Initial insights into NPO reporting in a South African context

A research report submitted by

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ABSTRACT

Non-profit organizations (NPOs) support societies' efforts to meet their social and environmental goals. Donations, subsidies, and grants are major sources of funding for these entities. Funders require useful financial information regarding the stewardship of their financial contributions. This research report provides insight into the current South African NPOs' financial reporting practices and what information South African NPOs deem useful to their users. Using content analysis over the financial statements and websites of 50 NPOs, South African NPO financial reporting practices were studied. The findings suggest that NPO financial reporting may have complexities. NPOs lack a profit motive in contrast to corporate companies, which may render current financial reporting standards largely irrelevant in the NPO space. There is a lack of guidance and knowledge regarding how NPOs should report their financial and social responsibility to their donors, beneficiaries, and other stakeholders, specifically in a South African context. The findings of the paper suggest that this lack of financial reporting guidance leads to the lack of standardisation of NPO financial statements. This study provides context on South African NPO financial reporting on which future research can be based.

DECLARATION

I hereby declare that this research report is my unaided work. It is submitted in partial fulfilment of the degree of Master of Commerce in Accountancy by Coursework and Research Report, at the University of the Witwatersrand, Johannesburg. It has not been submitted elsewhere to be awarded for another degree or examination purposes at any other university.

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LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation/ Acronym	**Description**
AFS	Annual Financial statements
CIPC	Companies and Intellectual Property Commission
DSD	The South African Department of Social Development
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IASB	International Accounting Standards Board
ICC	International Chamber of Commerce
IFRS	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standards for Small and Medium-sized Entities
IPSAS	This International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board's
NAV	Net Asset Value
NPC	Non-Profit Company
NPO	Non-Profit Organisation
Org	Organisation
SAICA	The South African Institute of Chartered Accountants
WBCSD	World Business Council for Sustainable

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1. Introduction

1.1. Introductory paragraphs

Non-profit Organisations (NPOs) assist in the achievement of social and environmental objectives of sustainable societies (Cordery et al., 2019; Goddard et al., 2006; Gray et al., 2006; Unerman et al., 2006). NPOs have become more prevalent in social development and economic intervention with their roles and responsibilities broadening as governments struggle to meet the needs of society (Ebrahim, 2003; Gazzola et al., 2021a; Goddard et al., 2006; Gray et al., 2006; Unerman et al., 2006). With greater funds allocated to NPOs, the need for NPOs to be accountable to funders, beneficiaries and all other stakeholders increases (Cordery et al., 2019; Ebrahim, 2003; Unerman et al., 2006).

Gray et al. (2006) discuss that there is an increase in the number of social and environmental movements (outreach activities) of all forms. With this increase in movements comes an increase in NPOs which facilitate these movements. As of May 2022, South Africa had 257 706 NPOs registered with the Department of Social Development (DSD) (Department of Social Development, 2022). It is difficult to estimate the size of the sector as not all entities with a benevolent aim are legally registered as NPOs and some entities legally registered have profit-seeking or business motives (Gray et al., 2006).

There is a gap in meeting the social and environmental needs of society, which NPOs attempt to fill (O'Dwyer & Boomsma, 2015). The gap is created due to a lack of trust in governments globally because of the widespread movement towards free trade, privatisation and corruption (Gazzola et al., 2021a; Gray et al., 2006; O'Dwyer & Boomsma, 2015). Scandals and corruption are not limited to the government. There have been numerous recent incidents in the NPO sector (Ebrahim, 2003; Khumawala & Gordon, 1997; O'Dwyer & Boomsma, 2015). These scandals together with the public role and responsibilities of NPOs have seen an increase in scrutiny of these organisations.

NPOs are largely reliant on public donations and provide assistance to vulnerable members of society and the environment. The result is accountability to donors, beneficiaries and other stakeholders of the organisation (Cordery et al., 2019). NPOs generally have fewer resources because of their reliance on public donations (Khumawala & Gordon, 1997). The lack of resources and a lack of understanding of the operations and value created by NPOs may limit the usefulness of NPO financial statements. Due to resource shortages, NPOs that inherently do not have a profit motive adopt widely available reporting frameworks for profit-orientated companies, which may not provide useful information. Balancing providing financial and non-financial aspects may be more important to understanding the performance and position of an NPO (Crawford et al., 2017; Reheul et al., 2012; Roberts et al., 2020). There is also less scrutiny of these financial statements as investors, lenders and regulators tend to focus on entities with a profit motive (Cordery et al., 2019; Georgiou & Jack, 2011). The result is a lack of understanding of what information is useful to the users of NPO financial statements and whether the current accounting standards are providing this useful information (Crawford et al., 2017; Unerman et al., 2006; Van Caneghem, 2015). Because of the increase in outreach activities, NPOs find themselves competing for donations in what is becoming a growing sector (Khumawala & Gordon, 1997).

There is limited research on the financial reporting practices of NPOs (Cordery et al., 2019; Costa et al., 2018; Crawford et al., 2017; Unerman et al., 2006; Van Caneghem, 2015). Most accounting research has been focused on the corporate sector, where financial metrics are the key performance indicators of success (Cordery et al., 2019; Georgiou & Jack, 2011). As NPOs do not have a financial motive, the existing reporting frameworks may not be well-suited for NPOs (Cordery et al., 2019). Donors who need useful information to make resource allocation decisions can benefit from well-informed financial statements (Khumawala & Gordon, 1997). Insight into how NPOs prepare financial statements and what information is included in these financial statements may assist preparers and regulators to identify deficiencies in current financial reporting practices to help provide guidance on useful information to be included in future.

Many NPOs provide information to their users by way of websites and social media posts. Websites and social media allow additional information, such as social impacts of the NPO to be disclosed (Lee & Blouin, 2019; Saxton & Guo, 2009). This information provided on websites provides insight into the information that NPOs perceive to be useful to users in determining whether to support the NPO (Saxton et al., 2012). Web-based disclosures allow NPOs to gain a competitive advantage and respond to threats and opportunities in the changing social and economic environment (Lee & Blouin, 2019). Limited research has been conducted on South African NPO web disclosure and how this provides insight into the information perceived to be useful by NPOs.

This paper explores the current financial reporting practices of South African NPOs and the information which these NPOs perceive to be useful to their users by inspecting the financial statements and websites of South African registered NPOs. The research contributes to filling the gap in the existing literature and may provide context to standard-setters and regulators in the investigation and development of NPO-specific financial reporting standards.

1.2. Statement of problem

South Africa does not have specific accounting standards which relate to the preparation and presentation of statements of NPOs (Crawford et al., 2017, p. 7). There is little guidance and understanding of what information is useful to the user of NPO financial statements and how NPOs should report their social responsibility to their donors, beneficiaries, and other stakeholders (Crawford et al., 2017; Van Caneghem, 2015).

1.3. Research objective

The objective of this research is twofold. Firstly, the research provides insight into the current financial reporting practices of South African NPOs. To provide this insight, focus will be placed on the current financial statement disclosure of South African NPOs. Secondly, this study provides insight into what information South African NPOs think is useful to their users, by inspecting information disclosed on NPO websites.

1.4. Research question

This study addresses the following research questions:

1. What are the financial reporting practises of South African NPOs?

2. Do the financial reporting practices differ depending on the objective, size and qualifications of the preparers of the NPO?

3. What information do NPOs consider to be useful to the users?

1.5. Significance of the study

The study may serve as encouragement for the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) to consider financial reporting standards for NPOs tailored to the needs of the users of these NPO., This may result in more useful NPO financial statements. More useful NPO financial statements can improve user confidence and NPO access to capital to assist in meeting the goals and objectives of the organisation. This study will contribute to the current research on the financial reporting by NPOs (Breen, 2013; Breen et al., 2018; Connolly & Hyndman, 2000; Cordery et al., 2019;

Crawford et al., 2017; Gordon & Khumawala, 1999; Ištvánfyová & Mejzlík, 2010; Mack et al., 2017; Ryan et al., 2014; Van Caneghem, 2015; Yetman & Yetman, 2004; Zainon et al., 2013). Understanding the current financial reporting practices of NPOs can provide context for future research and can guide other NPOs on financial reporting practices to employ to improve financial statement quality.

1.6. Assumptions, limitations, delimitations

This research assumed that information included in the financial statements and websites of NPOs was a complete representation of the transactions of the NPO.

A limitation existed as the financial statements of NPOs are not publicly available in all cases. This impacted which financial statements the researcher was able to inspect. This results in a decrease in the generalisability of the study. The study focused on South African NPOs. The results of the study may still be useful to other jurisdictions with similar contexts but should be used with caution.

The remainder of this paper is structured as follows: section 2 provides the background to the study and a review of the existing literature, section 3 details the research methodology and section 4 provides an analysis of the results.

2. Literature review

2.1. Theoretical frameworks

2.1.1. Agency theory

Accounting was created as a means to address the principal-agent problem (Hopwood, 1987). A principal (the investor) gives stewardship over resources to an agent (management) (Murphy & O'Connell, 2013). The principal and the agent in many cases have different goals and objectives. Financial statements play a role in aligning these objectives by holding management accountable for the use of entity resources in achieving the set goals of the entity (profit-seeking or otherwise). By comparing one agent's performance with another, benchmarks can be created. Whittington (2008) explains that a well-known principal/agent problem is the interaction between management and current stakeholders.

The agency problem exists in the NPO sector where donors (including funders) are a significant upward stakeholder group (Connolly & Hyndman, 2000; Crawford et al., 2017; Ebrahim, 2010; Kuruppu et al., 2022). An account is owed to donors and funders (Crawford et al., 2017). Without donors'/funders' assistance, NPOs cannot operate, and philanthropic activities may cease. Donors/funders contribute resources to NPOs without receiving any direct financial advantage in return. To ensure the principal continues to provide much-needed resources, the agent needs to bear an account as to how the principal's resources were used (Connolly & Hyndman, 2000).

Agency theory holds in an NPO in which donors enter non-exchange transactions with NPOs and are interested in knowing how their donated resources have been used to encourage continued funding and support (Hielscher et al., 2017). Agency theory will be used to determine what information is useful in the context of NPOs' financial statements. The principal-agent theory can be useful in understanding what donors consider useful information when making resource allocation decisions, judging agents, and determining the appropriate performance of the NPOs.

The information from financial statements is used by stakeholders to keep track of how much choice management (the agent) has to exercise (Murphy & O'Connell, 2013; Whittington, 2008). This is the reason why, in most cases, financial statements are presented by management at an annual general meeting. Through this process, stakeholders hope to improve management's performance and ensure that they remain stewards of the company serving the best interests of the principal.

Accounting and the concept of accountability are important components of corporate governance which serves to reduce agency costs. Agency costs are incurred when agents do not act in the best interests of the principal (Murphy & O'Connell, 2013; Whittington, 2008).

2.1.2. Stakeholder theory

Freeman (1984, p. 46) defines stakeholders as "any group or individual who can affect or is affected by the attainment of an organization's objectives". An organization has a moral obligation to account to the stakeholders affected by the activities and strategies of the organization (Andreaus & Costa, 2014). Stakeholder theory looks broadly at parties to whom the reporting entity should be accountable (Phillips et al., 2003).

In applying this theory, financial statements should be produced to meet the needs of all stakeholders, rather than a narrow group of shareholders (Andreaus & Costa, 2014). Stakeholder theory, from a managerial perspective, goes beyond traditional profit maximization by requiring fiduciary responsibility to all stakeholders, shareholders or otherwise (Donaldson & Preston, 1995). Information in the financial statements should be useful for decision-making by stakeholders and allow stakeholders to make judgements and hold management accountable for their actions.

There is an expectation that corporate organizations co-ordinate and balance the needs of stakeholders (Evan & Freeman, 1988). The fewer stakeholders (who are interested in financial statements) a firm has; the less emphasis management may place on producing high-quality financial statements (Gray et al., 2006). For example, NPOs which are created and run by friends and family may not require formal financial records because of the closeness of the relationship which exists between management and the stakeholders.

Connolly and Hyndman (2000) state that NPOs focus on reporting descriptive information relating to performance. According to the stakeholder theory, NPOs believe that important stakeholders (for example, donors/funders and the public) are more interested in the activities they carry out than numbers measuring their financial efficiency and effectiveness. Donors provide funds to NPO for them to carry out their morally obligated tasks. If the task is completed successfully, donors are usually satisfied. Connolly et al. (2018) also suggest that having a mandatory reporting system in place may make increased public disclosure more likely.

There are three levels of stakeholders to whom an NPO is accountable (Ebrahim, 2003, 2009, 2010). Firstly, the accountability of NPOs to their donors, also known as upwards accountability (Najam, 1996), typically relates to interactions with donors, foundations, and governments and is connected with how NPOs have used the funds collected to achieve their goals and objectives. Secondly, relationships between NPOs and their beneficiaries create downward accountability or accountability to clients. Finally, NPOs' internal accountability is referred to as "responsibility to themselves".

2.2. The purpose of NPOs

NPOs are described as not-for-profit, not the government, self-governing entities which focus on the well-being of others (Cordery et al., 2019; Goddard et al., 2006; Gray et al., 2006; Unerman et al., 2006). NPOs concentrate on generating social value. These entities are geared toward achieving environmental and social goals rather than being concerned with capitalistic economic motives or political power gained through elections (Andreaus & Costa, 2014; Gazzola et al., 2021a; Gray et al., 2006).

The United Nations describes an NPO as any not-for-profit, voluntary group run by citizens who are organized on various levels of the state (Unerman et al., 2006). These groups are project-orientated and driven by individuals with a shared interest. NPOs perform various services and humanitarian functions, raise citizens' concerns with governments, monitor policies and encourage political involvement at the grass-roots level (Gray et al., 2006). NPOs also provide analysis and expertise and serve as early warning mechanisms by being the arbitraging link between researchers, policymakers and the general public to mobilise during disasters. Some NPOs assist with monitoring and implementing international agreements and others are established to focus on specific issues, such as gender-based violence, the environment or human rights (Gray et al., 2006).

From a South African perspective, besides the moral intention of designating an organisation as an NPO, there are legislated requirements allowing entities to register as NPOs. An NPO according to the "Nonprofit Organisations Act" (1997) is a trust, company or voluntary association of people which is created with a public purpose in mind, and whose income and assets are not distributed to its members or officers other than as fair remuneration for labour. Based on this legislated definition, South African NPOs are provided with their underlying purpose which is to be established and operated for public purpose.

Cordery et al. (2019); Gray et al. (2006); Unerman et al. (2006) contest the idea that formal registration with a recognised body deems an entity to be an NPO in terms of the legal definition. In a South African context, for example, there are companies which are registered with the Companies and Intellectual Property Commission (CIPC) as non-profit companies

(NPC). These companies are not required to register with the DSD as NPO's (Companies Act 2008; Nonprofit organisations Act 1997; Companies and Intellectual Property Commission 2022). South Africa can have entities which are NPOs by nature but are not NPOs by registration.

