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The Usefulness of Financial Statement Reporting by Charitable Companies Limited by Guarantee in Malaysia

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ABSTRACT

The purpose of this study is primarily to scrutinize the usefulness of financial statement reporting by charitable companies limited by guarantee in Malaysia as prescribed in the rules and regulations. The main concern is whether there is limitation for the charitable company to follow this requirement in which, its performance and accountability will be analyzed. These attributions will lead to the improvement on the level of governance and accountability to satisfy all the relevant parties, especially the stakeholders and public interest. 50 companies were selected as a sample and three years of financial reports from 2009 to 2011 were scrutinized. Descriptive analysis was used to analyse the data. This study found that the majority of the charitable companies adopted PERS (Private Entity Reporting Standard) and FRS (Financial Reporting Standard) in preparing their financial report while less than 5 percent did not clearly state their accounting standard. For the establishment objective, at least half of the companies spent more than 50 percent contribution received for their institution. This study also found that more than 80 percent of the companies at least provided a minimum disclosure on the contributions received in their financial report with a moderate level quality of information. However, less than 50 percent of the companies fully complied with the basic requirement of the Companies Act 1965 and are being compounded by the regulators.

Keywords*: Financial reporting, charitable companies, accountability, transparency, Malaysia*

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INTRODUCTION

As compared to the stock exchange listed firms, there is a minimal research exposure on the governance of nonprofit entities (Coule, 2015) like companies limited by guarantee. This leads to limited studies done to evaluate the performance of a company and limited awareness for the public on this matter. Particularly, there are limited studies regarding the performance and various aspects of companies limited by guarantee in Malaysia. Even the public might not have an idea regarding companies limited by guarantee. People always assume that the non-profit organizations must be registered under the Registrar of Societies (ROS) while in real life a non-proft organization may also be incorporated as a company and is qualified to enjoy previlages as a company registered under the Companies Act 1965.

Some of the companies limited by guarantee which focus on charitable activities may receive contributions in terms of cash as well as non-cash from various donors such as the public, private companies, government, international bodies and others. Some of the donors would want to know about the money that they have donated to the company limited by guarantee but may face difficulties in getting sufficient information regarding the contribution due to the limited source of information.

However, the information regarding how a company limited by guarantee manages and disburses the money received from the contributions and donations are limited to what has been reported in the audited financial statement. At the same time, the companies limited by guarantee shall prepare their financial report based on the MASB Approved Accounting Standard for Entities Other than Private Entities Financial Reporting Standard because the company limited by guarantee is a public company, as interpreted in the Companies Act 1965.

The critical question raised by stakeholders is whether there is any limitation for the companies limited by guarantee to follow this standard and if they do not, how it effects the whole report. When companies limited by guarantee receive any contribution or donation, it is important for them to know the background of the contributors, so they can take some precautions or preventive measures to avoid from being misused as criminal vehicles like tax evasion and money laundering because companies limited by guarantee have certain advantages provided by the government. In addition, better transparency will lead to bottom-up accountability and help organizations to successfully delivertheir proposed benefits (Hashim et al., 2014; Jaafar et al., 2014; Ferry & Eckersley, 2015; Salin and Abidin, 2011; Salin et al., 2011) and as an effective mechanism to prevent fraud (Salin et al., 2017).

Therefore, this study is motivated to investigate the performance and the accountability of a company limited by guarantee based on the information in the financial report. There are five purposes of the study. First, to examine whether charitable companies limited by guarantee have been preparing their financial reports according to the approved accounting standards. Second, to investigate whether charitable companies limited by guarantee meet their objectives of establishment by disbursing adequate funds raised from contributions or donations to eligible recipients. Third, to examine the level of information disclosure in the financial reports of charitable companies limited by guarantee to satisfy stakeholders and other interested parties. Fourth, to examine the general profile of contributors or donors and their motivation for contributing to the charitable companies limited by guarantee. Lastly, to assess the level of compliance by charitable companies limited by guarantee on the requirements of the Companies Act 1965.

