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FINANCIAL SUSTAINABILITY AND FINANCIAL REPORTING PRACTICES IN DEVELOPING COUNTRIES: EVIDENCE FROM IRAQ

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ABSTRACT. This study seeks to discover the nature of the link between the financial reporting methods used by nonprofit organizations in Iraq and their long-term financial viability. NPO financial reporting methods now are not consistent with their nature. According to the exploratory study, they do not satisfy stakeholder expectations, which also shows that the general assessment of the financial reporting system of Iraqi NPOs is inadequate. For the three years, 2015-2017, data from a study of 70 Iraq-registered NGOs shows that most financial sustainability metrics were poor, except the current ratio, which shows that 69% of NPOs had sufficient cash. However, when it comes to solvency (39%) and saving (19%) as well as defensive interval, the data show a zigzag pattern of decrease (46 percent). As a result of inadequate Iraqi financial reporting standards and low economic sustainability indicators, the study concludes that nonprofit organizations' financial reporting system is integrated with financial sustainability.

JEL Classification: L30, L31, M83

Keywords: nonprofit Organization, Financial reporting, accounting standards, financial sustainability, sustainability ratios

Introduction

There are now considerably more NGOs than there were in the early 1990s, as the nonprofit sector has grown over the last two decades (Rottkamp, 2019). In most developing nations, particularly in crisis zones, these nonprofit organizations provide a crucial humanitarian function, providing a conduit for government funds and donor interest. Nonprofits faced various economic and programmatic challenges, including decreased income streams, increased service delivery, fraud, diminishing cash flow, and issues recruiting enough sources of financing. Nonprofit organizations are often required to be financially stable to deal with economic uncertainty or financial disasters. Increasingly, charitable groups and other nonprofit organizations rely on government funding to support their development and relief efforts. At the same time, private donors and international institutions take a global approach to humanitarian initiatives (Crawford et al., 2014). A decrease in external donations or an increase in the rivalry for funds might increase financial instability for nonprofit organizations (Carroll & Stater, 2008).

On the other hand, nonprofit financial reports have evolved throughout time, even within organizations with similar nonprofit elements. As a result, stakeholders have been left in the dark about the long-term viability of nonprofit organizations due to a lack of consistency in reporting models (Rottkamp, 2019). External or local donors' capacity to monitor the NPOs' financial operations and compliance with grant agreements significantly impact the magnitude and durability of their voluntary contributions. An efficient financial reporting system must be established to ensure that the Organization's financial operations are reported on in a timely and accurate manner to ensure accountability (Abraham, 2003). Non-governmental groups in Iraq are increasingly concerned about their ability to obtain sufficient funding. Overwhelmingly, the great majority of the 375 local non-governmental organizations surveyed by the Iraqi NGO Coordinating Committee in Iraq (NCCI) stated that insufficient finance for initiatives was their primary worry. As a result, the Iraqi NGO sector, which relies almost solely on international aid, is increasingly concerned about the steep fall in global donor concerns and budgets in Iraq. Despite the lack of accounting and reporting standards, financial reporting procedures in Iraq and many other nations have failed to offer credible information for accountability, assessing financial sustainability, and comparing financial performance worldwide (Ryan & Irvine, 2012). A growing body of accounting literature has recently focused on improving NPO financial reporting systems as a response to stakeholders' increasing demands for financial accountability and to developing economic sustainability indicators for these organizations, e.g. (Ceptureanu, Ceptureanu, Bogdan, & Radulescu, 2018; Cordery, Crawford, Breen, & Morgan, 2019; Henock, 2019; Sontag-Padilla, Staplefoote, & Gonzalez Morganti, 2012; Weerawardena, McDonald, & Mort, 2010). However, most of this research has concentrated exclusively on determining the factors of financial stability and the sustainability measures instead of combining financial reporting systems and information demands for economic sustainability and accountability. The financial reporting system and the financial sustainability of nonprofit organizations are intertwined. This paper aims to shed light on this interplay by highlighting the current financial reporting practices in Iraqi nonprofit organizations and determining if there is a need to issue a special set of financial accounting and reporting standards for NPOs.

