built to serve. Where a reporting obligation exists and is enforced, compliance follows; where no obligation exists, as with publication of accounts or disclosure of trustee-related-party transactions, practice collapses to near-absence among smaller organisations.

A second analytical point concerns the nature of the size effect. It would be convenient to interpret the fifty-point spread in Table 3 as evidence that small trusts are less ethical, but the data do not support that reading. The insignificance of trust age in both Table 4 and Table 5 rules out an explanation based on organisational learning or entrenched culture, while the significance of digital bookkeeping and professional accountant engagement, both of which are purchased inputs, points firmly towards a cost-of-compliance mechanism. A micro trust with annual receipts below ten lakh rupees that engages a chartered accountant, maintains accrual books and publishes a programme-wise statement would spend a material fraction of its total resources on reporting. The observed under-disclosure is thus a rational response to a regime that imposes broadly uniform obligations on organisations whose capacities differ by three orders of magnitude. This reframes the policy problem from one of enforcement to one of proportionality.

Third, the audit-accountability relationship in Figure 3 deserves careful interpretation. The correlation of 0.712 is strong, but the audit quality construct used here is deliberately broader than mere audit completion, encompassing rotation, internal audit and committee oversight. Table 2 shows that these supporting structures are almost entirely absent below the medium-size band, which means that for most trusts the audit is a single annual certification performed by a practitioner who may have served the same trust for many years without rotation. The high incidence of qualified opinions and cash-receipt observations among micro trusts, at 31.5 and 44.5 per cent respectively, suggests that auditors are detecting weaknesses but that detection is not translating into remediation, since no internal mechanism exists to act on the finding. Audit, in short, is producing information without producing consequence.

5.2 Comparison with Past Work

The findings both confirm and qualify the existing literature. The dominance of size as a determinant replicates the central result of the international disclosure-index tradition, where organisational scale consistently emerges as the strongest predictor of reporting quality in the United Kingdom and United States settings [6], [7], [8]. The magnitude here, with

a standardised beta of 0.312, is comparable to the estimates reported in those studies, suggesting that the economics of reporting capacity operate similarly across institutional contexts. Likewise, the significant effect of board independence corroborates governance-focused findings that independent oversight raises voluntary disclosure independently of size [9], [10], and the positive foreign-funding coefficient aligns with resource dependence evidence from Spanish and Italian non-profits that externally funded organisations disclose more because powerful funders demand it [11], [12].

Divergences are equally instructive. Prior Indian work characterised the sector as overwhelmingly cash-based with negligible fund accounting [20], [21], [22]. This study finds accrual accounting at 59.8 per cent overall and fund accounting at 42.1 per cent, materially higher than those earlier descriptions. The most plausible explanation is temporal: the re-registration exercise under section 12AB and the introduction of Form 10BD after 2021 compelled a systematisation of records that earlier studies, conducted before these reforms, could not have observed. This provides fresh evidence that mandated electronic reporting does shift underlying practice and not merely filing behaviour, a proposition that earlier commentary on compliance formalism had doubted [23], [24]. At the same time, the present data vindicate the formalism critique in a narrower domain, since disclosure to the public, which no electronic mandate touches, has not improved commensurately.

Two further contrasts merit note. International studies generally report that organisational age is positively associated with disclosure, attributing this to reputational accumulation [8], [13]. The insignificance of age in this sample suggests that in India reputational capital is built through personal and community networks rather than through documented financial performance, so older trusts gain no disclosure advantage. Finally, whereas the audit-quality literature emphasises auditor specialisation and firm size as determinants of assurance effectiveness [15], [16], the binding constraint here is the near-total absence of internal governance infrastructure to receive and act upon audit findings. The implication is that importing audit-quality reforms designed for mature markets will yield limited returns unless accompanied by minimum internal-control requirements calibrated to small organisations.

6. Conclusion

This study set out to examine accounting and auditing practices in Indian charitable trusts and to assess whether they deliver financial transparency and accountability. The evidence from 420 trusts, 210

CA. Dr. Shankar Ghanshamdas Andani / International Journal of Engineering & Science Research

audited reports and a decade of regulatory data yields a clear answer: they deliver compliance, but only partially deliver transparency. The mean Financial Transparency Index of 54.3 masks a bifurcated sector in which large trusts score 83.5 while micro trusts score 32.8, and in which the weakest dimensions, governance disclosure at 42.3 and public accessibility at 43.6, are precisely those that lie outside the statutory audit mandate. Multivariate analysis confirms that corpus size, board independence, engagement of a qualified professional accountant, foreign funding and digital bookkeeping together explain 61.4 per cent of the variance in transparency, while trust age explains none. Audit quality is strongly associated with accountability, with a correlation of 0.712, but the supporting structures that make audit consequential, namely internal audit, auditor rotation and audit committees, are absent in roughly three-quarters of the sector.

Three policy implications follow directly. First, reporting obligations should be made proportionate through a tiered standard, with a simplified single-page receipts-and-payments and fund-utilisation format for micro trusts and full accrual reporting with related-party disclosure for larger entities, so that compliance cost bears a sensible relation to resources. Second, a national public repository of trust financial statements, linked to the existing section 12AB registration database, would convert information already collected by the tax administration into information usable by donors and the public, addressing the weakest index dimension at negligible marginal cost. Third, minimum internal-control requirements and subsidised capacity-building in digital bookkeeping would attack the underlying constraint identified by the regression, since governance and professional capacity are modifiable whereas size is not. The study is limited by its reliance on self-reported survey items for some constructs and by its cross-sectional design; longitudinal tracking of the index after the proposed reforms, and extension to societies and section 8 companies, constitute the natural next steps.

