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Impact of Financial Reporting Frameworks on the Quality of Not-for-Profit Financial Reports

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Abstract

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Dissertation Submitted in Partial Fulfilment

of the Requirements for the Degree of

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Abstract

Even when clean audit reports are issued for not-for-profit organizations (NFPOs), misuse of donor resources may continue for years without detection by financial statement users. Previous research has established creative accounting, haphazard reporting, and fraud among NFPOs. As a result, aid has been reduced and some projects have been suspended. With Uganda as the study area, the key research question was the following: What is the impact of financial reporting frameworks on the quality of financial reports in Uganda, controlling for class of external auditors? The purpose of this quantitative, causal-comparative study was to establish whether reporting frameworks used by NFPOs in Uganda affect the quality of financial reports. Survey data through a researcher-developed instrument were collected from a purposefully selected sample of 74 NFPOs. Data included financial reporting frameworks as the independent variable, quality of financial reports as the dependent variable, and class of external auditors as a covariate. The data were analyzed using analysis of covariance. Dhanani and Connolly's accountability theory was adopted as the central theory. Findings indicated that there were no significant associations between financial reporting frameworks and quality of financial reports. The highest quality score was 25.2% with a mean of 15.6%, indicating poor NFPO quality financial reporting in Uganda. These findings support creation of a unique financial reporting framework for NFPOs. Such a framework could boost donor funding, uniform reporting, and standardized guidelines for external auditors, as well as increased transparency and government confidence in NFPOs.

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Dedication

I dedicate this study to my dad, the late Edmond Lugumira, whose encouragement to me to love and cherish education as a key to my success has brought me this far. You sacrificed a lot to see me in school, but unfortunately, you did not live long enough to see me attain such accolades. I miss you so much; may your soul rest in peace.

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I am also deeply indebted to my wife, children, friends, and workmates, who have endured my busy schedule for 6 years. Thank you for your patience. I promise that the tearful times of sowing are over; just get ready for a plentiful harvest.

Table of Contents

List of Tables

List of Figures

Chapter 1: Introduction to the Study

Introduction

Previous studies have shown that despite increasing donor funding, especially in developing countries like Uganda, no major improvements have been realized in service delivery (Fowler, 1997). Instead, corruption (Uganda Debt Network [UDN], 2013), poverty, disease, poor health, poor education, hunger, and death are all rising by the day (United Nations Development Program [UNDP], 2008). Some donors have stopped funding projects, claiming misuse of money and poor accountability. Bebbington, Brown, and Frame (2007) reported that not-for-profit organizations' (NFPOs') participation in social change had been ineffective or had worsened the situation, with some trading on the poor to enrich themselves (Amutabi, 2006; Barned, 2009; Hearn, 2007; Leslie, 2009). Fowler (1997) and Riddel, De Conick, Muir, Robinson, and White (1995) wondered why, despite the enormous sums of dollars and pounds donated, there had been no tangible social change results of the work that could be shown against the monies sunk into various projects and programs.

What is intriguing is that clean, audited financial reports may be issued over many years, portraying a rosy picture even when fraud is prevalent in organizations. Much fraud goes unnoticed for years until a whistleblower reports the culprits. As a practicing accountant, I reckoned that financial reports may not be giving useful information to enable consumers to detect misuse of donor resources. I also realized that, whereas the profit and public sectors have financial reporting frameworks and standards tailored to their industry features, the NFP sector does not have a unique financial reporting framework. As a result, the reports produced may be of low quality and limited usefulness because of the absence of an appropriate accounting framework (Verbruggen, Christiaens, & Milis, 2011). Due to this absence, preparers of financial reports for NFPOs use frameworks meant for other industries, hence addressing the information needs of different users. It is likely that this mismatch could be contributing to rampant financial statement fraud and misuse of donor funds that can go undetected over many years. Therefore, my aim was to establish the impact of the current financial reporting frameworks on the quality of NFPO financial reports.

In Uganda, the International Public Sector Accounting Standards (IPSAs) are the promulgated accounting standards for public entities, while the International Financial Reporting Standards (IFRS) and IFRS for Small and Medium Enterprises (SMEs) are the promulgated accounting and reporting standards for all other sectors (IFRS Foundation, 2013). As the preparers of NFPO financial reports have repeatedly found the IFRS unsuitable for their accounting problems, they have created another framework called Generally Accepted Accounting Practices (GAAPs) to describe any other set of accounting policies that the preparer or auditor deems appropriate for the given circumstances. The GAAPs referred to in Uganda are undefined as to whom they are generally acceptable; nevertheless, the terminology has been borrowed from other countries. One cannot rule any preparer out of scope because there is no written code or set of such standards in the country. Others have forced their accounts to comply with

IFRS or IFRS for SMEs due to isomorphism. However, available research shows that IFRS and IFRS for SMEs were originally meant for profit-oriented entities and not NFPOs, whose unique characteristics are not accommodated by these standards (Epstein & Jermakowicz, 2010; Fitzpatrick & Frank, 2009). There are significant differences between FPOs and NFPOs such that one framework cannot cater to their unique, divergent goals (Crawford, Morgan, Cordery, & Breen, 2014).

Fraud is rampant in Uganda's NFPOs and has caused many donors to withdraw their funding (Otage & Okuda, 2014). It has been established that most fraud has been perpetuated through financial statement reporting (Association of Certified Fraud Examiners [ACFE], 2005; Klynveld Peat Marwick Goerdeler.[KPMG], 2003). To date, research findings have neither demonstrated the flaws of the current reporting frameworks for NFPOs nor related them to quality financial reporting. Further, researchers have not yet recommended accountability principles to define an appropriate accountability reporting framework for NFPOs.

Future research may trigger the establishment of an appropriate financial reporting standard for NFPOs that could be referred to as NFP Accountability Standards (NAS). When formulated, qualitative accountability reports produced by accountants and managers could improve fundraising. External auditors would have a basis for judging fair accountability of donor funds; donors would have more reliable accountability reports and hence safeguard their money from misuse. Governments' confidence in the operations of NFPOs might increase due to enhanced transparency in reporting.

Beneficiaries might also acquire better services due to increased funding and more efficiency in the use of donor funds. The trend of ineffective donor funding could be reversed, benefiting many developing countries such as Uganda.

Background

Since the industrial revolution, financial reporting regulation has been centered on for-profit entities because of the investor protection that was required to safeguard them from unscrupulous reporting by their agents (Epstein & Jermakowicz, 2010). This resulted in the adoption of the International Accounting Standards (IAS) at the World Accounting Congress in 1972 during a meeting between the Federal Accounting Standards Board (FASB) and the Institute of Chartered Accountants of England and Wales (ICAEW). Over subsequent years, the IAS has transitioned into the International Financial Reporting Standards (IFRS) under the International Accounting Standards Board (IASB). The IASB promulgated the IFRS for SMEs in July 2009 (Fitzpatrick & Frank, 2009). The IPSAs were also promulgated by the International Public Sector Accounting Standards Board (IPSAB) to cater to the special reporting needs of the public sector in 2000. The IPSAs had not been well embraced by many countries, partly due to absence of a conceptual framework (Christiaens & Van den Berghe, 2006). The NFPOs, which represented the third largest sector, were left to grapple with the available standards. In its 2003 review of NFPOs' financial and annual reporting, the Institute of Charted Accountants in Australia (ICAA) concluded that NFPOs would benefit from development of a unique framework that reflected their specific characteristics (ICAA, 2006).

In keeping with this recommendation, several countries have developed specialized standards to cater for the unique reporting needs of their NFPO sectors. These have included the Statement of Financial Accounting Standards (SFAS) in the United States, the Statements of Recommended Practice (SORPs) in the United Kingdom, the Australian International Financial Reporting Standards (AIFRS), the Accounting Guide for NFPOs in a consortium of 10 countries in Asia, and the Guide to Accounting Standards for NFPOs in Canada. However, research has not yet clearly demonstrated the accounting differences between FPOs and NFPOs and how these specialized frameworks can cater for such accounting differences. Moreover, each framework caters to the institutional needs of the specified country, and so far, no international framework or guidelines has been effected to guide NFPO financial reporting (Crawford et al., 2014).

In Uganda, the accounting profession is supervised by the Institute of Certified Public Accountants of Uganda (ICPAU). ICPAU has officially recommended the IPSAs for the public sector, as well as the full IFRS and IFRS for SMEs as official frameworks to be used by all entities in Uganda. Because of the current financial reporting frameworks' unsuitability for the unique reporting features of NFPOs, accountants, and auditors have resorted to using GAAPs. However, GAAPs are undefined, amorphous, and used to describe any accounting phenomena that the preparer wishes to use. It is because of this reporting melee that NFPOs have prepared low-quality financial reports and left open opportunities for fraud. Many preparers are confused about terms such as *revenue, income, receipts, profit, surplus, excess of receipts over expenses, depreciation of assets,* and *recognition of income,* as well as about the layout of the expenses, fund accountability statement and balance sheet, equity, and what to disclose and how much, especially within the narratives.

Mautz (1989) wondered whether NFPOs should present their financial statements in a very special way. He justified why NFPOs should have a unique reporting framework based on fund accounting. Haim, Graham, and Waterhouse (1992) advocated for a move toward a framework for NFPOs. Anthony (1995) discussed the NFP accounting mess. He exposed the discrepancies and inconsistencies in NFP reporting standards SFAS 116 and 117 as issued by the Financial Accounting Standards Board (FASB) and demanded their withdrawal until the discrepancies were corrected (Anthony, 1995).

Khumawala and Gordon (1997) examined the status of NFP accounting standards, especially SFAS 116 and 117. They concluded that modifications were necessary, especially as donors preferred more nonfinancial than financial information. Pina and Torres (2003) compared the NFPO accounting frameworks in four countries—the United States, Canada, the United Kingdom, and Spain—against that of Australia. Dunn (2004) studied the impact of insider power on fraudulent financial reporting. He explored the consequences of insiders controlling top management and the board of directors, therefore controlling the timing, nature, format, and content of financial reports to their favor and possibly opening opportunities to commit fraud. Kilcullen, Hancock, and Izan (2007) compared NFPO accounting frameworks of the United States, the United Kingdom, Canada, and New Zealand against that of Australia. Fischer and Marsh (2012) established that the ability of donors to understand the financial reports of NFPOs was affected by their understanding of the reporting guidelines. They also concluded that NFPOs do not want to engage in technicalities but want information concerning inputs, outputs, and outcomes.

Verbruggen, Christiaens, and Milis (2011) sought to determine whether resource dependence and coercive isomorphism could explain NFP compliance with reporting standards. Lugo (2011) commented on FASB’s efforts to make special standards concerning NFPOs. Verbruggen et al. (2011) argued and demonstrated that the usefulness of a financial report depended on its quality, which is safeguarded by standards. The Charter of FASB’s Not-for-Profit Advisory Committee (NAC; May 2013) was set up to advise FASB on the effective and timely development of financial accounting and reporting standards for NFPOs in the United States.

The Consultative Consortium of Accounting Bodies in the United Kingdom (CCAB) commissioned a study in 2013 from the University of Dundee and Sheffield University with the following objectives:

- “to establish what is meant by the NFP sector;”
- “to identify the current accounting framework, standards and guidelines;”
- “to focus on the specific accounting issues concerning NFPs;”

- “to establish whether there is a need to create an international financial reporting framework, guidance or standards for NFPs” (Crawford, Morgan, Cordery, & Breen, 2014, p. 11).

Regarding the first objective, it was reported that NFPOs are referred to as the *third sector* in some nations, and as *community*, *voluntary*, or *civil society* in others (Anheier & Salamon, 1992). In other countries, such as Uganda, they are called *nongovernmental organizations* (NGOs). Although there are many categories of NFPOs, this report focused on those entities that are for charity or public benefit, as some entities such as clubs, credit unions, and cooperatives do not have charitable aims but do help their members. Regarding the current NFP accounting framework, it was concluded that general purpose financial reports (GPFR) should be distinguished from special purpose financial reporting.

The specific accounting issues concerning NFPOs included the objectives of financial statements, definition, recognition, and measurement of the elements of financial statements. Crawford et al. (2014) concluded that the objective of financial statements cannot be limited to decision making but must include accountability.

The definition, measurement, and recognition of financial statement elements such as assets, liabilities, revenue, and expenditure require modifications in the context of the NFPO sector.

Table 1

Jurisdictional Summary of NFPO Reporting

Country	IFRS compliant	NPO framework	Challenges
England, Scotland, and Wales	Alignment of UK GAAP with IFRS for SMEs for large NFPOs.	SORP 2005 for all charitable companies using accrual basis.	Does not apply to charities that use cash basis.
Northern Ireland	No GAAP yet.	None yet, but likely to become SORP 2005.	
Ireland	Alignment of Irish GAAP with IFRS for SMEs.	None, but awaiting implementation of the Charities Act 2009.	All charities required to use accrual accounting to make SORP 2009 mandatory.
Switzerland		Application of Swiss GAAP RPC 21 is voluntary.	
United States	Harmonization between FASB and IFRS.	Yes; since 1973, they have been called SFAS under the Codification Accounting Standard 958 NFP.	Standards applied by IRS at times conflict with U.S. GAAP.
Canada	IFRS replaced Canadian GAAP in 2011.	Yes; separate standards for FPOs and NFPOs. Separate standards for private (Part III of the CICA Handbook applies) and public NFPOs (CICA public sector handbook).	Definition of assets and recognition of capital assets.
South Africa	IFRS replaced African GAAP in 2012 for all listed public entities. IFRS for SMEs is also in use. GRAP for public entities.	No standards for NFPOs. NFPOs rely on IFRS, hence problems similar to those in Australia and New Zealand and African countries (Rossouw, 2007).	Assets definition in IFRS differs from NFPO understanding, causing accounting difficulties for depreciation, impairment, and recognition.
Australia	NFPOs compliant with IFRS since 2005, except for assets impairment and recognition of grants or donations.	Sector-neutral approach. Development of a National Standard Chart of Accounts. All charities except religious institutions required to file an Annual Information Statement (AIS) that must audited.	Donations or grants absent from IFRS.
Japan	Convergence to IFRS underway.	No separate standard at present.	
India	Not yet IFRS compliant even for listed companies.	None	
New Zealand	Sector neutral using IFRS.	Use IPSAS but arguing for simplified version for small entities.	

Note. Adapted from *International Financial Reporting for the Not-for-Profit Sector* p116-124) by L. Crawford, G. G. Morgan, C. Cordery, and O. B. Breen, 2014, London, England: CCAB. Copyright 2014 by CCAB. Adapted with permission.

Regarding perceptions held by stakeholders about international financial reporting for NFPOs, a survey was conducted using an online questionnaire based on three questions whose outcomes I summarized per question. Question 1 involved obtaining stakeholder perceptions about the potential development of IFRS for the NFP sector. Seventy-two percent of the respondents strongly agreed that it would be useful to have an international convergence. Question two involved stakeholder perceptions about the scope of an international standard as to whether it should be applied to all NFPOs or those with a given level of income. Thirty percent of the respondents suggested that such standards be applied to all NFPOs, while others suggested compliance based on relative levels of income. Question 3 involved ascertaining stakeholder perceptions about NFPO financial reporting usefulness and influences. Sixty-one percent of the respondents strongly agreed that the purpose of NFPO financial reports is stewardship, 57% felt that it was accountability, and 49% felt that it was decision usefulness. The responses show that financial statements are perceived to serve more than one purpose.

Differences Between FPOs and NFPOs

Crawford et al. (2014) went further to list differences between NFPOs and FPOs to highlight reasons why the two sectors cannot use the same reporting framework because of the varying user information needs arising from those differences. The 16 differences were grouped under (a) ownership differences, (b) beneficiaries, (c) social goals, and (d) sources of financing.

The differences under ownership were in terms of their constitutional form, residual interest, share transferability and redemption, management and control, and voting rights. Because of this communal ownership, strictness over accounts is mild, and hence the likelihood of fraud increases. The NFPO framework would have to reflect consideration of this factor and offer relevant information and comfort to users.

Under beneficiaries, the differences include FPOs minimizing constructive obligations to only those necessary to maximize returns, whereas NFPOs prudently balance such liabilities with meeting goals. FPOs hold assets for future economic benefits, whereas NFPOs hold assets to further social objectives. The IFRS define assets based on the profit motive, and to this extent, NFPOs may not have such assets. The definition and name have been suggested to be facilities because they facilitate the achievement of the social communal goal. The accounting treatments therefore cannot be the same.

In terms of social purpose, NFPOs are not organized to make profits but to increase community welfare, and they are driven by social and ideological impulses, whereas FPOs are profit driven. In terms of accountability, financial statements may suffice in FPOs, whereas in NFPOs, narratives matter a lot. In FPOs, profitability is the ultimate goal, whereas in NFPOs, outreach, social outputs, impact, efficiency, effectiveness, and economy matter for sustainability. Reporting formats should be designed accordingly.

In relation to financing, FPOs sell goods and services to make a return to their stakeholders and equity providers, whereas NFPOs sell missions and goals. NFPOs depend on donations and income from goods and services. To this extent, the information needs between the two users vary. Whereas equity investors look for rewards and returns on their investments, donors look for social or moral satisfaction. Equity investors want to know whether a business is making profits, as well as how to minimize costs and increase returns. To this extent, they want a profit and loss account, balance sheet, cash flow statement, and notes explaining those financial statement elements. On the other hand, donors would like to know whether there are other donors supporting the same item, whether the beneficiaries record the social service or goods, and whether there is impact. Based on this finding, then, stewardship and accountability theories should be analyzed and their implications shown in the suggested reports. Further, accountability is far bigger than financial statements and cannot therefore be exhausted by preparation of financial reports.

However, gaps include failure to apply the implications of financial reporting theories, failure to make a comprehensive analysis of financial accounting and reporting differences between NFPOs and FPOs, failure to justify a need for a stand-alone accounting and reporting framework for NFPOs, the absence of research that relates the inappropriate frameworks to the quality of the NFPO financial reports, and the absence of research that relates rampant fraud and low NFPO performance to financial reporting gaps as a result of inappropriate frameworks.

Problem Statement

According to ACFE (2012) and KPMG (2003), financial statement fraud was reported to be the biggest loss contributor in NFPOs. Such fraud was found to be committed through misreporting. However, NFPOs' resources may be misused for a long time without being detected if management reports a rosy picture of their activities, given that no standards or frameworks exist to compel them to disclose pertinent information that would alert donors and other stakeholders of impropriety. Wells (as cited in Nguyen, 2010) stated the following harmful results of financial statement fraud:

- It undermines the reliability, equity, transparency, and integrity of the financial reporting process
- It jeopardizes the integrity, and objectivity of the auditing process, especially auditors and auditing firms
- It diminishes the confidence of "*fund providers*," as well as market participants in the reliability of financial information
- It adversely affects a nation's economic growth and property
- It results in huge litigation costs
- It destroys careers of individuals involved in financial statement frauds
- It causes bankruptcy and winding up
- It causes devastation in the normal operations of and performance of activities
- It raises serious doubts on the efficiency and reliability of financial statement audits

- It erodes public confidence and trust in the auditing profession. (p. 1)

Such dangers may be minimized if a standard reporting framework is developed to support internal control measures and eliminate the opportunities exploited by fraudulent reporters.

UNDP (2005) report on Uganda was cited by Basenegura (2009), showed that statistical indicators of people living below the poverty line increased from 33.5% in 2000 to 38.8% in 2003, with 38% of the population not surviving beyond the age of 40.4 years. Basenegura also referred to another UNDP (2008) report that showed that 40% of people did not have access to safe water; 23% of children were underweight, and the contribution of agriculture to the economy had reduced from 51% in 1991 to 34% in 2006, even though 70% of the population relied on agriculture for survival (UNDP, 2008).

The continued use of inappropriate financial reporting frameworks for NFPOs reduces their level of accountability (Falk et al., 1992). The absence of standards creates opportunities for creative accounting, haphazard reporting, and fraud (Dorminey, Flemming, & Kranacher, 2012). The only way that financial reports can be comparable and relevant is if they are prepared in accordance with a generally acceptable and appropriate reporting framework. Such a framework must take into account the unique features of the NFPOs and stakeholder interests, especially the funders (Puyvelde, Caers, Du Bois, & Jergers, 2012).

Because the current financial reporting frameworks in Uganda do not address NFPOs' unique stakeholder requirements, donors allocate colossal sums of their donations to fund management, monitoring and control, fraud investigations, or suspending funding. This research is aimed at establishing whether the current financial reporting frameworks are appropriate for NFPO accountability, given that they affect the quality of NFPOs' financial reports (Anthony, 1995). Such reporting requires a regulatory environment that addresses unique needs and provides uniform guidance for clear and understandable reports (Van Staden & Heslop, 2009). Little attention has been paid to the need to save NFPOs from onerous reporting on grounds of saving them the costly burden of financial reporting (Cordery & Baskerville, 2007).

A number of studies have been carried out regarding the uniqueness of NFPOs. Some of the research findings have caused separate reporting frameworks to be formulated to cater for NFPO uniqueness in countries such as Canada, the United States, the United Kingdom, New Zealand, and Australia. However, none of those studies has analyzed the relationship between frameworks and financial report quality. Further, no researcher has applied a theoretical framework in financial reporting quality. Additionally, research on financial reporting frameworks and report quality has been carried out in other countries but not in Uganda, yet standards should accommodate the social, political, and economic environment they serve (Selznick, 1996).

Because there are no alternative applicable standards, NFPOs use IFRS, IFRS for SMEs, GAAPs, or donor-imposed standards as financial reporting frameworks. These may contribute to low NFPO accountability levels due to low comparability, rampant fraud, misuse of donor funds, and decline or suspension of donor support due to inconsistent or creative financial reporting by the preparers. The term *GAAP* has connoted a haven for many financial statement preparers and auditors, who have used it to refer to any principles that they have deemed fit for a particular organization. However, there is no written set of GAAPs or known scope of their general acceptability.

