

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

Introduction

In Malaysia, non-profits organisations (NPOs) have grown in numbers over the past decades; they have also increased in fraud scandals concerning accountability among NPOs. Employees and board members accused because of the mismanagement of the funds for personal gains and fraud.

One of the issues often raised is whether these organisations have been efficiently utilising the resources that they have been receiving from the government, as a local funder, and from charity donors. Donors suffer from information asymmetry because NPOs delay or limit their release of information (Zainon, Atan, & Y., 2014). Thus, NPOs would perform better by communicating relevant information to potential donors. Consequently, it enhances the level of transparency in reporting the financial expenses of NPOs to the stakeholders. Such examination is expected to provide some insight into the potential motivations for transparency in annual reports of the NPOs and consequently contributes to the deliberations of enhancing the transparency of NPOs by various regulatory authorities (Roshayani, Noorbijan, Farah & Normah, 2013). Nevertheless, the increasing calls for transparency in the non-profit sector indicate that donors need some information that can assure the NPOs reputation and legitimacy.

The accountability of NPOs will be an increase in the existence of Functional Expenses Reporting (FER). As suggested by Zainon et al. (2014), the disclosure practices by NPOs could be improved by disclosing a good quality of information. One of the ways is by preparing the FER for NPOs stakeholders. Disclosure statements and reports are among the most widely used tools of accountability and required by federal or state laws in many countries (Ebrahim, 2010). The lack of regulatory requirements or best practices concerning accountability increases various risk exposures to NPOs, including fraud risk (Tajuddin, Bakar, & Karim, 2016). The absence of good quality public mechanisms of accountability inhibits the impact of the potentially more effective private mechanisms in building trust (Hyndman & Mckillop, 2018).

Trust among donors is also important as stated by Gee and Schreck (2018) that their theoretical, lab, and field results combined suggest people are more likely to donate when they believe they are more pivotal to securing matching money. Kearns (2014) argues that: 'without public trust, nearly every other resource that a non-profit organisation uses to advance its mission will be jeopardised.' While charitable missions focus on beneficiaries (or society at large), the resources to enable charitable activities to stem from a range of other stakeholders, trust is

as essential to the relationship between charities and their donors or funders, who give not for their benefit, but in trust that others will gain from their donations (Bekkers & Wiepking, 2011). Moreover, charity volunteers (who contribute essential and extensive human input to a charity) may disengage when trust has undermined. Also, trust underpins relationships with the public (who also may be beneficiaries, donors, and/or volunteers), and it is this stakeholder group that, ultimately, is the source of tax benefits (Bryce, 2016). Even beneficiaries, perhaps the least influential stakeholders of all, tend to disconnect where trust is lost (Kearns, 2014). In order to ensure accountability and increase trusts of donors among NPOs, the practice of FER should be compulsory for NPOs in Malaysia.

This paper has two main aims. First, it aims to understand the practice of FER. These will broaden the understanding of how the practice of FER among Malaysian NPOs and hence enrich the FER and financial reporting in NPOs literature. Second, the paper aims to identify the factors influencing the practice of FER by NPOs in Malaysia.

To pursue the aims of the study, a grounded study is conducted for over six months. Semi-structured interviews and organisational documents are in the data collection process. The findings reveal that even though FER will increase the accountability and trust among donors, the used of FER is limited among NPOs in Malaysia. They have to have audited financial reporting, but FER is not compulsory, and the auditor produced a report that accountable only for the trustee of NPOs. The audited financial statement of NPOs also not available for donors as well as the public. NPOs also are not compulsory to disclose it.

This paper organised as follows. The next section provides a literature review, which begins with a discussion on the studies of FER in NPOs and NPOs in Malaysia. These followed by a section on the research method and design of the study. The subsequent section focuses on the analysis of the case study, including the background of the NPOs controller BHEUU, the practice of FER in three NPOs, and factors contribute to the practice and FER from auditor's view. These are followed by the discussion and conclusion sections.

Literature Review

The literature review divided into two subsections. The two subsections are accountability and legal requirement among NPOs and FER in NPOs.

Accountability and Legal Requirement Among NPOs

NPOs are held accountable by various numbers of entities ranging from their boards, their funders, regulators, and the general public. Accountability positioned in two dimensions: accountability to external stakeholders, and secondly, it refers to the method of legally requiring information to be submitted (Howson & Barnes, 2009). The essential element of accountability in NPOs for the external stakeholders, particularly donors, is through information reported.

