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Exploring Risk Management Disclosure Practices In Non Profit Organisations In Malaysia

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Abstract

This study examines the extent of risk disclosure of NPOs in Malaysia. The level of risk disclosure examined is based on six main risks; organizational risk, operational risk, compliance risk, financial risk, reputation risk and money laundering risk. The extent of risk disclosures are examined based on content analysis of annual reports of 50 NPOs registered under Companies Commission of Malaysia (CCM) as Companies Limited by Guarantee (CLBG) that had been chosen randomly for the financial period of 2011. The result of this study found that most of the organisations are more motivated to disclose financial item in order to comply with mandatory requirements of the financial reporting requirements and other regulatory requirements in Malaysia. However, there are lower incentives for voluntary disclosures under governance, operational, compliance, reputation and money laundering risks. Overall, the statistical results from six variables had indicated that there is lack of risk disclosure item reported in the annual report and it will increased the likelihood of risks that may harm the organisations. This study provides a significant feedback to NPOs in Malaysia to analyse the level of risk they exposed to as well as to formulate the best strategy in tightening their risk management as an early prevention to the likelihood of fraud occurrences. Besides, this study can help to facilitate the regulatory body such as CCM in formulating new requirements, policies, procedures, and guidelines and also to facilitate them in revising and strengthening the existing regulation for organisation to establish NPO and law enforcement in deterring fraudulent activities.

Keywords: Non-profit organisations, Unique Risks, Organizational Risk, Operational Risk, Compliance Risk, Financial Risk, Reputation Risk, Money Laundering Risk

1. Introduction

The increasing complexity of the economic environment has attracted considerable attention of various stakeholders with regards to risk management practices by organisations. In line with this growing concern, there have been many calls to reduce information asymmetry between relevant stakeholders and the providers of the risks related information (Oliveira et. al, 2011). The information on risks will allow relevant stakeholders to assess management effectiveness in dealing with uncertainties and opportunities faced by entities (Lajili and Zeghal, 2005). Hence, it is important that management discloses adequate information on the various types of risks faced by an entity. The importance of adequate information on risks has prompted a large body of research on the adequacy of such information in meeting the needs of the various stakeholders (Abraham and Cox, 2007; Lajili and Zehgal, 2005 and Oliveria et. al, 2011). These studies provide inconclusive evidence with regards to the adequacy of risk disclosures for the information needs of stakeholders. In addition, most of these studies focus on risks disclosure by for-profit organisations. Hence, this study focuses on risks disclosures by non-profit organisations (NPO). These organisations operate in an atmosphere of public trust, less stringent regulatory requirements, difficulty in verifying certain revenue streams, weaker internal controls, lack of business and financial expertise relative to for-profit organizations. In addition, the increasing occurrences of fraud and abuse in the non-profit sector (Greenlee et.al, 2006) highlighted the various types of potential risks faced by NPOs in meeting their social objectives.

In managing the risks effectively, it is paramount that managers and board members of NPOs understand the principle risks faced by their organisations. This will allow them to focus on key risks issues and in turn manage these risks effectively. Therefore the main objective of this study is to assess the types of risk disclosures in annual reports of NPOs in Malaysia. The findings are expected to provide useful information on the types of risks these organisations are exposed to. This in turn can facilitate regulators in enhancing transparency with regards to risks disclosures by NPOs.

2. Literature Review

2.1 Risk Management

For-profit and NPOs alike are exposed to various types of risks. Generally, risk can be defined as any threat to the success of an organisation or threat to the organisation in achieving their missions and have adverse impact on objectives (Laroche and Corbett, 2010). Hence, it is the responsibility of the management to identify the risk as well as to control the risks that the organisation faces, i.e. managing the risks (HM Treasury, 1997). Hence, risk management can be defined as a process of managing the likelihood that something bad will occur.

