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INSIGHT Journal focuses on social science and humanities research. The main aim of INSIGHT Journal is to provide an intellectual forum for the publication and dissemination of original work that contributes to the understanding of the main and related disciplines of the following areas: Accounting, Business Management, Law, Information Management, Administrative Science and Policy Studies, Language Studies, Islamic Studies and Education.

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## **FOREWORD BY DEPUTY RECTOR OF RESEARCH, INDUSTRIAL LINKAGES & ALUMNI**



Since 2018, the INSIGHT JOURNAL (IJ) from Universiti Teknologi MARA Cawangan Johor has come up with several biennial publications. Volume 1 and 2 debuted in 2018, followed by Volume 3 this year as well as Volume 4 with 19 published papers due to the great response from authors both in and out of UiTM. Through Insight Journal, lecturers have the ability to publish their research articles and opportunity to share their academic findings. Insight Journal is indexed in MyJurnal MCC and abstracted in Asian Digital Library (ADL). Moreover, it is also an international refereed journal with many international reviewers from prestigious universities appointed as

its editorial review board members.

This Volume 6 is the second special issue for the 6<sup>th</sup> International Accounting and Business Conference (IABC) 2019 held at Indonesia Banking School, Jakarta. The conference was jointly organized by the Universiti Teknologi MARA Cawangan Johor and the Indonesia Banking School Jakarta. Hence, this volume focuses mainly on the accounting and business research papers compiled from this conference, which was considered a huge success as over 66 full papers were presented.

Lastly, I would like to thank the Rector of UiTM Johor, Associate Professor Dr. Ahmad Naqiyuddin Bakar for his distinctive support, IJ Managing Editor for this issue Dr. Noriah Ismail, IJ Assistant Managing Editor, Fazdillah Md Kassim well as all the reviewers and editors who have contributed in the publication of this special issue.

Thank you.

**ASSOCIATE PROFESSOR DR. SAUNAH ZAINON**  
Deputy Rector of Research, Industrial Linkages & Alumni  
*Editor-in-Chief for INSIGHT Journal*  
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## An Integrated Accountability Reporting Model of Non-Profit Organisations (NPOs)

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### Abstract

Non-Profit Organisations (NPOs) have showcased unique features in serving important social missions. In addition, they also offer accounting services at a lower cost than the government or the private sector. However, questions have been raised as to whether the performance measurement used by the government or the private sector is appropriate and applicable to the NPOs. This article underlies a conceptual framework for performance indicator in developing an Integrated Accountability Reporting Model of NPOs. Four components were found to be the essential elements of an Integrated Accountability Reporting for NPOs namely Financial Information, Governance Information, Accountability and Transparency. Integration of these four elements serves as the fundamental aspects of integrated reporting. Based on mandatory and voluntary sources of information, this integrated reporting can be developed for the benefits of NPOs. This paper contributes to the NPO accountability literature by: first, developing a framework of NPO accountability through public discourse using the ethical model of principal-agent theory; and second, advancing the understanding of the accountability reporting of NPOs in Malaysia.

**Keywords:** Accountability, integrated, NPOs, model, reporting

### 1.0 Introduction

As an entity with no commercial motive, Non-Profit Organisations (NPOs) have missions that cannot be quantified in dollars and cents. Due to NPOs social missions, there is



increasing concern about performance measurement, as outlined by Razek et al. (2000) and Andreja (2018) whom stated NPOs are different from that of other organisations in terms of: (i) their purposes of operation without earning profit, (ii) their efficiency and effectiveness which cannot be determined by means of income measures, and (iii) their act of receiving large amounts of resources from donors who do not expect monetary benefits in return.

Performance measurement has become an essential issue in NPOs. Many NPOs are facing funding cuts and reduction in voluntary donations during the current economic environment. In ensuring the sustainability of these organizations, the Malaysian government is currently promoting collaborative efforts between the government, social organisations and the private sector in providing social services (Barman, 2017; Nurfarahin et al., 2017). Nonetheless, a serious concern about the current performance measurement is that NPOs do not share the same goal as a business entity which is the “*bottom line*” measurement of profit or loss or generating profits for the owners. NPOs, which have no specific owners, often provide goods and services to their stakeholders without any charges. They seek resources from organisations as well as willing individuals who do not expect economic benefits in return for their assistance (Glynn, 2003). As a result, the bottom-line principle is not applied in any of the activities conducted by NPOs. For this reason, NPOs need to develop better instruments for performance measurement to evaluate their work and achievements. One approach to evaluate the performance of an NPO is to measure the amount of resources spent on program services that are conducted to accomplish its purposes. A higher percentage of resources that is consumed on programme services than on administration are considered a positive performance indicator. Despite the lack of performance measures magnitude for NPOs, surveys such as that conducted by Financial Accounting Standards Board (1989) have shown that performance measures based on the resources spent on programme services also helps to identify the performance of an organisation by detecting financial anomalies and focusing attention to the organisational issues. NPOs’ performance can also be assessed by analysing the information provided in traditional financial statements in order to meet the requirements of stakeholders who need to examine NPOs accountability for decision making in terms of social and economic aspects.

