

Financial Reporting Practices of Local NGO's Operating in Bangladesh

A H M Yeaseen Chowdhury, Maliha Mahjabeen, and Md Mamun Habib

Abstract—NGOs are the most old development institutions that are contributing towards the development of third world economy. Due to globalization some NGOs operate in the other countries. But their financial reporting inevitably is somewhat specialized in nature. In Bangladesh different NGOs using different method of accounting and reporting system due to lack of accounting and financial reporting standards, hence the comparison among the NGOs isn't possible. As there is no IAS/IFRS it is very difficult to follow a common standard in generation and presentation of accounting and financial information. This paper aims to demonstrate financial reporting and accounting system of all the local NGO's operating in Bangladesh and provide a guideline for constituting suitable financial reporting and accounting systems for NGOs. Both primary and secondary sources of information have been used in achieving the aim. The article elaborates on basis of preparation of financial statements, some issues regarding the recording of financial statements in NGO's and the quality of maintaining these reports. The final part of the article discusses issues relating to financial report and how these reports plays an important role for the managers in taking financial decisions.

Index Terms—Non-government organizations, IFRS, financial reporting, financial reporting standards, financial statements.

I. INTRODUCTION

“Financial Reporting”, which actually underpins accountability, is a process to provide information about the financial position, financial performance, and cash flows of an entity through a set of general purpose financial statements that is useful to a wide range of users to make a diversity of investment, credit, and other decisions including tax assessment. Users, the buyer of the information in the reported financial statements, need to know the status of the business as a result of its past performances to expect and predict current or future capacity of the entity. They at varying degrees hinge upon the information that the concerned organization supplies to allure them.

Considering the information need in the market and its role in economic activities, the International Accounting Standard Committee (IASC), the predecessor of the International Accounting Standard Board (IASB) of which the Institute of Chartered Accountants of Bangladesh (ICAB)

is a member has issued a framework explaining the purpose of a set of general purpose financial statements, and the concepts that underlie the preparation and presentation of financial statements for external users.

With the fundamental assumptions of Accrual Basis and Going Concern on top, these concepts such as: i) Understandability ii) Relevance iii) Timeliness iv) Reliability v) Prudence. vi) Comparability vii) Truthfulness viii) Fairness ix) Recognition and measurement of: Asset, liability, equity, income, and expenses to maintain capital are to be adhered to while the preparers of the financial statements apply the relevant Bangladesh Financial Reporting Standards/ Bangladesh Accounting Standards (BFRS/BAS) and Bangladesh Financial Reporting Interpretations/ Bangladesh Accounting Standards Interpretations (BFRI / BASI) -all of these together form the BFRS.

In addition to the Framework and BFRS, the local regulators like the Registrar of Joint Stock Companies and Firms, the Securities and Exchange Commission, NGO Affairs Bureau, Bangladesh Bank etc. can prescribe industry specific formats of presentation of financial statements. Thus an applicable Financial Reporting Framework emanates from local statute, and international standards. The range of regulatory activities typically includes setting minimum standards and requirements for corporate reporting, requiring submission of the financial reports to the oversight body for its review, making regular inspections, and investigating and prosecuting misconduct by the corporate entities for breaching and abusing reporting framework. Therefore, strongly active Financial Reporting Regulations can encourage and compel standardized financial reporting within applicable framework.

A. Objective of the Study

The objectives of the study are as follows:

- To find out the importance of financial reporting practices of Local NGO's operating in Bangladesh;
- To identify and analyze the problems of NGO's financial reporting practices;
- To highlight the quality of NGO'S financial management; and
- To find out the differentiating issues of NGO's financial reporting practices in relation to general financial reporting.

B. Research Questions

To get more insight into the research following research questions have been investigated:

- How important are the financial reports to the NGOs operating in Bangladesh?

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A H M Yeaseen Chowdhury is with the Faculty of Business Studies, Bangladesh University of Professionals, Bangladesh (e-mail: yeaseenchy@bup.edu.bd).

Maliha Mahjabeen is with AIESEC, Bangladesh.

Md. Mamun Habib is with the BRAC Business School, BRAC University, Bangladesh.

- What is the overall quality of the financial reports and do the NGOs follow the standards while maintaining these reports?
- What are the differentiating issues between the NGOs financial reporting practices in relation to general financial reports?
- What are the different problems faced by the NGOs while analyzing these financial reports?

C. *Research Hypotheses*

The purpose of this hypothesis is investigating the existence of a significant relationship between age, gender and occupation in relation to the importance of financial reporting practices in the NGO's.

- Financial reporting practices helps in the recording and reporting system of the local NGO's.
- Financial reporting helps in highlighting the quality of the NGO'S overall financial management.
- NGO's financial reporting practices are quite similar to the general financial reporting.
- Financial Reporting is one of the most important practices in the NGO's.

