

Further Improvement Issues of Accounting and Reporting in Non-State Non-profit Organizations in Uzbekistan

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Abstract

Among all of contemporary organizational structure of entities, non-state non-profit organizations (NSNPOs hereinafter) gains an inherent position in terms of orientation and funding. The last three decades are marked with significant shifts in NSNPO accounting and reporting reforms due to abovementioned distinguishing features depending on the country they operate. Uzbekistan has put several significant steps towards regulatory and legal bases of NSNPOs through structural reforms and legislative adjustments. This article investigates international best practices in NSNPO accounting and reporting practices, highlights adoption opportunities and proposes recommendation for further improvement of NSNPOs in Uzbekistan.

Keywords: non-state, nonprofit, NSNPO, Uzbekistan.

1. Introduction

The primary reason of the existence of non-profit organizations is the existence of many social and political groups within our present-day society, which provide service and carry on activities in the interest of society. Financial reporting is an important aspect of non-state non-profit organizations accountability (Morgan, Crawford, Bryn and Cordery, 2014). Financial reporting and accounting issues of non-state non-profit organizations (NSNPOs) are highly debated task in the agenda which arose numerous problems to be dealt with the support of wider international community. Income source and expenditure groups often differ from any kind of entity or business. Their revenues and expenses are recognized and allocated different community-oriented purposes with strong social character. Therefore, in international practice, NSNPOs are provided different preferences and exempted certain types of taxes and mandatory fees. However, as an operating entity they have to present a report (at least annual) to public authorities on their financial stance and performance. However, their functioning sphere and income status are absolutely distinguishing from any other of business. According to the local laws and regulations of most countries, all registered NSNPOs are required to maintain a system for recording and submitting all types of financial transactions made by them for the purposes of implementing projects and running their organization. Since finances are a crucial part of organizational management, it is always a better idea to maintain an accounting policy for following procedures to keep the accounting system effective, transparent and easily manageable.

The existing practitioner and academic literature on accounting and auditing of NSNPOs argues strongly in favor of accounting mechanisms that provide accountability and capture the views of, beneficiaries and public authorities. These arguments are, however, either derived largely conceptually – with little empirical support. Furthermore, there is a general lack of independent study into the impact on financial condition that has played the key role in expanding their accountability. Those studies that have addressed this issue have tended to be narrowly focused on particular NSNPOs. They have therefore not been able to provide broader insights into issues at the local level associated with the development and implementation of new forms of accounting and audit practices. Within this context, the aims of this article are to investigate, through the experiences of developed countries, the impact of different accounting and audit mechanisms on the effectiveness of their activity. By investigating this issue, this article seeks to contribute towards the formulation of NSNPO accounting and reporting policies that will be effective in improving the efficiency and effectiveness.

2. Statement of the Problem

NSNPOs, as individual entities, keep their accounting and reporting activity basing on the same principles and

procedures, since considerable differences in revenue and expenditure structure are visible. In some advanced and emerging economies, NSNPOs follow a modified accounting, reporting and taxation procedures. Number and operating area of NSNPOs in Uzbekistan are growing progressively, and abovementioned processes require changed and further development. Deriving from national/traditional accounting practices, non NSNPOs need their ledgers, classification of revenues and spending, reporting procedure and tax regime.

3. Research Methodology

This article is stemmed from the key findings of a long-term scientific research conducted in the area of non-state sector enterprises which do not seek profit and operate for societal development purposes. This large scale research is conducted under retrospective and comparative approach and methods through comparative and evidence-based research tools. Considering the pure practical aspect of the research, research methodology presented a glimpse into the recent history of NSNPO accounting and policy developments with a strong focus of their efficiency. Moreover, cost-benefit analysis of taken measures is done with the real-time effect.

4. Literature Review

In many literatures, authors found that NSNPOs accounting issues are as difficult as they are challenging. Most researchers and experts conducted research, studies accounting, reporting, taxation aspects from difference aspects. However, they gained diverse results across countries and accounting regulation policies. In 1992, Haim Falk analyzed the theoretical explanations for NSNPO phenomenon, distinguished between those organizations and profit entities, clustered NSNPOs on two dimensions, and suggested an accounting framework that is consistent with both the economic nature of NSNPOs and the nature of the giving decision. In 1998, Peter Reynard discussed contemporary approaches to accounting, auditing and reporting in NSNPOs. Some of the challenges that they faced included relying too heavily on outside funds and accurately assessing social performances. The author investigated some methods used by various NSNPOs in assessing their social performance. Marc Jegers (2002) studied the agency based economic theory of non-profit accounting and auditing and under thirteen empirically testable hypotheses on their presence, nature and quality. In 2014, Morgan, Crawford, Bryn and Cordery published the findings of a multi-national study undertaken to examine the case for the development of international standards for financial reporting by NSNPOs. Their study assessed the extent of consensus on the development of international accounting standards for NSNPOs, and highlighted specific issues that limited accountability and which were necessary to be included if such standards were to be developed and implemented.