The South African government published (website www.gov.za) that registering a company, trust or voluntary association as an NPO is positive. Upon registration with the DSD, NPOs receive an NPO certificate. This certification increases the credibility of organisations, allows organisations to open bank accounts and assists organisations with tax incentives. According to www.ngoconnectsa.org , another incentive to register as an NPO is grants provided by the government and the national lotteries commission, specifically for NPOs.

Unerman et al. (2006) provide that it may be useful to categorise NPOs by their activities. In South Africa, there are 257 706 registered NPOs whom all focus on one of 130 listed objectives recognised by the DSD. The listed objectives on the DSD's website contained some duplicate and similar objectives. To better understand the vastness of NPO objective categories, below is a list of 77 unique objectives listed by the DSD:

Table 2.1: The department of social development NPO objective categories

Business and professional associations, Unions	Philanthropic intermediaries and volunteerism promotion	Economic, social and community development
Culture and recreation	Religion	Employment and training
Development and housing	Social services	Housing
Education and research	Culture and arts	Higher education (university level)
Environment	Primary and secondary education	Other education
Health	Sports	Research
International activities	Service club	Animal protection

Law, advocacy and politics	Recreation and social clubs	HIV/AIDS
Hospitals and rehabilitation	Income support and maintenance	Family services
Mental health and crisis intervention	Service to the elderly	Child protection
Nursing homes	Youth services	ECD and partial care centres
Other health services	Self-help	Temporary safe care/place of safety
Service to people with disabilities	Services to children	Secure care
Homes for children with special needs	Schools of industry/reform schools	Children's homes
Adoption services	Community-based care services for children	Refugee assistance
Ethnic associations	Congregations	Material assistance
Grant making foundations	Wildlife preservation and protection	Vocational/technical schools
Civic associations	International human rights and peace organisations	Pollution abatement and control
Museums	International disaster and relief organisations	Veterinary services
Temporary shelters	Job training programs	Social sciences and policy studies
Community and neighbourhood organisations	Vocational rehabilitation and sheltered workshops	Consumer protection association

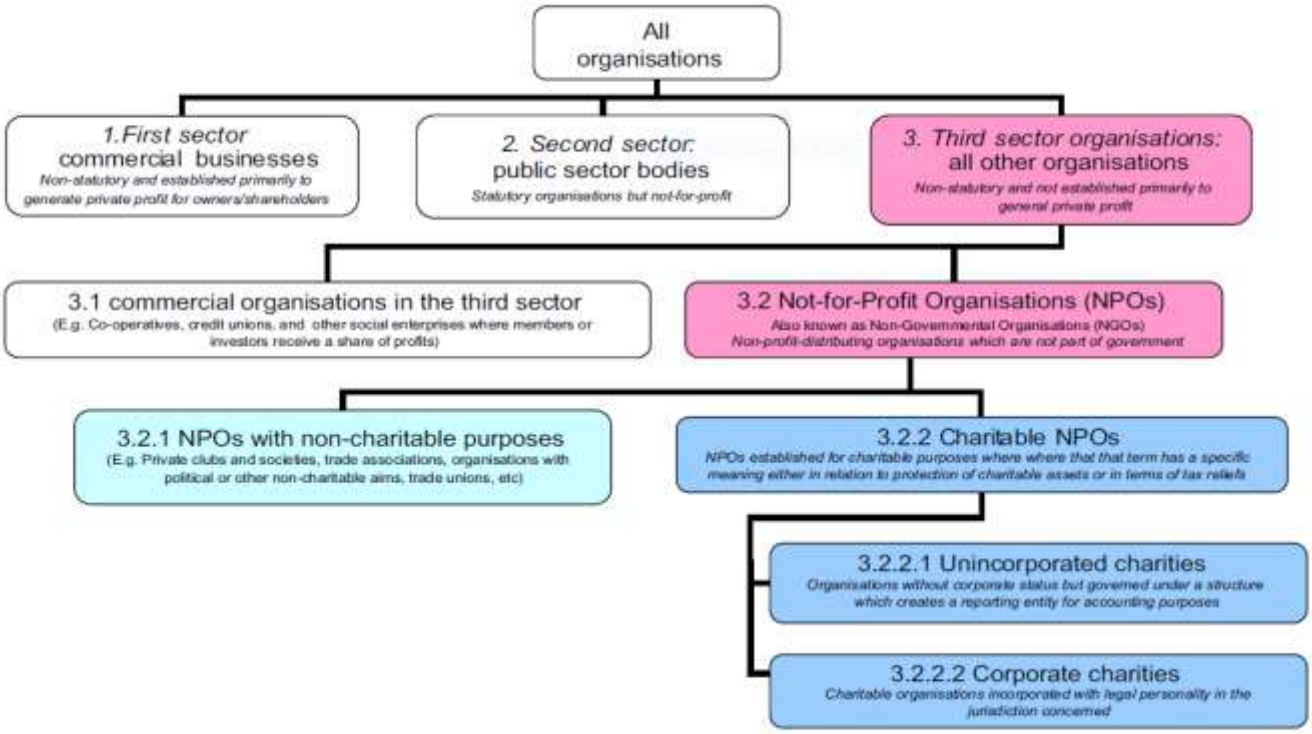
Science and technology	Performing arts	Historical, literacy and humanistic societies
Zoos and aquariums	Victim support	Fundraising organisations
Exchange, friendship and cultural programs	Family services	Media and communications
Visual arts, architecture, ceramic art	Natural resources conservation and protection	Emergency medical services
Development assistance associations	Rhino conservation.	

Source: Adapted from the Department of Social Development (2022).

Sometimes the lines are blurred between NPOs and their funding bodies which may be large corporations. For example, Pick n Pay, a large South African supermarket chain established the Feed the Nation Foundation (PicknPay, 2022). The donation page of Pick n Pay's NPO is directly linked to the supermarket's webpage. This creates an additional risk to NPO independence and credibility which may, in turn, affect the quality of the financial statements produced (Gray et al., 2006; Unerman et al., 2006). In another example, the International Chamber of Commerce (ICC) and The World Business Council for Sustainable Development (WBCSD) are considered NPOs which are difficult to differentiate from market members with neoliberal agendas because of their funding and staff structure (Gray et al., 2006). This is not unique to international NPOs; in South Africa, the South African Institute of Chartered Accountants (SAICA) is a registered NPO with the DSD which has close links to the business sector.

It is difficult to define an NPO (Gray et al., 2006; Unerman et al., 2006). NPOs are sometimes described as being active in the "third sector" (as depicted in Figure 2.1), which is the area straddling public and private businesses (Connolly & Hyndman, 2000; Crawford et al., 2014). Private businesses operate in a setting of voluntary exchange transactions where exchange transactions usually take place at arm's length and are motivated by the quantifiable aim of profitability (Ryan et al., 2014). Public sector bodies, on the other hand, operate in a setting where there are largely non-exchange transactions and involuntary funders, motivated by political and economic purposes (Ryan et al., 2014). NPOs in this "third sector" typically have a clear goal which is stated in their objectives. NPOs generally work in a setting where non-exchange transactions and voluntary funders dominate (Costa et al., 2014; Crawford et al., 2017; Dhanani & Connolly, 2012).

Figure 2.1: Organisational sectors



Source: Adapted from Crawford et al. (2014)

2.3. NPO corporate reporting and reporting frameworks

Financial statements are a crucial means for stakeholders to understand the operations, activities, achievements, and failures of organizations, assisting in the decision-making process (Crawford et al., 2014; Van Caneghem, 2015). As a result, financial statements are acknowledged as one of the most popular instruments used by corporations to account to their stakeholders. Financial statements (and evaluations) may be used to influence outsiders' impressions of the organizations (Dhanani & Connolly, 2012). The preparation of financial statements without additional qualitative disclosures describing initiatives conducted and the related success of these initiatives reduce the usefulness of the financial statements produced, specifically in the NPO reporting space (Costa et al., 2018).

According to estimates, 62% of NPO funds worldwide come from government and private philanthropic contributions (Ryan et al., 2014). These normally take the form of voluntary, non-monetary contributions like capital assets, supplies, and services, as well as voluntary financial contributions like donations, grants, endowments, and bequests (Reheul et al., 2012; Ryan et al., 2014). NPO resources are the result of interactions in which the contributor frequently has no immediate financial gain but may gain value from seeing others assisted. (Crawford et al., 2017; Ebrahim, 2010). These transactions are usually described as non-exchange or non-reciprocal transactions (Ryan et al., 2014). NPOs whom usually participate in non-exchange transactions (i.e., donations) operate in a very different environment from these for-profit companies (Costa et al., 2014). Using the same reporting standards creates challenges in reporting accountability to stakeholders (Crawford et al., 2017).

Because of how NPOs are funded which is largely through donations from the public, there is a need for specific accounting and accountability reporting for NPOs (Breen et al., 2018; Cordery et al., 2019). Financial statements provide useful information which aids users in assessing the financial position of NPOs and provides a detailed account of how funds are obtained and used in the organisation to meet the stated objective of the organisation (Khumawala & Gordon, 1997; Reheul et al., 2012; Van Caneghem, 2015).

An NPO should select a reporting convention by considering the following: Any legislative requirements applicable to the NPO, the specifications from donors or government grants, and the nature and scope of the activities of the NPO (Department of Social Development, 2022). The "Nonprofit Organisations Act" (1997, p. 7) provides that NPOs must at a minimum maintain accounting records of their income, expenses, assets and liabilities. According to the NPO Act, NPOs need to prepare a statement of profit or loss and a statement of financial position which need to be available within six months after the NPO's financial year-end ("Nonprofit Organisations Act," 1997, p. 7). In analysing the financial reporting practices of NPOs, consideration will be given to whether the financial statements include these statements as a minimum and any additional statements required by the organisation's chosen financial reporting framework.

Generally, NPOs prepare financial statements using the following conventions: the International Financial Reporting Standards (IFRS), the International Financial Reporting Standards for Small and Medium Enterprises (IFRS for SMEs) or the Modified cash basis of accounting or another basis suitable to the activities and nature of the NPO (SAIBA, 2015). Breen et al. (2018); Crawford et al. (2014) identify the use of the IFRS, as well as International Public Sector Accounting Standards (IPSAS), in the preparation of the financial statements of NPOs. The financial reporting requirements of these standards will be considered in observing the financial reporting practices of NPOs. IFRS and IFRS for SMEs require the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cashflows and supporting notes to the financial statements. The presence or absence of these statements and notes together with the characteristics of the statements and supporting notes guided by the principles of the Conceptual Framework of relevance and faithful representation, including completeness, neutrality and whether the statements are free from error will be used to develop criteria to be captured to assess the financial reporting practices of South African NPOs (IASB, 2020).

Internationally some countries do provide sector-specific financial reporting guidelines for NPOs, so they can provide more useful information to users of their financial statements (Crawford et al., 2014). These countries are usually wealthier, Western, First-World countries, for example Canada, England and Wales, Scotland, Belgium, New Zealand, Switzerland and the USA (Crawford et al., 2017; Ebrahim, 2003). For example, refer to the FASB's U.S. Generally Accepted Accounting Principles (GAAP) guide on how and what NPOs should report. This guidance introduces a statement of activities and a statement on functional expenses (FASB, 2016; Gordon & Granlund, 2018). However, most counties around the world, including South Africa and most developing countries, lack NPO-specific standards with a sector-specific conceptual framework to guide preparers on what constitutes useful information in NPO reporting (Crawford et al., 2017).

Breen et al. (2018) are also of the opinion that various standards which have been adapted from the for-profit and public sectors are not suitable for NPO corporate financial reporting. An example of this is the IFRS standards which are built on the neoliberal IASB's conceptual framework. These standards are used by and created for for-profit companies reporting to a narrow list of users, existing and potential investors, creditors and lenders (IASB, 2020). NPOs operate without the intention of earning a profit but rather to discharge their non-profit objective. Prioritising reporting to investors, creditors and lenders to assist economic decision-making, as captured in the IASB's conceptual framework may not be suitable for the NPO sector (Crawford et al., 2017; IASB, 2019). Another example given by Crawford et al. (2017) is that of the International Public Sector Accounting Standards Board's (IPSASB) conceptual framework. This framework prioritises accountability (in a stewardship context) for the public sector which is not appropriate for the NPO sector. This is because the IPSASB's conceptual framework identifies service recipients, the public and political representatives as the users of financial statements, and resource providers as taxpayers. Donations made to NPO's resources are acts of benevolence rather than altruism. Paying taxes so that government bodies may run isn't seen by everyone as an act of benevolence, making the reasons for funding the public sector different from the NPO sector. Donations made to NPOs are an act of liberality, with users being more interested in the overall achievements made with their funds than a detailed account (Costa et al., 2014; Reheul et al., 2013).

Costa et al. (2014) state that society historically envisioned a profiteering enterprise as the model organization. This has led to the current financial reporting standards centred on profits and income-generating assets. Recently, however, there has been a universal call for the creation of a NPO-specific standardised financial reporting framework (Breen et al., 2018). The (IASB) and (FASB) have issued statements calling for not-for-profit sector-specific accounting standards (Costa et al., 2014). The need arises because the use of many profit-orientated and public entity-specific financial reporting standards in the preparation of NPO financial statements (Andreaus & Costa, 2014; Costa et al., 2014; Crawford et al., 2014). The IASB acknowledges that information on the amount and character of net resources are important to NPO stakeholders (Costa et al., 2014. Information about how those resources are used to offer various services is necessary for evaluating the performance of NPOs (Costa et al., 2014).

It is widely held that an NPO-specific reporting standard will provide more useful information to the diverse users of NPOs. It is usual to see different reporting styles for similar or identical transactions by NPOs (Cordery et al., 2019). The lack of a standardised financial reporting framework for the not-for-profit sector leads to a lack of comparability which has eroded the usefulness of accounting information to make economic decisions. There is a need to explore the makeup of NPO financial statements and transactions to understand how to report to users better.

2.4. Challenges faced by NPOs in the preparation of financial statements

With increased competition for donations, there is a greater need for NPOs to prepare high-quality, useful financial statements to attract donations in order to survive (Khumawala & Gordon, 1997). The need for donations to achieve the NPO's goals may result in financial statements with errors and omissions to make financial statements appear more attractive to users (Dhanani & Connolly, 2012). Dhanani and Connolly (2012) go on to provide an example of a cancer research institution which attempted to change its accounting procedures to enhance its efficiency ratio to increase its access to funding.

