

ACCOUNTING IN NON-STATE NON-PROFIT ORGANIZATIONS (NSNPO) IN UZBEKISTAN: INTEGRITY AND IMPACT ANALYSIS

Mehridin Hojiev

Department of Audit, Tashkent Financial Institute, Tashkent, Uzbekistan

hojiev@m@list.ru

Abstract

The global community has already witnessed the benefits from not-for-profit activity in making better socio-economic environment. Non-government non-for-profit activities are seen as an alternative source of support in particular aspects which is not covered with public goods and services. However, spread and engagement of NSNPOs vary across developed and developing countries. According to the cumulative assessment, public financing of NSNPOs is nearly half of their total revenue in the developed countries, while in developing countries this public financing volume accounts for 22 per cent of annual revenue. Especially in Uzbekistan, where this study is focused on, public funding reaches 5 per cent. This article examines the integrity and impact of accounting practices of NSNPOs in Uzbekistan and provides a research-based recommendations for further improvement.

Keywords: NSNPO, accounting, impact analysis, Uzbekistan

INTRODUCTION

Absent good, comparable information about the relative mission effectiveness of various nonprofit organizations, donors, funders, and charity watchdog organizations have placed undue reliance on financial indicators, many of which are based on expenses by functional classification (Urban Institute, 2016). Effectiveness of NSNPOs is evaluated in terms of their work and impact on strengthening and mobilizing the skills and experience of target people and society. Their impact is visible in the level of the coverage and quality of responses to target people's or society's needs and power of their linkages with target people and institutional donors. NSNPO – Target People/Society – Institutional Donor triangle is built on the mutual trust

and common will of parties to provide support in coping with societal needs. These trust and will is too fragile when it comes to misuse funding sources for other areas, which NSNPO's key aims do not cover. Mutual trust serves for the unification of parties to obtain common goals, if accountability and transparency principles work appropriately and equally among all parties. NSNPOs are obliged to ensure transparent activity in delivering the aid from donors to target society by providing financial and managerial board (director's) reports to the governments, donors and recipients. In turn, target people or society has to provide transparency in use of support, while donors must be accountable and transparent in sources, motives and origin of funding. Managerial (director's) report provides key analytical information about activity, efficiency and quality of work done in a particular period, and it is presented to donors, target people or society and public. Financial report provides detailed financial data and reveals the accounting aspects of NSNPO. Financial reporting and accounting data is essential for tax authorities, key donors and target society to follow accountability principles to evaluate how effectively and sustainably NSNPO functioning.

The primary objective of accounting by NSNPOs is to provide information about the financial position, performance, and cash flows of the organization that is useful, and indeed, necessary, for a wide range of users to engage in informed decision making (APPC, 2006). Clear accounting procedure and transparent reporting are required by NSNPOs due to its greater obligation and responsibility towards not only members, stakeholders and donors, but also entire society. This burden of societal and corporate responsibility requires NSNPOs to conduct prudent financial management and optimal decision making. Accounting information helps to fulfil these responsibilities, to clear-cut decision making and strategic planning. Recent practices in NSNPO finance shown that a separate accounting procedure for NSNPOs brings higher informative capacity, better risk management, more operational quality and clearer strategic decision making. NSNPOs face lesser risk and do not compete for market share, as they have a not-for-profit status which distinguishes them from commercial activities. However, overall macroeconomic, business and societal environments may pose risks for them in obtaining donor funding, acquisition and spending of funds and other financial relations with triangle players. Operational quality is a topic of controversy among donors and target society when it comes to assess the efficiency and quality of NSNPOs' activity. Informative capacity of NSNPOs is the key tool for credibility, openness and transparency, which is prerequisite for finding funding opportunities. This article examines the applicability of NSNPO accounting practices to existing accounting and reporting methodologies in Uzbekistan by surveying the positions and evaluations of accountants, working for NSNPOs and testing their responses to propose model-based recommendations.