NPOs boards are under public scrutiny as media detailing the issue of trust based on public affairs of NPOs financial scandals. Doyle (2005) held that accountability for NPOs rests on

the boards. The boards are held responsible for ensuring that they delivered what they said they would do. Donors monies should be collected and spent as stipulated in their mission and vision. The boards also are people who will guarantee the donors that NPOs will deliver the desired outcome.

Harmon (1995) argued that accountability means differently for stakeholders. From the donors perspective, donations will be used for its intended use to support the NPOs mission and vision. Funder views that accountability aligned details with the objectives, and the NPOs have a proper system on monitoring them. On the other hand, the public at significant needs to assure that monies received by NPOs spent on the right cause, as mentioned in the mission and vision of NPOs.

While, Brody (2001) identifies four aspects of accountability, that are good governance, adherence to mission, fiscal honesty and fraud avoidance on the other hand Doyle (2005) stated that boards of NPOs should be held accountable for three aspects, that are financial and legal accountability, moral accountability and outcomes accountability.

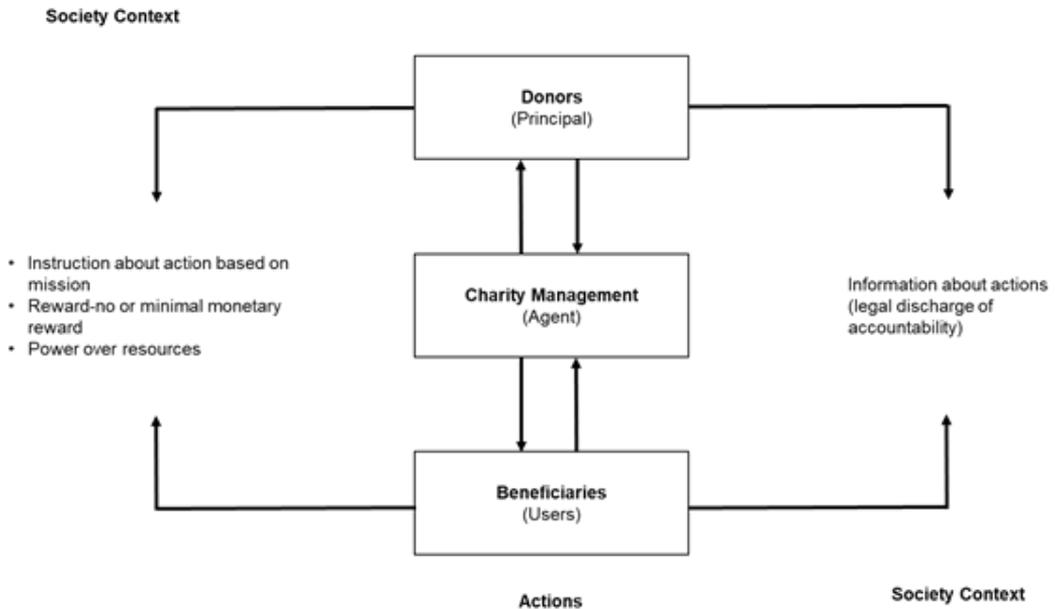
The board's most significant concerns will be financial performance and legal status. Findings show that if non-profit leaders failed to address this issue, the government should step in to regulate NPOs governance. The second issue is moral accountability. Donors have the right to know and assured that their contribution meets their intended donation purposes. Boards are held responsible for portraying their due diligent towards achieving the organisational goal by managing the donation accordingly. The third issue is outcome accountability. Funders require organisational to preset organisational goals and publicly report on achievement.

Cristian, Tina, and Fuminori (2018) highlight on benchmarking the efficiency of NPOs on overhead expenses ratio to direct cost that reaches the beneficiaries. They stated donors generally favour lower overhead costs such as fundraising and administrative cost compared to monies spent on reaching the objective of vision and mission of NPOs.

Bowman (2006) stated that overhead costs for NPOs are expenses not related to programs known as indirect costs. Hansmann (1987) agreed that sometimes donations are bound on the designate purposes on which they collected. Christian et al. agree that NPOs are not using earmark donations to conduct either for the program or overheads. Their research concludes that the degree of transparency concerning financial information on funds allocation should be provided in detail for donors as NPOs performance measurement. Their research shows that financial reporting, which includes overhead costs information, leads to the efficient administration of NPOs, which may result in lower administration costs as compared to funding allocated to the program.

