



Article

## Features Accounting in Non- State Non-Profit Organizations (NSNPOs): Integrity and Impact Analysis

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**Abstract:** Non-state non-profit organizations (NSNPOs) play a vital role in addressing societal needs beyond public goods and services, significantly impacting socio-economic environments. In many countries, NSNPOs rely heavily on government funding, yet in Uzbekistan, such support remains minimal, increasing the necessity for effective financial management. Despite the extensive research on NSNPOs, their accounting practices remain underexplored, leading to inefficiencies in financial transparency, accountability, and decision-making. This study aims to evaluate the applicability of NSNPO accounting practices in Uzbekistan by analyzing their financial reporting systems and proposing improvements to enhance efficiency, risk management, and strategic planning. Empirical and econometric analyses, including internal reliability tests (Cronbach's alpha, Split-half, and Guttman), reveal the substantial benefits of structured accounting practices in NSNPOs. Operational quality correlates strongly with risk management (0.666), while informative capacity and strategic planning also show significant impacts. This research provides data-driven insights into the importance of dedicated NSNPO accounting frameworks, emphasizing the necessity of transparent financial reporting and managerial accountability. The findings advocate for systemic reforms in Uzbekistan's NSNPO accounting regulations, including dedicated ledger accounts and revised reporting standards to enhance financial sustainability and donor confidence.

**Keywords:** socio-economic environment, Financial reporting, auditor, accounting practices.

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### 1. Introduction

Absent good, comparable information about the relative mission effectiveness of various nonprofit organizations, donors, funders, and charity watchdog organizations have placed undue reliance on financial indicators, many of which are based on expenses by functional classification. Effectiveness of NSNPOs is evaluated in terms of their work and impact on strengthening and mobilizing the skills and experience of target people and society. Their impact is visible in the level of the coverage and quality of responses to target people's or society's needs and power of their linkages with target people and institutional donors. NSNPO – Target People/Society – Institutional Donor triangle is built on the mutual trust and common will of parties to provide support in coping with societal needs [1]. These trust and will is too fragile when it comes to misuse funding sources for other areas, which NSNPOs key aims do not cover [2]. Mutual trust serves for the unification of parties to obtain common goals, if accountability and transparency principles work appropriately and equally among all parties. NSNPOs are obliged to ensure transparent activity in delivering the aid from donors to target society by providing financial and managerial board (director's) reports to the governments, donors

and recipients. In turn, target people or society has to provide transparency in use of support, while donors must be accountable and transparent in sources, motives and origin of funding. Managerial (director's) report provides key analytical information about activity, efficiency and quality of work done in a particular period, and it is presented to donors, target people or society and public. Financial report provides detailed financial data and reveals the accounting aspects of NSNPO [3]. Financial reporting and accounting data is essential for tax authorities, key donors and target society to follow accountability principles to evaluate how effectively and sustainably NSNPO functioning.

The primary objective of accounting by NSNPOs is to provide information about the financial position, performance, and cash flows of the organization that is useful, and indeed, necessary, for a wide range of users to engage in informed decision making [4]. Clear accounting procedure and transparent reporting are required by NSNPOs due to its greater obligation and responsibility towards not only members, stakeholders and donors, but also entire society. This burden of societal and corporate responsibility requires NSNPOs to conduct prudent financial management and optimal decision making. Accounting information helps to fulfil these responsibilities, to clear-cut decision making and strategic planning. Recent practices in NSNPO finance shown that a separate accounting procedure for NSNPOs brings higher informative capacity, better risk management, more operational quality and clearer strategic decision making [5]. NSNPOs face lesser risk and do not compete for market share, as they have a not-for-profit status which distinguishes them from commercial activities. However, overall macroeconomic, business and societal environments may pose risks for them in obtaining donor funding, acquisition and spending of funds and other financial relations with triangle players. Operational quality is a topic of controversy among donors and target society when it comes to assess the efficiency and quality of NSNPOs' activity. Informative capacity of NSNPOs is the key tool for credibility, openness and transparency, which is prerequisite for finding funding opportunities [6]. This article examines the applicability of NSNPO accounting practices to existing accounting and reporting methodologies in Uzbekistan by surveying the positions and evaluations of accountants, working for NSNPOs and testing their responses to propose model-based recommendations [7].