At one time, many donors to NGOs in Uganda withdrew their funds because of unfettered corruption (Inspectorate of Government of Uganda, 2010). *Daily Monitor*, one of the daily tabloids, ran the following heading in 2014: “NGOs are losing donors over poor accountability.” It quoted a report that had been released by Trade Mark East Africa indicating that “many NGOs harbor fraudsters and embezzlers within themselves” (Otage & Okuda, 2014). The Paris Declaration for Aid Effectiveness (2005) stated that partner countries should be obliged to publish timely, transparent, and reliable reports on budget execution, as well as take leadership of the public financial management process. There is no budget emphasis in the current frameworks to reflect this requirement.

Purpose of the Study

The purpose of the study was to establish the extent to which existing financial reporting frameworks affect the quality of financial reports of NFPOs. A quantitative approach was used because the dependent variable was quantifiable. The independent variable was the reporting frameworks used, including the international frameworks (IFRS and IFRS for SMEs), the self-styled GAAPs (inclusive of all frameworks other than the international and donor frameworks), and the donor-imposed frameworks (i.e., World Bank, European Union [EU], U.S. Agency for International Development [USAID], etc.). The dependent variable was the quality of the financial reports.

Using a purposively selected sample and a quality evaluation tool, I planned to score the quality of each financial report, record the framework used, cluster each framework's scores, and establish whether frameworks impact quality after controlling for the class of an audit firm. Financial reporting theories such as agency theory (Jensen & Mackling, 1976), resource dependency theory (Pennings & Goodman, 1977), institutional theory (Meyer, DiMaggio, & Rowan, 1991), stewardship theory (Lennard, 2007), stakeholder theory (Hannan & Freeman, 1984), the IASB conceptual framework (2013), and communication theory (Lasswell, 1948) were used to improve the evaluation tool (see Appendix A). Results may provide a platform to advocate for the establishment of a stand-alone accountability reporting framework for NFPOs.

Theoretical Framework

I used accountability theory as examined by Dhanani and Connolly (2012) and accountability principles contained in other financial reporting theories. Dhanani and Connolly discussed accountability based on studies by Connolly and Hyndman (2004) by equating it to performance evaluation. The stewardship theory of Davis, Schoorman, and Donaldson (1997) postulates that managers can be trusted to maximize the use of resources given to them. Financial reports should therefore provide information that is useful for the assessment of the competence and integrity of "stewards," including both management and board. To this extent, financial reports should have elaborate nonfinancial information, especially regarding performance and achievement of objectives and targets.

Agency theory (Jensen & Mackling, 1976) is based on two underlying problems: (a) potential conflict of the desires or goals of the principal and agent and (b) moral hazard. Therefore, because of these suspicions, agency costs must be incurred lest the agents misuse the funds. The objectives of financial reporting prove that the IASB conceptual framework was based on agency theory. Stakeholder theory (Freeman & Hannan, 1994) explains external actors' importance for behavior because they affect the achievement of an entity's objectives (Key, 1999).

NFPO stakeholders would like to see information about the "4Es." These are economy, effectiveness, efficiency, and ethical conduct of an organization's use of resources (Boyne , 2002). Resource dependency theory (Pennings & Goodman, 1997) explains the relationship between an organization and its environment, systems and subsystems. Such influence requires satisfactory reporting or accountability lest they withdraw their resources (Bryson , 1995).

Institutional theory explains that an organization should conform to its environmental pressures and practices to avoid failure because of being outcompeted for scarce resources (isomorphism). Financial reports must therefore address the cultures, laws, politics, and other pressures and practices of various environments (DiMaggio & Powell, 1983; Hannan & Freeman, 1997; Scott, 1995). To this extent, a good accountability framework should leave room for institutional alignments. Whatever framework has been adopted, the class of the external auditor has a bearing on the quality of the financial reports that are produced (Choi, Kim, & Zang, 2010; Davidson & Neu, 1993; Gaeremynck, Van Der Meulen, & Willekeans, 2008; Yuniarti, 2011). The findings show that international (large) firms are perceived to produce better quality reports than small and medium-sized practices (SMPs), given the greater resources they commit to training, research, retention, independence, specialization, expertise, and a wider knowledge base. The International Federation of Accountants (IFAC, 2011) defines an SMP as “a practice whose clients, are mostly small and medium-sized entities; uses external sources to supplement limited in-house technical resources; and employs a limited number of professional staff.”

The purpose of this research was to establish the effect of the current NFPO financial reporting frameworks on the quality of financial reports. I am of the view that an appropriate NFP accountability framework would best be achieved using the salient user needs expressed by various financial reporting theories.

It is possible that financial reporting frameworks for NFP reporting affect the quality of the reports given to stakeholders. Drucker (1958) defined *quality* as what a user gets out of a product or service rather than what the manufacturer or service provider puts in a product. It is on this basis that the quality of financial reports was reviewed against user needs exhibited by the accountability theory in Kisaku’s Accountability Reporting—Quality Measurement Tool (KAR-QMT).

To this extent, I reviewed seven key financial reporting theories: accountability theory, stakeholder theory, stewardship theory, institutional theory, agency theory, resource dependency theory, and communication theory and found that they all indicated user needs that demand accountability, stewardship, and decision making. Accountability theory forms the central metaphor of this research because it demonstrates the possible components of what search a report may entail, as well as being hinged upon by all six other theories.

Research Questions and Hypotheses

Research Questions

The research questions that guided this study were the following:

RQ1. Do financial reporting frameworks impact the quality of financial reports for NFPOs as measured by Kisaku's Accountability Reporting—Quality Measurement Tool (KAR-QMT) after controlling for the class of external auditors?

RQ2. Do internationally recognized financial reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

RQ3. Do user-crafted financial reporting frameworks (GAAPs) impact the quality of financial reports for NFPOs after controlling for the class of external auditors?

RQ4. Do donor-designed financial reporting frameworks impact the quality of the financial reports of NFPOs measured by the KAR-QMT after controlling for the class of external auditors?

Hypotheses

Based on the four research questions, the following hypotheses guided the study. The null hypotheses are coordinated with each research question, as follows:

HO1. Current financial reporting frameworks do not have a significant impact on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

HO2. Internationally acceptable financial reporting frameworks do not have a significant effect on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

HO3. GAAPs do not have a significant impact on the quality of the financial statements measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

HO4. Donor-designed financial reporting frameworks do not have a significant impact on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

Nature of the Study

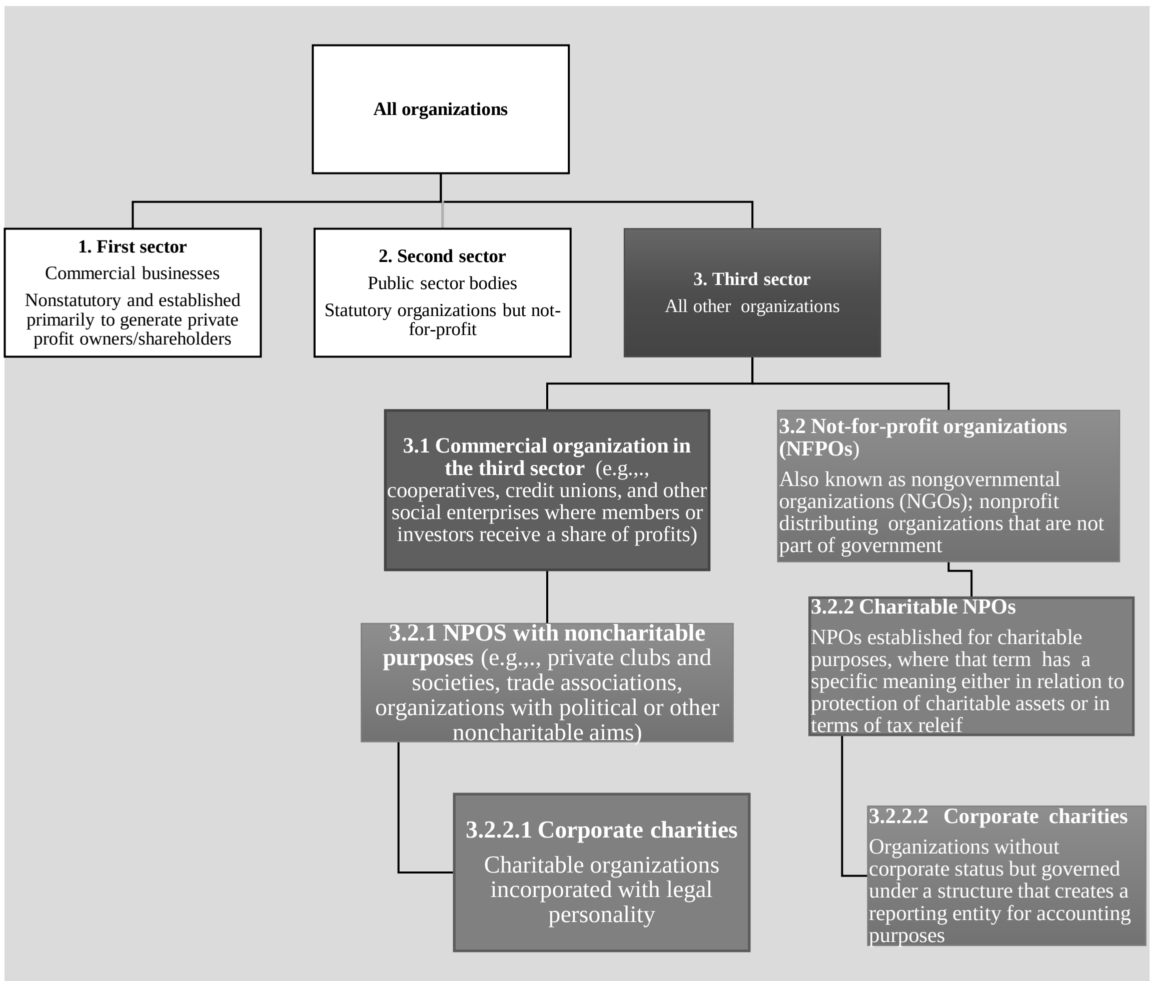
This study adopted a quantitative, causal-comparative research design (Charles, 1998). This design was chosen because the objective was to establish the impact of the financial reporting frameworks that NFPOs use and the quality of the financial reports that were prepared using those frameworks.

The research used one-way analysis of covariance (ANCOVA) to test the hypothesis because ANCOVA groups differences among one independent variable with more than two categorical groups by one quantitative dependent variable while controlling for covariates. The independent variable was financial reporting frameworks, which were grouped in three categories, namely internationally recognized (IFRS and IFRS for SMEs), donor imposed (World Bank, EU, Swedish International Development Cooperation Agency [SIDA], Danish International Development Agency [DANIDA], and USAID), and others (grouped as GAAPs). These were analyzed against the dependent variable of the quality of the financial reports. The most significant covariate expected to affect the dependent variable was the class of the audit firm used by a particular organization (whether local SMP or international firm).

A financial report quality assessment tool was developed to measure the quality of each report in consideration of the various financial reporting theories (see Appendices A and C).

Definitions and Scope

Given that NFPOs may have varying definitions and scope, Figure 1 shows the NFPOs that were considered in this study.



Adopted from Morgan (2013)

Key
Organizational context for this study

Relevant but outside the scope of this study

Core focus of this study

Figure 1. NFPOs in relation to other organizations.

The financial reporting frameworks were divided into three categories. Category 1 included international standards promulgated by ICPAU, namely IPSAS, the full IFRS, and IFRS for SMEs. The second category included the self-styled guidelines that are collectively called GAAPs and are sometimes referred to as *creative accounting*. Creative accounting involves using flexibility and loopholes in accounting within the regulatory framework to manage the measurement and presentation of the accounts so that they give primacy to the preparers, not to users (Jones, 2011). The third category was donor-designed frameworks, which included those of the World Bank, EU, DANIDA, SIDA, USAID, and Department for International Development (DFID).

The dependent variable was the quality of the financial reports that were produced using the above frameworks. The covariate was the class of the audit firms, which were broadly categorized as either as Small and Medium Practices (SMPs) or international. Acronyms are listed in Appendix B.

Assumptions

Several assumptions were made for the purpose of this study. The first was that quality is influenced by the class of the audit firm, whether SMP or international. It was also assumed that registered NFPOs are representative of all NFPOs in Uganda. Covariates beyond the scope of the study, such as donor, governance, and competence of the accountant or finance managers, were also assumed to have no significant effect on financial report quality. The financial framework indicated as the basis for a financial report was assumed to have actually been used for preparation of that financial statement.

Another assumption was that the quality of a financial report for NFPOs is based upon the usefulness of the report for a user, rather than for the preparer. The measurement tool reflects an assumption that all financial report elements are equal and carry the same weight of impact on the quality of financial statements. I also assumed that the frameworks indicated as having been used in the financial reports were actually used and that the quality of the report was dependent on the framework used. Further, I assumed that the financial year of the report did not have a significant impact on the quality of the report. Additionally, I assumed that both project and organizational financial reports were audited in the same way and that therefore, their quality should not have been affected by being produced for a project or an organization; the covariate (class of the external auditor) is independent of the financial reporting framework that is being used by the NFPO.

Scope and Delimitations

This research addressed the quality of financial reports presented annually to stakeholders. Given that fraud and misuse of donor funds in Uganda routinely go undetected for years, one wonders why stakeholders do not detect financial impropriety from these reports. With most frauds detected by whistleblowers rather than auditors or readers of financial information (Chen, Salterio, & Murphy, 2009; Nguyen, 2008), possible reasons include that the information presented in financial reports is not useful for proper accountability.

Audited financial reports for 2014-2015 for NFPOs registered with the NGO Forum headquarters in Kampala were purposively sampled. NFPOs included clubs, charities, and churches (Kilcullen et al., 2007). The theoretical framework was based on accountability theory and other financial reporting theories such as agency theory, stewardship theory, institutional theory, resource dependency theory, stakeholder theory, and the IASB conceptual framework.

Limitations

Limitations of this study included the research design, sampling design, measurement, and response rate. The causal-comparative research design included inherent limitations of inability to randomly allocate subjects and to manipulate the independent variable, as well as possible misinterpretation of results.

Additionally, assumptions regarding the quality measurement tool used were that all quality items listed in the tool carry equal weight; this may not be true. My intended sample size was 120 NFPOs, but only 74 responses were received.

Significance

The benefits of this research will accrue to various stakeholders. Funders and donors may have more confidence in financial reports because such reports will be more transparent and useful. It is well known that financial statement fraud reduces public confidence in an organization, its auditors, and the preparers of financial information. This research is likely to result into the creation of an appropriate framework for financial reporting that will minimize financial reporting fraud. In addition, NFPOs are likely to receive more funding because donors will perceive them as more accountable (Benjamin, 2010; Moxham, 2010). Studies have shown a positive relationship between strong accountability and donor funding.

Governments will be able to work with NFPOs more freely due to increased transparency of their operations as disclosed in their financial reports. Some governments, such as that of Uganda, have become so skeptical of NFPO activity that they have ordered some of these organizations to cease operations.

The findings are likely to contribute to the debate on establishing a NFPO Accountability Framework (NAF) that will serve as a basis for designing NFPO Accounting Standards (NAS) and NFPO Accounting Reports (NAR). The auditing and accounting fraternity will have a uniform benchmark for carrying out its work.

The public and beneficiaries will benefit from more and better social services. With transparent reporting, creative accounting and fraud are likely to be minimized. Donor resources will be used more efficiently, and beneficiaries will get better services. The huge portions of donor funds that have been directed to investigating lost funds and hiring costly management consultants will instead be funneled into social causes.

Summary

This chapter has introduced the problem, purpose, population, research questions, methodology, scope, and limitations of the study. In Chapter 2, I present the theoretical framework and literature review.

Chapter 2: Literature Review

Introduction

Despite ever-increasing donor aid among developing countries (Court et al., 2006; Riddell, 2007), Uganda in particular has continually and consistently registered insufficient social services and low standards of living among its nationals (Ssengooba, Ekirapa, Kiwanuka, & Baine, n.d.). Additionally, numerous studies have been carried out to establish global donor aid's effectiveness (Bougheas, Isopi, & Owens, 2012). In Uganda, no studies have been carried out to establish the impact of donor support in relation to the quality of NFPO financial reports.

Stories of fraud, donor withdrawal of funds, and corruption flood Uganda's media (Otage & Okuda, 2014). According to Wolfe and Hermanson (2004), such fraud has been attributed to the fraud triangle and diamond model elements of pressure, opportunity, rationalization, and capacity. Ineffective internal financial reporting systems (Chen, Salterio, & Murphy, 2009), and the absence of an appropriate standardized reporting framework for NFPOs (Falk, Graham, & Waterhouse, 1992) foster fraudulent activities.

For many countries, the adoption of the IFRS (originally intended for profit-oriented entities) was intended as a means to cope with international pressure and attain financial legitimacy. However, the IFRS have had limited effects on NFPOs (Lui, Yao, Hu, & Lui, 2011). It has been said that NFPOs produce substandard reports with missing or mismatched information (Parsons, 2003) and are characterized by fraudulent operations (Nguyen, 2008; Zack, 2012). This proves that one size cannot fit all.

This study was rooted in the desire to explore the impact of current financial reporting frameworks on the quality of financial reports produced by NFPOs. I also explored the differences between FPOs and NFPOs as a way of explaining possible causes for the results of the study. Quality was restricted to what readers get out of financial reports, or to the extent to which such reports help stakeholders make decisions, be good stewards, and ensure accountability in relation to entrusted resources. Another underpinning question was why consumers of these reports cannot detect misuse of donor funds until a whistleblower or incident uncovers such fraud.

Therefore, in this chapter, attention is focused on reviewing relevant literature on the uniqueness of NFPOs in regard to FPOs (Kilcullen et al., 2007). I also address the fundamental relationship between current international financial reporting frameworks and the quality of the financial reports for NFPOs in relation to the Ugandan context (Selznick, 1996). In this chapter, I explore the literature search strategy, the theoretical foundation of the study, the conceptual framework, and the literature review related to key variables. A summary and conclusions underscoring the research gaps, relevance, and recommendations for the study are also included in this chapter.

Literature Search Strategy

I reviewed literature retrieved from the Walden University Library. The scholarly articles cited in the study were located by searching for topics relating to business management and policy administration. The reviewed literature was generated from the business and management databases, communications database, and multidisciplinary database. SAGE Premier, Academic Search Complete, and ProQuest Central were used to access literature on the study variables.

The key search words for the study were guided and classified in various themes. These included; financial reporting, nongovernment organizations, not-for-profit organizations, International Financial Reporting Standards (IFRS), and theories on major financial qualities. Key words such as *financial reporting*, *financial reporting quality*, *performance measurement*, *NGOs*, and *International Financial Reporting Standards* were also considered. (See Appendix B.)

The journal articles cited in the study were from several countries, including the United States, Australia, the United Kingdom, Canada, and Uganda. The majority of the articles were peer reviewed in the years between 2000 and 2015. The rest were from institutional publications, newspaper articles, websites, and books. I included some sources with publication dates before 2000 due to lack of current research in the financial reporting field.

Theoretical Foundation

Accountability Theory

A number of research studies concerning annual NFP reporting have classified it into two broad categories (a) based on the value of the information content (Connoly & Hyndman, 2004) and (b) as a discharge of accountability (Bucheit & Parsons, 2007; Hyndman, 1990; Khumawala & Gordon, 1997; Tinkelman, 1990; 2009).

In research on NFP accountability in relation to charities and public discourse in the United Kingdom, Dhanai and Connolly (2012) quoted various definitions of accountability. According to Stewart (1984), it is the holding of individuals or organizations responsible for their actions. Lawry (1995) described it as giving an account for one's actions, while Fry (1995) characterized it as taking responsibility for one's actions. Some research studies have explained accountability on the basis of agency theory (Edwards & Humle, 1996; Laughin, 1990). Others researchers have used stakeholder theory (Campel, Craven, & Shrives, 2003; Degeen, Ranklin, & Tobin, 2002; Gray, Bebbington, & Collison, 2006; Tilling & Tilt, 2010) stewardship theory, resource dependency theory, institutional theory, the IASB conceptual framework, and communication theory to explain NFPO accountability.

Dhanani and Connolly (2012) categorized accountability into four classes, namely strategic, financial, fiduciary, and procedural accountabilities. *Strategic accountability* calls for giving explanations about an organization's actions in relation to the social causes that the organization seeks to serve. It is where an entity is required to explain its vision, mission, aims, objectives, programs (Gray et al., 2006), activities, inputs, performance, achievements (Goodin, 2003; Keating & Frumkin, 2003), and outcomes and social impact (Hezlinger, 1996) to stakeholders, as well as the efficiency and effectiveness of its activities (Kendall & Knapp, 2000).

Financial or *fiscal accountability* involves the cost implications of all strategic actions that an organization undertakes. It is summarized through the presentation of budgets and financial statements. *Fiduciary accountability* is concerned with compliance, governance, and controls (Brody, 2002). It involves explaining how trustees are recruited and evaluated, as well as their performance, existence, and adherence to company policies. It explains how professionally, competently, and well stewards safeguard the organization's integrity, continuity, and resources (Keating & Frumkin, 2003; Weidenbaum, 2009). *Procedural accountability* is concerned with explaining the existence and functionality of governing policies regarding key organizational activities.

Ebrahem (2003) and Najam (1996) looked at accountability from relational and identity perspectives. *Relational accountability* refers to the need to explain one's actions (Sinclair, 1995) and decisions by giving reasons for one's conduct (Scapens, 1985). To this end, financial reporting is an accountability or control measure for an organization's actions (Mulgan, 2000) that "gives visibility to the invisible" (Gray, 1992). Such accountability enables stakeholders to question the actions and behaviors of the stewards (Buhr, 2001) and therefore calls for stakeholder identification. *Identity accountability* involves "the social acknowledgement and insistence that one's actions make a difference to both self and others" (Roberts, 1991). Within an identity accountability framework, managers are responsible for explaining their missions, purpose, and actions (Ebrahem, 2003).

