

The Difference Between Non-Profit Organization Financial Reporting Practices and Financial Performance in Relation to IFRS for SMEs and Government Requirements

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ABSTRACT

This study explored the financial reporting practices and financial performance of non-government organizations (NGOs). A case study of a large anonymised non-profit organisation based in Durban, KwaZulu-Natal-South Africa, was conducted. A qualitative approach was employed, and data was collected through semi-structured interviews with 24 purposively selected participants to capture their thoughts. Data collected through interviews were supplemented by a review of internal confidential organisational documents. Transcripts, conventional thematic and document analysis, were used to analyse data. Empirical findings revealed that the selected organisation's financial reporting practices were not fully prepared under the International Financial Reporting Standards for small and medium enterprises (IFRS for SMEs) but differed substantially in line with different formats imposed by its external donors. Relying on empirical findings, key recommendations with a view to enabling the organisation and other similar organisations globally to meet the divergent and often conflicting with requirements of all their stakeholders without losing credibility and or compromising its principles were provided. Therefore, policymakers and other key role players should act swiftly to remedy these discrepancies. This study will guide researchers to further research on subject matter.

Keywords: Non-Government Organisations, IFRS for SMEs, Financial Performance, IASB, Small and Medium and Micro- Enterprises (SMMEs).

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INTRODUCTION

A robust debate among scholars on how non-government organisations in South Africa and elsewhere can enhance their financial performance and the quality of financial reports is currently occurring (Eroglu, 2021; Sisaye, 2021). A clear strategy as to how the International Financial Reporting Standards for small and medium enterprises (IFRS for SMEs) directly or indirectly enhance NGOs financial performance and the quality of financial reports has yet to be determined as no empirical studies heretofore have investigated this causal relationship in detail (Waheeda Mohamed, Yasseen, & Nkhi, 2020). An empirical question dominating discussion is: how does IFRS for SMEs improve NGOs financial reporting practices and performance in South Africa? In our view, the response to this question will fill research in the literature and enable similar research to be done. This triggered the research study reported in this paper and it thus holds the centre in the scientific inquiry leading NGOs to make a strategic move to improve their financial reporting practices and financial performance.

Empirical findings have revealed that there are no globally standardised financial reporting practices for NGOs (Waheeda Mohamed, Yasseen, & Omarjee, 2019). Several studies have proven that users of NGOs financial reports, especially funders, will want to assess the accountability of managers, measure financial performance and make a sound decision about future financial and economic resources (Bakr, 2020; Sellami & Gafsi, 2018).

However, some studies found that the lack of a standardised financial reporting framework which inhibits users who are comfortable with international standards from assessing whether or not NGOs financial reports are reliable, comparable and dependable as the biggest difficult in the sector. Furthermore, these stakeholders who are comfortable with international accounting standards may not find NGOs financial reports prepared in different formats and styles relevant (Cordery, Belal, & Thomson, 2019).

In addition to that, scholarly articles have also highlighted the fact that NGOs financial reports differ in terms of format as the biggest issue leading a huge confusion among the users of financial statements (Wiggill, 2018; Wyngaard & Hendricks, 2016). The discussion above has noted the

applicability of IFRS for SMEs could enhance NGOs operations effectively. However, evidence has revealed that disclosure of compliance with IFRS for SMEs does not result in the converged practice of NGOs across the world.

The findings of the study done by Yiting (2021) also revealed that many NGOs, locally and globally, receive funds from private, international funders and, institutions and governments. These stakeholders would heavily rely upon the influence IFRS directly or indirectly has in enhancing the comparable and the rigour of NGOs operations, transparency and legitimacy.

In order to achieve this, NGOs should embrace a global approach that conforms to the accounting standards issued by the international accounting standards board (IASB). However, in South Africa, and elsewhere, NGOs financial statements are inconsistent due to the non-applicability of IFRS (Ab Abonwara, Ahmad, & Halim, 2021; Nurunnabi, 2021) and the number of NGOs' financial reports are not in line with the South African NPOs' Codes of Good Practices, their reports also do not meet the quality requirements set by IASB (Gill, Flynn, & Reissing, 2017).

This is further justified by the fact that many NGOs are confronted the complex of various funding regime from different funders who impose different reporting requirements (Braude, Thandrayan, & Sidiropoulos, 2018). Furthermore, the evidence revealed that, only 48.1% of the expected financial reports had been received by the Department of Social Development (DSD), it was not clear whether or not this situation of poor quality of financial statements as a result of non-adherence to IFRS for SMEs. Worse still, DSD deregistered 36,488 of the approximately 100,000 NGOs in the country due to the failure to submit their annual financial reports (Wagner, 2020).

Furthermore, Gill et al. (2017) reported that the compliance level against the standards of the NGO Act was reportedly very low; 86,2% of NGOs in the sample did not submit an annual financial report, while only 13,8% were compliant. Consequently, NGOs are faced with the threat of funders withdrawing from further funding due to noncompliance with all funders' financial reporting requirements (Gardi et al., 2021; Sibisi & Makka, 2021).

