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شئون البحث العلمي والدراسات العليا

كلية التجارة

ماجستير المحاسبة والتمويل

The Extent of Compliance by International Non-Governmental Organizations (NGOs) with International Accounting Standard No. 16 Property, Plant and Equipment – (Case study on Islamic Relief Palestine)

مدى التزام المنظمات الدولية غير الحكومية بمعيار المحاسبة الدولي رقم 16 الخاص بالممتلكات والمصانع والمعدات – دراسة حالة: الاغاثة الاسلامية – فلسطين

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إقــــــــــرار

أنا الموقع أدناه مقدم الرسالة التي تحمل العنوان:

The extent of compliance by international NGOs with International Accounting Standard No. 16 Property, Plant and Equipment – (Case study on Islamic Relief Palestine)

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نتيجة الحكم على أطروحة ماجستير

بناءً على موافقة شئون البحث العلمي والدراسات العليا بالجامعة الإسلامية بغزة على تشكيل لجنة الحكم على أطروحة الباحث/ **أحمد يوسف أحمد نعيم** لنيل درجة الماجستير في **كلية *التجارة*/ قسم المحاسبة والتمويل** وموضوعها:

مدى التزام المنظمات الدولية غير الحكومية بمعيار المحاسبة الدولي رقم 16 الخاص بالممتلكات والمصانع والمعدات – دراسة حالة: الاغاثة الاسلامية – فلسطين

The Extent of Compliance by International Non-Governmental Organizations (NGOs) with International Accounting Standard No. 16 Property, Plant and Equipment – (Case study on Islamic Relief Palestine)

وبعد المناقشة العلنية التي تمت اليوم الثلاثاء 05 ربيع الثاني 1438هـ، الموافق 2017/01/03 الساعة الحادية عشر صباحاً ، اجتمعت لجنة الحكم على الأطروحة والمكونة من:

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د. هشــام كامــل ماضــي	مناقشاً داخلياً	....
أ.د. جبــر ابــراهيم الــداعور	مناقشاً خارجياً	....

وبعد المداولة أوصت اللجنة بمنح الباحث درجة الماجستير في **كلية *التجارة*/** قسم **المحاسبة والتمويل**.

واللجنة إذ تمنحه هذه الدرجة فإنها توصيه بتقوى الله ولزوم طاعته وأن يسخر علمه في خدمة دينه ووطنه.

والله ولي التوفيق ،،،

نائب الرئيس لشئون البحث العلمي والدراسات العليا

أ.د. عبدالرؤوف على المناعمة

Abstract

Non-governmental organizations (NGOs) play an important role in the Palestinian society due to the political and economic conditions which lead the establishment of these organizations. The importance of this sector increased after year 2000 until these days due to the wars on Gaza.

Islamic Relief Palestine (IRPAL) is one of the leading NGOs in Palestine in the field of humanitarian aid, and it started working in Palestine in 1998 and this study aimed to specify the extent of compliance with international accounting standard 16 property, plant and equipment.

The researcher used a theoretical analysis technique for the collected data about IRPAL financial and accounting system.

The results showed that 8/11 of the comparison items were followed by IRPAL. The non-compliance areas were the revaluation model, depreciation method, and impairment & Compensation. The researcher found that the external auditors, donors, and government don’t provide recommendations or guidance for implementation of IAS 16 property, plant and equipment.

The researcher raised some recommendations to enhance IRPAL compliance with IAS 16 property, plant and equipment that IRPAL can report the amount of the asset value totally to the donor for reporting purposes, while depreciating the asset along its useful life according to IAS 16 and that compliance will enhance the quality of financial reports and increase the credibility of the financial reports. This can be done if there is a close coordination with IRW finance to enhance compliance with international accounting standards.

Also external auditors, government, and Palestinian Accountants and Auditors association should provide guidance and recommendations for NGOs to comply with international financial reporting standards.

Finally, government should issue a guideline for international Charities and NGOs like the one which have been issued for local charities and NGOs.

الملخص

تلعب المنظمات غير الحكومية دور مهم في المجتمع الفلسطيني نتيجة للاوضاع السياسية والاقتصادية التي ادت الى انشاء هذه المنظمات. وازدادت اهمية هذا القطاع بعد عام 2000 نتيجة الحروب المستمرة على على قطاع غزة.

وتعتبر الاغاثة الاسلامية فلسطين احد المنظمات الرائدة في مجال العون والغوث الانساني، حيث بدأت العمل في الاراضي الفلسطينية في عام 1998، وهذه الدراسة هدفت الى التعرف على مدى التزام الاغاثة الاسلامية فلسطين بمعيار المحاسبة الدولي رقم 16 الخاص بالممتلكات والمصانع والمعدات.

استخدم الباحث التحليل النظري للبيانات التي تم جمعها عن النظام المالي للاغاثة الاسلامية.

واشارت النتائج الى ان الاغاثة الاسلامية ملتزمة ب 11/8 من بنود معيار المحاسبة الدولي رقم 16 الخاص بالممتلكات والمصانع والمعدات ،و اوضحت النتنائج ان الجوانب التي لايوجد فيها التزام هي نموذج اعادة التقييم، طريقة احتساب الاهلاك، وطريقة معالجة قيمة الاصول.

ايضا اشارت النتائج الى ان اي من المدقق الخارجي، الممولين، والحكومة لم يقدموا اي نصح او ارشاد للاغاثة الاسلامية بشأن تطبيق معيار المحاسبة الدولي رقم 16 الخاص بالممتلكات والمصانع والمعدات.

وقدم الباحث عدد من التوصيات من اجل تعزيز التزام الاغاثة الاسلامية بمعيار المحاسبة رقم 16 ، حيث اشار الباحث الى ان الاغاثة الاسلامية بمقدورها ادراج كامل قيمة الاصل في تقرير الممول لاغراض التقرير بينما تستمر في احتساب الاهلاك حسب عمر الاصل بما يتوافق مع معيار المحاسبة الدولي رقم 16 وهذا سيؤدي الى تحسين جودة التقارير المالية وتعزيز الثقة في هذه التقارير وكل ذلك يتم من خلال التعاون والتنسيق مع القسم المالي في الاغاثة الاسلامية عبر العالم لتحسين الالتزام بمعايير المحاسبة الدولية.

واشار الباحث الى ان كل من المدقق الخارجي، الحكومة، ونقابة المحاسبين والمراجعين الفلسطينية يجب ان يكون لهم دور في تقديم النصح والارشاد من اجل تعزيز الالتزام بمعايير المحاسبة الدولية.

اخيراً، اشار الباحث الى انه يجب على الحكومة اصدار دليل خاص بالجمعيات والمنظمات الدولية على غرار ماتم اصداره للجمعيات والمنظمات الاهلية المحلية.

بِسۡمِ ٱللَّهِ ٱلرَّحۡمَـٰنِ ٱلرَّحِيمِ

﴿ وَقُلِ ٱعۡمَلُواْ فَسَيَرَى ٱللَّهُ عَمَلَكُمۡ وَرَسُولُهُۥ وَٱلۡمُؤۡمِنُونَ ﴾

[القرآن الكريم، سورة التوبة: 105]

Dedication

I would like to seize this opportunity to express my deepest thanks and dedicate this work to:

My father for his continues motivation and guidance,

My dear mother for her continuous support,

My wife,

My child Feras,

My brothers,

My colleagues,

All my friends.

Acknowledgment

In the Name of Allah, the Most Merciful, the Most Compassionate all praise be to Allah, the Lord of the worlds; and prayers and peace be upon Mohamed His servant and messenger. First and foremost, I must acknowledge my limitless thanks to Allah, the Ever-Magnificent; the Ever-Thankful, for His help and bless. I am totally sure that this work would have never become truth, without His guidance.

I owe a deep debt of gratitude to our university for giving me an opportunity to complete this work.

I am grateful to my supervisor Prof. Salem A. Helles, who has been always generous during all phases of the research. Also I am grateful to the discussion committee member DR. Hisham Madi as internal member and DR. Jaber Daour as external member.

I am very appreciative to my colleagues at Islamic Relief Palestine who supported me in this study.

Last but not least, deepest thanks go to all people who took part in making this thesis real.

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Appreviations

AICPA	American Institute of Certified Public Accountants
AISG	Accountants International Study Group
ASCG	Accounting Standards Committee of Germany
CBO	Community based organizations
CIBS	Center for International Business Studies
CICA	Canadian Institute of Chartered Accountants
CSO	Community Service Organization
DAC	Development Assistance Committee
EEC	European Economic Community
EU	European Union
EY	Earnest & Young
FASB	Financial Accounting Standards Board
FEI	Financial Executives Institute
FO	Field Office
GAAP	Generally Accepted Accounting Principles
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
IR	Islamic Relief
IRPAL	Islamic Relief Palestine

IRW	Islamic Relief Worldwide
LIFO	Last in first out
NACAS	National Advisory Committee on Accounting Standards
NAS	Non-Audit Services
NGO	Non-governmental organizations
NPO	Non profit organizations
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
PPE	Property, plant, and equipment
PWC	Price Waterhouse Coopers
ROS	Registry of Society
TVET	Technical vocational educational training
SEC	Securities and Exchange Commission
UIA	Union of International Associations
UN	United Nations
UNRWA	United Nations Relief and Works Agency
YCSO	Youth Civil Society Organizations

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Chapter One
Framework of the Research

Chapter One: Framework of the Research

1.1 Introduction

Non-governmental organizations (NGOs) play an important role in the Palestinian society due to the political and economic conditions which lead the establishment of these organizations. The importance of this sector increased after year 2000 until these days due to the wars on Gaza. As the number of NGOs working in Gaza increased it became difficult for local government to monitor the accounts of these organizations and also it is hard for fund providers to determine which NGO to support.

Charities are becoming more highly regulated worldwide while subject to diverse financial reporting standards (Cordery & Baskerville, 2007).

Unlike profit-oriented entities subject to securities market regulation and required to produce financial reports compliance with International Financial Reporting Standards (IFRSs), most industrialized countries impose minimal charity regulation and operate "under-developed" financial reporting standards (Wilke, 2003).

Financial reporting in NGOs is important, not only to monitor their performance in terms of their efficiency and effectiveness in using public resources, but also to provide information to all relevant interest groups on their economic resources and obligation. Interest groups include legislators, donors, government auditors, and tax payers (Nasir, Othman, Said, & Ghani, 2009)

Over the past decade, concerns have been raised about the accountability of charity organizations particularly on the adequacy of financial reporting and oversight mechanism (Nasir et al., 2009).

During the years from 1999 to 2008, NGOs working in Palestine received about USD 1.3 Billion according to the World Bank data bases.

This lead us to move toward providing public access to the financial accounts of charities to assist stakeholders in their decision making and to enhance transparency of NGOs.

Islamic Relief Palestine as one of the leading NGOs in the field of humanitarian aid in Palestine is subject to continues auditing by the their donors, government, and main office in UK.

1.2 Research Problem

One way in which stakeholders can determine how to deal with NGOs is through their financial reports. However, this assumes that these financial reports are understandable by all stakeholders.

In Gaza stripe particularly, there are hundreds of NGOs whether local or international, and their supervision by government and by funding donors became harder if each one of them use different method of accounting.

Islamic Relief Palestine (IRPAL) is one of the leading NGOs in Palestine in the field of humanitarian aid, and it started working in Palestine in 1998, the average amount of annual expenditures for IRPAL Gaza during the last 5 years is about 20 Million US dollars annually, and average number of implemented projects during the same period is about 50 project annually.

IRPAL faced a problem with donors who don't accept depreciation cost of fixed assets to be reported against their projects as this is not actual cash expenses, so Islamic Relief started to charge asset fully to the donor project and show the asset value with zero amount in balance sheet by debiting the asset cost and crediting the accumulated depreciation.

This will lead us to the following question:

Does Islamic Relief Palestine (IRPAL) account for fixed assets according to the international accounting standard 16 property, plant and equipment?

From the main question, the researcher can derive the following sub-questions:

1- Does IRPAL comply with IAS 16 property, plant and equipment?
2- Do external auditors provide guidance on implementing IAS 16 property, plant and equipment?
3- Do donors provide guidance on implementing IAS 16 property, plant and equipment?
4- Do government play a role in forcing NGOs comply with IAS 16 property, plant and equipment?

1.3 Research Objectives

This study aimed to specify whether Islamic Relief Palestine (IRPAL) implement international accounting standard 16 property, plant and equipment or not through the following:

1- To show the extent of IRPAL compliance with IAS 16 property, plant and equipment.
2- To examine whether external auditors provide guidance on implementing IAS 16 property, plant and equipment .
3- To investigate whether donors provide guidance on implementing IAS 16 property, plant and equipment
4- To explore whether government play a role in forcing NGOs comply with IAS 16 property, plant and equipment.