According to Tetlock (1983, 1985), accountability theory is built on the following premises: the existence of an audience with expectations and an information source or resource user; the similarity or difference between the expectations of the audience and the information source or resource user; and the implicit costs or benefits of disclosing or withholding information (Tetlock, 1983). Accountability theory has been used in accounting and auditing theories and principles (Gibbins & Newton, 1994; Hoffman & Patton, 1997; Kennedy, 1995); in corporate governance (Ezzamel & Willmott, 1993); and in corporate social responsibility and public discourse (Dhanani & Connolly, 2012).

The IASB conceptual framework indicates that the underlying objective of financial reporting is to provide information that is useful for decision making regarding investments and resource allocation. However, Williams and Ravenscroft (2015) questioned the relevance of decision usefulness that is articulated as the cardinal rule of financial reporting, as stated by both FASB (1978) and IASB (2010). They concluded thus: “This motion serves as a legitimate myth rather than a coherent rationale for public policy and … it would be better to resort to accountability as the central metaphor of accounting” (p. 763).

Accountability theory was the central theory of this research because it addresses most NFPO user needs, gives a format for what an accountability report should consist of, and offers a foundation for other financial reporting theories. To this extent, annual reports should not be merely called *financial statements* or *financial reports* but *accountability reports*, and they should have four major elements: (a) strategic accountability within the operational report, (b) financial accountability within the financial report, (c) fiduciary accountability in the governance and compliance report, and (d) procedural accountability within the stakeholders’ and internal control report.

Accountability theory summarizes the concepts espoused by other financial reporting theories.

Accountability Under Agency Theory

In the 1970s, economists Jensen and Mackling made fundamental contributions to what was referred to as *agency theory* (Jensen & Mackling, 1976). Under agency theory, individuals were surmised to exhibit bounded rationality, self-interest, risk aversion (Eisenhardt, 1989), and craftiness to confuse others (Williamson, 1989). In addition, assumptions of uncertainty or mistrust about the outcomes of the agent-principal relationship (Petersen, 1993) and the enduring conflict of goals or interests between the agent and the principal (Kettl, 1993) were presumed.

Agency theory is concerned with issues of accountability (Carman, 2011) and organizational relationships between the principals-delegators and agents-presupposed implementers. Consequently, agency theory has led to significant acumen in exploring the relationship between managers and stakeholders (Ross, 1973) and the dynamics in financial management (Heracleous & Lan, 2012).

Interestingly, two problems arise. Adverse selection (principals contract agents based on misrepresented proficiencies) and moral hazard (contracted agents perform contrary to the agreed contractual terms) are identified by agency theory (Eisenhardt, 1989; Mishra, Heide, & Cort, 1998). According to agency theory, these problems compel the principals (founders) to effect strict controls, monitor, periodically report, and toughen funding agreement terms to both curtail agents' deviousness and maximize organizational utility (Chubb, 1985; Milgrom & Roberts, 1992; Nicholson-Crotty, 2004).

However, in the Ugandan context, the absence of a specialized or unique financial reporting framework for NFPOs has instead paved way for scheming and craftiness in exploiting this melee. Stewards withhold vital information from donors by having vague names for line items, accounting for particular items differently, and misappropriating donor funds, which all point to the existing financial reporting dilemma among NFPOs. The lost funds that cannot be detected by the current reporting frameworks; the irregular reporting frameworks for NFPOs; the lack of donor information indicating how or whether funds are being effectively, efficiently and economically; and the lack of relevant, quality reports all affirm the pathetic state of financial reporting among NFPOs.

This suggests a need for adoption of an appropriate financial reporting framework, for incorporation of a compliance report as a key component of an accountability report, and for rebranding from financial statements to an accountability report. Additionally, it underscores the need for this study.

Accountability Under Stewardship Theory

The stewardship theory proposed by Donaldson and Davis in the 1990s came as an alternative to agency theory. Proponents of stewardship theory hold a “no conflict of interest” relationship between the agent and the principal, and emphasize mutuality and collaboration in service (Donaldson & Davis, 1991; Pastoriza & Ariño, 2008).

Stewardship theory has been used to harmonize donor relationships, nurture trust, minimize conflicts, expand information, increase disclosure, and enhance focus on quality service delivery (Lambright, 2009; Wong, 2007). Additionally, stewardship theory has been used in explaining the objective of accounting information. Various explanations include decision-making demand versus stewardship demand (Gjesdal, 1981); corporate social responsibility, ethics, and decision making (McCuddy & Pirie, 2007); charity performance reporting and board-executive relationship (Saj, 2013); and motivation (Davis et al., 1997; Donaldson & Davis, 1991; Kerr, 2003).

To this extent, the principals would spend more time looking for agents with passions similar to theirs than searching for experts in those fields (Donaldson & Davis, 1991). These principals hold personal goals that are intertwined with those of the organization (Kluvers & Tippit, 2011; Miller, 2002). Likewise, their involvement is not merely for remuneration, but also for psychological and sociological satisfaction (Berry, Broadent, & Otley, 1995). Certainly, this would lessen monitoring costs, limit stringent donor ties, and enhance a sense of cordiality and collective working relationship (Pastoriza & Ariño, 2008).

Stewardship therefore denotes a very important facet of goal congruence between principals and agents (Lennard, 2007) that I seek to advocate for incorporation in a financial reporting framework for NFPOs. What matters under stewardship theory is how resources are used, rather than the quantity used (Wilson, 1997). Tenets of the stewardship theory link with this research because financial reporting serves the two broad objectives of decision making and stewardship (Oldroyd & Millar, 2011). Vital information on outputs, outcomes, impact created, effectiveness of management, and other efficiency measures (Boyne, 2002; Epstein & McFarlan, 2011) are missing in the current financial reporting frameworks adopted by NFPOs yet are critical for NFPOs and any proposed financial reporting standard for NFPOs.

Accountability Under Resource Dependency Theory

Pfeffer and Salanick's resource dependency theory postulates a dependency syndrome. According to Pfeffer and Salanick (1978), organizations require external resources to survive and therefore must function in alignment with demands of those external forces or else modify the environment to survive. Unfortunately, those forces take advantage of the demand for their resources to egoistically influence dependent organizations to submit to their demands for survival and continued supply of such resources (Donaldson, 1995).

Dependency theory has been applied in organizational theory (Galaskiewicz & Bielefeld, 1998; Gronjberg, 1993), in funding mobilization strategies to avoid one's dependence on one resource provider (Froelich, 1999), in involving board members in fundraising (Miller-Millensen, 2003), and in the formation of collaborations or umbrella organizations to create stronger voices for winning grants (Guo & Acar, 2005).

However, many NFPOs have obtained multiple sources of funds, posing diverse fund accounting challenges. This has not been addressed by the current IFRSs and IFRS for SMEs (Baker, 1988; Carson, 2008). The amalgamation of funds from multiple donors in the same bank account can cause issues. Many if not all donors would prefer separate bank accounts to distinguish their funds from those of other donors (Forgione & Giroux, 1989; Malvern & Cross, 1977). The possibility of double funding also arises, which would necessitate consolidation of budgets and accounts to all donors (Kelly, 2013; Werner, 2011).

I therefore intend to emphasize the relevance of using fund accounting and a need for considering key resource provider information in generating quality NFPOs' financial reporting standards that synchronize with dependency theory. , Further, to assure stakeholders of continuity and sustainability of NFPOs, I propose incorporation of a list of key resource providers in order of importance, the risks of such dependency, and strategies to overcome them. Resource providers are excluded in the currently financial reporting frameworks yet they would be appropriate under accountability reporting principles under resource dependency theory.

Accountability Under Stakeholder Theory

Stakeholder theory gained prominence in the 1980s with Freeman's conception of a stakeholder as any group or individual who can affect or is affected by the achievement of an organization's objectives (Freeman, 1984). This theory has been used to explain internal and external forces that influence organizational practices such as accounting (Gray et al., 1997), corporate social responsibility (Zambon & Del Bello, 2005), strategic management, corporate governance, and corporate social responsibility (Clarkson,1998; Roberts, 1992. The theory assumes there is an environment that is affected by the actions of an organization and that such an effect has an impact on how they influence the success or failure of that organization (Gomes, 2006; Key, 1999).

Incidentally, by categorizing stakeholders to include shareholders, employees, customers, suppliers, lenders, and societies (Freeman, 1984), or as primary, public, secondary stakeholders (Clarkson M, 1995), or as either direct or indirect parties (Mitchell, Agle, & Wood, 1997), excludes donors and beneficiaries from the categorization. This omission limits the theory's operationalization of financial reporting understanding to FPOs than NFPOs.

Critical for an all-inclusive financial reporting framework for NFPOs are lists of all stakeholders in order of stakeholder power (Ullman, 1985). Such rankings elucidate each person's degree of influence or control, whether economic, legislative, political, technical, or otherwise (Roberts, 1992). It is this understanding that underscores the relevance of this study and advocates for a unique financial reporting framework for NFPOs.

Again, in harmony with the accountability theory, stakeholders need to be profiled so that their information needs are identified, listed, and cross referenced. Only then can it be established whether they're receiving complete and sufficient information. Omission of such information in current financial reports lessens the usefulness of financial reports to many stakeholders.

Accountability Under Communication Theory

According to Shannon and Weaver (1949), the communication model consists of an information source, channels, and a destination. Communication is considered effective if the receivers perceive the senders to be of integrity (Harshman & Harshman, 1999).

Communication theory has been applied in financial reporting corporate image (Stephens, Malone, & Bailey, 2005), corporate reporting (Deumes, 1999), content analysis and firm reputation (Geppert & Lawrance, 2008), crisis management (Seeger, Sellnow, & Ulmer, 2003), fraud (Cowden & Sellnow, 2002), in organizational legitimacy (Benoit, 1995), ccorporate strategies (Erickson, Weber, & Segovia, 2011), in corporate report narratives (Rutherford, 2005) , and others.

The theory assumes that there is a sender and a receiver of information that is aimed at influencing the understanding or direction of the receiver. Further, it assumes that there is a medium of communication. The receiver needs to acknowledge or confirm receipt of a message from a sender for the chain to be complete.

According to communication theory, quality financial reporting would observe financial reports as a means of communication (Bedford & Baladouni, 1962; Chambers, 1966; Parker, 1986). The theoretical implication that aligns with this study is the need to pay attention to the narratives (the sequence of events, their timing, the actors and where the events took place), (Bal, 1997). In addition, the numerical components, (the financial statements), (Rutherford, 2005), pictures and footnotes that tell the entire story about what is being reported should be considered when formulating an appropriate financial reporting framework for NFPOs.

The other important concept underscored by communication theory is the component of feedback in any comprehensive communication process (Bedford & Baladouni, 1962). The reporting frameworks adopted by NFPOs miss this important aspect of feedback. According to communication theory, communication would be incomplete without feedback, and as such would be lacking legitimacy.

The 7Cs of communication include clarity, conciseness, correctness, consideration, completeness, courteousness, and coherence (Harshman & Harshman, 1999). These would also provide fundamental considerations for an appropriate and relevant financial reporting framework for NFPOs.

Accountability Under Institutional Theory

Meyer and Rowan (1977), while drawing inferences from institutional theory, explained how organizations in the contemporary world yield to dynamic institutional and contextual experiences. First, they argued that organizations exist and operate in a highly institutionalized context characterized by very distinct professions, policies, and programs. Secondly, these organizations ceremoniously assume institutional standards with a guise to achieve organizational rationale. They also tend to compromise the uniqueness in their structures to maximize productivity and gain legitimacy, capital, permanency, and sustainability, by aligning themselves with global institutions.

On the other hand, DiMaggio and Powell (1983) conceptualized three institutional processes by which the institutional context commits other organizations to homogeneity. They referred to these three processes as coercive, mimetic, and normative.

In the coercive process, governments, lead organizations, and the global cultural expectations impose standards and demand compliance from organizations. During the mimetic process, organizational decision makers deliberate and focus organizational actions based on the market dynamics, goal uncertainties, and technology. For the normative process, the gravity for organizations to align with the institutional context is associated with principles and cognitive paradigms formulated by professionals and other moral regulatory bodies.

The theory not only provides a framework for understanding social constructs or organization, but also conceptualizes the social world or institutional context as one being molded by institutions such as habits, routines, norms (Hodgson, 1988), cognitions, normative, and regulative structure (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Meyer, Scott, & Deal, 1983) which govern its actions. The institutional theory has been used to explain corporate governance, and financial reporting in emerging economies (Wu & Patel, 2013), to examine the adoption of IFRS (Judge, Li, & Pinsker, 2010), and to understand institutional, organizational, and socioeconomic behaviors (DiMaggio & Powell, 1983).

Congruent with the institutional context, environmental pressures coerce organizations into succumbing to social culture demands (Scott, 1995; Selznick, 1996). Unfortunately, these institutional standards (branded successful or classic) are usually biased and are oftentimes taken for granted as assumptions for appropriate and acceptable behavior (Oliver, 1991). Consequently, those organizations that fail to comply with the standards are alienated (Hannan & Freeman, 1977) and made susceptible to adverse threats.

According to Lehman (2005), the desperate craving for international legitimacy and acceptance in the global capital markets has resulted into the homogenous adaption of accounting practices. These include IFRS and other standards from supra-national organizations such as OECD, IASB, World Bank, WTO, IOSCO, and international accounting firms, even when they may be inappropriate for NFPOs reporting.

Irvine (2008) argued that while adopting internationally acceptable practices, there is need to examine the influence of institutional contextual elements, including the political, economic, legal, cultural, and accounting infrastructure. These are subject to contextual interpretation, manipulation, revision, elaboration and analysis (Scott, 2008). User needs differ from stakeholder to stakeholder; from country to country; and from institution to institution. For that reason, any given framework should be flexible enough to recognize the unique features of each country (Benan, 2000;Hussain & Hoque, 2002; Perera & Rahman, 2003). An appropriate financial reporting framework would require that each NFPO demonstrates the salient institutional forces to which it subscribes while preparing its financial reports, if it is to justify its legitimacy, and continued existence.

To this extent, IFRS may not be wholly useful and implementable in the same way throughout the world, in all industries, in all organizations without adapting it to unique user needs or expectations. Frameworks may not be fully appropriate for preparing reports for either FPOs or NFPOs without institutional amendments or adjustments.

IASB Conceptual Framework

The IASB was founded in 2000 as a successor of the International Standards Committee (IASC) that had been established in 1973 (Zeff, 2012). According to Clendon (2011), the IASB framework seeks to ensure that accounting standards offer a consistent approach to solving problems. Thus, they were intended to provide a basis for the development and resolution of accounting challenges that may not be explained by the standards.

According to the IASB, the major objective of financial reporting is to provide financial information about the entity that is useful to existing and potential investors, to lenders, and to other creditors who want to make decisions about providing resources to an entity (IASB, 2010). It consists of five sections that contain the premises of this framework, namely: the objective of general purpose financial reporting, the qualitative aspects of financial statements, the elements of financial statements, the capital maintenance, and the basic concepts of accounting. Its premises address useful financial reporting information for investment, credit and other decisions concerning the allocation of resources (FASB, 2008), which are incongruent with NFPOs reports.

The primary users mentioned in this framework are capital providers and lenders who differ from those in NFPOs, namely the donors who provide capital and operating income yet without residual claim on the resources of an entity (Kroeger & Weber, 2015). Their interests are on the social impact of the entity and how efficiently and effectively resources have been used. The IASB framework focuses on investors whose interests are cash flows and profit (Kroeger & Weber, 2012).

Again, considering the principles for recognition, measurement, presentation, and disclosure, IASB information needs for capital providers are given paramount consideration (IASB, 2013). This implies that all standards for financial reporting are skewed towards the needs of capital providers, which are profits and cash flows. This confirms why the accounting standards for profit entities cannot be used to measure, recognize, present, and disclose useful information for a social investor or NFPOs.

Financial statements based on the IASB framework should present information that is useful for economic decision making. These economic decisions underscore rationality of cost or benefit. Ryan, Mack, Tooley, and Irvine (2014) contradicted the NFPOs' decisions that espouse social impact, social problem solving, and moral satisfaction (Kroeger & Weber, 2012). The stewardship role and social impact should be a fundamental objective of financial reporting rather than only the resource allocation decision (Ryan et al., 2014). Donors are not looking for returns, but for impact created and for the faithfulness of the managers or stewards (Scott, 2000). The IASB conceptual framework's underlying assumptions, such as the accrual concept, do not harmonize with NFPO's unique features, especially on revenue recognition that may call for a modified accrual approach (Ryan et al, 2014). The qualitative characteristics of IFRS will be useful in designing the qualitative characteristics of NFPO financial reports. These include relevance and faithful presentation as the fundamental financial statement qualities of, understandability, quantifiability, comparability, timeliness, and others. To this extent, NFPOs would benefit from adoption of an appropriate financial reporting framework that comprehensively considers all facets of uniqueness for NFPOs characteristics, objectives, and stakeholder information. These would incorporate social impact, trustworthiness, and management performance (Carson, 2008; Ryan et al., 2014).

To this extent, an NFPO appropriate accountability framework would use the IASB qualitative financial statement characteristics to embrace the agency concerns as well as the globalization of the IFRS as an acceptable financial reporting benchmark by global players as well as the decision usefulness of the financial statements. It would also cater for NFPOs that have developed side businesses that generate income purposely to support the NGO mission (Clark, 2012). Such businesses will require special treatment, embracing the IASB profit-oriented principles. Figure 2 depicts the current and desired NFPO reporting frameworks.

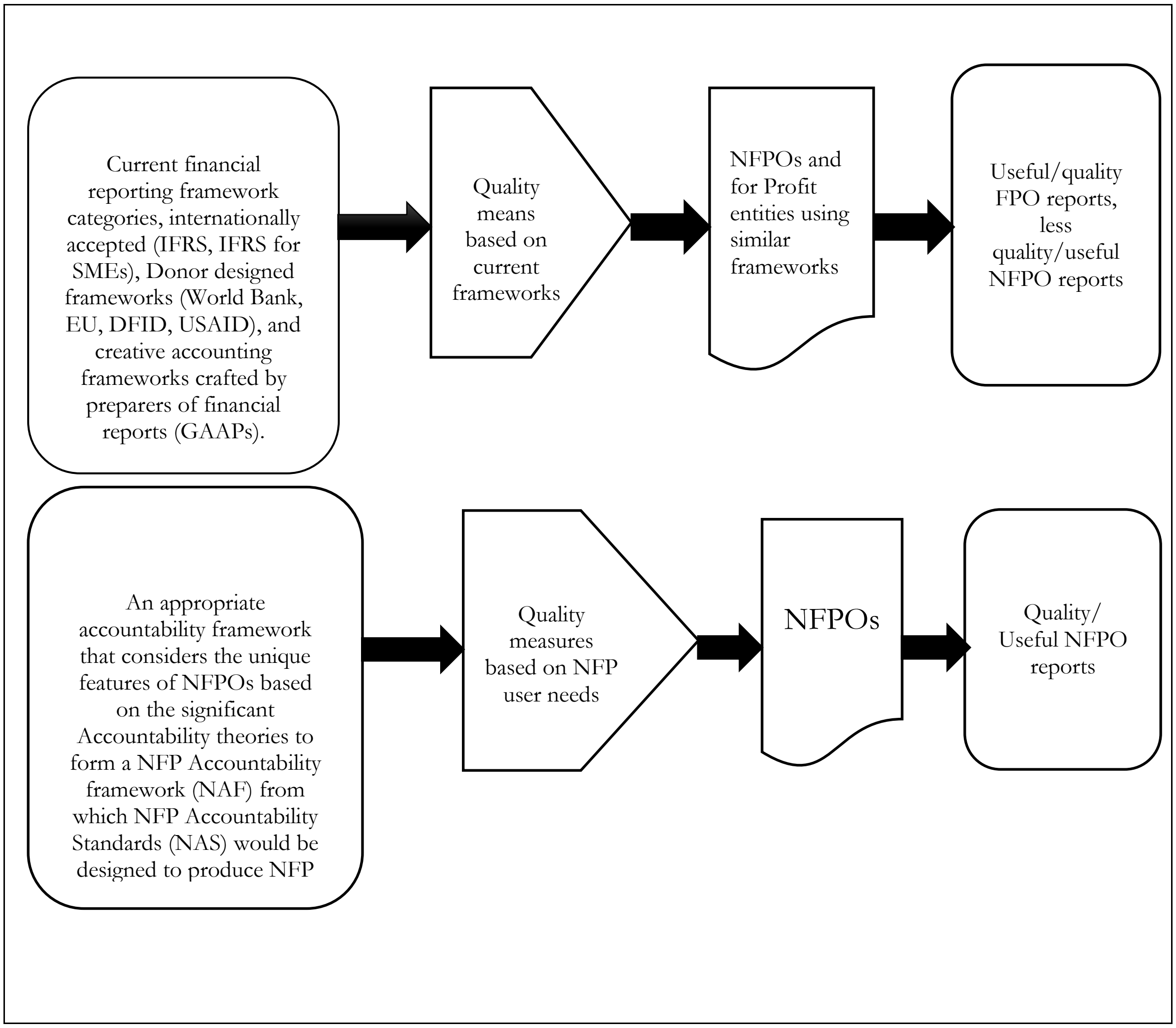


Figure 2. Conceptual framework of this study.

The whole thrust of this research was establishing whether current financial reporting frameworks have an impact on the quality or usefulness of financial reports for NFPOs. If yes, the intent is to propose and design an appropriate accountability reporting framework for NFPOs, using accountability theory concepts, standards, and reports that meet the needs of stakeholders (McCartney, 2004). Current frameworks, especially IFRS and IFRS for SMEs, were highly skewed to profit-oriented entities. Yet it is unknown to what extent they affect the quality of information reported.