It was believed that the commencement of research on risk management was after 1955 (Dione, 2013). Risk management is a process of identifying the risk that could be attached to the activities or actions of organisation (AIRMIC, 2002). According to The OurCommunity team (2005), they also argue that risk management is a systematic process of identifying the possible risks before it could happen and also identify the control that could help in deterring and mitigating the risk. In line with this, EA Insurance (2011) stated that there are several steps in risks management. First is to identify the risk area; second is to analyse the risks; third is to evaluate the risk; forth is to treat the risk properly and the last step is to monitor and review the risk. As the term of risk management can be define as a management of risk in an organisation, the objective of risk management is to help an organisation in handling risk in organisations and uncertainty (Dione, 2013). Other than that, AIRMIC (2002) stated that good risk management involve the identification and the treatment of each risk identified. Besides, it should be on going and emerging processes that run all the way through the organisational strategy as well as the implementation of the strategy.

According to Laroche and Corbett (2010), there are several tips that NPOs can follow as part of risk management process. First, is to make it clear to volunteers and staffs regarding their priority as NPOs objective is to guarantee the welfare of their members. Second, is by having experts in risk management in the organisations where volunteers and staffs need to know well how to manage risks in their organisations. Third, is to create organisational written procedure to ensure the consistency as well as to ensure that monitoring is done properly. Fourth, is to keep it simple so it is clear or easy to read and understand. Finally, documentation of the relevant strategic actions. As in Young (2009) study, effective risk management is a base for good functioning in organisation. Laroche and Corbett (2010) in their study also argue that most risks can be mitigated if there is a proactive plan of risk management implemented in the organisation.

2.2 Importance of Risk Management in NPOs

According to Young (2009), the importance of risk management in NPOs are based on two reasons (Young, 2009). First, NPOs want to protect themselves as well as counter the adverse outcomes that can threaten the survival of their organisations and the ability to achieve their mission. Second, is related to the alternative means of achieving their mission where it is believed that greatest impact will incur high risk. Hence, in order to succeed, NPOs need to find a balanced mix of risks and returns.

The proverb said "failing to plan means planning to fail" applies to risk management. According to Laroche and Corbett (2010), planning is important where it can help organisations in dealing with the sudden crisis or emergency that may occur in their organisations. Every NPOs should have emergency action plans where each plan will identifies the person who will be in charge for that crisis or emergency, who will be harm from the crisis and what is the action to be taken. This is really important because the consequences of the risk could damage the image and reputation of the organisations.

In addition, it is good for organisations to have risk management plan because effective risk management plan will lead to strong correlation between risk management and good governance, ethical orientation, effective conflict resolution, thorough policies and organisation profitability. Concurrently, these organisations could attract skilled and experienced board members, staffs and volunteers in meeting their social objectives. Furthermore, in order to give assurance and improve confidence level of stakeholders towards the organisation, there is no better way other than good risk management. With a sound risk management plan, the organisation will have ample time to carry on with the activities in the organisation rather than responding reactively to the sudden risk occurring in the organisation (Laroche and Corbett, 2010).

2.3 Unique Risks in NPOs

There are various types of risks faced by NPOs due to their characteristics, such as non-profit maximisation, types of funding and employees on voluntary basis. These characteristics expose NPOs to risks that are unique and may differ from risks exposure in for-profit organisations (The OurCommunity team, 2005).

Risks can be classified into two major risks, internal and external risks. Internal risk is associated with factors within the organisation that can be controlled while external risk is associated with factors outside the organisations and beyond the control of the organisation. Generally, the risks faced by NPOs are diverse in terms of categories of risks, depending on the type and size of organisation, the charitable activities and the growth experience of each NPO (Zurich, 2008).