1.4 Research Hypothesis

To answer the research questions, the following hypothesis have been developed:

1- There is a relationship between having a strong financial accounting system and IRPAL compliance with IAS 16 property, plant and equipment.
2- There is a relationship between the role of external audit and IRPAL compliance with IAS 16 property, plant and equipment.
3- There is a relationship between the donors requirements and IRPAL compliance with IAS 16 property, plant and equipment.
4- There is a relationship between the government requirements and IRPAL compliance with IAS 16 property, plant and equipment.

1.5 Significance of the Research

This study is expected to provide a general frame work for IRPAL administration about the compliance with international accounting standards and help the administration use the available resources in most effective way.

Also this study will be helpful for donors, external auditors, and government agencies to clearly understand IRPAL treatment or accounting for fixed assets in comparison with international accounting standard 16 property, plant and equipment

1.6 Research Variables

- **Dependent variable:** IRPAL compliance with IAS 16 property, plant and equipment.
- **Independent variable:**
  1- Existence of strong financial system.
  2- External auditor’s role

3- Donors role

4- Government role

1.7 Literature Review

1- (Maina, 2016), **“The Role Of External Audit Services To Donor Funded Organizations in Kenya : case study of donor funded organizations based in Nairobi”**

The objective of the study was to determine the role of the external audit services to donor funded organizations in Kenya. The specific objectives were to determine whether external audit services help improve the budgetary controls, fund utilisation efficiency for donor funded organizationsm, whether external audit services help improve risk management in donor funded organizations, and whether external audit services help improve the internal controls in donor funded organizations.

The study adopted a descriptive research design. Primary data collection method was used in this study. According to the Non-Governmental Organizations Co-ordination Board directory of 2014, 2,125 were operating within Nairobi.

The results of the study revealed that budgetary control and efficiency is enhanced when both short and long term consequences of the budgets are considered, the organization mostly looks at risk identification when identifying project risk and that financial control was a major measure of reducing organizational risk, and effective external audit is crucial to the success of an NGO in stemming fraud and abuse and in the preparation of accurate financial statements. The study concluded that there are benefits of conducting external audits to donor funded organisations in that external audit services help improve the budgetary controls, fund utilisation efficiency, and improves risk management.

2- (AbuHabeeb, 2014) , **“The Reality of International Transparency Standards’ Application within The International Organizations Operating in The Gaza Strip. Case study: "United Nations Relief and Works Agency for Palestine Refugees - UNRWA In Gaza"”**

The study aimed at identifying to what extent international standards of transparency were applied in international organizations operating in Gaza Strip. A descriptive analytical method has been used in the study, and the questionnaire was the tool for collecting the data.

One of the main results of the study was that two third of the population sample believe that United Nations Relief and Works Agency (UNRWA) applied and practiced transparency and its indicators in its work and operations in the light of international standards of transparency.

The study recommended to activate the role of UNRWA 's top management in supporting the principles of transparency by enabling the staff, encouraging entrepreneurship, and innovation in addition to providing support and feedback to their suggestions.

3- (S Zainon, Atan, & Bee Wah, 2014) **"An empirical study on the determinants of information disclosure of Malaysian non-profit organizations"**

The study aimed to examine the determinants of the extent of disclosure by non profit organizations (NPOs) in Malaysia.

The methodology used in this study involves three phases. First, the study identified information items NPOs need to disclose. Second, the study conducted an online survey to determine the ratings of importance for the disclosure items. Third, the study measured the extent of disclosure from the annual returns of 101 Malaysian NPOs for the year 2009. The study used hierarchical regression analysis to determine the significant determinants of information disclosure.

The results show that the presence of external auditors promotes better reporting practice. Malaysian NPOs that receive funding and those with better financial standing disclose more information.

4- (Al-Hageen, 2014), **"Evaluating the professional performance of the auditors in the management of associations at the Ministry of the Interior (From the point view of associations administrations in the Gaza Strip) "**

The study aimed to analyze and evaluate the professional performance of the working auditors in the associations administration at Ministry of Interior. The study adopted the descriptive analytical method to describe and analyze its variables and to test its assumptions. The results showed that auditors at Ministry of Interior have the experience, ability and skills to follow up and audit the financial procedures in conformity with controlling rules of associations' activities, they follow up the safety and sufficiency of the internal control system and committing to profession ethics and neutrality, they need to pay more attention to employment procedures that associations follow, they need held field visits to projects to examine their feasibility, and they need training to be familiar with all developments in the fields of control and auditing.

Based on the results, the study recommended developing mechanisms of control work financially and administratively to be compatible with the effective laws, guiding and encouraging associations to publish their information to the public to enhance principles of transparency and impartiality, guiding association to finance projects that meet Palestinian society priorities and needs to contribute to the economic development and decreasing poverty and unemployment and concentrating on continuing training for auditors according to the latest developments in auditing.

5- (Irvine & Ryan, 2013), **"Accounting Regulation for charities: international responses to IFRS adoption"**

The study examined charity regulatory systems, including accounting standard setting, across five jurisdictions in varying stages of adoption of International Financial Reporting Standards, and identified the challenges of this process.

The study relied on publicly available archival evidence from charity regulators and accounting standard setters in five common-law jurisdictions in advanced capitalist economies, all with vibrant charity sectors: United Kingdom, United States of America, Canada, Australia and New Zealand.

The study reveals the importance of co-operative interdependence and dialogue between charity regulators and accounting standard setters, indicating that jurisdictions with such inter-relationships will better manage the transition to IFRS. It also highlights the need for those jurisdictions with not-for-profit or charity-specific accounting standards to re-configure those provisions as IFRSs are adopted.

6- (Saunah Zainon, Hashim, Yahaya, & Atan, 2013), **“Annual Reports of Non-profit Organizations (NPOs): An Analysis”**

The study analyzed the annual reports of 100 NPOs registered with the Registry of Society (ROS) under the charity and religious categories.

The objectives of the study were to determine the current state of reporting practices by NPOs; and to describe the contents of a set of annual reports and the financial statement presentation of NPOs. The study found that there were variations in reporting practices among the charity and religious categories of NPOs. On average, the results showed that NPOs do not focus on the disclosing information required by the ROS, the governing body of NPOs. This indicates that the regulators need to strongly practice enforcement to strengthen the compliance of the annual reports submission. Overall, the findings of this study provide useful information to regulators as a basis for preparing and presenting NPOs’ annual report framework in the future.

7- (Daloul, 2013), **“ Evaluating the Extent to which Non-Governmental Organizations in Gaza Strip Adhere to Financial Requirements of International Donors and the Impact of this on Fund Sustainability”**

The study aimed to determine the financial requirements of various international donor organizations that required from local Non-Governmental Organizations (NGOs), and the scope of applying donor’s financial requirements by local non-governmental organizations in the Gaza Strip and the effect on funds and funding sustainability.

The researcher applied the descriptive analytical approach through using a random sample of the study population of about (67) international donor organizations and (401) local NGOs. The sample consists of (98) organizations divided to (39) international donor organizations and (58) local NGOs. The researcher used questionnaire to measure the variables of the study, and then used the SPSS program for statistical analysis.

The findings of the study showed the agreement of NGOs and international donor organizations in opinion about the effective factors in obtaining funding and sustainability; the internal accounting system, and organization policies in local NGOs and financial reporting in accordance with donors requirements are effective factors in obtaining fund and sustainability.

The researcher recommended the local NGOs to design a financial plan to obtain varies funds for NGOs to ensure fund and sustainability that will provide continues ability for NGOs to serve the society.

8- (AL-Ramlawi, 2012), **“Impact of International Funding Organizations on Building the Financial Management Capacity of NGOs Working in Gaza”**

The study aimed to investigate the impact of international funding on building the financial management capacity of non-governmental organizations (NGOs) working in Gaza.

The study used the descriptive method to analyze the questionnaires of study population.

The study showed that fund from international organizations has a positive impact on building the financial management capacity of the NGOs working in Gaza through education and training, which had a major role in the development of NGOs.

The researcher suggested to allocate international funding for building the capacity of NGOs, pay more attention to educate and train NGOs' staff, and Focus on the development of financial policies and regulations followed within NGOs, in order to raise the financial efficiency of their staff.

9- (Musalam, 2011), **“Extent of external audit effectiveness for Palestinian NGOs working in Gaza strip : A Pilot Study”**

The study aimed to investigate the effectiveness of external audit of Palestinian NGOs and find out ways to increase the application of effective external auditing standards, through gathering the views of the administrators for NGOs in Gaza Strip. The study based on descriptive analysis to describe and analyze the variables and test hypotheses.

The study found that the external audit is not effective as required, No clear seclecton criteria for external auditors where the selection is based on personal relations between the auditor and the NGO management, audit fees are unfair while they are linked to the result of the audit report, lack of the application of professional due care resulting from the length of the contractual period, in addition to doing accounting works for the same institutions, which contradict with laws of the profession.

The researcher recommended the need to strengthen attention to the application of effective external audit standards on NGOs, the need to consider the dependence from client, the need to separate the work of accounting and auditing, and the need to give the auditor his dependance without imposing restrictions on his work.

10- (Cantoni, D'Silva, & Isaacs, 2011), **"The Determinants of Audit Fees : Further Evidence From the UK Charity Sector"**

Given the lack of literature and the ever growing relevance of charities, the present paper investigates the determinants of audit fees in the UK charity sector. It proposes a theoretical framework to determine the audit fee, which is empirically tested on a dataset of 119 "largest" charities. The paper also investigated the presence of a fee premium associated with (now) Big4 audit firms and expertise in charity auditing, and compares the results with those of a leading study in the UK context (Beattie et al., 2001). Our findings basically confirm those of Beattie et al. (2001). The evidence shows that size, risk, and fees for Non-Audit Services (NAS) are the main determinants of audit fee determination, while, contrary to research in the private sector, the organisational complexity of the charity does not seem to have significant influence on audit fees. The results also show a positive association between audit fees and NAS fees, the presence of an audit fee premium between

Big4 and non-Big4 auditors, as well as significant higher remuneration for the auditors' expertise.

11- (Burger & Owens, 2010), **"Promoting transparency in the NGO sector:Examining the availability and reliability of selfreported data"**

The study examined the prevalence of discrepancies between what NGOs say and what they do. It does so using a unique dataset of 300 NGOs in Uganda with corresponding beneficiary assessments. Investigating NGO dishonesty with regards to financial transparency and community participation.

The study founds a high incidence of misrepresentation among NGOs. The results differ according to the subject matter: the threat of being caught reduces the likelihood of dishonesty about financial transparency, while a desire to 'save face' to maintain a good reputation appears to be the main motivator of a misrepresentation of community.

The study provided tentative indications that NGOs with antagonistic relations with the government may be more likely to hide information and be dishonest. It also lends some support to the view that excessive and unrealistic donor demands may be an obstacle to openness and transparency.

12- (Nasir et al., 2009), **"Financial Reporting Practices of Charity Organisations: A Malaysian Evidence"**

The study examined the current state of financial reporting of charity organisations in Malaysia. Specifically, this study examined the major issues and problems faced by these organisations in preparing their financial reports. Annual reports of 32 charity organisations were reviewed and the results showed that there is a varying degree of reporting practices among them. The results showed that although all charity organisations submitted their balance sheets to the Registrar of Society, only 60% of these organisations presented a cash flow statement and only 59% had their financial reports audited by external auditors. Further investigations indicate that there are problems faced by these organisations in preparing the reports such as lack of skilled accounting staff and high staff turnover. The findings of this study provided some understanding to the relevant authorities and the organisations themselves to overcome the problems related to the non-submission of annual reports as required by the Registrar of Society.

13- (Vermeer, Raghunandan, & Forgione, 2009), **“Audit Fees at U.S. Non-Profit Organizations”**

Non-profit organizations account for a significant share of the U.S. national economy. Some recent scandals and governance failures in non-profits have led to increased scrutiny of non-profits, including new state laws related to external audits. The researchers investigated the audit fee by developing a model that seeks to explain non-profit audit fees. Results from data provided by 125 of the largest non-profits indicate that auditee size, complexity, liquidity, and resource dependency are associated with audit fees; in addition, audit fees are higher for non-profits with a Big 4 auditor. The results also suggest that alternative monitoring mechanisms, such as a good audit committee and internal auditing, are complements rather than substitutes for monitoring by external auditors.

14- (Ghayada, 2008), **“The extent of compliance by industrial companies working in Gaza strip with international accounting standard 16 property, plant and equipment”**

The Study aimed to identify the degree of compliance by industrial companies operating in the Gaza Strip with International Accounting Standard (IAS) No. (16) for Property, Plant, and Equipment (Fixed Assets) and the constrains for such compliance, and to determine whether the compliance with the rules of the standard is associated with a range of variables such as: educational qualification, years of experience, the volume of fixed assets, type of industry, and size of capital, the study offered as well recommendations that would contribute to the application of the standard.