5. Accounting Policy of Non-State Non-profit Organizations (NSNPOs): Need for Change and Improvement

Although there is a great variation between different types of industry, company and country, as well as types of **non-state** on profit organizations, in a growing number of cases the activity of NSNPOs are starting to influence corporate reputation, risk management, costs, revenues and social license to operate (Nelson, 2007). In the last decade, on government organizations faced a huge challenge of funding due to the decreasing number of funding bodies such as sponsors, donors and beneficiaries. Financial position and circumstances required to revise the accounting, accountability and auditing schemes because of global financial tightening. New accounting and reporting policy agenda focused on following changes and improvements:

- identify characteristics of the key mechanisms of accounting employed in a sample of international and local NSNPOs
- provide evidence of beneficial and dysfunctional impacts of the accounting mechanisms
- explain why particular accountability mechanisms are considered beneficial or dysfunctional
- assess the extent of beneficiary involvement in the accounting and reporting mechanisms and to investigate the factors preventing and/or facilitating accountability to beneficiaries,
- suggest alternative mechanisms of accounting and reporting that may alleviate the potentially dysfunctional impacts of donor-led upward-accounting mechanisms, and encourage the involvement of officers and beneficiaries in the field.

Latest developments in non-state sector accounting clarify the direction of adjustments in reporting style and accounting policy. Considering their activity areas and organizational character, accounting and reporting is optionally transiting to financial and managerial accounting. Internal and external accounting information and their respective users (donors and stakeholders) are promoted to new stage of data quality and financial clearance (Figure 1).

Figure 1. NSNPO accounting, reporting and accountability

	Programme management	Stakeholder accountability
Internal	Management Accounts: Budget Monitoring report and Cashflow report	Board report
External	Donor progress report (financial and narrative)	Donor report Audited Financial Statements Annual Report Reports to beneficiaries

Source: AICPA, 2013.

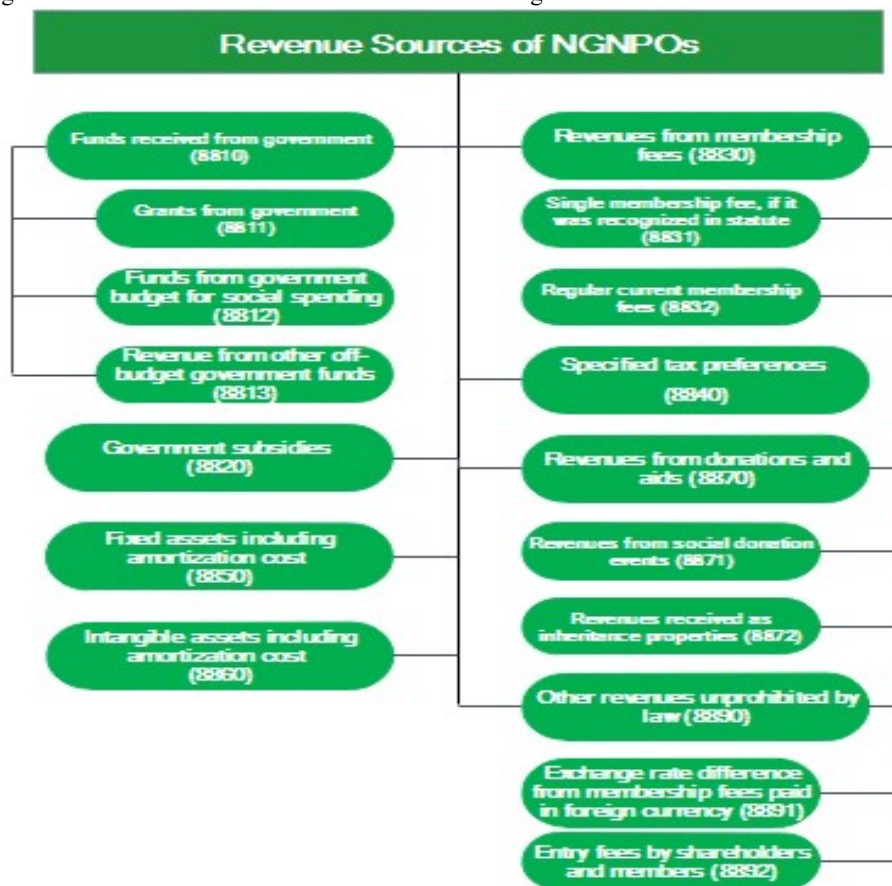
As shown in Figure 1, stakeholders and donors monitor the activity of projects run by NSNPO through reports and accounting data. Hierarchy of accountability and accounting is going external, as users of data and beneficiaries of NSNPO's activity engage in observing the progress and impact.