NGOs have also been criticised for abusing international accounting standards as Julie (2019) argued that NGOs managers are poorly fit and unskilled. However, these burring issues have not been subject to debate due to the revealed gaps coupled with other uncertainties in the NGOs financial reporting practices. IFRS for SMEs adoption tends to be highly relevant in identifying a remedy for these gaps.

Thus, this research aimed to investigate financial reporting practices by critically analysing the difference between IFRS for SMEs and DSD requirements with reference to an anonymised large NGO based in Durban, KwaZulu Natal, South Africa. A robust objective of this research was specifically, therefore, to determine whether or not NGO's financial reporting practices comply with IFRS for SMEs, the DSD's reporting requirements and donors and fill gaps in the literature. Hence, the overarching research question this study sought to answer: To what extent do NGOs comply with the DSD and donors' financial reporting practices and IFRS for SMEs? Therefore, this research makes the following specific contributions:

1. The empirical findings and discussions are a potentially relevant broad range of NGOs' stakeholders as they provide them with a robust and comprehensive framework for better understanding IFRS for SMEs situation in the context of NGOs.
2. This research contributes to Scott's (2004) Stakeholders' Theory and Kostova, Roth, and Dacin (2008) Institutional: Theory widely applied in the accounting and auditing literature to understand the implications of accounting systems and their applications to non-governmental organization have been very limited.
3. The results will assist IASB, standards setters' regulators and policymakers, practitioners, NGOs managers, local and international donors and other key role players in their accounting strategies by stimulating the worldwide acceptance and diffusion of IFRS for SMEs through accounting standards revision work suitable for this sector.
4. This article adds to the body of knowledge and guide researchers to further research on the subject matter in the areas that will not be addressed in this research study.

The remainder of this article is structured as follows. Section 2 the next section describes the literature review, followed by the research method, and empirical findings and discussion sections. The conclusions, limitations and areas for future studies are discussed in the last section.

LITERATURE REVIEW

Principles and Practices of Governance for NGOs in South Africa

The NPO codes were developed as per requirements of section 6(1) (b) (I) of the non-profit organisations Act, 1997 (Act No,71 of 1997), while Non-Profit Company (NPC) falls under the new company Act of 2008(Act No, 71 of 2008) with the provision set out in section 10 of the Act which allows for a, not for profit company or association incorporated not for gain to (DSD, 2009).

Furthermore, the DSD, in consultation with the NGO sector, developed a copy containing the codes of practice. The pure purpose was to facilitate leading and managing processes with a particular focus on administration, good governance, fundraising and the donor community, and the codes are categorised according to the following three dimensions: (1) leadership and management, (2) fundraising and resources mobilisation, and (3) roles and responsibilities of donors and sponsors (DSD, 2009).

The NGO Act was formulated to strongly encourage NPOs to maintain adequate and higher levels of standards of governance, transparency, stewardship and accountability and to establish an administrative and regulatory framework within which NGOs can conduct their affairs (DSD, 2009). Edwards and Hulme (2019) made a very strong argument that although NGOs governing bodies usually adopt these best principles, they are not always applied, are largely ignored and, in most cases, misapplied. The DSD concluded after research that “this situation poses a great threat to efforts to maintain high international financial reporting standards for SMEs across the sector” (DSD, 2009).

An impact assessment of the NGO Act conducted in 2015 revealed a general lack of capacity within NGOs to manage their affairs, including maintaining a higher level of financial reporting for the organisation (Gill et al., 2017). For example, the compliance level against the standards of the NGO Act was reportedly very low, 86,2% of NGOs in the sample did not submit their annual financial report, while only 13,8% were compliant. This is a signal of poor governance and a low level of compliance with NGO Act characterised by NGOs in South Africa (Maboya & McKay, 2019).

It is, therefore, seen that the NGOs have not adequately applied the principles and practices of good governance and management. The gap between good principles and practices of financial resources management towards financial reporting and performance of NGOs as highlighted above and the growing concern of the state of viability in the South African NGOs led to embark on this research in order to fill in the gap.

Theories behind this Study

This research study adopted two robust theories, namely, the Stakeholder's Theory and the Institutional Theory.

Stakeholders theory

The Stakeholder's theory was first propounded by Freeman (1984). A stakeholder was broadly defined by Freeman (1984:46) as any group or person who is affected or can affect by the achievement of the corporate objectives. NGOs stakeholders' groups include, inter alia, funders and donors, governments and regulators, employees and volunteers, suppliers and creditors, potential beneficiaries, local communities, partner organisations, policymakers, the media and financial institutions and special interest groups.

This implies that entities have many relationships with stakeholders and according to Freeman (1984) the action of one has the implications for the other. The theory has been potentially proven as a powerful instrument in managing a broad range of stakeholders as they play various roles in the corporate governance (Freeman, 1984). Freeman, Dmytriyev, and Phillips (2021) further stated that stakeholders are key components for organisational survival because they provide crucial resources to the organisation.