The study has concluded that the industrial companies operating in Gaza Strip do not comply with the rules of the International Accounting Standard No. (16), and that there are some difficulties affecting compliance like absence of an official body or a law that would force applying the standard, as well as the economic conditions, management, lack of the desire to demonstrate the true financial position of the companies, Inadequate role of the professional bodies and associations responsible for accounting and auditing profession.

The researcher recommended the necessity to comply with the rules of the International Accounting Standard 16 and improving the accounting systems of the companies consistent with the requirements of the standard, and to speed up the enactment of the new corporations law instead of current laws.

15- (Hooper, Sinclair, Hui, & Mataira, 2007), **“Financial reporting by New Zealand Charities: Finding a way forward”**

This study identifies four problems that limit the way forward of the financial reports of charities. The first problem is fund accounting where different titles are used to describe similar funds and specific funds are utilised to remove items from performance measurements. The second problem involves the practice of recording fixed assets as an expense rather than capitalisation and depreciation. Third, the accounting basis is a problem for charities where several pledges are made and not received. The final problem surrounds the issue of the allocation of fund raising expenses and the subsequent variable proportion of donations that reach beneficiaries as a result of differing accounting treatments.

To examine these problems eight interviews were conducted involving charitable organisations, auditors and academics that have expertise in charity financial reporting.

The study recomended that funds must be identified as either restricted or unrestricted, all assets acquired be capitalised and depreciated, charities adopt a modified accrual accounting basis so that donations are only recognised when received as cash, and establish some standardisation of overhead allocation to revenues.

1.7.1 Comment on previous studies

Part of the previous studies have focused on the role of external auditors on charities and donor funded organizations like the study of (Maina, 2016), (S Zainon et al., 2014), (Musalam, 2011), (Cantoni et al., 2011), and (Vermeer et al., 2009).

Other studies focussed on the importance of finacial reports as a disclousre tool for NGOs and the importance of these reports for stakeholders in taking their decisions like the study of (AbuHabeeb, 2014), (Atan, Zainon, & Wah, 2013), (Burger & Owens, 2010).

Also two of the previous studies tried to explore the financial practicies of NGOs in Malysia (Nasir et al., 2009), and New Zealand (Hooper et al., 2007).

Another two studies focussed on the role of external donors and funding agencies on building the capacity of local NGOs like the study of (Daloul, 2013), and (AL-Ramlawi, 2012).

(Irvine & Ryan, 2013) tried to explore whether charities respond to the adoption of IFRS.

This study tried to understand the extent of compliance by Islamic Relief Palestine with International accounting standard 16 property, plant and equipment, which considered upon the knowledge of the researcher, the first study in this field in Palestine.

1.8 Methodology

1.8.1 Purpose

Clear and transparent financial reports would provide potential donors with a clearer view of the objectives of the NGO and enhance its credibility in the eyes of the public.

1.8.2 Paradigm

As the researcher mentioned before, this study used a theoretical analysis technique to explore the extent of compliance by Islamic Relief Palestine with International accounting standard 16 property, plant and equipment.

1.8.3 Population and Sample

This study was held on Islamic Relief Palestine (IRPAL) as a case study.

The researcher selected IRPAL for the following reasons:

1- The researcher is working in IRPAL and have the access over the needed information, in addition to the cooperation with the administration and staff to obtain the required data to complete the research.
2- IRPAL is one of the leading NGOs in Palestine in the field of humanitarian aid, and it started working in Palestine since 1998.

3- The average amount of annual expenditures for IRPAL Gaza during the last 5 years is about 20 Million US dollars annually.

4- Average number of implemented projects during the same period is about 50 project annually.

1.9 Investigative Techniques

The researcher used a theoretical analysis technique for the collected data about IRPAL financial and accounting system.

1.9.1 Data Collections

To achieve the purpose of this study, a quantitative descriptive analytical method has been adopted using the following types of data:

- Secondary data : Including books, articles, theses, journals, etc…
- Primary data : Primary data used were as follows:
  1- Financial guidelines for Islamic Relief Palestine.
  2- IRPAL external auditors reports for the last five years from 2011 to 2015
  3- Donors funding agreements for IRPAL in the last five years from 2011 to 2015
  4- Government regulations and guidelines in this field.

1.10 Bias

1.10.1 Bias through ignorance or design

To overcome this type of bias, the researcher reviewed the previous studies to understand the techniques which were used in that researches to draw a clear picture about this subject and capture the required techniques to implement the research.

1.10.2 Bias by misrepresentation

The researcher showed the exact result of the research without ignoring anything and after he finished the research, he compared the results with the previous results from other countries which confirmed the research results.

Chapter Two

Overview of NGOs

Chapter Two: Overview of NGOs

2.1 Introduction

NGOs are one group of players who are active in the efforts of international development and increasing the welfare of poor people in poor countries. NGOs work both independently and alongside bilateral aid agencies from developed countries, private-sector infrastructure operators, self-help associations, and local governments (Werker & Ahmed, 2008). The steady rise of NGOs has captivated the imagination of some policymakers, activists, and analysts, leading some observers to claim that NGOs are in the midst of a quiet revolution (Edwards & Hulme, 1996).

From this perspective, NGOs are frequently idealized as organizations committed to doing good while setting aside profit or politics (Anheier, 2014).

In the realm of international development, NGOs have been characterized as the new favored child of official development agencies and proclaimed as a magic bullet to target and fix the problems that have fallen the development process. They are seen as instrumental in changing mindsets and attitudes in addition to being more efficient providers of goods and services (Edwards & Hulme, 1996).

International Committee of the Red Cross was founded in 1863 in the aftermath of the Crimean war. During World War I and World War II, new NGOs devoted to humanitarian and development goals emerged, including Save the Children Fund in 1917, Oxford Committee for Famine Relief (now Oxfam) in 1942, and CARE in 1945. To be sure, NGOs have played a growing role in development since the end of World War II.

The number of international NGOs rose from less than 200 in 1909 to nearly 1000 in 1956 to over 20,000 currently (Werker & Ahmed, 2008).

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2.2 Definition of NGOs

The first time that term "nongovernmental organization" (NGO) have been used was after World War II which was initially referred to by the United Nations (UN). When the UN Charter was adopted in 1945, it was stipulated in Article 71 that NGOs could be accredited to the UN for consulting purposes. Thus, scholars first mainly applied the term NGOs only when referring to those societal actors which are (because of UN criteria) international bodies and engage within the UN context. In recent decades, especially since the 1980s, the term NGO has also become popular for societal actors of all sorts engaged outside the UN framework, internationally and nationally, and has indeed been increasingly adopted more broadly by academics as well as by activists themselves. (Martens, 2002)

Before the term became widely used by UN, other authors referred to “private organizations” (White, 1933) or “international pressure groups”(Willetts, 1980). The League of Nations, for example, used the expression “voluntary agencies” or “volas” (Ziegler, 1998)

To better understand the definition of NGOs, the researcher will try to explore this issue from two sides the juridical approach, and the sociological perspective.

2.2.1 Juridical approach

Most important, NGOs take part during all stages of the negotiation processes at global conferences; they seek to influence governmental representatives through informal lobbying (Schoener, 1997).

In the field of human rights protection, NGOs contributed to the advancement of international standards. Human rights NGOs have continuously gathered information on human rights abuses and put forward proposals on the development and the implementation of human rights law. For example, experts from Amnesty International were participating during the establishment and writing processes of the Convention of the Abolition of Torture (Cook, 1996) and the drafting of the Convention of the Rights of the Child (Cantwell, 1999)Similarly, in the field of environmental protection, NGO put on advancing international standards to protect the environment (Sands, 1992).

2.2.1.1 The UN Context

The term NGOs have been used by United Nations to describe a vast range of international and national citizens organizations, trade unions, voluntary associations, research institutes, public policy centers, private government agencies, business and trade associations, foundations, and charitable endeavors. (Archer, 1983)

Nonetheless, Article 71 UN Charter has become a guide for many other intergovernmental organizations both within and outside the UN system (Fozein-Kwanke, 1986)

2.2.1.2 The International Law Context

Basic principles for “nonprofit private organizations” were to have an international purpose and membership from different countries. In this treaty these associations were defined as “groups of persons or associations, voluntarily created on private initiative, which perform, without seeking profits, an international activity of general interest, and do not come exclusively under national order" (Martens, 2002).

The right to societal organization can be linked back to basic civil rights such as free association and freedom of speech. Because of these basic rights, people can form common organizations to express their views to the public or their dissatisfaction with governmental policies. National laws on associations differ from country to country, and therefore NGO status varies too whereby recognition, rights, and duties depend on the respective national conditions, so problems arise for NGOs in the international sphere.

In short, juridical approaches base their interpretation of internationally operating NGOs on UN recognition and the national acknowledgment of NGOs. The UN has set up some rather unspecified criteria for NGOs that focus on their composition and reputation. In international law only limited progress has been made to define NGOs sufficiently. Instead of developing a body of criteria for NGOs, international law focuses on the status of NGOs under national jurisdiction (Martens, 2002).

2.2.2 Sociological Perspective

There is no agreed-upon common NGO definition in sociological studies which was the main criticism for the term NGO to be like "rubbish bin" or "catch-all word" for everything that is simply not governmental (Furtak, 1997).

In addition, the criteria of the Union of International Associations (UIA) will be taken into account in this section, as they are widely recognized in academia and often taken as a basis for definition.

Sociological approaches to NGOs mainly define them by referring to what NGOs are not. For example (Lador-Lederer, 1963) notes that "the NGOs are non-governmental, non-profit-making, not uni-national." Similarly, (Willetts, 1996) declares after an extensive discussion of NGO attributes that NGOs are "any non-profit-making, non-violent, organized group of people who are not seeking governmental office."

NGOs are very often referred to as nonprofit making entities (Weiss, 1996). This approach seeks to draw a line between NGOs and other non-state actors, such as multinational companies, whose primary aim is the pursuit of profit. NGOs, instead, are interested in advancing their designated objectives, such as the interests of their members or universal claims (Schoener, 1997). NGOs activists combine their skills, means, and energies in the service of shared ideals (Mawlawi, 1993).

For NGOs whose activity are beyond the national borders need to be specifically indicated with labels such as “international” or “regional.” However in this context, the implications of “international” are controversial. For some, it means that their members must be from more than one country (Willetts, 1996); others require that an international NGO must act in different countries and other require both conditions.

Others excluded the term government from the definition of nongovernmental. NGOs are generally understood as being organizations that do not include governmental representatives. NGOs are made up of individuals or national groups and not official representatives of national governments (Russett, Starr, & Kinsella, 2005).

Furthermore, NGOs must not be dependent significantly on governments for financial and moral support. They may receive financial contributions from governmental sources, but only to a limited extent so that they are capable of maintaining themselves in case governmental contributions are withdrawn. However, there are limits to this. For example, many NGOs become increasingly dependent on government when they accept governmental funding and become subcontracted by official institutions for specific purposes.

Others define NGOs from the perspective of Organization in Nongovernmental Organization, the organizational attribute characterizes NGOs as having at least a basic organizational structure, such as permanent members, offices, or financial income.

NGOs are thus formal institutions with self-governing constitutional arrangements (Uvin & Weiss, 1998).

Finally, NGOs can be defined as formal (professionalized) independent societal organizations whose primary aim is to promote common goals at the national or the international level.

2.2.3 Definition of NGOs in the Palestinian law

According to Palestinian law number 1 for year 2000 which named the law of charitable organizations and civil commission, as follows:

- Association or Commission: separate legal entity established according to the agreement between at least seven persons to achieve legal goals to the public without collecting profits to be divided between members or achieving personal goals.

- Foreign Association or Commission: any foreign charitable organization or non-governmental commission which main office located outside Palestine or most of its members are foreigners.

2.3 Organizational Type

A major difference between the public, private and charity organizations is the sources of their income where private organizations generate their income from sales to customers, and the government's income, mostly from taxes, either direct or indirect taxes. The charity organizations, however, rely on a wide range of funding sources for their income. Sources of nonprofit income can be classified into three categories: Private contributions, Public support, and Private sector payments.

Private contributions like individual donations, corporate gifts and foundation grants provide a measure of legitimacy for the organization.

Public support is the government grants and private sector payments include user fees, membership fees, government contracts and the sale of product or service. Each of this funding sources of income is shaped by opportunities and limitations, that forces the charity management to secure and manage the resources properly (Gronbjerg, 1991).

This implied that the goals of NPOs are not to provide profit for their stakeholders, rather to use the donated funds to benefit the intended clients or communities for which these NPOs set to accomplish (Som et al., 2010).

The former has little or no profit maximizing focus, low potential for income generation and, generally speaking, no bottom line against which performance can ultimately be measured in the financial terms.

Consistent with resource dependency theory assertions that each source of revenue has its own pros and cons, and each has different level of dependency on other organizations or external actors. Although NGOs operate in the same legal environment, however there is a difference in their efforts and ability to secure resources. Some organizations may face hard pressures than others. For instance, organizations that receive grants funding might experience stronger pressures on accountability than those which do not receive any grants funding.