The stakeholders also need the information to assess the NPOs’ stewardship of resources, including evaluating the manner and extent to which resources are devoted to specific social missions. However, it is found that there are limitations of traditional financial statements in assessing NPO performance (Gray et al., 1996). In pronouncement issued by the Financial Accounting Standards Board (FASB), Concepts Statement No. 4, Objectives of Financial Reporting by Non-Profit Organisations, it was highlighted that there is need for a different type of information to measure NPOs performance. An important argument that has drawn attention in the Concepts Statement No. 4 is that, in an ideal situation, NPOs should provide information about service accomplishments as a part of financial reporting. The statement calls for reporting in the financial statements about service efforts on how an NPO uses resources to provide different programmes or services to fulfil its missions. The financial reporting issues for NPOs are the integration of both statutory financial reporting and accountability reporting. Practically, the information contained in the financial statement should integrate both financial and non-financial information.



## **1.1 Statement of the Problem**

The importance of regulating (NPOs) is emphasised by the considerable importance placed on NPOs to be accountable. Increased prominence and greater influence expose NPOs to closer scrutiny and increasing demands for integrated reporting model of accountability for NPOs. NPOs are accountable when they are answerable for their performance promises to key stakeholders. NPOs may be accountable to donors who provide resources, to regulators responsible for government certifications, and to beneficiaries and clients who use their services, to allies who cooperate in projects, to staffs who invest their talents and time in organisational activity, and to members who expect the organisations to speak on their behalf. The wide range and varied interest of stakeholders create “multiple accountabilities” rather than a single, coherent, socially ratified set of coherent accountability standards for NPOs. The absence of a widely accepted method for underscores the relative importance of these different accountabilities on moral, legal or practical grounds makes the construction of a single objective social ideal for NPOs very challenging. This paper proposes an integrated reporting model accountability for NPOs as a guideline prior to accountability standards for NPOs are established.

## **1.2 Objectives of the Study**

The objective of the study is to propose an integrated accountability reporting model of NPOs.

## **2.0 Review of Literature**

The review of literature section of this paper elaborates the review of literature of this paper based on: (i) An Integrated Accountability Reporting Framework of NPOs; and (ii) An Integrated Accountability Reporting Model of NPOs as follows:

### **2.1 An Integrated Accountability Reporting Model of NPOs**

Several different forms of accountability may underpin the relations between NPOs and their stakeholders. The most widely used conception is principal-agent accountability. This model assumes that principals’ goals predominate, and it focuses on how to motivate agents to achieve those goals rather than their own. The Principal-Agent theory focuses on how principals can hold agents accountable for performance that meets the principal’s expectation. The proposed Integrated Accountability Reporting Framework of NPOs in Figure 1 explains both the legal and moral relationship between donors as the principal and board of trustees as the agent managing the charity. This framework is adopted and modified based on a generalised accountability model by O’Dwyer (2015) and Du Rietz (2018).

The basic version of the model hypothesises a simple two-way relationship between a principal (in this case the donor, who provides resources to fund the NPO) and the board of trustees (who manages the NPO in line with its mission and objectives). Financial resources of the NPOs come from individuals, corporations, foundations or governments – who are willing to pay for delivering services to beneficiaries who cannot pay for the

services themselves. The terms of the flows between the parties and the actions and accountability required will be a function of the relationship (which might be legal and moral) between the parties. The donor is the principal because their contributions sustain the NPOs activities. The NPOs are accountable to donors for the efficient and effective use of their resources in pursuing of the organizations' mission. The law establishes the legal rights and responsibilities of NPOs and their minimum level of legal accountability. In addition to the law, there should be government regulator as a form of oversight. In the U.K. for example, the legal requirement is stated in the charity act and charity commission is formed through the act. The Inland Revenue board can also play as an oversight mechanism, which ensures that the NPOs are maintaining their status that exempts them from tax. Therefore, donors and government regulators are often positioned to get information and sanction agency which fails to live up to its promises (Andreja et al., 2018). In consequent, NPOs may often find themselves engaging in practices seemingly contrary to their missions to respond to increasingly precise requirements by government funders (Costa et al., 2011). Donors and government may ultimately withdraw their support to the NPOs that are seen as unwilling to be accountable for efficient use of resources and this can seriously harm the NPOs.