There is a growing recognition by the Board of Directors of an urgent need to consider the wide interests of society (Freeman et al., 2021; Laplume, Sonpar, & Litz, 2008). Freeman, Phillips, and Sisodia (2020) concurred with Laplume et al. (2008) adding that, the interests and concerns of stakeholders should get full attention in managing, directing, and controlling an organisation. Thus, adopting the Stakeholder Theory could robustly enhance the relationships based on which the non-government organisations consider the benefits and interests of all stakeholders in their processes and outcomes.

Institutional theory

Scott (2004) proposed the Institutional Theory to explain regulative fundamentals, resources and other related activities that provide stability to the institutional lifecycle. Scott's (2004) Institutional Theory is broadly and widely accepted as it ponders on the standards and procedures by which structures, methods, customs and practices produce persuasive procedures for social behaviour and conduct by focusing on the deeper and robust aspects of institutional structures. Key components of the Institutional Theory namely: functionalism, limited rationality, attenuated consciousness, external environments (a broad group of external stakeholders) and have been articulated by Kostova et al. (2008) as interrelated constructs. Kostova et al. (2008) further explained how these fundamentals are formed, adopted and adapted over time. For the purpose of this research, this Theory was considered as a critical tool in discovering the factors of IFRS for SMEs adoption in non-government organisations. Hence, the application of the Institutional Theory to this research is highly relevant.

Empirical Literature

The connection between financial reporting practices and financial performance among entities has been investigated by Harding (2019) and found financial accounting as a critical tool in securing financial resources from funders. However, this research did not consider whether the use of IFRS for SMEs can assist in enhancing the quality of financial reports and financial performance for NGOs.

Whilst other studies have concluded that IFRS for SMEs are potential tools to overcome the greatest obstacle to financial performance entities

are currently facing (Maboya & McKay, 2019; Sibisi & Makka, 2021). However, other studies have found that NGOs can not fully adopt IFRS for SMEs (Eroglu, 2021; Mangaba, 2017).

The findings from the study done in Uganda by Mukokoma and Tushabwomwe (2019) also revealed that the suitability of IFRS among entities in accumulating financial resources. However, the study did not propose the accounting standards recommended in the literature to tackle inconsistencies within NGOs financial reporting practices. It also failed to prove or disprove whether or not IFRS could potentially drive NGOs financial performance as was done by Dagane and Kihara (2021) and did not empirically validate the factors linked with the high quality of NGOs financial statements and financial performance.

The role of international financial reporting standards in global business was also investigated by Hameedi, Al-Fatlawi, Ali, and Almagtome (2021), who found that the applicability of international accounting standards and principles as the biggest factor in addressing the need for international comparability among entities. However, Hameedi et al. (2021) focused only on for-profit entities and their findings may thus not be relevant to non-government organisations.

Similarly, the relevance of IFRS for SMEs in different countries was also by Kaya and Koch (2015) and Breen, Cordery, Crawford, and Morgan (2018), who found that IFRS for SMEs provides the most relevant and robust practical framework for preparing high-quality NGOs financial reports. However, their studies did neither consider financial reporting issues specific to NGO sector nor offer a detailed analysis of cost-benefit implications.

Different findings on financial accounting practices, based on their arguments, were obtained from Samujh and Devi (2015), who found IFRS for SMEs to be complex and costly for NGOs and small entities and suggested simplifications to be made.

Another criticism comes from Cordery et al. (2019) is the strongest objections of NGOs key stakeholders over their financial reporting issues due to multiple donors' financial reporting requirements. Mikeladze (2021) further soundly criticise prior scholars to not considering technical and

labour issues for NGOs to adopt IFRS. However, to the best of researchers' knowledge, no study explored in-depth the financial reporting practices and financial performance of non-government organizations (NGOs) in South Africa. Only one study by Kaya and Koch (2015) on robust contributory's factors affecting IFRS for SMEs adoption in different countries. Hence, the need for empirical evidence on this topic in South African NGOs in order to address the specific financial reporting and financial issues.

RESEARCH METHODOLOGY

This research study adopted an inductive, exploratory strategy using qualitative in-depth interviews to explore the financial reporting practices and financial performance of the selected large NGO. The population size was 30 staff. This research employed 24 experts and potential interviewees purposively selected in anticipation that they would offer the most relevant answers and provide insights and ideas on the matters under investigation, representing 80%. These included three members of executive management, four managers, 2 accounting and finance officers, and 15 project managers. They all have more than 5 years' experience. Ethical clearance was obtained from the University of KwaZulu-Natal's Humanities and Social Sciences Research Ethics Committee before data gathering commences. Hence, the researcher adhered strictly to the research ethics prescribed by UKZN HSSREC. Access to documents and participants was granted on the condition of maintaining the anonymity of the NGO and its employees in order to protect their identity. Semi-structured interviews and in-depth interviews were conducted to gather data. All interviews were recorded and subsequently transcribed. Evidence gathered from knowledgeable interviewees was supplemented and enhanced by access to the NGO's confidential internal documents, including funding proposals, financial policies, audited financial reports, accounting procedures, budgets and donor funding guidelines for the NGO. Qualitative data analysis of narrative analysis was conducted where robustness analysis was entirely performed using conventional thematic analysis for all interviews and document analysis for documents gathered. Findings were thematically summarised in an anonymous format.

