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Determinants of Accountability for Financial Management of Non-Profit Organizations in Indonesia with the Internal Control and Supervision Environment as Moderation Variables

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NGOs, Accountability, Environment Control, Internal Control.

ABSTRACT
This study aims to examine the determinants of financial management accountability in non-profit organizations. Utilizing a quantitative methodology employing Partial Least Squares (PLS) analysis, the study assessed 14 hypotheses, relying on coefficient values and significance levels for hypothesis validation. While the choice of analysis model and rationale behind its selection were not explicitly elucidated, the study ensured rigor through pilot testing of the questionnaire to establish validity and reliability. From 140 distributed questionnaires, 87 were returned, and 79 met the inclusion criteria for analysis. The findings suggest a significant positive influence of transparency, fund type, financial statement presentation, and accessibility on financial management accountability. Additionally, internal control factors such as transparency, fund types, financial statement presentation, accessibility, and internal supervision underscore the importance of these elements in bolstering accountability. However, it is noteworthy that the direct impact of the control environment on financial management accountability was not observed within the study's context. While the identification and operationalization of the studied variables were not extensively detailed, it is acknowledged that the relatively small sample size and the focus solely on non-profit organizations in Indonesia may constrain the generalizability of the findings. Nonetheless, this research provides valuable insights into the factors influencing accountability practices in NGO financial management, potentially benefiting stakeholders and contributing to the existing literature on financial management, particularly within the realm of non-profit entities.

INTRODUCTION

The field of accounting has evolved to encompass a broader spectrum, extending beyond conventional profit-driven entities to encompass government institutions and societal organizations within the contemporary framework (Ariffin & Milala, 2023; Schaltegger & Burritt, 2018). In the advent of Society 5.0, discussions and management efforts span across both for-profit and non-profit sectors, recognizing their vital roles in navigating heightened uncertainty and environmental volatility. Consequently, effective planning systems are imperative for non-profit organizations across all facets of operation. The significance of accounting in facilitating financial management is increasingly acknowledged by diverse stakeholders, spanning profit-centric enterprises to non-profit entities (Setyono & Kurniawan, 2023).

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Non-profit organizations do not focus on making a profit but on serving the community and realizing the welfare of the people (Yuanita & Suripto , 2022). Although such organizations are not for profit, they are still related to finance because they have a budget and pay for the organization's needs and other financial matters (Setyono & Kurniawan, 2023). Non-profit organizations obtain funds from donors who do not expect repayment or return of economic benefits proportional to the resources provided (Indonesian Institute of Accountants, 2012).

The 2021 Edelman Trust Barometer survey results show a low level of public trust in non-profit organizations in Indonesia compared to other institutions. Trust in NGOs only reaches 68%, while the media gets 72%, the government 70%, and the corporate sector gets the highest trust at 78% (Edelman, 2021). In line with the economic news revealed by Rustam Ibrahim in 2017, the low trust in non-profit organizations is caused by the lack of transparency and attractiveness to publish. Serlyeti Pulu, council director of non-profit organizations, also stated that the reduced public trust in NGOs was due to non-profit organizations' non-compliance with the principle of accountability. This indicates that non-profit organizations have not adequately implemented the principles of transparency and accountability in managing their programs (Siti & Prasetyono , 2017). Since January 1, 2020, it has required non-profit organizations to present their financial statements based on ISAK 35, and strengthened by the issuance of Foundation Laws and Regulations no. 28 of 2004 and Law No. 14 of 2008 concerning public information disclosure that demands accountability and transparency of non-profit organizations including Non-Governmental Organizations (NGOs) and foundations.

The focus of this study is centred on the concept of accountability in the financial management of non-profit organizations, taking into account the previous phenomenon that indicates that public trust in non-profit organizations is still low because the level of accountability of NGOs is not satisfactory (Dwangu & Mahlangu, 2021; Graham et al., 2023; Liu et al., 2024; Sarhan & Gerged, 2023; Tran et al., 2021). Researchers want to explore accountability practices applied in the preparation of financial statements of non-profit organizations because the main source of funding is grants or donations, so Its management must be carried out responsibly. Vertically, NGOs should be responsible for managing funds to donors, creditors, and the government, while horizontally, NGOs are responsible to the community (Yuanita & Suripto , 2022).