NPOs typically have few resources because they depend heavily on donations. The accounting resources, time, and effort devoted to the financial reporting process are all impacted by this shortage of resources (Khumawala & Gordon, 1997). A lack of understanding of financial statements and the advantages of high-quality financial statements may also be caused by the fact that NPOs, particularly smaller organizations, tend to hire personnel who may be less competent, with less experience, because of the lower salaries offered by NPOs (Cordery et al., 2019; Kuruppu et al., 2022). According to research, managers may not be familiar with accounting jargon and may not be comfortable with the interpretation and application of accounting standards that were developed for profit companies. This may lead to questionable accounting choices in financial statements (Connolly & Hyndman, 2000). This issue is partially mitigated by the lower complexity of operations of NPOs, where it is unlikely that complex accounting treatment is required (Crawford et al., 2017). A key challenge in NPO financial reporting relates to resource constraints in the form of qualifications of preparers and donations. As such the research considers whether the financial reporting practices of NPOs differ depending on their size and qualifications of preparers.

According to research, the charitable organization's cause has an impact on the donations people make to it. Just 3% of donations were made to non-profit organizations which support the environment and animal welfare in the American setting, whereas 95% of donations were distributed to human services, religion, education, and health (Septianto et al., 2020). Resource allocations are affected by lower donations which may, in turn, affect NPOs' financial reporting procedures. This research considers whether the financial reporting practices are influenced by the objective of the NPO.

Unlike for-profit companies, NPOs lack a commercial bottom line because of their non-profit agenda (Crawford et al., 2017). This may affect the key performance indicators of both the organisation and its management, leading to lower levels of accountability because of their perceived lower financial importance (Gray et al., 2006). Costa et al. (2014) challenge this view, stating that NPOs view wealth development as a means of supporting their sustainability. NPOs have a dual purpose to create and report on the social and economic value created (Crawford et al., 2014). Consideration needs to be given to whether the current financial reporting standards used by NPOs in the preparation of their financial statements allow for their success.

Users of NPO financial statements are diverse and have different information needs (Costa et al., 2018; Crawford et al., 2017; Goddard et al., 2006; Reheul et al., 2012). For example, the information needs of a donor are very different from the needs of the beneficiary and there will also be a difference in the level of power and influence of these users. For example, donors may require information about the success of the NPO's projects while beneficiaries may require information about the projects run by the NPO to assist them. Beneficiaries are distinct from donors and will not be able to enforce any accountability on the part of the NPO (downward accountability) which, in turn, may lead to gaps in an NPO's financial statements (Gray et al., 2006).

NPOs take actions which provide public good but sometimes these actions are not quantifiable in financial statements (Cordery et al., 2019). For example, a marine and seaside clean-up focused-NPO may not be able to quantify its impact on the environment. According to Ryan et al. (2014), neither for-profit nor public-sector organizations encounter a situation where volunteers play such a crucial role in their operations002E Approximately one billion people worldwide are thought to give their time to volunteering yearly (Ryan et al., 2014). Financial statements, however, do not currently show how an NPO is accountable for its dependence on and utilization of volunteers. Even though NPOs benefit significantly from volunteer services, the current financial reporting frameworks used by NPOs may not allow them to accurately account for the degree of their reliance on volunteer labour (Ryan et al., 2014).

Many NPOs regard the publishing of audited financial statements as a "tick box" exercise as it is required by legislation in most countries (Cordery et al., 2019). The significance of financial statements and the associated benefits may not be fully understood by NPO management, which may lead to weaknesses in financial reporting (Cordery et al., 2019; Kuruppu et al., 2022). NPOs may not attract highly qualified and competent staff because of lower or no compensation. This results in lower financial literacy and understanding of user reporting needs, decreasing the quality of the financial statements produced. An example of this problem is when management misunderstands the simple meaning of "qualified accounts" (Cordery et al., 2019).

2.5. NPO assurance

According to research, NPOs which have their financial documents audited perform better and are able to raise more money from contributors (Dell et al., 2022). On the other hand, Connolly et al. (2018) state that while audited financial statements are important, they are not the most important to donors. Information is required on the actual progress made by NPOs in fulfilling their objectives.

According to research, the NPO assurance charge is determined by the NPO's size and the complexity of its operations. (Ellis & Booker, 2011). Research has identified that similar to the profit sector, the higher the audit fee for an engagement, the more resources and time are allocated to the engagement (Vermeer et al., 2009). Another factor impacting the audit quality of NPOs is the lack of a capital market factor for the NPO sector (Reheul et al., 2013). The issue of lower audit resources is mitigated to an extent by the simpler and usually smaller operations of South African NPOs. There is also generally less attention directed to the financial statements, because of users' preferences for other information on how goals are being met (Costa et al., 2014; Reheul et al., 2013). There is a need to investigate the level of assurance obtained by NPOs on their financial statements and whether this differs based on the factors discussed above.

The "Nonprofit Organisations Act" (1997, p. 7) provides that within two months of the preparation of the annual financial statements, all registered non-profit organizations are expected must the financial statements were prepared in accordance with the NPO's policies, are consistent with the accounting records, and that the NPO is in compliance with the Act (SAIBA, 2015). A formal audit is not required, but one can be included in the accounting officer's report. The findings from Reheul et al. (2013) also that audit report lags in the Belgian NPO sector are greater than in the for-profit sector. This means that the time between the financial year-end and the issuance of an audit report is longer than that of for-profit companies. The larger audit report lag means that users obtain financial information later. This will be considered in the research by considering the date of the latest available financial statements of the NPO.

2.6. NPO web-based disclosure

NPOs may discharge accountability through internet-based disclosures of financial statements, annual reports (disclosing both financial and non-financial information) and impact reports (Dhanani & Connolly, 2012). A survey conducted in 2010 by KPMG discovered that only thirteen per cent of German NPOs produced annual reports while only nine per cent made these reports accessible on the web (Striebing, 2017). Saxton and Guo (2009) conducted a study, finding that asset size is an important factor in determining whether an NPO makes use of the web to disclose accountability.

As most of the modern world has access to the internet, digital reporting has become prevalent and important for many stakeholders (Gazzola et al., 2021b). For example, donors use the internet to discover NPOs, their visions and objectives and to make donations directly from the websites of NPOs. Social media also provide easy platforms for donations to be made with applications such as Instagram providing a platform and facilitating the transfer of information and donations for various NPOs. Using the internet to report useful information to users can give an NPO a competitive advantage, enabling donors through relatively cost-effective and simple ways to be actively involved making web-based transparency and reporting a beneficial line of research (Cabedo et al., 2018). Gandía (2011) confirms that NPO web-based disclosure levels correlate to the amount of future donations received.

The disclosure of reports, financial information and the website's fundraising capabilities will be considered in observing what information NPOs consider useful to users. NPOs disclose information illustrating their success in achieving their environmental and social goals to convince donors to donate to their cause and find volunteers (Andreaus & Costa, 2014). Web-based disclosure is a cost-effective and efficient way to disclose information and collect donations (Cabedo et al., 2018). The presence or absence of reports, financial metrics and funding capabilities will be used to develop criteria to be captured to assess what information NPOs consider useful to users.

Internet-based communications have become part of the routine of everyday life (Parsons, 2019). Four factors which affect whether NPOs practise adequate web-based disclosure are identified by (Saxton & Guo, 2009). These factors are: 1) the degree to which an NPO directs its strategy towards certain user groups or geographical areas 2) whether an NPO can sustain the projects which align with their strategy about the use of technology 3) the level of governance and 4) the extent to which the stakeholders accept or request internet-based accountability practices. The research suggests that NPOs are underutilizing internet-based accountability practices to engage with the stakeholders and, as a result, fail to use this mechanism to incorporate user needs, demands, and preferences (Saxton & Guo, 2009).

2.7. Useful information to users of NPO financial statements

To identify what information is useful to the users of NPO financial statements, a discussion on the paradigms of stewardship and neo-liberalism is required. The information needs of users under both paradigms are different. This stems from the identified user groups under the stewardship paradigm being inclusive of more than the neoliberal paradigm (Murphy & al, 2013; Zhang & Andrew, 2014). Financial statements pursuing a stewardship agenda are based on being accountable to more user groups with different information needs. Aligning the prevailing stewardship ideology of the time, the broad scope of information needs to be accommodated in the financial statements “offered a conceptual appreciation of the broader public interest function of the accounting practice” (Zhang & Andrew, 2014, p. 20). With the shift in the reporting objective to information usefulness and consequently the paradigm shifts to neoliberalism, a single user group was identified: the providers of capital (creditors and equity providers).

The ideology of stewardship should naturally be better suited to users of NPO financial statements (Connolly & Hyndman, 2000) as the views of this ideology on what constitutes useful information better align with users of NPO financial statements. Users of NPO financial statements require information not used to make neoliberal buy, hold and sell decisions

(Cordery et al., 2019; Unerman et al., 2006). Users of NPO reports seek to measure the performance of the entity by analysing its financial and non-resource usage in meeting the stated goals and objectives of the NPO (Cordery et al., 2019; Saxton & Guo, 2009). Previous studies have also provided evidence that non-financial information is more valuable to users in the NPO sector (Khumawala & Gordon, 1997).

Both stewardship and neoliberal ideologies can provide information to hold management accountable. Using stewardship ideologies, management is held accountable based on historic performance (Connolly & Hyndman, 2000). Under both the stewardship and neoliberal paradigms, financial statements are used as a way to determine whether management has acted in the best interests of the entity, echoing the well-known agent-principal relationship (Whittington, 2008).

Goddard et al. (2006) believe that how accounting information is understood and used by various stakeholders is pivotal in understanding what role accounting plays in NPOs. Accountability considers the relationship between the accountable organisation and the stakeholder. Stakeholders need both financial and non-financial information to be available to ensure the discharge of accountability (Gray et al., 2006; Reheul et al., 2012). NPO financial statements have diverse users to whom they are accountable (Costa et al., 2018; Crawford et al., 2017; Goddard et al., 2006; Khumawala & Gordon, 1997; Reheul et al., 2012).

Donors in the non-profit sector want information regarding the utilization of their financial contributions which must be put to good use (Costa et al., 2014). In particular, concerning performance, well-designed and effective accounting and reporting systems can aid charities in meeting their accountability obligations to stakeholders and bolster their standing in society (Connolly & Hyndman, 2000). However, because of the possibility of misinformation in this data, NPO accountability cannot be entirely dependent on or tied to its economic and financial performance. NPO accountability should not be reduced to just economic and financial considerations; it must also take into account the interactions with the stakeholders and the NPO's capacity to accomplish its set objectives which are not only financial but also pertinent to the social and economic dimensions of people's lives (Costa et al., 2014).

Accountability to all stakeholders brought about by the ideology of stewardship is important in an NPO reporting setting (Connolly & Hyndman, 2000) but we see the prioritisation of upward accountability to funders and regulators (Crawford et al., 2017; Kuruppu et al., 2022). Meeting the accountability requirements of funders is very important due to the resources and support they provide to NPOs (Cordery et al., 2019; Reheul et al., 2012; Yetman & Yetman, 2011). These funders may require a more detailed understanding of how their funds are allocated and the quantifiable impact which those funds have had on society and the environment. This prioritisation of certain users will certainly lead to tailored information reported deemed useful to these users. For example, Pick n Pay reports on their “Feed the Nation Campaign” (Pick n Pay, 2021).

Financial information needs are largely driven by interested parties (Costa et al., 2014). More formal responsibility is necessary for organizations in which interpersonal connections are generally lacking (Costa et al., 2014; Gray et al., 2006). In organizations in which the relationships are simple, such as NPOs founded by friends or family, more informal accountability is necessary (Gray et al., 2006).

Information transparency is another important element in producing useful information about the governance, financial position, and performance of an entity (Breen et al., 2018; Crawford et al., 2017). Crawford et al. (2017) make mention of a South African NPO staff member who states that reporting frameworks aimed at improving transparency for users provide only transparency for accountants who are trained in analysing this sort of information. This does not consider the needs of the broader stakeholders of NPOs. This further indicates the opaqueness of current financial statements. Engaging and communicating all activities to stakeholders in a multi-lateral fashion is key for users such as donors who require qualitative and quantitative information on the impact of their donations (Gazzola et al., 2021a; Reheul et al., 2012)

Economic and financial indicators alone don’t allow for adequate analysis of NPO performance, because of the atypical nature of their accountability objectives (Costa et al., 2014). When evaluating NPOs, emphasize the vital relevance of taking into account both financial and non-financial criteria. Nonfinancial metrics are tied to financial measures since, on the one hand, financial resources are useless if they are not used to accomplish the purpose. On the other hand, achieving a social goal is impossible without effectively using financial resources (Costa et al., 2014; Ebrahim, 2010). In short, the need has arisen to expand the necessary accountability procedures for NPOs. Largely due to the ineffectiveness of conventional accounting criteria's assessment of NPOs (Andreaus & Costa, 2014). These systems ought to be based on social impact for a range of stakeholders as well as economic and financial performance (Ebrahim, 2009, 2010).

3. Methodology

3.1. Overview

The objective of this research report was to identify the current financial reporting practices of NPOs and to gain insight into what information NPOs understand to be useful to the users of their financial statements.

This research report addresses the following questions:

1. What are the financial reporting practices of South African NPOs?

2. Do the financial reporting practices differ depending on the objective, size and qualifications of the preparers of the NPO financial statements?

3. What information do NPOs see as useful to the users of their financial statements?

To answer these research questions, a quantitative method was used to obtain an understanding of the financial reporting of NPOs, and their perspectives. The researcher conducted a content analysis to collect data obtained from the latest available financial statements and publicly available websites of the sampled NPOs (Buchling & Maroun, 2021). The financial statements were inspected to obtain information related to the size, objective, preparer, financial reporting practices and web-based disclosures based on the checklist included in Appendix A. Content analysis is a method which codifies text or content into numerous groups or categories depending on the selected criteria (Krippendorff, 2019). Content analysis was determined to be appropriate as different types of data can be processed systematically and reliably from sources not uniformly formatted (Buchling & Maroun, 2021; Leedy et al., 2019; van Zijl & Hewlett, 2021). This method is consistent with the method used in similar studies, where financial statements were used as a source of data for content analysis (Nardhamuni et al., 2023; van Zijl & Hewlett, 2021).

Information was captured and stored in Microsoft Excel. The information collected by way of content analysis was scored to develop numerical data to be analysed using descriptive statistics and nonparametric Kruskal Wallis Tests.

A pilot study was conducted where data were collected for 5 organisations to ensure consistency in the capturing of information and to identify any variables to be captured that were not previously identified. For each organisation, the researcher captured general information. This included the organisation's objective, name and the year of the latest financial statements.

This is an exploratory study. As information was collected and captured from the financial statements and NPO websites, the data to be collected were updated to ensure consistency as new information was identified. As a result, the data collection process was an iterative one (Srivastava & Hopwood, 2009).

3.2. The population and sample

The population of this study was defined as the organisations registered as NPOs with the DSD as of the 1st of May 2022. At this date, there were 257 706 NPOs.