1. Literature review

Financial Sustainability and Nonprofit Organizations

Nonprofit organizations often rely on several local and international funding sources to satisfy their financial responsibilities and deliver relief and humanitarian services. They can. To guarantee that the NPO can meet its current and long-term financial responsibilities and safeguard its economic sustainability. These financing sources are meant to ensure that the NPO can balance its assets and liabilities both short and long term and monitor cash flow management (Pajas and Vilain 2004). Financial sustainability is often defined as the ability of an organization to meet its financial obligations shortly. Nonprofit organizations confront several difficulties in obtaining and maintaining financial sustainability due to a drop in voluntary support and a lack of income diversification in this setting. More than a few studies have examined the best ways to deal with this issue, along with how sustainability management approaches are implemented (Weerawardena et al., 2010). NPOs' financial sustainability is mainly determined by the Organization's capability, the goals of the funder, and the external environment, according to Fleisher (2017). As a result of strategic management and diversity of funding sources, local nonprofits are more financially sustainable. Organizations with various sources of funding and a strategy in place are more financially stable than those that do not have these measures in place. Because the group relies on its resources for financing, it is more likely to survive. Since 2011, the Middle East crisis has made foreign funders less interested in sponsoring projects in Iraq and more interested in funding more important initiatives in other parts of the world. Some local nonprofit organizations are now at risk of financial viability, expansion, or even long-term existence due to this transformation (Génot, 2010). In the short term, NGOs must find a means to handle the recent severe decline in financial resources for humanitarian aid in Iraq to maintain the long-term viability and continuation of essential services and other programs.

Financial Reporting and Accountability Issues in NPOs

Financial reporting methods are a significant accountability element in current nonprofit research. To carry out their philanthropic purposes, nonprofit organizations (NPOs) are legally and ethically obligated to report on how they spend the money they receive from donors (Gordon, Khumawala, Kraut, & Neely, 2010). Donors will have more faith in the correct use of their money if they are aware of the financial operations of the organizations to which they are donating. Such organizations and their finances should be provided with regular and timely financial information to allow donors, the government, and other stakeholders to sufficiently grasp the financial balances. Various data sources, such as the financial reporting system, internal accounting records, and information from the stock exchanges and other forms of the financial market, provide the foundation for financial analysis. (Otavová, 2013) Financial reporting requirements must be adequate to meet the needs of nonprofit organizations' stakeholders, which necessitates an effective accounting system. The International Accounting Rules Board (IASB) has yet to create accounting standards governing the measurement and reporting of financial statements in nonprofit organizations. Many regulatory bodies and officials worldwide have issued local accounting rules for nonprofit financial reporting as a result of this circumstance. FASB issued SFAS No. 116 and SFAS No. 117 in the United States, financial accounting rules.

Financial reporting for nonprofit organizations has changed substantially as a result of these new regulations. Consequently, the FASB recommended nonprofits implement these standards immediately to improve their financial reporting systems (Zainon, Hashim, Yahaya, & Atan, 2013). Nonprofits can record their net assets in one of three ways, according to the SFAS No.116 and SFAS No.117 accounting standards: unfettered, temporarily restricted, or permanently limited (Carey & Dyson, 2017). An updated set of recommendations for nonprofit organizations, dubbed AUS 2016-14, has been released by the Financial Accounting Standards Board (FASB) (Copley & Manktelow, 2018). In particular, the new standard would reduce the number of asset classifications from three to two, requiring the disclosure of net assets with no restrictions for unconstrained assets and restricted net assets for assets that are either permanently or temporarily limited (Fitzsimons, McCarthy, & Silliman, 2018). Nonprofit organizations in Iraq must submit template financial reports by the government because no accounting rules govern how they should be measured and reported. The NGO department at the general secretariat of the council of ministers serves as Iraq's official regulatory body for NGO financial reporting. Even though nonprofit organizations (NPOs) adhere to many of the same accounting rules as for-profit corporations, NPOs have their own set of specialized accounting and reporting procedures. In addition, there has been a lot of demand from foreign donors to standardize the accounting and financial reporting processes so that the information can be compared (Cordery et al., 2019). Because of this, we may say that a uniform set of international accounting standards for nonprofit organizations is needed to provide a better knowledge of financial reporting patterns throughout the world.