User needs were considered while designing existing reporting frameworks, such as public entities for IPSAs; microfinance institutions (MFIs) for Micro Finance Accounting Standards (MFAS), and non-publicly-traded profit entities for IFRS for SMEs. Some countries, such as Canada, the United Kingdom, Australia, New Zealand, the United States of America, and a consortium of countries in Asia have already devised unique frameworks for their NFP sectors. Yet underdeveloped countries including Uganda that benefit more from NFPO services than developed nations have tied their NFPOs to profit-oriented frameworks. This potentially could result in reports with limited usefulness because one size cannot fit all.

According to McCartney (2004), the user needs approach has been used by both the FASB in the U.S. and the Accounting Standards Board in the U.K. in drafting their conceptual frameworks. This approach posits that an appropriate form and details of financial statements can only be drawn if the financial statement users and their respective decision making needs are defined and elaborated within those financial statements (Macve, 1981).

According to the Charities Commission of England and Wales (2003), the Accounting Standards Board (ASB) of those countries authorized the use of SORP for charities in 2000. Canada’s Public Sector Accounting Board (PSAB) issues standards for the profit sector, while their ASB issues standards for the nonprofit sector. Further, Canada’s Voluntary Sector Initiative requested for improved reporting standards of relevance to donors and charities to be included in Canada’s 4400 Series Accounting Handbook (Pina & Torres, 2003). In USA, the FASB issues standards for both profit and nonprofit sectors.

Because of inconsistences in the reports following the IASB, special standards known as FAS 117 were issued in the U.S. to address unique NFP issues in 1993. FASB set up a special NFP Advisory Committee (NAC) to make recommendations with respect to the unique accounting standards requirements for the NFP sector (FASB, 2009).

In Australia, it was established that the sector neutral approach of standard setting was inappropriate for NFPOs (Australian NFP Roundtable, 2004). Lennard (2007) concluded that IFRS was designed for profit entities. Both FRC (2006) and Kilcullen et al. (2006) noted that NFP financial reporting needs were not being met by IFRS. The AASB dedicated to NFP projects reviewed special NFP reporting needs (AASB, 2008; 2009). In New Zealand (NZ), a Charities Commission was established in 2005 to oversee the industry. The commission required NFP financial accounts to be prepared in accordance with NZ GAAP and Financial Reporting Standard 42 (Charities Commission, 2009). In spite of all this, confusion continued in charitable financial reporting (Hooper, Sinclair, Hui, & Mataira, 2007). IFRS adoption was branded as incoherent, incomplete, inconsistent, and opaque.

As mentioned before, none of these researches used a theoretical framework to propose appropriate accounting and reporting standards, hence neglecting useful findings from these theories. I applied six theories relating to accountability and financial reporting to design a quality measurement tool that considered NFPO user needs. My concern was NPO accountability reporting, not just financial reporting.

Given that profit-oriented frameworks are predicated on reporting the results of operations, particularly profits, a relevant NFP-oriented financial reporting framework should portray value for money items. The items include the inputs, outputs, outcomes, and impact of invested efforts and resources, as well as how economically, efficiently, and effectively they were used (Keevers, Treleaven, Sykes, & Darcy, 2012; Kroeger & Weber, 2012). Such a framework should thus consider the narrative component of reports as equally important as the numerical section. This framework could therefore be referred to as NFPO Accountability Framework (NAF) that would give guidance on NFPO accountability standards (NAS),and NFPO accountability reports (NAR).

Key Statements and Definitions in the Framework

Literature Related to Key Variables and Concepts

The independent variable in this research is the financial reporting frameworks used by NFPOs. These are grouped into three categories. The first category includes internationally acceptable reporting standards, specifically IFRS, IFRS for SMEs, and IPSAS. The second category includes donor-designed frameworks such as EU, World Bank, DFID, USAID, and DANIDA. In the final category are all other preparer-crafted frameworks, generally referred to as GAAPs. The dependent variable was the quality of the financial reports. Therefore, the key concepts of this study include NFPOs, quality of financial reports, fraud, financial reporting, and others.

Generally Accepted Accounting Principles (GAAPs)

Wikipedia (2017) defines GAAP as, "a standard framework of guidelines for financial accounting used in any given jurisdiction generally called convention and rules of accountants used in the preparation of financial statements." Given this definition, each country has its own GAAPs. These GAAPs are physical documents that can be compared with IFRS. In absence of any defined national standards, some countries have adopted IFRS, IPSAS, and IFRS for SMEs as their GAAPs. This implies that in Uganda GAAPs are the IFRS, IPSAs, and IFRS for SMEs because they are the only frameworks that have been promulgated by ICPAU. Unfortunately, users also apply the terms GAAPs where an organization fails to fully comply with IFRS, IFRS for SMEs or IPSAs.

Donor-Designed Frameworks

In Uganda, there are many donor institutions associated with international NGOs or countries. Such donors include the Swedish International Development Association (SIDA), the Danish Development Association (DANIDA), USAID, the World Bank, and the European Union (EU). Each of these institutions has its own reporting formats and standards that a borrower or recipient must employ.

The World Bank

The World Bank issued the Financial Accounting, Reporting and Accounting and Auditing Handbook (FARAH) that sets out both guidance and minimum standards on accounting, system designs, and financial reporting to provide proper stewardship for all bank-assisted projects (World Bank, 1995). The World Bank also has the Project Financial Management Manual (World Bank, 1999). This manual provides guidelines for World Bank projects that use project management reports. It provides guidance on planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, and physical performance of projects. The overall objective is to both ensure that funds are used efficiently for the purposes intended and to deter fraud and corruption. Such an objective is closer to stewardship and accountability than decision usefulness.

U.S. Agency for International Development (USAID)

Financial management and reporting for USAID-funded projects is governed by numerous guidelines with their own unique frameworks. The Director of the Office of

Management and Budget (OMB), the Secretary to the Treasury and the Comptroller General established the Federal Accounting Standards Advisory Board (FASAB) that established accounting standards to the federal government. The standards are published as statements of federal financial accounting standards (SFFAS). USAID is mandated to use FASAB standards. FASAB developed Statements of Federal Financial Accounting Concepts (SFFAC) that are used to recommend standards. Of these, SFAS 117 (1993) provided that the purpose of financial statements is to assess an organization's continuity, liquidity, and resource use in line with their objectives. Other guidelines are contained in the Treasury Financial Manual (TFM), OMB Circular A-123 (Management's Responsibility for Enterprise Risk, which sets out internal controls), OMB Circular A-127 (Financial Management Systems), OMB Circular A-134 (Financial Accounting Principles and Standards), and OMB Circular A-136 (Financial Reporting Requirements).

Swedish International Development Association (SIDA)

SIDA's guidelines for planning, reporting, and audit (2006), mention accountability in use of resources as the purpose of financial reports. SIDA's Instructions for Grants from the appropriation item support via Swedish Civil Society Organizations (2010, p.25) requires that outcomes be compared with the agreed budget for the respective periods. Financial Audit Guidelines (2010), state audit objectives as, using resources in accordance with the financial reporting requirements, and compliance with grant agreements and those audit reports received from sub recipients.

Department of Finance for International Development (DFID)

U.K. uses SORP (2015), issued by the office of the Charity Commission and the Scottish Charity Regulator for NFPO financial reporting**.** The objectives of SORP include improving the quality of financial reporting by charities; enhancing the relevance, comparability, and understandability of the information presented in charity accounts; providing clarification, explanation, interpretation of accounting standards and their application to charities, and to sector specific transactions; and assisting those who are responsible for the preparation of the trustees report. The objective of the trustees report is for stakeholders to assess trustees' stewardship and for users to make economic decisions. These objectives are in line with the accountability and stewardship roles that I suggest to be the cardinal goals of NFPO reporting.

My goal was to establish how the current frameworks affect the quality of NFPO reports, and if negatively significant, set in motion the establishment of an appropriate financial accounting and reporting standards for NFPOs. Their proposed names is NFP Accountability Standards (NAS).When formulated, the NAS will result in qualitative accountability reports being produced by accountants and managers, hence increasing fundraising. This is likely because research findings have showed a correlation between these two variables (Epstein & McFarlan, 2011; Gomes & Gomes, 2011). NAS could provide auditors with a basis for judging fair accountability of donor funds, which has been inexistent. Donors are likely to have more helpful accountability reports to protect their money from misuse. Governments are likely to have more confidence in the operations of NFPOs because of the more highly transparent reporting. Beneficiaries are likely to receive better services due to efficient use of donor funds, and the likelihood of increased funding. In the whole, the repellant trend of ineffective donor funding could be reversed to the benefit of countries such as Uganda, and perhaps spread to other developing countries.

This chapter has presented the introduction, a background showing what similar research and discussions have taken place, the problem statement that demonstrates the gap in the literature, likely risks if no further studies are carried out to close this gap, and the purpose statement that shows how I intend to cover the gap through this research.

Summary and Conclusions

The findings will contribute to the existing literature on financial accounting and reporting for NFPOs. A great deal of research has taken place concerning the globalization of IFRS, applicability of IFRS for SMEs, standardization of accounting and reporting guidelines, performance measurement of NFPOs, fraudulent financial reporting, NFP financial reporting and accounting standards, financial statement quality, and the NFP industry in Uganda. Other literature reviewed has included NFP financial reporting theories such as: (a) accountability theory, (b) agency theory, (c) stewardship theory, (d) resource dependency theory, (e) IASB conceptual framework, (f) stakeholder theory, (g) institutional theory, and (h) communication theory.

What has been established from available literature is that financial report quality is affected by factors such as: (a) standards being used, (b) existence of external auditors,

(c) board audit committees, and (d) interest of donors and government while safeguarding their grants (Kadous, Koonce, & Thayer, 2012; McDaniel, Martin, & Maines, 2002; Penman, 2007; Steinberg, 1999). It is also known that there is a lot of corruption and inefficient use of donor funds due to fraudulent financial reporting (Badawi, 2008; Chen et al., 2009; Greenlee, Fischer, and Gordon., 2007; Nguyen, 2008; Otage & Okuda, 2014; Wells, 2005). A report by The Hauser Center for Nonprofit Organizations cited both ACFE (2003) and KPMG (2003), who established that financial statement fraud was reported as the biggest loss contributor in NFPOs. Such frauds are often committed through misreporting (Greenlee et al., 2007; Krishnan, Yetman, & Yetman, 2006).

In Uganda, IFRS and IFRS for SMEs are the prescribed financial reporting frameworks for all sectors in the country (IFRS-Uganda Profile, 2013). What is not yet known is how appropriate IFRS is as a reporting framework for NFPOs, their relationship to quality reports, and how they contribute to opportunities for fraud and ineffective donor funding. The failure to consider the implications of financial reporting theories while designing the current NFP financial reporting framework has contributed to the elaborate demonstration of the inappropriateness of using the full IFRS and IFRS for SMEs in preparing NFPO financial reports, as well as the absence of a relationship between fraud~~,~~ NFPO financial report quality, and existing frameworks.

The overall umbrella theory was accountability theory in relation to (a) agency theory, (b) stewardship theory, and (c) stakeholder, and institutional theory. Agency theory espouses principles regarding fund accounting and compliance reporting.

Stewardship theory required accountability for management's performance and efficient and effective resource deployment. Communication theory required that narratives, pictures, graphs and ratios be given due attention in the annual reports, with relevant guidelines developed. Stakeholder theory required that financial reports consider the information needs of the most significant stakeholders and address them. Institutional theory increased the usefulness by customizing or tailoring accountability reports to the applicable political, legal, cultural, social, technological demands of the respective reporting entities. Resource dependence theory draws the reporter's attention to the key demands of the influential resource providers so as to ensure sustainability of the NFPOs. By using reporting principles based on these theories, user needs were addressed.

In this research, I aimed at addressing the identified gaps in the financial reporting for NFPOs. These gaps helped me identify accounting differences between FPOs and NFPOs, incorporated the precepts of financial reporting theories, linked to the stakeholders and their respective demands, and advocated for a financial reporting framework fit for NFPOs based on the identified user needs.

Chapter three presents the research methodology for the study. This includes both details of the methodology and the procedures followed.

Chapter 3: Research Methods

Introduction

The purpose of this study was to establish whether the current financial reporting frameworks affect the quality of financial reports for NFPOs. Walden University's Instructional Review Board (IRB) reference number for this study was 08-12-16-0346368. Current financial reporting frameworks and standards, including (a) IFRS, (b) IFRS for SMEs, and (c) GAAPs and other donor-orchestrated frameworks, do not address unique NFPO and stakeholder information needs (Ryan et al., 2014). Such omission is likely to have an impact on the quality of the resultant financial reports because it may result in many gaps that are exploited by managers of NFPOs in the form of fraudulent reporting as well as inefficient and ineffective use of funds.

In this chapter, the methodological approaches to the study are discussed. The introduction to the chapter, the research design and rationale, the sampling and sampling procedures, and the procedures for recruitment, participation, and data collection are presented. Additionally, analysis procedures and a chapter summary are presented in this chapter.

Research Design and Rationale

In this study, the independent variable was financial reporting frameworks, which were considered in three categories. These were the internationally accepted frameworks (IFRS, IPSAS, and the IFRS for SMEs), the donor-designed frameworks (World Bank, SIDA, DANIDA, EU, USAID, DFID, etc.), and other frameworks that have collectively been called GAAPs.

The dependent variable was the quality of the financial reports, as measured by the KAR-QMT. The covariate was the class of the external auditors, either SMP or international.

In order to analyze the relationship between financial reporting frameworks and the quality of the financial reports for NFPOs, I adopted a quantitative research approach. This approach was most appropriate because it is the best approach for "testing objective theories by examining relationships between variables that can be measured on instruments and analyzed using statistical procedures" (Creswell, 2009, p. 4). A causal-comparative research design was the best design because it assesses effects and impacts that have already occurred (Gay, Mills, & Airasian, 2006).

If the research were to establish a significant, negative impact of financial reporting frameworks on the quality of financial reports, then it could indicate that some frameworks are not appropriate for NFP financial reporting. Such a result would imply that preparers of financial reports should be mindful in selecting the frameworks they use for financial reporting. The results of this research may trigger future studies to establish why such quality is low or high, what should be done to improve the present frameworks, or perhaps whether a new and unique NFP financial reporting framework should be developed.

Methodology

Population

Section 2.3 of the NGO Policy of Uganda's Ministry of Internal Affairs (2010) defines an NGO as "any legally constituted private voluntary grouping of individuals or associations involved in community work which augment government work but clearly Not-for-Profit (NFP) or commercial purposes" (p. 12). NGOs may be regional (RENGO), international (INGO), or community-based organizations (CBO). According to the NGO registration (Amendment) Act 2006, all NGOs are to be registered with the Ministry of Internal Affairs through the NGO registration board. My target population was NFPOs registered in Uganda with headquarters in Kampala. Most of these NGOs were funded by 11 major funding bodies in Uganda, namely USAID, DANIDA, SIDA, Irish Aid, European Commission, the World Bank, DFID, UNICEF, UNDP, the Netherlands Embassy, and government institutions (Bougheas, Isopi, & Owens, 2012).

Sampling and Sampling Procedures

The Uganda NGO Board had a register of approximately 2,500 registered NFPOs. Given this population, the estimated sample size using the National Statistical Service Calculator was estimated to be 120 (power [$1-\beta$] = 0.80; $\alpha = 0.05$; effect size = 0.03; (Burkholder, 2015). For that reason, a sample size of 120 FPOs was targeted for the study (Barr, Fafchamps, & Owens, 2005).

I employed a purposive nonprobability sampling strategy because of the complex nature of establishing the degree of chance to which a unit sample would be drawn from the population (Nachmias & Nachmias, 2008). Second, there were specific units, sources, or types of reports that were vital for the study. These included units where fraud had occurred, where funding had been withdrawn, where a particular framework had been used, where particular funders had been involved, or where the particular international audit firm had been engaged. Randomized selection could have affected the statistical power of the study. Purposive sampling is appropriate when particular sampling units with specific characteristics are required to be part of the sample to be able to test those features that might be missed if a random sample were carried out (Rudestam & Newton, 2007).

The list of registered audit firms on the ICPAU website included six international firms, so all six were included in the sample. I expected to get three reports from each of these firms, one per framework, for 18 reports. From the remaining firms, I selected 19 SMPs whose names were more pronounced in the market and were approachable for me. I expected three reports from each firm, one pertaining to each framework, hence 57 reports. From the list of funding institutions (Bougheas, Isopi, & Owens, 2012), I selected the biggest 10 funders, who were ranked according to their levels of funding. I expected three reports from each, for 30 reports. I expected to get 10 reports from the Auditor General: two using IPSAS, two using GAAPs, two using IFRS, two using IFRS for SMEs, and two using donor-designed frameworks. Using a list of registered NFPOs from the NGO Board, I selected 25 NFPOs that were within the capital city, had experienced fraud before, had been audited by an international firm, or had been funded by one of the ten institutional donors. I expected two reports from each NFPO, i.e. 50 reports from this source. Including all categories, 61 institutions were selected, and request letters were sent for their consent.

After sending the letters, I followed up by telephone to explain the need for the study and procedures for participation. For those who consented, I requested consent letters and agreed on appointment dates. During those appointments, I echoed the benefits of the study, promised to share findings with participants, and requested audited financial reports for the years 2010-2015. Identified reports were placed into two categories: those audited by international firms and those audited by SMPs. Thereafter, the selected reports were categorized according to the financial reporting framework used, namely full IFRS, IFRS for SMEs, and GAAPs. A list of the selected financial reports was drawn, from which a sample was randomly selected. I aimed at obtaining at least 10 reports from each of the three reporting frameworks. None of the six selected international firms responded, citing confidentiality restrictions. The characteristics of the data can be seen in Table 3.

Procedures for Recruitment, Participation, and Data Collection

Introductory letters were obtained from Walden University, ICPAU, and the NGO Board to assist me in approaching the selected institutions. I wrote to heads of all institutions and requested their participation, assuring them of confidentiality, the freedom to opt out, and the benefits of the study. In the same letter, I requested that participants confirm their willingness to participate through a letter of consent. The letters were followed with telephone calls to remind them of their participation. Responsible officials were called for appointments and requested to prepare the required information and documents for my review and photocopying.

For each institution visited, briefings were conducted with the finance manager, senior accountants, and partners. The participants were asked to select copies of financial reports that they were comfortable giving out in view of their varying confidentiality constraints. After the audited financial reports were selected, they were photocopied and coded using their source and sequence, from 001 to 074, for 148 copies. These were securely kept in a locked filing cabinet.

Two raters were purposively selected based on their expertise in the area of quality assessments. Both were university graduates and CPAs with over ten years of work experience in senior audit positions, reputations for professional integrity, and track records in evaluating financial statement quality. Both had lectured in financial reporting and previously been examiners.

Prior to the actual assessment of the selected financial reports, the raters were trained to use the KAR-QMT. They were also asked to review the instrument and to assess their understanding of the basis of coding data. Each rater was then given ten reports and asked to assess their comprehensiveness, wording, interpretation, validity, and evaluator competencies by using the quality measurement tool. Results from this pilot test were shared to acquire approval from Walden University to make corrections to the KAR-QMT, as well as to further train the raters. A copy of each of the remaining 64 financial reports was then given to the raters to evaluate using the KAR-QMT.

I reviewed each evaluated report to ensure that all elements had been evaluated. Where omissions were found or significant discrepancies were noted, the raters were asked to revisit them. A table was created for assessment results that included the name of the project or organization evaluated, financial year, funder, evaluator, financial framework used, and quality score attained for each report. The class of audit firm was coded as 1 for international firms and 2 for SMP firms. Thereafter, I prepared overall scores for analysis.

Instrumentation and Operationalization of Constructs

I compiled Kisaku's Accountability Reporting—Quality Measurement Tool (KAR-QMT) based on two existing measurement tools. These were the IASB quality indicators and, to address unique NFPO user needs, the Australian NFPO quality assessment tool (Institute of Charted Accountants of Australia, 2013) was also used. Of the original 33 IASB items, 30 items were subdivided, based on IASB quality indicators, and retained as relevant to the NFPO sector (Beest, Braam, & Boelens, 2009). As summarized below, these 30 items comprised Section D of the KAR-QMT (see Appendix C):

- Eleven items from R1 to R11 concerning relevancy
- Six items from F1 to F6 concerning faithful presentation
- Six items from U1 to U6 concerning understandability
- Six items from C1 to C6 concerning understandability
- One item T1 concerning timeliness.

From the Australian NFPO quality assessment tool, 162 items were retained. Finally, an additional 10 items were designed to accommodate the principles of communication theory, resource dependency theory, and institutional theory. (See Section E of KAR-QMT, Appendix D.) The 202 items (30 + 162 + 10) combined to form the KAR-QMT. It was hoped that these items would serve to assess the narrative information of the financial reports. Appendix A shows how the seven financial reporting theories were used in constructing KAR-QMT.

Section E had 172 items that were also subdivided into subsections that I modified based on the Australian NFPO reporting framework, as summarized below:

- Section 1.0 concerning strategic issues, 18 items
- Section 2.0 concerning governance, 33 items
- Section 3.0 concerning stakeholders, 33 items
- Section 4.0 concerning employees, 18 items
- Section 5.0 concerning volunteers, 12 items
- Section 6.0 concerning organizational performance, 48 items
- Section 7.0 concerning communication of the report, 5 items
- Section 8.0 concerning resource dependency issues, 5 items

Krippendorff's alpha for KAR-QMT of (α = 0.85) was above the required 0.70 (Beest et al., 2009). This implies that the instrument was sufficiently reliable for research purposes. The 202 items of the KAR-QMT were coded from 0 to 4 based on a 5-point Likert-type scale. Items with no disclosure or that were not applicable were coded 0;

those with limited disclosure were coded 1; items with disclosure of fairly sufficient useful information, although potentially unclear to a lay user, were coded 2; items with exhaustive disclosure of information that were clear and understandable were coded 3; and those with extensive disclosure were coded 4. The potential range of scores for quality of financial reports was therefore 0 to 808 or 0% to 100%.