EMPIRICAL FINDINGS AND ANALYSIS

The analysis of transcribed interviews and data from the NGO's documents was grouped based on the study's objective, which fell into one main theme established based on the literature. The following five themes emanated from the main theme of this research: (1) accounting records of the organisation, (2) submission of financial reports to stakeholders, (3) the organisation's audited financial reports, (4) budget preparation and budget performance, and (5) compliance with the stakeholders' reporting requirements. These key themes will now be discussed.

The central question was, *"To what extent does the NGO comply with the Department of Social Development and donors' financial reporting practices and IFRS for SMEs?"* Eighteen (18) linked questions highlighted compliance that had a significant positive impact in promoting improved performance and the development of the organisation and its programmes and projects.

Accounting Records of the Organisation

The research findings revealed that tensions often arise regarding not only the accounting system to adopt but also the style, recurrence, and reporting formats and outputs of the accounting system (financial statements). Donors' influence on financial accounting was very clear.

Interviewees HA, JA2, EA, and AA stated:

"Overriding attention is paid to the Government's financial accounting needs because we are given a mandate by the government of South Africa, truly we must follow South Africa's regulations to satisfy the national accountants. But donors usually ask [for] different reports in different formats and we cannot receive their support without respecting their requirements".

The findings of the current study were inconsistent with those of Ates (2021), who concluded that financial statements must be useful and relevant to all users or stakeholders. This could be due to the fact NGOs pay little attention to IFRS for SMEs in preparing their financial statements.

This observation was supported by a senior manager who commented:

“... our financial reporting system is indeed characterised by imbalances between our foreign funders and government. ... because each foreign donor has its own reporting requirements”.

This study found that the organisation prepares a statement of changes in reserves, a statement of comprehensive income, and a balance sheet to indicate the financial position as a whole. Budgetary analysis and control by comparing standards against actuals to regularly monitor and highlight variances and inconsistencies and to investigate why is also prepared and applied

The fact that NGOs prepare such statements could be interpreted to mean that they are compliant with legal requirements or that the donors or individuals who fund them insist on the periodic preparation of such statements. However, the interviews revealed that IFRS for SMEs was not fully adopted.

The findings of the current study also supported the findings of Rinaldi, Unerman, and de Villiers (2018), who found that NGOs complied with reporting requirements in line with International Standards, which might attract more funders.

Accounting records include many activities, such as an accounting manual, accounting systems, and accounting software. The subsequent question in this regard was Q ii: *Does NGO avail sufficient written policies and guidelines for financial reporting and the accounting system in line with the State and Donors' requirements?* The results indicated the availability of sufficient policies and guidelines for financial management.

From interviews with JA1, BA, and AA it was abundantly clear that the financial accounting life cycle, as cogitated by the kind of accounting records kept and outputs of accounting reports, has been designed by NGO.

The interview with JA1, BA, and AA state that:

“The basic bookkeeping emphasised keeping track of cash and production of periodic donor reports..... attempts had been made to develop an accounting manual and there were some sound policy guidelines for financial decision making in NGO”.

Notwithstanding, as stated by IA1, IA4, IA7, IA11 and IA15 (Project Managers) and confirmed by BA (Operations Manager), these policies and accounting guidelines were not rigorously followed and the organisation uses different formats to present its financial reports.

IA1, IA4, IA7, IA11 and IA15 stated:

“... we have sound financial guidelines stipulated in the constitution and in financial policy and procedures, but some of them were just there [with no practical implications] ... look for example in our financial policy accounting and record-keeping does not clearly show the accounting standards we can really rely on”.

The literature also widely supported the view that fund accounting was widely proven as relevant tool to promote financial transparency, accountability and control within NGO sector (Waheeda Mohamed et al., 2020). It is thus widely used in this sector. The study also found that the fact that donors determine the nature of NGO’s financial accounting activities is a matter of concern to the government.

As JA1 (Director) explained:

“It is the Government that gives an NGO the mandate to operate. If the NGO does not deliver the expected financial reports and services, then the Government has the right to demand an explanation...So that raises a bit of suspicion [that the government’s interest in NGOs is purely both political and administrative]”.

Another Director (JA2) in charge of the administration who was telephonically interviewed highlighted that:

“...We must submit the reports, the financial report ... that is also, why our organisation is very quick to deliver the report because we know that if we deliver the report we are credible and then we can enhance that relationship”.

Five financial reporting formats were critically analysed by the researchers and it found that the NGO's donors only seek assurance that their donations are strictly spent on the designated programmes and projects to serve intended purposes. However, these reports did not tell the true story as none provided information on financial performance. According to the respondents, typically, these financial reports should cover all items; however, none provided the clarity that can be achieved using IFRS for SMEs.