Financial Sustainability Indicators of NPOs

Nonprofit organizations are all striving for financial sustainability. In an ideal world, NPOs would be able to pay off their operational and administrative costs and prioritize their activities to complete their daily tasks without engaging in endless negotiations with donors. They may or may not agree with their visions and the specific estimated program costs they propose (Leon, 2001). Unfortunately, non-governmental organizations have a tough time sustaining themselves financially since they do not produce anything sold. Instead, they rely on subsidies from the government or competitive donations from other sources to support their operations (Choudhury, Omura, & Forster, 2014). Until now, the financial sustainability indicators of nonprofit organizations have not been comparable due to the absence of mandatory accounting standards and a lack of consensus within these organizations on appropriate indices of financial sustainability (Ryan & Irvine, 2012). It is well established in accounting literature that the financial health of nonprofit organizations may be gauged by a careful examination of their financial statements using several different indices such as liquidity, solvency, financial leverage, and profitability (Henock, 2019). Financial sustainability ratios tailored to nonprofit organizations have been worked on for several years to create and implement this sector (Pajas & Vilain, 2004; Bowman, 2011; Ottova, 2013), with significant results (Maboya, 2016). As a result of these efforts, specific financial indicators, including liquidity ratios, solvency ratios, and profitability ratios, are now often used to assess the long-term viability of nonprofit organizations. Thus, to evaluate the sample companies' financial sustainability, this article has compiled the most common and appropriate ratios from their outputs, as reported by the present financial reporting system. Among these four ratios are present to future cash flow, solvency to savings, and defensive interval.

1. Current Ratio

The current ratio (sometimes referred to as a liquidity ratio) measures an organization's capacity to satisfy its cash needs. According to the following equation, the current balance is determined as follows: existing assets divided by current liabilities:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \tag{1}$$

It is important to note that if the value of the current ratio of under 1, the Organization will face difficulty and will not be able to pay off its debts in the short term. However, when it comes to meeting its financial responsibilities, a business with a more excellent current ratio would be able to do so. At most for-profit firms, the recognized current ratio is 1. (Welsh & White, 1981). Because of this, the entire sample companies' liquidity will be evaluated using value one as a benchmark.

2. Solvency ratio

Organizations' long-term debt repayment capabilities may be gauged using the solvency index. The solvency ratio measures an organization's ability to satisfy its long-term obligations through its cash flow. Thus, the more financially sound an organization is, the more likely it will survive for the long term. Formula 2 is used to compute the solvency ratio:

$$Solvency\ Ratio = \frac{\text{After tax net profit+depreciation}}{\text{Total Liabilities}} \tag{2}$$

It is vital to keep in mind that charitable organizations may not have a large number of liabilities. Therefore, more than 20% of solvency ratios are considered financially viable in for-profit corporations, while less than 20% are considered financially unsustainable (Kajananthan

& Velnampy, 2018). NPOs' solvency ratios can thus use the 20% figure as an appropriate standard for the overall sample NPOs.

3. Saving ratio

A company's ability to enhance or reduce its net assets owing to accumulated surplus or deficit is shown by its saving ratio. It is the result of dividing the rest (revenues-costs) by the total expenses. The following equation is used to compute the saving ratio:

$$Saving\ Ratio = \frac{\text{Total revenue} - \text{Total expenses}}{\text{Total expenses}} \quad (3)$$

Based on a company's financial situation and grant size, the saving ratio might be positive or negative. For example, a company with a low saving ratio cannot meet its financial obligations because it lacks the cash on hand to do so without resorting to borrowing money or selling off assets. In contrast, a positive saving ratio suggests that the Organization's capacity is increased by adding its yearly surplus to the overall assets. Thus, the ideal saving ratio is one, which indicates that the company is financially secure (Holman, Irhke, & Grasse, 2003).

4. Defensive Interval

For nonprofit organizations, the Defensive Interval is a critical indication since it shows how long the Organization can operate if it does not get further funding at a given point in time. Monthly costs divided by total receivables, securities, and cash is the result of this calculation. Following this formula, the defensive interval is computed:

$$Defensive\ Interval = \frac{Cash + marketable\ securities + receivables}{Average\ monthly\ expenses\ (total\ expenses/12)} \quad (4)$$

As a way to secure the long-term viability of nonprofit organizations, defensive time may be used to estimate the amount of time it will take for an organization's assets to be fully utilized and its yearly expenses to be paid. In addition, the number of days the Organization may go without getting any fresh funding is also displayed. The initial research agrees that a protective gap of 90 days or three months is appropriate in for-profit enterprises (Smit, 2014). As a result, three months is the established standard for the whole sample organizations' defense intervals.

2. Methodology

This study intends to highlight the current financial reporting systems of Iraqi nonprofit organizations and examine the sample organization's financial sustainability. Preliminary research highlighting current reporting procedures in Iraq is underway. Large nonprofit organizations with substantial funding were the primary focus of our investigation into Iraqi financial reporting methods, as these organizations are widely considered to have the best reporting processes (Dhanani & Connolly, 2012). The standards for financial reporting were determined by conducting in-depth interviews and doing causal content analysis on all relevant documents, laws, and regulations. To meet the paper's second research objective, we chose a sample of 70 Iraqi nonprofit organizations that raised the most money over three financial years from 2015 to 2017. (the NPOs used are listed in Appendix A). To be eligible for consideration as a sample organization, one must meet:

- The total annual revenues shall not be less than 75 million Iraqi dinars or the equivalent thereof.