3.2.1. Sample size and selection of sample

The financial statements and websites of 50 NPOs were inspected. As NPOs' financial statements are not publicly available; convenience sampling was adopted. Existing networks were used to obtain access to NPO financial statements directly from the organisations where they were not available on their websites. Snowball sampling was also used where organisations which provided access to the financial statements were asked to suggest and introduce the researcher to additional organisations (Hitz, 2007; Zhang & Andrew, 2014).

3.3. Data analysis

Descriptive statistics such as the data mean median, mode, range and standard deviation of the data set were determined. Descriptive statistics were used to provide insight into the current financial reporting practices of NPOs and their web-based disclosures to provide insight into the information that NPOs believe to be useful to the users of their financial statements. Before statistical tests were performed the Kolmogorov-Smirnov test was used to determine whether the data was normally distributed (Leedy et al., 2019).

The data collected were not normally distributed. Therefore, non-parametric Kruskal-Wallis tests were performed in IBM SPSS to answer research question 2. For example, are there significant differences between the financial reporting practices of NPOs depending on their size and stated objective? If a statistically different relationship was identified, Bonferroni post hoc tests (pairwise comparisons) were performed to determine where the statistically different relationship lay.

3.3.1. Variables

The variables used in the non-parametric tests in this research were informed by theoretical frameworks in ***section 2.1*** and factors identified that affect the quality of the financial statements produced in ***section 2.3 and 2.4.*** The variables used were extracted directly from the financial statements and websites of the NPO under review. The data collected was stored in Microsoft Excel.

Independent variables

Descriptive statistics will be used to answer research questions 1 and 3:

1. What are the financial reporting practices of South African NPOs?

3. What information do NPOs see as useful to the users of their financial statements?

In answering research question 2 the independent variables will be as follows:

NPO objective:

The NPOs were categorised based on the 130 objectives listed by the DSD (Department of Social Development, 2022). These objectives were refined into 8 broad objectives as indicated in the table below:

Table 3.3.1

NPO objective categories:	Score Allocated to category:
Employment, training and education	1
Business, economic and professional associations, unions.	2
Sports	3
Youth services	4
Wildlife	5
Environment	6
Health	7
Social services	8

NPO size

NPO size was measured in relation to the net asset value of the NPO. Based on an inspection of 5 publicly available NPO financial statements, the following size categories were developed to be used in the study:

Table 3.3.2

NPO size categories [based on NAV (ZAR)]:	Score allocated to category:

Less than 0	1
Less than 1 million rand	2
Between 1 and 5 million rand	3
Between 5 and 10 million rand	4
Between 10 and 20 million rand	5
Greater than 20 million rand	6

Qualification of the preparer:

The highest qualifications of the preparer are measured concerning their highest qualification achieved.

Table 3.3.3

Qualification level:	Score allocated to category:
High school education (no degree)	1
BCom/ Equivalent degree	2
Chartered Accountant CA(SA) or equivalent	3
Not disclosed	4
Non-accounting degree	5

Dependent variables

The dependent variables of this research report were the financial reporting practices of the NPO as disclosed in the financial statements. Refer to Appendix A for more detail on the dependent variables and the scoring of these variables. The data for each variable were captured using a defined set of outcomes based on a legend determined in the pilot study allowing ordinal data to be collected (Leedy et al., 2019).

3.3.2. Analysis per research question

Research questions	Test	Dependable Variable	Independent Variable	Relationship tested

1. What are the current financial reporting practices of South African NPOs	Descriptive Statistics			
2. Do the financial reporting practices of South African NPOs differ depending on the size, objective and qualifications of the preparer of NPO Financial statements	Kruskal-Wallis test, Bonferroni post hoc test (pairwise comparisons)	NPO reporting practices, per the disclosure checklist in Appendix A	Size of the entity (measured according to the Net Asset Value of the NPO) – *Table 3.3.1* Objective of the NPO (measured according to the NPO's registered objective) – *Table 3.3.2* Qualification of preparer (measured according to the professional designation of the preparer) – *Table 3.3.3*	Financial reporting practices = f (size of NPO) Financial reporting practices = f (objective if NPO) Financial reporting practices = f(qualification od preparer)
3. What information to NPOs perceive to be useful to users	Descriptive Statistics			

Table 3.3.4: Analysis per research question[1]

3.4. Validity and reliability

The latest available financial statements were obtained directly from the NPO either from each organisation's respective websites or directly from the NPO where the financial statements were not publicly available. The same researcher captured the data from the financial statements and captured the information to ensure consistency.

A pilot study was conducted over five NPOs where the researcher read the financial statements and website of the NPO in detail to identify and document accounting practices, transaction types and related accounting treatments and key metrics disclosed by NPOs. The findings of the initial analysis enabled the researcher to identify common accounting practices and so guided the data collected from the financial statements and NPO websites (Leedy et al., 2019; Van Teijlingen & Hundley, 2001). The findings from the pilot study, was used by the researcher to develop relevant dependent variables (Appendix A), which may answer the

[1] The logic of the various tests used are discussed in section 3.3

research questions posed. All subsequent capturing and scoring of information from the financial statements and NPO websites were performed by one researcher to eliminate inter-coder reliability risk. Any discrepancies were resolved before the data analysis was performed (Creswell, 2009; Malola & Maroun, 2019).

Previous studies have not used websites in their research as they are updated regularly. However, Hassan et al. (2022) justify the use of these websites as they argue that websites are easily accessible and provide an opportunity for organisations to disclose useful information to stakeholders. To ensure that the information disclosed on these web pages is accessible in the future, the webpages were print screened, labelled and stored safely.

In terms of the assumptions of the Kruskal-Wallis tests the dependent variables should be ordinal or continuous (Laerd statistics, 2022). The information collected in relation to the financial reporting practices of the NPOs is non-numerical data which were categorised based on a defined set of possibilities and scored to produce numerical data used in the Kruskal Wallis Tests. The independent variable should be categorical (Laerd statistics, 2022). In this study, the categories considered are NPO size and objective and the qualification of the preparer of the NPO financial statements. In addition to the above all observations should be independent. The data collected from the financial statements and website of one NPO did not affect the data collected from another NPO. Kolmogorov-Smirnov and Shapiro-Wilk tests were used to determine whether the data are normally distributed (Laerd statistics, 2022).

When using Bonferroni post hoc tests, there is a risk of rejecting a null hypothesis that is true in the population (known as false-positive or Type-I errors). To reduce the risk of Type-I errors, an alpha value of 5% was used for all tests.

3.5. Ethical considerations

Research ethics is very important. Financial statements obtained are kept strictly confidential through physical and logical access controls. They will be kept for 3 years and after 3 years, they will be destroyed. Data collected and results are stored in a password-protected folder which only the researcher and the researcher’s supervisors have access to.

No organisation names were mentioned in the research report. Care was taken by the researcher when writing the research report to ensure that it is not biased.

NPO financial statements obtained directly from the NPO were only inspected once ethical clearance had been received. This authorisation assured that the appropriate procedures have been followed and that the study was adjudicated by an independent committee conforming to ethical standards.

4. Results and analysis

4.1. Research question one: What are the financial reporting practices of South African NPOs

The financial reporting practises of South African NPOs will be discussed on an overall level and broken down based on the following criteria: (1) objective; (2) size (net asset value) and (3) qualification of preparers.

Table 4.1.1: Overall descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Number of pages in the financial statements	50	11	93	25,63	16,044
Year of latest available financial statements	50	2016	2022	2020 (Mode)	1,266
Number of financial statements prepared	50	2	4	3.92	0.119
Number of Notes	50	4	34	14,06	6,370
Number of disclosed sources of Revenue	50	1	8	2,98	1,726

Table 4.1.1 illustrates that there is a substantial variance in the number of pages and note disclosures of NPOs' financial statements. The diverse user groups of NPO financial statements (see Costa et al. (2018); Crawford et al. (2017); Goddard et al. (2006); Reheul et al. (2012)) require different information. For example, NPOs have upward accountability to governments that provide them with grants, making them agents in their relationship with the government. These NPOs may need to provide a detailed breakdown of the sources of their funds and how they are utilised by those to whom they are accountable. Additional information and detailed disclosure for certain NPOs (NPOs which get government grants) may require longer sets of financial statements than those NPOs which do not need to provide additional information and detailed disclosure.

Quantitative information alone does not tell the full story of the NPO's performance (Costa et al., 2018); these financial reports are usually accompanied by annual or integrated qualitative reports showcasing the NPO's social or environmental impact on society. For instance, a common disclosure in NPO annual reports is a report on how much of the NPO's funds go towards BBBEE projects. This results in additional disclosure for these NPOs when compared to NPOs that do not take part in BBBEE initiatives. The substantial variance noted between NPO financial statement pages and note disclosures may indicate which preparers of financial statements consider the specific information needs of users when preparing financial statements.

Table 4.1.2: Overall financial reporting practices

Description	Number of NPOs
Total number of NPOs in this study	50
The number of NPOs that make their financial statements available on their website	50
The number of NPOs using IFRS to prepare their financial statements	6
The number of NPOs using IFRS for SMEs to prepare their financial statements	33
The number of NPOs using other frameworks to prepare their financial statements	11
The number of NPOs that had their financial statements audited	49
The number of NPOs that had a review/ lower level of assurance provided over their financial statements	0
The number of NPOs with no assurance over their financial statements	1
The number of NPOs with an unqualified audit opinion	27
The number of NPOs with qualified/disclaimer audit opinion	22

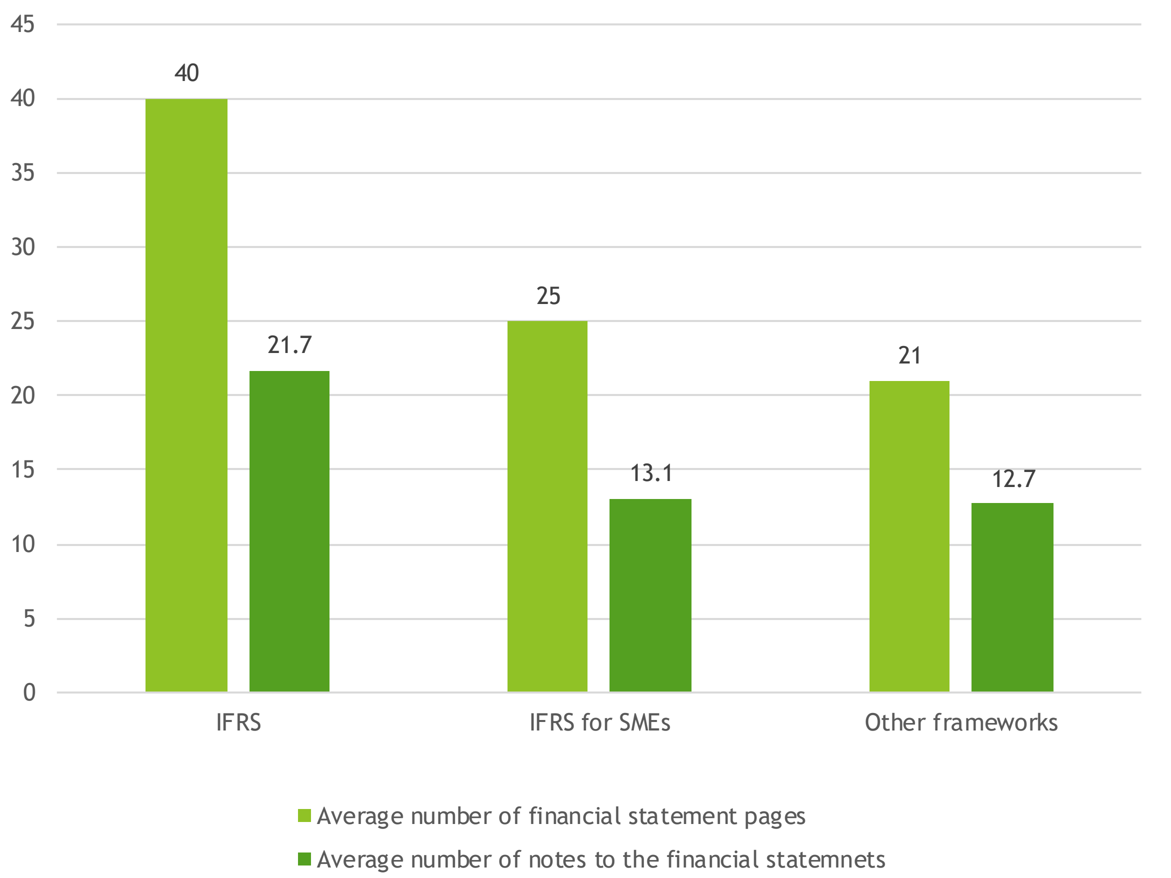
Table 4.1.2 illustrates that IFRS for SMEs was the most common accounting framework amongst South African NPOs. The use of IFRS and other frameworks such as historical cash and modified cash basis of accounting was limited. The views of Breen et al. (2018); Crawford et al. (2014); SAIBA (2015) about the preferred use of IFRS and IFRS for SMEs by NPOs have been confirmed by the above findings. The IPSAS is not seen to be used in the preparation of the South African NPO financial statements analysed, in contrast to the findings in the literature (Breen et al., 2018; Crawford et al., 2014). The IPSAS are generally used for

public organisations and the nature of transactions may not be compatible with NPOs. The IPSAS are also expensive to implement and this may discourage NPOs from adopting them (Crawford et al., 2014).

Prior research suggests that NPOs have been found to produce financial statements as a tick-box exercise (Cordery et al., 2019; Kuruppu et al., 2022). This may propose that NPOs prepare the bare minimum financial information just to get over the line. The average number of statements included in a full set of financial statements prepared by NPOs is 3.92 (as illustrated in Table 4.1.1). Upon deeper analysis, the finding suggests that South African NPOs are complying with the minimum requirements of the NPO Act. The legislated financial statement disclosure requirements are that NPOs provide accounting records of income, expenses, assets and liabilities.

There were 3 NPOs in the sample which did not prepare a statement of changes in equity, 1 is a user of IFRS to prepare its financial statements. IFRS requires that a statement of changes in equity be prepared, so, the NPO studied may not be applying IFRS correctly. The other 2 NPOs used IFRS for SMEs and other frameworks (cash or modified cash basis) respectively. While IFRS for SMEs require a statement of changes in equity to be prepared, the cash basis of accounting does not. So it seems that there is 1 NPO that does not apply their preferred financial reporting framework correctly. A statement of changes in equity may not be useful to this NPO, explain why it was omitted. 2 NPOs did not prepare a statement of cash flow. Both these NPOs used the cash basis of accounting to prepare their financial statements, which may speak to why these NPOs did not prepare the statement of cash flow. By producing more than the financial statements required by the NPO Act ("Nonprofit Organisations Act," 1997, p. 7) South African NPOs are proving that they provide more than the bare minimum. This may indicate that the production of financial statements is more than just a tick-box exercise for South African NPOs.