Zainon et al. suggested the accountability model for NPOs consist of Donors as a principle, Charity Management as an agent and Beneficiaries as users. Figure 1 below showed the relationship between those three in a social context.

Figure 1: NPOs Accountability Model



Source: Zainon et. al. (2014)

Zainon et al. (2014) have suggested that the disclosure practices by NPOs to be improved by disclosing a good quality of information. One of the ways is by preparing the FER for NPOs stakeholders. The accountability of NPOs to donors has improved through legal requirements, and disclose information to the public can be achieved. In Malaysia, the legal requirement for NPOs also depends on their registration with which the regulatory bodies. There are many regulatory bodies for NPOs, and each of them has different legal requirements. Table 1 below shows the regulatory requirement for NPOs in Malaysia.

Table 1: Regulatory Requirement for NPOs in Malaysia

Regulatory Body	Regulatory	Financial Statements
Registry of Society (ROS)	1966: Societies Act (Act 335) and Regulations [Section 14(d)] Form 9	Statement of receipts and payments and the balance sheet
Inland Revenue Department (IRD) for tax-exempt status	Income Tax Act 1967 [Section 44(6)]	Audited Financial Statements
Jabatan Perundangan, Jabatan Perdana Menteri (BHEUU)		Audited Financial Statements

There is no standard for NPOs in Malaysia, and the NPOs registered under the Inland Revenue Department (IRD) usually prepare accounts similar to Small and Medium Companies (SME). For NPOs registered under BHEUU, there are no specific standards for financial statements, and NPOs no need to disclose their financial statements to the public.

In summary, there is no specific standard for NPOs financial statements. There is also no legal requirement for NPOs in Malaysia to disclose their financial statements to the public, and FER is far from applying to NPOs in Malaysia. This study chooses NPOs registered under BHEUU as the sample of study due to the importance of accountability NPOs in Malaysia, and NPOs have social obligations for the donors.

Functional Expenses Reporting (FER) in Non-Profit Organisations (NPOs)

Functional Expense Reporting (FER) is not a new type of financial reporting for NPOs. FER is useful for both management and giving decisions as non-profit managers and their donors rely on it (Hager, Pollak, Wing & Rooney, 2004). FER is functional classifications group expenses according to the purpose for which the costs incurred comprising the program, administration, and fund-raising. FER is also a method of grouping expenses according to the purpose for which the costs incurred. The primary functional classifications are program services and supporting activities (Lucas, undated).

FER is meant to help donors, creditors, and others in assessing an NPOs service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements shall provide information about expenses reported by their functional expense classification, such as significant classes of program services and supporting activities, for example:

- a. Program services
- b. Supporting activities, which often include one or more of the following:
 - i. Management and general activities
 - ii. Fundraising activities
 - iii. Membership development activities

Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefiting various functions, such as management and general (for example, accounting and financial reporting and human resources), fundraising, and program delivery. Therefore, information technology costs generally would be allocated among the functions receiving the direct benefit (FASB, 2016).

Table 2: Sample of Statement of Functional Expenses

Home4U
Statement of Functional Expenses for the Year 2015

Nature	Function				Total
	Program # 1	Program # 2	Management & General	Fundraising	
Salaries and benefits	\$45,000	\$93,000	\$30,000	\$10,000	\$178,000
Rent and utilities	12,000	20,000	5,000	5,000	42,000
Printing and supplies	6,000	10,000	3,000	5,000	24,000
Depreciation	5,000	8,000	2,000	1,000	16,000
Total	\$68,000	\$131,000	\$40,000	\$21,000	\$260,000

In the U.S, all NPOs follows the required by Statement of Financial Accounting Standards (SFAS) 117, Financial Statements of Not-for-Profit Organizations to report expenses by functional classification. (The Urban Institute and Indiana University, 2004). The most severe and widespread problems in non-profits concern expenses by functional classification (program, management and general, and fundraising) as in Table 2. Many non-profits cannot provide the right 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 to reported functional expenses (Wing et al., 2006). Many users of non-profits financial statements place primary emphasis on expenses by functional classification, so non-profits should treat the allocation of expenses as an essential audit issue.