- Belong to different sectors (social welfare sector, development sector, human rights sector, women's rights sector, culture sector, relief sector, human sector, research and research sector, medical sector).
- Effective and continuous in its activity

All these organizations were registered at the Department of Non-Governmental Organizations in the General Secretariat of the Council of Ministers in Iraq under nine charitable and humanitarian sectors. The sample organizations were distributed in each sector as follows:

1-	Social Welfare NPOs	12
2-	Development NPOs	12
3-	Human rights NPOs	10
4-	Women NPOs	9
5-	Cultural activities NPOs	8
6-	Relief NPOs	7
7-	Humanity NPOs	5
8-	Studies and research NPOs	4
9-	Medical NPOs	3

Financial statements, NGO department yearly assessments, official papers, laws, rules, and websites were studied. The NGO department's homepage or organizations and other regulators were used to get this information. NGOs in Iraq are required by law to present an annual financial report audited by an independent CPA and must comply with the terms of Law No. 12 of NGOs.

3. Results

This study will examine the financial reporting methods of Iraqi nonprofit organizations and their potential to maintain themselves in the long term. Thus, the findings section comprises two empirical analyses; the exploratory study of the relevant financial reporting procedures in Iraq and the descriptive data analysis of the financial sustainability indicators in the sample NPOs are included.

Exploratory Analysis

According to the study's initial purpose, Iraqi nonprofit organizations' financial reporting methods are subpar due to a lack of modern measurement and financial reporting standards due to outdated regulation. An official government agency in Iraq, the NGO department, was founded in 2004 and is responsible for regulating Iraq's civil society and non-governmental organizations. During its creation, this department went through three stages. In 2004, the Ministry of Planning established the Office of Assistance to Non-Governmental Organizations. CPA Order No. 45 of 2003 mandates that the Office be responsible for overseeing non-governmental organizations (NGOs) registration in Iraq.

As a portfolio-free ministry without its budget, the NGO Assistance Office was relocated from the Ministry of Planning to the Ministry of State for Civil Society Affairs in 2005. As a result, the Office of NGO Assistance was tethered to the General Secretariat of the Council of Ministers and overseen by the Minister of State for Civil Society Affairs. After the General Secretariat of the Council of Ministers revised the NGO Assistance Office's administrative structure on June 3, 2008, it became the NGO Department, which now includes sections, divisions, units, focal points, and coordinators in every province of Iraq. The NGO Act No. 12 of 2010 mandates that all nonprofit organizations (NPOs) submit the following reports to the NGO department every year (NGO, 2010):

- A single financial report provides a comprehensive overview of the funding sources and financial transactions of the Organization.
- A report on the Organization's operations involves a summary of the Organization's initiatives during the year.

The NGO department consequently requires the NPOs to report the three financial statements based on a unified template called the Unified Financial Report (UFR) are; balance sheet statement, statement of current operations, and cash flow statement. A requirement of the NGO Act No. 12 is that nonprofit organizations must produce their financial accounts under generally accepted accounting standards. A nonprofit is a yearly budget to surpass 75 million Iraqi dinars and must be audited by an external auditor. An audit of the Organization's financial records by Iraq's federal board of supreme audit (FBSA) is permitted if the Organization's financial records are erroneous and vulnerable to manipulation by the management. There are no mandates for NPO financial reporting to be made public, and there is no necessity for all NPO financial reports to be made publicly available.

Non-listed and non-governmental organizations in Iraq use a different accounting system than publicly traded companies, which use the International Financial Reporting Standards (IFRS) (Hassan, Rankin, & Lu, 2014). After introducing the Unified Accounting System (UAS) at the Ministry of Trade in 1969, it was made mandatory for all of its enterprises in 1972. (Sharif, 2010). Only a defined format may be used for financial reporting preparation (Al Najjar, 2009). There are several reasons why NPOs and information users do not see eye to eye on Unmanned Aerial Systems (UAS) usage. Non-restricted and restricted grant information is not included in financial reports, for example, or in the financial information on grants and subsidies. Foreign donor organizations necessitate establishing an effective financial reporting system in local nonprofit organizations even if the needs of information consumers are centered on donor responsibility for donations to Iraqi organizations.

