

Non-Profits in Malaysia: Perception of Accountability and Reporting Framework

Noor Syaimma Syed Ali^{*a}, Ong Fong Yew^a

^aEdinburgh Business School, Heriot-Watt University Malaysia, Precinct 5, 62200, Putrajaya, Malaysia

Abstract

Despite the surge in growth of non-profits in recent years, there is an absence of stringent reporting standards resulting in inconsistent reporting and an increase in mismanagement of funds. With the lack of an NPO specific reporting framework in Malaysia, this study aims to explore the perception of certain stakeholders on the non-profit sector's level of accountability and investigate whether there is a need for a national reporting framework, unique for the non-profit sector. The findings from this study identifies the unanimous agreement for the non-profit sector in Malaysia to develop a standardised non-profit reporting framework. Furthermore, accountability discharged by NPOs are positively received in terms of trust and transparency. The findings of this study contribute to addressing the theoretical and contextual gap of non-profit reporting in Malaysia.

Keywords: non-profit organisations, reporting framework, governance, accountability

1. INTRODUCTION

Non-Profit Organisations (NPOs) play an important role in every society as their purpose is to fulfil the various needs of the people. They are willing parties, in their own right, established by the free will of the citizens who are associated on common career interests and/or other interests aiming to achieve shared civil, economic, social and cultural rights and not obtaining profits (Ciuceanu, 2009). As of 2017, roughly 63,102 NPOs have been identified in Malaysia in which 64% are service oriented and the other 36% being expressive (Bank Negara Malaysia, 2017). NPOs in Malaysia are presented as either a charitable corporation or a society and are registered by Registry of Society (ROS) within the Ministry of Home Affairs or Companies Commission of Malaysia (CCM). Currently, there is an absence of accounting standards dedicated specifically for NPOs in Malaysia other than legal regulations, in contrast to developed countries such as the United Kingdom and New Zealand. With the lack of stringent reporting requirements in Malaysia, there has been a rise in issues such as information asymmetry and donor lapses indicating a lack of accountability in NPOs. This study therefore aims to investigate and fill in the theoretical gap present, with evidence from the public on their perspectives regarding the need for a national reporting framework that would be applicable specifically for the non-profit sector in Malaysia.

The non-profit sector has seen the increasing need for reliable and consistent reporting in both financial and narrative reporting (Breen, 2013; Verbruggen *et al.*, 2009). This has contributed to the interest of addressing the fundamental question of whether the need to establish a reporting framework for non-profits, nationally or internationally, is a necessity and at what costs (Cordery *et al.*, 2019; Breen *et al.*, 2018).

Due to the lack of a stringent reporting standards and the absence of an overlooking accounting body, performance of NPOs may be hampered. Inadequacy and lack of accounting knowledge has forced NPOs to miss out on many advantages, as well as the ability to foresee failures and enforce improved management (Othman *et al.*, 2012). This may have undermined the trust and belief stakeholders have in NPOs.

*Corresponding author. Tel.: +60 17-810 3329
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1.1 Research objectives

This study aims to explore the public's perception of accountability in NPOs, and to investigate the need for a national non-profit reporting framework in Malaysia. To achieve this research aim, this study will concentrate on understanding the current applicable reporting framework and identify the scale of issues present in the non-profit sector in Malaysia. Furthermore, this study emphasises on incorporating the views of the respondents regarding the development of a potential standardised national non-profit reporting framework and the accountability discharged from firms in the non-profit sector.

There are various definitions pertaining to NPO. Questions may arise as to how wide does the NPO term define. There are crucial features that distinguishes not-for-profits from for-profits. Fundamentally, NPOs are identified as a set of entities that are self-governing, not profit-distributing, possess private and nongovernmental in basic structure, and are voluntary in a philanthropic extent, making them likely to engage people with shared interests or concerns (Noor, 2015; Salamon, 2000; Salamon and Anheier, 1992). This study will assume no differences in the terms '*non-profit organisations*', '*non-governmental organisations*', '*non-profit*', '*charity*' and '*third sector*', and will use these terminologies interchangeably.

2. LITERATURE REVIEW

The following sections discusses the interlinked theories that serve as the fundamental connection between the literature and the research problem. With a thorough understanding of these theories, a better interpretation of the research can be achieved.