There are several contributions of this study. First, the findings can be used as a reference by the regulators to establish effective policies and find the best solution to supervise and regulate non-profit oriented organizations particularly companies limited by guarantee in Malaysia. Second, this study can contribute to the improvement on the level of governance and accountability of the company to satisfy all the stakeholders and the public interest. Finally, this study will improve the understanding on the theoretical framework and add to the body of the literature on the company limited by guarantee in Malaysia, especially from accounting and governance perspectives that is dearth in the literature. Previous empirical researches were much focussed on the private and profit oriented companies and organizations in the developed markets.

LITERATURE REVIEW

Companies Limited by Guarantee in Malaysia

A company limited by guarantee is a type of company incorporated under the Companies Act 1965 and is a public company. It is founded by the principle of having the liability of its members limited to the amount specified in a memorandum in which members will contribute to the assets of the company if the company winds up. Companies limited by guarantee are divided into two types; company limited by guarantee with the word 'Berhad' or 'Bhd' as part of its name or without that word. The companies limited by share are different from companies limited by guarantee in several aspects which are stated in Table 1.

Table 1: The difference between Company Limited by Guarantee and Limited by Shares

	COMPANY LIMITED BY GUARANTEE	COMPANY LIMITED BY SHARES
Characteristic	Non Profit based	Profit based
Income/Profit	Income derived from activities are channeled back to the company	Income/Profit are distributed to the members in the form of dividend
Shareholders	No shareholder	Shareholder
Mode of funding	Without share capital, funds derived from members' contribution and donations	Share Capital
Liability of members	Limited to the amount they undertake to contribute to the assets of the company in the event of winding up	Limited to the extent of any sums unpaid on any share held by them in the event of winding up
Objects	Generally engaged in charitable, scientific, religious and artistic activities	Business or commercial activities

Companies limited by guarantee are required to prepare their financial statement based on the approved accounting standards in Malaysia. The responsible body regarding the formulation and promotion of accounting standards in Malaysia is the Malaysian Accounting Standards Board

(MASB). This board is established under the Financial Reporting Act 1997 and is responsible to monitor the financial reporting standards in Malaysia. Together with the Financial Reporting Foundation, they establish the financial reporting framework explaining the standard setting structure and process.

A company limited by guarantee also may apply to the Minister of Domestic Trade, Cooperative and Consumerism Malaysia under section 24 of the Companies Act 1965 to drop the word 'Berhad' from its name if it wishes to do so. This application must be accompanied by certain criteria and the company may be granted a form of license. With this, the company will then be fully operated as a charitable organization without a business motive. The major difference between a company limited by guarantee with the word 'Berhad' and without the word 'Berhad' is shown in Table 2.

Table 2: Characteristics of a Company Limited by Guarantee with the word 'Berhad' and without the word 'Berhad'

	COMPANY LIMITED BY GUARANTEE WITH 'BHD'	COMPANY LIMITED BY GUARANTEE WITHOUT 'BHD'
Objects	Business & Charitable	Promote charitable & useful objects
Share Capital	No share capital	No share capital
Approval	Registrar	Minister
Gazette Name	Not required	Foundation/Council/ Chartered/ Unit Trust etc
Profit/Dividend	Profit channeled back to Company	Profit channeled back to Company Prohibited to pay dividend to members
Contribution of RM1 million (cash) from the Government	Not qualified	Qualified

Accountability in Charitable Organizations

While accountability in private firms such as public listed companies is important (Nor et al., 2017) accountability in the non-for-profit types of organizations such as charitable institutions are far broader and significant (Shariman et al., 2018; Ryan et al., 2014). This charity receives money from donors with the hope that the money will be spent wisely, reach the target community and meet its charity objectives. In addition, the government also provides financial assistance which involves tax payers' money and hence, requires heavier accountability. Accountability arguably is the most important principle, above and beyond others in a charity based organization. Empirical research shows that charity based organizations that demonstrate a higher level of accountability are able to influence their donors to continuously provide funds to the organizations (O'Dwyer & Boomsma, 2015).

Accountability is generally described as a responsibility of those who take action, manage or control resources they have to others (Nelson et al., 2003; Robert & Scapens, 1985) and the obligation to give an account (Perks, 1993). The individual or group needs to be responsible to their action and report to the relevant authorities of their action (Edwards & Hulme, 1996) by recording and disclosing their behaviour to an external audience (Schillemans & Busuioc, 2015). Apart of that, other mechanisms such as high quality audit (Jais et al., 2016; Husnin et al, 2016; Asmuni et al., 2015), effective corporate governance (Hamid et al., 2011; Ahmad et al., 2016; Husnin et al;, 2013), strong ethical culture (Salin & Ismail, 2015; Khadijah et al., 2015; Manan et al., 2013; Salin et al., 2012) and robust internal control to prevent fraud is required to demonstrate accountability (Rahim et al., 2017; Omar et al., 2016; Zakaria et al., 2016; Suhaimi et al., 2016).

