

Functional Expense Reporting Practice Among Non-Profit Organisations (NPOs)

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Abstract

The objectives of the study are to understand the practice of Functional Expense Reporting (FER) and to identify the factors influencing the practice of Functional Expense Reporting (FER) by non-profit organisations (NPOs) in Malaysia. The study on NPOs is critical because non-profit financial reporting also has the potential for accounting fraud and scandal as there is a lack of accounting standards. Many NPOs cannot provide the right information about their relative effectiveness in fulfilling their mission. As a result, donors, funders, and charity watchdog organisations have placed undue reliance on financial indicators, many of which according based on reported functional expenses. The presentation regarding the expenses based on a "functional" classification reflects the expenses according to the purpose of the expenses incurred. A functional expense presentation helps readers of financial statements (including donors, foundations, regulators, and financial institutions) in understanding how a NPOs spends its resources. This study is using the qualitative research approach to meet the objectives. The data collections are using in-depth interviews and reviews on organisational documents. Face to face and semi-structured interviews conducted between the preparers/founders/employees of financial reporting of four (4) NPOs, the controllers which consist of three (3) officers from Bahagian Hal Ehwal Undang-Undang (BHEUU), Jabatan Perdana Menteri (JPM) and one (1) auditor. The document reviews include the financial reporting of NPOs that also been analysed to identify whether the functional expenses have presented. From qualitative research, the study had identified three main factors that are influencing the practice of functional expense reporting. The factors are accountability, policy requirement, and trust. Specifically, this paper only focuses on NPOs, which registered under BHEUU. The findings of this study are expected to state the current practices of functional expense

reporting by NPOs in Malaysia. The presentation of expenses as both natural and functional is meaningful to users and is encouraged for all organisations in promoting accountability among NPOs.

Keywords: Functional Expense Reporting (FER), non-profit organisations (NPOs), accountability, policy requirement, trust