

**Literature Review****TRANSPARENCY AND ACCOUNTABILITY IN THE MANAGEMENT OF  
NONPROFIT ORGANIZATION FINANCES****Ellyn Citra Putranti**<sup>1)\*</sup><sup>1)</sup> STIE Kesuma Negara Blitar, Indonesia

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**ABSTRACT**

**Background.** Transparency and accountability in financial reporting are crucial aspects for nonprofit organizations, which will impact the public's perception of the organization, either positively or negatively.

**Research Purpose.** This study examines the importance of financial transparency and accountability in maintaining public trust in nonprofit organizations.

**Research Method.** A qualitative approach with descriptive methods is employed, gathering comprehensive data systematically, followed by qualitative analysis to achieve clarity of the research objectives. In conducting research, data collection is used using library research by studying scientific journals, research results and PSAK related to the problem of the object being studied. The sources used will be used as a guide and basis for this research

**Findings.** The findings indicate that accountability and transparency practiced by nonprofit organizations in publishing financial reports enhance public trust, leading to their prosperity and positively impacting their operational sustainability. Nonprofit organizations are not immune to major cases resulting from suspicion and mismanagement, thus maintaining financial accountability and transparency is crucial to prevent these challenges from undermining public trust and avoiding suspicion and mismanagement in their activities.

**Conclusion.** The research recommendation is to increase information to obtain more comprehensive data related to horizontal accountability. This can be achieved by adding data collection techniques such as distributing questionnaires to the public.

**Keywords:** Accountability, Financial Transparency, Nonprofit Organization.

**BACKGROUND**

The issues related to fraud can occur in all levels of an organization, ranging from top management or owners to even employees. Fraud, as described by Maliawan, involves actions that cause harm to others with the intent to benefit individuals or groups, which can be from within or outside the organization, and such actions are unlawful[1]. One common example of fraud is corruption. According to Jalil[1], fraud is not limited to profit-focused organizations but also applies to nonprofit organizations such as foundations, indicating that there is potential for fraud in nonprofit organizations as well. Therefore, the phenomenon of fraud issues highlights two key elements in nonprofit organizations: the principles of openness and transparency.

Financial disclosure or transparency is defined as a condition where financial information is presented in an easily accessible and transparent manner[2]. Additionally, in the journal [3], transparency is explained as one of the responsibilities of nonprofit organizations towards stakeholders, including members of the organization, supporters, beneficiaries, volunteers, members, cooperative organizations, and others.

Financial aspects represent one form of accountability for nonprofit organizations regarding organizational performance. Thus, the financial statements of nonprofit organizations and their alignment with facts serve as evidence that the organization's operations are consistent with its mission. Therefore, transparency and openness play a crucial role in nonprofit organizations because they have the following impacts:

1. **Building Public Trust:** By being transparent, nonprofit organizations can build honest and trustworthy relationships with the public, supporters, and donors.
2. **Demonstrating Accountability and Integrity:** Transparency leads to accountability, ensuring that nonprofit organizations are responsible for managing the funds they receive. It also strengthens the organization's integrity and reduces the risk of fund misuse.
3. **Attracting Donors and Supporters:** Nonprofit organizations with transparent and good financial openness are more likely to attract more donors and potential supporters. Donors tend to support organizations they trust and that provide tangible evidence of the positive impact they make.
4. **Maintaining Trust and Support:** Consistent transparency helps nonprofit organizations maintain public trust and gain ongoing support. This trust and support are essential for the organization's continuity and its ability to achieve its social goals.

According to [4], Nonprofit organizations are entities that can be owned by either the private sector or the government. The primary focus of nonprofit organizations is not solely to seek financial profit, but also to fulfill certain social or humanitarian goals. The concept of accountability reflects the level of responsibility demonstrated by officials towards the policies and processes of public services implemented by government bureaucracy [5].

In Indonesia, issues related to regional financial management are often associated with the practices of corruption, collusion, and nepotism (KKN), which can harm the economy and the welfare of the society. Therefore, it is important to enhance transparency and accountability in public financial management to ensure that public funds are used efficiently and responsibly in accordance with the overall interests of the community. This study aims to investigate the crucial role of financial openness and transparency in building and maintaining public trust within non-profit organizations, offering valuable insights to enhance organizational accountability and integrity.