In the charity specific context, the Charity Commission (2004) explainsthat accountability is related with the disclosure of information needed by its stakeholders. Thus, one of the important features of accountability is timely dissemination of information (Reheul et al., 2014) to the users based on transparency and on an impartial basis (Yasmin et al., 2014). McGregor (1999), Parker and Gould (1999), Samkin and Schneider (2010), Sinclair (1995) and Wynne (2004) posited that the accountability relationship for the non-profit organizations is wider in scope and more complicated than the usual profit based organizations. This is because the expectation and sensitivity are higher, hence any information and explanation provided about activities of the organizations would normally be beyond that which is usually stipulated in the private organizations annual report (Nelson et al., 2003; Normanton, 1971). As compared to a listed company that owes responsibility to mainly shareholders, those who are running charitable organizations need to exercise their accountability at the highest level because they need to serve various important stakeholders. Apart from the government, they are accountable to properly serve the beneficiaries of the fund like the poor and needy to satisfy the donors and contributors that sacrifice part of their hard earned income to help other people to have a better life and to properly perform their tasks so that the watchdog entities do not query their work and practices, which can damage their reputation.

The charity based organisations also need to disclose more information and not restrict their annual report to only traditional required financial statements. More non-financial information is demanded to provide explanation about their accountability (Hyndman, 1990), moral achievement (Gambling, 1993) and impact to the society (Torres & Pina, 2003).

Legitimacy Theory

The issues on financial reporting by charitable organizations can be well explained by using a legitimacy theory. Proposed by Suchman (1995), legitimacy is described as a perception generated from the action of an entity or organizations in which that action is acceptable and appropriate within the system of norms and values by the society where the organizations operate.

Therefore, for the charitable organizations to ensure its existence as accepted by society and other stakeholders, it needs to conduct certain activities that are demanded by society, such as the proper reporting of its activities, complying with laws and regulations and operating to achieve its objectives as stated in the company's article and memorandum of associations. According to Gray et al. (1996), operation based on a value system which is commensurate with the societies will help a company to continue to exist. Thus, based on this theory, to ensure their survival, charitable organizations need to conform to the value of the society by using financial reporting to portray a good image of the company, being transparent, continuously performing and conducting their operations as per requirements that are accepted by the society. Deviation from these will threaten their existence such as reduction of fund from donors and loss of financial assistance from the government.

RESEARCH METHODOLOGY

The main sources for data were gathered from the audited report of the company. Section 165 (6) (f) Companies Act 1965 requires a company not to have a share capital, within one month after each annual general meeting of the company, and lodge with the Registrar of the Companies Commission to return the that shall contain the accounts of the company. Section 4 of the Companies Act 1965 interprets the "accounts" as profit and loss accounts and balance sheets and includes notes or statements required by this Act (other than auditors' reports or directors' reports) and attached or intended to be read with profit and loss accounts or balance sheets.

In other words, a company limited by guarantee shall lodge their financial statement to the Companies Commission of Malaysia every calendar year. The contents of the financial report or also known as the annual report usually consists of the Report of the Directors, Statement by Directors and Statutory Declaration, Report of the Auditors, Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements.

Sample

According to the information obtained from the Companies Commission of Malaysia annual report 2011, as at 31 December 2011, a total of 1,587 companies limited by guarantee were registered with the compliance rate of 88.47% in terms of the lodgment of annual returns. This is an increase of 2.24% compared to 2010. For this study, the sample focused on the companies limited by guarantee without the word 'Berhad' (Limited) in their names. The reason for selecting the companies limited by guarantee without the word "Berhad" is because they are fully focusing on promoting the charitable objectives rather than having any intention to make a profit, which is similar to the definition of a non-profit organization. Furthermore, it will ensure the reliability and validity of the data collected for the study. This company is also synonym with the issues such as accountability that relates to the management of the fund received from the contributions or donation activities and how the company used those funds to meet the objectives of the establishment.