2.1 Governance

More generally, the non-profit sector has grown in size and importance, however, this has also called for an increase in concerns about the reliability of the governance structures. This has led to a growing focus on novel perspectives on, and its respective approaches to incorporate governance research and practice within the non-profit field (García-Rodríguez and Romero-Merino, 2016). The various perspectives of corporate governance can be divided into two main views; the unitary view, resulting in a narrow, hierarchical form of accountability, and the pluralistic view, resulting in an expressive and democratic form (Coule, 2015).

One of the prevalent theories underlying the unitary view is the Principal-Agent theory, where both the governing boards and managers are the acting agents and are driven by different interests within the principal-agent relationship (Caers *et al.*, 2006; Jensen and Meckling, 1976). Eventually, the responsibilities of producing policies and controlling the work behaviour of agents are ultimately given to the principal. The agency theory assumes that the agents are individualistic and tend to prioritise their own self-interest rather than acting in the best interest of the principals, leading to a conflict of interest between both parties (Coule, 2015; Van Puyvelde *et al.*, 2012; Caers *et al.*, 2006; Jensen and Meckling, 1976). Thus, the responsibility to ensure conformance falls onto the board through efforts in safeguarding the interests of founders, overseeing management and ensuring compliance within the principal-agent relationship (Coule, 2015; Beleya *et al.*, 2012).

2.2 Stakeholder Theory

The stakeholder theory, as advocated by Freeman (1984), is often used to define the relationship uniting the organisation with its diverse mix of individuals that each has a stake in the outcomes of the organisation. A stakeholder is described as 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (Sharp, Finkelstein and Galal, 2008; Morrison and Salipante, 2007; Freeman, 1984). There are various approaches when identifying the types of stakeholders. Freeman (1984) explains the two perspectives of the theory from a management perspective and an ethical perspective. The view of the management perspective explains that organisations are to be managed with considering the diverse stakes can be identified with significant stakeholder groups, where information is based on the power, legitimacy and urgency of the stakeholders (France and Regmi, 2019; Chen, Harrison and Jiao, 2018; Santana, 2012). On the contrary, the ethical perspective advocates that information needed for performance are to be readily available to all those whom the organisation is accountable to, and are to be treated ethically (France and Regmi, 2019; Harrison, Felps and Jones, 2018, 2019).

For the case of non-profits as their activities and missions go beyond making profits, their structures, responsibilities and duties of stakeholders extend beyond those who directly supply and purchase products and services from the entity, as some clients may not be able to afford to pay for the services used (Dicke, Heffner

and Ratliff, 2016; Carroll and Shabana, 2010). Non-profit stakeholders include both internal and external players, including employees, volunteers, board members, association members and extends to the wider public as broad communities and governments are included as well (Cooper, 2014).

Unlike other sectors, the non-profit sector faces conflict with its responsibility to fund its contributors and its accountability to service recipients (Chen, Dyball and Harrison, 2020). With its extensive number of stakeholders, it can be difficult to manage priorities, such that the goals of different stakeholders can be identical or conflicting. Although most stakeholders are actively involved in building up the performance of a non-profit in a positive light, some stakeholders may be antagonists or be motivated to eradicate the efforts of the non-profit for personal gains (Dicke, Heffner and Ratliff, 2016).

Finding the balanced manner to incorporate the perspectives of stakeholders is a challenge but is a necessary for the long-term benefit and survival of NPOs. With the absence of a clear line of governance and accountability, the duty of non-profits is ambiguous and may not be implied by statutory regulations. Claims of stakeholders holds value and are prioritised if these claims have legitimacy, thus legitimacy theory will be discussed further in the following subsection (Hoque, 2018).

2.3 Legitimacy Theory

To ensure that a reporting framework is regarded as legitimate to the users of NPO annual reports, it is essential to understand why stakeholders would welcome and approve a reporting framework (Breen *et al.*, 2018). Suchman (1995) first coined the theory of legitimacy in his studies and defines it as a normative interpretation or assumption that the behaviour of an entity within a socially constructed system of norms are acceptable. With its rich disciplinary background arising from various theories, the aspects of legitimacy theory can be studied in its three primary forms of an interest-based pragmatic legitimacy, culturally-focused cognitive legitimacy and value-oriented moral legitimacy (Breen *et al.*, 2018; Zyznarska-Dworczak, 2018; Baur and Palazzo, 2011; Cashore, 2002; Suchman, 1995).