According to CBIZ (2012), as for profit and non-profit organisations face different risks, generally there are several unique risks that all non-profit faces. It includes funding risk and declining non-financial support especially during economic downturn, competition between other non-profit organisations when there is limited funding the opportunity for them to get funding as more organisations compete for the limited funding, regulatory pressure due to the increase in the number of NPOs and increasing fraud incidences in the NPO sector, more stringent regulatory requirements. The extent of disclosures in annual reports of societies in this study is measured based on a self-constructed index. Based on previous literature on risks in NPOs (e.g. CBIZ, 2012; EA Insurance, 2011), mandatory disclosures as required by the Societies Act 1966 and recommended practices in other countries. This study measures the extent of risks disclosure based on self-constructed index. The list of items included in the index is as shown below:

Table 1: NPO Risk Disclosure: examples of disclosure items

1	***GOVERNANCE RISKS***
	Vision and Mission
	Code of Conduct
	Board of Directors
	Size of Board
	Skills and experience of BOD
	Diversity of boards
2	***OPERATIONAL RISKS***
	Employee
	Staff training
	Employee benefits
	High Employee Turnover
3	***COMPLIANCE RISKS***
	Annual General Meeting
	Application to collect donation from public
	Approved Accounting Standards (FRS / PERS)
4	***FINANCIAL RISKS***
	Funding of Resources
	Revenue Concentration
	Cash
	Financial Risk Management
	Summary of risk management policies
	Information about risk & Management of the risk mentioned
5	***REPUTATION RISKS***
	Growth -Revenue
	Delivery of Services
	Objective of Activities
	List of Activities of the Year
	Budget for Next Year
	Outcome
6	***MONEY LAUNDERING RISK***
	List of the Subsidiary
	Principal activities of the Subsidiary

Donor	
List of Donor	
Donation Distribution	
Specification of donation received (cheque / cash)	
Anti-Fraud Policy (AMLATFA)	

2.3.1 Governance Risks

The term governance can be defined as the act of governing where the main focus is on the boards of directors' fiduciary responsibility towards the organisation mission and to those involve in the organisation. According to Zurich (2008), this includes unstructured organisational structures that can lead to difficulty in organisation to accomplish its mission, problem in recruiting suitable qualified directors that can lead to lack of skills and experienced directors to manage the organisation and there is also a possibility of conflict of interest if the directors are family members.

Based on Laroche and Corbett (2010) study, it is important to have clear vision and mission in each organisation. This is because organisation with clear vision and mission is expected to receive support from members that will deliver this vision and mission to the community and will put in efforts to fulfil the mission. In addition, it is also believed that NPOs with clear vision and mission will be more attractive to the community and will be able to retain good people in the organisation.

Gilman (2005) argues that codes are designed for those people that want to act ethically in their work and not for "bad" people. According to Allison (2010), each NPO must have a formal code of ethics adopted in their organisations which is familiar to them and can be adhered among their boards, staff and volunteer. Besides, Laroche and Corbett (2010) also emphasize the importance of code of conducts among staff and members in the organisations in disciplining them to abide by the rules.

Both small and large size of board had negative and positive impact according to the size and goals of the organisation. According to Mckinsey (2003), it is really important to organisations to find a balanced size of board, not too large or too small. This is because large or small size board has their own advantages and disadvantages in any organisations. For instance, larger board might have broad network among donors and volunteers and also had diversity of expertise relative to smaller board. On the other hand, it can be easier for organisation to manage smaller board and to get effective and timely decision making as compared to larger board. A diverse board also includes diverse skills and experiences and this can facilitate NPOs to identify, analyse, treat and monitor the possible risks, such as financial, human resource and legal aspects (Laroche and Corbett, 2010). According to Ansari (2010), to ensure the organisation operates effectively and efficiently, board of directors in NPO should include individuals with diverse skills, knowledge and abilities. In summary, in measuring governance risk disclosure in each NPO, the following items are selected, disclosure of vision and mission, code of conducts and boards composition including size of board of directors, skill and experience boards and diversity of boards.