Besides, they are subjected to a license which comes with several conditions that must be fulfilled before they can drop the word “Berhad” from the company name as stated in the Companies Act 1965. These types of companies are also eligible to enjoy tax exemption status from the Inland Revenue Board (tax authority) under the Income Tax Act 1967.The company limited by guarantee without “Berhad” might be established purposely for carrying activities of providing recreation, amusement, art, science, religion, charity, pension, superannuation schemes, or any other objectives that are useful to the community.

There are several ways to identify the charity based companies limited by guarantee. First, based on the company name which usually will carry the word ‘Foundation’ or ‘*Yayasan*’ and second, by referring to the company’s memorandum and article of association.

The data collection period was during the years 2009 to 2011, which consisted of financial reports covering the three years. All the companies included in the samples were established between the years 2004 to 2007. For the study, the sample will only focus on companies limited by guarantee that operate within the Klang Valley with an estimated 60 companies. This is the most developed area in the country with many individuals and companies having a high net worth income and assets and hence, more inclined to be involved in philanthropic and charity activities. Besides, it is known that a charitable company limited by guarantee registered here is the most active and a frontrunner in conducting charity activities across the country.

The sample companies were divided according to size, which are small, medium and large. The size of the company was determined based on the total amount of donations received for the period of the study. ‘Small size’ is defined as companies with donations below RM500,000per year, ‘medium size’ is for companies with donations below RM500,000 to RM1,000,000 and ‘large size’ is for companies with donations received r exceeds RM1,000,000 per year.

FINDINGS AND DISCUSSION

Conformance to Approved Accounting Standards

A charitable company limited by guarantee is categorized as a public company or entity other than a private entity,Under section 14A of the Companies Act 1965 a company limited by guarantee with a share capital is prohibited to be registered under the Companies Act 1965. In addition, a private entity or private company under section 15 of the Companies Act 1965 is a company having a share capital. Thus, a charitable company limited by guarantee shall adopt the Financial Reporting Standard for Entities Other Than Private Entities (FRS) rather than Private Entity Reporting Standard (PERS) for the preparation of the financial report. This section will consist of a discussion on statistics of *Approved Accounting Standard, Auditor Opinion and Auditor Types (big 4 vs. none big 4).*

Approved Accounting Standards

Overall, the statistics of approved accounting standard adopted by the charitable company limited by guarantee in preparing the financial report for three years (2011, 2010 and 2009) is stated in Table 3.

Table 3: Approved Accounting Standards Adopted by the Charitable Companies Limited by Guarantee

Year/Standard	FRS	PERS	*Others	Total FS**
2011	20	28	3	51
2010	18	30	3	51
2009	17	30	1	48

* Other standard here means the standard that was not clearly stated in the auditor's report in the financial statement
** FS - Financial Statements

For 2011, the number of companies that adopt FRS is 20 (40%), slightly increased from the previous year while PERS is 28 (55%) and other standard is 3 (5%). Other standard here means the standard that was not clearly stated in the auditor's report. For 2010, the adoption of FRS is 18 (35%) while PERS is 30 (60%) and other standard is 3 (5%). For 2009, the adoption of FRS is 17 (36%) while PERS is 30 (62%) and other standard is 1 (2%).

Overall, more than 50% of the charitable companies limited by guarantee adopted PERS in preparing their financial report and less than 5% of the companies did not clearly declare their accounting standard while the rest adopted the FRS standard. This indicates the trend of the adoption on approved accounting standard. The adoption of FRS slightly increased from year to year, decreased trend for PERS while other standard also increased but not very significantly. This shows that the adoption of FRS in the financial report is still below the average but the trend seems to keep on increasing from year to year.

Auditor's Opinions

Auditor's opinion is one type of information that reflects the preparation of the financial report. The auditor will give an opinion on how the financial report was prepared and will highlight if there are any issues that appear during the preparation of the financial report. Generally, there are two types of opinions, which are unqualified (no issues or non-material issues appeared) and qualified (some issues appeared). The statistics of auditor's opinions by the external auditor of the charitable company limited by guarantee for the financial report for three years (2011, 2010 and 2009) is stated in Table 4.

