

PERCEPTIONS OF NON-GOVERNMENT ORGANISATIONS MANAGERS ABOUT INTERNATIONAL FINANCIAL REPORTING STANDARDS IN THE NGO SECTOR: A CASE STUDY OF A LARGE NGO IN DURBAN, SOUTH AFRICA

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Abstract:

The role of international financial reporting standards (IFRS) in the growth of organizations has expanded significantly in recent literature. Non-governmental organizations (NGOs) are crucial in global affairs. They have different operating contexts, but it is still being determined how their use of IFRS is of sufficient quality to satisfy various stakeholders' interests. This article investigated the managers' perceptions of IFRS practices and quality in a large NGO in Durban, South Africa. A qualitative approach was employed, and data was collected through semi-structured interviews with 24 purposively selected participants. The interviews were recorded and later transcribed. Robustness analysis was performed using conventional thematic content analysis. This study showed that despite adopting IFRS accounting and financial procedures, the managers of the selected NGO found it difficult to have quality financial statements due to IFRS for SMEs failing to fit NGO operating context. This article established NGO managers' perceptions of the role of IFRS in managing diverse NGO stakeholders' interests, provided recommendations applicable to similar NGOs globally and contributed to the scholarly debates for policymakers and practitioners on using IFRS for SMEs in NGOs. This study has also provided a very robust plan for future researchers.

Keywords: Non-Government Organisations, International Financial Reporting Standards, Financial Performance, IASB, Small and medium and micro- Enterprises (SMMEs).

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INTRODUCTION

There currently needs to be global financial reporting standards for NGOs or Non-profit organizations (NPOs) to assess the quality of financial statements. Instead, NGOs use IFRS for SMEs to report their financial affairs. Previous research argued for and against the positive effects of using IFRS reporting for SMEs in NGOs (Breen, Cordery, Crawford, & Morgan, 2018; Zahid & Simga-Mugan, 2019; Damak-Ayadi, Sassi, and Bahri, 2020). Because of the adverse effects, some authors like Damak-Ayadi, Sassi, and Bahri (2020) argued against using IFRS for SMEs. Overall, empirical studies on the implications of using IFRS in non-government organizations have been limited and contradictory. Some of the effects that studies were interested in were whether or not the use of IFRS improved the financial performance of NGOs. While some studies suggested a

positive effect of using IFRS for SMEs on NGO financial performance (Mackenzie, Lombard, Coetsee, Njikizana, & Chamboko, 2010; Mohamed, Yasseen, & Nkhi, 2020), others found no effect or negative effect (Finkler, Calabrese, & Smith, 2022).

The reasons could be that the IFRS developed by the International Accounting Standard Board (IASB) for SMEs should be set up considering NGO operating contexts. Thus, researchers need proper guidelines for making their assessments. In this regard, Ledgerwood and Morgan (2018) argue that NGOs operate in different jurisdictions and that their financial reports differ in type, style, and manner. This situation has led to confusion among the users of IFRS accounting information concerning its reliability, dependability, and comparability in NGO financial reporting (Cordery, Crawford, Breen, and Morgan, 2019). Furthermore, no framework or standards have been set to assess the reliability of the financial information provided by NGOs, which makes it difficult to compare and evaluate their financial performance (France, 2019).

Empirical support for the usefulness of IFRS for SMEs in NGO financial reporting was given by Peterson-Palmer and Malthus (2017). The authors concluded that IFRS for SMEs was crucial for NGOs to meet the high-quality standards set by the IASB. However, other studies found that complex local and international grant regimes confronted NGOs with different financial reporting requirements because their financial reporting practices by grant donors do not comply with the quality requirements set by the IASB (Mvunabandi, Lathleiff & Muzindutsi, 2022; Yiting, 2021). Thus, the NGO sector must improve its financial reporting practices and quality to satisfy diverse stakeholders' needs. However, the question of how best to achieve this is debatable. This debate on whether the IFRS can achieve or not the financial reporting of NGOs creates a need to establish how the NGO managers perceive IFRS for SMEs. In this large Durban NGO with a broad network of partners locally and internationally, the contribution to knowledge in this research area consists of managers' opinions on the quality of IFRS for SME reporting in NGOs and the extent to which it satisfies a diversity of stakeholders.