II. LITERATURE REVIEW

The NGO concept started its operation in 1945 following the establishment of the United Nations Organizations which was organized in the need to give a consultative role to organizations categorized as neither government nor member states. Ref [1], studied the financial reporting practices of India, Australia, USA and UK etc. The results of the study showed that present reports were insufficient for modern business conditions and did not disclose the necessary information required in these days of complex trading conditions. The disclosure practices of 40 public sector companies for 1972-73 were done by [2]. An index of 35 items of financial and non-financial information was prepared after scanning the annual reports of these companies. The findings of the study revealed that quality of disclosure varied from enterprise to enterprise and the nature of industry had a great influence on the quality of the disclosure. A comprehensive attempt to compare the current status of disclosure level of Indian and U.S. companies for the years 1990-91 to 1994-95 was done by [3]. The study was based on 100 Indian and 100 U.S. companies. Findings of the study showed that there was improvement in mean disclosure score of Indian companies over the period of study. Ref [4] examined the accounting standards and their practices in Oman, with a view to strengthen the accounting standards and improve their practices for good corporate governance. Ref [5] analyzed the annual reports of 10 insurance companies and 10 banking companies listed on the Dhaka Stock Exchange (DSE), selected on random basis for 2001 and 2004. Findings of the study showed that banking and insurance companies do not comply with all the mandatory requirements in the annual reports. Another study done by [6] showed the environment disclosure practices followed by different companies of Bangladesh from their financial statements. Study is based on the financial Statements of 121 companies.. Findings showed

that among 121 companies, only 13 companies have disclosed environment related information in their annual reports. ref [7] analyzed the mandatory and voluntary disclosure practices of public limited companies in India for the year 2009-10. The author identified 22 items of mandatory disclosure and 32 items of voluntary disclosure. Findings of the study showed that there was 100 percent disclosure for mandatory items but wide diversity in the type and presentation of voluntary disclosure among companies.

III. RESEARCH METHODOLOGY

This report was based on both Primary and Secondary data. The primary data was collected through surveys, discussions, close-ended questionnaire method, in-depth study of selected cases. The secondary data sources are- Annual reports, Newspaper, articles, journals and websites. Sample unit of research was based on the people working in finance or business development department in a NGO to get a proper idea of how the financial reports are recorded and if the NGOs are actually following the accounting standards for recording their statements. Both male and female of ages among 16-34 (+) years were considered for this study. The sample size for the study was 40.

This study used probability sampling technique that involved selecting participants randomly for questionnaires. The information was collected from the service holders and students currently working in an NGO. As it is a relatively internal practice of an organization, not many people are aware of it. The data that collected from survey and observation is analyzed with SPSS using descriptive statistics and regression analysis produced graphs, charts etc. and necessary information to explain the result.

IV. DATA FINDINGS AND ANALYSIS

Research findings and analysis basically includes analysis of the overall survey which was done using SPSS software. Descriptive analysis has been used and shows the percentage of the responses of all the questions in the questionnaire. Out of the 40 respondents 20 of them were female and 20 of them were male. 7.5% of the respondents were in the aged in between 16-20. 21 of the respondents were aged in between 21-24 which is 52.5% of the respondents, 12 of them were aged in between 25-29 which is 30% of the respondents, 4 of them were aged in between 30-34 which is 10% of the respondents. 15 of them were students who represents 37.5% of the respondents. 25 of them were service-holders which represents 62.5% of the total population. Only 1 respondent doesn't have any clear understanding about financial reporting which is about 2.5% of the overall respondents. And the rest 39 have a clear idea about the financial reporting practices of the organization which is about 97.5% of the overall respondents. And around 11 respondents use modifies cash basis in their organization which is about 90% of the total respondents. And around 4 respondents uses accrual basis which is

around 10% of the total respondents. Out of the 40 respondents 6 of the respondents think that financial reporting practices in NGO are not similar to general financial reporting practices which is 15% of the overall respondents. And 34 respondents think that financial reporting practices are similar to general financial reporting practices.

From 40 respondents, only 1 respondent agree with the fact that the organization prepares timely financial statements which is useful for the Board and the employees and it is around 2.5% of the whole respondents. Around 10 respondents are neutral with the fact that the organization prepares financial statements which is useful for the board members to take decisions and it is around 25% of the whole respondents. Around 22 respondents agree with the statement which is around 55% of the overall respondents. About 7 people strongly agree with the statement and it is around 17.5% of the overall respondents. Among 40 respondents, around 7 respondents strongly disagrees with the statement that the organization prepares cash flow projections to identify the sufficient cash in one hand which is around 17.5% of the whole respondents. Around 6 respondents disagree with the statement which is 15% of the whole respondents. 6 respondents are neutral, which is about 15% of the overall respondents. 16 respondents agree with the statement which is around 40% of the overall respondents. And about 5 respondents think that the organization prepares cash flow projections to determine the sufficient cash in hand. 7.5% of the overall respondents.