Donors expect NGOs to manage these funds responsibly, supported by a reliable financial reporting and control system. This study investigates and analyzes the determinants that affect accountable NGO financial management, including the type of tied funds, the level of transparency, the presentation of financial statements, and the accessibility of financial statements (Ang & Wickramasinghe, 2023; Cordery et al., 2023; Dewi et al., 2021; Girei, 2023; Pazzi & Svetlova, 2023). Previously, research on accountability in the financial management of non-profit organizations has been carried out such as in non-governmental organizations (NGOs), in addition some studies identify patterns of fraud in non-profit organizations (Evi Yuanita & Bambang Suripto, 2022; Nasyiduna Setyono & Puji Kurniawan, 2023; Sari et al., 2018; Yani & Fathmaningrum, 2023).

Previous studies obtained inconsistencies in the results. Some studies say that transparency, accountability, type of funds, presentation of financial statements, and accessibility affect the accountability of financial management On the other hand, several results show that these four variables do not influence management accountability (Ayu Sabriani et al., 2020; Evi Yuanita & Bambang Suripto, 2022). Previous studies also have limitations related to research samples, research variables, and the distribution of research areas (Achyani & Arfiansyah, 2019 ; Purnama sari et al., 2020). Therefore, the researcher suggested increasing the number of samples and digging into other research variables. The sample in this study has been expanded to non-profit institutions, especially NGOs and foundations, and the number of regional distribution has been added to several provinces or districts, namely Nusa Tenggara, Bali, Papua, Java, Kalimantan, Sulawesi, and Sumatra.

This study added environmental variables of control and internal supervision as moderation variables that researchers had never used. Researchers today use quantitative methods through surveys with the help of questionnaires because of their ability to use sophisticated statistical analysis. This allows researchers to identify patterns, trends, and relationships between variables with a measurable confidence level.

The formulation of the research problem is expressed through the question: Is the accountability of NGO financial management influenced by transparency factors, types of funds, presentation of financial statements, and accessibility, and whether the control environment and internal supervision moderate these factors to financial management accountability? This research has the potential to provide an in-depth understanding of the factors influencing accountability practices in NGO financial management. It can also provide valuable insights for stakeholders and contribute to the research literature in the financial management of public entities, especially NGOs.

METHODS

This study employed Partial Least Square (PLS) regression analysis to test all proposed hypotheses. Each hypothesis underwent analysis utilizing a Structural Equation Model (SEM) approach, facilitated by SmartPls 3.0 software, aiming to assess the relationships between variables. The inferential analysis adopted in this study is path analysis. As described by Ghozali (2015), path analysis extends the framework of multiple linear analysis, utilizing regression to estimate causal relationships between variables, as established by prior theoretical frameworks. Path analysis was chosen for its suitability in measuring moderation effects between variables. The analysis aimed to discern the relative influences of direct and indirect pathways, thereby determining the presence of mediating variables that either reinforce or attenuate the independent influence on dependent variables.

A total of 140 questionnaires were distributed to respondents between November 22, 2023, and December 15, 2023, resulting in 87 returned questionnaires. Among these, 8 questionnaire responses did not meet the predefined criteria and were consequently excluded from the study. Specifically, these 8 questionnaires were completed by organizations that did not align with the study's criteria. Therefore, the number of questionnaires eligible for processing amounted to 79.

RESULTS

The data analysis method used in this study is moderation analysis using SmartPLS 4.0, which aims to determine whether the moderating variable will weaken or strengthen the relationship between the independent and dependent variables. There are three stages in testing with moderation variables. Data analysis is carried out by entering all financial statement data and testing convergent validity, discriminant validity, and significance tests. Evaluation of the measurement model is the evaluation of the relationship between the construct and its indicators. PLS measurement evaluation models are based on predictive measurements that have non-parametric properties. The measurement model or outer model with formative indicators is evaluated with convergent and discriminant validity of the indicator and composite reliability for indicator blocks (Sholekhah, 2018).