The goal was to measure the quality of financial reports by assessing both financial and nonfinancial information (Horne, 1998). Gale (2003) stated that financial reports have quality aspects that they ought to exhibit to be useful and relevant to their users, namely relevance, reliability, understandability, faithful representation, and timeliness. *Quality of financial reports* refers to the degree to which such financial reports contain the users' required information that is relevant to their needs. Van Staden and Heslop (2009) argued that quality financial reporting can only be achieved through regulated standards that take into consideration the unique features of a given industry.

Interpretation of Results

I set this study's level of significance at $\rho = 0.05$. Only analyses with results less than 0.05 were regarded as statistically significant. Per Table 2, overall quality scores were rated as excellent, good, fair, or poor.

Table 2

KAR-QMT Conversion of Scores to Grades

Total scores	Below 404	404-524	525-645	646-808
Percentages	Below 49%	50%-64%	65%-79%	80%-100%
Grades	Poor	Fair	Good	Excellent

Data Analysis Plan

After coding the data, I summarized the data in an Excel worksheet indicating each report's code number, the framework used, the class of the external audit firm, and the score awarded by each rater, subsection by subsection. An average score for both raters was obtained, used for data analysis. Data were analyzed with ANCOVA (Mertler & Vannatta, 2002). SPSS version 20.0 analyzed group variance between more than two categorical independent groups (reporting frameworks) on one dependent variable (quality of the financial report) with one covariate (the class of the audit firm). Data analysis was carried out based on the four research questions and hypotheses.

Limitations of the Causal-Comparative Research Design

Use of the causal-comparative research design included limitations, such as an inability to manipulate data, low validity due to purposive sampling of participants, and weaker evidence of causation (Gay, Mills, & Airasian, 2006). Other financial statement quality factors such as governance, donor involvement, and competence of the finance department were beyond the scope of the study but may have also affected the results. Purposive sampling was aimed at providing proper representation, selecting cooperative participants, and ensuring that financial reports using the required frameworks were included in the selected sample.

Safeguards for reliability included the selection of experienced and trained raters to ensure that their assessments had minimal variations. Both raters were asked to evaluate the quality of each financial report. Inter-rater reliability was computed using Krippendorff's coefficient alpha (2004). The 202-item KAR-QMT demonstrated satisfactory reliability (α_{obs} = 0.85). The original two instruments that formed the basis for the KAR-QMT had also been used in previous research (Beest, Braam, & Boelens, 2009), so the instrument was deemed sufficiently reliable for the purposes of this study (Hallgreen, 2012).

Threats to Validity

Validity is about measuring what was intended to be measured. Nachmias and Nachmias defined reliability as "the extent to which a measuring instrument contains variable errors, that is errors that appear inconsistently between observations either during any one measurement procedure or each time a given variable is measured by the same instrument" (2008, p. 154). Validity may refer to content validity (whether the instrument cover all the attributes of the concept one is trying to measure), empirical validity (the relationship between the measuring instrument and the measured outcomes), and construct validity (i.e., the relationship between the measuring instrument and the general theoretical framework (Nachmias & Nachmias, 2008). The data were analyzed using the content validity index. An acceptable alpha score ($\alpha = 0.70$) was obtained (Tavakol & Dennick, 2011).

KAR-QMT was based on the accountability principles that were compiled from all the financial reporting and accountability theories that expressed NFPO user needs. However, the threat is that there could be other theories that disclose other NFPO user needs that were not taken into account. Secondly, the raters' interpretation of the evaluation tool items could have had some sentimental or subjective interpretations that threaten the validity of the scores attached to each quality item or report. Thirdly, the raters' understanding and interpretation of the KAR-QMT items could have varied from one report to another due to accumulated experience, fatigue or other environmental factors. All the above factors threaten the validity of the reliability of the research results.

Ethical Procedures

Several ethical challenges were faced during the research. These included maintaining confidentiality regarding project information, such as inquiry into fraud or corruption cases that may have been hidden from third parties; concealment of the identities of those who supplied the information or committed fraud; and coercion in the sense that I may have used my reputation as a renowned auditor in Uganda to convince participants into availing required information rather than doing it of their own free will. Further, I may have persuaded participants to provide research information rather than giving them liberty to withdraw, per ethical requirements. However, I briefed all participants about how they were selected and the benefits of the study. I gave them consent forms to complete before data collection commenced.

Some donors were hesitant to reveal the quality of the financial statements of their funded projects for fear of potentially negative assessments that would affect their fundraising efforts. Secondly, some organizations were evasive about sources of funding. Thirdly, in Uganda it is common for participants to respond only if they are compensated, yet I was not willing to meet their demands. Additional information was omitted due to unreasonable demands from the providers. On the other hand, it is unethical to leave a site without giving back (Creswell, 2009). I made a reasonable budget that accommodated the number of estimated participants and raised the funds before engaging in the research.

I adhered to ethical principles of research with regard to confidentiality, coercion, consent, communication, and care to control against all ethical risks. I also abided by the APA’s Ethical Principles of Psychologists and Code of Conduct (2002). Thirdly, I demonstrated adherence to the five norms proposed for determining the ethical compliance of one’s research (Sieber, 1992), namely the validity and relevance of the research, my competence in the field, the beneficence of the research, special populations, and informed consent.

Benefits of This Research

The potential benefits of this research are many. ICPAU, the overseer of accounting standards in Uganda, expressed interest in this study because they were contemplating design of a separate framework but did not have any research to support the process. Fraud and misuse of donor funds had been a problem for many people in Uganda. Addressing the financial reporting loopholes, especially concerning GAAPs, is likely to save donor funds from misuse. Donor funding is likely to increase with improved accountability.

Accountants have been wondering how the profession could help government's efforts to curb corruption. The nation has been affected by withholding or withdrawing of donor funds. An example was the withdrawal of the multi-million dollar Global Fund HIV/AIDS grant due to corruption (Rivers, 2005). Accountants and auditors would have a basis of demanding for the creation of a workable and generally acceptable financial accounting and reporting framework against which a true and fair view audit opinion would be based.

Summary

As seen in this chapter, ANCOVA was used to test the hypotheses of the study. Chapter 4 will present the actual research results obtained from following the methodology presented in Chapter 3. The results of each analysis were used to make the recommendations reported in Chapter 5.

Chapter 4: Results

Introduction

The purpose of this study was to establish the impact of financial reporting frameworks on the quality of financial reports for NFPOs. The findings in this chapter helped me to conclude whether current financial reporting frameworks help NFPOs produce quality financial reports that offer adequate accountability for the resources entrusted to their stewards. As discussed in Chapter 2, an appropriate financial reporting framework should have standards and reports that address user information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries.

The four research questions that guided the study were the following:

RQ1. Do current financial reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

RQ2. Do internationally recognized reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

RQ3. Do user-crafted frameworks (GAAPs) impact the quality of financial reports for NFPOs after controlling for the class of external auditors?

RQ4. Do donor-designed reporting frameworks impact the quality of the financial reports of NFPOs measured by the KAR-QMT after controlling for the class of external auditors?

For each of the four research questions, a null hypothesis (HO) was prepared, as follows:

H01. Current financial reporting frameworks do not have a significant impact on the quality of NFPO financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

H02. Internationally acceptable accounting frameworks do not have a significant effect on the quality of NFPO financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

H03. GAAPs do not have a significant impact on the quality of NFPO financial statements as measured using the KAR-QMT after controlling for the effect of the class of the audit firm that prepared them.

H04. Donor-designed financial reporting frameworks do not have a significant impact on the quality of NFPO financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

Organization of this Chapter

This chapter presents the results of the pilot study, how data were collected, and the results of the study. Finally, I present answers for the research questions based upon the results of the data analysis.

Pilot Study

A pilot study was conducted to test the reliability and validity of the KAR-QMT and make corrections where necessary. I obtained introductory letters requesting for cooperation and support from ICPAU, the Auditor General of Uganda, the NGO Board, and Walden University. These letters informed potential information providers of the authenticity of the research and thus helped in gaining access to their reports or members.

The first ten annual reports received were selected for the pilot study. For each, I removed the name of the NFPO or audit firm and replaced it with an identification number to assure confidentiality. These ten reports were then photocopied for use by the raters.

I trained the two raters regarding the purpose of the research, the KAR-QMT, and how to code information from the reports. I asked the raters to sign confidentiality pledges, as well as to acknowledge receipt of the financial reports and rating instruments. During the training, one report was jointly scored to resolve any misunderstandings. Out of the 33 indices on the IASB quality measurement tool, three were eliminated and 10 were reworded based on their relevance to the Ugandan and NFPO context. Out of the 165 items on the Australian NFPO reporting criteria, three were eliminated, one was reworded, and 10 were added based on their applicability and relevance to Uganda and the NFPO sector.

Each rater separately scored the 10 financial reports in the first half of October 2016. I went through each instrument to establish whether all questions had been scored, to confirm that total marks had been correctly computed, to note any misinterpreted or inaccurate scores in view of the financial report evaluated, and to establish any significant variations between the two raters.

I again met with the two raters to harmonize and justify significant differences in scoring. Where misinterpretations or untraceable information was the cause, corrections were made. Where there were differences in judgment between the two raters, their evaluations were maintained. Thereafter, a list of suggested corrections was forwarded to the Walden IRB for approval. Approval of the changes was received, and the instrument was improved to suit the Ugandan and NFPO context.

The ten selected reports were subjected to the same tests as those in the main study. Results of the analysis showed a moderate alpha coefficient ($\alpha = 0.65$) for the factors based on IASB financial reporting quality indicators. It also showed a high alpha coefficient ($\alpha = 0.96$) for financial reporting quality indicators based on the Australian NFPO reporting criteria. The combined alpha coefficient was also high ($\alpha = 0.86$), above the recommended minimum for research ($\alpha = 0.70$; Pellatt, 2007).

Data Collection

Letters were sent to selected respondents during the month of June 2016. Data collection took about two months in July and August 2016. Data evaluation and coding took about two months from mid-September to mid-November 2016. Reviewing assessed reports and summarizing results took 2 weeks in December 2016. Data analysis took about one month from mid-December 2016 to mid-January 2017. Data were collected from these four categories of purposively selected data sources:

1. *Audit firms*

   All six international audit firms operating within Uganda were included in the sample. Of 191 local SMPs on the 2015 ICPAU list of approved firms, 19 SMPs were purposively selected, representing 10% of registered SMPs. I requested three copies of audited financial reports belonging to different NFPOs or using different reporting frameworks from each firm. Of the expected 75 reports, none were received from the international firms, and 22 were obtained from the 11 SMPs, representing a 44% response rate.

2. *Institutional donors*

   From the list of 27 funding institutions in Uganda (Bougheas, Isopi, & Owens, 2012), letters were dispatched to the largest 10 (37%). Two reports were requested from each, and three donors responded positively, providing 10 of the expected 20 reports.

3. *Office of the Auditor General*

   Ten reports on various frameworks were requested from the Auditor General's Office, and six reports were provided, representing a 60% response rate.

4. *Not-for-profit organizations*

   From approximately 2,500 NFPOs registered with the NGO Board, 25 were randomly selected, and two reports were requested from each. Eleven NFPOs responded with 29 reports, representing a 44% response rate

Descriptive and Demographic Characteristics of the Sample

Although 120 reports were expected for the study, 155 reports were requested from respondents. However, as shown in Table 3, only 74 financial reports were actually received.

Table 3

Reports Requested Versus Reports Received

Category	Requested		Received		
	No. of institutions	Reports requested	No. of institutions	Reports received	%
International audit firms	6	18	0	0	0.0%
SMP	19	57	11	22	29.7%
Institutional donors	10	20	3	10	13.5%
Auditor General	1	10	1	6	8.2%
NFPOs	25	50	11	36	48.6%
Totals	**61**	**155**	**26**	**74**	**100%**

Note: Reports from the Auditor General and SMPs have collectively been called *SMPs*.

Although none of the international firms responded due to their stringent confidentiality limitations, their reports were obtained from NFPOs and institutional donors. Further, although 26 out of 61 (or 42.6%) of the requested participants responded, 48% of the targeted number of reports were received. In other words, some respondents provided more reports than requested from them, indicating their support for the study.

In relation to the overall population, 11 out of 191 (5.76%) registered firms participated, three out of 27 (11.11%) institutional donors participated, the Auditor General participated, and 11 out of 2,500 (0.44%) registered NFPOs provided data for this research.

Evaluation of the Statistical Assumptions of the ANCOVA

Field (2013) advised that ANCOVA, being a linear model, is subject to bias when its statistical assumptions are violated. The statistical assumptions of ANCOVA include additivity and linearity. Quality, as the dependent variable, was measurable on a ratio scale (percentage) and was therefore linear. The covariate, the class of external audit firm, was categorical. The independent variable was financial reporting frameworks in three categories: internationally accepted frameworks, GAAPs, and donor-designed frameworks.

The second statistical assumption for ANCOVA was normality of data distribution. The normal distribution tables indicated that data were normally distributed. There was independence of observations because no financial report was prepared using more than one framework. There were no significant outliers.

The mean score on the KAR-QMT was 15.6%, with a range of 7.7% to 25.9%, registering a variance of 50.6% and 66.0% from the mean, respectively. I also tested for homogeneity of variances using Levene's test, the results of which are presented in Table 4. I performed grouped scatterplots to test for linearity of the dependent variable and homoscedasticity, whose results were all positive.

The final statistical assumption required for use of ANCOVA was homogeneity of regression slopes, for which I found no interaction between the independent variable (financial reporting framework) and the covariate (class of audit firm). This is because audit firms adopt frameworks that clients claim to be relevant to their situations. Given that all of the above considerations of the statistical assumptions were within acceptable limits, I confirmed that ANCOVA was an appropriate statistical method for the study.

Statistical Analyses

An appropriate statistical analysis was selected to answer each research question. The results are presented below.

Research Question 1

RQ1. What is the impact of the current financial reporting frameworks on the quality of NFPO financial reports after controlling for the class of the external auditors?

H01. Current financial reporting frameworks do not have significant impact on the quality of NFPO financial reports after controlling for the class of the external auditors who issued them.

To answer this question, I used the total KAR-QMT score for each report, as well as the financial reporting framework used for each report. The average quality scores for each framework were then calculated, as shown in Table 4.

- 14.83% for the 24 reports that used internationally acceptable financial reporting frameworks. These included the full IFRS, IFRS for SMEs, and IPSAS.
- 16.43% for the 35 reports that used GAAPs. Subcategories included those that were unspecified, which I referred to as *general*, while others were specified as being based on accounting policies.
- 14.80% for the 15 reports that used donor-designed frameworks. The subcategories were USAID, EADB, World Bank, Norway, SIDA, and ERIKS.

Using the averages of KAR-QMT totals for the three financial reporting frameworks by the class of external auditors, I analyzed the data. Levine's test of equality of error variances was computed using SPSS 20. This was done to test whether the error variance of quality of financial reports and the dependent variable were equal across groups. As seen in Table 5, the results showed that the *p*-value was greater than 0.05 (ρ = 0.251), meaning that the differences between the group means were no statistically significant. There was therefore no significant impact of the current financial reporting frameworks on the quality of the financial reports.

Table 4

Levene's Test of Equality of Error Variances for Quality of Financial Report by Financial Reporting Frameworks

F	*df1*	*df2*	Sig.
1.335	5	68	.260

Note. Design: Intercept + Framework + Audit Firm + Framework * Audit Firm.

According to Field (2016), we accept the null hypothesis because the ρ-value is larger than the set level of significance. Given that my level of significance was 0.05, the results in Table 4are F (5, 68), $\rho = 0.260$, indicating that $\rho > 0.05$. My conclusion is that the current financial reporting frameworks do not have a significant impact on the quality of financial reports, and therefore I accept the null hypothesis.

Table 5

Financial Reporting Frameworks and Quality Scores

Framework	Audit firm	*N*	Mean	Std. deviation
Donor-designed	International	8	13.63	2.387
	SMPs	7	16.14	3.338
	Total	15	14.80	3.052
GAAPs	International	18	17.39	4.972
	SMPs	17	15.41	4.797
	Total	35	16.43	4.919
IFRS	International	2	14.00	2.828
	SMPs	22	14.91	4.700
	Total	24	14.83	4.536
Total	**International**	**28**	**16.07**	**4.537**
	SMPs	**46**	**15.28**	**4.490**
	Grand total	**74**	**15.58**	**4.494**

Table 4 shows that GAAPs was the financial reporting framework used most in financial reporting 35 (47.3) of the reports, followed by IFRS with 24 (32.4%) of the reports, and donor designed reports least with only 15 (20.3%) reports. It also shows that both SMPs and international firms used all three frameworks almost equally, with the exception of IFRS that was applied more often by SMPs than international firms with a ratio of 1:11. This may be attributed to the limited knowledge of SMPs on the restrictions of concluding that financial reports comply with IFRS.

The average quality score overall was 15.58%, comprising of 14.80% for donor-designed frameworks, 16.43% for GAAPs, and 14.83% for international frameworks. This implies very poor accountability levels or quality reporting based on the accountability theory.

Appendix F lists the quality scores of each report, with the highest observed score being 25.2% and the lowest 7.5%. Both the highest and lowest scoring reports used the GAAPs framework. The highest score was audited by an international audit firm while the lowest was audited by an SMP.

I observed that most audit firms used the term 'GAAPs' to define whatever set of principles were adopted as appropriate given that there was no document that gives the official definition of this framework in Uganda. As discussed earlier, GAAPs may include IPSAs, IFRS, and IFRS for SMEs or any other Generally Acceptable Accounting Practices promulgated by a nation or region for preparing general purpose financial statements.

With the highest observed score across both classes of auditors being 25.2%, financial reports indicated a very poor quality. Based on KAR-QMT results, more than three-quarters (75%) of information needed by users was not disclosed, hence indicating very poor levels of accountability.

Table 6

Tests of Between-Subjects Effects When the Covariate Is Included

Source		Type III sum of squares	*Df*	Mean square	*F*	Sig.	Partial eta squared	Noncent. parameter	Observed power[e]
Intercept	Hypothesis	9020.411	1	9020.411	3981.063	.010	1.000	3981.063	1.000
	Error	2.266	1	2.266[a]					
Framework	Hypothesis	38.297	2	19.148	.676	.597	.403	1.352	.082
	Error	56.656	2	28.328[b]					
Audit firm	Hypothesis	2.266	1	2.266	.084	.793	.031	.084	.055
	Error	70.236	2.605	26.959[c]					
Framework * Audit firm	Hypothesis	56.656	2	28.328	1.409	.251	.040	2.818	.292
	Error	1366.946	68	20.102[d]					

Note. Dependent variable: Quality.

The results in Table 5 show the differences in mean scores of report quality by the covariate, class of audit firm. All results are not statistically significant ($\rho > .05$), which implies that the class of audit firm has no effect on the quality of the reports. We therefore accept the null hypothesis that the three financial reporting frameworks considered in this study do not have a significant impact on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm.

Research Question 2

RQ2. Do internationally recognized reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

H02. Internationally acceptable accounting frameworks do not have a significant effect on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

To answer this question, I obtained the KAR-QMT scores of all financial reports that used internationally acceptable frameworks. I grouped them into those based on the full IFRS, IFRS for SMEs, and IPSAS. There were 23 reports using the full IFRS and their mean score was 14.98%; only one report used IFRS for SMEs and it had a score of 23.60%; while none used IPSAS. The low mean score on reports using the full IFRS could indicate that this framework does not provide adequate quality for NFPO reporting. The data were analyzed using SPSS version 20 and the results follow.

Descriptive statistics

Quality of reports using internationally recognized financial reporting frameworks. Table 7 shows that 24 reports used the internationally acceptable financial reporting frameworks. The sub categories namely one report that used IFRS for SMEs, 23 used the full IFRS while none used the IPSAS. The IFRS for SMEs report demonstrated a higher level of accountability by scoring 23.6% compared to an average

14.98% for the full IFRS reports. This is further proof that the full IFRS is not an appropriate framework for NFPO reporting if proper accountability is to be ensured.

Table 7

Testing the Null Hypothesis That the Error Variance of the Dependent Variable Is Equal Across Groups

IFRS	Mean	Std. deviation	*N*
Non IFRS	16	4.523	50
Full	14.98	4.008	23
SMEs	23.6	.	1
Total	15.58	4.494	74

Levene's test of equality of error variances. Levene’s test in Table 8 demonstrated that *F* (3, 70), ƥ = 0.165, which is not statistically significant given that it is higher than 0.05 the conclusion is that we accept the null hypothesis (HO2) and reject the alternative hypothesis. The internationally acceptable financial reporting frameworks do not have a significant effect on the quality of the NFPO financial reports measured using KAT-QMT.

Table 8

Testing the Null Hypothesis That the Error Variance of the Dependent Variable Is Equal Across Groups

F	*df1*	*df2*	*Sig.*
1.748	3	70	0.165

Note. Design: Intercept +Audit Firms +IFRS.

Tests of between-subject effects. The results in Table 9 show the influence of the class of the audit firm on the quality of financial reports based on IFRS. The introduction of the covariate (the audit firm) affects the significance of the IFRS to become significant at *ρ=0.047*. The amount of variation explained of the model is 169.22 units of which 158.39 units is accounted for by the IFRS while the audit firm accounts for 1.11 units only, leaving an unexplained variance of 1,304.79 units. There was therefore a significant effect on IFRS on the quality of the financial reports after controlling for the effect of the class of the audit firm, F (3, 69) =2.792, *ρ*= 0.047. I therefore accept the alternative hypothesis that the internationally acceptable financial reporting frameworks have a significant impact on the quality of financial reports prepared using internationally acceptable frameworks, after controlling for the effect of the class of the audit firm.