Pragmatic legitimacy is deemed to be based on the narrow self-interest of stakeholders, who evaluate the practices of the entity based the direct benefits they can gain. This form of legitimacy is regarded as being the easiest to achieve but also the easiest to lose (Cashore, 2002). Cognitive legitimacy is the result of long-term experiences and is embedded into the norms of the entity. It then becomes formalised and does not require stakeholder evaluations as the actions become “something that is understandable” and “to do otherwise is unthinkable” (Breen *et al.*, 2018; Bamber and McMeeking, 2016; Cashore, 2002). The underlying issue of cognitive legitimacy is that it avoids critical reflection because it relies on imposing of mutual behavioural expectations that are routinised in a manner that has been agreed upon by various actors (Baur and Palazzo, 2011). Lastly, moral legitimacy consists of guiding values about the correct action that is to be done, from a public interest perspective (Campbell and Marshall, 2000). These suggest that legitimacy can be earned as a result from public discussions, and NPOs often willingly participate through campaigns in order to be actively involved with the public.

Aspects of legitimacy have also been used to study whether the International Financial Reporting Standards (IFRS) was adequately legitimate for the International Accounting Standards Board (IASB) is able to achieve its objective of being “enforceable and globally accepted standards” (Wingard, Bosman and Amisi, 2016). In the instance of IFRS, ensuring that representatives of jurisdictions using IFRS have had equal opportunities to influence the content of the standards have strengthened the legitimacy of the standard-setting due process (Wingard, Bosman and Amisi, 2016; Richardson and Eberlein, 2011). Legitimacy is less likely to be questioned when there is a transparent process that provides evidence of engagement, inclusion and a sense that there is or has been given the opportunity to include the broadest possible selection of participants (Chaskin, 2003).

Furthermore, accountability is deeply related to the concepts of legitimacy in which the issuance of accountability information to stakeholders can be seen as a process from which reporting organisations legitimise their actions and gather support for ongoing operations (Breen *et al.*, 2018). This study therefore places importance on the public’s perception of the need for a reporting framework in Malaysian NPOs so that the potential reporting framework can be seen as legitimate.

2.4 Accountability

Accountability is built on subjectivity and differs upon context but is the core for the formation of relationships between the organisation and its multiple stakeholders, which a notable difficulty during implementation due to

its complexity and ambiguity (Knutsen and Brower, 2010). Many contemporary frameworks for accountability have been brought forward over the recent years in an explosion of literature in the area.

A well-known framework for accountability is the upward and downward form of accountability. In the upward accountability framework, the urgency, legitimacy and power one possesses is confined to the group of stakeholders the organisation is accountable to; for instance, the funders (Crawford, Morgan and Cordery, 2018; Crawford *et al.*, 2014; Unerman and O'Dwyer, 2006). Whereas, for downward accountability, the stakeholder is able to retain legitimacy but does not possess power nor urgency (Chen, Dyball and Harrison, 2020; Tacon, Walters and Cornforth, 2017; Noor, 2015).

Gordon and Babchuk (1959) advocated the introduction of the expressive-instrumental dimensions of accountability into the non-profit sector; where expressive accountability is when the organisation focuses on serving their stakeholders and instrumental accountability is when the organisation aims at benefitting people regardless of their involvement (Akingbola, Rogers and Baluch, 2019).

Knutsen and Brower (2010) explains that these dimensions of accountability are salient in non-profits and are particularly significant in addressing accountability dynamics. They had also argued that instrumental accountability, with its origins from principal-agent theory can have a bearing on expressive accountability that is constructed on the sense of shared values, beliefs and ownership (Tacon, Walters and Cornforth, 2017).

2.5 The need for an NPO reporting framework

The transparency of non-profit annual reports is crucial, yet there is proof of misreporting practices and activities in prior research (Qu, Steinberg and Burger, 2019). Some researchers suggest that due to a lack of corporate resources in the form of accounting expertise, management experience and frameworks for governance in these organisations, the cases of misreporting were done unintentionally (Prentice, 2018; Yetman and Yetman, 2013; Keating, Parsons and Roberts, 2008).