There are several obstacles to overcome in Iraq's financial reporting system that necessitate the employment of international professional groups to establish economic planning, administration, and accounting systems (Brinkerhoff & Mayfield, 2005). In the words of Whyte (2007), the Iraqi financial reporting system is at risk because of a lack of effective accountability and oversight, and control over public expenditures. In addition, nonprofit organizations' ability to meet international reporting requirements has been questioned because of the lack of qualified accounting and reporting staff (Génot, 2010).

To summarize, the Iraqi NPO financial reporting system does not satisfy the demands of information consumers and, in particular, those of external donors who are looking for an assurance of transparency. As a result, there are not any formal financial reporting requirements in place for this type of Organization, as well as local laws that do not oblige groups to make their financial reports public (McDowell, Li, & Smith, 2013). Put another way. It will impact the long-term viability of Iraqi nonprofits because the magnitude of donations is directly related to financial reporting outcomes.

Descriptive Analysis

Descriptive analysis is used to examine the present, and growing situations of financial sustainability in each of the nine charity sectors after an exploratory review of current financial reporting methods in Iraq was conducted. Table 1 shows the descriptive statistics of the financial sustainability factors during the research. This identifies the financial reports' substance and the overall impression of financial stability.

Table 1: Summary of descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
LIQUIDITY	210	-1.63	5657.98	136.6012	579.16239
SOLVENCY	210	-34.34	689.28	9.8645	65.98309
DEF. INTERVAL	210	-2.33	1653.91	13.4248	114.49484
SAVING	210	-26.78	31.94	1.1642	5.49865
Valid N (listwise)	210				

Descriptive data analysis of financial reports and assessments was used to compile this table of financial sustainability indicators. There are four financial sustainability ratios shown in this table, with their respective minimum and maximum values, means, and standard deviations summarized. For the three years 2015-2017, the 210 financial reports from 70 nonprofit organizations were analyzed using four financial sustainability ratios: current ratio, solvency ratio, saving proportion, and defensive interval (see Table 2).

Table 2: Summary of financial sustainability ratios

Ratio	2015		2016		2017		Mean	
	N	%	N	%	N	%	N	%
Current ratio	45	64%	39	56%	46	66%	48	69%
Solvency ratio	30	43%	28	40%	34	49%	27	39%
Saving ratio	10	14%	9	13%	9	13%	13	19%
Defensive interval	21	30%	21	30%	27	39%	32	46%

Concerning the liquidity ratio (current ratio), the findings in table 2 indicate that 69% of the sample organizations (48 NPOs) reached an average liquidity ratio exceeding the acceptable liquidity threshold of 1. The results also show that the percentages of NPOs that exceed the current ratio's adequate level are as follows:

- 2015: 64% (45 of 70 NPOs)
- 2016: 56% (39 of 70 NPOs)
- 2017: 66% (46 of 70 NPOs).

Due to the increase in funding sources over the past three years, the sample of Iraqi nonprofit organizations has sufficient liquidity for the 2015-2017 timeframe. For example, the sample NPOs are flexible organizations that may generate revenue by transforming their assets into cash rather than relying entirely on external funding sources. As a result, only 39 percent of the sample organizations (27 NPOs) achieved an average solvency ratio above the acceptable solvency criterion of 20%, considered relatively low. The low proportion of NPOs that surpassed the required solvency ratio threshold is seen in the graph below:

- 2015: 43% (30 of 70 NPOs)
- 2016: 40% (28 of 70 NPOs)
- 2017: 49% (34 of 70 NPOs).

The failure of the NPOs to establish adequate solvency was owing to their significant liabilities relative to their little yearly earnings. This must be acknowledged. This might indicate that the Iraqi NPOs either did not obtain adequate money, or some of the funding sources were not made public. The aggregate results show that 19% of the sample organizations (13 NPOs) have an average saving ratio that exceeds the permissible saving ratio of 1, which is the third financial sustainability ratio. That low score indicates that firms lack the resources to expand their savings balances for the foreseeable future. According to the results, the organizations that exceeded the permissible standard in 2015, 2016, and 2017 were as follows:

- 2015: 14% (10 of 70 NPOs)
- 2016: 13% (9 of 70 NPOs)
- 2017: 13% (9 of 70 NPOs).