Around 7 respondents strongly disagrees with the statement that the organization prepares cash flow projections to identify the sufficient cash in one hand which is around 17.5% of the whole respondents. Around 6 respondents, disagrees with the statement which is 15% of the whole respondents. 6 respondents are neutral from which about 15% of the overall respondents is. 16 respondents agree with the statement which is around 40% of the overall respondents. And about 5 respondents think that the organization prepares cash flow projections to determine the sufficient cash in hand.

7 respondents are neutral with the fact that the forecasts year end revenues and expenses assist in making sound management decisions which is around 17.5% of the overall respondents. 23 respondents also agree with statement which is 57.5% of the whole respondents. 10 respondents strongly agree with the statement which is around 25% of the whole respondent.

Among 40 respondents, only 1 disagree with the statement that financial reporting practices helps in determining the overall financial position of the organization which is about 2.5% of the total respondents. 27 respondents are neutral about the statement which is around 67.5% of the overall respondents. 3 respondents agree with the statement and which is about 7.5% of the overall respondent. 9 respondents strongly agree with the statement which is around 22.5% of the overall respondents.

After doing all the analysis I have tried to proof my hypothesis used chi-square testing. I have tried to create a relationship between the categorical variables and have tried to analyze if the hypothesis that I have chosen for my research should be accepted or rejected. After proper

analysis I have found that the null hypothesis cannot be rejected and hence there is not enough evidence to my research. So, the null hypothesis cannot be rejected rather it should be kept in consideration for further analysis of the data.

A. Testing of Hypotheses

The test of selected hypotheses is shown below:

- 1) *NGO's financial reporting practices are quite similar to the general financial reporting*

TABLE I: SIMILARITY OF NGOS FINANCIAL REPORTING AND GENERAL FINANCIAL REPORTING
Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.052 ^a	1	.819		
Continuity Correction ^b	.000	1	1.000		
Likelihood Ratio	.053	1	.818		
Fisher's Exact Test				1.000	.600
Linear-by-Linear Association	.051	1	.821		
N of Valid Cases	40				

a. 2 cells (50.0%) have expected count less than 5. The minimum expected count is 2.25.

b. Computed only for a 2x2 table

P-value = .819

Since the calculated p-value is greater than .05 as shown in Table I, the null hypothesis is accepted. Therefore, this means that NGO's financial reporting practices is not quite similar to the general financial reporting.

- 2) *Financial reporting practices helps in the recording and reporting system of Local NGOs*

TABLE II: RECORDING AND REPORTING SYSTEM OF LOCAL NGOS
Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.005 ^a	3	.571
Likelihood Ratio	2.306	3	.511
Linear-by-Linear Association	1.688	1	.194
N of Valid Cases	40		

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .38.

P value= .571

It has been shown in Table II that the p-value is greater than .05, the null hypothesis is accepted. Therefore, this means that NGO's financial reporting practices doesn't help in the recording and reporting system of the NGO's.

- 3) *Financial reporting helps in highlighting the quality of the NGO's overall financial management.*

TABLE III: QUALITY OF THE NGO'S OVERALL FINANCIAL MANAGEMENT
Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.399 ^a	3	.222
Likelihood Ratio	6.422	3	.093
Linear-by-Linear Association	.015	1	.902
N of Valid Cases	40		

a. 6 cells (75.0%) have expected count less than 5. The minimum expected count is 1.13.

P-value= .22

Table III also shows that p-value is greater than .05, hence, the null hypothesis is accepted. Therefore, this means that NGO's financial reporting practices doesn't help in highlighting the quality of the NGO's overall financial management.

B. The Summary of the Hypotheses Testing

TABLE IV: SUMMARY OF HYPOTHESES TESTING

SL No.	Hypotheses	Null hypotheses Accept/ Reject
1	Ha: NGO's financial reporting practices is quite similar to the general financial reporting. Ho: NGO's financial reporting practices are not quite similar to the general financial reporting.	Accepted
2	Ha: Financial Reporting practices helps in the recording and reporting system of the local NGO's. Ho: Financial Reporting practices do not help in the recording and reporting system of the local NGO's.	Accepted
3	Ha: Financial Reporting practices helps in the recording and reporting system of the local NGO's. Ho: Financial Reporting practices do not help in the recording and reporting system of the local NGO's.	Accepted

Table IV lists down the summary of all three hypotheses tests and it reveals that all of them have been accepted.