2.3.2 Operational Risks

Operational risk involves the disruptions of day to day activities in organisation due to the failure of the systems or process that will lead to the potential loss of productivity. According to Sultana, Irum, Ahmed and Mehmood (2012), training is one of the major influences to the organisational success. This is because staff training can produce competence and capable staff in optimizing their contribution parallel to the organisations goals. Besides, as training can result in improvement in the level of skills, knowledge, ability, competency and behaviour among the staffs, it is argued that organisation that train their staff can operate effectively rather than organisation that do not (Sultana et. al, 2012; Appiah, 2010). Furthermore, in order to achieve organisation's objective, it is very important to train staff or volunteer in order to raise their awareness towards risk and how to manage risk. This is because, there are cases where organisation encountered fraud, many staff or volunteer are surprised as they were unaware of fraudulent activities (CIMA, 2004). Hence, training could reduce the risk of operation in organisations.

Next, according to Tippet and Kluvers (2009), one of the morale boosters to the staffs is to work more and efficiently is monetary rewards. Sultana et. al (2012) also argues that salary is one of the essential factors for staff to improve their work performance and it is also believed as one of the strong reason to the staff to leave or stay in organisation. As the salary is one of the essential factor to motivate staffs to work effectively, it is necessary for every organisation to pay staff a reasonable salary based on their level of skills and knowledge to avoid the disruption of day to day operations (Tomkinson, 2012).

According to Midkiff (2004), high turnover of employee can be one of the risk indicators. Tariq, Ramzan and Riaz (2013) stated that the reasons for high employee turnover in organisations are due to job dissatisfaction, unreasonable salary, workload and work stress. There are several study that claim high turnover rate among staffs in organisations can result in poor organisational performance with consequent financial loss (Bax and Glebbeek, 2002; Tariq et. al, 2013). Butali, Wesang'ula and Mamuli (2013) also claims that high turnover among staffs can affect the smooth running of the organisation operation where it could lead to the loss of productivity, profitability, skills and competencies as well as corporate knowledge. Besides, staff turnover can also disrupt day to day operations in the organisations because all the work supposed to be completed by the former staffs will now be transferred to other remaining staffs before new staffs are appointed. This could lead to increase workload to the remaining staffs and hence could affect staff performance. Overall, this study identifies operational risk disclosure based on employee effectiveness (i.e. staff training, employee benefits and employee turnover).

2.3.3 Compliance Risks

Compliance risk may exist when everyone in the organisation do not understand the obligation to comply with established standards, and that organization do not have an effort to make sure everyone in the organisation understand their obligations towards that standard and do not take actions to enforce that standards. Compliance risk also could result to fines and penalties from regulators due to insufficient compliance systems in the organisation. In Malaysia, according to the Companies Act 1965, the mode of funding for every Company Limited by Guarantee (CLBG) is through donations, membership fees and other income and yet the highest source of funding is from donation. Hence, each NPO is required to get permission from the minister to collect donation from the public. In addition, based on Companies Act 1965, Section 143 (1), each NPO is required to hold annual general meeting (AGM) at least once in a year and failure to do this indicates that the organisation does not comply with the requirements. In relation to preparation and presentation of financial statements, NPOs are required to comply with Financial Reporting Standards (FRS) and again failure to comply with these standards indicates non-compliance. Hence, this study identifies compliance risks as: approval from minister towards application to collect donation from public, holding annual general meeting (AGM) at least once a year and compliance with approved accounting standards (FRS).

2.3.4 Financial Risks

Financial risks involve failure by organisations to manage their financial resources effectively and this could lead to financial loss. According to Zurich (2008), financial risk can be detected based on the accurate and timely financial information, a variety of income sources, sufficiency of reserves and cash flow and investment policies. In addition, CIMA (2008) identify several indicators that can be used as a warning sign to the likelihood of financial risk; there are complex transactions, rapid increased or decreased in profitability, complex organisational structures, management pressure to get additional finance to support their organisation.