In other instances, misrepresentation may result from deliberate managerial manipulation and that the managers may understate their costs in order to improve their efficiency ratios. This has been studied by various studies, specific to the non-profits context (Nguyen and Soobaroyen, 2019; Qu, Steinberg and Burger, 2019; Zhang *et al.*, 2018; Kaya and Turegun, 2017; Yetman and Yetman, 2013; Keating, Parsons and Roberts, 2008). Managers may adjust accounting numbers or alter the reporting process in order to remain attractive to their donors, as a higher reported efficiency ratio is associated with the performance of managers which could improve reputations and attract higher donations (Xu *et al.*, 2018). Earnings management in terms of ratio analysis is seen to be consistent with stakeholder-impression management (Trussel, 2003). Furthermore, another motivation for non-profit accounts to modify their reported earnings may be to reduce their unrelated-business income tax obligations (Nguyen and Soobaroyen, 2019). The degree of earnings management in a non-profit environment can indirectly highlight questions about internal practices and governance of the NPO.

This advises decision makers to assess the impact of monitoring systems such as a reporting framework in order to oversee NPO reporting activities. Enhanced monitoring will increase the integrity and transparency of non-profit financial information and benefit all the users of this information; more accurate and reliable numbers are expected to enhance the accountability reputation of the non-profit sector (Qu, Steinberg and Burger, 2019; Xu *et al.*, 2018)

2.6 Evidence from other countries

To further the understanding of the need for a reporting framework in the non-profit sector, three countries and their implementation of a sector-specific regulatory frameworks are assessed in this subsection.

2.6.1 United Kingdom and the Statement of Recommended Practice

The context of the UK has a highly developed regulatory framework for accounting for charities and has inspired reforms in other countries (Nguyen and Soobaroyen, 2019). A notable independent charity regulator includes the charities' Statement of Recommended Practice (SORP) of the UK. The SORP seeks to encourage the preparation of financial statements by the NPOs in compliance with the Financial Reporting Standards (FRS), specifically FRS 102 (Roslan, Arshad and Pauzi, 2017)

Charities in the UK exist in various legal forms, and the choice of structure impacts the reporting requirements (Crawford, Morgan, Hallam, *et al.*, 2014). However, the SORP states that all charities must prepare annual accounts that are publicly available upon requests. This NPO-specific financial reporting framework requires all charities over £250,000 income to adopt the SORP, which advocates preparing accounts on an accrual basis (Breen *et al.*, 2018; Charity Commission, 2013). Furthermore, the SORP encourages both financial and non-financial information to be disclosed in order to provide a comprehensive disclosure in the annual reports. The SORP goes on to highlight that good reporting involves providing a coherent explanation of the objectives, policies, strategies and a detailed explanation on the activities undertaken throughout the financial year for the investors to have a deeper understanding (Roslan, Arshad and Pauzi, 2017). After the implementation of the SORP, a study conducted in 2017 had shown that the NPOs had addressed the requirements with high compliance rates, albeit certain deficiencies.

2.6.2 New Zealand and the International Public Sector Accounting Standards

The number of charities in New Zealand had increased substantially, where there is about one organisation for every 170 people (Patrick, 2017). New Zealand adopts a set of standards that rely on the International Public Sector Accounting Standards (IPSAS) and has been modified for the public benefit entities (PBEs) environment. The IPSAS took effect from 2012, with the New Zealand Accounting Standards Board (NZASB) being the responsible body for advancing these sector-specific accounting standards framework (Crawford, Morgan, Hallam, *et al.*, 2014). Prior to that, New Zealand had adopted a sector-neutral financial reporting framework, in which all entities use the same standards regardless of the sector they operated in. This is as to provide more emphasis in monitoring control standard-setting instead of simply allowing a profession to dominate the private sector (Cordery and Simpkins, 2016).

Effective 2015, all licensed charities with expenses over NZD 125,000 per year have to file financial reports based on national accrual accounting standards and, for those charities whose expenditure amounts to NZD 2 million or greater are required to use IPSAS with requirements localised for NPO use (Breen *et al.*, 2018). However, only about 5% of registered charities in New Zealand have expenditures greater than NZD 2 million (Crawford, Morgan, Hallam, *et al.*, 2014).