Besides the abovementioned contribution, the study also covers a research gap in South Africa. The country has a Code of Good Practice for NPOs, which differs from the IFRS for SMEs. For example, Sinclair and Bolt (2013) pointed out that NGO financial reports were inconsistent with the South African code of practice for NGOs. However, this study has yet to analyze perceptions of such reporting by financial and accounting managers in South Africa and whether and how they reconcile the needs of various stakeholders in this reporting. It is worth noting that there has been inconsistent reporting in line with local NPO guidelines in other countries (Asogwa et al., 2021; Amagtome & Alnajjar, 2020; Fassin, 2019; Sisaye, 2021), suggesting a broader contribution of the current study to inconsistency debates alongside dealing with requests from a broad network of partners. The study uses the case study of a large NGO based in the Durban region, South Africa drawing on managers' experiences with IFRS. The approach and the context of this NGO contribute as it enriches the current debate on NGOs' accounting issues, among others not satisfying key stakeholders' interests, that inhibit organizations from adopting IFRS for SMEs. In the sequel to this background, this article is expected to answer the following question: What are NGOs managers' perceptions about using IFRS for SMEs to improve the quality of financial reports and satisfy stakeholders' interests?

METHODS

The current study was based on a qualitative research approach using face-to-face interviews. A case study of an identified NGO in South Africa was selected for investigation. The NGO was selected because of its level of work nationally and internationally due to its large size and the likelihood of experiencing significant financial accounting issues and reconciling

stakeholders' needs in reporting. The NGO had financial links and partnerships with more than 63 community-based organizations (CBOs), NGOs throughout South Africa, and five international NGOs. The NGO was compelled to submit financial reports per IFRS for SMEs and other annual reports and documents to its stakeholders when required.

Given that the study aimed to explore NGO managers' perceptions of International financial reporting standards in the NGO sector, the population of interest was managers at the selected NGO. Purposeful sampling was used to select participants. This technique assisted the researcher in targeting niche demographics to obtain specific data points (Tongco, 2007). The selected participants were the key players in preparing financial reports and had practical experience and knowledge of NGO accounting and financial management systems. The sample consisted of 24 interviewees out of 30 potential interviewees contacted. Thus, the response rate was 80%. Table 1 summarises the number of interviewees by management categories.

Table 1. The Details of Interviewees at A large Durban NGO

Category	N ^o of Staff/ Employees	Sample selected	%	Techniques used
Executive management	3	3	100%	Purposive
Management	4	4	100%	Purposive
Accounting and finance officers	2	2	100%	Purposive
Project officers	21	15	72%	Purposive
Total	30	24	80%	

Source: Author, 2023

The participants included three members of executive management, four managers, two accounting and finance officers, and 15 project managers. These experts provided rich, relevant, and insightful data. The Accountants and Finance Managers had practical experience and knowledge of the NGO's accounting and financial management systems. In addition, they had a unique insight into preparing financial statements. Project Managers had considerable knowledge of the organization's growth through the funded projects and their involvement in compiling quarterly and annual financial reports. They also knew project performance and so could offer suggestions for quality improvement.

Executive management had practical knowledge of all the activities and initiatives designed to enhance NGO performance and growth and ensured the organization's smooth running. Executive management (Directors) made decisions and raised funds to ensure financial health; they also oversaw the overall management of the NGO. Furthermore, they ensured the proper implementation of policies and dealt with relevant authorities and funders. Directors had a unique insight into compliance with NGO's funders' requirements and other stakeholders such as the South African Department of Social Development (DSD), a government ministry in charge of NGO activities. These four study participants were purposively selected in anticipation that they would offer the most relevant answers and provide insights and ideas on the matters under investigation.