Submission of Financial Reports to Stakeholders

As an emerging country, South Africa adopted International Financial Reporting Standards for Small and Medium Enterprises among non-business entities to enhance the satisfactory level of international comparability and quality of the accounting information compiled by such entities and also promote uniformity (Lopes & Lopes, 2019; Soyinka, Fagbayimu, Adegoroye, & Ogunmola, 2017).

The interviews with a manager (KA) and senior manager (AA) brought to light gaps in the submission of financial reports. It was revealed that financial and activity reports were not being submitted to relevant government bodies and donors at the same time.

A Director (JA1) stated that:

“Of course, we do pay much attention to our funders ... We hold a good relationship with the main funders, which is an important attribute towards the achievements of the organisation. The funders are really partners, understanding our situation as well as that of the country in which we operate”.

The senior manager (AA) noted:

“Our funders typically use broad criteria such as compliance with NPO laws and regulations (e.g. registration and financial reporting), quality of managing and accounting systems, looking at the organisation’s governance structure and standards, integrity policies/codes of conduct, transparency standards, human resource management policies, financial management standards (based on national laws and global good practice)”.

Asked about compliance with financial reporting, some interviewees suggested that requirements for financial reporting to the government are open to misuse. The senior manager (AA) and Director (JA2) argued that:

“...It is not a very good situation, of course. If you look at the NGO policy, there is a clause in it that [states] NGOs shall submit annual financial reports to the government, which I think is not fair... It is not fair if the government knows how much our organisation has on our account in the bank. So, it did not matter to our funders, but it mattered to a lot of government officials”.

The Chief Operating Officer (BA) observed:

“...Like so many other NGOs, our NGO has in the main, been guided by, or in some cases has been obliged to comply with, the requirements of donors regarding administration and reporting. As a result, the system use by NGO is not well-suited to providing the information needed for NGO’s own management and reporting... However, for the period 2013 to 2016, these requirements have not fully complied with Government guidelines.... It is in neither the interests of the NGO nor the funders to publicise the financial reports”.

Another concern is that financial reports were not submitted to the South Africa NPOs Directorate but only to external funders.

A participant observed:

“...of course, we should pay attention to the requirements of our State, it also makes a fair bit of sense, but donor’s decisions were ‘cast in stone and as such, it was not possible to deliver the financial reports as per IFRSs in South Africa. Under these circumstances, donors decide on what, where and even how the funds can be used and the reporting formats to be used..... we need donors ... much, more than donors need us.... As such, the State withdrew from the core responsibility of providing ... grants for our organisation”.

These findings are overwhelmingly supported by the current body of knowledge that found that financial reports produced by NGOs are inconsistent and depend on demand templates from donors (Assad & Goddard, 2010; Soyinka et al., 2017). But they contradict the findings of Peterson-Palmer and Malthus (2017) who the International Financial Reporting Standards adoption among entities regardless of the scope and size.

The Organisation’s Audited Financial Reports

Having analysed the comments by respondents AA, BA, CA, DA, JA and KA above and having reviewed various internal documents, it is clear that NGO does not comply with some of the government’s financial reporting requirements.

The final questions (*Q4xv, Q4xvi, Q4 xvii, Q4xviii*) sought to establish if external auditors audit NGO’s financial statements. A senior manager and Director responded:

“...we ensure financial transparency by preparing financial reports and have annual accounts prepared and/or audited”.

These findings were supported by the independent audit report on NGO financial reports:

“...we have audited [the] statement of financial position of NGO (RF) as of 29 February 2016 and its financial performance for the year then ended in accordance with international standards

of auditing. We believe that all are prepared in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (SMEs) and in the manner required by the Companies Act No 71 of 2008; the financial statements present fairly in all material aspects, and we expressed a qualified audit opinion on those financial statements”.

A senior manager noted that:

“One of the observations the auditors have repeatedly had in previous audits of our financial statements is the issue of capitalisation and depreciation of fixed assets for which we have found no solution.... I think more connection to the concepts of IFRS for SMEs would be helpful”.

The interview with JA1, JA2, DA, and AA provided further insight into the NGO’s audited reports. For example, JA1 stated that:

“Auditors have consistently raised concerns over NGO’s fixed assets not being capitalised and depreciated according to their useful life”.

As stated by all project Managers and confirmed by the Director in charge of administration that financial reports for different projects are audited:

“... Our five funded projects (Kidz Alive, International Citizens Services (DFID), Youth Alive, Social Cohesion, and Link Care) are audited by reputed auditing firms, and annual audits have been conducted. In 2013/2014 Mozars was employed and in 2015/2016. Moore Stephens was also employed”.

AA (Senior Manager) noted that:

“... Donors were very much impressed that we on our own had decided to appoint an audit firm. Actually, there is increased credibility and donors were impressed as well. So, in terms of information made available to users, it is the same as in previous

years. But in terms of opinion, it is now international. ...So, when international funders see NGO is going to [audit firm] it means NGO is more serious”.

As explained by the Chief Operating Officer (BA), it should also be borne in mind that:

“...It is not accountability and obligation merely to submit a certified financial account each year. To be accountable means to give reasons for and explanations of actions taken, but an account rarely provides explanations, and it never gives reasons. Any major financial account hides far more than it reveals... in the year 2014/2015, the donors did not demand [that] financial statements’ authenticity [be] verified by independent auditors”.