2.6.3 Singapore and the Commissioner of Charities

Concerns regarding governance and regulatory systems are commonly highlighted in Malaysian literature but are not evident in the neighbouring country of Singapore despite the similarly shared culture and heritage (Othman *et al.*, 2012). The Commissioner of Charities (COC) in Singapore has successfully minimised and even eliminated such problems with stringent rules and surveillance from their government and governing body. The Singaporean government plays a dominant role in being the major funder for the non-profit sector (Lee and Haque, 2008). NPOs are required to register with COC despite their size or annual income in order to be recognised as a charitable organisation in Singapore (Cheng and Mohamed, 2015). The Charity Portal developed by COC acts as a core source for information pertaining charities. The Singaporean system is stringent on the rules for NPOs, for instance they must submit their annual reports within six months from the end of their financial year, together with a Governance Evaluation Checklist (GEC) (Shah *et al.*, 2016). Having a code of governance formulated specifically for NPOs in Singapore has been seen to have significantly improved their operations (Othman *et al.*, 2012).

2.7 Current state of Malaysian non-profit reporting

Looking back into the Malaysian perspective, the two regulatory bodies present are the Registry of Society (ROS) and the Companies Commission of Malaysia (CCM), incorporated under the Companies Act 2016 as a Company Limited by Guarantee (CLBG). NPOs that are established in Malaysia solely for a charitable purpose and carry out related activities are eligible for tax exemption under the approval of Section 44(6) of the Income Tax Act 1967 (Zainon, Atan and Wah, 2014).

The ROS is responsible to enforce the Societies Act 1966 & Societies Regulations 1984 as well as to manage and control societies to comply with the principles whilst keeping a record of the registration of societies in Malaysia. On the other hand, the CCM enforces the Companies Commission of Malaysia Act (CCMA) 2001 while acting as an agent of the government to manage societies and regulate matters in relation to corporations to assure proper conduct amongst key officers of a corporation (CCMA, 2001).

In Malaysia, studies have shown that basic information such as background information, financial and future

information are perceived as of utmost importance by institutional donors despite not being required by law (Zainon *et al.*, 2011). This shows a gap in the expectations of the stakeholders and of the regulatory bodies. Furthermore, Mack *et al.* (2017) has identified that lacking emphasis that the IASB's conceptual framework places significant factors for NPO reporting such as accountability and cash flows.

3. METHODOLOGY

3.1 Web-based survey

A web-based qualitative survey has been developed to tackle the research question, with reference to existing literatures as to increase the authenticity of the survey. The key approach is to collect critical information on the views of the respondents rather than relying exclusively on institutional websites or publicly accessible records to achieve the research aim and objectives. The survey questions used in this research were mainly adopted from a related study carried out by Crawford *et al.* (2014) with modifications.

3.2 Snowball Sampling

The survey was implemented using the *Qualtrics* online survey system and was open for the time period of five weeks from 10th February 2020 to 13th March 2020. A request to participate in the survey was distributed amongst NPOs and accounting firms as well as volunteers via email to widen the scope as there are a wide array of individuals that are engaged in non-profits nonchalantly (Weisinger, Borges-Méndez and Milofsky, 2016). Recipients of the email were encouraged to introduce the survey to their networks and others who might be interested in NPO reporting. This was then followed up by phone calls as a prompt to complete the survey prior to its closing period.

3.4 Descriptive Analysis

As they survey enclosed narrative and multiple-option questions, the analysis of the survey was divided to focus the elements separately. The closed-ended questions measured on a Likert-Scale underwent descriptive analysis, where the data is cleaned and coded accordingly to the responses before undergoing simple descriptive analysis.

3.5 Content Analysis

On the other hand, the latter set of questions had undergone a content analysis of the issues raised in the narratives. The survey encompasses a combination of closed-ended multiple option questions, measured by a Likert-scale and open-ended narrative questions where respondents can freely clarify their responses. The closed-question responses explore the views on a potential development of a national reporting framework and evaluated the legislation already available for NPOs where the respondents were able to express the extent of agreement or disagreement with various propositions. This was enhanced by asking the respondents to offer narrative explanations to their responses and to discuss the problems current in the field of transparency and reporting frameworks.