Table 9

Effect of Introducing the Covariate on the Quality of Financial Reports Based on IFRS

Source	Type III sum of squares	*df*	Mean square	*F*	*Sig*.	Partial eta squared	Noncent. parameter	Observed power[b]
Corrected model	169.222[a]	4	42.305	2.237	.074	.115	8.949	.626
Intercept	1146.206	1	1146.206	60.614	.000	.468	60.614	1.000
Audit firm	1.113	1	1.113	.059	.809	.001	.059	.057
IFRS	**158.391**	**3**	**52.797**	**2.792**	**.047**	**.108**	**8.376**	**.649**
Error	1304.792	69	18.910					
Total	19439.000	74						
Corrected total	1474.014	73						

[a]*R* squared = .115 (adjusted *R* squared = .063). [b]Computed with *p* = .05.

Research Question 3

RQ3. Do user-crafted frameworks (GAAPs) impact the quality of financial reports for NFPOs after controlling for the class of external auditors?

The null hypothesis corresponding to this research question is:

H03. GAAPs do not have a significant impact on the quality of the financial statements as measured using the KAR-QMT after controlling for the effect of the class of the audit firm that prepared them.

In order to answer this question, I obtained the quality scores of all reports that used GAAPs. I then grouped them into two categories, namely those that did not specify what kind of GAAPs they had used and those that specified GAAPs as an organization's accounting policies. The two were analyzed using ANCOVA. The subcategories were the categorical independent variables while the average scores were the dependent variables.

Table 10

Descriptive Statistics for GAAP Frameworks

GAAPs	Mean	Std. deviation	*N*
Non GAAPs	15.16	3.898	37
Accounting policies	16.21	5.421	24
General	15.62	4.426	11
Total	15.58	4.494	74

Note. Dependent variable: Quality.

Table 10 shows that 35 reports used GAAPs. Of these, 24 applied their respective organization's accounting policies and 11 did not specify what they meant by GAAPs.

The average quality score for the GAAPs general reports was 15.87% while the mean score for GAAPs accounting policies were 16.25%. It is worth noting that the average quality score for the GAAPs based on accounting policies is higher than the undefined GAAPs, though the difference was not statistically significant.

Table 11

Levene's Test; Testing the Null Hypothesis That the Error Variance of the Dependent Variable Is Equal Across Groups

F	*df1*	*df2*	Sig.
2.299	2	71	.108

Note. Dependent variable: Quality.
[a]Design: Intercept + Audit Firm + GAAPS.

Levene's test in Table 11 demonstrated that F (2, 71), p = 0.108, which is not statistically significant given that it is higher than 0.05. The conclusion is that we accept the null hypothesis (H03). The GAAP financial reporting framework does not have a significant effect on the quality of the NFPO financial reports.

Table 12

Tests of Between-Subjects Effects in the GAAPs Framework

Source	Type III sum of squares	*df*	Mean square	*F*	Sig.	Partial eta squared	Noncent. parameter	Observed power[b]
Corrected model	19.709[a]	3	6.570	.316	.814	.013	.949	.108
Intercept	1461.765	1	1461.765	70.359	.000	.501	70.359	1.000
Audit firm	3.758	1	3.758	.181	.672	.003	.181	.070
GAAPS	**8.879**	**2**	**4.439**	**.214**	**.808**	**.006**	**.427**	**.082**
Error	1454.305	70	20.776					
Total	19439.000	74						
Corrected total	1474.014	73						

Note. Dependent variable: Quality.
[a]*R* squared = .013 (adjusted *R* squared = -.029). [b]Computed using alpha = .05.

Having introduced the covariate (the class of the audit firm) in the model, it is evident that the impact of the impact of GAAPs is not significant (ρ = 0.808). The model explains only 19.71 of the variation of which 3.76 units are explained by the audit firm, 8.88 units by the GAAPs, leaving an unexplained variance of 1,454 units. The influence of the audit firm is also not significant (ρ = 0.672).

I accepted the null hypothesis (HO3) that there was no significant effect of the GAAP financial reporting framework on the quality of the financial reports after controlling for the effect of the class of the audit firm (F (2, 70) = 0.214; ρ = 0.808).

Research Question 4

RQ4. Do donor-designed reporting frameworks impact the quality of the financial reports of NFPOs measured by the KAR-QMT after controlling for the class of external auditors?

H04. Donor-designed financial reporting frameworks do not have a significant impact on the quality of the financial reports as measured by the KAR-QMT after controlling for the class of the audit firm that prepared them.

In order to answer this question; the scores of the 15 reports that purported to have applied donor designed frameworks were summarized. However, because only one donor was represented by more than one report, I categorized them into two groups, namely three from SIDA with an average score of 18.0% and 12 from the other donors with an average score of 14.0%.

Table 13

Descriptive Statistics of Donor-Designed Frameworks

Donor designed	Mean	Std. deviation	*N*
Non-donor designed	15.61	4.699	62
Undefined	13.00	.	1
Norwegian	11.00	.	1
DFID	10.00	.	1
USAID	13.00	.	1
World Bank	17.00	.	1
ADB	18.00	.	1
SIDA	18.00	3.606	3
CSF	14.00	.	1
ERIKS	17.50	.707	2
Total	15.58	4.494	74

Note. Dependent variable: Quality of financial reports.

Table 14

Levene's Test of Equality of Error Variances for Donor-Designed Frameworks

F	*df1*	*df2*	Sig.
1.532	9	64	.156

Note. Tests the null hypothesis that the error variance of the dependent variable is equal across groups. Dependent variable: Quality.
[a]Design: Intercept + Audit Firm + Donor Designed.

Table 15

Tests of Between-Subjects Effects for Donor-Designed Frameworks

Source	Type III sum of squares	*df*	Mean square	*F*	Sig.	Partial eta squared	Noncent. parameter	Observed power[b]
Corrected model	120.246[a]	10	12.025	.560	.840	.082	5.596	.261
Intercept	1090.814	1	1090.814	50.763	.000	.446	50.763	1.000
Audit firm	19.443	1	19.443	.905	.345	.014	.905	.155
Donor-designed	**109.416**	**9**	**12.157**	**.566**	**.820**	**.075**	**5.092**	**.252**
Error	1353.767	63	21.488					
Total	19439.000	74						
Corrected total	1474.014	73						

Note. Dependent variable: Quality.
[a]*R* squared = .082 (adjusted *R* squared = -.064). [b]Computed using alpha = .05.

Table 14 shows that *p=0.156*. Given that *p>0.05,* implies that the group mean differences between the donor designed financial reporting frameworks and the quality of the financial reports prepared therefore is not statistically significant and therefore I accepted the null hypothesis, HO4.

Table 15 results indicated that the results of the analysis are not statically significant (F (9, 63) = 0.566; ρ = 0.820). There are no significant differences in the relationship between the donor-designed frameworks and the quality of the financial reports prepared using those frameworks after considering the class of the audit firm. We therefore accept the null hypothesis that donor-designed financial reporting frameworks do not have a significant impact on the quality of financial reports prepared using those frameworks.

Summary

In conclusion, the results of this study are summarized in the answers to the research questions (RQ) below:

RQ1. Do current financial reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

The research findings have showed that the current financial reporting frameworks do not have any significant impact on the quality of the financial reports after controlling the effect of the class of the audit firms that prepared them.

RQ2. Do internationally recognized reporting frameworks impact the quality of financial reports for NFPOs as measured by the KAR-QMT after controlling for the class of external auditors?

I have concluded that the internationally recognized financial reporting frameworks such as IPSAS,IFRS and IFRS for SMEs do not have a significant impact on the quality of the accountability reports, except after taking into account the class of the external audit firm.

RQ3. Do user-crafted frameworks (GAAPs) impact the quality of financial reports for NFPOs after controlling for the class of external auditors?

The donor-designed accountability frameworks do not have any impact on the quality of the accountability reports, after taking into account the class of the external audit firm.

RQ4. Do donor-designed reporting frameworks impact the quality of the financial reports of NFPOs measured by the KAR-QMT after controlling for the class of external auditors?

I have established that GAAPs do not have any significant impact on the quality of financial reports after controlling for the class of external auditor. Interpretations and conclusions of the above findings will be discussed in Chapter 5.

Chapter 5: Implications, Recommendations, and Conclusions

Introduction

The main purpose of this study was to establish whether current financial reporting frameworks affect the quality of financial reports. The study was quantitative because I wanted to establish the impact of various financial reporting frameworks that comprised the categorical independent variable on the quality of NFPO financial reports. The results helped me to explain how fraud and misuse of donor funds may go undetected, why financial reporting for NFPOs is irregular, and the quality of NFPO financial reports prepared using the current frameworks. The results of this research will add to the numerous voices that have called for the formulation of unique reporting standards for NFPOs (Ryan, Mack, Tooley, & Irvine, 2014). Standardizing the contents of financial reports would likely increase their usefulness and provide auditors and accountants with a premise or framework against which to base their NFPO audit opinions (ISA 700, para. 10).

Summary of Findings

The findings stated in Chapter 4 have helped me to obtain the following answers and conclusions:

1. Current financial reporting frameworks had no impact on the quality of financial reports that were prepared using those frameworks. This could be due to the irrelevance of those frameworks for NFPO financial reporting.

NFPO reports prepared using IFRS are speaking a different language of FPO that may not be comprehended by NFP stakeholders.

2. Those who claimed to use current financial reporting frameworks did not actually use them. This was evident from the low scores obtained on the KAR-QMT (see Appendix D).
3. The quality of financial reports for NFPOs was very low overall, given that the highest KAR-QMT score was 25.2%. Of the reports assessed in this study, 12% scored below 10%, 76% scored between 10% and 20%, and only 12% scored above 20%.
4. The average quality score for international audit firms was 16% for all frameworks, while for SMPs it was 15.2%. This could indicate no significant difference between financial reports audited by international audit firms and SMPs.
5. Financial reports prepared using donor-designed frameworks constituted 20.3% of the sample; GAAPs were 47.3%, and IFRS comprised 32.4% of the total.
6. Most audit opinions issued using GAAPs violate ISA 700, para 40 that demands that auditors indicate the country of origin if IFRS or IPSAS are not used.

Section D (IFRS quality indicators) on the KAR-QMT was intended to measure compliance with IFRS financial reporting quality indicators. These included relevance, comparability, understandability, timeliness, and faithful presentation. The highest score registered from this section was 48%, although the reported framework that was used on that report was GAAP. Among those that claimed to have used IFRS, the highest score was 48%, while for donor-designed frameworks; the highest score was 39%. Reports using GAAPs and IFRS frameworks produced the highest level of quality, although these scores were ranked as poor.

Section E of KAR-QMT measured disclosure of information in line with the identified accountability theories. Identified disclosures included categories labeled as strategic, staff, environmental, governance, financial performance, stakeholder analysis, and so on. The highest score on Section E was 22% for a report using a GAAP framework. This appears to confirm my earlier presumption that preparers combine information from IFRS and other institutional isomorphic influences and brand them as GAAPs, but without any reference material of such GAAPs.

Interpretation of the Findings

Given that quality measured using KAR-QMT was in relation to the user needs flaunted by accountability theory, the research findings confirm that quality of financial reports of NFPOs is very poor in Uganda and requires urgent attention. There is little or no relationship between the frameworks cited and the quality of the resultant reports. International Auditing Practice No. 1014 states that an organization cannot claim to comply with IFRS unless it complies with all of the IFRS. It is therefore unrealistic for an NFPO to claim that it complies with the full IFRS when the research findings have shown that it may not. Some NFPOs use the cash basis for accounting, which is unacceptable under IAS 1. Not all NFPOs compute deferred tax (IAS 12). Compliance with IAS 1 by NFPOs regarding presentation of financial statements is lacking because most of their reports do not have equity and cash flow statements, related party disclosures (IAS 24) are not mentioned, and others do not depreciate assets (IAS16). They cannot therefore be said to comply with IFRS. This entire melee is due to lack of an appropriate framework for NFPOs.

The best that could have occurred would have been compliance with IFRS for SMEs, but only one report used IFRS for SMEs. This supports my earlier argument that IFRS for SMEs were a compromise to accommodate small and medium for-profit entities rather than NFPOs. Further, it is likely that accountants have not grasped the applicability of IFRS for SMEs. Although they may also be inadequate for NFPOs, they are a better option than the full IFRS.

According to accountability theory (Dhanani & Connolly, 2012), a report should have disclosures on fiduciary, procedural, fiscal, and strategic matters. In relation to Section D, Appendix C shows that none of the NFPOs in Uganda scored highly on unique NFPO accountability reporting matters. This implies that accountability in Uganda is looked at from a fiscal perspective only, given that no report was ranked as good in the section concerning nonfinancial information.

The findings agree with Williams and Ravenscroft (2015), who questioned the relevance of decision usefulness as a cardinal role of financial reporting as articulated by

FASB (1978) and IASB (2010). They castigated it as a myth and argued for accountability to be the central metaphor of accounting. Given that fiscal accountability is not the only important consideration for NFPOs, disclosure of procedural, strategic, and fiduciary accountability should likewise be addressed to provide complete accountability. This could explain why the average overall quality score was 15.5%, as fiscal accountability would constitute one-fourth of the expected four elements of total accountability.

Accountability under agency theory rests on premises of adverse selection and moral hazard. Reported results comprise of organizational and agents' performance. The current frameworks do not require disclosure of agents' performance in relation to agreed or expected target. Principals therefore miss vital information, especially regarding fiduciary concerns, management performance, governance, and controls. Principals cannot assess the full performance of the agents due to inadequate disclosures. This increases the moral hazard of an agent performing contrary to agreed contractual terms.

Accountability under stewardship theory rests on the premises of trust and quality service and so cannot be addressed by the current frameworks based on the reported research results. The financial reports were more concerned with fiscal accountability. The key project components of quality, timeliness, quantity, and impact of the service delivery were not mentioned at all, and therefore stewardship theory principles are not adhered to in the current financial reporting frameworks.

Resource dependence theory requires an organization to address the needs of the most influential resource providers for it to survive. Current financial reporting frameworks do not provide for fund accounting, ranking of resource providers for recognition, or fundraising strategies. The resultant commingling of funds can lead to increased fraud. The main argument related to this theory is that an organization ought to offer accountability regarding its relationship to various environmental factors, such as the physical environment, staff, government, donors, management, and beneficiaries. The average score under Section E of the KAR-QMT was 13% because most reports mentioned nothing related to their stakeholders. This is a low score, according to Table 1.

Accountability under communication theory advocates for the inclusion of narratives in terms of key events, their timing, and the actors (Bedford & Baladouni, 1962). Rutherford (2005) advocated for the inclusion of pictures and footnotes to tell the story. Over 95% of the NFPO reports that were evaluated did not contain any pictures, footnotes, and so forth—hence the low scores.

Limitations of the Study

My research had several limitations. First, the target sample size of 120 financial reports was not achieved due to the low level of responsiveness. The international audit firms were especially hesitant to release their reports. Only 74 reports were received, constituting 62% of the required sample. My conclusions are therefore subject to this limited sample size that responded.

A second limitation was that the reports received were only from Uganda; therefore, the research conclusions may not apply elsewhere. However, given that there has never been a unique framework for NFPOs in many countries, this research may be applicable to other countries that do not have unique NFPO accountability frameworks.

Third, the fact that the frameworks tested were used to prepare financial statements rather than accountability reports may be a limitation to the research's generalizability in terms of measuring the quality of the financial statements' accountability.

Another limitation was that the KAR-QMT included two sections. The first section was based on the financial reporting quality of the full IFRS, and the second section addressed the desired unique reporting requirements for NFPOs. However, the same tool was used even where reports indicated that GAAPs, IFRS, IFRS for SMEs, or IPSAs were used. Evaluating a report by IFRS using NFPO reporting requirements and those using GAAPs using IFRS reporting requirements may seem inconsistent. The research findings have, however, proven that the existing frameworks do not offer necessary guidance in the preparation of accountability reports that communicate effectively to stakeholders. This is because the highest quality report in Section E alone (IFRS quality indicators) claimed to have used GAAPs framework, while the highest ranked quality report for Section D of KAR-QMT alone (NFPO quality indicators) claimed to have used IFRS.

Fifth, because of mimetic isomorphism (DiMaggio & Powell, 1983) the quality of all financial reports was within a poor range of 7.5%-25.2%. This proves that institutional isomorphism is true and should be applied in designing NFP reporting frameworks. All accountants use best practices learnt or copied from other firms or accountants in Uganda, rather than from foreign countries such as (a) Australia, (b) the United Kingdom, and (c) the United States. To enforce homogeneous quality reporting, a standard framework that focuses on accountability should be introduced rather than coercing NFPOs to use inappropriate frameworks such as IFRS or IFRS for SMEs. NFPOs from Uganda should be allowed to tailor their reports in line with political, legal, cultural, economic, and other institutional influences that the local population is used to.

Recommendations

Based on these research findings, I make the following recommendations:

- Mandating ICPAU and IASB to develop an NFPO-specific financial reporting framework as a way of improving overall report quality and relevance.
- Integrating the accountability theory into an appropriate framework for NFPOs to enable production of reports that meet the needs of their unique users and address the unique goals and mission of NFPOs.
- Constituting NAR with these four essential components:
    - *Strategic accountability*: The vision, mission, objectives, goals, activities (Gray et al., 2006), inputs, results, outputs, outcomes and impact of organizational activities (Goodin, 2003; Keating & Frumkin, 2003),

performance, achievements, outcomes and social impact (Herzlinger, 1996), efficiency, and effectiveness of activities (Kendall & Knapp, 2000) to address the user needs of governments, beneficiaries, donors, board, and management as stakeholders.

- *Fiscal accountability report*: The financial statements, including financial position, activities or income and expenditure, cash flow (including restricted and unrestricted incomes), reporting by objectives or programs rather than by nature of expenses, and notes to support the financial statements. Using budget figures rather than or in addition to prior year could also prove beneficial. This could address the user needs of donors and government.
- *Fiduciary accountability report*: The governance and compliance issues, governance and controls (Brody, 2002). Governance should show who appoints the board; the board members with their qualifications, experience, attendance at meetings, existence of committees, and policies developed during a year; board and CEO evaluations; and compliance with donor agreements and statutory rules, laws, and obligations. Fiduciary accountability is concerned with explaining how trustees are recruited and evaluated, and the existence of and adherence to company policies. It explains how competently the stewards safeguard the integrity, continuity, and resources of the organization (Keating & Frumkin, 2003;

Weidenbaum, 2009). This would address the user needs of donors, founders, and NFPO regulators.

- *Procedural accountability report*: A report on stakeholders, including donors, employees, management, beneficiaries, suppliers, government, community, and volunteers, including internal controls.

- Establishing NFPO Accountability Framework (NAF) based on NFPO Accountability Standards (NAS) and the reports prepared therefrom called NFPO Accountability Reports (NAR).
- Banning GAAPs from being used by preparers of financial reports because there are no printed guidelines to ensure compliance and consistency. In addition, given that the internationally acceptable financial reporting frameworks such as IFRS, IFRS for SMEs, and IPSAs could also be referred to as GAAPs, it is a professional blunder for a professional accountant to claim that an organization does not use IFRS but uses GAAPs.
- Out of all 74 financial reports that were collected, only one used IFRS for SMEs, while 23 organizations used IFRS even when IFRS for SMEs was more suitable. This demonstrates lack of understandability of the IFRS for SMEs.
- Based on the research results, NAS should address the unique NFPO accounting challenges such as (a) budgeting; (b) fund accounting; (c) measurability; (d) attribution of outcomes;(e) the input-output-outcome-

impact relationships; (f) accounting for overheads;(g) in-kind grants; (f) ratio analysis;(g) risk analysis, (h) names of items such as revenue, expenditure, income equity and profit; (i) fund accounting; (j) foreign exchange accounting for NFPOs; and (k) fundraising costs.

- NFPOs should be properly categorized between charitable and noncharitable organizations; a distinction between not-for-profit and NGO should be made. Another distinction should be made between private and public NFPOs before designing the framework.
- A theoretical framework should be developed rather than a conceptual framework because there is proven theory that can be used in designing such a framework.
- General Purpose Financial Reports (GPFR) should be called General Purpose Accountability Reports (GPAR) and distinguished into those for profit and those for no profit.

Implications for Social Change

Based on the results of this study, positive social change may be anticipated in the following ways:

1. Calling for the development of an internationally recognized and appropriate accountability reporting framework for NFPOs, with perhaps a transition from financial reporting to accountability reporting.

2. Developing a quality assessment checklist for each reporting framework and industry by ICPAU and its members to ensure that high quality, useful reports are produced by accountants and audit firms
3. Reducing client bias against SMPs, given that there were no significant differences between financial reports prepared by international firms and SMPs. Selection of audit firms will no longer be predicated on whether a firm is SMP or international but on competence, based on the faulty presumption that SMPs produce lower quality reports.
4. Decreasing fraud exposure, given that a comprehensive and appropriate framework will be developed requiring disclosure of important accountability information that will help stakeholders to understand and demand accountability of their NFPOs in a better way.
5. Increasing funding due to raised donor confidence because of reduced information asymmetries, thereby, improving social services and philanthropic initiatives in developing countries such as Uganda.
6. Creation of a standard framework that will be used as a basis for developing audit opinions rather than the current haphazard reporting frameworks that allow auditors to make negotiated audit opinions that may not be easily challenged.
7. Improving social responsibility, given that higher quality financial reporting improves corporate social responsibility (McDermott, 2012). In addition,

higher quality financial reporting reduces both over and under investment in corporate social responsibility. (Biddle, Hilary, & Verdi, 2009). With reduced waste, corruption, and misuse of NFPO resources, corporate social responsibility is likely to grow.

Future Research

The findings of this research established that the current financial reporting frameworks may be inappropriate to address the unique NFPO features and user needs. A recommendation on what would constitute ideal NAF, NAS, and NAR have been mentioned. However, the specific contents, standards, and reports of the framework are beyond the scope of this research.