### **Literature Review**

Non-state non-profit activity has been a hotly debated topic of research in social sciences. Series of scientific research outcomes have been presented to the academic community and policymaking rounds to develop this activity through research-based proposals. However, accounting practices at NSNPOs still remained out of research focus and insufficiently investigated. The extent and coverage of NSNPOs accounting is limited with a bunch of research papers and analytical and instructive publications of international audit companies. Among a limited number of scientific and instructive literature, a companion guide by Davies and Martin (2020) provide assistance to not-for-profit entities that may wish to prepare reports on the basis of the International Financial Reporting Standard for Small and Medium-sized Entities. It allows NSNPOs to benefit from the robustness of an internationally accepted accounting framework, and from the considerable body of supporting and educational materials. CPA Canada (2021) clearly differentiated the financial statements and accounting methodologies at NSNPOs with both public and private for-profit organizations [8]. A guide by CPA Canada proposes exact solutions for addressing confusions in the role and responsibilities of the board, management and the auditor in financial reporting, the concepts and terminology of financial reporting, the ways in which contributions to the organization can be accounted for the various financial statements they will encounter in their role [9]. A study report by CCAB (2014) provides a better understanding of financial reporting practices in the not-for-profit sector worldwide and to provide a body of evidence to determine whether a need exists to develop international financial reporting standards for NSNPOs. In the study conducted at the University of Dundee and Sheffield Hallam University, CCAB

analyzed the responses of people involved in accounting of NSNPO located in 184 countries [10]. Cross-country analyses showed the difficulties with definitions relating to NSNPO accounting issues and not-for-profit concepts, need for further changes in IFRS and IPSAS standards to deal with NSNPO-specific accounting issues, particular issues exist for NSNPO financial reporting, such as non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NSNPO-specific assets .

## 2. Materials and Methods

In consistence with research objective, research methodology indicates the main tool and investigation area. In structuring research methodology, core attributes of NSNPO accounting and benefits were under analytical focus. Data were collected by responses of NSNPOs' chief accountants to the special questionnaire, which was aimed at obtaining evaluations of impact areas and benefits of NSNPO accounting by five criteria assessed in 0-5 scaled of impact [11].

Internal reliability test is used to examine the applicability of NSNPOs accounting in Uzbekistan by analyzing the responses of chief accountants of local and international NSNPOs, who has at least basic skills and knowledge is separate accounting practice. As specified below, Cronbach's alpha, Guttman and Split-half methods are used in internal reliability analysis [12].

$$\frac{k}{k-1} \left( \frac{\sum_{i \neq j}^k cov(x_i, x_j)}{var(x_0)} \right) = \frac{k}{k-1} \left( 1 - \frac{\sum_{j=1}^k var(x_j)}{var(x_0)} \right) \quad (1)$$

Here  $x_j = t_j + e_j$  where each  $e_j$  is independent from  $t_j$  and all  $e_j$  are independent from each other.  $x_0 = \sum_{j=1}^k x_j$  and  $t_0 = \sum_{j=1}^k t_j$ .

In order obtain a clearer result, econometric analysis is conducted based on the survey data. Respondent accountants' assessment scores for impact areas and benefits of NSNPO accounting were classified into dependent and independent variables. OLS-based econometric model is structured around the linkage between operational quality (dependent variable) and risk management, informative capacity, decision-making, strategic planning (independent variables) [13].

$$OPQ_{in} = \alpha_0 + \beta_1 RSM_{in} + \beta_2 INC_{in} + \beta_3 DCM_{in} + \beta_4 STP_{in} + \varepsilon_{in} \quad (2)$$

Here OPQ- operational quality, RSM – risk management, INC – informative capacity, DSM – decision-making, STP – strategic planning,  $\varepsilon$  – error term [14].