According to these findings, the majority of organizations will be forced to curtail or reduce the number of people they serve if they do not obtain appropriate financing in the upcoming fiscal year. Finally, the findings of the defensive interval show that 46% of the sample organizations (32 NPOs) attained an average defensive interval over the permitted 3-month defensive interval. On average, just 46% of 70 nonprofit organizations will be able to last more than three months in the coming year without receiving any additional resources. If we look at 2015, 2016, and 2017 NPOs analyses, we see that the average defensive interval time of these organizations exceeded the allowed defensive interval level, as shown below.

- 2015: 30% (10 of 21 NPOs)
- 2016: 30% (9 of 21 NPOs)
- 2017: 39% (9 of 27 NPOs).

Over the previous several years, there has been a fall in financing for nonprofit organizations (NPOs), which might be the reason for the decrease in 2015 and 2016.

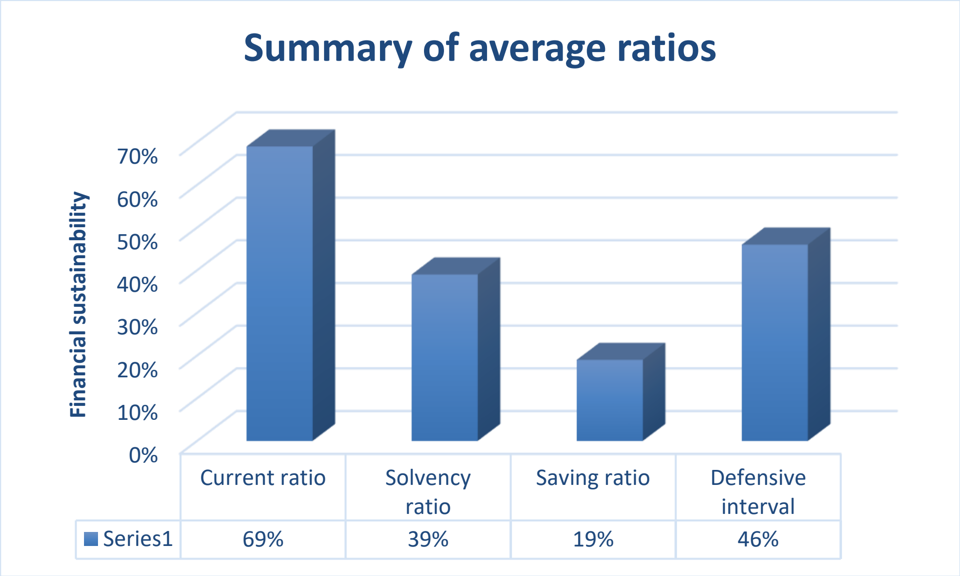

Figure 1: Summary of the average financial sustainability ratios

Overall, Figure 1 demonstrates a sharp difference in sample organizations ' financial sustainability indicators, with 69% in the current ratio, 39% in the solvency ratio, 19% for rations, and 46% for the defensive interval, from organizations that substantially surpassed quantified levels.

Using the same ratios of financial sustainability, the results of this examination are displayed in the following table:

1. Current (Liquidity) Ratio

Table 3 shows the average values for the current ratios of years (2015, 2016, 2017):

Table 3: Average of liquidity ratios

Average values for the	2015	2016	2017
Liquidity ratio	9.875	5.516	7.792

The current ratio (good or bad) typically depends on how it evolves from year to year. The overall average of all current ratios studied over time is between a drop and an increase. Because of a high current ratio, an organization may find it difficult to pay off debts or maintain its service initiatives. Organizations that appear to be struggling with their service programs can really make good progress toward improved and safer liquidity ratios for their short-term financial sustainability. Table (3) below displays the current ratios for each sector of nonprofit organizations for the three years (2015, 2016, and 2017):

Table 4: Liquidity ratios of sample NPOs

Sector	2015	2016	2017	Mean
Social Welfare	21.920	6.640	4.340	10.97
Development	12.179	5.420	17.920	11.84
Human rights	9.498	7.950	4.850	7.43
Women	4.817	2.230	1.250	2.77
Cultural activities	7.279	0.170	5.470	4.31
Relief	3.138	4.570	10.040	5.92
Humanity	6.720	8.300	4.290	6.44
Studies and research	3.936	3.660	7.470	5.02
Medical	0.100	0.620	5.580	2.10

The appropriate value of the current ratio is one, which indicates that the company has enough current assets to cover its current obligations. All sample organizations had a current ratio of higher than one. Table (3) reveals that there were five sectors with a current ratio of higher than 5. Development, Social Welfare, and Human Rights are the three sectors with the highest current ratios, with mean ratios of 11.84, 10.97, and 7.43, respectively. With mean ratios of 2.10, 2.77, and 4.31, the lowest three current sectors are the Medical, Women, and Cultural sectors.