According to Trussel (2002), organisations are less vulnerable to financial risk if they have multiple revenue sources instead of fewer revenue sources. In other words, during any financial shocks, an organisation can continue to operate as usual without reducing the service offered if they have multiple revenue sources. This is because, during financial shocks, organisation with multiple revenue sources can rely on other alternatives sources of income rather that cut back their service offered and hence reduce any possible impact that will organisation face from the financial shock (Tuckman and Chang, 1991). In addition, Chen (2010) argue that during economic downturn, for NPOs that rely on one source only especially donation, will place their organisation under pressure due to the decline in donation received from corporate donors, private donations and individuals.

In relation to NPOs that received substantial amount of cash could be exposed to theft by trustee, employee and volunteer. According to Matan and Neier (2009), one of the most common major frauds in NPOs is misappropriation of assets. The fraud includes cash misappropriation involving the theft of fund in the organisations (Greenlee, Fischer, Gordon and Keating, 2006; Matan and Neier, 2009). In Matan and Neier (2009) study, it is also claimed that 95 per cent of assets misappropriations cases involve cash misappropriation. Includes in the cash misappropriation are skimming where the cash stolen before it is recorded, larceny where cash stolen after it is recorded and fraudulent disbursements that involves paying an expense that is not billed, paying an overstated invoice, fabricating expenses or paying to ghost employees (Greenlee et al, 2006). Hence, the more cash is received and handled by organisations, the more vulnerable the organisations to the risk of cash stolen by people inside the organisations. Hence, this study identifies the following financial risk disclosure; revenue concentration which shows the variety of revenue in NPOs, the average amount of cash that handle by NPOs and financial risk management in NPOs including the information regarding the risk and how the NPO manage the risk.

2.3.5 Reputation Risks

Good reputation allows NPOs to attract donors to donate to their organisation and maintain their board members and staffs. According to Laroche and Corbett (2010), reputation risk is the risk of organisation expose to reputation damage due to the consequences of the risk. As the consequences of the risk could damage the image and reputation of organisations, it needs to be mitigated. It is argued that, all donors will look at the good and steady growth of the organisation to donate to ensure their donation is used wisely.

Based on anonymous (2013) studies, as the organisations need to have continuous and steady growth to ensure their continuity of life, it also can be one of the motivation factors for manipulation of financial statement. Besides that, according to Laroche and Corbett (2010), before donors make a decision to donate in any organisation, they will look at the revenue growth. This is because the unsteady organisation will bring suspicion to the donors towards the current situation in the organisation. Hence, the revenue growth could lead to doubt among donors and attract attention among parties involved such as media and local community towards their credibility and sustainability.

Other than that, delivery of services can also be as one of the indicator to the reputational risk. This is based on Baba and Ishida (2012) study that found donors in Japan is more interested to know the organisation's goal, activities and outcomes. This is because organisations that disclosed details of their goal, activities and outcomes in annual report are more transparent on their activities rather than organisations that do not. Hence, it will increase the organisations reputation among others potential donors and other parties and attract more donors. This is because as they know the information regarding what is the organisations activities, what is the purpose of the activities, the budget for the activities and the outcomes from the activities they will feel more secured to donate as they know how their money is utilized. Hence, this study identifies reputation risks as growth of revenue and delivery of services.

2.3.6 Money Laundering Risks

NPOs are known to the public as an organisation that depend on the contribution from members and public and they regularly process substantial amount of cash daily and may transfer funds across various jurisdictions. Bricknell (2011) argue that NPO generally operates under less formal and less stringent supervision as well as less rigorous administrative and financial management. Hence, NPOs are exposed to the risk of money laundering and terrorism financing.

According to Australian Transaction Reports and Analysis Centre (2008),'money laundering' is a process of creating the appearance of the illegal proceeds obtained from illegal activities such as smuggling, drug trafficking and corrupt practices originated from legitimate source. In NPOs, it can be argued that the misuse of NPO as a money laundering platform have been a long-established practice (Bricknell, McCusker, Chadwick and Rees, 2011).