V. DISCUSSION

After proper research and analysis I have developed some specific findings of the study. The following findings were completely developed depending on the overall survey of the report. These basically includes introducing proper accounting standards in NGO's because most of the NGOs in Bangladesh are using different method of accounting and reporting system due to lack of proper accounting and financial reporting standards. As a result of which it is very hard for the NGOs to keep track of their financial statements properly. Proper development of these accounting policies helps in carrying out the financial reports accordingly. The NGO Financial Management should describe the accounting policies, systems and procedures to be used by the organization. The Policy will cover the input, processing, output, control and distribution of financial data. The present financial condition of any organization determines its future. In a similar manner, NGOs should also opt for sustainable use of finance. NGOs should make more productive decisions concerning resource allocation, fund raising, fund mobilizing and other undertakings. Good decision making skill enables right amount of funds to be invested at the right place. Funds are therefore efficiently and optimally utilized. The very first step in making a policy is to understand its purpose. NGOs need to address specific needs or objectives while making financial policies. Identifying the purpose will give a strong foundation and base to overall policy development. Therefore, it is the most significant stage in the policy making procedure.

VI. CONCLUSION

Financial reporting practices is one of the most important

function local NGOs operating in Bangladesh. In this report, the overall picture of the recording of financial reports has been shown and a survey has been done on the service holders and students working in a non-government organization. After proper analysis it has been found that most of the NGO's are not following the proper accounting standards and the quality of maintaining these reports to some extent is not up to the mark. Most of the NGO's are not even registered and even though they are operating in different important places their financial management is not properly developed and hence their quality is also degrading day by day. Throughout my research, I have found that the financial management policies of NGO's are quite similar to general financial reporting. This is mostly true because although these organizations has the same financial management policies they are not following the proper accounting standards hence there is always a difference between the general financial reports and the NGO's financial reports. The problem that is basically faced by the organizations is NGO's Financial Management policy which should describe the accounting policies, systems and procedures to be used by the organization.

VII. RECOMMENDATIONS

As this research has encountered some limitations and the relationship between variables is not up-to the mark, I have suggested some recommendations for the overall research:

A. Overall Approach to Accountability, Quality and Impact

The most effective NGOs are those that work to their strengths, and are able to mobilize the skills of the people that they serve. Their impact is linked to their responsiveness to people's needs, and it is the strength of their bonds with all those affected by, or interested in their work that matters, rather than their scale of operation.

B. Financial Goals Set before the Beginning of Budget Development Process

Financial policy development is dependent on budget development and these policies must adhere to the overall budget plan. Therefore, it is best for NGOs to have financial goals in addition to their overall objectives, as a part of their annual planning process.

C. Budget Processes include Strategy Development for Funding Overhead Costs

If budgets don't define strategic development of overhead costs funding, then it is the financial policy that needs to address it. NGOs are often faced with challenges such as securing funds for its administrative costs, raising unrestricted funds and developing earned income streams. These challenges must ideally get a solution either through budget or through financial policy.

D. Proper Training and Guidance for Finance Staff

Financial policies must address the need for proper training and guidance of its financial staff. It must formulate strategies that will help in conducting training programs and sessions so that financial staff gets more educated and are

informed about their scope of work.

E. Preparing a Proper Financial Agreement

One of the most important documents for the finance and accounts department is the funding agreement between the donor and the organization. The agreement should typically have details related to: Deliverables, budget breakup, deadlines, reporting procedures, fund release schedule and clear demarcation of financial and non-financial aid.

F. Structure of Financial Management Policy for the NGOs

All financial decisions, activities and plans are done in accordance to a set of procedures that form the basis of the financial policy. Once the financial objectives are confirmed, the next move is to frame policies to guide its further proceedings. Financial management policy of an NGO is a manual that covers all the accounting policies, procedures and systems of the organization. Primarily, there are two purposes for framing a financial policy

- To look into proper governing of the financial transactions taking place in the concern so that the staff can abide by the set procedures and
- To fulfill requirements of local statutory bodies and establish strong management practices, as adopted by the NGO.

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A. H. M. Yeaseen Chowdhury is an associate professor of Finance of Bangladesh University of Professionals, Bangladesh. He is highly motivated faculty member of finance and supply chain management discipline. He has keen interest in academic research to make significant contributions to the related field.



Md. Mamun Habib is an associate professor at BRAC Business School (BBS), BRAC University, Bangladesh. In addition, Dr. Habib is the visiting scientist of University of Texas – Arlington, USA. Prior to that, he was an associate professor at Asia Graduate School of Business (AGSB) at UNITAR International University, Malaysia and the Dept. of Decision Sciences, University Utara Malaysia (UUM), Malaysia. He is the editor-in-chief in **International Journal of Supply Chain Management (IJSCM)**, London, UK (SCOPUS Indexed). He accomplished his Ph.D. and M.S. with outstanding performance in computer & engineering management (CEM) under the Graduate School of Business (GSB) from Assumption University, Thailand.