4. FINDINGS

A web-based survey was created to capture the perceptions held by the public on the research aim and had generated 105 usable responses. The respondents consist of employees of NPO (14%), board member or trustees (3%), accounting professionals (10%), funders, donors and volunteers (43%) and users of NPO reports in other ways (30%). The survey consisted of twenty-three questions, seven of which identifies the demographics of the respondents and their NPO of interest. This is followed by eight closed-ended questions measured on a six-point Likert scale and eight other questions allowed for respondents to further justify with narratives. The data presented is divided into three main relevant sections to mirror the research objectives which is to identify the current state of non-profit reporting, accountability in NPOs and the development of a standardised non-profit reporting framework.

4.1 Current Reporting Framework

The vast majority of respondents using the Malaysian Acceptable Accounting Principles highlighted positive qualities, such as the consistency achieved, as a clear and helpful source of feedback for NPOs and as a way of fostering a percentage of transparency. 12% of respondents identified in their narrative comments that there were

no apparent issues with the current reporting frameworks that were applicable to their NPO of interest, and that the current frameworks are widely applicable, and understandable.

A volunteer with five years of NPO involvement had stated that the reporting requirements that is set by a funder is:

“Easily made considering a small group of staff and easily accessible and understood to people of varying backgrounds.”.

This is further supplemented by a NPO board member:

“For a small organisation, receipts and expenditure basis are adequate. No need for comprehensive guidelines and much too expensive and onerous to comply”.

On the contrary, many respondents raised concern on why they believed the existing reporting frameworks were inadequate as it lacks comparability, is not flexible and tends to be biased towards for-profits. A respondent with 3 years of NPO involvement had disagreed with the use of Companies Act 2016 for non-profits as it: *“Gives insufficient guidance on issues which need to be considered in NPO financial statements”.*

4.2.2 Usefulness of Harmonising Reporting Frameworks

Survey respondents were then asked to express their views on the extent to which they disagreed or agreed with seven statements on national reporting framework for NPOs. Specifically, they were asked about their perceptions relating to whether the not-for-profit sector should follow nationally converged reporting framework, whether a reporting framework would be useful, whether the current regulations are sufficient, making it difficult to apply despite being sector-specific, whether NPOs would be reluctant to comply with the framework, despite being produced by a reputable body and whether donors would value accounts prepared in accordance with a framework valuable. 78% of the respondents rated agree or strongly agree that the non-profit sector should follow a nationally converged reporting framework specific for non-profits, and 74% believe that it would be a useful addition. Moreover, 72% believe that the donors would value the NPO annual reports that have been prepared in accordance with a reporting framework. On the contrary, some respondents believes that there may be an issue in implementing the reporting framework as 40% highlighted that it would be hard to apply a non-profit reporting framework as current regulations are seen as sufficient and 54% believe that NPO firms in Malaysia may be reluctant to follow a reporting framework.

4.2 Purpose of NPO Annual Reports

Respondents were asked the extent of their agreement on defining the purposes of annual reports by NPOs. A large share of respondents agrees and strongly agree that the purpose of annual reports include demonstrating appropriate stewardship of resources (85%), accountability (86%), and be able to provide guidance during decision making (82%). In terms of characteristics, 89% showed strong support for NPO annual reports to emphasise on transparency, 83% on reliability and 82% agree that the annual reports should be understandable by all stakeholder groups despite their backgrounds. Additionally, 77% believe that annual reports by NPOs should be published and available to public, so that interested stakeholders may compare the performance of the NPO between different organisations (65%) and within the country (63%). These responses indicate an NPO is likely to be granted moral legitimacy through consequential legitimacy if the reporting practices lead to the production of accountable information, enabling the NPO to demonstrate stewardship and also enable users to make decisions about providing resources to it (Breen *et al*, 2018).