This paper aims to understand the practice of FER among NPOs in Malaysia. This paper also wants to identify the factors influencing the practice of FER by NPOs in Malaysia. The study applies the theory of philanthropy in order to examine the factors influencing the practice of FER by NPOs in Malaysia. The next section further discussed in the theory of philanthropy.

Theory of Philanthropy

A theory of philanthropy articulates how and why a foundation will use its resources to achieve its mission and vision. The theory-of-philanthropy approach is designed to help foundations align their strategies, governance, operating and accountability procedures, and grantmaking profile and policies with their resources and mission. Articulating a theory of philanthropy is a way for a foundation to make explicit what is often only implicit. These enable internal and external actors to explicitly pose significant questions and resolve key decision points, to understand and play important roles more fully and effectively, and to improve performance by enhancing alignment across complex systems both internally and externally (Patton, 2011).

The theory of philanthropy treats external systems as context, which a foundation needs to understand sufficiently to identify opportunities and levers for impact. At the same time, the theory of philanthropy work examines how the foundation's internal core reality (history,

assets, priorities, procedures) also provides opportunities and levers for impact. The internal-external connections constitute a road map for adding value in the world.

A study by Hassan, Masron, and Mohamed (2018) used the theory of philanthropy in examining the trusts among generation Y towards the attitude of the charitable organisation in a monetary philanthropic donation. The result of the study shows that perceived integrity, perceived ability, and perceived benevolence were found to influence the attitude directly. The study is using the theory in order to predict donation behaviour. The result of the study also shows that trust is one of the main factors influencing donation.

By using the theory of philanthropy, this study examines the practice of FER among NPOs and the factors influencing the practice. The next section will discuss the research methodology and the description of the case study organisation.

Research Methodology

This study is using the qualitative research approach to meet the objectives, which are to understand the practice of functional expense reporting and to identify the factors influencing the practice of functional expense reporting. The data collections are using in-depth interviews and review organisational documents. The practice of FER in four NPOs registered under BHEUU of Malaysian named A, B, C, and D (fixtures name). The rationale for applying a multi-case study approach is to be able to capture rich and holistic material used as a comparison to previous studies (Sharma, Lawrence, & Lowe, 2010). 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, Jabatan Perdana Menteri (BHEUU) and one (1) auditor. The organisational document that has reviewed including one (1) audited financial statement two (2) leaflet and three (3) official website. The document reviews include the financial reporting of NPOs that also been analysed to identify whether the functional expenses presented from January 2017 until July 2017.

In total, ten (10) interviews were carried out. The interviews were semi-structural, lasting about one hour each for both three (3) men, and seven (7) women. In total, one (1) person from foundation A, two (2) persons from foundation B, two (2) persons from foundation C, one (1) person from foundation D, three (3) executives from BHEUU and one (1) auditor. All interviewees have been presented with no names to ensure research participant anonymity. Table 3 is a list of interviewees, their positions, the attached department, job description, and their involvement in BSC.

Table 3: List of Interviewees

Interviewee	Position	Organisation	Job description
1	Accountant	Foundation A	Do a full set of accounts and prepare financial statements.
2	Account Executive	Foundation B	Do a full set of accounts and prepare financial statements.
3	Manager	Foundation B	Manage the employees and program.
4	Executive Secretary	Foundation C	Manage the foundation and program.
5	Account Assistant	Foundation C	Prepare a basic accounting job.
6	Corporate Executive	Foundation D	Promoting the foundation program.
7	Executive	BHEUU	Head of Policy Section
8	Executive	BHEUU	Policy Section
9	Executive	BHEUU	Policy Section
10	Auditor	Audit Firm	Prepare financial statements and auditing jobs for NPOs.

Analysis of Research Materials

The following analysis collates the observations from interviews conducted and reviews of organisational documents. The analysis is divided into four foundations, and for each foundation, there are two points: (1) the practice of FER in NPOs, and (2) the factors influencing the practice of FER by NPOs in Malaysia. The analysis also reviews the perception based on regulators of NPOs: BHEUU and the auditor for NPOs.

Foundation A

Foundation A was set up in September 2008, under the Act of 1990. This foundation is led by Dato A as Chief Executive Officer and has twenty six (26) employees. Interviews conducted with Accounting Executive of Foundation A. This study also reviews annual reports of Foundation A.