Data were gathered using in-depth, semi-structured interviews, which enabled the researcher to gain insights into the participants' views and perceptions of financial accounting systems. The issues in the interviews were classified according to the central research theme, and various areas of interest were identified within this theme. The study's theme dealt with the perceptions of crucial NGO managers about International Financial Reporting Standards for SMEs in enhancing the quality of financial reports. This theme helped the researcher to establish what aspects to emphasize. It ensured that the data collected was relevant in answering the

following interview questions: What are the organization's managers' perceptions about using IFRS for SMEs to enhance the quality of the organization's financial reports?

The University of KwaZulu-Natal Ethics Committee granted this study ethical clearance. Access to participants was granted on the condition of maintaining the anonymity of the NGO and its employees to protect their identity; hence the name of the NGO has not been mentioned in this paper. The interviews were recorded and later transcribed. The researcher performed a thematic content analysis of all interviews conducted results was summarised in an anonymous format. Participants were anonymized by allocating codes for initials that were later used in reporting the results.

RESULT AND DISCUSSION

Research Theme: Perceptions of key NGO managers whether or not International Financial Reporting Standards for SMEs are relevant to enhance the quality of their organization's financial reports. The analysis of transcribed interviews was grouped based on one theme that emanated from the answers to the main research question, which was: "What are the organization's managers' perceptions about using IFRS for SMEs to improve the quality of financial reports?" The answer to these questions is put in different themes reflecting the opinion of managers on the quality of financial reports when IFRS for SMEs is used.

The study focused on exploring the perceptions of crucial NGO managers regarding the International Financial Reporting Standards for SMEs. The insights from the study

were gathered through interviews and narrative comments. The research study shows that eighteen participants believed the U.S. general accounting principles for not-for-profit entities are superior to IFRS for SMEs. The research study findings revealed that the selected NGO needs to pay more attention to the role of IFRS for SMEs. The principal reason is that the organization depends on foreign donors. The interview C.A. and DA noted that: *"...It is very complicated to capture because every funder wants a different type of reporting requirements where every funder has his ledger account and project code. Every one of the donors wanted their accounts and reports, so we delivered them and are finished with them. We were not consolidating as long as we gave (X) their report, (Y) theirs, (Z) theirs; they are comfortable, well accounted for, and so on. Forget own internal needs; we had not considered consolidating the piecemeal reports so that we could reflect on how the organization has to report to each donor according to its required reporting format"*.

Vieira and Borba's (2015) found that implementing IFRS for SMEs can be complicated. Interviewees BA (Chief Operating Officer), K.A. (manager), and C.A. (Finance Manager) agreed that these standards are too complex and challenging for NPOs. The organization does not recruit professional accountants due to cost considerations as it has limited resources, and is expensive to apply this system. Furthermore, some respondents believed that IFRS for SMEs must fully address particular issues confronting the organization, for example, treatment and reporting of restricted funds, endowment funds, in-kind contributions, legacies, bequests, capitalization, and depreciation of fixed assets. The following is a representative response. An accountant (DA) stated: *"This framework places many limitations on preparing financial reports of the organization. Since it poses a challenge when consolidating funders' accounts, it is difficult to link different templates"*.

DA added: *"... for example, and we do not do accounting for fixed assets; we do not depreciate the fixed assets because our donors depreciate them on their side. This accounting treatment differs from IFRS for SMEs, requiring Plant, Property, and Equipment (PPE) acquired to be capitalized and depreciated over their useful lives. So in [the] strict sense IFRS for SMEs is not fully applied in the organization; we do not*

have a lot of issues and opportunities to deal with IFRS for SMEs. Think [the] U.S. not-for-profit standards ... [are] more robust, and with it, you can find a way to manage exceptions".