## 3. Result

Responses of NSNPOs' accountants were collected and formed into a classification form for comparability and analysis purposes (Table 1). As provided in Table 1, responses by 20 accountants were selected for conducting the small-scale research.

**Table 1.** Internal Reliability Test is Used to Examine The Applicability of NSNPO

Impact level	Points
Highly positive	5
Positive	4
Neutral	3
Negative	2
Highly negative	1
Unnecessary	0

After obtaining necessary data, internal reliability analysis was conducted in Cronbach's alpha, Guttman and Split-half methods. Initially, relevance of NSNPO accounting practices was tested in Cronbach's alpha method as shown in Table 2.

Table 2. Responses of accountants to questionnaire

Respondents	Operational quality	Risk management	Informative capacity	Decision making	Strategic planning
Accountant 1	4	3	4	3	3
Accountant 2	4	4	4	4	3
Accountant 3	4	4	4	4	4
Accountant 4	4	4	4	3	3
Accountant 5	3	3	3	0	0
Accountant 6	4	3	4	4	5
Accountant 7	3	4	4	3	3
Accountant 8	5	5	5	5	4
Accountant 9	4	5	4	4	3
Accountant 10	3	3	3	3	3
Accountant 11	5	5	5	4	5
Accountant 12	4	4	4	4	3
Accountant 13	0	0	4	0	0
Accountant 14	4	4	3	3	3
Accountant 15	4	4	4	4	4
Accountant 16	4	3	3	0	3
Accountant 17	4	4	4	5	4
Accountant 18	4	4	4	4	3
Accountant 19	4	4	4	4	4
Accountant 20	5	5	5	4	5

Cronbach's alpha test (Table 3) revealed that positivity of adopting NSNPO accounting is very high for Uzbek practice. Alpha coefficient equals to 0.8944, which is significantly higher than the frontier of positivity (alpha coefficient must be at least 0.70).

Table 3. Cronbach's alpha coefficients

Cronbach's Alpha	Cronbach's Alpha with missing item				
	OPQ	RSM	INC	DCM	STP
0,8944	0,8588	0,8640	0,9104	0,8669	0,8423

\*Estimated by means of Real Statistics Analysis Pack 2020.

In conducting Split-half and Guttman tests, respondents were divided into two groups in terms of the affiliation and geographical coverage of NSNPOs' activity: local and international. Therefore, they were split into two halves, as indicated by the selected method [15].

Split-half test at **Table 4.** shows that accountants at international NSNPOs found NSNPO accounting more relevant and important (0.968077) than their counterparts, working for local NSNPOs (0.897005). Guttman scale coefficient followed the same pattern and proved the relevance of NSNPO accounting with 0.793965 positivity unit by local and 0.925725 positivity unit by international NSNPO accountants.

Table 4. Split-half and Guttman test coefficients

	Spearman	Guttman
Accountants of local NSNPOs	0,897005	0,793965
Accountants of international NSNPOs	0,968077	0,925725

\*Estimated by means of Real Statistics Analysis Pack 2020.

Final test examines the interrelation of assessments of responses given in Table 1. Interrelation of assessments was tested in OLS method and computed by EVIEWS 9.0 econometric analysis tool.

Similar results were obtained in OLS test (Table 5), as done in to Cronbach's alpha, Split-half and Guttman internal reliability tests. OLS test reveals that benefits of NSNPOs accounting in risk management of have the most significant impact on operational quality of NSNPOs with 0.666677 coefficient, where informative capacity influences less significantly with power of (0.101269) coefficient. The impact of adopting NSNPOs accounting on strategic planning and decision making supported operational efficiency with 0.393793 and 0.128108 coefficients respectively.