LITERATURE REVIEW

Non-government non-profit activity has been a hotly debated topic of research in social sciences. Series of scientific research outcomes have been presented to the academic community and policymaking rounds to develop this activity through research-based proposals. However, accounting practices at NSNPOs still remained out of research focus and insufficiently investigated. The extent and coverage of NSNPO accounting is limited with a bunch of research papers and analytical and instructive publications of international audit companies. Among a limited number of scientific and instructive literature, a companion guide by Davies and Martin (2015) provide assistance to not-for-profit entities that may wish to prepare reports on the basis of the International Financial Reporting Standard for Small and Medium-sized Entities. It allows NSNPOs to benefit from the robustness of an internationally accepted accounting framework, and from the considerable body of supporting and educational materials. CPA Canada (2016) clearly differentiated the financial statements and accounting methodologies at NSNPOs with both public and private for-profit organizations. A guide by CPA Canada proposes exact solutions for addressing confusions in the role and responsibilities of the board, management and the auditor in financial reporting, the concepts and terminology of financial reporting, the ways in which contributions to the organization can be accounted for the various financial statements they will encounter in their role. A study report by CCAB (2014) provides a better understanding of financial reporting practices in the not-for-profit sector worldwide and to provide a body of evidence to determine whether a need exists to develop international financial reporting standards for NSNPOs. In the study conducted at the University of Dundee and Sheffield Hallam University, CCAB analyzed the responses of people involved in accounting of NSNPO located in 179 countries. Cross-country analyses showed the difficulties with definitions relating to NSNPO accounting issues and not-for-profit concepts, need for further changes in IFRS and IPSAS standards to deal with NSNPO-specific accounting issues, particular issues exist for NSNPO financial reporting, such as non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NSNPO-specific assets.

METHODOLOGY

In consistence with research objective, research methodology indicates the main tool and investigation area. In structuring research methodology, core attributes of NSNPO accounting and benefits were under analytical focus. Data were collected by responses of NSNPOs' chief accountants to the special questionnaire, which was aimed at obtaining evaluations of impact areas and benefits of NSNPO accounting by five criteria assessed in 0-5 scaled of impact. In

order to comply with sampling rules and distribution of impact, number of respondents is fixed in 20.

Impact level	Points
Highly positive	5
Positive	4
Neutral	3
Negative	2
Highly negative	1
Unnecessary	0

Internal reliability test is used to examine the applicability of NSNPO accounting in Uzbekistan by analyzing the responses of chief accountants of local and international NSNPOs, who has at least basic skills and knowledge is separate accounting practice. As specified below, Cronbach's alpha, Guttman and Split-half methods are used in internal reliability analysis.

$$\frac{k}{k-1} \left(\frac{\sum_{i \neq j}^k cov(x_i, x_j)}{var(x_0)} \right) = \frac{k}{k-1} \left(1 - \frac{\sum_{j=1}^k var(x_j)}{var(x_0)} \right) \quad (1)$$

Here;

$x_j = t_j + e_j$ where each e_j is independent from t_j and all e_j are independent from each other.

$x_0 = \sum_{j=1}^k x_j$ and $t_0 = \sum_{j=1}^k t_j$.

In order obtain a clearer result, econometric analysis is conducted based on the survey data. Respondent accountants' assessment scores for impact areas and benefits of NSNPO accounting were classified into dependent and independent variables. OLS-based econometric model is structured around the linkage between operational quality (dependent variable) and risk management, informative capacity, decision-making, strategic planning (independent variables).

$$OPQ_{in} = \alpha_0 + \beta_1 RSM_{in} + \beta_2 INC_{in} + \beta_3 DCM_{in} + \beta_4 STP_{in} + \varepsilon_{in} \quad (2)$$

Here;

OPQ- operational quality, RSM – risk management, INC – informative capacity, DSM – decision-making, STP – strategic planning, ε – error term.

ANALYSIS & RESULTS

Responses of NSNPOs' accountants were collected and formed into a classification form for comparability and analysis purposes (Table 1). As provided in Table 1, responses by 20 accountants were selected for conducting the small-scale research.

Table 1. Responses of accountants to questionnaire

Respondents	Operational quality	Risk management	Informative capacity	Decision making	Strategic planning
Accountant1	4	3	4	3	3
Accountant 2	4	4	4	4	3
Accountant 3	4	4	4	4	4
Accountant 4	4	4	4	3	3
Accountant 5	3	3	3	0	0
Accountant6	4	3	4	4	5
Accountant 7	3	4	4	3	3
Accountant 8	5	5	5	5	4
Accountant 9	4	5	4	4	3
Accountant 10	3	3	3	3	3
Accountant 11	5	5	5	4	5
Accountant 12	4	4	4	4	3
Accountant 13	0	0	4	0	0
Accountant 14	4	4	3	3	3
Accountant 15	4	4	4	4	4
Accountant 16	4	3	3	0	3
Accountant 17	4	4	4	5	4
Accountant 18	4	4	4	4	3
Accountant 19	4	4	4	4	4
Accountant 20	5	5	5	4	5

After obtaining necessary data, internal reliability analysis was conducted in Cronbach's alpha, Guttman and Split-half methods. Initially, relevance of NSNPO accounting practices was tested in Cronbach's alpha method as shown in Table 2.