It is in line with the findings of Monsen's (2008) research on the British Red Cross, which found that, while fixed assets usually are recorded as assets on the balance sheet and are depreciated over their expected useful life, the fixed assets of NGOs are difficult to record, and as a result, some record and report such assets, while others do not. The same is true of depreciation. The treatment of fixed assets within the NGO sector thus needs to be clarified (Liapis & Kantianis, 2015; Peterson, 2002; Zucca, 2013).

The empirical evidence suggests that the need for a standard financial reporting format was one of the organization's significant problems. This finding agrees with AbouAssi (2013), who concluded that NGOs must adopt modern accounting standards to ensure their activities align with all stakeholders' expectations. In addition, in their research on Tanzanian NGOs, Goddard and Juma Assad (2006) established that accounting is essential in ensuring legitimacy. However, the study noted that financial reports still need to be fully prepared under the IFRS for SMEs but differ substantially in line with different formats imposed by external donors. Another participant noted that: "... We do not have any way of recording bequests and contributions, but as [there are] huge flows of funds even when restricted, the U.S. not-for-profit approach is much better. [The strength of] IFRS for SMEs [is that] Not-for-Profit Organisations... financial statements [meet the global standard. [A weakness is that] ... The organization does not recruit professional accountants, which leads to misinterpretation of IFRS for SMEs".

These results align with the current body of knowledge that states that NGOs cannot fully copy and paste profit-oriented financial reporting and management practices (Omotoso, Schutte, & Oberholzer, 2022). Interviewees A.A., B.A., CA, DA, and K.A. agreed on this issue: "The various systems of financial reporting also stem from the many formats imposed by donors, the concentration on cash accounting rather than accruals, and a focus on specific projects without attention to what is happening to the wider institution... Several donor financial stipulations are unrealistic...".

In contrast, Eberle and Haller's (2009) study in Germany concluded that NGOs should adopt IFRS for SMEs to ensure high-quality financial reporting standards. Schildbach (2013) also notes that international accounting standards have been widely recognized as tools for effective financial management, highlighting the importance of IFRS for SMEs to enhance NGO performance. The organization's Chief Executive Officer (EA) argued strongly against using IFRS for SMEs: "I think it is a piece of nonsense. Our organization accounts are tough enough. IFRS for SMEs would worsen the interpretation and place a high cost on our organization with the fewest and limited resources... think the case for [international accounting standards for the organization] makes very little sense".

The study's results also support the findings of other studies that concluded that organizations seeking external support and stability incorporate incompatible elements in their financial reports, leading to lower-quality financial reports (Felin, Foss, & Ployhart, 2015; Scott, 2018). In addition, the current study's findings support the findings of Ledgerwood and Morgan (2018), who found that organizations produce financial statements in the different formats required by external donors. Similarly, a senior manager (AA) said: "... Please do not force the international standards on our organization.... There is no need whatsoever for this. It is a waste of time and money. The reports produced under these standards do not tell the true story".

These findings align with the current body of knowledge stating that IFRS for SMEs needs to be simpler and more costly for small organizations. It is closely linked to our findings, suggesting that a suitable and cost-effective financial reporting model for NGOs may be required (Chand, 2015; Mvunabandi et al., 2022). A senior manager (AA) further highlighted that:

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

These findings agree with several scholars (Brijlal, 2014; Chand, 2015; Kaya & Koch, 2015; Wyngaard, 2013). For example, Wanjohi (2021) established that many NGOs are independently funded through foreign and private sources, and, as a result, they enjoy autonomy. Hence, their financial reports still need to be fully prepared under the IFRS for SMEs but differ substantially in line with different reporting formats imposed by external donors. Brijlal (2014) reported that NGOs that accepted donors' reporting formats did not comply with the IFRS requirements for SMEs. A manager (KA) with many years of experience in the organization said: *"We are required to complete financial accounts following IFRS for SMEs and guidelines in South Africa and complete financial statements for the funders. We have difficulty doing this [but we] have no concerns based on financial reporting... financial information in annual financial reports is meant to satisfy our funders' requirements and has little relevance in upholding compliance issues towards the government"*.