Realizing the adverse effect of money laundering and terrorism financing activities towards the country as well as the economy, the government has made significant progress in the fight against money laundering and terrorism financing. In Malaysia, the introduction of Anti Money Laundering Act 2001 (AMLA) and the establishment of the Financial Intelligence Unit of Bank Negara Malaysia (Said, Ghani, Omar and Syed Yusuf, 2013) are mechanisms to mitigate money laundering and terrorism financing risks. Hence, this study identifies this risks based on list of subsidiary if there is a subsidiary under the NPO, principal activities of the subsidiary and information regarding the donor such as list of donor, how the donation is utilized and how the donation is received by the NPO, whether by cash or cheque.

3. Methodology

This study is about the risk disclosure index in non-profit organisations (NPOs) in Malaysia. The study population consists of all NPOs registered under Companies Commission of Malaysia (CCM) as a Companies Limited by Guarantee (CLBG) for the financial year end 2011. A list of CLBG is available from CCM and as on August 2013, a total of 994 companies were registered under Companies Commission of Malaysia (CCM) as a Companies Limited by guarantee (CLBG).

The sample consists of 50 CLBG registered under Companies Commission of Malaysia (CCM) for the financial year end 2011. Data for examination of NPOs actual reporting and disclosure practices are randomly collected from a sample of 944 organizations registered with the Companies Commission of Malaysia (CCM) for the financial year 2011.According to Sekaran and Bougie (2011), by using the simple random sampling, all elements in the population are already considered, where each element has equal chance and possibility of being chosen as the subject.

In this study, the research approach involves is the content analysis of NPO's annual reports. Content analysis has been widely employed in prior studies to measure voluntary and mandatory disclosures in annual reports (Hackston and Milne, 1996; O'Donovan, 2002). The scoring approach used in this study is based on a dichotomous measure where an item scores a one if it is disclosed and a zero if it is not disclosed in the annual report (Cooke, 1989).

The extent or level of risk (Risk Disclosure Index) in this study is measured using a self-constructed index. The identification of items to be included in the index is guided by the review of prior studies relevant to risk disclosure in NPOs as required by the Companies Act 1965 and recommended practices by various regulatory authorities.Each item disclosed have been measured by taking the value of "1", if the NPOs had disclose the item and "0", if the organisations had not disclosed the items towards the requirement by the Companies Act 1965 and recommended practices by various regulatory authorities.

For each NPO, the extent of disclosure is calculated as a ratio of the actual score awarded to the NPOs divided by the maximum potential score awarded to those NPOs. The extent of disclosure is calculated as follows.

$$RDI = \frac{\sum_{i=2}^{n_j} x_{ij}}{n_j} \tag{1}$$

Where n_j= number of items expected for j^{th}organisation, $n_j$is ≤ 25,

X_{ij} = 1 if i^{th}item disclosed and 0 if i^{th}item not disclosed,

So that $0 \leq I_j \geq 1$

4. Analysis and Results

In this part, descriptive statistics for six type of risk being used in this study were discussed. Table 4.1 presents the summary of the descriptive statistics, which includes the minimum, maximum and mean for each risk. Minimum and maximum values represent the lowest and highest value appears in a set of data and means represent the average value of the variables disclosed (Sekaran and Bougie, 2011).

4.1 Extent of Accountability Disclosure Practices of NPOs

There are six variable in this study which are governance risks, operational risks, compliance risk, financial risks, reputational risks and money laundering risks. Table 4.1 presents the descriptive statistics of size of the organizations in the sample of study and Table 4.2 present the descriptive statistics for the overall extent of the risk disclosures.

Table 4.1 reported that the mean values for size based on total revenues are 11,925,587.64. The maximum values for size based on total revenues are RM191, 763,048. These results indicate that the size of the organisations included in the sample of study is relatively large with revenue of more than RM500, 000. Prior literatures on disclosures (Haniffa and Cooke, 2005) state that larger organisations are expected to disclose more comprehensively in their annual reports.