All the decisions made must be through a board of Trustees of Foundation A. The donation for Foundation A is by cash waqaf and certificate. The collected donations were during special programs, opening booths, promotions, deducting from salary, and through the online collection. The preparation of accounts through Malaysia Accounting Standard Board (MASB) and the financial reporting audited before sending the report to BHEUU. The waqaf also compliance with syariah based compliance. The audited financial reporting will be published with annual reports and also available for the public and donors. The reasons for publishing to the public are for accountability, and it is also a decision from the Board of Trustees and Chief of the Board. There is also influence and requirement by the donors and potential donors. The availability of financial statements increases the trust among donors.

The financial statement for Foundation A also includes FER. All the receipts and expenses are disclosed and reports based on function and program. The auditors make a significant

contribution by guiding and giving suggestions on how the financial statement should report and also include the FER. Foundation A has a proper audited financial statement. However, their financial statements are not consistent. In the first two years, they have included FER but did not include it for the third year. They have different formats of presenting their financial statements for the third year. These refer to the result of not having a financial reporting standard for the foundation registered by BHEUU.

Based on the interviews, the factors influencing the FER practice in Foundation A are accountability and trust, as stated by the interviewers.

Foundation B

Foundation B was set up in March 2009. Foundation B only has six (6) employees and two (2) committees. However, Foundation B has many volunteers, with a total of three hundred (300) volunteers. Interviews conducted with Accounting Executive and General Manager of Foundation B. This study also looks at annual reports and management reports of Foundation B.

Foundation B runs a continuous program and an Ad hoc program. Based on the annual report, this study summarised that the financial reporting of Foundation B is clear and easy to understand. Financial reports can be achieved online, showing transparency in financial reporting. Financial reports are also distributed to donors exclusively. Financial reports also have expenditures according to function FER.

The factors that influence the practice of financial reporting and expenditure according to function in Foundation B are to increase accountability to donors and stakeholders. Manager of Foundation B, with extensive experience in management, also plays a vital role in influencing financial reporting practices in Foundation B. Foundation B is also subject to reporting requirements by the BHEUU. Foundation B shows a high standard of accountability because Foundation B can easily show their management accounts for research purposes.

Foundation B also makes strategic alliances to ensure they can reach their customer needs. Foundation B strongly cares for donors and their stakeholders by providing specialised reports for them. Trust and accountability in the organisation described in terms of transparency, justification, compliance and enforcement.

Foundation C

The Foundation C was established in October 2010 under the 258 Act under the BHEUU. Foundation C only has two (2) employees consists of Executive Secretary and Account Assistant. Interviews conducted with both employees of Foundation C. The purpose of the establishment is to realise the intention of the trustee to make welfare and education. Different from Foundation A and B, Foundation C does not disclose its financial statement to the public.

The Executive Secretary manages the entire related foundation, including the financial part. This foundation receives funds from various parties. The financial reporting assigned to an accounting firm, and the staff makes sure all expenses and receipts have supporting documents. The audited financial reporting conducted every year.

There are problems in the foundation regarding accounting records, which relate to documentation. There is insufficient information about beneficiaries of the foundation and lack of information regarding the recipient's letter issued by the foundation. The staff does not well maintain records and files.

Foundation D

The Foundation D was set up in November 2011 under the 258 Act under the BHEUU. Foundation D has twenty-two (22) employees, and the interview conducted with Marketing Executive.

Similar to Foundation C, Foundation D does not disclose its financial statement to the public. Foundation D is accessible and always promoted its program through television. This foundation gives free specific religious education to the orphan, new converter, and this foundation goes through the public by promoting their program in social networks, including media and the internet.

The account executive prepares the financial statement for Foundation D for audit. This financial statement does not publish to the public because there is no legal requirement for them to do that.

The donors have options to donate through the online web. The number of donations for the specific program is on the website, but there is no absolute certainty about the maintenance of the web. This is because, after one month, the amount collected from the public which publishes on the web maintains the same. It is either the donation has no changes or the web is not updated.