Based on the output, an R-Square value of 0.798 indicates that the variability of the profit management construct can be explained by the managerial ownership construct, the size of the board of directors, the size of the company, financial distress, and its interaction with 79.8% for endogenous latent variables in the structural model identifies that the model is good. While 20.2% was explained by other variables not contained in this study (Testing through smartPLs is in the appendix). After modifying the model to obtain the best model, the following structural model is obtained:

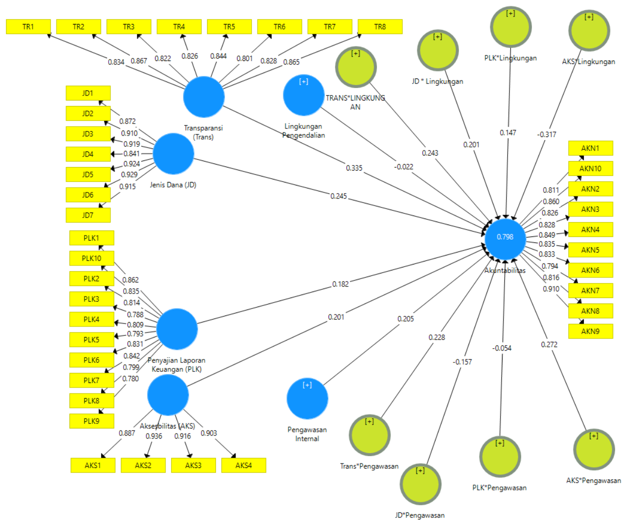

Figure 1. Structural Relationship Model
Source: Smart PLS processing results in version 4.0 (2023)

Table 1. Test the Hypothesis of Patch Coefficients

HYPOTHESIS	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STD)	P Values	KET
Transparency (Trans) -> Accountability	0.335	0.309	0.100	3.342	**0.001**	Accepted
Fund Type (JD) - Accountability >	0.245	0.268	0.086	2.839	**0.005**	Accepted
Presentation of Financial Statements (PLK) -> Accountability	0.182	0.176	0.082	2.219	**0.027**	Accepted
Accessibility (AKS) -> Accountability	0.201	0.189	0.088	2.278	**0.023**	Accepted
TRANS*ENVIRONMENT -> Accountability	0.243	0.213	0.096	2.524	**0.012**	Accepted
JD * Environment -> Accountability	0.201	0.220	0.086	2.325	**0.020**	Accepted
PLK*Environment -> Accountability	0.147	0.122	0.093	1.574	**0.116**	**Rejected**
AKS*Environment -> Accountability	-0.317	-0.285	0.116	2.736	**0.006**	Accepted
Trans*Supervision -> Accountability	0.228	0.225	0.088	2.587	**0.010**	Accepted
JD*Supervision -> Accountability	-0.157	-0.157	0.129	1.217	**0.224**	**Rejected**
PLK*Supervision - Accountability >	-0.054	-0.024	0.098	0.558	**0.577**	**Rejected**
AKS*Supervision -> Accountability	0.272	0.223	0.111	2.452	**0.015**	Accepted
Control Environment -> Accountability	-0.022	-0.023	0.084	0.258	**0.796**	**Rejected**
Internal Control -> Accountability	0.205	0.219	0.089	2.294	**0.022**	Accepted

Source: Smart PLS processing results version 4.0 (2023)

Discussion

H1: Financial Management Transparency and Accountability

The significant positive influence between transparency and accountability of financial management shows that when an organization or entity implements transparency in its financial reporting and financial actions, it will be easier for related parties, including stakeholders, to understand and verify the financial information. Financial management accountability increases because transparency creates a more open and accountable environment, giving stakeholders confidence that funds and resources are being managed honestly and effectively. In line with the research carried out, the transparency factor positively affects the accountability of village government (Mualifu & Guspul, 2019; WEINARD, 2022)