These findings of the current study also support the findings of Yang, Simnett, and Carson (2022), who found that auditors and financial analysts examine whether or not financial reports are consistent with international accounting standards, principles, and procedures set by the International Accounting Standards Board (IASB). However, the empirical findings of this study contradict the findings of Goddard (2021), who found that auditors’ challenges to completing NGOs financial statements audit process can be alleviated by providing additional supplementary practices assistance to the existing accounting and audit standards.

Budget preparation and budget performance

A Director (JA2) elaborated on how NGO prepared and monitored budget statements for donors’ funds:

“...It makes a fair bit of sense and it can be judged that, not until the donors are satisfied with the budget, otherwise they cannot support the organisation. Thus, NGOs does prepare the budget for the donors and make sure that they satisfy them maximally.... We prepare a budget for each funder, so we do not have an overall budget for the organisation as we have to report to them separately”.

As described by the NGO Operations Manager (BA):

“... the feasible strategy for increasing fundraising, we have, donors, require proposals in the form of project work plans and budgets”.

The Operations Manager (BA) added that:

“... over the years we did two things which were excellent fundraising devices. First ... we requested an external evaluation ... and second, we changed auditors ... this also helped with the funders”.

The Financial Development Officer (HA) stated:

“We do set in place financial targets which is very much driven by what our partnerships is going to be this year, what their requirements are, and what is our capacity to be able to add value... It is against these options we increase the number of our funders”.

These observations suggested that donors are powerful stakeholders in NGO. As such, its funding decisions were influenced by its priorities rather than those of the government. Despite the increasing funding channelled through NGO, the support forthcoming from DSD has declined considerably over time. This could be justified by the fact that the NGO failed to adopt IFRS for SMEs fully.

A Senior Manager (AA) expressed the views of many other respondents by stating:

“...There has been a growing tendency among donors and Government to approach NGO with proposals for additional interventions and funds. Many of the programme activities proposed by donors match the NGO mission. However, there is a need for NGOs to fully adopt the use of IFRS for SMEs...it makes more sense that government grants are being given only to NGOs that agreed [to] higher levels of financial transparency requirements”.

He added that:

“...The political situation in the USA and in the UK is also hampering the significant funds we used to receive from them... for example, USA President, Donald Trump has ordered [that funds should not be pumped] to African countries and focus on the only USA”.

These issues have undermined the financial performance of NGOs. A senior manager (AA) highlighted that:

“... It is a difficult problem in that each donor will seek to make its own assurance arrangements in order to keep on providing funds to NGO”.

The findings of the current study are overwhelmingly supported in the literature (Blouin, Lee, & Erickson, 2018; Tuan Son Nguyen & Mohamed, 2018; Tuan S Nguyen, Mohamed, & Panuwatwanich, 2018). However, these findings contradict the findings of Thornton and Belski (2010) and Su, Nuryyev, and Aimable (2014) who found that several NGOs heavily rely on foreign funders and are independently funded through foreign and private sources, consequently, they enjoy the autonomy.

Compliance with the Stakeholders' Reporting Requirements

A manager (KA) with many years of experience in the organisation said:

“We are required to complete financial accounts in accordance with IFRS for SMEs and guidelines in South Africa as well as complete financial statements for the funders. ... We have difficulty in doing this [but we] have no concerns on the basis of financial reporting... financial information in annual financial reports is meant to satisfy the requirements of our funders and has little relevance in upholding compliance issues towards the government”.

The interviews with IA3, IA6, IA8, IA11, and IA12 stated that:

“Overriding attention is paid to the Government’s financial accounting needs because we are given a mandate by the government of South Africa, truly we must follow South Africa’s regulations to satisfy the national accountants. But donors usually ask [for] different reports in different formats and we cannot receive their support without respecting their requirements”.

As stated by the project managers (IA1, IA5, IA8 and IA14) and CA, BA and confirmed by KA *“accounting policies, procedures and guidelines had not been rigorously abided by”.*

A senior manager (AA) stated that:

“.... our financial reporting system is indeed characterised by imbalances between our foreign funders and government. ... because each foreign donor has its own reporting requirements”.

These empirical findings contradict prior research that found the crucial role of the application of international accounting standards and principles rather than templates in the preparation of NGOs financial reports, regardless their size and scope, in order to satisfy all stakeholders (Asogwa, Varua, Humphreys, & Datt, 2021; Breen et al., 2018; Conaty & Robbins, 2021; Lai & Hamilton, 2020). However, these findings support the finding from prior research that have found that NGOs share their financial reports with a wide range of stakeholders but only donors are highly prioritised and considered as major users of their financial reports and pay insufficient attention to the other stakeholders (Conaty & Robbins, 2021; Goddard, 2021; Hall & O’Dwyer, 2017; Naidoo & Gomez, 2020; Spiro, 2017).