Figure 4.1.3: Average number of financial statement pages and notes depending on finanacial reporting framework



There are no specific NPO financial reporting standards in South Africa, resulting in the use of available for-profit frameworks. Which may lead to greater judgement in selecting the appropriate reporting framework on the part of the preparer. Countries such as the USA, Canada and the UK have sector-specific reporting frameworks for NPO, removing that initial judgement (Crawford et al., 2017). The implication of not having an NPO-specific financial reporting framework in South Africa may explain the differences in the number of pages and note disclosures in NPO financial statements, depending on the chosen financial reporting framework (see Figure 4.1.3). For example, the IFRS standards require more detailed accounting than do IFRS for SMEs, leading to more discloser (more pages and notes) in IFRS financial statements (Deloitte., 2022). The lack of standardisation also means it is more difficult to compare the financial statements of different organisations (Breen et al., 2018).

Table 4.1.4: Financial statements and notes by NPO objective, size and qualification of preparer

		The average number of financial statement pages	The average number of notes to the financial statements	The average number of statements in the complete set of financial statements
NPO objective				
Employment, training and education	5	20.4	12.8	4
Business, economic and professional associations unions	7	20	13.9	3.9
Sports	3	23.7	14	3.7
Youth services	8	25.8	12.1	3.9
Wildlife	2	28	18.5	4
Environment	3	20.3	16.5	4
Health	13	38.5	16.4	3.8
Social services	9	17.3	11.7	4
NPO size (based on net asset value)				
Less than R0	2	19	11	4
Less than R1 million	8	17.6	11.5	4
R1 million-R5 million	15	22.7	12.6	3.9
R5 million-R10 million	7	25.3	12.3	4
R10 million-R20 million	8	32.6	16.4	3.9
Greater than R20 million	10	33.6	18.6	3.9
Qualification of preparer				
No degree	1	16	7	4
BCom or equivalent	10	33.2	14.1	3.9
Chartered accountant	16	25.1	15.6	3.8
Not disclosed	21	24.3	13.6	3.9
Non-accounting degree	2	16.5	10	4

The NPO with the lowest number of pages of financial statements operated in the social services sector, consisting of 11 pages with 4 notes to the financial statements (see Table 4.1.1, page 35). On average, the financial statements of NPOs in the social services sector comprised 17.3 pages, the lowest of all the other objective categories (see Table 4.1.1, page 35). The NPO with the most pages in their financial statements had a health objective, with financial statements of 93 pages in length with 27 supporting notes (see Table 4.1.1, page 35). Financial statements of these NPOs on average consisted of 38.5 pages which were substantially greater than any other objective category (see Table 4.1.4).

The health sector has come under serious financial pressure with recent budget cuts by the South African government (Parliament of South Africa, 2022). The lack of government funding can necessitate the need for additional funding sources. Linking with the findings of Septianto et al. (2020), NPOs operating in the health sector are among the NPOs which receive 95% of public donations. Previous comparisons have been made between NPO financial reporting and the donations received (see Khumawala & Gordon, 1997). A greater effort may be directed to the financial reporting process of health NPOs to gain access to much-needed resources. To operate effectively, the health sector needs a significant number of financial resources. For instance, expensive medications must be kept in exacting clinical and environmental settings to prevent deterioration. Additionally, the health sector has the largest number of NPOs than any other recorded objective category, suggesting increased competition (see Table 4.1.4). These elements may come together in such a way that, to attract funding, financial management and reporting is a key differentiator to obtain donor funding.

Another reason for the additional disclosure could be the significance of health to every human. For example, the NPO with most financial statement pages (see Table 4.1.1) focused on matters surrounding HIV and AIDS. As South Africa has one of the highest populations of AIDS cases in the world, (an estimated 8.2 million people infected in 2021), these NPOs are critical. The significance of the issues faced by the health sector, such as HIV and AIDS, may necessitate additional financial disclosure. These NPOs could have numerous different assets and robust operations, as a result of their significance, leading to increased financial disclosure. Looking at both the statement of financial position and statement of cash flows for the NPO in question, it seems that the NPO is capital-intensive and has robust operations (see Figure 4.1.5a and b below). This can be the result of being an HIV and AIDS-focused NPO.

Figure 4.1.5a: Extract of the statement of financial position of an NPO in the health sector[2]

Annual Financial Statements for the year ended 31 March 2020

STATEMENT OF FINANCIAL POSITION

	Notes	2020 R	2019 R
Assets			
Non-Current Assets			
Property, plant and equipment	3	1 853 881	1 932 199
Intangible assets	4	2 724 102	2 779 540
		4 577 983	**4 711 739**
Current Assets			
Receivables	5	3 416 893	13 521 135
Other financial assets	6	17 580 885	32 247 399
Contract asset	7	773 241	767 368
Cash and cash equivalents	8	87 347 511	45 452 974
		109 118 530	**91 988 876**
Total Assets		**113 696 513**	**96 700 615**
Equity and Liabilities			
Equity			
Retained income		28 238 482	26 833 850
Liabilities			
Non-Current Liabilities			
Operating lease liability	9	-	41 416
Current Liabilities			
Payables	10	3 831 765	4 128 896
Operating lease liability	9	41 416	476 879
Deferred income	11	80 281 255	64 360 106
Provisions	12	1 303 595	859 468
		85 458 031	**69 825 349**
Total Liabilities		**85 458 031**	**69 866 765**
Total Equity and Liabilities		**113 696 513**	**96 700 615**

[2] Statement of financial position and statement of cash flow, NPO in the health sector

Figure 4.1.5b: Extract of the statement of cash flows of an NPO in the health sector

STATEMENT OF CASH FLOWS

Statement of Cash Flows

	Notes	2020 R	2019 R
Cash flows from operating activities			
Cash generated from operations / (utilised in)	19	21 820 976	(75 039 370)
Finance income	17	5 526 144	6 345 304
Finance costs	18	-	(2 375)
Net cash from operating activities / (used in)		**27 347 120**	**(68 696 441)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	3	(694 418)	(448 243)
Proceeds on disposal of property, plant and equipment		381 241	-
Acquisition of intangible assets	4	-	(164 000)
Decrease of financial assets		14 866 464	19 086 855
Decrease in contract asset	7	(5 873)	(767 368)
Net Cash from investing activities		**14 547 414**	**17 707 244**
Net increase / (decrease) in cash and cash equivalents		**41 894 537**	**(50 989 197)**
Cash at the beginning of the year		45 452 974	96 442 168
Total cash at end of the year	8	**87 347 511**	**45 452 974**

Health is also a regulated sector and the additional regulations can mean that NPOs in this sector have better record-keeping processes. These processes may influence more robust financial statement disclosures.

NPOs with a health objective may have more stakeholders than NPOs with other objectives, due to their increased funding and societal importance. The increased interest could mean that these NPOs have to provide more robust accountability through financial statement disclosure. The management of these NPOs are stewards of the organisation who have to account for how the principal's resources were used (Connolly & Hyndman, 2000).

NPO financial statement length and the number of note disclosures seemed to vary depending on the size of the organisation (see Table 4.1.4). For instance, the financial statements of NPOs with a NAV greater than R20 million on average consisted of 33.6 pages and 18.6 notes to the financial statements (see Table 4.1.4). On the other hand, the financial statements of

NPOs with a NAV of less than R1 million on average consisted of 17.6 pages and 11.5 notes to the financial statements (see Table 4.1.4).

NPOs which fall within a larger size category may have the financial resources to employ a qualified accountant with the required skill set to prepare financial statements (Cordery et al., 2019; Kuruppu et al., 2022). Another reason for the increased disclosure by larger NPOs may be that they have more stakeholders, and their financial statements need to be robust to meet the needs of all stakeholders (Andreaus & Costa, 2014). Larger NPOs may also be further removed from their stakeholders and may need to disclose additional information to close the information gap (Connolly & Hyndman, 2000). Stakeholders require an account of their interest in an NPO (whether financial or otherwise) which allows them to make important resource allocation decisions (Donaldson & Preston, 1995; Hielscher et al., 2017).

NPOs frequently rely on funding from outside donors (Khumawala & Gordon, 1997). As a result, larger NPOs have received more donations because of better financial reporting, which improves their reputations and leads to increased legitimacy and donations (Khumawala & Gordon, 1997). In contrast, it is possible that larger NPOs have more to report because they are larger. Instead of being a reflection of the calibre of the reports in this instance, the length of an NPO's financial statements is relative to the size of their operations.

Table 4.1.6: Financial reporting frameworks by NPO objective, size and qualification of preparer

	Number of NPOs using IFRS to prepare their financial statements	Number of NPOs using IFRS for SMEs to prepare their financial statements	Number of NPOs using other frameworks (cash or modified cash basis) to prepare their financial statements
NPO objective			
Employment, training and education	0	3	2
Business, economic and professional associations unions	3	4	0
Sports	0	1	2
Youth services	0	7	1
Wildlife	1	1	0
Environment	0	3	0
Health	2	7	4

Social services	0	7	2
Total	**6**	**33**	**11**
NPO size (based on net asset value)			
Less than R0	0	1	1
Less than R1 million	0	8	0
R1 million-R5 million	1	8	6
R5 million-R10 million	0	6	1
R10 million-R20 million	0	6	2
Greater than R20 million	5	4	1
Total	**6**	**33**	**11**
Qualification of preparer			
No degree	0	1	0
BCom or equivalent	1	9	0
Chartered accountant	3	9	4
Not disclosed	2	12	7
Non-accounting degree	0	2	0
Total	**6**	**33**	**11**

Resources also play a vital role in determining the financial reporting standards used by NPOs (see Table 4.1.6). 20% of NPOs with a NAV greater than R5 million use IFRS to prepare their financial statements (see Table 4.1.6). While 4% of the NPOs with a NAV less than R5 million use IFRS to prepare their financial statements. Smaller NPOs' preference to avoid using IFRS can be that other frameworks, for example, IFRS for SMEs are less complex, cheaper and more user-friendly (Deloitte., 2022). As seen in Table 4.1.6, 68% of NPOs with a NAV less than R5 million use IFRS for SMEs, supporting the costing argument in the NPO sector discussed by (Cordery et al., 2019). The size of an NPO impacts the financial reporting framework selected by an NPO which, in turn, affects the financial reporting practices of the respective NPO.

NPOs which have financial statements prepared by Chartered Accountants use IFRS to prepare their financial statements (see Table 4.1.6). Applying IFRS standards can be complex and financial statements can be susceptible to error if prepares are not well versed in the IFRS standards. Chartered accountants may have the necessary skills to apply the IFRS standards competently.

Table 4.1.7: NPO funding Analysis

	Sources of Revenue	Product sales	Service sales	Events, fundraisers, meetings and conferences	Fees received	Training	Individual and corporate Donations	Memorial donations and bequests	Government subsidies and grants	National lottery grant	Other
NPO objective											
Employment, training and education	3.4	0%	20%	60%	40%	40%	60%	0%	60%	0%	20%
Business, economic and professional associations and unions	4.1	14%	14%	43%	86%	29%	29%	0%	14%	0%	14%
Sports	3	33%	33%	33%	100%	33%	0%	0%	33%	0%	33%
Youth services	2.3	25%	0%	38%	13%	13%	63%	0%	63%	0%	25%
Wildlife	4	50%	50%	50%	50%	0%	50%	50%	50%	0%	50%
Environment	2.7	33%	0%	33%	100%	0%	33%	0%	33%	0%	33%
Health	3.5	46%	31%	62%	23%	8%	54%	8%	46%	15%	38%
Social services	3.2	44%	33%	56%	22%	22%	78%	0%	22%	0%	44%
NPO Size (based on net asset value)											
Less than R0	1.5	0%	50%	0%	0%	0%	50%	0%	0%	0%	50%
Less than R1 million	2.9	30%	20%	50%	40%	20%	40%	0%	30%	0%	10%
R1 million-R5 million	2.9	20%	40%	70%	80%	30%	70%	0%	70%	20%	40%
R5 million-R10 million	3	30%	0%	30%	20%	10%	40%	0%	40%	0%	40%
R10 million-R20 million	2.6	40%	20%	20%	30%	10%	40%	0%	30%	0%	20%
Greater than R20 million	3.8	40%	20%	80%	50%	20%	60%	20%	30%	0%	40%
Qualification of preparer											
No degree	1	0%	0%	0%	0%	0%	100%	0%	0%	0%	0%
BCom or equivalent	3.9	30%	10%	70%	60%	20%	50%	10%	70%	10%	60%
Chartered accountant	2.6	38%	19%	38%	38%	13%	44%	0%	38%	0%	31%
Not disclosed	3.2	33%	29%	57%	43%	24%	62%	5%	33%	5%	24%
Non accounting degree	1	0%	50%	0%	50%	0%	0%	0%	0%	0%	0%

NPOs generally have a number of sources of revenue (see Table 4.1.7). The sources of revenue are generally from non-exchange transactions such as donations (Ryan et al., 2014). South African NPOs obtain their funds from various sources, namely: the sale of products and services, training, individual and corporate donations, memorial donations or bequests, government subsidies and grants and national lottery grants. Sources of revenue vary depending on an NPO objective, size and qualification of financial statement preparers (See Table 4.1.7). For example, NPOs with business, economic and professional associations and union objectives have more sources of revenue than any other objective category. This may be linked to their connection with the business sector, providing them insights into diversifying revenue streams. Another example can be that NPOs with a NAV greater than R 20 million have more revenue streams as a result of their size, leading to their ability to attract more sources of revenue. Each funder may require specific information and, with a diverse funding pool, unique information may be required, depending on the funder's needs (Costa et al., 2018; Goddard et al., 2006).

Table 4.1.8: NPO accounting policies

	Number of NPOs with revenue accounting policy disclosed	Number of NPOs with expenses accounting policy disclosed
NPO objective		
Employment, training and education	4	4
Business, economic and professional associations unions	7	5
Sports	3	3
Youth services	8	8
Wildlife	2	2
Environment	4	4
Health	12	11
Social services	9	4
Total	**49**	**41**
NPO size (based on net asset value)		
Less than R0	2	2
Less than R1 million	8	5
R1 million-R5 million	15	13
R5 million-R10 million	6	4
R10 million-R20 million	8	7
Greater than R20 million	10	10

Total	**49**	**41**
Qualification of preparer		
No degree	1	0
BCom or equivalent	9	8
Chartered accountant	16	14
Not disclosed	21	18
Non-accounting degree	2	1
Total	**49**	**41**

The goal of NPOs is to generate wealth for the common good, rather than economic benefit (Andreaus & Costa, 2014). Based on this purpose, NPOs should be raising funds to be used in achieving their stated goals and objectives. How NPOs account for their revenue and expense transactions should be included in the accounting policies of the respective NPOs. Accounting policies in simple terms are the procedures used by an entity to prepare its financial statements. Funders may require a more detailed understanding of how their funds are allocated and the quantifiable impact those funds have had on society and the environment (Reheul et al., 2012; Yetman & Yetman, 2011).