Table 2: Descriptive Statistics for Size Based on Revenue

	Minimum	**Mean**	**Maximum**
Total Revenues (RM)	5,139.00	11,925,587.64	191,763,048.00

In relation to the vulnerability of organisations towards risks, the mode value of "0.00" or near to "0.00" indicates that most of the organisations are vulnerable towards risks and the mode value of "1.00" indicates most of the organisations are less vulnerable to the risks. From table 4.2, it is reported that the mode value of "0.00" for operational risk and money laundering risk, "0.20" for governance risk, "0.33" for compliance risk and "0.40" for reputation risk indicates that most of the organisations is vulnerable towards that risks and the mode value of "1.00" indicates most of the organisations is less vulnerable to the financial risks.

Basically, the descriptive statistics for each variable were analysed using their mean score. Table 4.2 reported that the minimum value or the lowest value of the six variables was 0.00 for governance, operational and money laundering risks, 0.33 for compliance risk, 0.25 for financial risks and 0.20 for reputation risk. While for the maximum value, governance risk was 0.20, operational and compliance risk was 0.67, financial risk was 1.00, reputation risk 0.60 and money laundering risk was 0.33. Meanwhile, the means of governance, operational, compliance, reputation and money laundering were reported to be 0.204, 0.227, 0.347, 0.400 and 0.067 respectively which indicates most of organisations is more vulnerable towards this four type of risks. While, the means score of financial risk is 0.785 that indicates most of organisations is less vulnerable towards financial risk.

The results shows that most of the organisations are more motivated to disclose (financial risk) in order to comply with mandatory requirements of the financial reporting requirements and other regulatory requirements in Malaysia. However, there are lower incentives for voluntary disclosures under governance, operational, compliance, reputation and money laundering risk. Overall, the statistical results from six variables had indicated that there is lack of risk disclosure item reported in the annual report and it will increased the likelihood of risks that may harm the organisations. To add, the mean score of risk disclosure index of 0.320 also shows that most of the organisations are vulnerable to risks that possible to occur in NPOs that could threaten their success.

Table 3: Descriptive Statistics on the Overall Extent of Risk Disclosures

	Mode	**Minimum**	**Mean**	**Maximum**
Governance Risk (%)	0.20	0.00	0.204	0.20
Operational Risk (%)	0.00	0.00	0.227	0.67
Compliance Risk (%)	0.33	0.33	0.347	0.67
Financial Risk (%)	1.00	0.25	0.785	1.00
Reputation Risk (%)	0.40	0.20	0.400	0.60
Money Laundering Risk (%)	0.00	0.00	0.067	0.33
Risk Disclosure Index (RDI)%			**0.320**	