As noted in the literature review, the Government of South Africa via the DSD and NPOs’ Directorate is the primary regulator of NGO and NPO operations in the country. The DSD ensures that NGOs and NPOs comply with regulatory requirements, standards, and principles, including IFRS for SMEs adoption (Waheeda Mohamed et al., 2020). NGO is thus required to provide the DSD with relevant financial and other information, including

annual audited financial reports in order to ensure continued operations in the country. The findings supported the findings of other research studies that found that NGOs should comply with national requirements in order to increase financial transparency and accountability (Berrett & Holliday, 2018; Lee, 2021; Mack, Morgan, Breen, & Cordery, 2017; Waheeda Mohamed et al., 2020; Yoon, 2022).

DISCUSSION OF FINDINGS

The question was, “*To what extent does NGO comply with the DSD and donors’ financial reporting practices and IFRS for SMEs?*” The more experienced interviewees noted that there is some tension between the financial reports required by NGO’s donors and what should occur under IFRS for SMEs. It was established that NGO’s financial reporting practices had been characterised by imbalances between their foreign funders and the Government or DSD. The findings of this study both support and contradict the existing literature on IFRS adoption in non-government organisations.

The non-government organisation’s financial accounting practices have not always been in line with the NPOs’ Codes of Good Practices. As a non-profit company, it is subject to the Code of Good Practice (CGP) as stipulated in its Act of 2001 and the DSD’s rules and regulations. For the purposes of this discussion, the focus is compliance with financial reporting requirements.

The answers to these questions enabled the researcher to achieve this objective. Compliance with IFRS for SMEs is required in order for all stakeholders to have confidence in NGO’s financial transparency. As noted earlier, such practices would need to be in place regardless of the size and type of NPO (Ates, 2021).

The findings of the current study are overwhelmingly supported by the current body of knowledge that found that financial reports can only be relied on if they substantially reflect economic value (Ebdon, 2021; Mazanec, Bartosova, & Bohm, 2022; Mikeladze, 2021; Oliveira, Sousa, Silva, & Santos, 2021).

Zietlow, Hankin, Seidner, and O'Brien (2018) also found the overwhelming views of respondents that financial reports prepared under IFRS for SMEs enhance communication with stakeholders, reduce irregularities in financial information and assist in the allocation of financial resources.

These findings also agree with previous that highlighted the crucial role of financial statements prepared in compliance with international standards in enhancing financial performance and international comparability of financial reports across markets and countries (Bakr & Napier, 2020; Oliveira, Silva, Sousa, & Santos, 2021),

The current findings are supported by some studies that found that financial reports should be relevant, complete, verifiable, comparable and free from bias and material error (Omotoso, Schutte, & Oberholzer, 2022; Peterson-Palmer & Malthus, 2017).

The findings of the current study in this area also support the current body of knowledge that found that high-quality financial reports are associated with compliance with international accounting standards (Salah, 2020; Yiting, 2021). It can thus be inferred that IFRS for SMEs adoption would stimulate international comparability, transparency, accountability, legitimacy, and compliance with the requirements of all NGO's stakeholders, including the DSD. The findings suggest that the remedial step to close this gap is a review of the organisation's current financial reporting practices in order to bring them fully in line with IFRS for SMEs.

The interviewees concurred with Mackenzie, Lombard, Coetsee, Njikizana, and Chamboko (2010) that, accounting standards for SMEs could be useful in assisting NGOs in preparing financial statements and meeting donors' requirements. Damak-Ayadi, Sassi and Bahri (2020) noted that NGOs need to account transparently in order to enhance their financial performance and legitimacy within and beyond the organisation.

Other studies have noted that financial accounting is inextricably linked to the organisational identity (Waheemed Mohamed, 2017). Dagane and Kihara (2021) suggest that "precisely how financial reports are understood and used by different parties is the key to understanding what role financial accounting plays or could play in NGOs".

This is supported by Baur and Palazzo (2011), who articulate legitimacy as a general perception “that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions.... legitimacy is socially constructed in that it reflects congruence between the behaviours of the legitimated entity and the shared beliefs of some of the social group”.

‘Trust and honest’ were repeatedly cited by the respondents. Interviewees JA (Director) and AA (Senior Manager), as well as EA (Chief Executive Officer), noted that funders typically use broad criteria to measure these attributes, including compliance with NPO’s rules and regulations (e.g. registration and financial reporting), the quality of management and accounting systems. A good relationship with the main funders was associated with the financial support NGOs receive from external donors, which is an important indicator of the organisation’s achievements. The literature also widely supported the view that legality is a dimension of accountability and financial transparency, which is a critical tool to attract additional funders (Cordery et al., 2019; Harrison, Freeman, & Abreu, 2015; Lai & Hamilton, 2020).

Interviewees KA (manager), BA (Chief Operating Officer), and IA (Project Managers) did not agree with this perspective. They noted that, while some financial guidelines are stipulated in the organisation’s constitution, they were practically implemented. BA (Chief Operating Officer) was of the opinion that the Government’s robust financial accounting framework prerequisite should be prioritised because NGOs is mandated by the Government. However, the organisation continued to provide reports in different formats to donors in order to ensure their continued support.