Governments have come to depend on the non-profit sector as a community-based vehicle through which they can expand their social services and this governmental funding impacts the operations of NGOs in many ways including the operations and the accountability of NGOs (Luksetich, 2007).

2.4 NGOs during last years

- In 2013, USD 19.6 billion of official development assistance (ODA) was allocated to and through Community Service Organization (CSO) by Development Assistance Committee (DAC) members compared to USD 18.2 billion in 2009.
- The equivalent of 11.6% of DAC Members' total gross ODA was channeled to and through CSOs in 2013.
- CSOs based in DAC member countries raised, at least, USD 29.7 billion in 2013 from private sources.
- There is wide variation in the share of ODA that DAC members allocate to and through CSOs – ranging from 40% in Ireland to 1% in France.
- In terms of volume, the top providers of ODA to and through CSOs are the United States (USD 6.3 billion), followed by the United Kingdom (USD 2.1 billion), the EU Institutions (USD 2 billion), the Netherlands (USD 1.3 billion), and Sweden, Germany and Norway (all around USD 1 billion). Combined, these seven members account for 77 % of ODA channeled to and through CSOs.
- In 2013, DAC members provided around seven and a half times more ODA (USD 12.6 billion) to and through CSOs based in their countries than to developing country-based CSOs (USD 1.6 billion). There has been a small but positive 2% increase in the share of flows to and through CSOs going to developing country CSOs.
- Social infrastructure and services was the main sector of intervention for bilateral ODA channeled through CSOs in 2013: 57% of bilateral ODA (USD 9.6 billion) channeled through CSOs. Twenty-two per cent (USD 3.7 billion in 201) of CSO interventions were for activities falling under the sub-sector Government and Civil Society. Humanitarian assistance – emergency response - is the second most important area of intervention with 22% of aid channeled through CSOs going to it (OECD, 2015) .

2.5 Local and international NGOs working in Palestine

2.5.1 Local NGOs in Palestine

Establishment of Palestinian NGOs was to support resilience of Palestinian people against Israeli forces; while after the coming of Palestinian national authority, the main role became to enhance Palestinian democracy (Barghoti, 2000).

Role change for NGOs lead for increasing their accountability and as a result the need for organizational structures with segregation of duties between finance and admin (Abu-Ramadan, 2006).

NGOs became more active in mobilization and presser for modifying the election laws and part of the Palestinian laws where Palestinian authority responded and modified the Palestinian election law in 2005 to expand the role of women and youth in election for legislative council and local municipalities. In the same time, these NGOs implemented relief projects to help people after second Intifada. Also they worked with international law association to cover Israeli violation against Palestinian and human rights (Barghoti, 2000).

Unfortunately, local NGOs in Palestine don't have a development view in their work as each NGO work for his own with low levels of coordination (Mohsen, 2008).

2.5.1.1 Geographical Distribution for NGOs in Gaza strip

The number of local NGOs working in Gaza Strip by the end of 31/12/2012 were (786), and they were distributed among Gaza five governorate as follows:

Table (2.1) : Geographical Distribution

#	Governorate	No. of NGOs
1	Gaza	408
2	North	116
3	Khanyounis	95
4	Middle Area	93
5	Rafah	74
	Total	786

Source: Foreign Association Committee – Ministry of Interior 2014

The table (2.1) shows that Gaza governorate have the biggest number of NGOs then followed by North governorate and rest of governorates and this is for the following reasons:

1- Gaza is considered the main governorate as it contains the main government offices and ministries.
2- Gaza represents 35% of population in Gaza Strip.

Even the big number of NGOs were in Gaza governorate, they have many offices along Gaza strip and their work reaches different governorates not only Gaza. (Research-Department, 2014)

2.5.1.2 Annual expenditures for local NGOs

Total amount of expenditures for NGOs working in Gaza strip in 2011 were $ 137,316,102

Table (2.2) : Annual expenditures

#	Governorate	2011 Expenditures $
1	Gaza	80,601,447
2	Middle Area	22,748,978
3	Khanyounis	18,861,537
4	North	10,158,671
5	Rafah	4,945,469
Total		137,316,102

Source: Foreign Association Committee – Ministry of Interior 2014

The table (2.1) shows that Gaza governorate have the biggest amount of expenditures in 2011 as it has the biggest number of NGOs followed by Middle governorate which came in the second place while its rank was four when compared with the registered number of NGOs.

This result confirms that even though the NGO were registered in a specified governorate, its work reaches other governorates.

2.5.1.3 Local NGOs divided by sector

NGOs can be divided by sector as follows:

Table (2.3) : Local NGOs divided by sector

#	Sector	No. of NGOs
1	Social	389
2	Cultural	74
3	Youth	54
4	Women and child	44
5	Health	40
6	Syndicates	40
7	Agricultural	35
8	Education	32
9	Handicapped	28
10	Environmental	13
11	Human rights and democracy	10
12	Tribes and Families	9
13	Graduates	7
14	Friends	3
15	Tourism	2
16	unclassified	6
Total		786

Source: Foreign Association Committee – Ministry of Interior 2014

The table (2.3) shows that social NGOs is the main sector in this field and this is because of the following reasons:

1- This sector serves many fields like families sponsorship, elderly help, handicap, events sponsor, social welfare, Technical vocational educational training (TVET), child welfare, and emergency relief services.
2- Gaza strip is unstable area, so most of the projects implemented are emergency and relief projects.
3- The historical development in NGOs work from humanitarian charity work to social and development work that is more organized and have special laws governing its works.

2.5.2 International NGOs in Gaza Strip

2.5.2.1 International Non-Governmental Organizations (INGO) based on their head quarter register

The number of international NGOs working in Gaza Strip during 2014 was 82 and based on their head quarter they were classified as follows:

Table (2.4) : Foreign international NGOs

#	Country	No. of NGOs
1	United States of America	14
2	United kingdom	13
3	France	10
4	Italy	5
5	Turkey	5
6	Norway	2
7	Spain	2
8	Canada	3
9	Holland	2
10	Bosnia and Herzegovina	1
11	Austria	1
12	Switzerland	2
13	Denmark	1
14	Cyprus	1
15	Malaysia	2
16	Indonesia	1
17	Belgium	2
18	Germany	1
19	Australia	1
Total		69

Source: Foreign Association Committee – Ministry of Interior 2014

The table (2.4) shows that United States of America have the biggest number of INGOs working in Gaza strip with 14 INGOs followed by United Kingdom with 13 INGOs. This is because USA specify 1% of their annual budget for charitable expenditures and used to support mainly US charities, while UK specify 0.7% of their annual budget for charitable works and also mainly support UK charities.

The table (2.5) shows that Qatar have the biggest number of regional NGOs working in Gaza strip with 4 NGOs. This is because of the good relationship between the Palestinian government and Qatar government which considered one of the most supporters to rights of the Palestinian people.

Table (2.5) : Regional NGOs

#	Country	No. of NGOs
1	Qatar	4
2	Lebanon	2
3	Tunisia	1
4	Syria	1
5	Saudi Arabia	1
6	Egypt	1
7	Bahrain	1
8	United Arabs of Emirates	1
9	Kuwait	1
Total		13

Source: Foreign Association Committee – Ministry of Interior 2014

2.5.2.2 Division of INGOs based on their sector

Some of INGOs work in more than one sector and they were divided as follows:

Table (2.6) : Division of INGOs based on their sector

#	Sector	No. of NGOs
1	Relief	60
2	Medical	32
3	Social	30
4	Education	21
5	Agricultural	4
6	Services	4
7	Development	8
8	Cultural and thoughts	6
9	Research	1

Source: Foreign Association Committee – Ministry of Interior 2014

The table (2.6) shows that relief sector is the most attractive sector of work for INGOs in Gaza Strip followed by medical sector then other sectors.

2.5.2.3 Annual expenditures for INGOs

Total annual expenditures for INGOs in 2014 were about $ 241,141,558 according to foreign association committee, while in 2012 were $ 90,576,771 and these expenditures were paid directly for project implementation or through implementing partners.

This increase in the size of activities for INGOs working in Gaza strip can be referred to the infrastructure and construction projects funded by Qatar.

2.6 Financial Reporting for NGOs

Financial reporting involves the disclosure of financial information to stakeholders about how the company is performing over a specific period of time and can be issued on a quarterly and annual basis (Rayo & Segal, 2010).

2.6.1 Purpose

Financial reporting serves two primary purposes. First, it helps management to engage in effective decision-making concerning the company's objectives and overall strategies. The data disclosed in the reports can help management determine the strengths and weaknesses of the company, as well as its overall financial health. Second, financial reporting provides vital information about the financial health and activities of the company to its stakeholders including its shareholders, potential investors, consumers, and government regulators. It's a means of ensuring that the company is being run appropriately (Armstrong, Guay, & Weber, 2010).

2.6.2 Financial Reporting Environment for NGOs

The primary objective of financial reporting is to provide information that is useful for resource providers in making rational decisions about the allocation of scarce resources to business and non-profit organizations (F. A. S. Board, 1980).

The annual report produced by most organizations is one measure to fulfil their accountability duty to their stakeholders and to the society at large. Reporting is a means of accountability tailored to meet the stakeholder`s information needs, as highlighted in the Malaysian Accounting Standards Board that states:

“Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management’s stewardship of the resources entrusted to it.” (M. A. S. Board, 2005)

In dealing with the accountability and accounting, the registered societies are required to submit the accounts of the last financial year together with a balance sheet showing the financial position at the close of the last financial year of the society.

2.6.3 Financial Information and the Extent of Disclosure

Disclosure of information by NGOs is important for several reasons. First, information can be used by stakeholders to evaluate the effectiveness and efficiency of a charity organization. Second, the disclosures can potentially improve donors' perceptions. The donations increase if donors gain assurances of effectiveness are disclosed in the report. (Saunah Zainon, Atan, Adzrin, Ahmad, & Wah, 2012)

A number of studies have found a positive relationship between the extent of disclosure and the amount of future donations received (Trussel & Parsons, 2004), and (Connolly & Dhanani, 2004). These studies used the extent of voluntary disclosures based on annual reports that are hypothesized to impact the charity donation decisions.

In other studies, NGOs websites have been found to be more effective tool in providing financial and performance disclosure for the stakeholders' in making decision (Gandía, 2009) and (Saxton & Guo, 2011).

Research indicates that institutional funders, governmental grantors and corporate donors have studied nonprofits' financial statements during grant review process or donation decisions (Keating & Frumkin, 2003).

Nevertheless, many individual contributors do not review a charity's financial statements before making their contribution decisions (Gordon & Khumawala, 1999).

Total income has been widely used as one of the charities' attributes in disclosure studies. Total income generated by charity organizations depends on contributed income such as donations from donors and grants from foundations. This shows that financial information reported in the financial statement is important information. The financial information provided by charity can be one of the factors affecting the extent of disclosure and consequently influences a potential donor's decision to donate. Previous studies provide evidence that financial reports play a role in donation decision (Hyndman, 1990) and (Weisbrod & Dominguez, 1986).

Through financial reports issued by the charity organizations, donors can obtain necessary information to assess and evaluate the performance efficiency of the organization.

Efficiency is defined by as the degree to which non-profit organizations direct their available resources to the organization's mission. This aspect of performance efficiency becomes one of the donors' principal financial concerns to determine the degree to which available resources are directed to providing programs based on donors specified terms and purposes. donors' principal concern is the performance efficiency in terms of the percentage of expenses dedicated to programs. In other words, donors want information on whether funds donated are actually utilized for their intended activities and programs that will induce them to donate in the future (Hyndman, 1991) and (Khumawala & Gordon, 1997).

2.6.4 Financial Performance

Financial performance measures or objective measures is an essential component in assessing overall organizational effectiveness (Cameron, 1986).

However, there is no easy way to measure performance of NGOs due to the absence of profit motive, difficulties in measuring outputs, lack of similar objectives and lack of consensus in evaluating performance. Hence, these have resulted in a serious gap in the financial performance measures. The purpose of a charity organization is not to maximize income, but to carry out the mission of the organization, which usually focuses on the provision of services. In addition, organizational performance is complicated by the absence of single end product and the presence of multiple stakeholders group (Herman & Renz, 2008) and (Sowa, Selden, & Sandfort, 2004).

Financial performance measures or financial health of the charity organizations are important in making resource allocations decisions and further understanding of this financial health crucial in achieving the long-term success and survival of these organizations (Kirchner, Markowski, & Ford, 2007).

Financial performance measures have also been recognized as essential components of NPOs as they are accountable to the use of donors' money in pursuing social missions (Som et al., 2010). Financial performance measured by donations that have been used in many NPOs disclosure studies (Tinkelman, 1998) and (Callen, 1994) .

The information on donations are very useful for the stakeholders to assess and evaluate the performance efficiency of the organization (donations as a proxy of financial performance), and this affect future donations recived (Christensen & Mohr, 2003), (Behn, DeVries, & Lin, 2007), and (Parsons, 2003).