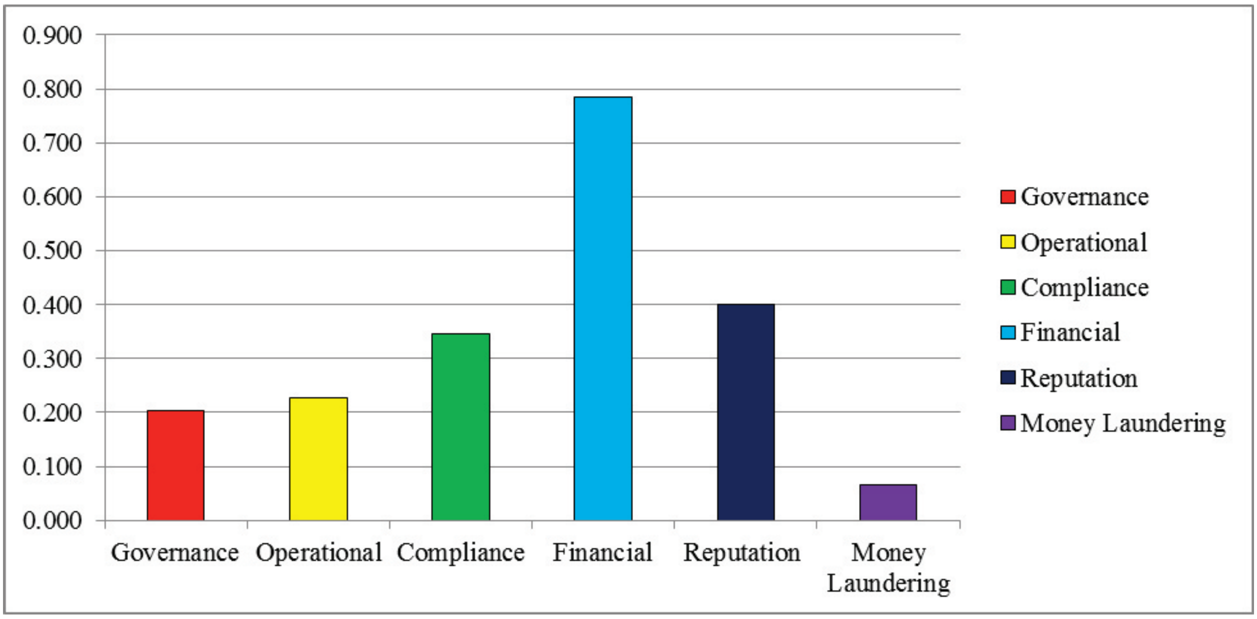

Figure 1: Overall Extent of Risk Disclosures

5. Conclusion

Every non-profit organisation faces (NPO) a certain amount of risk. It is impossible to eliminate all fraud in the organisation regardless of the type whether for profit or non-profit organisations. As risk of fraud always there and it is an organisation responsibility to mitigate the risk of fraud, it is deemed necessary for organisation to have effective risk management. Apart of for profit organisation, non-profit organisation also not excluded to have effective risk management this is because it is really need to avoid fraudulent activities such as cash theft, asset misappropriation, money laundering and as well as to maintain the NPO reputation as an organisation that provide service to community.

This study attempts to examine the extent of risk disclosure of a sample of NPOs registered with CCM through their annual reports. Based on the content analysis of annual reports, the results indicate that NPOs place more emphasis in disclosing information related to their financial such as revenue, cash and report on financial risk management. While there are less emphasis in disclosing information other item such as vision and mission, code of conduct, information on board composition, number of employee, information on annual general meeting, permission to collect donation, delivery of services (objectives, activities, budget and outcome), list of subsidiary and their principal activities and donors information (list of donors, the utilization of donation and types of donation). As overall statistical results from six variables had indicated that there is lack of risk disclosure item reported in the annual report that will increased the likelihood of risks that may harm the organisations. It shows that NPOs still poor in disclosed item that really important to mitigating risk in their organisation.

Finally, limitations of a study such as the self-selective and small study sample may have also biased the results reported, understating the low levels of risk disclosure. Furthermore, it is recommended to future research to compare practices of fundraising with non-fundraising NPOs to further assess the extent of risk disclosures. Future research also may consider the use of questionnaires in determining the items considered as measurement for risk of NPOs that can be sent to board members or members of the NPOs**.**

However, the results in this study can help NPOs in Malaysia to analyze the level of risk they exposed to as well as to take an action in the early stages. Besides, it also can assist NPOs in formulating the best strategy as well as in tightening and improving their risk management as an early prevention in order to prevent their organisation from the likelihood of fraud occurrences. Besides, this study can help to facilitate the regulatory body such as Companies Commission of Malaysia (CCM) in formulating new requirements, policies, procedures, and guidelines and also to facilitate them in revising and strengthening the existing regulation as well as tighten the condition for organisation to establish non-profit organisation and law enforcement in deterring fraudulent activities. Other than that, the result of the study also can give benefits to the stakeholder which is the user of financial information especially the donors to get the knowledge regarding the risk factor in the organisation before contribute to the organisation.

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