The empirical findings of this research contradict the findings of Breen et al. (2018), which revealed that non-government organisations are valued as partners by both government and multilateral donors. The interviewees’ views could be explained by BA’s (Senior Manager) statement that NGO’s financial accounting practices were not in line with those of government bodies but complied with the requirements of its external donors. BA (Senior Manager) added that each foreign donor has its own reporting requirements. However, our findings widely support the findings from prior studies that found that NGOs that accepted donors’ reporting formats were

not in compliance with the requirements of IFRS for SMEs (Asogwa et al., 2021; Cordery et al., 2019).

The findings of the study were clear that NGOs are sticking to the requirements of funders in order to “thrive and survive”. This finding also enjoys overwhelming support in the literature and is an indication that the findings of this study are consistent with the situation across the globe (Assad & Goddard, 2010; Conaty & Robbins, 2021; Spiro, 2017).

Interviewees BA and DA noted that IFRS for SMEs did not suit the organisation in respect of capitalisation and depreciation of fixed assets. This finding contrasts with Del Giudice, Manganelli, and De Paola (2016) assertion that depreciation is applied to Plant, Property and Equipment (PPE) that the NGO uses over or beyond one year. He added that one of the reasons why PPE is depreciated is to match income earned in a certain period with the expenses connected or associated with earning it. This position is also overwhelmingly supported in the literature (Bell, 2018; Sinteia, 2020; Toma, Ionescu, & Founanou, 2018).

This study found that IFRS 16 (PPE) is relevant in order to comply with IFRS for SMEs.

The results of the current study are overwhelmingly supported by the current body of knowledge that found that not-for-profit organisations should adopt accounting practices and they are required to comply with IFRS and abide by the principles and practices of depreciation in the business enterprise environment, as NGOs’ assets also need to be checked for wear and tear (Christopher, 2020; Dagane & Kihara, 2021). The empirical question that arises is whether fixed assets occupy a permanent place in accounting books.

The study found that NGO commissioned an independent audit report and that a ‘*qualified audit opinion*’ was issued for 2015/2016. This was welcomed by the organisation’s funders and will no doubt increase its legitimacy. This finding is in line with those Gaynor, Kelton, Mercer, and Yohn (2016) who noted that audited financial reports are an essential condition for financial transparency and accountability. Also, some studies have revealed that auditing is a tool for NGOs to achieve legitimacy among stakeholders (Assad & Goddard, 2010; Feng, 2020; Yang et al., 2022).

These findings also support the literature that describes an audit as a powerful form of symbolic capital (Gaynor et al., 2016; Naidoo & Gomez, 2020; Nyabiosi, 2016). However, the empirical findings of this study contradict the findings of Goddard (2021), who found that auditors' challenges to completing NGOs financial statements audit process can be alleviated by providing additional supplementary practices assistance to the existing accounting and audit standards.

Briefly, the findings suggested that an understanding of the interrelationship among various stakeholders, such as funders, policymakers, regulators, auditors, and government oversight bodies, is crucial in improving NGOs' financial performance and the quality of financial reports.

OVERALL CONCLUSION, LIMITATION AND SUGGESTION FOR FUTURE RESEARCH

The evidence revealed gaps and other uncertainties within NGOs in South Africa and elsewhere for not complying with international financial reporting standards, which limits these entities from producing useful financial reports to their stakeholders. This study sought to investigate financial reporting practices by critically analysing the difference between IFRS for SMEs and DSD requirements with reference to an anonymised large NGO based in Durban, KwaZulu Natal, South Africa. This was achieved through an investigation into financial reporting practices among 24 NGO's managers and document analysis.

Overall, the empirical findings on the organisation's financial reporting practices and compliance with stakeholder's financial reporting requirements revealed that the NGO did not fully implement IFRS for SMEs due to the fact that the organisation prioritise its funders' financial reporting requirements and these differ substantially from those required by the State (DSD) and IASB. The findings of this research highlighted the strengths and weaknesses of the NGO's financial reporting practices.

Relying on these empirical findings, the researcher can, therefore, draw a valid conclusion on the different reporting formats and templates favoured by donors rather than international accounting standards set by

IASB for IFRS for SMEs. This has a potential implication to result in a better improvement of NGO's financial reporting practices to address the structural deficiencies in its reporting practices to a broad range of its stakeholders.

This study contributes to the current body of knowledge by providing NGOs potential stakeholders, policymakers, regulators, and accounting standards setters with a robust and comprehensive framework for better understanding IFRS for SMEs and financial reporting practices compliance in the context of NGOs.

The study was limited to managers in one prominent NGO in Durban. The findings of this study should not be generalised to other populations, such as South Africa or even the KwaZulu-Natal, because the sample was not randomly drawn. Future research could investigate the NGOs financial reporting practices across an entire Kwazulu-Natal province or country. This study entirely relied on a qualitative research strategy and all limitations linked with this methodology apply to this research; future research could be conducted using a mixed-method approach to produce robust generalisable results.

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