Table 2. Cronbach's alpha coefficients

Cronbach's Alpha	Cronbach's Alpha with missing item				
	OPQ	RSM	INC	DCM	STP
0,8944	0,8588	0,8640	0,9104	0,8669	0,8423

Estimated by means of Real Statistics Analysis Pack 2010.

Cronbach's alpha test revealed that positivity of adopting NSNPO accounting is very high for Uzbek practice. Alpha coefficient equals to 0.8944, which is significantly higher than the frontier of positivity (alpha coefficient must be at least 0.70).

In conducting Split-half and Guttman tests, respondents were divided into two groups in terms of the affiliation and geographical coverage of NSNPOs' activity: local and international. Therefore, they were split into two halves, as indicated by the selected method.

Table 3. Split-half and Guttman test coefficients

	Spearman	Guttman
Accountants of local NSNPOs	0,897005	0,793965
Accountants of international NSNPOs	0,968077	0,925725

Estimated by means of Real Statistics Analysis Pack 2010.

Split-half test shows that accountants at international NSNPOs found NSNPO accounting more relevant and important (0.968077) than their counterparts, working for local NSNPOs (0.897005). Guttman scale coefficient followed the same pattern and proved the relevance of NSNPO accounting with 0.793965 positivity unit by local and 0.925725 positivity unit by international NSNPO accountants.

Final test examines the interrelation of assessments of responses. Interrelation of assessments was tested in OLS method and computed by EViews 9.0 econometric analysis tool.

Table 4. Econometric Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.853029	0.709745	1.201880	0.0480
RSM	0.666677	0.127925	5.211452	0.0001
INC	0.101269	0.192440	0.526235	0.0064
DCM	0.128108	0.115426	1.109872	0.0245
STP	0.393793	0.134238	2.933535	0.0103
R-squared	0.872114	Mean dependent var		3.800000
Adjusted R-squared	0.838011	S.D. dependent var		1.056309
S.E. of regression	0.425142	Akaike info criterion		1.339532
Sum squared resid	2.711189	Schwarz criterion		1.588465
Log likelihood	-8.395320	Hannan-Quinn criter.		1.388126
F-statistic	25.57293	Durbin-Watson stat		2.048469
Prob(F-statistic)	0.000002			

Similar results were obtained in OLS test, as done in to Cronbach's alpha, Split-half and Guttman internal reliability tests. OLS test reveals that benefits of NSNPO accounting in risk management of have the most significant impact on operational quality of NSNPO with 0.666677 coefficient, where informative capacity influences less significantly with power of (0.101269) coefficient. The impact of adopting NSNPO accounting on strategic planning and decision making supported operational efficiency with 0.393793 and 0.128108 coefficients respectively.

CONCLUSION

This small-scale research enabled us to be aware of the general view, relevance and applicability of NSNPO accounting to national accounting system. Empirical and econometric analyses clearly showed the benefits and possible impact areas of introducing NSNPO accounting practices. All internal reliability tests proved advantages of NSNPO accounting, while OLS test assessed the impact levels and the strength of linkages. Deriving from the survey responses and analysis results, following research-driven proposals are presented as a scientific recommendation:

1. Setting a separate section for NSNPOs in the system of ledger accounts to consolidate their accounting and reporting practices;
2. Revising the existing reporting methods, forms and basic accounting principles in consistent with the systemic attributes of NSNPOs.

Although this paper attempts to highlight the specific attributes NSNPO accounting and auditing practices, coverage, analysis and their results are limited in clarity, reliability and geography due to the small scale of research. Therefore, there is a necessity to investigate the topic further.

REFERENCES

- ACCA. (2015). Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). ACCA Global Publications.
- CPA Canada. (2012). A Guide to Financial Statements of Not-For-Profit Organizations: Questions for Directors to Ask. C\PA Canada Directors' Briefing Series.
- Balkan Civil Society Development Network. (2016). Report on the Economic Value of the Non-Profit Sector in the Countries of the Western Balkans & Turkey. Balkan Civic Practices No. 13.
- Blackbaud (2011). Financial Management of Not-for-Profit Organizations. Blackbaud Inc. Publications.
- Crawford, L., Morgan, G., Cordery, C., Breen, O. (2014). International financial reporting for the not-for-profit sector. CCAB Study Report.
- McKeever, B. and Pettijohn, S. (2014). The Nonprofit Sector in Brief 2014. The Urban Institute Publications.
- The Urban Institute & Indiana University. (2016). Special Issues in Nonprofit Financial Reporting. The Urban Institute & Indiana University Philanthropy and NGO Research Publications.