The previous section imphasized the importance of financial reporting as a measrment tool for NGOs management and donors for inhancing transperancy and increasing donor funding.

2.7 Types of financial statements

There are four main types of financial statements, which are as follows:

1- Statement of income and expenses
2- Statement of financial position
3- Statement of cash flows
4- Statement of changes in equity

2.7.1 Statement of income and expenses

An income statement is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period (Marshall, McManus, & Viele, 2011).

2.7.2 Statement of financial position (Balance Sheet)

A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time (Nikolai, Bazley, & Jones, 2009).

2.7.3 Statement of cash flow

A cash flow statement is the financial statement that measures the cash generated or used by a company in a given period as classified under operating, investing, and financing activities (Marshall et al., 2011).

2.7.4 Statement of change in equity

The statement of owner’s equity is a financial statement that reports the changes in the equity section of the balance sheet during an accounting period (Nikolai et al., 2009).

2.8 Importance of financial reporting for NGOs

One way in which stakeholders can determine which charity to support is through their financial reports to enhance the transparency of charities and improve public confidence.

This assumes that the financial accounts of charities are understandable and transparent. Increasing the importance of financial reports for NGOs will further press the requirement for accounts that are understandable and transparent to potential donors.

It is therefore important to clarify the transparency of financial accounts which will increase the accountability of charities to both contributors and resource providers by ensuring that there is sufficient information for all stakeholders of the financial accounts to base their opinion on.

2.9 Palestinian laws governing the work of NGOs

2.9.1 Charities and civil society act no. (1) for year 2000

Paragraph (6): following up associations and organizations

The responsible ministry has to follow up associations and organizations according to this act to verify whether the money received were paid for the planned activates which were collected for according to their bylaws and Palestinian law.

Paragraph (7): associations and organizations have separate legal entities

Associations and organizations have separate legal and financial entity once they officially registered according to this act.

Paragraph (13): Reports

Associations and organizations have to submit two annual reports approved by general assembly no later than four months from year end:

1- A report listing the activities during the year.
2- Audited financial report listing all income and expenses.

Paragraph (14): exemption from tax and customs

Associations and organizations are exempted from taxes and custom fees on money paid for implementing activities to achieve their goals stated in their bylaws.

2.9.2 Council of minister's decision no. (9) for year 2003 about the executive regulation for act no. (1) for year 2000, and its modifications no. (299) for year 2011

Paragraph (50)

1- Associations have the right to raise fund through:
    a) Fees and donations from members.
    b) Accept grants, donations, and unconditional help from normal or moral persons
    c) Implementing profitable activities to generate income for the association, conditioned not to be distributed among members.
2- Association should have an accounting system and hire an external auditor.
3- Associations should report the profitable activities in their annual report and show their effect on the financial report.

Paragraph (51)

The following is not considered conditional, unacceptable funding:

1- Donation in which the donor asks for specific accounting bases to enhance transparency and prober usage of fund.
2- Donations in which the donor asks the fund to be spent for implementing specified project or activities.

Paragraph (52) : Foreign associations can own immovable money (fixed assets) as follows:

1- Sending formal letter to the minister of interior through foreign association committee specifying the description and location of immovable money.
2- Foreign association committee will send a notification letter to the association.
3- In case of acceptance, minister of interiors will send this request to the Council of minister
4- Foreign association committee will inform the association about the final decision whether acceptance or refusal.

Paragraph (53)

1- Associations are exempted from income tax and custom fees on movable and immovable money used to implement the association activities stated in their bylaws.
2- Associations are exempted from income tax and custom fees according to the ministry of finance procedures.

2.9.3 Council of minister's decision no. (192) for year 2014 about the financial issues for charities and civil society associations

Paragraph (2): general rules

1- Financial year starts from 1st of January and ends at 31st of December in the same year.
2- Associations have to prepare an estimated budget for the general accounts and cost centers.
3- Financial documents must not discarded before seven years from closing the financial year, and ten years for financial statement. In all cases, financial documents and financial statements must not discarded unless they electronically archived.
4- National products have the priority in any purchasing process.
5- National contractors have the priority in any purchasing process.
6- Associations are exempted from the procurement procedures stated in this law and can procure through quotation or directly in one of the cases:
    a) In case of emergencies like wars or natural disasters.
    b) In case there is special reason for not bidding, and in this case a prior approval must be granted form ministry of interior.
    c) In case of contracting governmental institutions, charitable, or civil society in which their prices were complying with average market prices.
7- Archiving all the advertisements issued by the associations in a special file.

Paragraph (4): Association accounts

1- Functional currency is new Israeli shekel or any other currency, and foreign transactions are valued using exchange rate at the date of transaction.

2- Association have to hire an external auditor to audit the association accounts and must be approved by general assembly of the association.
3- Audited financial statements must be submitted to the competent authority not later than the end of April for the next year from audited period and it must be approved by general assembly of the association.
4- Association must show the management letter and the administration reply on it to the auditors of foreign association committee.

Paragraph (5): Accounting documents and records

1- Accounting documents are consisted of the following:
    a) Receipt voucher
    b) Sub-receipt voucher
    c) In-kind receipt voucher
    d) Payment request
    e) Payment voucher
    f) Sub-payment voucher
    g) Stock request
    h) Purchase request
    i) Materials receipt and inspection voucher
2- Associations accounts consists of the following:
    a) General journals
    b) General ledgers
    c) Cash account
    d) Fixed assets register
    e) Receipts and payments accounts
    f) Inventory movements account
3- In case of having accounting software, no need for points (a,b)

Paragraph (6): Payments and receipts supporting documents

1- Payments and receipts must have supporting documents
2- Original documents must be attached and copies of original can be accepted in one of the following cases:

a) The original has been lost, and in this case the copy must be stamped as Certified TRUE copy
b) In case of projects whose donor ask for the original document and they stamp the copy, a letter from the donor must be granted to show the original document which were given to them.

3- Expenses must be supported with original documents and purchase request approved by finance officer or his designee, receipt voucher from the supplier, payment voucher from the association, and any other supporting documents.
4- Receipt voucher must be stamped from ministry of interior before they are being used.

Paragraph (8): receipt procedures

1- Receipt voucher must be issued for any receipt whither cash, cheque, bank transfer, in-kind, services, or any other types with specifying receipt currency and exchange rate at the date of receipt.
2- In any case no cash can be received without issuing a receipt voucher.
3- The cashier has to issue the receipt voucher with two copies and give the donor the original.
4- Cash receipt must be deposited in the association bank account frequently, and in case there is reason for not depositing these amounts the association have to inform the ministry.
5- Receipt voucher books must have a serial number and must not use the next book unless the previous one is finished.
6- Receipts and disbursements must separate completely and no clearance can be done between them.
7- The first copy of the receipt voucher must be given to the payee, the second is kept in the association records, the third is kept in the receipt book.
8- Each document must be signed by the cashier, and it is not acceptable to use a stamp.
9- The association can issue sub-receipt vouchers but they have to issue a main receipt voucher in total for those receipts periodically.

10- All sub-receipt and main receipt vouchers must be recorded in receipt and payments ledger.

Paragraph (10): payments and expenses

1- A payment voucher must be issued for any payment even with small amounts.
2- Any amount below ILS 500 can be paid using petty cash box, while any other amounts exceeding this limit can be paid by check or through the bank.
3- Blank checks must be kept inside the association, and it must be recorded in a special record once they are received from the bank. Also they must be used first by first according to their serial number and considered as a custody.
4- It is not acceptable anyway to sign blank checks, and for each check the amount and the name must be written at the Check counterfoil
5- Before signing any check all supporting documents must be reviewed.
6- All supporting documents must be attached to the payment.
7- Supporting documents must stamped with PAID once they are paid.
8- Checks must be issued for first beneficiary only, and it is not allowed to be issued for the holder.
9- It is not acceptable to pay any amount using foreign currency without specifying currency exchange rate on the payment voucher.

Paragraph (15): Fixed Assets

1- Fixed assets are recorded using historical purchasing price, and this account is closed when the assets is sold or disposed. If the asset is totally depreciated while it is still in use, it must be shown in fixed assets records with value ILS 1.
2- Fixed assets depreciation is calculated based on straight line method according to the following depreciation rates:
    a) Computers %20
    b) Office equipment %20
    c) Furniture %10
    d) Building %2
    e) Vehicle %15
    f) Information resources and books %20

g) Machinery %10

h) Computer networks 20%

3- Assets sale or disposal should be done according to board of director's decision and foreign association committee at ministry of interior must be informed before two weeks from starting the process.

4- In case one of the assets have been lost or stolen, board of directors must be informed immediately and foreign association committee at ministry of interior must be informed within a week.

5- Annual inventory for warehouse and fixed assets must be done at the end of each year by at least three persons including one of board of director's members and the external auditor and these minutes must be kept in separate file. If any differences appear during inventory, it can be adjusted based on board of director's decision.

6- Fixed assets register must be kept and it should contain at least these information (asset name – description – department – number – purchasing date – purchasing price – depreciation rate – accumulated depreciation – net book value – assets tag number – donor – place of asset – notes)

7- Borrowed fixed assets are kept in separate record and not merged with association assets.

8- In case of building a building on a rented land from others, the association have to use this building for at least twenty years free of charge.

2.10 Fixed assets problem

A fixed asset is a long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year's time (Marshall et al., 2011).

The balance sheet of a charity should reflect all assets that are under the control and responsibility of a charity.

In the United Kingdom, (Bird & Morgan-Jones, 1981) surveyed 85 large charities to discover that some charities do not depreciate their fixed assets. Other charities write-off assets on purchase and many others do not disclose their depreciation policies. The immediate write-off of fixed assets to revenue account and the omission of fixed assets from the balance sheet do not give a true and fair view of the charity's financial position at the year end. Even among the charities that do depreciate their fixed assets, the fixed assets are often not depreciated consistently over their useful lives. With regard to the depreciation of fixed assets acquired by gift, (Bird & Morgan-Jones, 1981)believe that they should be treated in the same way as those fixed assets acquired by purchase.

The researcher believe that the following reasons might affect NGO decision for capitalizing fixed assets:

1- If capital assets are purchased by using donor contributions, there is no cost to the NGO. Therefore, there is no need to cover the cost from revenues and no depreciation charge is needed but it will be capitalized in balance sheet with the full cost of asset and full amount of depreciation, so the net book value in balance sheet will be zero.
2- NGOs may feel that depreciation is not consistent with fund accounting, which reflects a receipts and payments situation since depreciation is an expense not a payment.
3- Donors might not accept depreciation expense to be reported on their projects as depreciation is an expense not actual payment.
4- Charities prefer to expense fixed assets at once because it would reduce their reported surplus and the level of fixed assets held. This would portray an appealing image of a lack of funds.

2.11 Conclusion

NGOs can be defined as formal (professionalized) independent societal organizations whose primary aim is to promote common goals at the national or the international level.

The Palestinian law define NGOs as a separate legal entity established according to the agreement between at least seven persons to achieve legal goals to the public without collecting profits to be divided between members or achieving personal goals.
A major difference between the public, private and charity organizations is the sources of their income where private organizations generate their income from sales to customers, and the government’s income, mostly from taxes, either direct or indirect taxes.

While NGOs rely on a wide range of funding sources for their income which can be classified into three categories: Private contributions, Public support, and Private sector payments.

In 2013, USD 19.6 billion of official development assistance (ODA) was allocated to and through Community Service Organization (CSO) by Development Assistance Committee (DAC) members compared to USD 18.2 billion in 2009.

In Gaza strip, there is about 786 NGO distributed in all governorate spending about 241 million US Dollar in 2014. It is important for these NGOs to disclose about their financial information to enhance their credibility and transparency.

Chapter Three
International Accounting Standards

Chapter Three: International Accounting Standards

3.1 Introduction

The development of the current International Accounting Standards Board (IASB) from the earlier International Accounting Standards Committee (IASC) provides insight into many issues of international financial reporting, among them the characteristics of international accounting standards themselves. The International Accounting Standards Committee (IASC) was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Additional sponsoring members were added in subsequent years, and in 1982 the sponsoring "members" of the IASC comprised all of the professional accountancy bodies that were members of the International Federation of Accountants (IFAC). From its formation in 1973 until a comprehensive reorganization in 2000, the structure for setting International Accounting Standards was known as the International Accounting Standards Committee (IASC) (Deloitte, 2016).

A goal of the International Accounting Standards Committee (IASC), and its successor body the International Accounting Standards Board (IASB), is to develop an internationally acceptable set of high quality financial reporting standards. To achieve this goal, the IASC and IASB have issued principles-based standards, and taken steps to remove allowable accounting alternatives and to require accounting measurements that better reflect a firm's economic position and performance (Barth, Landsman, & Lang, 2008)

IAS is shareholder-oriented and generally perceived as a fair-value accounting model that emphasizes balance sheet valuation (Hung & Subramanyam, 2007).