2. Solvency ratio

The total values of the ratios were determined after excluding the extreme values that have a significant impact on the overall findings. Three-year averages are shown in the following table:

Table 5: Average of solvency ratios

Average values of solvency	2015	2016	2017
	0.255	0.106	0.129

Consequently, the overall solvency ratios were extremely low as a result of the negative numbers. For each nonprofit, the results of the solvency ratio were as follows:

Table 6: Solvency ratios of sample NPOs

Sector	2015	2016	2017	Mean
Social Welfare	0.13	0.23	0.21	0.19
Development	0.26	-0.04	-0.001	0.07
Human rights	0.60	0.46	0.03	0.36
Women	-0.14	0.03	-0.36	(0.16)
Cultural activities	0.22	0.17	0.05	0.15
Relief	0.55	-0.14	0.36	0.26
Humanity	0.56	0.33	0.38	0.42
Studies and research	0.21	0.17	0.30	0.23
Medical	0.19	0.65	0.56	0.47

All of the nonprofits in our sample had extremely low solvency ratios during the course of the study. A total of 0.47 was found to be the average solvency ratio for the three sectors listed above: the Medical, Humanity, and Human Rights sectors. Despite the fact that these industries had the greatest solvency ratios and were thus regarded as very solvent, their low solvency ratios left them vulnerable to financial ruin. On the other side, the lowest solvency ratios were found in the areas of women's issues, development, and cultural activities, with mean solvency ratios of (0.16), (0.07), and As a result, firms in this industry do not experience year-to-year fluctuations in their earnings due to a negative solvency ratio, which is significant.

3. Saving ratio

The data in table 7 indicate the average total saving ratios for the three-year 2015,2016, 2017:

Table 7: Average of saving ratios

Average of the saving ratios	2015	2016	2017
	0.043	0.036	0.058

According to the table above, it can be seen that the average savings index swings between years. In 2016, it declined, while it rose in 2017. Possibly due to the rise in funding reductions in 2015, there was a considerable drop in 2015-2016. With less money spent on relief, there was a rise in the saving index in 2016-2017 compared to the prior year. Each sector of nonprofit organizations is represented in Table 8 by its savings index for the years 2015, 2016, and 2017:

Table 8: Saving ratios of sample NPOs

Sector	2015	2016	2017	Mean
Social Welfare	0.331	0.317	0.106	0.25
Development	-0.060	-0.191	0.008	(0.08)
Human rights	0.042	-0.044	0.089	0.03
Women	-0.056	-0.046	-0.088	(0.06)
Cultural activities	0.047	0.016	0.180	0.08
Relief	0.094	0.096	0.073	0.09
Humanity	0.124	0.064	0.129	0.11
Studies and research	-0.046	0.084	0.105	0.05
Medical	-0.092	-0.020	-0.137	(0.08)

The savings index was extremely low in all of the sample sectors shown in the above table. Although the social welfare, humanity, and relief sectors had an average savings ratio of 0.25, 0.11, and 0.09, they occupied the top three spots in the savings index. Savings rates were (0.08), (0.08), and (0.06), respectively, in the medical, development, and women's sectors. The savings index has a negative value if the business is spending its savings from prior years in excess of its annual income. That the Organization's funds have been depleted and that it will not be able to meet its long-term obligations shows that it is unable to maintain its long-term duties.

4. Defensive Interval

Defensive interval measures the Organization's ability to survive without receiving any funding resources. The following table shows the average values for the defense interval for the years 2015, 2016, and 2017:

Table 9: Average of defensive interval values

Average values for the defense interval	2015	2016	2017
	2.133	2.250	2.331

Table 8 shows that over the study period, 2015, 2016, and 2017, the defensive interval values were 2.133, 2.250, and 2.331 months, respectively. Most example organizations can continue to function for up to two months without further money (60-67 days). As a result, these groups are at risk of halting their humanitarian and relief efforts. Each sector of nonprofit organizations has a three-year defense interval from 2016 to 2017, shown in Table 10 below:

Table 10: Defensive interval values of sample NPOs

Sector	2015	2016	2017	Mean
Social Welfare	3.267	2.852	3.192	3.10
Development	2.897	2.352	3.269	2.84
Human rights	1.657	1.864	1.350	1.62
Women	0.956	1.458	1.608	1.34
Cultural activities	2.646	1.913	1.468	2.01
Relief	2.701	1.773	1.529	2.00
Humanity	2.785	2.743	2.963	2.83
Studies and research	0.415	0.497	1.446	0.79
Medical	0.483	3.027	3.700	2.40

With an average of 3.10 months of defense, Social Welfare, Development, and Humanity had the highest defensive interval values among NPOs. There were three areas where average defensive interval values were lower than the national average: studies and research (0.79), women (1.34), and human rights (1.62). For the study and research industry, a typical defensive period is less than a month long. Having a low defensive interval shows that the Organization is insecure and does not have the ability to deal with crises or to maintain its usual operations in the short term.