The KAR-QMT assumed that all financial report elements are equal, carrying equal weight in assessing the quality of financial statements. However, the IASB alone categorizes qualitative characteristics of reporting into two categories—fundamental and enhancing. The fundamental characteristics should have been given greater weight than enhancing characteristics. Future researchers should explore this gap.

Conclusion

The findings of the study advise the accounting profession to take action towards rescuing the accountability of NFPOs and save the accounting and auditing profession from the current confusion. Creating a more appropriate and comprehensive financial reporting framework would increase transparency and donor confidence that would trigger improved funding.

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Appendix A: Theoretical Basis of KAR-QMT Construction

Theory/ Concept	User needs addressed	KAR-QMT reference
Accountability theory	Financial report, budgets and notes	Section D
	Fiduciary report; Compliance, internal controls, Corporate governance, board members, their competences, performance and evaluation	Section D; F4, Section E; 2.2-2.5
	Procedural report; existence and application of policies, effectiveness of internal controls.	Section E:8.0b
	Management performance	Section E:2.3
	Strategic report; Vision, Mission, objectives, programs, 4Es, inputs, performance, outcomes and impact	Section E; 1.1-1.5; 2.1; 6.1
Agency Theory and IASB framework	Objectives compared with results	Section E; 1.2
	Company targets compared with results	Section D; C4-C5, Section E6.1
	Adverse selection, Staff targets vs results, moral hazard.	Section E: 4.0, 6.3.3d-e
	Reliability, faithful presentation, timeliness, comparability, understandability, relevancy	Section D
	Risk management, M & E, Independent internal external audit, Board governance, compliance report.	Section D; R3, F3, Section E; 1.6;
Stakeholder theory	Founders interests on sustainability and vision pursuance	Section E; 3.2
	Board interests concerning CEO performance	Section D:2.2-2.5
	Employees and volunteers concerning sustainability and promotion	Section E; 4.0; Section D;R7
	Government concerns about complementing its work, compliance and source of funding	Section E;6.5, 3.1
	Beneficiaries regarding project continuity and equity	Section E:3.1
	Competitors in defining territories and ownership of outputs	Section D; C6
	Suppliers and service providers concerning liquidity	Section E:3.1
Stewardship theory	Board performance	Section D:2.2-2.5
	Management performance	Section D: 2.3
	Goal congruence	Section D: 2.3
	Organizational performance	Section E: 6.1, 6.3-6.4
	Inputs, outcomes, outputs and impact	Section E:6.1
	Economy, Efficiency, Effectiveness and Equity	Section E: 6.3-6.4
Resource dependency theory	Compliance with donor terms and conditions	Section E: 6.3
	Profiling resource providers, amounts, focus and periods of funding	Section E:8.0c, 8.0e
	Fund accounting, restricted and unrestricted funds	Section E: 6.2, 8.0d,
	Fundraising strategies, costs and performance	Section E:6.2
Instit ution al theor	Legal framework	Section E:8.0a
	Profession, programs, industry, government ministry	Section E:8.0a
	Political framework	Section E: 3.1(i-j)

Theory/ Concept	User needs addressed	KAR-QMT reference
	Financial reporting framework	Section D; C1-C3
	Governance, organizational structure	Section D:2.5
	Justification of reporting framework used	Section D: C1-C3
Communication theory	Provision for feedback	Section E:7.0
	Report accessible to all stakeholders	Section E:7.0
	Pictures, foot notes, Charts and graphs	Section D; U1-6
	7Cs and Ratio analysis	Section D; C4; U1-6; C4;

Table continued

Appendix B: List of Acronyms

Acronyms used include:

AASB	--	Australian Accounting Standards Board
ACFE	--	Association of Certified Fraud Examiners
ICAEW	--	Institute of Chartered Accountants in England and Wales
ACCA	--	Association of Chartered Certified Accountants
ICAS	--	Institute of Charted Accountants of Scotland
CIPFA	--	Chartered Institute of Chartered Public Finance and Accountants
FASB	--	Financial Accounting Standards Board
GAAPs	--	Generally Accepted Accounting Principles
IASB	--	International Accounting Standards Board
IAS	--	International Accounting Standards
ICAA	--	Institute of Chartered Accountants of Australia
IFRS	--	International Financial Reporting Standards
IOSCO	--	International Organization of Securities Commission
IPSAS	--	International Public Sector Accounting Standards
NAR	--	NFP Accountability Reports
NAS	--	NFP Accountability Standards
NARS	--	NFP Financial Accounting and Reporting Standards
NFP	--	Not For Profit
NGO	--	Non-Government Organizations
NPO	--	Not-for-Profit Organizations
OECD	--	Organization for Economic Development and Cooperation
SMEs	--	Small and Medium Enterprises
SORP	--	Statement of Recommended Practice

UDN	--	Uganda Debt Network
UNDP	--	United Nations Development Programme
WTO	--	World Trade Organization

Appendix C: Kisaku's Accountability Reporting—Quality Measuring Tool (KAR-QMT)

Demographic Data

Name of NFPO/Project/Program
Year of audit
Audit firm name
Originality of Audit Firm (SMP = 1, International = 2)
Accounting framework used

Nature of Audit Firm

Question reference	**Question/Instruction**	**Yes**	**No** (If no, do not proceed).
B.1	Establish the eligibility of the firm by referring to ICPAU published list of approved list of audit firm-2015.		
B.2		**International** **(**Among the international listing, IPA Special Report-2015)	**SMP**
B.3	Identify the nature of the audit firm used as claimed on the firm's headed paper.		
B.4	If the firm is not international, then it is SMP		

Financial Reporting Framework (Tick as appropriate)

Question reference	**Question**	**(**IFRS, IFRS for SMEs, IPSAs)	Donor-designed framework (World Bank, USAID, Danida, Sida, EU, DFID, UNDP, etc.)	Generally Accepted Accounting Standards or other preparer designed framework (GAAPs)
C.1	Which of the following frameworks is referred to as a basis for the preparation of the financial report under note one to the financial statements?			

Quality Measurement Tool—Based on IASB Quality Factors

Relevance								
Question No.	Question	Operationalization	0	1	2	3	4
R1	To what extent does the company use fair value instead of historical cost?	1= Only historical cost					
		1= Mostly Historical cost					
		2= Balance fair value/historical cost					
		3= Most fair value					
		4= Only fair value					
R2	To what extent does the presence of nonfinancial information in terms of business opportunities and risks complement the financial information?	1= No nonfinancial information					
		2= Limited nonfinancial information, not very useful for forming expectations					
		3=Sufficient useful nonfinancial information					
		4= Relatively much useful nonfinancial information, helpful for developing expectations					
		4= Very extensive nonfinancial information presents additional information which helps developing expectations					
R3	To what extent does the risk section provide good insights into the risk profile of the company?	1= No insights into risk profile					
		1= Limited insights into risk profile					
		2= Sufficient insights into risk profile					
		3= Relatively much insights into risk profile					
		4= Very extensive insights into risk profile					
R4	To what extent does the annual report contain forward looking information?	1=No forward looking information					
		1= Limited forward looking information					
		2= Sufficient forward looking information					
		3= Relatively much forward looking information					
		4= Very extensive forward looking					
R5	To what extent does the annual report contain a proper disclosure of the extraordinary gains and	1= No proper disclosure					
		1=Limited proper disclosure					
		2= Sufficient proper disclosure					
		3=Very much proper disclosure					

Relevance							
Question No.	Question	Operationalization	0	1	2	3	4
	losses?	4=Very extensive proper disclosure					
R6	To what extent does the annual report contain information regarding personnel policies?	1= No information regarding personnel policies					
		1=Limited information regarding personnel policies					
		2= Sufficient information regarding personnel policies					
		3= Very much information regarding personnel policies					
		4= Very extensive information regarding personnel policies					
R7	To what extent does the annual report contain information concerning divisions?	0= No information concerning divisions					
		1= Limited information concerning divisions					
		2= Sufficient information concerning divisions					
		3=Very much information concerning divisions					
		4= Very extensive information concerning divisions					
R8	To what extent does the annual report contain an analysis concerning cash flows?	1= No analysis					
		2= Limited analysis					
		3= Sufficient analysis					
		4=Very much analysis					
		5=Very extensive analysis					
R9	To what extent are the intangible assets disclosed?	1= No disclosure					
		2=Limited disclosure					
		3= Sufficient disclosure					
		4=Very much disclosure					
		5=Very extensive disclosure					
R10	To what extent are the “off balance” activities disclosed?	1= No disclosure					
		2=Limited disclosure					
		3= Sufficient disclosure					
		4=Very much disclosure					
		5=Very extensive disclosure					
R11	To what extent does the annual report contain information concerning the companies’ going concern?	0= No information concerning going concern					
		1=Limited information concerning going concern					
		2= Sufficient information concerning going concern					

Relevance							
Question No.	Question	Operationalization	0	1	2	3	4
		3= Very much information concerning going concern					
		4= Very extensive information concerning going concern					

Faithful Representation							
Question No.	Question	Operationalization	0	1	2	3	4
F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in annual report?	1= No valid arguments					
		2= Limited valid arguments					
		3= Sufficient valid arguments					
		4= Very much valid arguments					
		5= Very extensive valid arguments					
F2	To what extent does the company base its choice for certain assumptions and estimates in annual report?	1= No valid arguments					
		2= Limited valid arguments					
		3= Sufficient valid arguments					
		4= Very much valid arguments					
		5= Very extensive valid arguments					
F3	Which type of auditors' report is included in the annual report?	1= Adverse opinion					
		2=Disclaimer opinion					
		3= Qualified opinion					
		4= Un qualified opinion : financial figures					
		5= Un qualified opinion : financial figures + internal control report					
F4	To what extent does the company provide information on corporate governance?	1= No description of corporate governance					
		2= Limited description of corporate governance					
		3=Sufficient description of corporate governance					
		4=Very much description of corporate governance					
		5=Very extensive description of corporate governance					
F5	To what extent does the annual report contain disclosure concerning the "comply or explain" application?	1= No disclosure					
		2=Limited disclosure					
		3= Sufficient disclosure					
		4=Very much disclosure					
		5=Very extensive disclosure					
F6	To what extent does the	1= No disclosure					

Faithful Representation							
Question No.	Question	Operationalization	0	1	2	3	4
	annual report contain disclosure related to both positive and negative contingencies?	2=Limited disclosure					
		3= Sufficient disclosure					
		4=Very much disclosure					
		5=Very extensive disclosure					

Understandability							
Question No	Question	Operationalization	0	1	2	3	4
U1	To what extent does the annual report presented in a well-organized manner?	1= Very bad presentation					
		2= Bad presentation					
		3= Poor presentation					
		4= Good presentation					
		5= Very good presentation					
U2	To what extent does the presence of graphs and tables clarify the presented information?	1= No graphs					
		2= 1-5 graphs					
		3= 6-10 graphs					
		4= 11-15 graphs					
		5= >15 graphs					
U3	To what extent does the annual report contain technical jargon in the perception of the researcher?	1= Very much jargon					
		2= Much jargon					
		3= Moderate use of jargon					
		4=Limited use of jargon					
		5= No/hardly any jargon					
U4	What is the size of the glossary?	1= No glossary					
		2= Less than 1 page					
		3= Approximately one page					
		4= 1-2 pages					
		5= >2 pages					
U5	To what extent does the annual report contain information concerning mission and strategy?	1= No information concerning mission and strategy					
		2= Limited information concerning mission and strategy					
		3=Sufficient information concerning mission and strategy					
		4=Very much information concerning mission and strategy					
		5= Very extensive information concerning mission and strategy					
U6	To what extent is the annual report understandable in the view of the researcher?	1= Very badly understandable					
		2= Badly understandable					
		3=Poor understandable					
		4= Good understandable					

Understandability							
Question No	Question	Operationalization	0	1	2	3	4
		5= Very good understandable					

Comparability							
Question No	Question	Operationalization	0	1	2	3	4
C1	To what extent are changes in accounting policies disclosed?	1= No disclosure					
		2= Limited disclosure					
		3= Sufficient disclosure					
		4 = Very much disclosure					
		5 = Very extensive disclosure					
C2	To what extent are changes in accounting estimates disclosed?	1= No disclosure					
		2= Limited disclosure					
		3= Sufficient disclosure					
		4 = Very much disclosure					
		5 = Very extensive disclosure					
C3	To what extent does the annual report contain information concerning comparison and effects of accounting policy changes?	1= No comparison					
		2= Actual adjustment (1 year)					
		3= 2 years					
		4= 3 years					
		5=4 or more years					
C4	To what extent does the company present financial index numbers an d ratios in the annual report?	1= No ratios					
		2= 1-5 ratios					
		3= 6-10 ratios					
		4= 11-15 ratios					
		5= > 15 ratios					
C5	To what extent does the annual report contain information concerning companies' shares?	1= No information concerning companies' shares					
		2=Limited information concerning companies' shares					
		3=Sufficient information concerning companies' shares					
		4= Very much information concerning companies' shares					
		5=Very extensive information concerning companies' shares					
C6	To what extent does the annual report contain benchmark information concerning competitors	1= No bench mark information					
		2=Limited benchmark information					
		3=Sufficient bench mark information					

Comparability							
Question No	Question	Operationalization	0	1	2	3	4
		4=Very bench mark information					
		5= Very extensive benchmark information					

Timeliness							
QUESTION No	Question	Operationalization					
T1	How many days does it take for the auditor to sign the auditors' report after book year end						
		0= Over 150 days					
		1=121-150 days					
		2= 91-120 days					
		3= 61-90 days					
		4= 0-60 days					

Quality Measurement Indicators, Category (B) Based on NFPO User Needs

SCORE [1]	No.	0	1	2	3	4
1.0 STRATEGIC ISSUES						
1.1 MISSION STATEMENT						
a) Do we disclose our mission statement – a succinct statement to explain and justify our core purpose and explaining why we exist?	1					
Do we provide information such as statistics, trends, or research data about the broader sector or environment in which our organization operates (or any narrative to provide stakeholders with information about the extent and success of the work undertaken by your organization)?	2					
1.2 OBJECTIVES						
Do we:						
a) Include a summary of our objectives as listed in our constitution or governing document (1) Objectives listed (4) Objectives listed and similar to those in constitution.	3					
b) Include a list of the specific objectives we set for the current reporting period (1) Current period objectives listed (4) Period objectives listed and are SMART	4					
1.3 STRATEGY						
Do we:						
a) Clearly outline our vision and goals?	5					
b) Explain our approach to the development of our strategic, including how we engage with stakeholders in developing it?	6					
c) Include measurable, quantified strategic targets and progress reporting against those targets? (**Note:** how this is done will depend on the individual organization and its activities. Consider providing	7					

[1]SCORES (0) =No disclosure (1)=Vaguely disclosed (2)= Fairly disclosed 3=Fully disclosed (4) Extensively disclosed

SCORE [1]	No.	0	1	2	3	4
evidence and reporting of how the governing body is monitoring both quantitative and qualitative data on an ongoing basis to access our organization's performance).						
d) Provide a summary of our strategy and goals, both qualitative and quantitative, and does i t track our current progress against these goals (by reference to targets and milestones)?	8					
e) Outline how the current year's strategy links into the longer term strategy of our organization?	9					
f) Disclose future specific plans or insight into revisions to existing plans to achieve targets (where appropriate), especially where progress has fallen short of any original plans?	10					
g) Make the strategic plan, or at a minimum the strategic goals for the period, available via a link to our website?	11					
1.4 ACTIVITIES :Do we:						
a) Explain the significant activities that we undertook to achieve our objectives? What programs did we run, what projects did we undertake, what services did we provide, and what grants did we make? b) Explain the outcomes we expected from our activities? Does the annual report explain the impacts on or the consequences for, the community resulting from the existence of our organization? c) Reflect on our performance during the period covered by the annual report. For example, if we did not achieve expected outcomes, should we explain why this occurred, what action was taken to address the situation and the lessons learned and any revisions to our strategic plan?	12 13 14					
1.5 FUTURE PLANS						
Do we explain our plans for the future? Do we explain our long-term aims, the objectives we have set for next year and the activities we have planned to achieve these objectives?	15					
1.6 RISK MANAGEMENT						
Do we explain how we identify and manage the major risks we face in realizing our strategy, meeting our objectives and achieving our plans for the future? Do we include:						
a) An acknowledgment of the Board or governing body's responsibility for risk management?	16					
b) An outline the processes used to identify, monitor and mitigate the risks it faces?	17					
c) Information for readers to understand the major risks specific to our organization and the management of those risks (this disclosure covers all risks and not just	18					

SCORE [1]	No.	0	1	2	3	4
those of a financial nature)?						
2.0 GOVERNANCE						
2.1 WHO ARE WE?						
Do we include:						
a) The name of our organization, including any ‘trading names’?	19					
b) Business or NGO registration number	20					
c) Details of any other registrations necessary to carry out activities (e.g.,. registrations under fundraising legislation)?	21					
d) Explanation of the regulatory and legislative environment in which your organization operates?	22					
e) The address (es) of our office(s)?	23					
f) An explanation of how we are constituted? a company limited by guarantee, incorporated association, royal charter or act of parliament)?	24					
g) An explanation of our relationship with related international bodies, including the funding received from or provided to those bodies and the control we have over the expenditure of those funds?	25					
h) An explanation of the corporate structure of our organization using a diagram or narrative?	26					
i) An explanation of any strategic alliances to achieve our organization’s objectives (such as joint ventures, affiliations with other organizations, or relationships with parent organizations). Do we provide information regarding these? Is the nature of these relationships clearly outlined?	27					
2.2 WHO ARE OUR BOARD MEMBERS						
Do we include the following information regarding our Board members:						
a) Their names	28					
b) Their qualifications, skills and experience?	29					
c) The length of their involvement with our organization?	30					
d) Their special responsibilities (e.g.,. fundraising, audit committee etc.)?	31					
2.3 WHO MANAGES US ON DAY- TO –DAY BASIS?						
Do we disclose the following regarding our chief executive officer and other senior management team members						
a) Their names	32					
b) Their qualifications, skills and experience?	33					
c) The length of service with our organization?	34					
d) Remuneration, including any incentive arrangements?	35					
e) KPIs and performance against these?	36					
f) The performance assessment process for key management personnel?	37					
g) Succession planning for key executives?	38					
2.4 WHO ELSE IS INVOLVED IN OUR ORGANISATION?						
Do we disclose the names and addresses of other						

SCORE [1]	No.	0	1	2	3	4
relevant organizations or individuals such as our:						
a) Bankers?	39					
b) Solicitors	40					
c) Auditors	41					
2.5 DO WE EXPLAIN HOW WE ARE GOVERNED?						
Do we include the following, either in a governance statement or elsewhere in the report:						
a) The role of our Board?	42					
b) The structure and processes of our Board? Consider processes for election and re-election of Board members, limitations on the term of Board membership, pathways to Board membership.	43					
c) How we educate our Board members, on induction as well as an ongoing basis?	44					
d) The composition of our Board?	45					
e) Our Board committees and their functions?	46					
f) How we assess the performance of the Board and how frequently it occurs?	47					
g) Our ethical standards?	48					
h) How we deal with conflicts of interest and explain and codes of conduct the organization subscribes to?	49					
i) How we ensure compliance with relevant legislation and regulation?	50					
j) Information detailing compensation arrangements, including remuneration (if any) for the governing body?	51					
3.0 STAKEHOLDER ANALYSIS						
3.1 WHO ARE OUR STAKEHOLDERS?						
Do we identify our major stakeholder groups? Consider:						
a) Donors or sponsors	52					
b) Volunteers	53					
c) Employees	54					
d) The beneficiaries of our programs	55					
e) The business community	56					
f) The broader community	57					
g) State and federal governments as funders	58					
h) State and federal governments as regulators	59					
i) Partners including strategic partners	60					
j) Suppliers	61					
k) The media	62					
Would the annual report or other publically available information be enhanced by the Inclusion of a 'stakeholder map' to provide an overview of our stakeholder groups and the relationships and interactions between those groups?						
3.2 STAKEHOLDER ENGAGEMENT (INCLUDING THE GOVERNMENT,DONORS, THE BUSINESS COMMUNITY AND GENERAL PULIC)						
Do we explain our approach to stakeholder engagement and reporting of source of funds and fundraising activities? Consider:						
a) Donors and Sponsors						

SCORE [1]	No.	0	1	2	3	4
Do we explain:						
• How we contact our donors?	63					
• If we have any policies regarding acceptability of sponsors or major donors?	64					
• How many donors were contacted?	65					
• How frequently we contact our donors and the manners in which we communicate?	66					
• The number inquiries we receive from potential donors and the mode of enquiry- (telephone, email, website, blog etc).	67					
• How we communicate with donors about the choice of projects and the results of expenditure on those projects?	68					
• How we deal with donor complaints?	69					
b) The beneficiaries of our programs, including how we receive and deal with feedback on our programs? (For example, if the organization is engaged in the provision of support for sufferers of a disease, do they explain how they liaise with sufferers of their careers regarding the manner in which the care is delivered?)	70					
c) The broader community (For example if we survey our community or conduct focus groups to engage the community. Have we included the results of the survey or outcomes of the focus group and how we have recognized those results or outcomes in our strategy? If we have a community advisory board or panel, do we explain the role of the group, its membership and its contribution to our strategy and activities?)	71					
d) The business community (For example, including acknowledgement of our corporate donors, the nature and extent of our interaction with the business community and the mutual benefit of the relationship)	72					
e) The state and federal governments as funders Do we explain:						
• Our processes for securing government funding?	73					
• The extent of our reliance on government funding especially where government funding is material to our organizations continuity?	74					
• Our economic dependency on government funding by way of a note to the financial statements (if applicable)?	75					
• Our potential commitments arising from the receipt and use of government funds?	76					
• The KPIs or other conditions specified in	77					