Even before the global financial crisis of 2007-2008, the International Accounting Standards Board (IASB) was the object of analysis. Not only accounting scholars, but also sociologists and researchers of political economy studied the IASB with increasing interest. Many works included some mention of the organization's history, but for a long time a proper examination of the historical developments was missing (Camfferman & Zeff, 2007).

The evolution of the IASC and the IASB is the tale of a private-sector international accounting standard setter that has succeeded in earning the respect and support initially of national accounting bodies, then of national standard setters, and ultimately of regulators in the major capital markets and of government ministries, as well as of the preparers and users of financial statements around the world. Some of its success has been due to good timing: it was the only competent international accounting standard setter in the late 1990s when the European Union (EU) was bent on creating an internal capital market and the European Commission was seeking an alternative to U.S. GAAP as the source of required accounting standards for the EU’s listed companies in that market. The European Commission’s surprise proposal in 2000 to commit EU listed companies to adopt International Accounting Standards by 2005 caught the world’s attention, and other countries began taking the IASC seriously as the world’s accounting standard setter. With this acceptance of its standards, the IASB (as the IASC came to be known in 2001) entered a high-stakes game in which companies and governments became proactive players, and regulators took a seat at the table.

3.2 Definition of International Accounting Standards

Standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC). They were first written in 1973, and stopped when the International Accounting Standards Board (IASB) took over their creation in 2001. Also international accounting standards (IAS) can be defined as an older set of standards stating how particular types of transactions and other events should be reflected in financial statements.

3.3 Importance of Accounting Standards

(Gresham, 2016) argued that accounting standards are important for the following reasons:

1- Comparability

   The result is that it is easy to compare the financial standing of similar entities. All comparisons within groups are a matter of comparing "apples to apples." This helps both external and internal observers weigh the state of an entity in the context of other comparable entities.

2- Transparency

Accounting standards are designed to enforce transparency in organizations. This kind of transparency is especially important in the case of public entities, such as governments or publicly traded companies. Standards limit the freedom and flexibility of entities to use clever accounting to move items around or even to hide them.

3- Relevance

Standards work to help entities provide the most relevant information in the most reasonable way possible. In this way, an organization guided by accounting standards will generate the kind of financial information that observers are most interested in examining.

4- Audiences

Ultimately, the importance of accounting standards lies in the value that it brings to financial documents for the various audiences that view and make critical decisions based on it. An absence of accounting standards would make the work of investors, regulators, taxpayers, reporters and others more difficult and more risky.

3.4 The Benefits of International Accounting Standards

Globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public. The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards. Thus, adherence to international standards, such as those developed by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB), can ultimately lead to greater economic expansion (Wong, 2004).

3.5 History of International Accounting Standard Committee

Following World War II, each country had its own Generally Accepted Accounting Principles (GAAP, the U.S. designation), or proper accounting practice. Even among the

GAAPs in countries with active equity capital markets on which listed companies depended heavily for finance—the United States, Canada, the United Kingdom, Australia, and New Zealand—there were important differences. For example, in the U.K., Australia, and New Zealand, companies could revalue their property, plant, and equipment (PPE), including investment property. In the U.S. and Canada, mainly because of the conservative influence of the Securities and Exchange Commission (SEC) they cannot (Zeff, 2007). In North America, Last in first out (LIFO) was widely available for inventories in the U.S., but in Canada its use was confined to a few industries (Skinner, 1972). In 1975, the New Zealand standard setter issued a standard, SSAP 3 on depreciation, which required the use of the straight-line method (Zeff, 1979). No other countries have done likewise.

An even greater gulf existed between the GAAPs in these Anglo-American countries and those in countries on the European continent and in Japan, where income taxation drove accounting practice, where reported profit determined by law the dividend to be declared, and where financial results could be manipulated by secret reserves. In 1947, France established the Plan comptable ge´ne´ral, or National Accounting Plan, a detailed, codified regulation of company accounting, which France then exported to Belgium and Spain and eventually to Portugal, Morocco, Tunisia, Algeria, and Peru (Scheid & Walton, 1992). In most developing countries, financial disclosure was minimal and there was little that could be called GAAP beyond what they might have inherited from former colonial masters, such as the U.K. or France. In sum, worldwide accounting practice was highly diverse and meaningfully comparing financial statements from one country to the next was very difficult (Nobes, 1983).

The 1950s began a period of rapid growth of international trade and foreign direct investment, and companies began to expand their reach beyond their borders. Leaders of the accounting profession saw ‘‘international’’ as the new challenge. The American Institute of Certified Public Accountants (AICPA) hosted the Eighth International Congress of Accountants in September 1962 in New York City with a theme on accounting and auditing in the world economy. Less than two years later, the AICPA published Professional Accounting in 25 Countries (1964), which was the first major volume to survey accounting, auditing, and professional standards around the world (Camfferman & Zeff, 2007).

The 1960s were marked by frequent international mergers and acquisitions, especially American corporations taking over European companies, and once-domestic companies began to redeploy their production operations as well as their management team internationally. In April 1963, Business Week ran a special report on the new form of business organization called ‘‘multinational companies.’’ The magazine wrote, ‘‘serves as a demarcation line between domestically oriented enterprises with international operations and truly world-oriented corporations’’. This internationalist trend heightened the desire to compare financial statements prepared in different countries (Multinational-Companies, 1963).

Sir Henry Benson (later Lord Benson), senior partner in the U.K. firm of Cooper Brothers & Co. (later Coopers & Lybrand and now part of PricewaterhouseCoopers) and the 1966–1967 president of the Institute of Chartered Accountants in England and Wales (ICAEW), led a movement to tackle the issue of diverse accounting practices. Benson, who was born and bred in South Africa and then immigrated to the U.K., was a determined and resourceful man. In 1966, he persuaded the AICPA, the Canadian Institute of Chartered Accountants (CICA), the Institute of Chartered Accountants of Scotland, and the Institute of Chartered Accountants in Ireland to join with the ICAEW to form the Accountants International Study Group (AISG) . The AISG issued a series of booklets that compared the accounting and auditing approaches in the U.S., Canada, and the U.K. Among other things, Benson hoped that a comparison of auditing approaches in the three countries would, at long last, convince the U.K. accounting profession to require the auditor to be present at the taking of inventory, and he succeeded in that endeavor. Over a period of more than ten years, the AISG issued 20 such booklets, which represented the first major effort to compare and contrast accounting and auditing practices across leading countries. The AISG booklets highlighted the diversity in practice among the three countries and, therefore, the non-comparability of financial statements across borders (Camfferman & Zeff, 2007).

3.6 The start of IASC

Benson’s encore initiative in 1973 was even more portentous. Following correspondence and meetings with the leaders of accounting bodies from around the world, Benson led the founding of the International Accounting Standards Committee (IASC). His motivation was to promote the international harmonization of accounting standards, to lessen the differences in accounting practices among countries. There may well have been U.K.-centric reasons as well. In 1973, the United Kingdom, together with Ireland and Denmark, entered the European Economic Community (EEC, known today as the European Union). Until then, Germany's tax-oriented approach to accounting had been driving the development of the Fourth Company Law Directive on accounting, which was to be incorporated in legislation by all member states after it had been approved by the Council of Ministers. Benson and others in the U.K. may have believed that the IASC might promote standards more aligned with the Anglo-American approach to accounting, and thus serve as a countervailing force to the trend of accounting development in the EEC. (Hopwood, 1994) has argued that a key force for the establishment of the IASC was to forestall the imposition of continental European statutory and state control on the much more discretionary relationship between corporate management and the auditor in the UK. The notion of ''true and fair view'' in U.K. company law was unique to the British accounting culture and had no counterpart in legislation on the continent. Benson may have also pushed for the IASC because he was not enamored of the quality of U.K. accounting standards and believed, as with the impact on U.K. auditing practice produced by the AISG booklet on inventories, that U.K. accounting standards and practice could benefit by its accounting bodies joining in a collaborative standard-setting venture at the world level. Indeed, even before the IASC issued its first standard, Benson persuaded the London Stock Exchange to require listed companies to disclose departures from IASC standards, thus putting pressure on the U.K.'s recently launched Accounting Standards Steering Committee and on U.K. companies to conform to the practices recommended in the IASC's standards (Camfferman & Zeff, 2007).

The IASC was the first attempt to set accounting standards internationally. In 1973, few countries had committees or boards whose recommendations influenced the course of accounting practice. In order of chronology, these countries were: U.S., U.K., Canada, France, Japan, Australia, and New Zealand. The Netherlands and South Africa had recently launched such bodies. The nine countries whose national accounting bodies Benson invited to join the IASC were, alphabetically: Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland (combined), and the United States. Each country was represented by a delegation of, at most, three members: two who decided on the delegation’s vote and a staff observer. Each delegation had one vote.

Initially, the AICPA alone sponsored the U.S. delegation, but eventually the Financial Executives Institute (FEI) and the Institute of Management Accountants became co-sponsors. It is an interesting coincidence that the IASC came into being on June 29, 1973, two days before the Financial Accounting Standards Board (FASB), an independent body, succeeded the Accounting Principles Board, which was a committee of the AICPA.

The AICPA was one of the five sponsors of the Financial Accounting Foundation, which oversaw the FASB, but it was now also the sponsor of the U.S. delegation to the IASC, which some might have viewed as a competitor of the FASB, as I will describe. The members of the nine delegations were initially audit firm partners, sole audit practitioners, executives of national accounting bodies, an academic, and a financial executive, all serving on a part-time basis. In ensuing years, more financial executives and financial-statement users became members. In addition to their ‘‘day jobs,’’ delegates attended IASC Board meetings three to four times yearly and read the documentation provided by the full-time technical staff of two, who worked with volunteer steering committees to draft the standards. Small steering committees chaired by a Board member and made up of volunteers around the world prepared the initial drafts. The IASC’s objective was to issue ‘‘basic’’ standards, called International Accounting Standards (IAS), which, it was hoped, would lead to a harmonization of accounting standards worldwide. The Board elected Henry Benson as chairman at its first meeting.

The national accounting bodies signed the IASC Agreement and Constitution, affirming that they would use their ‘‘best endeavors’’ to promote the use of the IASC standards in their countries (Camfferman & Zeff, 2007) . A three-quarters majority was required to approve exposure drafts and final standards. Because the members from a number of the countries defended the propriety of the accounting practices used in their own countries, and also because some country delegations preferred the flexibility of having optional accounting treatments or methods, quite a few standards were issued with free choices.4 The vote on each exposure draft and standard was not reported, and no dissenting views were published. The technical staff frequently consulted the U.S. and U.K. standards, among others, in the early drafting.

Members’ employers covered some travel costs, but the sponsoring national accounting bodies shouldered the bulk of the financial burden. The rent and related costs of the head office in London were borne by the ICAEW. Within a year, accounting bodies in other countries began signing on as associate members, subscribing to the commitment that they too would use their ‘‘best endeavors’’ to promote the acceptance of the Board’s standards in their countries and also agreeing to contribute toward the IASC’s costs (Camfferman & Zeff, 2007) .

The Board’s meetings were probably a trial for some of the delegations. Because the deliberations were in English (of varying national accents), the members from France, Germany, Japan, and the Netherlands were obliged to discuss technical accounting issues in a second language. With more than 25 Board members, plus staff, sitting around a large table, the understanding and communication of views would not have been easy for all of the participants. From the outset, the European Commission, the administrative wing of the EEC, paid scant attention to the IASC. It perhaps believed that a private sector body would attend only to the self-interests of its members, not the public interest which a government agency such as the Commission purported to serve. The FASB, for its part, also accorded the IASC little attention and focused instead on the improvement of U.S. GAAP. As will be seen, these postures changed by the end of the 1980s.

3.7 The role of SEC

The SEC had been following international developments in accounting with great interest and was encouraged by the work of the Accountants International Study Group (AISG). In May 1972, SEC Chairman William J. Casey said, ‘‘Perhaps the AISG is a beginning in the formidable task of achieving some acceptable level of accounting uniformity on an international basis’’ (Casey, 1972) .

The SEC then proceeded to give the fledgling IASC an unexpected vote of support. The IASC’s first three standards dealt with the disclosure of accounting policies, inventories, and consolidated financial statements. In December 1974, the IASC issued E3, an exposure draft of a standard on consolidated financial statements, which implied that the financial statements of dissimilar subsidiaries, such as the finance or insurance subsidiaries of industrial parent companies, should be included in the consolidated financial statements. This proposal ran counter to U.S. GAAP, which excluded such subsidiaries from the consolidation, based on Accounting Research Bulletin No. 51, issued in 1959. At that time, the FASB had no item on its agenda to deal with consolidated financial statements.