Felin et al. (2015) and Scott (2018) argue that organizations seeking external support and stability incorporate incompatible elements in their financial reports, leading to lower-quality financial reports. The current study supports the findings of Lopez-Arceiz, Bellostas, and Moneva (2021), who found that non-government organizations produce financial statements in the different formats required by external donors. An accountant (DA) working at the organization said: *"Strongly agree... applicability of IFRS for SMEs is vital to promote financial transparency, accountability and to develop, disseminate and promote the implementation of better accounting standards and best practices for NGOs/NPOs. These standards should cover all aspects of our organization's reporting obligations"*.

The findings of this study agree with those of Kateeba (2010), who established that poor financial reports greatly diminish both performance and the quality of NGOs. In addition, Yetman and Yetman (2012) and Waniak-Michalak and Michalak (2016) highlighted the need for such organizations to adopt IFRS for SMEs. DA (accountant) further stated: *"Implementing IFRS for SMEs at the organization is an excellent idea because such an implementation would lead to uniform reporting and international comparability for our organization in the future."*

The current study's findings align with the current body of knowledge that states that financial reports prepared in compliance with international standards enhance financial performance and comparability of financial reports across markets and countries. (Bryce, 2017). This finding also agrees with previous studies, such as Omotoso et al. (2022), who concluded that financial reports should be relevant, complete, verifiable, comparable, and free from bias and material error.

These findings support those of Chikwemma, Ursula, and Sunday (2016) and Board (2010), who highlighted that the international financial accounting standards for SMEs could be considered for use by NPOs, NGOs, cooperatives, and non-investor social enterprises as they enable an analysis of performance against financial sustainability. For instance, the Operations Manager (BA) said: *".... The IFRS for SMEs often does not address the particular issues of the organization- for example, the treatment and reporting of restricted funds, endowment funds, in-kind contributions, legacies, and bequests. Furthermore, the minimum disclosure requirements sometimes mean that important information for the user of financial reports is not reported, for example, more information on funding sources and the expenditure's nature and purpose. In addition, there is insufficient guidance on applying and interpreting general principles of IFRS for SMEs"*.

Sarker and Rahman's (2019) study in Kenya established that all organizations, including NGOs, must comply with IFRS and abide by the principles and practices of depreciation in the business enterprise environment. NGOs' assets also need to be checked for wear and tear. A manager (KA) said: *"...When developing international accounting standards, it is important that they are kept as simple as possible. Many NPOs are small organizations with limited resources, and over-complicated accounting standards would be difficult to apply. Furthermore, micro NPOs should not be burdened with restrictive reporting, especially because they do not have (at least in most cases) a qualified person to prepare them"*.

Feng's (2020) extensive review of empirical studies on NGOs used quantitative archival data, such as financial and operational statements, to measure performance and effectiveness. They concluded that effectiveness and financial performance in not-for-profit settings are judged against financial reports but require a multidimensional approach. This finding aligns with Cordery and Simpkins (2016), who found that for-profit organizations and associated accounting standards are only sometimes relevant to smaller NPOs. The Financial Manager (CA) stated that: *"NGOs struggle to afford chartered accountants needed to run the financial system to ensure good financial transparency, and donors will not contribute to these costs. It makes it difficult to apply these standards fully"*.

Interviewee CA's (Financial Manager) views on the practicality of IFRS for SMEs in NGOs are consistent with those of Ledgerwood and Morgan (2012), who noted that IFRS might need to be amended to suit the needs of not-for-profit organizations. Interviewee JA (Director) noted: *"... IFRS for SMEs is somewhat complex and needs qualified persons to prepare compliant statements."*

These results support the literature that notes that IFRS might need to be amended to suit the needs of not-for-profit organizations (Ledgerwood & Morgan, 2012). The current study's findings support other studies, such as Zahid and Simga-Mugan (2019). They emphasized that, even if simplifications were made, IFRS for SMEs would still be costly and complex for NGOs. The findings also revealed the strongest objections to adopting IFRS for SMEs because funders' reporting requirements conflict with IFRS for SMEs in preparing financial reports. As such, this article contributes to the current body of knowledge by enhancing the understanding of NGOs' financial reporting practices. The findings also can inform the debate and move the discussion forward.