Table 4: Auditor's Opinion

Year/Opinion	Unqualified-Clean	Unqualified-Except for	Qualified-Emphasis of matter	Total Companies
2011	47	3	0	50
2010	47	3	0	50
2009	47	2	1	50

For 2011 and 2010, the auditor's opinions of the unqualified-clean were 47 (94%) while unqualified but emphasis of matter is 3 (6%) and none (zero) for qualified opinions (0%). *Unqualified-Except for* means the financial report was prepared according to the approved accounting standard except for some areas in which the external auditor was not satisfied during the audit period. For 2009, the auditor's opinions of unqualified-clean is 47 (94.0%) while unqualified but emphasis of matter is 2 (4%) and 1 (2%) for qualified opinions.

For *Unqualified-Except for* opinion, the reason was basically due to the current liabilities which were higher than the current assets which were reflected in the going concern issues and the same companies that got this type of opinion between the years (2009-2011). For 2009, the auditor's explanation regarding the *qualified opinion* is stated as below:

> *"The accounting policy for recognizing donations to the Institute is on receipt basis. This represents a departure from the provisions of the accounting standard as issued by the Malaysian Accounting Standards Board ("MASB") Standard No. 9 on Revenue Recognition as disclosed in Note 2(d). The Institute relies on voluntary contributions; donations cannot be verified prior to then being recorded in the books and records of the Institute and there are no practical auditing procedures available to determine the completeness or otherwise of the recorded donation"*

Table 4 also shows the trend of the auditor's opinion of the financial report. Overall, more than 95% was stated as unqualified for all the three years (2009, 2010 and 2011). It indicates that the financial report of the charitable companies limited by guarantee is generally clear with no issues based on the auditor's report.

Auditor Types

In Malaysia, there are established and well know audit firms which was known as Big 4's. As the nick name, this group of audit firms are popular due to their reputation and expertise as the best audit firms and will usually be engaged by large companies. Thus, it may reflect on the quality of the financial report.

Table 5: Auditor's Type

Year/Opinion	Big 4	Non-big4	Total
2011	6	44	50
2010	6	44	50
2009	5	45	50

Overall, the statistics of auditor type of the charitable companies limited by guarantee who prepared the financial report for three years (2011, 2010 and 2009) is stated in Table 5. For 2011 and 2010, the number of big 4's is 6 (12%) while for non-big 4's is 44 (88%). For 2009, the number of big 4's is only 5 (10%) while non-big 4's is 45 (90%).

This shows that more than 90% of the charitable companies limited by guarantee engaged non-big 4 auditors as their external auditors to prepare their financial report and only 12% engaged the Big 4's services. However, the number slightly increased during the year 2009 to 2010 which means the number of charitable companies limited by guarantee might engage a big 4's may increase in the future.

Objectives for Establishing Charitable Companies Limited by Guarantee

An objective of the establishment is the main criteria which differentiates a profit-making company from a non-profit making company. The objectives are stated in the memorandum and article of the association. The establishment objective of charitable companies limited by guarantee usually states that the company is non-profit whereby it will relate on the usage of fund for charity purposes. This section consists of discussion on the *Size Of Donation, Usage Of Fund and Usage Of Fund (Percentage)*.

Size of Donations

Overall, the statistics on the size of donation received by the charitable companies limited by guarantee in preparing the financial report for three years (2011, 2010 and 2009) is shown in Table 6. The size of donation is divided into three types, namely as small (RM500,000 and below), medium (RM501,000 to RM999,999) and large (RM1million above). For 2011, the small size of donation is 30 (60%), medium size of donation is 3 (6%) and large size of donation is 17 (34%) with the total financial report is 50. For 2010, the small size of donation is 29 (58%), medium size of donation is 7 (14%) and large size of donation is 14 (28%) with the total financial report is 50. For 2009, the small size of donation is 31 (62%), medium size of donation is 10 (20%) and large size of donation is 9 (18%) with the total financial report is 50.

Table 6: Sizes of Donations Received for Three Years

Financial Statement	Contribution Size			Total
Year/Size	Small	Medium	Large	
2011	30	3	17	50
2010	29	7	14	50
2009	31	10	9	50

Overall, the number of contributions for large size of donations has gradually increased from year 2009 to year 2011. Thus, the issue of accountability of the fund usage has become more crucial from year to year.