Bahagian Hal Ehwal Undang-Undang (BHEUU)

The NPOs in Malaysia can choose to register under Bahagian Hal Ehwal Undang-Undang (BHEUU), Registrar of Societies (ROS), or Suruhanjaya Syarikat Malaysia (SSM), but it also depends on company structure. If the NPOs are subject to membership fees, it is better to register under ROS. NPOs had to register under SSM in the form of more commercial and involved in making a profit. NPOs under BHEUU are only for charity and subject to Act 258.

BHEUU is regulator for NPOs which registered under Act 258: The Trustee (Incorporation) Act 1952 [Act 258] is the act to register trustees of a body/group of persons as an incorporation establishment established for religious, educational, literary, scientific, charitable/social, or religious purposes as provided under Section 2, Act 258. This Act applies only to Peninsular Malaysia only.

The certificate issued is a Certificate of Incorporation. Certificate of Incorporation is a registration certificate as a body corporate issued by YB Minister in the Prime Minister's Department in accordance with the provisions of Section 2 of Act 258. The trustee who has obtained the Certificate of Incorporation shall be a body corporate with the name specified in the certificate and has a seal Am alone and can claim and be charged on his behalf. The validity period of the certificate of incorporation is to remain indefinitely unless cancelled.

Interviews conducted with three (3) employees from BHEUU and only three (3) of them are the controller for all three hundred (300) and above trustees registered under them. BHEUU controls the NPOs by requirement audited financial statements and subject to Act 258.

The powers of the Minister under Act 258 are:

- i. The Minister may require to obtain an oath declaration or other evidence to confirm the statement and particulars of the application and any other information and other information deemed necessary.
- ii. The Minister may refuse an application for a Certificate of Incorporation if he is satisfied that the application fails to comply with the provisions of Act 258 or any regulations made thereunder.
- iii. The Minister by order may revoke the Certificate of Incorporation if it contravenes any provision under Section 17 of Act 258.

If NPOs do not comply with the requirement, they will be warned three (3) times, six (6) months after the date. If they cannot comply, the action taken is to revoke the certificate, and they can no longer make money or donations. Several NPOs certificates have withdrawn previously.

According to Act 258:

A corporation may be revoked or suspended by the YB Minister in the Prime Minister's Department when:

- i. Incorporated by means of fraud, error, or misrepresentation;
- ii. Used for an illegal or harmful purpose or unsuitable for the safety of the federal, public order and morals of this country;
- iii. Found to have deviated from the original objectives of its establishment;
- iv. Has intentionally violated the provisions in Act 258 and the regulations made under this Act; and / was found guilty of any offence punishable of not less than Ringgit Malaysia One Thousand (RM1,000) or imprisonment of not less than one year or both.

If the trustee makes a problem, then he/she will be disqualified. Based on Act 258, disqualification of a trustee:

Pursuant to Section 6A, a trustee disqualified if:

- i. Has been convicted of any offense under any law and liable to a fine of not less than Ringgit Malaysia one thousand (RM1,000) or imprisonment not less than one year or both;
- ii. Be liable to imprisonment, supervision, restricted residence, banishment, or eviction made against him or any form of restriction or supervision, with bonds or otherwise have been imposed on him under any law relating to the security of the federation or any part thereof, crime prevention, detention, limited home, or immigration prevention.
- iii. Bankrupt;
- iv. Not perfect sense.

The NPOs also do not have any requirement to publish their financial statements to the public or donors as nothing recorded in Act 258. As informed by BHEUU, Act 258 only acting on the interests of the trustee. The responsibilities of the trustee incorporated under Act 258 are:

- i. Record all proof of payment and receipt for each expenditure and submit an audited financial report to YB Minister in the Prime Minister's Department through the Legal Affairs Division of the Prime Minister's Department (BHEUU, JPM) on or before June 30 each year.
- ii. Notify the Minister in the Prime Minister's Department via BHEUU, JPM regarding any change of trustee board (new appointment / re-appointment / dismissal/resignation), address change or telephone number, or any matter relating to it.
- iii. Submit annual reports of activities performed by the foundation.

The problem faced by BHEUU with the NPOs is governance issues. Not all registered NPOs want charity, and there are other purposes, such as political or social issues. There is also a problem with the information given by NPOs; some of them are unreachable, for example, a telephone number and address. Some of them are not available, and the information sent by post only. Maybe there are some NPOs that BHEUU was unaware of as they only took over from the Attorney General's Chambers in 2005/2006. However, the NPOs will take initiatives by themselves because they will have a problem with LHDN if their certificates are no longer valid. There is no information available from the beginning because of the takeover from the state attorney's department.