## **RESEARCH METHOD**

Based on the research objectives, this research applies qualitative data collection methods. Data collection was carried out through a comprehensive literature review, by examining various scientific journals, research findings, and relevant accounting standards (PSAK or Pernyataan Standar Akuntansi Keuangan) relating to the specific issues being researched. These diverse sources formed the primary basis for constructing this research, providing valuable guidance and a strong foundation. The chosen approach for data analysis entails a qualitative method, which involves systematically organizing the gathered data and subsequently conducting in-depth qualitative analyses to elucidate and fulfill the research objectives effectively. This analytical process seeks to extract meaningful insights from the data, allowing for a nuanced understanding of the phenomena under scrutiny. Through this qualitative lens, the study aims to provide a robust and comprehensive exploration of the research topics, ultimately contributing to the advancement of knowledge in the field.

## FINDINGS

Nonprofit institutions or organizations are entities or collections of several individuals with specific goals and collaborate to achieve those goals. What sets nonprofit institutions apart from other organizations is their primary orientation not towards profit generation or accumulation of wealth alone, but rather towards fulfilling social, humanitarian, or charitable objectives, as stated by Pahala Nainggolan in 2005.

According to PSAK 1 [6], a nonprofit entity is defined as an entity that acquires resources from resource providers who do not expect repayment or economic benefits equivalent to the amount of resources provided. These nonprofit entities are usually established by the community or managed by the private sector. The funds obtained by nonprofit entities usually come from donors or contributors who do not expect any returns for their contributions.

Thus, nonprofit institutions or organizations play a vital role in society as they often address social or humanitarian issues that may be difficult or impossible for the private sector to tackle. Through their efforts, they contribute to the overall welfare of society.

Financial Position Statement, often referred to as the Balance Sheet, is a fundamental document in accounting that offers a snapshot of an organization's financial health at a specific point in time. It provides a comprehensive overview of the entity's assets, liabilities, and net assets, illustrating its financial position and solvency. The objectives of the Financial Position Statement extend beyond mere depiction; they encompass furnishing stakeholders with valuable insights into the entity's financial stability, liquidity, and overall viability.

This statement serves as a cornerstone for financial analysis, aiding investors, creditors, and other stakeholders in making informed decisions regarding their engagements with the organization. It offers transparency into the allocation and utilization of resources, facilitating comparisons with previous periods and industry benchmarks.

In delineating the classification of assets and liabilities, the Financial Position Statement aids in understanding the nature and composition of an entity's resources and obligations. Assets are typically categorized into current assets, such as cash, accounts receivable, and inventory, and non-current assets, including property, plant, and equipment. Liabilities are similarly classified into current liabilities, such as accounts payable and short-term debt, and non-current liabilities, such as long-term debt and deferred tax liabilities.

Moreover, the statement distinguishes between unrestricted net assets and restricted net assets. Unrestricted net assets represent funds that are available for general operational purposes and are not subject to donor-imposed restrictions. In contrast, restricted net assets are earmarked for specific programs, projects, or purposes, as stipulated by donors or regulatory requirements.

The overarching goal of the Financial Position Statement is to provide stakeholders with a clear understanding of the entity's financial standing, highlighting its strengths, weaknesses, and areas of opportunity. By presenting a transparent and accurate depiction of its financial resources and obligations, the statement enhances stakeholders' confidence and trust in the organization's management and governance. It fosters accountability, supports strategic decision-making, and ultimately contributes to the entity's long-term sustainability and success.

According to [7], the principles of transparency can be measured through several indicators, such as:

1. Mechanisms ensuring openness and standardization of all public service processes;

2. Mechanisms facilitating public inquiries about various policies and public services;
3. Mechanisms facilitating reporting, dissemination of information, or deviations in public officials' actions.

The management of finances in nonprofit organizations is regulated by PSAK45 [8] , which states that the characteristics of nonprofit organizations are:

- a. The resources of nonprofit entities come from donors who do not expect repayment or economic benefits equivalent to the amount of resources provided.
- b. They produce goods and/or services without the aim of accruing profit, and if they generate profit, it is not distributed to the founders or owners of the nonprofit entity.
- c. There is no ownership as typically seen in business entities, meaning that ownership in nonprofit entities cannot be sold, transferred, or redeemed, nor does it reflect the proportional distribution of the entity's resources at the time of liquidation or dissolution.