Usage of Funds for Charitable Purposes

The usage of fund can reflect the accountability of the charitable companies limited by guarantee. Thus, the study tried to identify the trend of fund usage by dividing the amount of donation that was used for charity activities/purposes with the contribution received from contributors. The data of fund usage for 2011, 2010 and 2009 is presented in Table 7. The figures of fund usage spent for charitable purposes were captured from the information in the income statement and changes in the accumulated fund. The figure of the usage of fund was divided with the total accumulated fund that was available for that year. Accumulated fund was derived from the fund at the beginning of the financial period plus the fund received that year.

Table 7: Proportion of Funds Used for Charity

% of Funds Used for Charity	2011	2010	2009
More than 50%	10	9	13
1-49%	22	23	20
Less than 0%	18	18	17
Total Companies	50	50	50

For 2011, only 20% of the companies spent more than 50% of the accumulated fund for charitable purposes, while 2010 was 18% and 2009 was 26 %. Overall for all the three years, the number of charitable companies limited by guarantee that spent more than 50% of the accumulated fund for the charity activities/purpose was below 30%. Based on the literature, organizations will spend for charity activities if it will increase their reputation and survive market competition (Saiia et al., 2003; Fisman et al., 2016). The actual reason for poor spending from the sample cannot be examined due to no information disclosed in their financial statement.

Usage of Fund (Percentage)

Table 8 shows the percentage in terms of the fund usage for all the three years. For 2011, the minimum percentage was -83%. One of the factors that contributed to this scenario is the accumulated fund from the previous year was negative and remained negative even after being added with the donations received from the current year. As an example, accumulated fund brought forward from year 2010 was (-RM 941,641), donation received in 2011 was RM429,118 and donation made or charity expenses in 2011 was RM423, 726. Thus, the equation should be (RM941, 641) +RM429, 726 equals to (RM511, 915). Then, RM423,118 is the fund received on the current year and the carried accumulated fund was negative. For 2010, the maximum percentage was 414%. This scenario happened because the accumulated fund from the previous year was very small even after adding the donations received from the current year. As an example, accumulated fund brought forward from the year 2009 was RM 717, donations received in 2010 was RM160,000 and donation made or charity expenses in 2010 was RM665, 012. Thus, the equation should be RM717 +RM160, 000 the RM665, 012 divided by RM160, 717. Thus, the percentage is very high. These companies might use non-cash or other instruments or items that reflect their charitable activities. There are no details disclosed regarding the donations given by the charitable companies by guarantee.

Table 8: Usage of Funds (Percentage)

Level	2011	2010	2009
Minimum	-83%	-59%	0%
Maximum	121%	414%	254%
Average	21%	27%	32%
Median	11%	12%	12%

Information Disclosure Level

The objective of this part is to review the level of disclosure regarding the information in the financial report. This part consists of discussion on the *Disclosure of Contributions Received (Year to Year Comparison), Disclosure oof Contributions Received (Details of the contributors), and Disclosure of Contributions Given (Year to Year Comparison).*

Disclosure Of Contributions Received (Year to Year Comparison)

Disclosure of contributions received basically refers to the notes to the account in the financial reports.

Table 9: Disclosure of Contributions Received

Year/Standard	No	Yes	Total
2011	9	41	50
2010	9	41	50
2009	6	44	50

From 50 samples, for all the three years, more than 80% of the charitable companies limited by guarantee at least put a minimum disclosure on how they received their funds which is stated in notes to account (Table?). An example of the notes is like "Donation received through collection from the public". Overall, more than 80% of the samples at least provided a minimum disclosure on the contribution received in their financial report.

Disclosure of Contributions Received (Details)

Details of contributions received is based on the notes to the account whereby the details of the contributors or donors were stated in the notes such as grant from government or fund from the ministry or contributions from a Very Important Person (VIP).

Table 10: Disclosure of Contributions Received

Year/Standard	Company/Goverment	Individu	Total
2011	10	8	18
2010	8	16	24
2009	6	4	10

From 150 financial reports, only 52 disclosed the name of contributors, as per Table 10. For individuals, the contributors or donors came from the trustees or other individuals who are related with the trustees. Meanwhile, for government the contributors are from several ministries.