BHEUU realised that the problem in NPO is there is no standard report template of financial statement. The audited financial statement is varied not only among themselves but also on the inter-year of NPOs. Some of the trustees of NPOs have no knowledge of financial reporting, and their record is a mess and not completed.

Auditor of NPOs

The auditor is one of the partners in the Audit Firm. The auditor has been prepared and audited the foundation. The auditor prepared and audited the financial statement based on the board of trustees and based on the information that can be provided by the foundation.

Sometimes the financial statement cannot be comparable because the information between two years is very different. It depends on the information given by the foundation, and the items are very different because of no standards on NPOs financial statements. The financial report is also the same as the Malaysian Private Entities Reporting Standard (MPERS) or financial statement for SME.

The auditors need not disclose the expenses or do FER in the financial statement of NPOs. The auditor's responsibility based on the requirement by the trustee board. The audited financial statement for NPOs does not have any requirement to disclose to the public, including donors.

Based on the findings from four NPOs, BHEUU and auditors, the summary is:

1. There is no legal requirement for disclosing or reporting FER in NPOs registered under BHEUU.
2. Even though the donors are important stakeholders, there is no legal requirement for NPOs to disclose their financial statements to the public and donors.
3. The NPOs choose to voluntary publish their financial statement to get trust from the donors and potential donors.
4. There is a variation on the presenting financial statement among NPOs. The factors of variation are information given by the foundation and the requirement by the board of trustees.
5. The foundation chooses to publish a financial statement to increase trust and accountability to donors and potential donors and influenced by the Chief of a Trustee.

Discussion and Conclusion

This session consists of two main parts, which directly linked to the aims of the study. This paper discusses the practice of FER in NPOs and then identifies the factors influencing the

practice of FER in Malaysian NPOs.

The result showed that the practice of FER is varied among NPOs in Malaysia. Both Foundation A and B have practice FER in their annual report because of the requirement by the donors, accountability to donors, increase trust among donors, and influence by the Chief of Trustee. Foundation C and D do not publish their financial statements because of no requirement to publish. The practice of FER also cannot be examined because of their unavailability of financial statements. As such, this study gives a contribution to the theory and practice of financial reporting research, particularly understanding FER practice in a real context.

The result is also consistent with the theory of philanthropy. The mission and vision of foundation are through action to gain publishing financial reporting to the public and donors because of accountability and to gain trust from the donors and potential donors. This result is consistent with Hassan et al. (2018), that provide empirical evidence on trust affecting donors behaviour. The foundation does not provide access to their financial statement because there is no legal requirement for them to publish their financial statement to the public or donors.

The contribution of the study is an added literature on FER practice among NPOs, and give additional evidence on factors affecting the FER practice. The study also documents the practice of FER in Asian countries, which argued as an underdeveloped area deployment of the management control system. Hence, more research needed in the area from developing countries (Hopper, Tsamenyi, Uddin, & Wickramasinghe, 2009). The fact that developing countries operated differently due to its diverse culture and different political system provides an alternative explanation of the financial accounting area.

From government perspectives, the result of this study presented a broader and more precise picture of how NPOs practice the FER. The insights from the findings help the government, especially BHEUU, to identify the problem encountered. This study suggests the BHEUU come out with a template of Financial Statement with FER for all NPOs with guidelines. These templates will be useful for all NPOs, and the financial statement can be comparable among them and inter-company.

This study also suggests that all NPOs have to publish their financial statements and make it available for the public. It will increase the accountability of NPOs to the donors and the public and increase trust among the former.

The research methodology provided a comprehensive understanding of the practice of FER in NPOs. In order to know and understand the practice, a qualitative methodology is much suitable as the methodology enables the researcher to understand the complexity and the dynamic process of implementation FER (Norhayati & Siti-Nabiha, 2009).

In summary, the researcher construes that this study significantly contributes to the financial reporting practice in Malaysian NPOs by examining the FER practices in order to see the factors affecting the practice. Hopefully, this study enhanced our understanding of the FER practices in NPOs.

The limitation of this study is generalisability. Dissimilar organisations will not be able to gain knowledge from the study. However, the possibility of transferability and replication may exist for selected organisations. The same strategies that increase the internal validity of the study will also increase external validity.

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