The primary objective of financial reporting according to PSAK 45 [8] is to provide relevant information to meet the needs of donors, members of nonprofit entities, creditors, and other resource providers to nonprofit entities. Financial statement users have a mutual interest in assessing:

- a. The services provided by nonprofit entities and their ability to continue providing these services.
- b. How managers carry out their responsibilities and other aspects of their performance.

In reality, nonprofit organizations have fewer standards compared to profit-oriented organizations. However, this does not preclude the possibility that nonprofit organizations also face challenges in carrying out their activities, one of the most immediate and crucial being maintaining accountability and transparency in financial reporting. This is because nonprofit organizations can be seen as organizations that "sell" trust to the public. The importance of accountability and transparency in nonprofit organizations includes avoiding suspicion and mismanagement in their activities. According to another research, it is important to build public trust to maintain good relationships both vertically and horizontally as a manifestation of accountability in both profit and nonprofit organizations[9]. The accountability and transparency demonstrated by nonprofit organizations in publishing their financial reports will increase public trust, making the nonprofit organization more prosperous and positively impacting its operational sustainability.

In nonprofit organizations, there is the possibility of significant cases due to suspicion and mismanagement, such as corruption, collusion, fraud, embezzlement, manipulation, and money laundering scandals. Therefore, maintaining accountability and transparency in financial reporting in nonprofit organizations must be considered to prevent these challenges from becoming threats that can undermine public trust. The fact that such cases can occur within nonprofit organizations is evidenced by the report by Duncan et al., on embezzlement cases in the United States, which states that nonprofit organizations account for about one-eighth of all major embezzlement incidents. With such cases, Duncan et al. conclude that nonprofit organizations provide insufficient accountability and transparency to the public. Financial reports of nonprofit organizations need to be published to every stakeholder, one of which is the community entitled to attention and benefits from every activity of nonprofit organizations.

In summary, the Financial Position Statement plays a pivotal role in financial reporting, serving as a key tool for assessing an organization's financial health, stability, and prospects. Its comprehensive presentation of assets, liabilities, and net assets empowers stakeholders to make informed decisions and ensures transparency and accountability in financial management.

## **DISCUSSIONS**

There are several ways to improve financial transparency, one of which is by providing easy access. For example, the community can access the financial reports of nonprofit organizations online through platforms like WhatsApp groups, Facebook, or other media. An example of transparency implementation commonly practiced in mosque nonprofit organizations is that each mosque can maintain the trust entrusted by the community by routinely disclosing financial reports. Mosque administrators also encourage the public to inquire about mosque finances and programs. Notice boards indicating donors who contribute money or materials to the mosque are supplemented with the date of donation, donor names, and donation amounts. Monthly financial income and expenditure reports are always posted on the mosque notice board. Special financial reports are sent to regular donors, and banners displaying the mosque's construction plans with information on the construction area and estimated costs are provided. Currently, computerized web-based management or development systems are crucial for donors to easily access and monitor the progress of nonprofit organizations.

The development of web-based computerized systems consists of several main components: personal computers for users, internet connections, web servers, web applications, and database servers. With advancing technology, one way to improve financial transparency in nonprofit organizations is by using Enterprise Architecture (EA) applications to support business processes and ensure alignment with organizational needs and information technology functions. According to another research, the use of EA is based on the condition that an information technology architecture encompasses the information systems and applications found within specific business units[10]. From various companies and of various scales, this method allows for tangible results. For large-scale companies, the complexity of the system greatly affects the information system to be built. Therefore, enterprise architecture must be standardized and integrated for all levels of the company. Without standardization and integration, a company or organization will create its own failures. Financial transparency like this makes it easier for nonprofit organizations to raise funds from the community. By implementing transparency, the management performance becomes easier to monitor, thus receiving praise for every good performance.

## **CONCLUSION**

This study highlights that nonprofit organizations generally have fewer standards than profit-driven ones, yet they encounter challenges, notably in maintaining financial accountability and transparency. Building public trust is crucial for both profit and nonprofit organizations. Nonprofit organizations can enhance public trust by transparently publishing financial reports, which fosters prosperity and operational sustainability. However, challenges such as suspicion and mismanagement may arise, emphasizing the importance of maintaining financial transparency to prevent these from undermining public trust. Future research should focus on obtaining more comprehensive data, possibly through questionnaire distribution, to assess public responses to financial accountability efforts by village governments.

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