The implication of the findings. This article is among a few that attempted to empirically investigate the perceptions of non-government organization managers about International financial reporting standards for small and medium enterprises (IFRS for SMEs) in NGOs in a developing country. Generally, there were calls for more studies in this area in response to these calls (Crawford et al., 2018; Maguire, 2015; Kisaku, 2017). The research contributed toward understanding financial reporting practices explained in the NGO sector and the challenges associated with adopting IFRS for SMEs in Durban, South Africa. The article demonstrated that in many cases, donors' financial reporting requirements conflict with the general purpose of NGOs' financial statements in line with IFRS for SMEs. This article expanded the knowledge of NGOs' financial reporting practices studies using a qualitative research methodology in the accounting discipline. The practical application of the financial practices model empowers the knowledge of potential NGO stakeholders in the financial reporting practices framework. NGOs should engage in constructive dialogue with overseas donors and other stakeholders to address the issue of multiple financial reporting burdens and would add value to the organization.

It complemented the growing literature, such as Lawal, Olufemi, Adewuyi, and Olubukoye (2018), Peterson-Palmer and Malthus (2017), Mohamed et al. (2020) and Bakr and Napier (2020), on accounting for NGOs and IFRS for SMEs. More specifically, this article closes the gap in the

literature by connecting IFRS for SMEs and the quality of NGOs' financial statements in the South African context. The well-known international accounting standards set by IASB, namely IFRS for large corporations, have been criticized for needing to be more effective in the financial reporting of NGO practices. Donor reporting requirements are primarily outside globally accepted accounting standards. The findings of this article emphasized the need for developing new international financial reporting standards for NGOs, which would consider the specificities. Donors can quickly adopt such a relevant financial reporting framework to avoid the conflict between the donor's reporting requirement and compliance with relevant accounting standards. It has a massive implication for better reporting practices that strengthen NGOs' legitimacy and credibility.

CONCLUSION

Poor financial reporting practices have affected the growth and development of NGOs in the past decades. Numerous reporting templates have been adopted to produce financial reports but have failed. It has been established empirically that IFRS for SMEs is an effective tool to enhance the quality of the financial statements of the NGO. It has been established empirically that financial accounting is a tool to enhance the quality of NGOs' financial statements. Aware of the critical role of financial reporting practices, the researchers can still draw valid conclusions from this study that apply to various NGOs across South Africa and globally. Based on the researcher's analyses and findings, the culture of using IFRS for SMEs can significantly assist NGOs in enhancing the quality of their financial reports. However, this is often overshadowed by the need to comply with donors' financial reporting requirements, and consequently, NGOs compromise IFRS for SMEs.

Despite the challenge of balancing different reporting requirements from diverse donors, NGOs have the incentive to rely on local and international financial reporting approaches and to build sound practices. This study recommended that proper and consistent presentation of financial statements is necessary to provide a true reflection of the NGOs' State of affairs, and IFRS for SMEs would serve this purpose. For long-term strategies to reduce donor impositions on NGOs, the study recommended that regulatory bodies develop strategies to limit foreign donors' practice of imposing reporting requirements on the organization and NGOs. Instead, donors should be guided by IFRS for SMEs in their financial accounting to ensure proper NGO funding. The article further recommended that the relevant government authorities engage more rigorously with NGOs to ensure they report according to IFRS for SMEs. It would also enable NGOs globally to report uniformly and stimulate the growth of this sector.

Furthermore, it is recommended that NGOs should engage in constructive dialogue with overseas donors and other stakeholders to address the issue of multiple financial reporting burdens. Finally, financial accounting should be mandatory for NGOs as with conventional accounting. It will assist in limiting donors' and funders' influence on NGOs' financial reporting, which results in multiple reporting templates.

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