Conclusions

A large amount of Iraq's humanitarian efforts are carried out by nonprofit groups. Iraqi non-governmental organizations (NGOs) have grown in number since 2003, with more than 4,000 groups serving in diverse domains, such as humanitarian aid and education, women's employment; health; cultural institutions, and so on. Iraq's financial reporting system has failed to keep pace with the fast growth of organizations, resulting in issues relating to openness and disclosure of funding sources, as well as establishing the financial sustainability of these groups. Furthermore, this research examines the financial sustainability of Iraqi nonprofit organizations and examines the link between the sufficiency of a financial reporting system and that Organization's financial sustainability.

Financial reports of 70 non-governmental organizations registered in Iraq for the three-year period from 2015 to 2017 and nine humanitarian sectors were analyzed for financial sustainability using four indicators: current ratio, solvency ratio, savings ratio, and defensive interval. " According to the results of the exploratory investigation, non-governmental organizations' present financial reporting methods are mostly based on the accounting system designed for profit-oriented businesses. This approach does not meet the needs of the data consumers and is incompatible with the nature of nonprofit organizations. Mandatory accounting standards for nonprofit organizations must be issued in a way that helps to standardize financial reporting processes in these organizations because of this variance. There are many accounting concepts in common with nonprofit organizations and for-profit enterprises. However, their accounting and financial reports are rather unusual since they do not rely on net income measurement.

More than two-thirds of nonprofit organizations (NPOs) have enough liquidity, according to the report, whereas just 39 percent of NPOs have sufficient solvency to meet their long-term obligations and create the funds needed to continue their activities. Because 61 percent of the sample organizations lack financial stability, they are in danger of halting operations at any moment because they are unable to meet financial obligations, putting them at risk of bankruptcy. In addition, the statistics show that the savings ratio has dropped significantly. There is only 19 percent of NGO groups that are financially sustainable, which means that 81 percent of the sample organizations do not have sufficient savings to adequately finance their activities. In the context of organizations that have received help or restricted financial gifts from the donor for specified initiatives, this conclusion justifies itself. They cannot keep any of these grants because they lack legal power. NPOs, on the other hand, have a lifespan of just 46 months, while 54 percent of organizations will cease operations after three months unless new sources of money are found for their activities. Weak financial reporting methods and poor performance in indicators for financial sustainability might lead to a conclusion that the two factors are connected. Financial sustainability metrics are also consistent with our prior assessment of Iraq's financial reporting system, which found that nonprofit organizations had insufficient criteria for financial reporting. The volume and reliability of financial reporting correlate positively with the number of donations received by local groups. Hence a weak financial reporting system unavoidably results in financial sustainability metrics that are less reliable than they should be (Tinkelman, 1998). For two primary reasons, this issue is more serious in Iraq than in other countries: First, most local nonprofit organizations rely on foreign funders, who are directly affected by the degree of financial reporting for monitoring and accountability purposes. It has become more difficult for donors to support initiatives in Iraq because they have grown more cautious and meticulous in their decision-making, and they are now both more willing and able to regulate local NGOs and impose responsibility. Therefore, the link that determines the variables of financial reporting and financial sustainability in nonprofit organizations may be seen as primarily an integrative one. Grants and support from local and international sources of financing are sought by local groups; funders also want precise and trustworthy information for monitoring and accountability purposes.

This information must be made available through an effective reporting system by both nonprofits and government agencies. As one of the first studies to combine both financial reporting procedures and financial sustainability in Iraqi nonprofit organizations, this research represents a key contribution. Knowledge of the necessity of NPOs' financial reporting system and appropriate metrics for financial sustainability evaluation is also provided to stakeholders in this study. According to this study, financial reporting systems used by nonprofit organizations may be analyzed by professional regulatory bodies as a basis for developing future financial reporting frameworks. Nonprofit organizations' financial reporting procedures should be assessed by professional regulatory authorities as a starting point for developing the present financial reporting system, according to the conclusions of this research.

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