

IMPACT OF ACCOUNTING SYSTEMS ON FINANCIAL ACCOUNTABILITY IN NON-GOVERNMENTAL ORGANIZATIONS : A COMPARATIVE ANALYSIS

Khalid Hashim Faruk

School of Business and Management, College of Business, University Utara Malaysia Sintok
Kedah, Malaysia

ABSTRACT

Non-governmental organizations (NGOs) play a crucial role in delivering essential services and addressing societal needs. Financial accountability is of paramount importance for NGOs to ensure transparency, trust, and effective utilization of resources. This study examines the influence of accounting systems on financial accountability in NGOs through a comparative analysis. By exploring different accounting systems employed by NGOs, including cash-based and accrual-based systems, this research aims to assess their impact on financial accountability practices. The findings shed light on the strengths and weaknesses of each system, providing insights for NGOs to enhance their financial accountability mechanisms and contribute to the sustainable development goals.

KEYWORDS

Accounting systems, financial accountability, non-governmental organizations, comparative analysis, cash-based system, accrual-based system, transparency, resource utilization, sustainable development goals.

INTRODUCTION

Non-governmental organizations (NGOs) operate in diverse sectors, addressing critical social and developmental challenges. As organizations that rely on donor funding and public trust, financial accountability is crucial to ensure transparency, responsible resource management, and effective achievement of their mission. Accounting systems play a vital role in facilitating financial accountability in NGOs. However, there is a lack of comprehensive understanding regarding the influence of different accounting systems on financial accountability practices within the NGO sector. This study aims to fill this gap by conducting a comparative analysis of accounting systems and their impact on financial accountability in NGOs. By examining cash-based and accrual-based systems, this research seeks to

identify the strengths and weaknesses of each system and provide insights for NGOs to enhance their financial accountability mechanisms and contribute to sustainable development goals.

METHODS

Literature Review:

A thorough review of existing literature on accounting systems and financial accountability in NGOs was conducted. This involved examining academic research articles, reports, and case studies to understand the current knowledge and key concepts related to the topic.

Comparative Analysis:

The study employed a comparative analysis approach to assess the influence of accounting systems on financial accountability. Cash-based and accrual-based systems were compared based on various dimensions, including transparency, accuracy, timeliness, and ease of reporting.

Data Collection:

Primary data was collected through interviews and surveys with finance managers and accounting personnel from a diverse sample of NGOs. The data focused on the accounting systems used, financial accountability practices, challenges faced, and perceived effectiveness of the systems in ensuring transparency and accountability.

Data Analysis:

The collected data were analyzed using qualitative and quantitative methods. Qualitative analysis involved thematic coding and identification of patterns and emerging themes. Quantitative analysis included statistical analysis of survey responses to identify trends and correlations between accounting systems and financial accountability practices.

Comparative Framework Development:

Based on the literature review findings and analysis of primary data, a comparative framework was developed to illustrate the impact of accounting systems on financial accountability in NGOs. The framework highlights the key factors and mechanisms through which accounting systems influence financial accountability.

The comparative analysis of accounting systems and their impact on financial accountability in NGOs provides valuable insights for practitioners and policymakers. The findings of this study will help

NGOs evaluate and improve their financial accountability practices by considering the strengths and weaknesses of different accounting systems. By enhancing financial accountability, NGOs can strengthen their credibility, increase donor confidence, and contribute more effectively to the achievement of sustainable development goals.

RESULTS

Cash-based Accounting Systems:

NGOs employing cash-based accounting systems demonstrated certain advantages in terms of simplicity, ease of use, and immediate tracking of cash flows. However, these systems showed limitations in providing a comprehensive and accurate picture of the financial position and performance of NGOs. They were prone to errors, lacked transparency in reporting, and made it challenging to track non-cash transactions effectively.

Accrual-based Accounting Systems:

Accrual-based accounting systems exhibited strengths in terms of providing a more accurate and comprehensive representation of financial activities, enabling better long-term planning and decision-making. These systems facilitated transparency in financial reporting, improved accountability, and enhanced comparability of financial information. However, implementing accrual-based systems required greater technical expertise and resources.

Financial Accountability Practices:

The study found that NGOs employing accrual-based accounting systems demonstrated higher levels of financial accountability compared to those using cash-based systems. Accrual-based systems enabled better tracking of revenues and expenses, facilitated timely and accurate reporting, and supported effective budgeting and resource allocation.

DISCUSSION

The comparative analysis highlighted the impact of accounting systems on financial accountability in NGOs. Cash-based systems, while simple, exhibited limitations in providing comprehensive financial information and accurate reporting. On the other hand, accrual-based systems demonstrated advantages in transparency, accuracy, and long-term planning capabilities. NGOs utilizing accrual-based systems were better equipped to ensure financial accountability, enabling effective utilization of resources and increased transparency in

reporting.

The findings suggest that NGOs should consider transitioning from cash-based to accrual-based accounting systems to enhance financial accountability. However, this transition should be carefully planned, considering the organization's resources, technical expertise, and capacity to implement and maintain the system.

It is important to note that the choice of accounting system alone does not guarantee financial accountability. The effectiveness of financial accountability practices also depends on factors such as internal controls, governance structures, and staff training. NGOs should adopt a holistic approach, addressing these factors in conjunction with the selection and implementation of appropriate accounting systems.

CONCLUSION

The comparative analysis of accounting systems in NGOs reveals that the choice of accounting system significantly influences financial accountability. Accrual-based accounting systems offer advantages in terms of transparency, accuracy, and long-term planning capabilities, enabling NGOs to enhance their financial accountability practices.

NGOs should carefully evaluate their existing accounting systems and consider transitioning to accrual-based systems, taking into account their resources, technical expertise, and organizational capacity. The adoption of accrual-based systems should be accompanied by the development and implementation of robust internal controls, governance mechanisms, and staff training to ensure effective financial accountability.

Enhancing financial accountability through appropriate accounting systems contributes to the overall credibility, transparency, and sustainability of NGOs. By ensuring responsible resource management and transparent reporting, NGOs can build trust with donors, stakeholders, and the wider community, and effectively contribute to the achievement of sustainable development goals.

REFERENCES

Barberis P. The new public management and a new accountability. *Public administration*. 1998; 76(3):451-470.

Brody E. Nonprofit and Foundation Accountability: What Are the Roles of Government, the Nonprofit Sector Itself, and Boards of Directors? *Snapshots Research Highlights from the Nonprofit Sector Research Fund*, The Aspen Institute, 2004, 35.

Chan JL. Government accounting: an assessment of theory, purposes and standards. *Public Money & Management*. 2003; 23(1):13-20.

Codjice M. *Business Financing vs. Managerial Accounting*. Demand media, 2011.

Collins S. *Even the Sound of a Care Made People Run into the Bush*, 2006.

Dellaportas S, Leung P, Cooper BJ, Lary AM, Taylor DW. Governance characteristics and role effectiveness of audit committees. *Managerial Auditing Journal*, 2012.

Dhanani A, Connolly C. Non-governmental organizational accountability: Talking the talk and walking the walk? *Journal of Business Ethics*. 2015; 129(3):613-637.

Fedosov V, Paientko T. Ukrainian government bureaucracy: Benefits and costs for the society. *Business and Management Studies*. 2017; 3(2):8-19.

Fedosov V, Paientko T. Government financial accountability: key problems and main trends in post-communist countries. *Zeszyty Teoretyczne Rachunkowości*. 2018; 99(155):25-39.

Frumkin EKKaP. Reengineering Nonprofit Financial Accountability: Toward a More Reliable Foundation for Regulation. *Public Administration Review*. 2011; 71(5):677-851.