6. Issues of Enhancing Accounting and Reporting in Non-state non-profit Organizations in Uzbekistan

Accounting system in Uzbekistan is an area of radical reforms and rapid developments. Uzbekistan has been reforming accounting system in response to policy developments towards market economy since 1991. Economic liberalization, free trade and business activity, ownership reforms required the revision of accounting policy and modernizing the related spheres. Multiple organizational forms of entities in Uzbek socio-economic environment facilitated rapid growth and societal change. Non-state sector separated from public sector and became an integral part of ownership structure and organizational systems of entities. In parallel with socio-economic development, non-state sector fostered the societal impact and gained a strong position among rapid-growth spheres. Nowadays non-state sector is under a strong focus of policymaking and legislations from multiple aspects. The key area of non-state sector reforms is non-profit entities which are funded by donor assignments and financial aids. Their accounting, reporting and auditing principles vary from any other profit-oriented entities in terms of revenues and expenses, employment status and financial recognition principles. These distinguishing features drive the wheels of reforms and amendments in regulation and supervision policies by government.

Revenues and expenses, their sources and spending classification of NSNPOs are often argued among policymakers and researchers. Recognition of revenues and classification of income sources totally differs from any other organizational types of entities. NSNPO finance is structured around external source of income such as transactions by donors, sponsors, membership fees and obligatory service fees transferred accordance with particular agreements. These income sources create a complex hierarchy of upward and downward accountability towards all stakeholders – internal and external. However, in practice, several sources of income exist in condition of freely available asset ownership. In the context of Uzbekistan, NSNPOs can enjoy other flows of income which do not create the burden of upward or downward accountability. Membership fees, rentals of building and other assets, and income from consulting and support services, inheritance and donations can be performance based income inflows which NSNPO do not face accountability towards stakeholders (Figure 2).

Figure 2. Revenue sources and conditional revenue ledgers of NSNPO



Source: Author's compilation, 2016.

As reflected in Figure 2, ad hoc income sources enable NSNPOs to keep a stable financial profile and to provide long term funding source. Moreover, it reduces dependence for sponsors, donors and other external stakeholders. Provided ledger accounts are conditional, as they are used in traditional accounting practices of accounting and bookkeeping records and internal transactions.

7. Conclusion

NSNPOs are increasing in number and scope in line with their societal impact in Uzbekistan. Their role is strengthening not only in socio-economic development support policies but also in financial sector enhancement in larger scale. As mentioned, NSNPOs are under a deep financial reform oriented to development and impact enhancement. Considering Uzbekistan's transitional character and adoption pace of market principles, new fiscal and accounting regulatory changes require particular changes. Although non-profit status of NSNPOs, they are levied with preferred taxes for their income received from commercial activity such as rents and service provisions. Furthermore, adoption of cost-based performance approach to accounting in NSNPOs grants an opportunity for upgraded transparency in reporting and fairer accountability for stakeholders. Introduction of new ledger accounts for income structure enables NSNPOs to clearer grouping of taxable and non-taxable income they received, which eventually promotes their financial viability. Following policy-oriented recommendations are proposals for NSNPOs' financial viability provision:

- Monitor revenue, support, and expenses, and compare results to prior periods or to budgeted amounts;
- Assess the financial condition of NSNPO to determine if it is appropriate to expand activity;
- Determine whether additional fundraising activities are needed to fill the gaps from shortfalls in revenue;
- Determine management's ability to use funds effectively to meet NSNPO's mission.

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