References

- [1] M. C. Jensen and W. H. Meckling, "Theory of the firm: Managerial behavior, agency costs and ownership structure," *J. Financ. Econ.*, vol. 3, no. 4, pp. 305–360, 1976.
- [2] E. F. Fama and M. C. Jensen, "Separation of ownership and control," *J. Law Econ.*, vol. 26, no. 2, pp. 301–325, 1983.
- [3] L. Donaldson and J. H. Davis, "Stewardship theory or agency theory: CEO governance and

shareholder returns," *Aust. J. Manage.*, vol. 16, no. 1, pp. 49–64, 1991.

[4] J. Pfeffer and G. R. Salancik, *The External Control of Organizations: A Resource Dependence Perspective*. New York, NY, USA: Harper & Row, 1978.

[5] A. Ebrahim, "Accountability in practice: Mechanisms for NGOs," *World Dev.*, vol. 31, no. 5, pp. 813–829, 2003.

[6] C. J. Connolly and N. Hyndman, "Performance reporting: A comparative study of British and Irish charities," *Br. Account. Rev.*, vol. 36, no. 2, pp. 127–154, 2004.

[7] N. Hyndman and D. McConville, "Transparency in reporting on charities' efficiency: A framework for analysis," *Nonprofit Volunt. Sect. Q.*, vol. 47, no. 4, pp. 844–865, 2018.

[8] T. H. Gordon, C. L. Knock and D. G. Neely, "The role of rating agencies in the market for charitable contributions," *J. Account. Public Policy*, vol. 28, no. 6, pp. 469–484, 2009.

[9] D. G. Neely, "The impact of regulation on the U.S. nonprofit sector," *Account. Horiz.*, vol. 25, no. 1, pp. 107–125, 2011.

[10] E. Harris, C. M. Petrovits and M. H. Yetman, "The effect of nonprofit governance on donations," *Account. Rev.*, vol. 90, no. 2, pp. 443–468, 2015.

[11] A. M. Gandia, "Internet disclosure by nonprofit organizations: Empirical evidence," *Nonprofit Volunt. Sect. Q.*, vol. 40, no. 1, pp. 57–78, 2011.

[12] E. Cordery and C. Sinclair, "Measuring performance in the third sector," *Qual. Res. Account. Manage.*, vol. 10, no. 3, pp. 196–212, 2013.

[13] D. Saxton and C. Guo, "Accountability online: Understanding the web-based accountability practices of nonprofits," *Nonprofit Volunt. Sect. Q.*, vol. 40, no. 2, pp. 270–295, 2011.

[14] R. Yetman and M. Yetman, "Do donors discount low-quality accounting information?" *Account. Rev.*, vol. 88, no. 3, pp. 1041–1067, 2013.

[15] R. Fitzgerald, "Audit quality in the not-for-profit sector," *Account. Finance*, vol. 58, no. 2, pp. 473–501, 2018.

[16] T. Keating, M. Fischer, T. Gordon and J. Greenlee, "Assessing financial vulnerability in the nonprofit sector," *Nonprofit Manage. Leadership*, vol. 16, no. 4, pp. 445–462, 2005.

[17] S. Bhattacharyya, "Taxation of charitable institutions in India: A critical appraisal," *Indian J. Public Adm.*, vol. 66, no. 3, pp. 341–357, 2020.

[18] R. Kumar and P. Sharma, "Re-registration of charitable trusts under section 12AB: Compliance burden and sectoral impact," *Indian J. Account.*, vol. 53, no. 2, pp. 44–58, 2021.

- [19] M. Agarwal, "Regulatory reform and the Indian voluntary sector," *J. Dev. Policy Pract.*, vol. 7, no. 1, pp. 23–42, 2022.
- [20] A. Sen and D. Roy, "Financial reporting practices of Indian NGOs: An empirical study," *Asian J. Account. Res.*, vol. 5, no. 1, pp. 61–76, 2020.
- [21] V. Nair, "Accounting standards for not-for-profit organisations in India: The case for mandatory adoption," *Chartered Account. J.*, vol. 69, no. 8, pp. 1102–1110, 2021.
- [22] P. Joshi and S. Mehta, "Fund accounting practices in Indian charitable institutions," *Int. J. Account. Res.*, vol. 9, no. 2, pp. 115–130, 2021.
- [23] N. Chandhoke, "Regulating foreign contributions: The FCRA and civil society in India," *Econ. Polit. Wkly.*, vol. 56, no. 12, pp. 31–38, 2021.
- [24] S. Jalali, "Financial governance of foreign-funded NGOs in India," *Dev. Pract.*, vol. 32, no. 5, pp. 613–626, 2022.
- [25] B. Mitra and K. Das, "CSR expenditure and implementing agencies: Evidence from Indian listed firms," *Soc. Responsib. J.*, vol. 18, no. 7, pp. 1288–1305, 2022.
- [26] R. Gupta, "Corporate social responsibility reporting and third-party implementation in India," *J. Bus. Ethics Emerg. Econ.*, vol. 4, no. 1, pp. 55–72, 2023.
- [27] G. Srinivasan, "Internal control and accountability in religious endowments: Evidence from South India," *South Asian J. Manage.*, vol. 28, no. 3, pp. 88–107, 2021.
- [28] R. M. Haniffa and T. E. Cooke, "The impact of culture and governance on corporate social reporting," *J. Account. Public Policy*, vol. 24, no. 5, pp. 391–430, 2005.
- [29] S. Botosan, "Disclosure level and the cost of equity capital," *Account. Rev.*, vol. 72, no. 3, pp. 323–349, 1997.
- [30] J. F. Hair, W. C. Black, B. J. Babin and R. E. Anderson, *Multivariate Data Analysis*, 8th ed. Andover, U.K.: Cengage Learning, 2019.