The majority of NPOs studied have disclosed revenue and expense accounting policies. The inclusion of these notes can provide much-needed financial and non-financial information to users (see Table 4.1.8). The majority of South African NPOs provide revenue and expense accounting policy disclosures; which shows the importance of these accounts. NPO revenue accounting policies seem to be. The reason for this can be that NPOs require more thought in determining what they can recognise as revenue because of the nature (non-exchange) and the variability of transactions (Ryan et al., 2014). As illustrated in figure 4.1.9 below, an NPO with a wildlife objective using IFRS does not use IFRS 15 to account for their revenue; their revenue accounting policy provides for the different types of incomes earned and when these different incomes are recognised:

Figure 4.1.9: Revenue accounting policy of an NPO using IFRS

Revenue recognition
Donations and bequests are recognised on the cash basis. Dividends are recognised when the right to receive payment is established. Interest income is accrued on a time basis by reference to the principal amount outstanding and at the applicable interest rate. Sales of goods, exclusive of value added taxation, are recognised when legal title has passed. Subscriptions are recognised on a time basis relating to the year for which members have subscribed. The portion of the subscriptions for the period that is not included in the financial year is accounted for as funds received in advance.

Project income is accounted for on the percentage of completion basis relative to the stages of completion of the various projects undertaken by the group. Amounts received from project funders are initially recorded in the statements of financial position as funds received in advance. The funds are released to the statements of comprehensive income on a systematic basis to the extent that expenditure is incurred on the various projects. The funds that are not utilised are recognised in the statements of financial position as funds received in advance.

These accounting policies on the other hand may not provide users with sufficient information to understand how an NPO accounts for its revenue, as NPO revenue streams may not conform to the profit-orientated norms of revenue recognition (Cordery et al., 2019; Kuruppu et al., 2022).

Table 4.1.10: Latest available NPO financial statements

Overall financial reporting practices of NPOs	**Year of latest available financial statements**			
NPO objective	**Earlier than 2020**	**2020**	**2021**	**2022**
Employment, training and education	2 | 40%		2 | 40%	1 | 20%
Business, economic and professional associations unions		2 | 29%	5 | 71%	
Sports		1 | 33%	1 | 33%	1 | 33%
Youth services	1 | 13%	3 | 38%	4 | 50%	
Wildlife		1 | 50%	1 | 50%	
Environment			2 | 67%	1 | 33%
Health	2 | 15%	4 | 31%	6 | 46%	1 | 8%
Social services	4 | 44%	3 | 33%	1 | 11%	1 | 11%
Total	**9 | 18%**	**14 | 28%**	**22 | 44%**	**5 | 10%**
NPO size (based on net asset value)				
Less than R0		1 | 50%	1 | 50%	
Less than R1 million	2 | 25%	1 | 13%	4 | 50%	1 |13%
R1 million-R5 million	2 | 13%	4 | 27%	7 | 47%	2 | 13%
R5 million-R10 million	2 | 29%	3 | 43%	2 | 29%	
R10 million-R20 million	1 | 13%	1 | 13%	5 | 63%	1 | 13%
Greater than R20 million	2 | 20%	4 | 40%	3 | 30%	1 | 10%
Total	**9 | 18%**	**14 | 28%**	**22 | 44%**	**5 | 10%**
Qualification of preparer				
No degree		1 | 100%		
BCom or equivalent	1 | 10%	4 | 40%	4 | 40%	1 | 10%
Chartered accountant	1 | 6%	5 | 31%	8 | 50%	2 | 13%
Not disclosed	7 | 33%	4 | 19%	8 | 38%	2 | 10%
Non-accounting degree			2 | 100%	
Total	**9 | 18%**	**14 | 28%**	**22 | 44%**	**5 | 10%**

Overall, only 54% of NPOs had 2021 or 2022 financial statements available on the date of collection (which took place after June 2022 - see Table 4.1.10). The NPO Act mandates that financial statements be prepared within 6 months of the end of the financial reporting period

(SAIBA, 2015). As data collection took place after June 2022 and the latest financial statements were collected, there was an expectation by the researcher of obtaining 2021 or 2022 financial statements due to the requirements of the NPO Act. Those NPOs which did not have 2021 or 2022 financial statements available may be contravening the NPO Act. In line with the findings of Reheul et al. (2013), the financial statement lags observed may be the result of the lack of attention management and users give to these financial statements. NPO shares are not publicly traded on an exchange or shortlisted by private equity firms for acquisition, so preparing financial statements may not be a priority for management (Reheul et al., 2013). NPO financial information may not be watched closely by funders because of their participation being disinterested benevolence, see (Costa et al., 2014; Reheul et al., 2013) causing the financial statement lags observed.

Half of the latest NPO financial statements prepared by chartered accountants relate to the 2020 financial year or earlier (see Table 4.1.10). Chartered accountants may be more expensive, given their expertise and knowledge of financial reporting. The NPO sector may not be enticing to these professionals, making it difficult for NPOs to source chartered accountants to prepare their financial statements. Cordery et al. (2019); (Gray et al., 2006) have all mentioned the concerns about resources and financial restrictions in the NPO space. These financial and resource restrictions may have contributed to the financial statement lags observed in the data. NPOs with business, economic and professional associations and unions released their financial accounts more promptly than any other objective category (see Table 4.1.10). This can be a result of the company's focus being more on profit-oriented business, which calls for the timely reporting of financial results (Gray et al., 2006).

Table 4.1.11: NPO assurance

Overall financial reporting practices of NPOs	Number of NPOs per category	Assurance			Audit opinion		Number of NPOs by assurance provider	
NPO objective		Audit	Review	None	Unqualified	Qualified/disclaimer	Big 4 firm	Non-Big 4 firm
Employment, training and education	5	5			4	1		5
Business, economic and professional associations unions	7	6		1	6	0		6
Sports	3	3			2	1		3
Youth services	8	8			4	4		8
Wildlife	2	2			0	2	1	1
Environment	3	3			2	1		3
Health	13	13			5	8	1	12
Social services	9	9			4	5		9
Total	**50**	**49**	**0**	**1**	**27**	**22**	**2**	**47**
NPO size (based on net asset value)								
Less than R0	2	2			1	1		2
Less than R1 million	8	8			5	3		8
R1 million-R5 million	15	14		1	11	3		14
R5 million-R10 million	7	7			4	3		7
R10 million-R20 million	8	8			3	5		8
Greater than R20 million	10	10			3	7	2	8
Total	**50**	**49**	**0**	**1**	**27**	**22**	**2**	**47**

Qualification of preparer								
No degree	1	1			1	0		1
BCom or equivalent	10	10			6	4	1	9
Chartered accountant	16	16			10	6		16
Not disclosed	21	21			9	12	1	20
Non-accounting degree	2	1		1	1	0		1
Total	**50**	**49**	**0**	**1**	**27**	**22**	**2**	**47**

The data collected indicate that 49 out of 50 (98%) NPOs in the selected sample (see Table 4.1.11) are complying with the NPO Act which requires the preparation of a written report from an accounting officer ("Nonprofit Organisations Act," 1997; SAIBA, 2015). All of those written reports were in the form of independent auditor's reports. Dhanani and Connolly (2012); Ebrahim (2003); Khumawala and Gordon (1997); O'Dwyer and Boomsma (2015) have all mentioned that incidents of fraud have occurred with NPOs. Audited financial statements provide NPOs with some protection against fraudulent financial reporting, corruption and theft (Reheul et al., 2013).

On inspection of the audit firms used by NPOs, it is clear that larger organisations with greater NAVs can afford established firms to provide audit services. 2 NPOs with a NAV greater than R 20 million had Big 4 audit firms audit their financial statements (see Table 4.1.11). Audited financial statements have been associated with a greater ability to raise funds (see Dell et al. (2022)), which can explain the success of these NPOs. Larger audit firms may be more expensive than smaller audit firms and larger NPOs may have the necessary resources to employ larger accounting firms to audit their financial statements (Khumawala & Gordon, 1997). NPOs with a greater NAV may also have an operation, with more extensive financial reporting, which may necessitate the need to be audited by larger accounting firms (the Big 4).

The audit report (Unqualified, Qualified, Disclaimer or Adverse) further provides the state of financial reporting of an entity. Only 27 out of the 50 (55%) NPOs' in the sample received an unqualified audit opinion, meaning that they are free from material misstatement (see Table 4.1.11). Having 55% of NPOs with unqualified auditors report is of concern. NPOs are established to focus on the well-being of others and are provided with substantial public funding and support (Cordery et al., 2019; Goddard et al., 2006; Gray et al., 2006; Unerman et al., 2006). That exposure to public funds through, for example, donations from the public and government grants make NPOs accountable to a wide range of stakeholders (Breen et al., 2018; Cordery et al., 2019). A recurring theme for qualification seems to be the lack of control over cash donations before processing the accounting entries for those donations. An example of this can be seen below for an NPO with a NAV greater than R 20 million audited by one of the Big 4 (see Figure 4.1.12).

Figure 4.1.12: Basis of qualification[3]

Basis for Qualified Opinion

Cash donations are a significant source of fundraising revenue for [redacted] NPC. The directors have determined that it is impracticable to establish internal controls over the collection of cash donations prior to the initial entry into its financial records. We were therefore be unable to confirm whether all cash donations were recorded.

All NPOs with a wildlife-linked objective have had their financial statements audited (see Table 4.1.11). The literature has discussed that NPOs with an wildlife-linked objective seem to get less funding (Septianto et al., 2020). It has also been established that providing audited financial information can attract potential donors to an NPO (Dell et al., 2022). These NPOs may be trying to attract more funding by proving audited financial information. 100% of those wildlife NPOs had a qualified audit opinion or a disclaimer of opinion. The go-to link for these poor audit opinions may be the lack of resources faced by wildlife NPOs leading to the preparation of inferior financial information. This is not the case here, from the 2 NPOs with a wildlife objective, one has a NAV of over R 20 million (see Table 4.1.12). The NPO in question used IFRS to prepare their financial statements and their financial statements were prepared by an individual who holds a BCom degree. The quality of the audit could be brought into question, but in this case one of the Big 4 audited these financial statements, and because of the calibre of the Big 4 accounting firms, the risk of providing an incorrect opinion decreases. The quality of the financial reports can be attributed to the preparer who may not be equipped to prepare IFRS financial statements that are free from error due to the complexity associated with the IFRS reporting standards (Deloitte., 2022).

NPO financial statements prepared by chartered accountants or individuals with a BCom or equivalent degree received similar numbers of unqualified audit opinions (see Table 4.1.11). There seems to be a lack of accounting expertise in the NPO sector, which may be largely because of lower salaries and less prestige (Cordery et al., 2019; Kuruppu et al., 2022). A lack of expertise could result in increased errors in financial reporting, resulting in qualified audit opinions provided on NPO financial statements. It is also important to note that all financial statements prepared by individuals with no degree or a degree in a field other than accounting, received unqualified audit opinions (see Table 4.1.11), however, only 2 NPOs in total fall within these categories.

[3] NPO with a wildlife objective; NAV greater than R 20 million; Qualification of preparer (BCom or equivalent) and; Audited by one of the Big 4. The name of the NPO has been redacted as the audit opinion is important and not which NPO it relates to.

The percentage of qualified opinions provided may be attributed to the lack of skilled personnel available to NPOs (Cordery et al., 2019; Kuruppu et al., 2022). Vermeer et al. (2009) provide another reason which is that a lower audit fee coming from NPOs may result in an audit in which the auditors may not provide value-adding services to allow the NPO to improve their financial reporting practices in years to come. Another reason may be that managers may not be familiar with accounting jargon and may not be comfortable with the application and interpretation of accounting standards, leading to questionable accounting in financial statements (Connolly & Hyndman, 2000).

The only NPO which did not provide any assurance over their financial statements was prepared by an individual with a non-accounting degree (see Table 4.1.11). It may be the case that individuals without a finance or accounting background may lack the necessary knowledge to carry out the financial reporting obligations of the NPO. The issue may also boil down to the lack of resources in the NPO sector, as mentioned in Kuruppu et al. (2022). because it is only one NPO, the case may also be that assurance was provided, but the auditor's report was left out of the annual financial statements in error.

4.2. Research question two: Do the financial reporting practices differ depending on the objective, size and qualifications of the preparers of the NPO

Table 4.2.1: Non-parametric tests results

Grouping variable	OBJECTIVE		SIZE		QUALIFICATION	
Description	H	Asymp. Sig.	H	Asymp. Sig.	H	Asymp. Sig.
AFS available on website	0,000	1,000	0,000	1,000	0,000	1,000
AFS available on request	0,000	1,000	0,000	1,000	0,000	1,000
AFS unobtainable	0,000	1,000	0,000	1,000	0,000	1,000
Accounting Framework	14,304	0,046	12,620	0,027	1,725	0,786
Assurance type	4,568	0,713	8,367	0,137	13,335	0,010
Assurance opinion	6,422	0,491	3,808	0,577	1,755	0,781
Statement of profit or loss	0,000	1,000	0,000	1,000	0,000	1,000
Statement of financial position	0,000	1,000	0,000	1,000	0,000	1,000
Statement of changes in equity	5,308	0,622	2,040	0,844	2,145	0,709
Statement of Cashflow	6,221	0,514	5,729	0,333	0,435	0,980
Other statements	0,000	1,000	0,000	1,000	0,000	1,000
Other statement detail	0,000	1,000	0,000	1,000	0,000	1,000
Notes to the-financial statements	0,000	1,000	0,000	1,000	0,000	1,000
Number of notes	6,519	0,481	7,138	0,211	2,975	0,562
Notes referenced in financial statements	24,500	0,001	4,100	0,535	3,636	0,457
Referencing correct	24,500	0,001	4,100	0,535	3,636	0,457
Statements mathematically accurate	0,000	1,000	0,000	1,000	0,000	1,000
Accounting policies	0,000	1,000	0,000	1,000	0,000	1,000
Funding accounting policy	9,200	0,239	6,286	0,279	3,636	0,457
Policy in line with framework	9,200	0,239	6,286	0,279	3,636	0,457
Fixed assets accounting policy	9,524	0,217	10,969	0,052	25,219	0,000
Policy in line with Framework	9,524	0,217	10,969	0,052	25,219	0,000
Expenses Accounting Policy	13,791	0,055	8,191	0,146	6,436	0,169
Expenses Accounting Policy In line with Framework	13,791	0,055	8,191	0,146	6,436	0,169
Sources of Revenue	3,431	0,842	5,157	0,397	8,983	0,062
Product sales	6,506	0,482	5,727	0,334	1,739	0,784
Service sales	6,589	0,473	2,477	0,780	2,870	0,580
Events, fundraisers, meetings, conferences	2,061	0,956	9,111	0,105	5,127	0,275
Fees received	17,613	0,014	3,809	0,577	1,713	0,788
Training	5,096	0,648	1,212	0,944	1,456	0,834
Donations	9,268	0,234	0,754	0,980	4,284	0,369
Subsidies and grants	7,381	0,390	1,573	0,904	7,101	0,131
National Lotteries	6,633	0,468	4,898	0,428	1,564	0,815
Memorial funds and bequests	13,138	0,069	8,367	0,137	1,564	0,815
Other	3,243	0,862	4,058	0,541	4,581	0,333

Significant at the 1% level

Significant at the 5% level

Table 4.2.1 illustrates the results of the Kruskal Wallis test performed categorising data, based on the size, objective and qualifications of the preparers of the financial statements. The results indicate that there is a statistically significant difference between the accounting framework used by the NPO based on the objective of the NPO [(H = 14.3; P < 5%) and (J = 0.6; P < 10%)].