Upon learning of Burton's letter, Marshall S. Armstrong, the FASB chairman, protested to SEC Chairman Garrett, saying that he was ‘‘greatly concerned about the consequences of the action proposed in that letter "If carried out, the proposed action could seriously undermine the effectiveness of the Board as a significant factor in the improvement of financial reporting.’’ In fact, in Accounting Series Release No. 150, issued in December 1973, the SEC had stated that the SEC looked to the leadership of the FASB in setting accounting standards (Securities & Commission, 1973). The FEI's pr….esident, Charles C. Hornbostel, similarly objected, contending that Burton's letter ‘‘fails to comprehend the fact that the IASC is an unsanctioned body with little general acceptance by its constituency.’’ Henry Benson learned of the FEI letter, and he wrote to Garrett, with copies to Armstrong and Hornbostel, that the IASC's Agreement and Constitution was ‘‘signed by and on behalf of sixteen leading professional accountancy bodies of the world.’’ Garrett responded, ‘‘we believe that there is enough work for everybody and that efforts by both bodies [the IASC and the FASB] can be combined to the benefit of world capital markets in general and U.S. shareholders in particular without jeopardizing the authority of either body.’’ In effect, this meant that the SEC did not regard the FASB as the only body to which the SEC would look for leadership in setting accounting standards. The SEC had made clear that it supported the movement toward International Accounting Standards and viewed the progress of the IASC positively.

In the end, the IASC modified its final standard in June 1976 to allow the exclusion of dissimilar subsidiaries from the consolidation, and the tension between the FASB and the SEC promptly subsided (Camfferman & Zeff, 2007). A reason given for the modification is telling. Joseph P. Cummings, deputy senior partner of Peat, Marwick, Mitchell & Co. and a member of the U.S. delegation to the IASC, had chaired the steering committee for E3. Even though he fervently believed that there was no logic in excluding dissimilar subsidiaries, once the IASC had heard U.S. and U.K. objections to E3 because it contravened GAAP in their countries, he said, ‘‘we learned a lesson.’’ The IASC, he said, ‘‘will get off the ground, we'll accomplish something, if we keep the standards relatively basic and if they don't go beyond the policies and principles that have been established in the more sophisticated markets around the world'' (Cummings, 1976).

The IASC's first standard on disclosure of accounting policies appeared in January 1975 and was met with fanfare around the world. Between 1975 and 1987 the IASC issued 25 more standards, including one on reflecting the effects of changing prices, which superseded an earlier standard (Camfferman & Zeff, 2007). The apparent impact of the IASC's standards varied considerably from country to country. With few exceptions, the countries represented on the Board did not modify their own standards to reflect the contents of the IASC's standards. There were two reasons for this behavior. The Anglo American countries represented on the Board generally believed that their standards were superior to IAS. Most of the other countries with delegations on the Board may well have believed that IAS did not fit the taxation-based accounting model they were using. The standard-setting committee of the Canadian Institute of Chartered Accountants (CICA), which was the most enthusiastic sponsoring body during the Board's 27 years, did consult some of the IASC standards, particularly IAS 18 on revenue recognition, when revising its own standards. In the Netherlands, the Nederlands Instituut van Registeraccountants proposed a process by which it could ''accept'' certain IAS for required use, but, in the end, no such IAS were ever accepted (Camfferman & Zeff, 2007).

Best endeavors was interpreted differently in different countries, and most country delegations did not include a representative of the national standard setter even if there were one in the country. The sponsoring accounting body (or bodies) might have had only a limited degree of influence, if any, on their country's accounting practice. In countries where the IASC's associate member bodies were located, standard setters sometimes sanctioned the use of its standards. Several Asian countries and Hong Kong began patterning some of their standards on IAS. The New Zealand standard setter adopted IAS 2, on inventories, verbatim as the country's standard. In the 1980s, a number of major companies demonstrated solidarity with the IASC. Three U.S. multinationals General Electric, Exxon, and other Corporation affirmed in their annual reports that their financial statements were, in most respects, consistent with International Accounting Standards. In Canada, at the behest of the Toronto Stock Exchange, following encouragement by the CICA, approximately 100 listed companies affirmed in their annual report that their financial statements were consistent with the IASC's standards. At that time, IAS were compatible in almost all respects with U.S. and Canadian GAAPs. Hence, an affirmation of compliance hardly imposed any real costs on a company. In 1985 in Japan, Sasebo Heavy Industries Co., a major shipbuilding and marine engineering company, affirmed in its voluntary English annual report that its consolidated statements conformed to IAS. Indeed, in 1979, the Tokyo Stock Exchange had said it would henceforth allow foreign companies to prepare their financial statements using IAS instead of Japanese GAAP. South African Breweries affirmed, beginning in 1984, that its principal accounting policies ''conform in all material respects'' to IAS (Zeff, 2012).

The number of delegations on the Board gradually increased to 14, with the addition of South Africa, Nigeria, Italy, Taiwan, and a delegation of financial analysts. Some, such as South Africa and the financial analysts, became permanent delegations and remained on the Board until 2000. In 1995, South Africa began including a representative from Zimbabwe in its delegation in order to promote membership from developing countries. Apart from South Africa and the financial analysts, the others (Nigeria, Italy, and Taiwan) were rotating delegations that served on the Board for defined terms. By 1987, there were more than 40 members of delegations and staff sitting around an even larger table, a number of whom continued to struggle with English. The IASC periodically faced challenges from other bodies. During the 1970s and 1980s, the United Nations and the Organization for Economic Co-operation and Development, which had begun to interest themselves in financial reporting by multinational enterprise, questioned the IASC's primacy in setting international accounting standards. Views were expressed within both bodies that the IASC lacked legitimacy because it was a creature of the accounting profession, with its own narrow self-interests. The International Federation of Accountants (IFAC), which was founded in 1977, tried on two occasions during the 1980s to bring the IASC under its wing via a merger, but the IASC successfully staved off both of these attempts to remain independent. Chairman Hans Burggraaff played a leadership role when the first such attempt occurred, in the early 1980s. Just as today, controversy existed over who should control the international standard setter.

Since 1973, the IASC's administrative and technical staff was headed by a succession of four secretaries who were seconded (i.e., loaned by their employers) for two-year terms

each. The last of these was Geoffrey Mitchell, who was seconded as secretary and then became the first secretary-general, once this new position was created in 1984 and the title of secretary was dropped.6 In 1985, David Cairns became the secretary-general. He served admirably in that position until 1994. The technical staff continued to be small in number, as the drafting of the standards was largely parceled out to steering committees.
(Camfferman & Zeff, 2007).

3.8 The role of IOSCO on the IASC

The International Organization of Securities Commissions (IOSCO) is a confederation of securities market regulators. IOSCO's office, originally in Montre´al, was moved to Madrid in 2000/01. Founded as an international body in 1983, IOSCO was largely unknown until 1987, when both the SEC and France's Commission des Ope´rations de Bourse (COB), its stock exchange regulator, became active members and thus enhanced the importance of the body in the eyes of regulators around the world. For its part, the SEC hoped that IOSCO would persuade regulators to take action on insider trading as well as on the variable quality of worldwide accounting and auditing practices.

Since 1987, the SEC has been the most influential voice within IOSCO. Indeed, beginning in 1990, when IOSCO created a working party (now called a standing committee) on multinational disclosure and accounting, the latter has always been chaired by a senior staff member of the SEC, from either the Division of Corporation Finance or the Office of the Chief Accountant. Furthermore, an SEC Commissioner has always been a member, and once chairman, of IOSCO's powerful Technical Committee, composed of representatives of the 13 largest capital markets in the world.

In 1987, when leaders of the IASC were becoming impatient with its lack of greater impact in the developed world, IOSCO approached the IASC with an enticing proposal that, if the Board were to make significant improvements in its standards, eventually IOSCO would consider endorsing them for use by its regulator members. The IASC's leaders dared to hope that, one day, an endorsement of its standards by IOSCO might prompt the SEC to drop its required reconciliation requirement for foreign issuers using IAS (Tonkiss, 2012).

The IASC then named a blue-ribbon ''Comparability'' steering committee, chaired by Ralph E. Walters and composed solely of Board members, to propose reductions or eliminations of options, that is, free choices, in the IASC's standards.

The committee held a series of ‘‘fast track’’ meetings, and three representatives of IOSCO—the chief accountants of the SEC, the COB, and the Ontario Securities Commission—attended as observers and participated actively in the discussions. The result of these deliberations and with the Board's eventual approval was the IASC's Statement of Intent: Comparability of Financial Statements, issued in July 1990, which marked numerous accounting alternatives for deletion in more than a dozen standards. One of the agreed deletions was the use of LIFO as an acceptable inventory method. Then the Board set up an ‘‘Improvements’’ steering committee, chaired by Paul G. Cherry, to propose revisions in ten of its standards to the satisfaction of IOSCO. The aim was not only to reduce the number of options in line with the Comparability report, but also to assure that the revised standards were sufficiently detailed and complete and that they contained adequate disclosure requirements. This was a daunting task for a committee of part timers. Nonetheless, they completed the task, which included securing the necessary approvals from the full Board, and by the end of 1993 the ten revised standards were submitted to IOSCO for its consideration. The leadership during Board meetings of successive IASC Chairmen Arthur R. Wyatt and Eiichi Shiratori was critical to success of the project.

The committee suffered one setback. Even though its recommended deletion of LIFO was supported by the U.S. delegation, the move was defeated because four other delegations (Germany, Italy, Japan, and Korea) voted to support its continuation, thus preventing a three-quarters majority to carry the motion for its elimination. In those four countries, LIFO was acceptable for income tax purposes, and financial reporting in those countries was linked to taxation. It may have been that industry lobbied their delegations not to eliminate LIFO from financial reporting. IOSCO's reaction to the Board's improved standards was a keen disappointment to Chairman Shiratori. IOSCO found most of the ten standards to be acceptable but wanted further improvements in the others and it wanted to see standards on interim reporting, intangible assets, earnings per share, employee benefits, most financial instruments, and recognition and measurement issues for discontinued operations. The Board, chastened by this reversal, agreed with IOSCO to supply a set of two dozen ‘‘core’’ standards, suitably improved and complete, by 1999. This was a tall order for a part-time body, albeit with a gradually growing research staff (up to a half-dozen) that was augmented by loans of staff from the CICA and other sources during the 1990s. Sir Bryan

Carsberg succeeded David Cairns as secretary general in 1995, and Michael Sharpe, of Australia, became the IASC chairman in 1996, and both proved to be strong leaders at a critical time during which the Board worked at a frenetic pace to complete its core standards project on time (Camfferman & Zeff, 2007).

3.9 The effect of European Union pressure on IASC

Important developments were occurring on the European continent, especially in Germany, which tilted Europe more toward the need for accounting standards attuned to the needs of capital market investors. Until then, Germany, France, and some other countries on the continent were still wrapped in the tradition of an accounting model shaped largely by the legal constraints of taxation and the determination of the dividend to be paid to shareholders. The pervasive principle of prudence, or conservatism, was an unquestioned tenet. But there were changes occurring in the financial markets and institutions that challenged this reality.

Traditionally, so-called universal or house banks sat on the supervisory boards of German multinationals. They had an equity interest in the company, and the banks stood ready to provide the necessary loan financing. Hence, the companies did not have to rely, other than in a minor way, on the equity market for finance. But with the reunification of West and East Germany in 1990, the major German banks were under pressure to lend to companies in the former East Germany to help overcome the great disparities in development between the east and the west. Also, at the beginning of the 1990s, the major German banks were looking to diversify into investment banking, and some multinationals came to outgrow bank financing. The effect of these developments was that bank financing could not as easily be relied upon as before. In 1993, the solid wall of German multinational companies that refused to list on the New York Stock Exchange and therefore be required to prepare a further set of consolidated statements in order to reconcile their earnings and shareholders' equity to U.S. GAAP, as mandated by the SEC, was breached, when Daimler-Benz, Europe's largest company, announced a New York listing. Its reconciliation for 1993 showed that its consolidated profit of DM0.6 billion under German GAAP converted to a loss of DM1.8 billion under U.S. GAAP, apparently because the company had released ''silent reserves'' that had the effect of bolstering its earnings.

As (Berger, 2010) has written, ‘‘Indisputably, the US GAAP results better reflected the economic situation. German GAAP lost some of its acceptance as an accounting standard.’’ Daimler’s fellow multinationals came under pressure to abandon the discredited German GAAP and instead adopt U.S. GAAP or IAS, and a number did. German companies were looking for regulatory relief from having to prepare their consolidated financial statements by the use of German GAAP. The federal government responded by approving in 1998 to enable German companies to prepare their consolidated financial statements in accordance with internationally recognized accounting standards, which meant U.S. GAAP or IAS. Daimler proceeded to report its German GAAP-U.S. GAAP reconciliation in 1994 and 1995, until it discovered in 1996 that German law regulated only the filing of annual financial statements with the registrar (publication in the federal gazette), not the annual report sent to shareholders. For that year, Daimler issued an annual report to shareholders with its consolidated financial statements expressed in U.S. GAAP throughout.