Overall, the higher number of disclosure detail is in the year 2010 with 24 disclosures out of 52 financial statements. It also means that in terms of disclosure on donators and contributors, most of the charitable companies limited by guarantee still provide very minimum information.

Disclosure of Contributions Given (Year to Year Comparison)

Disclosure on contributions received basically refers to the notes to the account in the financial reports.

Table 11: Disclosure on Contribution Given

Year	No	Yes	Total
2011	9	41	50
2010	7	43	50
2009	6	44	50

From 50 samples, for all the three years, at least more than 80% of the charitable companies limited by guarantee at least put a minimum disclosure on the use of funds for charitable activities/purposes which is stated in the notes to the account. The minimum disclosure is based on the notes to the account. For minimum disclosure, the criteria are disclosed with qualitative information only. For medium disclosure, the criteria are disclosed with qualitative and/or quantitative information and for high disclosure; the criteria is disclosed with detailed information, containing both qualitative and quantitative information.

Overall, more than 80% of the samples have at least provided a minimum disclosure on the usage of the fund for charitable activities/ purposes in their financial reports.

Profile of Contributors or Donors

This part will discuss the profile of the contributors or donors based on information from the financial reports.

Table 12: Profile of Contributors or Donors

Years	Company/Government	Individual
2011	10	8
2010	8	16
2009	6	4
Total	24	28

From 150 financial reports, the information on the contributors only consists of the government/company and individual as stated in Table 12. Overall, there was limited information from the financial report to develop the profiling of the contributors or donors. This research found that the profile of the contributors or donors consists of the government, companies and individuals.

Level of Compliance Towards the Requirements of the Companies Act 1965

This part is to identify the level of compliance towards the requirement of the Companies Act 1965. The common offence which is based on section 149, section 163 and section 169 of the Companies Act 1965 were selected. This section of Companies Act 1965 requires every company registered under the Companies Act 1965 to lodge an annual return, hold an annual general meeting (AGM) and table an audited financial report during the AGM. The company is required to lodge the annual return and audited financial report every calendar year.

Table 13: Compound Records

Action	Yes	No	Total
Companies Compounded	26	24	50

From 50 samples, 26 or 52% of the samples were compounded for being involved in a common offence which is failure to comply with the requirement of the Companies Act 1965 (Table 13). The compliance on the basic requirement of the Companies Act1965 is very important because it will reflect on how the trustees manage the charitable companies limited by guarantee. Based on the 50 samples, less than 50% of the samples fully complied with the Companies Act 1965. Even though 52% of the samples were compounded, all of the companies have already paid the compound, and this is a good sign towards a better management to comply with rules and regulations.

CONCLUSIONS

The purpose of this study was to examine the factors that are related to the value of the information in the financial statement reporting of the companies limited by guarantee to the interested parties, (i.e., donors, public, government) and the performance and accountability of the companies limited by guarantee which is related to the objective of the establishment. This study was supported by secondary data which were gathered from the Companies Commission of Malaysia.

This study focused on the company limited by guarantee because these types of companies are generally established not for profit. Thus, the study was narrowed down on the charitable companies limited by guarantee, which were survive depending on the contributions or donations from various resources. When it comes to the financial report preparation, some of the interested parties demand to receive sufficient, true and fair view information. These issues are related with the approved accounting standard for charitable companies limited by guarantee that should be adopted.

Based on the study, the issues on approved accounting standard whether charitable companies limited by guarantee should adopt Private Entity Reporting Standard (PERS) or Financial Reporting Standard (FRS) were discussed. Based on the Malaysian Accounting Standard Board (MASB), PERS shall be adopted by the private entity only, while FRS shall be adopted by other than private entities. Charitable companies limited by guarantee are public companies because there are no shares and thus should apply the FRS. Based on the study, more than 50% of the charitable companies limited by guarantee adopt the PERS in preparing their financial report and less than 5% did not clearly declare their accounting standard and the rest adopt the FRS. It means that some of the charitable companies limited by guarantee are following the MASB.

The objective of the establishment is very important for charitable companies limited by guarantee because it is the main thing to determine whether the charitable companies limited by guarantee are profit oriented or non-profit oriented companies. Overall for all the three years, at least half of the 50 charitable companies limited by guarantee spent more than 50% of the contribution received by the charity activities/purpose which is following the objective of the establishment. This indicates a good signal of accountability which may gain the companies more influence among their key funders in future (O'Dwyer & Boomsma, 2015).