4.3 Accountability of NPOs

Accountability is an important aspect of NPOs, and respondents were asked to describe in the open-ended questions as to whom they believed the NPOs were accountable to. Most respondents believe an NPO's main accountability should be directed towards the funders and donors of the organisation. This may be attributed to the fact that *“they would want to know where the money is being spent on”* and *“where their contribution goes”* as highlighted by respondents. A respondent had even mentioned that the accountants of NPOs should be held into consideration when a firm is dispersing their accountability as: *“they are the persons responsible for the financial reports”.*

84% of respondents rated strongly agree and agree that an annual report produced by the organisation is a valuable source of information for stakeholders, showing that the importance of correct information presented in annual reports can impact decisions made. 48% of these respondents have highlighted that their organisation does not provide enough information on the donations the NPO receives, whereas 36% believe it is sufficient. 60% of the respondents trust that their NPO have provided them with ample information on the issues the organisation faces along with its governance structures.

The questionnaire also allowed respondents to express their level of trusts on NPOs. The level of trust is measured by statements that express the NPOs unpredictability, level of surprise in the NPO's activities, the ability to depend on the organisation, it's reliability, support the NPO will offer despite uncertain economic situations or unforeseen situations. Only a small portion of respondents see their NPO as unpredictable (32%) and are unsure of what activities the NPO may surprise them with (28%), showing that majority of the respondents have a strong trusting bond with their respective NPOs of interest. Moreover, 59% of respondents view their NPOs are dependable and 66% view them as reliable. 56% believe that the NPO will support their needs despite uncertainty and will not let them down, as members of the public (45%). This draws a positive image on the industry as the aspects of trust in NPO relationships are the driving factor for success in any non-profit setting.

4.4 Development of a national non-profit reporting framework

Survey respondents were asked whether a national reporting framework should be applied to all NPOs or only to those above a certain income level. In relation to this question of scope, 48% of respondents believe that all NPOs should be required to comply with the same reporting framework, whilst the remainder of views are fairly mixed across as to which income group is exempted from the potential reporting framework. 30% of respondents believe that medium and large sized NPOs with income groups greater than RM2,000,000 should be mandated to follow a reporting framework and 22% agree that this should be extended to smaller sized NPOs.

Majority had agreed that a single reporting framework should be applied to all NPOs regardless of size to encourage equality and standardization. This was also seen to be as an organised method and is straightforward for users of reports. Caution is particularly given mainly to large and very large firms to have them follow the reporting framework as said by a respondent that: *“Large NPOs allow for tax evasion/money laundering”*. A standardised framework is seen as more beneficial and accounts for increase in transparency and the public's trust.

More importantly, the main challenge arising that may hinder implementation of a standardised reporting framework is that small to medium sized NPOs may lack the financial resources and capabilities to ensure full compliance and may only experience minimal improvements, giving them no reason to be inclined to follow a standardised framework. Respondents had expressed their concerns for small sized NPOs with their narrative commentary, including that *“NPOs have limited funding, volunteer staff do not have luxury of time nor resources for comprehensive reporting”* and *“Small NPO may find the requirement too taxing and their cost to comply may exceed the benefit of complying”*. Furthermore, *“Transactions of very small firms may have little to no importance or may lack a target audience even if reports are prepared, so there is technically no reason for a reporting framework to be applied to firms that fall below a certain threshold.”*

5. CONCLUSION

The findings from the current study validate the value of NPO annual reports, as the public considers the existence of annual reports as crucial as it assists in decision making, reveals the NPO's success capabilities as well as facilitates comparability and illustrates transparency. In regard to the findings, NPOs must ensure that their annual reports are published and made available to all users. Zainon *et al.* (2013) pointed that Malaysian NPOs did not provide sufficient disclosures despite being required by the ROS. Correspondingly, 48% of respondents from the current study had highlighted that their organisation does not provide sufficient information on the donations received, despite 84% agreeing that annual reports are a vital source of information on NPO activities.

In terms of accountability, the study shows that the respondents were aware of the NPOs wide accountability to various range of individuals and ranked that funders and donors are particularly important. The results of this study also indicate that many of the respondents unanimously agreed that the non-profit sector should follow a nationally converged reporting framework. Nonetheless, there are major potential problems that may occur during implementation such as enforcement, as the Malaysian NPOs will need to accommodate to the new specifications. These concerns were expressed by the respondents in both the closed-ended and narrative questions discussed in

the previous chapter. It is no surprise that issues would emerge during the transitioning process as it was also seen when Malaysian companies migrated to IFRS (Sidik and Rahim, 2012).

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