H2: Types of Funds and Accountability for Financial Management

The existence of a significant positive influence between the type of funds and accountability of financial management shows that different sources of funds can affect the level of accountability in financial management. Perhaps certain types of funds have certain requirements or criteria that increase accountability. Accountability of financial management may increase due to conformity and compliance with the specific requirements of the type of funds used. This is supported by the provisions of Foundation Law No. 28 of 2004. Like the party responsible for funds, NGOs whose majority of funding comes from donors with the type of tied funds will try to improve accountability of their financial management so that stakeholder trust in NGOs is maintained. The use of tied fund types as a new variable in this study has proven relevant as a determinant of accountability for NGO financial management, aligning with the concept of stewardship theory.

H3: Presentation of Financial Statements and Accountability of Financial Management

The significant positive influence between the presentation of financial statements and accountability of financial management shows that the way financial information is presented plays an important role in shaping perceptions about transparency and quality of financial management. Financial management accountability can increase because the presentation of clear and accurate financial statements can provide a better picture of financial performance and fund management. The high quality of the presentation of financial statements of NGO organizations can create a high level of accountability for financial management. This is in line with what was stated by those who provide evidence that the presentation of financial statements positively impacts financial management accountability (Ayu Sabriani et al., 2020; Yuli et al., 2023).

H4: Financial Management Accessibility and Accountability

The significant positive influence between accessibility and accountability of financial management shows that the availability of financial information to stakeholders can easily increase understanding and evaluation of financial management. Financial management accountability can increase because stakeholders can easily access and understand the financial information needed to evaluate financial performance. In line with research conducted by Dan, who argues that accessibility affects the accountability of financial statement management Reza Fauziyah (2017)Paramayana et al., (2022).

H5: A strong control environment can improve an organization's ability to manage transparency, funding types, and accessibility more effectively

With good internal controls in place, organizations can ensure that policies related to transparency, funding types, and accessibility are applied consistently, and this will be reflected in increased accountability of financial management. A controlled environment that does not moderate the relationship between the presentation of financial statements and the accountability of financial management can be caused by a lack of direct linkage between internal controls and the practice of presenting financial statements.

Strong internal oversight can create an environment where transparency and accessibility are easier to monitor and implement. An effective internal oversight process can provide confidence that transparent and accessible information is properly managed and accountability is maintained. Internal oversight helps ensure transparency and accessibility policies are effectively implemented, builds stakeholder trust, and supports better accountability. Effective internal oversight ensures that transparency and accessibility are implemented by established standards and policies, providing a strong foundation for financial management accountability. The internal control process is not specifically focused on the type of funds or the presentation of financial statements, so it does not moderate the relationship between these variables and financial management accountability.

H6: Other factors such as transparency, funding type, or accessibility

These factors have a more dominant influence on the accountability of financial management. In contrast, the direct influence of the control environment is displaced by the influence of other more significant variables. A significant positive influence between internal supervision and financial management accountability shows that a strong internal control system can help ensure that the financial management process is carried out effectively and following established policies and procedures. Financial management accountability can increase because internal control helps prevent or detect errors or violations that can harm the organization

CONCLUSION

This research demonstrates that transparency, types of funds, presentation of financial statements, accessibility, control environment, and internal supervision significantly impact financial management accountability within NGOs. These factors play a pivotal role in enhancing comprehension, verifying information, and improving the quality of financial management, consequently bolstering accountability. Although the control environment doesn't directly moderate the relationship with the presentation of financial statements, internal control remains crucial in ensuring the effective execution of financial management processes in alignment with policies, thereby augmenting financial management accountability across different NGO settings. Future studies could delve deeper into analyzing variables that potentially moderate the relationship between specific factors and financial management accountability, offering a more nuanced understanding of moderation's role. Researchers have the opportunity to build upon this groundwork, contributing further to the comprehension of the factors influencing financial management accountability in diverse organizational landscapes.

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