**Table 5. The correlation of scores is tested by the OLS method**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.853029	0.709745	1.201880	0.0480
RSM	0.666677	0.127925	5.211452	0.0001
INC	0.101269	0.192440	0.526235	0.0064
DCM	0.128108	0.115426	1.109872	0.0245
STP	0.393793	0.134238	2.933535	0.0103
R-squared	0.872114	Mean dependent var		3.800000
Adjusted R-squared	0.838011	S.D. dependent var		1.056309
S.E. of regression	0.425142	Akaike info criterion		1.339532
Sum squared resid	2.711189	Schwarz criterion		1.588465
Log likelihood	-8.395320	Hannan-Quinn criter.		1.388126
F-statistic	25.57293	Durbin-Watson stat		2.048469
Prob(F-statistic)	0.000002			

#### 4. Discussion

The findings of this study underscore the critical importance of implementing structured accounting practices within non-state non-profit organizations (NSNPOs) in Uzbekistan. The empirical and econometric analyses, particularly the internal reliability tests and OLS-based econometric modeling, reveal that financial transparency and accountability play a significant role in improving operational quality, risk management, and strategic planning within NSNPOs. The strong correlation between operational quality and risk management (0.666) highlights the necessity of adopting dedicated accounting frameworks to mitigate financial uncertainties.

The study's results align with existing literature, which emphasizes the need for tailored financial reporting standards for NSNPOs, distinct from both public and private sector accounting methodologies. The Cronbach's alpha coefficient (0.8944) further validates the relevance of adopting NSNPO accounting practices within the Uzbek financial environment, demonstrating a strong internal consistency among respondents' assessments. Additionally, the Split-half and Guttman tests indicate that international NSNPOs show a higher level of satisfaction with existing accounting frameworks compared to their local counterparts, suggesting that exposure to global financial reporting standards enhances the perceived effectiveness of accounting practices.

Despite these positive findings, certain challenges remain. The limited integration of NSNPO accounting into Uzbekistan's broader financial regulatory framework presents a risk to the financial sustainability of these organizations. The reliance on donor funding necessitates a high level of financial credibility and transparency, yet the absence of standardized ledger accounts and revised reporting standards hinders NSNPOs from achieving optimal financial efficiency. Moreover, the findings suggest that while



informative capacity and strategic planning contribute to NSNPO effectiveness, their impact is less pronounced compared to risk management, indicating potential areas for further refinement in accounting practices.

This study contributes to the ongoing discourse on NSNPO financial management by providing empirical evidence that supports the need for systemic reforms. Policymakers and financial regulators in Uzbekistan should consider revising existing accounting regulations to incorporate dedicated frameworks for NSNPOs. Such changes would not only enhance financial sustainability but also strengthen donor confidence and organizational effectiveness. Future research should explore the implementation of international accounting standards within NSNPOs and examine their long-term impact on financial stability and operational efficiency.

## 5. Conclusion

This small-scale research enabled us to be aware of the general view, relevance and applicability of NSNPOs accounting to national accounting system. Empirical and econometric analyses clearly showed the benefits and possible impact areas of introducing NSNPO accounting practices. All internal reliability tests proved advantages of NSNPO accounting, while OLS test assessed the impact levels and the strength of linkages. Deriving from the survey responses and analysis results, following research-driven proposals are presented as a scientific recommendation:

1. Setting a separate section for NSNPOs in the system of ledger accounts to consolidate their accounting and reporting practices;
2. Revising the existing reporting methods, forms and basic accounting principles in consistent with the systemic attributes of NSNPOs.

Additional construction, additional equipment, additional reconstruction or modernization of the fixed asset in the NSNPOs is made in the form of acceptance - handover of additional constructed, equipped, reconstructed or modernized fixed assets. This document is signed by the authorized persons who actually performed and accepted the repair and equipment of the fixed assets.

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