Table 4.2.2a: Bonferroni post hoc test results: NPO objective – accounting framework

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj. Sig.[a]
5-2	1,393	10,077	0,138	0,890	1,000
5-6	-4,875	10,884	-0,448	0,654	1,000
5-4	14,750	9,825	1,501	0,133	1,000
5-8	-14,750	9,825	-1,501	0,133	1,000
5-7	-15,625	9,599	-1,628	0,104	1,000
5-1	18,750	10,515	1,783	0,075	1,000
5-3	24,750	11,473	2,157	0,031	0,868
2-6	-3,482	7,877	-0,442	0,658	1,000
2-4	-13,357	6,334	-2,109	0,035	0,979
2-8	-13,357	6,334	-2,109	0,035	0,979
2-7	-14,232	5,977	-2,381	0,017	0,483
2-1	17,357	7,359	2,359	0,018	0,514
2-3	-23,357	8,673	-2,693	0,007	0,198
6-4	9,875	7,552	1,308	0,191	1,000
6-8	-9,875	7,552	-1,308	0,191	1,000
6-7	-10,750	7,256	-1,482	0,138	1,000
6-1	13,875	8,431	1,646	0,100	1,000
6-3	19,875	9,599	2,071	0,038	1,000
4-1	4,000	7,010	0,571	0,568	1,000
8-1	4,000	7,010	0,571	0,568	1,000
4-3	10,000	8,379	1,194	0,233	1,000
8-3	10,000	8,379	1,194	0,233	1,000
4-8	0,000	5,925	0,000	1,000	1,000
4-7	-0,875	5,542	-0,158	0,875	1,000
8-7	0,875	5,542	0,158	0,875	1,000
7-1	3,125	6,690	0,467	0,640	1,000
7-3	9,125	8,112	1,125	0,261	1,000
1-3	-6,000	9,178	-0,654	0,513	1,000

Significant at the 1% level

Significant at the 5% level

The pairwise comparison conducted (looking at the adjusted significant value) identified that there are no preferred accounting frameworks for a specific NPO objective over another (see Table 4.2.2a). The unadjusted significance can be used to identify where differences lie, the adjusted significance is just more conservative.

3 out of 7 NPOs with business, economics and professional associations and unions objective apply IFRS while 4 out of 7 prepare financial statements in accordance with IFRS for SMEs (see Table 4.1.6). These entities operate in the financial and professional sectors, as well as in the NPO sector, which may give them access to the professional skills required to have their financial statements prepared using IFRS. Users' of NPO financial statements with business, economic and professional associations and unions objectives may also demand higher quality financial statements to make a decision (Evan & Freeman, 1988).

In contrast, most sport NPOs used other frameworks (cash or modified cash basis) to prepare their financial statements (see Table 4.1.6), this preference was not seen with other objective categories. Interestingly, 100% of these NPOs had a NAV between R 1 million – R 5 million, which is on the lower end seeing that 50% of the NPOs in this study had a NAV greater than or equal to R 5 million. The selection of simplistic financial reporting frameworks cannot be attributed to resource adequacy in this case.100% of NPOs with a sport objective have their financial statements prepared by chartered accountants. Sport NPOs could have relatively simple accounting transactions, so the use of other frameworks (which are cash or modified cash accounting frameworks) may be better suited for their purposes (Costa et al., 2014).

Further illustrated in Table 4.2.1 is a relationship between an NPO's objective and whether notes to the financial statements are referenced in the financial statements and the correctness of that referencing [(H = 24.5; P < 1%) and (J=0.034; P>10%)]. The significant relationship identified is that the referencing and correctness of the referencing of the notes to financial statements are closely related to the objective of the NPO.

Upon further analysis, there seems to be only one NPO that did not reference all notes to the financial statements and where they were referenced it was done incorrectly. The issue was identified in only one NPO with a wildlife objective, which could have resulted in the significance noted in the Kruskal Wallis test. The referencing issues noted may have been the result of an error on the part of the financial statements preparer.

Table 4.2.2b: Bonferroni post hoc test results: NPO size – accounting framework

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj. Sig. [a]
6-2	7,500	5,961	1,258	0,208	1,000
6-4	10,714	6,193	1,730	0,084	1,000
6-5	13,125	5,961	2,202	0,028	0,415
6-3	15,200	5,131	2,963	0,003	0,046
6-1	22,500	8,273	2,720	0,007	0,098
2-4	-3,214	6,504	-0,494	0,621	1,000
2-5	-5,625	6,284	-0,895	0,371	1,000
2-3	-7,700	5,502	-1,399	0,162	1,000
2-1	15,000	8,508	1,763	0,078	1,000
4-5	-2,411	6,504	-0,371	0,711	1,000
4-3	4,486	5,753	0,780	0,436	1,000
4-1	11,786	8,673	1,359	0,174	1,000
5-3	2,075	5,502	0,377	0,706	1,000
5-1	9,375	8,508	1,102	0,271	1,000
3-1	7,300	7,949	0,918	0,358	1,000

Significant at the 1% level
Significant at the 5% level

Table 4.2.1 displays that there is a statistically significant difference in the financial reporting framework used by the NPO and the size of the NPO (based on net asset value) [(H = 12.6; P < 5%) and (J = -2.2; P < 5%)]. The results indicate that depending on the size of the organization as determined by the net asset value, the financial reporting framework selected by the NPO varies significantly.

Results of the pairwise comparison test (Table 4.2.2c) performed indicated that there was a significant difference between the financial reporting framework chosen by NPOs with a NAV between R 1 million – R 5 million and NPOs with a net asset value over R20 million. As illustrated in Table 4.1.6, only 1 of the NPOs with a NAV between R1 million and R5 million use full IFRS to prepare their financial statements. It was also noted that 40% of the organisations within this category made use of the cash basis to prepare their financial statements. On the other hand, Table 4.1.6 further illustrates that 5 (50%) of the NPOs which fall within the size category of NAV greater than R 20 million prepare their financial statements in accordance with full IFRS. NPOs with more resources available to them may have the means to obtain the necessary skills, personnel and resources to assist them to improve their financial reporting practices (Cordery et al., 2019; Kuruppu et al., 2022). Larger NPOs may have more stakeholders that they are accountable to, influencing the extent of their financial reporting and the financial reporting standards used (Gray et al., 2006). The largest percentage of NPO funding comes from donations, grants and subsidies (illustrated in Table 4.1.7). Larger NPOs may receive more resources from non-exchange transactions, possibly increasing the agency problem and leading to a greater required extent of financial reporting (Crawford et al., 2017; Ebrahim, 2010).

Table 4.2.2c: Bonferroni Post Hoc Test Results: Qualification of preparer – Assurance opinion

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj. Sig.[a]
1-3	0,000	5,153	0,000	1,000	1,000
1-4	0,000	5,117	0,000	1,000	1,000
1-2	-2,318	5,221	-0,444	0,657	1,000
1-5	-12,750	6,122	-2,082	0,037	0,373
3-2	2,318	1,958	1,184	0,236	1,000
4-2	2,318	1,861	1,246	0,213	1,000
3-4	0,000	1,659	0,000	1,000	1,000
3-5	-12,750	3,749	-3,401	0,001	0,007
4-5	-12,750	3,699	-3,447	0,001	0,006
2-5	-10,432	3,843	-2,715	0,007	0,066
Significant at the 1% level					
Significant at the 5% level					

Table 4.2.1 displays that there is a statistically significant difference between the qualification of the preparer of the NPO's financial statements and the type of assurance provided (i.e. audit/review/no assurance) [(H = 13.3; P < 1%) and (J = 0.3; P > 10%)].

Results of the pairwise comparison test (Table 4.2.2c) performed indicated that there was a significant difference between the assurance provided over NPOs' financial statements which were prepared by chartered accountants or those with a BCom degree or equivalent compared to those prepared by individuals with a non-accounting degree. Illustrated in Table 4.1.11 indicates that 100% of the financial statements prepared by chartered accountants or individuals with a BCom or equivalent degree were audited. Only 50% of NPOs whose financial statements were prepared by individuals with a non-accounting degree had audited financial statements. The remaining 50% of the financial statements prepared by individuals with no degree or a non-accounting degree were neither reviewed nor audited. This may suggest that individuals with higher accounting and financial knowledge are more likely to understand the benefits audited financial statements may provide (Cordery et al., 2019). Fewer financial skills can result in a reduced understanding of the benefits of assurance engagements and the significance of producing high-quality financial statements (Cordery et al., 2019; Kuruppu et al., 2022). It is also important to note that only 2 NPOs in the selected sample had preparers with no degrees or non-accounting degrees.

4.3. Research question three: What information do NPOs consider to be useful to their users

In this study the information NPOs make readily available on their websites was used to determine the information NPOs consider as useful to the users of their financial statements (Dhanani & Connolly, 2012). According to Cabedo et al. (2018), NPOs are making use of web-based disclosure through their websites to provide useful information to interested parties. Gazzola et al. (2021a) add to this discussion, mentioning that in the modern world digital reporting is becoming prevalent. Saxton and Guo (2009); Saxton and Guo (2011) further identified key drivers affecting NPO web-based disclosure. Based on the above, the websites of the 50 sampled NPOs were investigated at an overall level and broken down into the following categories: (1) objective; (2) size (net asset value); and (3) qualification of preparers.

Figure 4.3.1: Information perceived to be useful by NPOs (information disclosed on NPO websites)

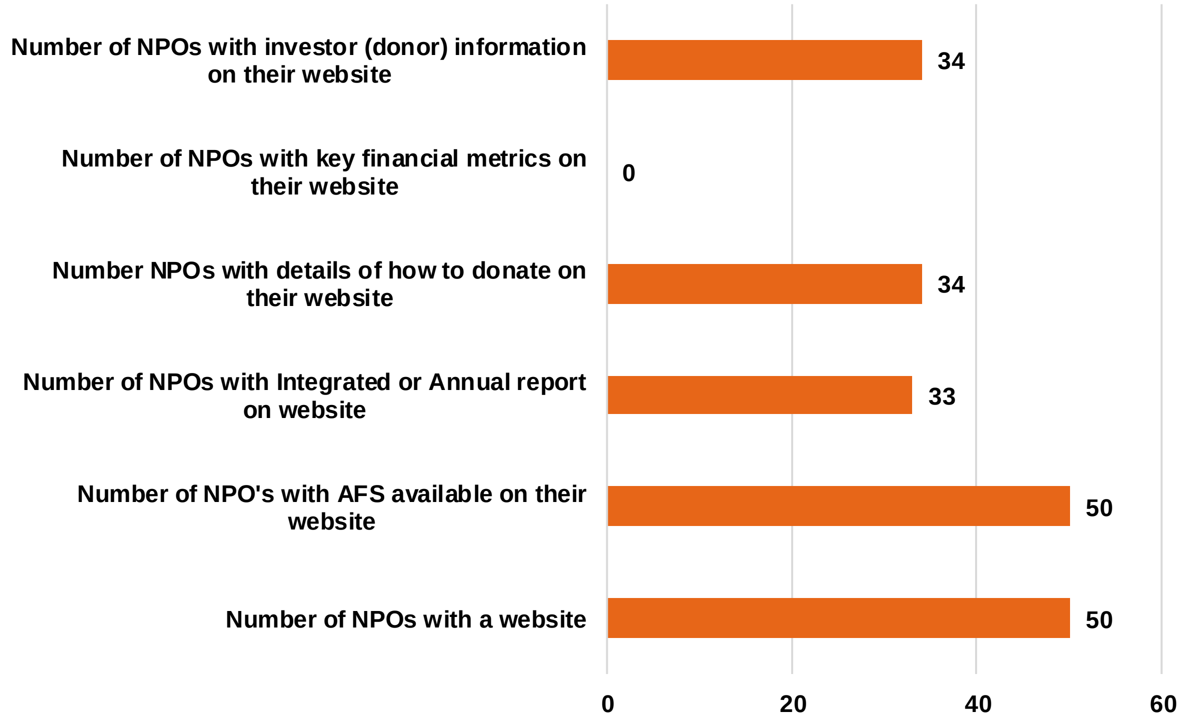


Figure 4.3.1 illustrates that the financial statements of all 50 NPOs sampled for this study were available online. By making their financial statements publicly available, South African NPOs may seem more transparent and responsible. Linking to Striebing (2017) discussion on international NPO disclosure trends, South African NPOs are following these trends by discharging accountability through internet-based disclosure. Publishing financial statements on their websites may indicate that NPOs believe financial information is useful to users. NPOs

seem to believe that providing a financial account to users via their websites may partially fulfil their accountability obligations (Connolly & Hyndman, 2000).

66% of South African NPOs (see Figure 4.3.1) make their annual or integrated reports available on their websites. The annual integrated reports provide qualitative information describing the social and environmental impact made by the respective NPO in addition to the financial information contained in the financial statements. Connolly and Hyndman (2000) suggest that NPOs will disclose information which they deem useful to their stakeholders. The finding that 33 out of 50 companies disclose their integrated reports on their websites indicates that NPOs view non-financial information as important to the users of their financial statements.

Figure 4.3.1, indicates that none of the NPOs in this study disclosed financial metrics on their websites in addition to the information provided in the financial statements of the NPO. Financial and economic indicators are said not to allow for an adequate analysis of NPO performance, which may be the reason for their exclusion from NPO websites (Costa et al., 2014). This may also be an indication that the financial statements are provided simply as a tick-box exercise, rather than the NPO believing that the financial information in the financial statements is useful to their users.