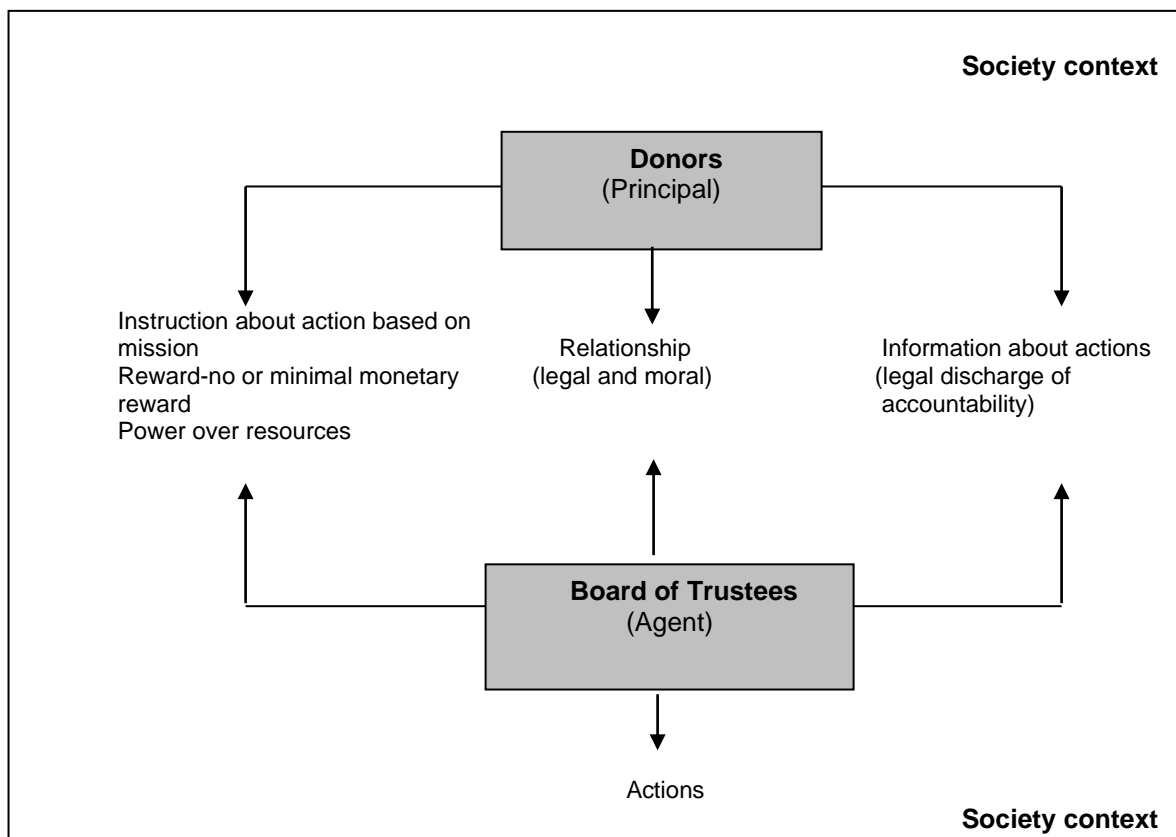


Figure 1: Proposed Integrated Accountability Reporting Framework of NPOs

## 2.2 An Integrated Accountability Reporting Model of NPOs

Based on stakeholders' needs for information, the framework combines the financial information, governance information, accountability and transparency. Performance information normally provided in the financial statements, however, it is only one aspect of the information. There is a lack of integration or linkage with the non-financial information such as governance information, accountability information and transparency. Accountability performance information includes both the governance and transparency aspects of information. From the integration, the real performance of NPOs is reflected in the **Integrated Accountability Reporting Model of NPOs**.

The needs of the stakeholders of the NPOs financial reports are reflected by the differences in the components of the model. The focus of accounting and financial reporting is on the needs of the stakeholders of NPOs. Donors are the primary stakeholders of the information in NPOs reporting. NPOs reporting are generally used by donors who emphasised accountability for resources entrusted to them.

In his major study, Paton (2003) defined accountability as gathering information about, reporting on and answering questions related to performance does not come up to the level of full accountability. Transparency in performance is a means to achieve accountability through which can be measured through NPOs' effectiveness. As noted by (8), performance is not a unitary, stable and objectively real phenomenon which exists independently of the people who formulate, deliver and are affected by the policies, programmes and services delivered. In other words, defining what constitutes performance is as much an interactive as a conceptual and analytical process. The financial reporting issues for NPOs are the integration of both statutory financial reporting and accountability reporting. Practically, the information contained in the financial statement should include both the financial and accountability performance information.