The issue of disclosing information is also important when discussing charitable companies limited by guarantee. This is because adequate information is needed by the interested party for them to justify whether the charitable companies limited by guarantee are transparent. Overall, more than 80% of the samples have at least provided a minimum disclosure on the contributions received in their financial report with a moderate level quality of information. This result supports prior empirical research (Yasmin et al., 2014) and in accordance to the legitimacy theory that suggests organizations need to portray a good image of the company such as being transparent so that they can receive continuous support from the important stakeholders such as the donors and governments.

At the same time, the charitable companies limited by guarantee are regulated by the Companies Act 1965, which means that the companies must comply with the requirements of the Companies Act 1965. From the study, less than 50% of the samples are fully compliant with the basic requirement of the Companies Act 1965. Even though 52% of the samples were compounded, all the companies have already paid the compound.

IMPLICATIONS AND RECOMMENDATIONS

There are a few implications and recommendations to improve the governance and accountability of this charitable companies limited by guarantee. First, there should be a specific and organized disclosure of the contributors' and donors' profiles. The nature of the activities of the charitable companies limited by guarantee are generally receiving donations or contributions or funds and then spend the monies according to the objective of establishment. The fund might come from various sources such as governments, companies and individuals. A disclosure on the fund sources is very important lately because charitable companies limited by guarantee might face a possibility of being used as a vehicle in money laundering activities or other illegal activities due to poor management system of the company. A detailed disclosure of the contributors and donors in the financial report is very important to the regulators especially in designing effective monitoring systems and efficient mechanisms in dealing with the immoral activities.

Second, to ensure the accountability and transparency of the companies limited by guarantee, it is highly suggested that the companies engage large audit firms like the Big4 audit firms (PricewaterhouseCoopers, KPMG, Deloitte, and Ernst & Young) to audit their accounts. These firms have in combination the largest international professional services networks, offering audit, assurance, tax, consultant, advisory, actuarial, corporate finance, and legal services. They handle the vast majority of audits for publicly traded companies as well as many private companies. These firms are well known for their expertise, accountability and professionalism (Jais et al., 2016; Husnin et al, 2016; Asmuni et al., 2015).

Finally, more proactive actions towards the compliance on laws and regulations should be conducted. Based on the findings from this study, more than half of the charitable companies limited by guarantee recorded non-compliance towards the basic requirements of the Companies Act 1965 which are regarding the annual grand meeting (AGM) and to table the audited financial report in the AGM. In this case, the Companies Commission of Malaysia should enhance their actions by introducing more proactive activities. The best way is to create self-voluntary awareness towards the compliance with the basic requirements of the Companies Act 1965. This can be achieved by increasing physical inspections activities, implementing the current technologies in awareness and reminder activities and also the consideration of using the heavy penalties and punishment to the non-compliance companies limited by guarantee towards the requirement of Companies Act 1965. At the same time, other related parties should play more effective roles such as an external auditor of the companies limited by guarantee as this might send some reminders to the companies that the account must be audited and tabled in the AGM as stated in section 169(4) of the Companies Act 1965.

LIMITATIONS AND SUGGESTION FOR FUTURE RESEARCH

There are certain limitations of this study. First, this study only covered and examined the charitable companies limited by guarantee. There are other several types of companies limited by guarantee with the main objectives such as religion, recreation, art, science and others. The main factors for choosing charitable companies limited by guarantee is because the charitable objective is more relevant when discussing the management of fund arises from contributions and may relate to issues of public interest. Future research should consider other types of companies.

Second, the results in this study were derived from information gathered from secondary data and the contents were analyzed using content analysis only. The result should become firmer with supporting evidence gathered from interview sessions with the respective person and information from the questionnaire distributed to the respective parties.

Third, the annual reports under examination were only for three years. Future research may also consider extending the period of the financial reports to get more robust and accurate results. Fourth, this research is based on the Company Act 1965. The new Companies Act 2016 was enacted and enforced effective31 January 2017. Thus, future research should use and incorporate the new Companies Act 2016 as a reference and guidance.

Finally, future research may also consider the charitable companies limited by guarantee around Malaysia because this study only covered the charitable companies limited by guarantee located in the Klang Valley.

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