Also illustrated in Figure 4.3.1, 68% of South African NPOs provide donor information and how-to donate details on their websites. Donation information may be useful as NPOs rely heavily on donations to continue operating (Unerman et al., 2006). Gray et al. (2006) make note of the diversity of the NPO sector, which may lead to a diverse group of stakeholders requiring different information, leading to NPOs disclosing different information (Evan & Freeman, 1988).

Table 4.3.2: Useful information - NPO objective

	Number of NPOs with a website	Number of NPOs with Integrated or Annual reports on their website	Number NPOs with details of how to donate on their website	Number of NPOs with key financial metrics on their website	Number of NPOs with investor (donor) information on their website
Employment, training and education	5	5	4	0	4
Business, economic and professional associations unions	7	3	1	0	1
Sports	3	3	1	0	1
Youth services	8	6	7	0	7
Wildlife	2	1	2	0	2
Environment	3	2	2	0	2
Health	13	10	10	0	10
Social services	9	3	7	0	7
Total	**50**	**33**	**34**	**0**	**34**

Annual and integrated reports vary depending on the specific objective of the NPO. Both financial and non-financial information is provided by NPOs to give users the necessary information to make decisions (Costa et al., 2014; Ebrahim, 2010). Some NPOs may feel the need to provide great detail about their operations through annual or integrated reports and why their cause is important. Others may be self-evident and, accordingly, less detail is provided. For example, an NPO which is also a large union provides membership information on their website. Other information provided by this NPO includes the success in meeting member demands and the achievements the union has made for members employed in the sector. In contrast, the integrated report of an NPO with a wildlife objective contains information about the number of animals they treated with their mobile clinics, as well as sterilisation statistics.

A significant finding illustrated in Table 4.3.2, is that 100% of Wildlife NPOs have how to donate and investor information published on their websites. The protection and conservation of wildlife require donations from the public. This can be the reason for these organisations providing donation details on their websites. These NPOs provide “donate” buttons and some have separate donation pages, detailing their project and asking for donations. The websites go further, requesting monthly debit orders and donation certificates that can be gifted to others. From the sample studied, only 50% of the NPOs with a wildlife objective received government subsidies and grants, which is lower than the 63% of NPOs with a Youth services objective and the 60% of NPOs with an Employment, training and education objective that receive government subsidies and grants.

Table 4.3.3: Useful information - NPO size

	Number of NPOs with a website	Number of NPOs with Integrated or Annual reports on their website	Number NPOs with details of how to donate on their website	Number of NPOs with key financial metrics on their website	Number of NPOs with investor (donor) information on their website
Less than R0	2	0	2	0	2
Less than R1 million	8	4	5	0	5
R1 million-R5 million	15	10	9	0	9
R5 million-R10 million	7	4	5	0	5
R10 million-R20 million	8	6	7	0	7
Greater than R20 million	10	9	6	0	6
Total	**50**	**33**	**34**	**0**	**34**

Larger NPOs seem to publish annual or integrated reports on their websites (see Table 4.3.3). This may be the result of additional resources available to them (Khumawala & Gordon, 1997). More NPOs with a lower NAV seem to provide how to donate and donation information on their websites than those with a larger NAV (see Table 4.3.3) Leveraging on Cordery et al. (2019); Kuruppu et al. (2022) discussions on resources, NPOs without the necessary funds may be inclined to provide donation information to the public. With fewer resources at their disposal, these NPOs may spend their money on a better donation webpage rather than providing qualitative information about their operations.

For example, a small NPO with an environmental objective has a very simple website with a few web pages. What stands out most on the website is the donation page which allows you to donate funds on the website. It seems that these NPOs allocate resources to their donation page, rather than spending the money and other resources on fancy websites.

Table 4.3.4: Useful information - Qualification of preparer

	Number of NPOs with a website	Number of NPOs with Integrated or Annual reports on their website	Number NPOs with details of how to donate on their website	Number of NPOs with key financial metrics on their website	Number of NPOs with investor (donor) informatio n on their website
No degree	1	0	1	0	1
BCom or equivalent	10	6	7	0	7
Chartered accountant	16	12	12	0	12
Not disclosed	21	14	14	0	14
Non-accounting degree	2	1	0	0	0
Total	**50**	**33**	**34**	**0**	**34**

Table 4.3.4 illustrates that 75% of NPOs which have their financial statements prepared by chartered accountants publish annual or integrated reports on their websites. NPOs which have a chartered accountant preparing their financial statements may believe that providing an integrated or annual report to users might be useful. These integrated reports mainly provide non-financial information about social and environmental achievements and future goals (Ebrahim, 2009, 2010). Chartered accountants may understand that financial information alone does not provide users with all the necessary information needed to make informed decisions (Costa et al., 2014; Ebrahim, 2010).

As most of the modern world has access to the internet, digital reporting has become prevalent and important for many stakeholders (Gazzola et al., 2021b). No matter the qualification of the NPO financial statements preparer, there is a common understanding that the public makes use of the internet and for NPOs to communicate effectively information to users, web-based disclosure is important.

5. Conclusion

The objective of NPOs is to support societies in achieving their social and environmental goals (Cordery et al., 2019; Goddard et al., 2006; Gray et al., 2006; Unerman et al., 2006). In achieving these goals, NPOs should be held accountable to their donors, recipients, and other stakeholders. The NPO sector in South Africa is a diverse group, with over 200 000 registered NPOs aiming to achieve over 100 different objectives. NPOs also vary in size, ranging from NAVs as small as negative R 16 042 646 to as large as R 2 995 202 000. Even with the varying characteristics, all these organisations have one common underlying goal, creating social and environmental value. As Morgan (2013) said, NPOs belong to a "third sector", which straddles the line between the public and private sectors. Because of this grey area, there is not much regulation surrounding their financial reporting as either public listed entities or listed private entities.

The financial accounting practices and useful information of South African NPOs were studied in this research report. In answering research question 2, he findings suggest that the objective, size and financial qualification of its executive team have a significant impact on financial reporting practices.

Substantial variances in the composition of South African NPO financial statements were also noted, with financial statement lengths ranging from 11 to 93 pages. These differences are linked to NPO objective, size and qualification of preparer. NPOs are different and those differences derive the extent of financial reporting.

The choice of financial reporting frameworks differed depending on the size of the NPO. Larger NPOs (based on NAV) used IFRS more than any other size groups, while smaller NPOs favoured IFRS for SMEs. The researcher expected that most NPOs would use cash or modified cash basis of accounting as it is an easier framework to apply and does not require much technical knowledge. Surprisingly, the findings contradicted this expectation as most NPOs adopted. More research needs to be done on the appropriateness of the use of IFRS for SMEs as NPO revenue policies don't seem to align with the profit-orientated intention behind these standards.

NPOs operating in the health sector had more robust financial accounting practices based on their disclosure. With healthcare being important to many stakeholders, these NPO's receive a lot of public donations. Attracting more scrutiny and creating a need for robust financial statements.

Without sector-specific financial reporting frameworks for NPOs, all NPOs examined made use of reporting standards aimed at for-profit entities. It is widely held that an NPO-specific reporting standard will provide more useful information to users of NPO financial statements, because of the unique transactions in the NPO sector, such as voluntary non-exchange transactions and volunteer services.

The data illustrate that only 54% of NPOs prepare financial statements within 6 months, 28% within 1 year and 18% longer than 1 year after their financial year-end. Based on the above, NPOs seem to prepare financial statements as a tick-box exercise and not to provide up-to-date useful information to users. Interestingly the South African NPO Act legislates that financial statements be prepared within 6 months after the year-end of these organisations, indicating widespread contravention of these rules.

Almost all the NPOs in the study assured their financial statements, with 49 out of the 50 NPOs providing audited financial statements and 1 providing no assurance. From these audited NPOs just less than half achieved a qualified audit opinion. The lack of cash controls over donation was often cited as a reason for qualification. A qualified audit report taints the user perspective of the NPO, but the reasons for these qualifications are expected in the NPO space. These standards do not provide a reliable representation of an NPO's value. This begs the point that an NPO-specific financial reporting framework is needed to account for sector norms avoiding unfavourable assurance opinions.

Future research should consider how NPO audits are conducted and whether more could have been done to satisfy themselves about the completeness of cash donations.

In line with the findings of Cordery et al. (2019); Kuruppu et al. (2022), the findings indicate that South African NPOs with more resources seem to pay better attention to the preparation of financial statements, providing better information to users. NPOs with more financial resources hire skilled personnel, such as chartered accountants to prepare their financial statements. These NPOs also hire bigger audit firms to assure their financial statements. With stiff competition among NPOs for donations in a growing market, better financial reporting practices can give NPOs an advantage (Khumawala & Gordon, 1997).

The results of the research draw on the South African legislation as a base which validates that NPOs need to prepare a statement of profit or loss and a statement of financial position which need to be available within six months after the NPO's financial year-end ("Nonprofit Organisations Act," 1997, p. 7).

An NPO website can be a window into the information they view as most useful, as management can choose what information to share publicly (Gazzola et al., 2021a). Many

NPO's fundraise on their websites, allowing the public to donate to specific projects or the NPO in general. Interested donors can find out about an NPO and donate from the same website (Saxton & Guo, 2009).

South African NPOs are discharging accountability through internet-based disclosures of financial statements, annual reports (disclosing both financial and non-financial information) and impact reports. Assuming NPOs publish important reports on the internet, the fact that financial and annual reports are commonly published means these are key reports for users. Based on the information disclosed on the NPO websites, it appears that the financial report and integrated report are perceived as being useful by NPOs. However, key financial metrics are not disclosed separately on the website. Rather, the focus is on the societal impact of the NPO and how to donate.

The findings are intended to give a general picture of how South African NPOs are currently handling their financial reporting. The information seen as crucial by the funders, beneficiaries and those who compile NPO financial accounts is based solely on web-based disclosure. The research does not provide insight into what information users of NPO financial statements perceive to be useful. Additional research is required to determine whether the perceptions of users are in line with the perceptions of NPOs based on their web-based disclosures.

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Appendix A – Disclosure checklist

<table>
<tr><th>Checklist item</th><th>Observation</th><th>Score</th><th>Reason for inclusion</th></tr>
<tr><td>NPO name</td><td></td><td></td><td rowspan="5">Provide general information about the organisation investigated and when their latest financial statements were produced. This would help to see the importance they place on the preparation of financial statements</td></tr>
<tr><td>NPO registration Number</td><td></td><td></td></tr>
<tr><td>NPO objective</td><td>Employment, training and education; Business, economics and professional associations and unions; Sports; Youth services; Wildlife; Environment; Health; and Social services</td><td>(1/2/3/4/5/6/7/8)</td></tr>
<tr><td>NPO type</td><td>Voluntary association; Not-for-profit company; and Trust</td><td>(1/2/3)</td></tr>
<tr><td>Year</td><td></td><td></td></tr>
<tr><td>Are annual financial statements available on website</td><td>(Yes/No)</td><td>(1/0)</td><td rowspan="3">Provides an understanding of which organisations make their financial statements available to the public. Provides an understanding of whether NPOs believe that access to their financial statements would be beneficial to their stakeholders.</td></tr>
<tr><td>Are annual financial statements available on request</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Are annual financial statements unobtainable</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Number of pages in the financial statements</td><td></td><td></td><td rowspan="12">Provides an understanding of the contents of NPO financial reports, and the diligence executed when preparing these financial statements and the resources allocated to this process.</td></tr>
<tr><td>Financial statements framework</td><td>IFRS; IFRS for SMEs; Own policies; and IOSIS</td><td>(1/2/3/4)</td></tr>
<tr><td>Qualifications of the preparer</td><td>No degree; BCom or Equivalent; Chartered accountant; Not disclosed; and Non-accounting degree</td><td>(1/2/3)</td></tr>
<tr><td>Level of assurance</td><td>Audit; None; Review; and Compilation</td><td>(1/2/3/4)</td></tr>
<tr><td>Assurance opinion</td><td>Qualified, Unqualified, Disclaimer, Adverse</td><td>(1/2/3/4)</td></tr>
<tr><td>Deloitte</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>SNG Grant Thornton</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Nexia SAB&T</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Mazars</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Baker Tilly</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>Nolands</td><td>(Yes/No)</td><td>(1/0)</td></tr>
<tr><td>PKF</td><td>(Yes/No)</td><td>(1/0)</td></tr>
</table>

BDO	(Yes/No)	(1/0)	
Other (small firms)	(Yes/No)	(1/0)	
Statement of profit or loss	(Yes/No)	(1/0)	
Statement of financial position	(Yes/No)	(1/0)	
Statement of changes in equity	(Yes/No)	(1/0)	
Statement of Cash flows	(Yes/No)	(1/0)	
Other statements	(Yes/No)	(1/0)	
Other statement detail			
Notes to the-financial statements	(Yes/No)	(1/0)	
Number of Notes			
Notes Referenced to Financial statements	(Yes/No)	(1/0)	
Referencing correct	(Yes/No)	(1/0)	
Statements mathematically accurate	(Yes/No)	(1/0)	
Funding Accounting Policy	(Yes/No)	(1/0)	
Policy in line with Framework	(Yes/No)	(1/0)	
Fixed Assets Accounting Policy	(Yes/No)	(1/0)	
Policy in line with Framework	(Yes/No)	(1/0)	
Expenses Accounting Policy	(Yes/No)	(1/0)	
Expenses Accounting Policy In line with Framework	(Yes/No)	(1/0)	
Profit			Provides an understanding on the value of NPOs and allows for links to be drawn between size and reporting.
Net-Asset Value	Less than 0; Less than 1 million; 1 - 5 million; 5 - 10 million; 10 - 20 million; and Greater than 20 million	(1/2/3/4/5/6	
Source of funds			To understand the sources of NPO funds.
Product sales	(Yes/No)	(1/0)	
Service sales	(Yes/No)	(1/0)	
Events, Fundraisers, Meetings and Conferences	(Yes/No)	(1/0)	

Fees received (various)	(Yes/No)	(1/0)	
Training	(Yes/No)	(1/0)	
Individual and corporate Donations	(Yes/No)	(1/0)	
Memorial Donations and Bequests	(Yes/No)	(1/0)	
Government subsidies and grants	(Yes/No)	(1/0)	
National lotteries grant	(Yes/No)	(1/0)	
Other	(Yes/No)	(1/0)	
Website	(Yes/No)	(1/0)	Provides an understanding of what information NPOs perceive to be useful to their stakeholders and as such have decided to disclose this information on their webpages.
Investor page	(Yes/No)	(1/0)	
Key metrics shown on website	(Yes/No)	(1/0)	
Is the Integrated report available on the website	(Yes/No)	(1/0)	
Are donation details included on the website	(Yes/No)	(1/0)	To assess the website functionality and to determine if NPO's make use of websites to collect funds.
Are how to donate instructions included on the website	(Yes/No)	(1/0)	
Can donors make donations on the website	(Yes/No)	(1/0)	