## 3.0 The Components of Integrated Accountability Reporting Model of NPOs

This section of the paper explains the main components of the Integrated Accountability Reporting Model of NPOs. The model is based on four essential components: (i) financial information, and non-financial information of (ii) governance information, (iii) accountability, and (iv) transparency. A summary of the model components is shown in Table 1 below.

**Table 1: Four Essential Components**

<b>Component 1</b>          <b>Financial Information</b>	<b>Sources of Funds:</b>
	• Membership fees
	• Individual Donation
	• Corporate Donation
	• Public Grants (Government Grants)
	• Sponsors
	• Other Revenues
	<b>Uses of Funds as Percentage of Total Expenses:</b>
• Programme Expenses	

	<ul style="list-style-type: none"> <li>• Administrative Expenses</li> <li>• Fundraising Expenses</li> </ul>
	<b>Regulatory Requirement by the Registry of Society:</b>
	<ul style="list-style-type: none"> <li>• Statement of Financial Position or Balance Sheet</li> <li>• Statement of Receipts and Payments</li> </ul>
<b>Component 2</b>	<b>Disclosure Items:</b>
<b>Governance Information</b>	• Name of Chairperson/President/Director
	• Chair's Profession/Affiliation
	• Board Size
	• Paid Staff Size
	• Principal Activities
	• Vision
	• Mission
	• Core Values
	• Patron's Message
	• President's Message
	• Organisational Chart
	• Board of Trustees
	• Committee Members
	• Calendar of Events
	• Organisational Code of Conduct
	• Statutory Declaration by Honorary Treasurer
	• Internal Auditors
	• External Auditors
	• Auditors' Report
	• Executive Council Report
• Statement of Activities	
• Volunteering	
• In-Kind	
• Corporate Partnership Involvement	
• Name List of Major Donors	
• Collaborations	
• Corporate Employee Voluntarism	
• Governance and Policies	
<b>Component 3</b>	• Statement of Accountability
<b>Accountability</b>	• Related-Party Transactions
	• Accountability Partnership
	• Internal Controls
	• Risk Management
<b>Component 4</b>	• Statement of Transparency
<b>Transparency</b>	• Confidentiality and Privacy
	• Donor Privacy Policy
	• Information about Current and Past Achievements
	• Future Plans

In order to conceptualise the integration between financial and non-financial information

of this Integrated Accountability Reporting Model of NPOs, firstly, the statutory financial information required by the Registry of Societies (ROS) governed by the Societies Act 1966 (Act 335) & Societies Regulations 1984 is included in the model i.e. the Statement of Financial Position or Balance Sheet and the Statement of Receipts and Payments. Other financial information of the Sources of Funds and Uses of Funds are also included for the purpose of measuring the financial health of NPOs. Information, which is not recognised by the financial reporting, termed as non-financial information such as the governance, accountability and transparency information, is integrated with the financial information. The non-financial information serves as the indicators for the organisation's efficiency and effectiveness that cannot be determined by means of financial measures (Costa et al., 2011; Anwar et al., 2019). Through integration, these four components of information can act as foundations for performance-innovation model as featured in Figure 2.



Figure 2: Components of Information

#### **4.0 Conclusions and Recommendations**

The development of the Integrated Accountability Reporting Model of NPOs is not without challenges and limitations. It is common to expect that social and unregulated environment of NPOs in Malaysia would make certain segments of the people involved to be mildly interested in the integrated reporting or even tend to be sceptical of it. The introduction of the model may be seen as unnecessary since it is costly especially for small NPOs as they are dependent upon support and resources from individuals or corporate donors or other organisations for their operations and activities. Small NPOs also need to obtain support from outside the organisation of the monitoring bodies such as ROS, governmental oversight bodies and legislative bodies. In particular, the accountants need to play a substantial role in helping the management and staffs of NPOs to give them assistance and advice in preparing the integrated reporting. In the same breath, the management of NPOs also need to take proactive actions to support these NPOs.

This paper has highlighted and given an account of the conceptual framework about the preliminary steps before the Integrated Accountability Reporting is applicable into the context of NPOs. Later, this model can be used as valuable input to build an integrated system of NPOs. The actual development of the system become the next step for the stakeholders of NPOs who have already defined and confirmed with the system requirement. Taken together, it is important to involve the management of NPOs for the development of the system for better linkages between resource decisions and the outcomes the organisation wishes to achieve. Understanding the nature of accountability reporting in NPOs has important implications for preparers and policy makers involved in furthering the NPO agenda. Nevertheless, considerably more work on field-testing the performance indicators will need to be done before the implementation of the system can be implemented.

With the enhanced demand on organisational creativity and institutional adaptability, the application of the proposed framework and model of the Integrated Accountability Reporting Model of NPOs could render a positive contribution to sustainable practices and also add value in terms of stakeholder engagement strategies.

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