SCORE [1]	No.	0	1	2	3	4
government funding agreements and the extent to which they were met during the reporting period?						
f) State and federal governments as regulators Do we explain:						
• The regulatory environment in which we operate?	78					
• Ensure that the regulatory environment does not disadvantage us or the community we serve (advocacy and lobbying activities)?	79					
Do we explain to our approach to stakeholder engagement) consider:						
g) Partners, including strategic partners Do we explain what strategic partnerships or alliances we have entered into?	80		h			
h) Do we explain how we engage with our suppliers, for example payment terms and any conditions we impose in suppliers (ethical employers, environmentally conscious etc.)?	81		i			
i) The media Do we explain our interactions with the media and the impact of this? For example, how many times we have been quoted in press, appeared on television, used other forms of media (website, blog etc.)?	82		j			
3.3 SOCIAL MEDIA						
• Do we inform our stake holders how they contact us through social media such as Facebook, twitter or our blog(S)?	83					
• Do we outline the degree to which social media has been used to engage with stakeholders and the impact of social media?	84					
4. OUR EMPLOYEES This section of the checklist asks a series of questions to assess whether the annual report or other publically available information adequately explains how the NFP has engaged with its employees and how it responds to their expectations and interests						
4.1 EMPLOYMENT POLICIES **Do we explain our employment policies? Consider:**						
a) An explanation of our organization's employment policies regarding EEO and affirmative action?	85					
b) Flexible work arrangements	86					
c) Benefits provided by employees	87					
d) Training provided And professional development supported	88					
e) Occupational health and safety policies (OH&S)	89					
4.2 EMPLOYEE DATA **Do we include the following data, including explanations of trends and how they are being addressed if applicable, relating to our employees?: consider**						
a) The number of employees and their deployment across	90					

SCORE [1]		No.	0	1	2	3	4
	the organization						
b)	The total number and rate of employee turnover by age, group, gender, and religion	91					
c)	Measures of employee engagement or satisfaction	92					
d)	Information in respect of employee retention (e.g.,. retention rate, initiatives to improve)	93					
e)	Rates of injury, occupational diseases, lost days, and number of work related fatalities	94					
f)	Rates of un planned absenteeism	95					
g)	Average hours of training per year per employee, by employee category	96					
h)	Our organization's OH & S performance	97					
4.3 RECOGNISING OUR EMPLOYEES **Do we disclose how we recognize our employees and their achievements? Consider:**							
a)	Length of service	98					
b)	A description of our organizations approach to the professional development of our employees (e.g.,. training, professional development etc.)	99					
c)	Disclosing information about how our organization assesses employee satisfaction	100					
d)	Providing insight into employees' external activities to promote our organization, such as presentations at conferences or contribution to publications	101					
e)	Providing a description of how our organization recognizes employees' contribution and achievements (e.g.,. through public recognition, provision of awards etc.)	102					
5. OUR VOLUNTEERS This section of the checklist asks a series of questions to assess whether the annual report or other publically available information adequately explains how the NFP has engaged with its volunteers and how it responds to their expectations							
5.1 VOLUNTEER POLICIES **Do we explain our policies regarding the involvement of volunteers? Consider:**							
a)	Screening policies and processes	103					
b)	Volunteer activities	104					
c)	Volunteer induction processes and ongoing training	105					
d)	National standards regarding the use of volunteers	106					
e)	OH & S policy for volunteers	107					
5.2 VOLUNTEER DATA **Do we include the following data, including explanations of trends, relating to our volunteers? Consider:**							
a)	The number of volunteers and their deployment across the organization	108					
b)	A measure of volunteer contribution, expressed in hours, staff equivalents or by assigning a $ value to their contribution	109					
c)	Measures of volunteer engagement or satisfaction – the	110					

SCORE [1]	No.	0	1	2	3	4
outcome of any surveys of volunteers to determine their level of satisfaction with the organization						
5.3 RECOGNISING OUR VOLUNTEERS **Should we disclose how we recognize our volunteer's achievements? Consider**						
a) Length of service	111					
b) Outstanding client service or engagement with stakeholders	112					
c) Publications, including contributions to peer reviewed publications	113					
d) External awards received	114					

6.0 REPORTING PERFORMANCE AND ACHIEVMENTS

This section of the checklist asks a series of questions to assess the annual report or other publically available information explains the results of the NFP's performance and its achievements during the year covered by the report

6.1 HOW WE HAVE MET OUR OBJECTIVES **Do we explain our actual performance against the objectives detailed in the last years report? Have we outlined**						
a) The **output** indicators we use to measure our performances and disclose actual and planned performance and explained variance? Output indicators are measures of the goods or services produced or provided by the organization. Section 3.3 provides some examples. Each organization needs to define its own output measures.	115	0	1	2	3	4
b) The **outcome** indicators we use to measure our performances and disclose actual and planned performance and explained variance? Outcomes are impacts on or the consequences for the community resulting from the organizations activities. Section 3.3 provides some examples. Each organization needs to define its own output measures. 'how will the participant's or community's knowledge, attitude, value, skill, behavior, conditions or status change as a result of our activity?	116					
c) Examples of case studies and testimonials to illustrate our outcomes and impact?	117					
d) Graphs, tables and photographs where necessary to summarize and highlight our performance and achievements?	118					
e) Matters we are able to control and those that are outside our control? Consider a commentary and relationships with employees, users or beneficiaries of services, significant funders, occupational health and safety and training. Other commentary might include factors affecting fundraising and government policy that affect or may in future affect the organization's operations	119					
f) The challenges faced and how they were identified and	120					

addressed, any lessons from them and the outlook?						
6.2. HAVE WE EXPLAINED OUR SORCE OF FUNDRAISING, OUR RELIANCE IN FUNDRAISING AND THE RESULTS OF OUR FUNDRAISING **Do we include and explain the following information**						
a) Our revenue model and our approach to fundraising, including how this is evolving to observed changes in donations and fundraising?	121					
b) The extent to which we are reliant on specific sources of fundraising to meet our objectives? For example ongoing philanthropic grants, corporate or public donations, sponsorships.	122					
c) Actual fundraising against fundraising targets? Consider separate disclosure of fundraising through public appeals, regular giving programs, legacies and bequests, philanthropic grants	123					
d) Explanation of our policy for managing and protecting funds raised that are surplus to our needs?	124					
e) The costs of our fundraising efforts, including a clear definition of what is included in the fundraising costs?	125					
f) The costs of our fundraising efforts as a percentage of funds raised?	126					
g) A commentary on our investment in fundraising'? Where the NFP has incurred significant expenditure relating to future fundraising, comment should be included. Commentary should include an explanation of the impact on the current year's return from fundraising and future years' fundraising income.	127					
h) Our treatment of and accounting for in-kind donations, such as time, goods, and professional services.	128					
i) Information about the policies for public fundraising, application of funds raised (how each $ of funds is spent)?	129					
6.3. DO WE SHOW HOW EFFECTIVELY WE HAVE USED OUR RESOURCES AND NVESTMENTS? Do we include and explain the following information regarding the use of our funds:						
a) The ratio of funds spent on our primary purpose(s) to total expenditure?	130					
b) The ratio of funds spent on our primary purpose(s) as to total funds received during the year?	131					
c) Investments						
• Do we provide a description of our organization's investment policy?	132					
• Do we disclose insight into the management of investments within our organization and the involvement of any third parties such as investment advisors or managers (if applicable)?	133					
• Do we provide information about our organization's investments that includes the performance of the investments against short- or long term targets (3-5 years) and the investment performance objectives?	134					

2. Do we disclose and explain the following information regarding the services we provide?						
a) The 'outputs' we have delivered?	135					
b) The outputs delivered as per employee or volunteer?	136					
c) The cost per unit of output?	137					
3. Do we disclose and explain the following information regarding our commercial activity?						
a) Gross profit margin?	138					
b) The commercial activity's cash contribution to our core activity?	139					
c) The cash contribution per person employed in the commercial activity?	140					
d) The hours of employment provided by the commercial activity to those served by our core activities?	141					
e) Insight regarding the commercial activity's contribution to the organization's core activity in terms of materiality compared to the overall organization?	142					
6.4. DO WE EXPALIN OUR FINANCIAL PERFORMANCE AND POSITION? **1. Do we include a financial discussion and analysis?** Do we include a discussion and analysis of the factors affecting our financial performance, financial position and financing and investing activities? Do our annual report and other publically available information 'tell the story'? For example, do we include commentary on?						
a) Trends in revenue	143					
b) Revenue shortfalls in the current period compared to prior period or budget? (This includes the reasons for the shortfall and what our organization is doing to address such a shortfall in future)	144					
c) Key events (both positive and negative) and the effects of significant economic or other events (such as natural disasters) on our operations?	145					
d) The revaluation or impairment of assets, the reason for revaluation/impairment and the financial impact?	146					
e) The impact of any other one-off events in the year?	147					
f) The main influences on costs of our operations?	148					
g) Appropriate measures of our financial performance?	149					
h) Changes in composition of our assets?	150					
i) Significant movements in our assets, liabilities, and reserves?	151					
j) Changes in our cash flow?	152					
k) The financing of our capital expenditure programs?	153					
l) The purpose of our reserves and any restrictions on the use of our assets?	154					
m) Any deficiency in the organization's current position (excess of current liabilities over current assets)	155					
n) The future outlook for our organization (e.g.,. funding levels, future events, anticipated changes to operations)	156					
2. Have we considered reporting about our long term performance? Have we:						
• Provided insight into the analysis of both our longer term financial and nonfinancial performance (e.g.,.	157					

number of clients assisted, programs run etc.) for a minimum of 3-5 year period?						
• Provided data of performance against prior periods or budgets (with supporting narrative) so stakeholders can gain a greater understanding and context of the overall performance in the year?	158					
• Outlined the sustainability of current levels of funding and the extent to which our organization relies on certain revenue streams?	159					
6.5 ENVIRONMENTAL AND SUSTAUNABILITY POLICIES Does our organization outline its performance in the wider context of sustainability by disclosing how it contributes, or aims to contribute in the future, to the improvement of economic, environmental and social conditions, and developments at SMP, regional, and global level? Consider:						
a) Explaining initiatives to mitigate the environmental impacts of our programs or fundraising projects	160					
b) Explaining initiatives to reduce usage of resources such as paper and energy and any recycling initiatives	161					
c) Providing commentary and quantitative data on its approach to ensure all activities are sustainable and its performance against any targets set	162					
7.0 COMMUNICATION OF REPORT						
(a) Have we considered making our annual report available on our website rather than distributing hard copies of our report	163					
(b) What image does the report paint on the organization in terms of being good stewards or accountable?	164					
© Do we have adequate narratives (fibula= events/photos, actors, time and place) in the report?	165					
(d) Do we have adequate story in the report? In terms of sequence, duration, frequency, focus and point of view?	166					
(e) Do recipients have room to comment on the report?	167					
8.0 OTHER PROCEDURAL AND FIDUCIARY ACCOUNTABILITY PROCEDURESS						
(a) Is the industry profile within which the organization/project falls discussed?	**168**					
(b) Is the internal control report attached or referred to?	**169**					
© Is the list of funders and their proportionate funding and salient terms and conditions disclosed?	**170**					
(c) Does the financial report categorize funds into restricted and unrestricted?	**171**					
(d) Does the financial report segment each donor funds/donor separately as a fund including each donor fund balances and budget; (i.e., Fund Accounting)?	**172**					

Appendix D: Overall Quality Scores of All the Reports

Reference	Framework	Firm	Average score
40	Donor design	International	10.9%
15	Donor design	SMP	11.4%
43	Donor design	International	11.6%
23	Donor design	International	12.9%
04	Donor design	International	13.1%
31	Donor design	International	13.2%
38	Donor design	International	13.9%
45	Donor design	International	13.9%
19	Donor design	SMP	14.0%
54	Donor design	SMP	14.1%
27	Donor design	Auditor general	17.4%
53	Donor design	SMP	17.5%
28	Donor design	Auditor general	18.3%
69	Donor design	International	19.1%
37	Donor design	SMP	20.8%
18	GAAPs	SMP	7.5%
57	GAAPs	SMP	7.7%
68	GAAPs	International	8.4%
70	GAAPs	International	9.7%
21	GAAPs	SMP	9.8%
16	GAAPs	SMP	10.0%
29	GAAPs	Auditor general	13.4%
41	GAAPs	International	13.7%
08	GAAPs	International	13.8%
67	GAAPs	International	14.1%
65	GAAPs	International	14.4%
74	GAAPs	International	14.5%
03	GAAPs	International	14.5%
06	GAAPs	SMP	14.7%
13	GAAPs	SMP	14.8%
32	GAAPs	SMP	14.8%
12	GAAPs	SMP	15.0%
51	GAAPs	SMP	15.0%
09	GAAPs	SMP	16.2%

52	GAAPs	SMP	16.9%
07	GAAPs	SMP	17.0%
42	GAAPs	International	17.2%
71	GAAPs	International	17.4%
11	GAAPs	International	17.8%
22	GAAPs	International	18.3%
55	GAAPs	SMP	19.6%
44	GAAPs	International	19.9%
30	GAAPs	Auditor general	21.4%
36	GAAPs	SMP	21.8%
39	GAAPs	International	21.9%
62	GAAPs	International	23.2%
66	GAAPs	International	23.7%
50	GAAPs	SMP	24.8%
35	GAAPs	International	25.1%
73	GAAPs	International	25.2%
59	IFRS	SMP	8.4%
01	IFRS	SMP	8.4%
56	IFRS	SMP	8.7%
20	IFRS	SMP	9.2%
63	IFRS	SMP	10.4%
64	IFRS	SMP	10.6%
05	IFRS	International	11.6%
14	IFRS	SMP	11.8%
60	IFRS	SMP	12.6%
02	IFRS	SMP	13.0%
58	IFRS	SMP	13.9%
34	IFRS	SMP	14.5%
47	IFRS	International	15.5%
33	IFRS	SMP	15.8%
10	IFRS	SMP	16.0%
17	IFRS	SMP	16.2%
48	IFRS	SMP	16.9%
72	IFRS	SMP	18.1%
49	IFRS	SMP	18.4%
24	IFRS	SMP	19.4%

46	IFRS	SMP	23.6%
61	IFRS	SMP	24.1%
26	IPSAS	Auditor general	18.4%
25	IPSAS	Auditor general	18.8%
	Overall average		**15.4%**

Appendix E: Performance of All Reports Under Section D Only

Reference	Framework	Nature of audit firm	Quality score
18	GAAPs	SMP	15%
56	IFRS	SMP	15%
21	GAAPs	SMP	18%
68	GAAPs	International	18%
16	GAAPs	SMP	18%
63	IFRS	SMP	18%
57	GAAPs	SMP	20%
70	GAAPs	International	20%
01	IFRS	SMP	20%
14	IFRS	SMP	20%
59	IFRS	SMP	21%
64	IFRS	SMP	21%
15	Donor design	SMP	22%
19	Donor design	SMP	23%
08	GAAPs	International	23%
31	Donor design	International	24%
04	Donor design	International	24%
20	IFRS	SMP	24%
60	IFRS	SMP	24%
43	Donor design	International	25%
23	Donor design	International	25%
29	GAAPs	SMP	25%

Reference	Framework	Nature of audit firm	Quality score
41	GAAPs	International	26%
52	GAAPs	SMP	26%
40	Donor design	International	27%
09	GAAPs	SMP	27%
54	Donor design	SMP	27%
12	GAAPs	SMP	27%
38	Donor design	International	27%
07	GAAPs	SMP	28%
26	IFRS	SMP	28%
17	IFRS	SMP	28%
13	GAAPs	SMP	28%
58	IFRS	SMP	28%
06	GAAPs	SMP	29%
53	Donor design	SMP	29%
67	GAAPs	International	29%
48	IFRS	SMP	29%
45	Donor design	International	30%
32	GAAPs	SMP	30%
72	IFRS	SMP	30%
33	IFRS	SMP	30%
22	GAAPs	International	30%
51	GAAPs	SMP	31%
49	IFRS	SMP	31%

Reference	Framework	Nature of audit firm	Quality score
03	GAAPs	International	32%
27	Donor design	SMP	32%
65	GAAPs	International	32%
28	Donor design	SMP	32%
05	IFRS	International	33%
47	IFRS	International	33%
34	IFRS	SMP	33%
74	GAAPs	International	33%
11	GAAPs	International	33%
02	IFRS	SMP	33%
55	GAAPs	SMP	33%
71	GAAPs	International	33%
24	IFRS	SMP	33%
42	GAAPs	International	34%
10	IFRS	SMP	34%
37	Donor design	SMP	35%
44	GAAPs	International	35%
39	GAAPs	International	37%
36	GAAPs	SMP	38%
69	Donor design	International	39%
30	GAAPs	SMP	40%
25	IFRS	SMP	40%
50	GAAPs	SMP	42%

Reference	Framework	Nature of audit firm	Quality score
73	GAAPs	International	43%
61	IFRS	SMP	45%
66	GAAPs	International	46%
35	GAAPs	International	46%
62	GAAPs	International	48%
46	IFRS	SMP	48%
			30%

Appendix F: Quality Scores of Reports

Reference	**Framework**	**Nature of audit firm**	**Quality score**
57	GAAPs	SMP	6%
59	IFRS	SMP	6%
18	GAAPs	SMP	6%
01	IFRS	SMP	6%
20	IFRS	SMP	7%
68	GAAPs	International	7%
56	IFRS	SMP	8%
70	GAAPs	International	8%
05	IFRS	International	8%
40	Donor design	International	8%
21	GAAPs	SMP	9%
16	GAAPs	SMP	9%
64	IFRS	SMP	9%
63	IFRS	SMP	9%
43	Donor design	International	9%
02	IFRS	SMP	10%
15	Donor design	SMP	10%
14	IFRS	SMP	10%
60	IFRS	SMP	11%
23	Donor design	International	11%
45	Donor design	International	11%
04	Donor design	International	11%

Reference	Framework	Nature of audit firm	Quality score
29	GAAPs	SMP	11%
65	GAAPs	International	11%
74	GAAPs	International	11%
34	IFRS	SMP	11%
31	Donor design	International	11%
58	IFRS	SMP	11%
67	GAAPs	International	11%
38	Donor design	International	12%
03	GAAPs	International	12%
41	GAAPs	International	12%
54	Donor design	SMP	12%
32	GAAPs	SMP	12%
08	GAAPs	International	12%
06	GAAPs	SMP	12%
51	GAAPs	SMP	12%
13	GAAPs	SMP	12%
47	IFRS	International	13%
19	Donor design	SMP	13%
10	IFRS	SMP	13%
12	GAAPs	SMP	13%
33	IFRS	SMP	13%
17	IFRS	SMP	14%
42	GAAPs	International	14%

Reference	**Framework**	**Nature of audit firm**	**Quality score**
09	GAAPs	SMP	14%
71	GAAPs	International	15%
48	IFRS	SMP	15%
27	Donor design	SMP	15%
25	IFRS	SMP	15%
07	GAAPs	SMP	15%
11	GAAPs	International	15%
52	GAAPs	SMP	15%
53	Donor design	SMP	15%
69	Donor design	International	16%
28	Donor design	SMP	16%
72	IFRS	SMP	16%
22	GAAPs	International	16%
49	IFRS	SMP	16%
26	IFRS	SMP	17%
24	IFRS	SMP	17%
44	GAAPs	International	17%
55	GAAPs	SMP	17%
30	GAAPs	SMP	18%
37	Donor design	SMP	18%
36	GAAPs	SMP	19%
62	GAAPs	International	19%
39	GAAPs	International	19%

Reference	**Framework**	**Nature of audit firm**	**Quality score**
46	IFRS	SMP	19%
66	GAAPs	International	20%
61	IFRS	SMP	20%
35	GAAPs	International	22%
50	GAAPs	SMP	22%
73	GAAPs	International	22%

Appendix G: Permission to use the CCAB Report

RE: REQUEST FOR WRITTEN PERMISSION LETTER

Morgan, Gareth G <Gareth.Morgan@shu.ac.uk>

Fri 10/6/2017 6:49 PM

To:Jobra Kisaku <jobra.kisaku@waldenu.edu>;

Cc:admin@ccab.org.uk <admin@ccab.org.uk>; jkmulumba@kisaka.ug <jkmulumba@kisaka.ug>; Jobra Kisaku <jobrakisaku@yahoo.com>;

Dear Jobra

Thanks for contacting me to seek permission to adapt the figure and the diagram you mention.

As the lead author of this publication, I am happy on behalf of myself and my co-authors for you to to re-use and adapt this figure and table, subject to the following conditions:

(a) Any adaptation must clearly state "Adapted from" and reference the original source document (Crawford, Morgan et al 2014 "International financial reporting for the
not-for-profit sector", London: CCAB)

(b) In the case of Figure 2.1 you should make clear that the original source was my book Morgan, GG 2013 "Charitable Incorporated Organisations" London: DSC (as noted in the figure).

(c) In the case of Table 2.1 you should make clear that the table was extracted by us from other sources, as indicated in the caption to that table.

(d) Any adaptation is only used in your academic research and not for commercial gain.

I hope this helps. Gareth Morgan

Gareth G Morgan
Emeritus Professor of Charity Studies and P/T Senior Lecturer
(Concerned with charity law & accounting UK-wide)
Sheffield Business School
Sheffield Hallam University City Campus, Sheffield S1 1WB
E-mail: gareth.morgan@shu.ac.uk
Twitter: www.twitter.com/charityprof
Blog: http://blogs.shu.ac.uk/charityprof

From: Jobra Kisaku [jobra.kisaku@waldenu.edu]
Sent: 30 September 2017 22:17
To: gareth.morgan@shu.ac.uk
Cc: admin@ccab.org.uk; jkmulumba@kisaka.ug; Jobra Kisaku
Subject: REQUEST FOR WRITTEN PERMISSION LETTER

Dear Gareth and all at CCAB

Please find the attached request letter for your kind consideration. Your positive response will be highly appreciated.