In addition, the recently privatized Deutsche Telekom scheduled an Initial Public Offering (IPO) of its equity securities for 1996, one-quarter of which was intended for the United States. The US$13 billion IPO was the largest ever in Europe. When it was successfully carried out in November 1996, some two million of the purchasers were German households. To the surprise of many in the financial markets, a retail market for equity was found to exist in Germany. In early 1997, the German stock exchange formed the Neuer Markt (New Market) for young, high-tech enterprise and required those companies, most of which were German, to use U.S. GAAP or IAS, but not German GAAP.

The European Commission was, of course, closely following these developments, and it soon warmed to IASC standards as a possible alternative to the Company Law Directives on accounting, which were focused on company law reform and not on reporting useful information to capital market investors. Gradually, the issue of setting accounting rules in a number of continental countries began to engage not only the Ministry of Justice, which was responsible for company law, but also the Ministry of Finance, which was concerned with the markets. More broadly, interest began to heighten in the European Union for creating a capital market that could compete on a plane with capital markets elsewhere in the world. For all of these reasons, the IASC’s leadership believed that the Board had to have its core standards readied for IOSCO even earlier than they had planned. These fundamental changes in accounting and financial culture, coming as quickly as they did, were not easily digested by the members of the German delegation to the IASC Board, who were straining to catch up with the new accounting reality in their country. Delegations from other continental European countries may well have confronted a similar challenge (Zeff, 2012).

3.10 ORGANIZATION OF IASB IN 2000–2001

The first member of the restructured Board to be chosen was its chairman, David Tweedie, who had been serving since 1990 as the full-time chairman of the U.K. Accounting Standards Board, as a member of the U.K. delegation to the IASC Board since 1995, and was the originator and first chairman of the G4þ1. The trustees chose the other 13 members after an extensive search for candidates and the conduct of interviews. They set no formal country or regional quotas for Board membership. The resulting geographical composition was: five from the United States, two from the U.K., and one each from Australia, Canada, France, Germany, Japan, South Africa, and Switzerland. It was a Board composed of highly accomplished professionals.

The U.S. contingent on the new IASC Board could count on five of the 14 votes, if they were all to agree on a position, versus only one of 16 votes on the old Board. The heavy representation from Anglo-American countries was duly noted, and not with favor, on the European continent. Nine of the 14 votes, one more than a simple majority, would be cast by the five from the United States, the two Britons, the Canadian, and the Australian. The initial Board was composed heavily of former national standard setters. Jim Leisenring and Tony Cope had been serving on the FASB, David Tweedie and Geoffrey Whittington had been the full-time chairman and a part-time member, respectively, of the U.K. Accounting Standards Board, and Tricia O'Malley had been serving as the full-time chairman of Canada's Accounting Standards Board. Warren McGregor had been the long-time director of the research foundation that supported the Australian Accounting Standards Board. Whittington and Mary E. Barth were accounting professors. Hans-Georg Bruns had been the head of accounting for Daimler. Half of the Board members had been audit partners of a Big 5 (or Big 6) firm. Eight of the 14 members had been either delegates or nonvoting observers at the old IASC Board. Socialization of the new Board was not all that difficult, because most of the members had already known each other. The Board membership was to be composed of at least five members from audit firms, three from companies, and three from the user community, and at least one academic.

The most difficult group from which to recruit were the users, and two of the three who were classified as users were dubious members of that class. Only one of the three had actually been a professional user in the securities markets for a significant period of time. The trustees raised the necessary funding from the Big 5 audit firms, companies, financial institutions, and central banks, and the Board, whose name was changed to the International Accounting Standards Board (IASB), held its first official meeting in April 2001. Its standards were now to be known as International Financial Reporting Standards (IFRS). As before, the Board issued discussion papers and exposure drafts, and it soon began holding roundtables on important projects. It followed an elaborate due process (Walton, 2009).

3.11 Commitment to IAS

In February 2000, the SEC issued a ‘‘blockbuster’’ concept release on International Accounting Standards (SEC 2000). In the release, they posed 26 searching questions about the quality and robustness of the IASC’s standards, the role of the auditor when applying the standards, and the role of regulators in the interpretation and enforcement of the standards. The SEC contemplated that, ‘‘while the accounting standards used must be high quality, they also must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied.’’(SEC, 2000).

In May 2000, the Technical Committee of IOSCO, acting on a favorable report from its working party on multinational disclosure and accounting, recommended to its regulator members that they permit multinational enterprises to use the IASC’s core standards in financial statements contained in cross-border listings and offerings of securities. Yet it conditioned this advice by allowing regulators to impose three ‘‘supplementary treatments’’ when dealing in their own way with the many ‘‘outstanding substantive issues’’ in the core standards that were enumerated in the report (IOSCO, 2000).

In June 2000, the most significant regulatory development during the year occurred: the European Commission announced, to the surprise of most, its revised strategy that listed companies in the EU should be required to adopt IAS in their consolidated statements by 2005. The EU’s Council of Economic and Finance Ministers promptly endorsed this new strategy in July. The Commission stated that the central objective of this strategy ‘‘is that the policy should ensure that securities can be traded on EU and international financial markets on the basis of a single set of financial reporting standards’’(European-Commission, 2000).

3.12 Accounting standard-setting bodies

Accounting standard setting bodies are national or international organizations that have been delegated responsibility for setting Generally Accepted Accounting Principles by statute in a country or jurisdiction (wikipedia, 2016).

3.12.1 List of Accounting standard-setting bodies

- The International Accounting Standards Board issues IFRS
- The International Federation of Accountants
- The IFRS Foundation
- Albanian National Accounting Council
- Australian Accounting Standards Board
- CICA's Accounting Standards Board "AcSB" – Canada
- Autorité des Normes Comptables (ANC) (formerly the Conseil National de la Comptabilité) – France
- Accounting Standards Committee of Germany (ASCG, in German: DRSC) - Germany
- National Advisory Committee on Accounting Standards (NACAS) with the aide and advice of Institute of Chartered Accountants of India and Institute of Cost Accountants of India – India
- Accounting Standards Board – Iran
- Malaysian Accounting Standards Board – Malaysia
- Maltese Accountancy Board – Malta
- Accounting Standards Review Board - New Zealand
- Financial Reporting Council of Nigeria – Nigeria
- Saudi Organization for Certified Public Accountants (SOCPA) - Saudi Arabia
- South African Institute of Chartered Accountants (SAICA) - South Africa
- Accounting Standards Board - United Kingdom and Ireland
- Financial Accounting Standards Board (FASB) - United States

- AICPA Accounting Principles Board (APB) - United States
- Governmental Accounting Standards Board (GASB) - United States
- Federal Accounting Standards Advisory Board (FASAB) - United States

3.13 International Accounting Standard (IAS 16) - *Property, Plant and Equipment*

3.13.1 Objective

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them (Deloitte, 2016).

3.13.2 Scope

1- This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

2- This Standard does not apply to:

- Property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- biological assets related to agricultural activity (see IAS 41 Agriculture);
- the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*); or
- mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.
- However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(d).

3- Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

4- An entity using the cost model for investment property in accordance with IAS 40 *Investment Property* shall use the cost model in this Standard.

3.13.3 Recognition

The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.13.4 Initial costs

Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognized as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IAS 36 Impairment of Assets.

3.13.5 Subsequent costs

An entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

3.13.6 Measurement at recognition

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

The cost of an item of property, plant and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

3.13.7 Measurement of cost

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with IAS 23.

3.13.8 Cost model

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

3.13.9 Revaluation model

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

3.13.10 Depreciation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.

The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset.

3.13.11 Depreciation method

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

3.14 Conclusion

The International Accounting Standards Committee (IASC) was formed in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America.

International Accounting Standards can be defined as standards for the preparation and presentation of financial statements created by the International Accounting Standards Committee (IASC). They were first written in 1973, and stopped when the International Accounting Standards Board (IASB) took over their creation in 2001. They are useful for comparability, transparency, relevance, and audiences.

Chapter Four
Case study - Islamic Relief Palestine

Chapter Four: Case study - Islamic Relief Palestine

4.1 Introduction

Islamic Relief Worldwide (IRW) was established in 1984 by Dr Hany El-Banna and fellow students from the University of Birmingham in the UK in response to the famine in Africa. Islamic Relief grew at a rapid rate, and over the next five years, started working in Mozambique, Iran, Pakistan, Malawi, Iraq, and Afghanistan, among others, responding to emergencies and distributing clothes, food, offering health support and beginning the long-term project that is now One-to-One Orphan Sponsorship programme. Today Islamic Relief is a truly global organization, working in more than 40 countries providing emergency aid, carrying out long-term development, and campaigning for change.

Islamic Relief Palestine (IRPAL) is an affiliate for Islamic Relief Worldwide and started working in Palestine since 1998, to improve the well-being of vulnerable people, deliver life-saving emergency aid, enhance education environment, reduce the humanitarian impact of conflict, empower communities to reduce poverty and protect communities from disasters, regardless of race, political affiliation, gender or belief.

4.1.1 IRPAL Vision, Mission, and Values

IRPAL`s Vision is a poverty – free Palestinian society, in which all people enjoy a decent standard of living.

IRPAL`s Mission is exemplifying Islamic values, mobilize resources, build partnerships, and develop local capacity, as follows:

1- Enable communities to mitigate the effect of disasters, prepare for their occurrence and respond by providing relief, protection and recovery.
2- Promote integrated development and environmental custodianship with a focus on sustainable livelihoods.
3- Support the marginalized and vulnerable to voice their needs and address root causes of poverty.

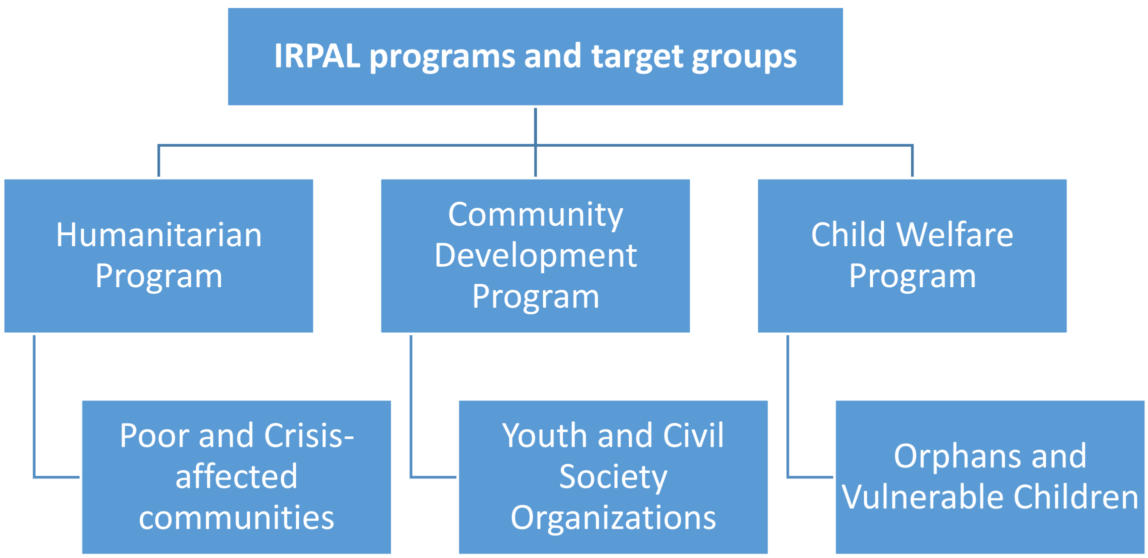
They allocate these resources regardless of race, political affiliation, gender or belief, and without expecting anything in return.

IRPAL`s Values and ethics provide a unique framework for good conduct and one that can apply to all staff and volunteers regardless of background. Islamic Relief has identified five particular values to act as a focal point of the organization.

1- Excellence
2- Sincerity
3- Social Justice
4- Compassion
5- Custodianship

4.1.2 IRPAL Programs

IRPAL Programs and target groups can be summarized in the following chart:



- Source : IRPAL annual Report 2015

4.1.3 IRPAL main projects

4.1.3.1 Empowering communities

4.1.3.1.1 Orphans Welfare

Childhood is the first stage where nation's future is built. IRPal pays special attention to children, especially the orphaned ones, and provides comprehensive care and services for them in the fields of education and physical and mental health in addition to recreational development.

IRPAL also, constantly, strives for funding other interventions to cover the most pressing needs of orphans, and compensate the loss of their parents. The Orphans Welfare Programme has mounted a large and multi-sectorial response to meet the diverse needs of its beneficiaries and ensure prioritized and focused interventions that address the diverse critical needs of its beneficiaries. It assesses needs and plans and provides appropriate and cost-effective services and activities, in line with best practices and potential innovations to maximize improvement in the well-being of needy orphans.

4.1.3.1.2 Education and Child Protection

Islamic Relief believes, through education many of the community problems can be resolved. Also through education real community development might be pursued.

The ground reality of educational institutions, especially kindergartens and basic schools, is disturbing. Tens of completely damaged schools and hundreds of partially damaged, were one of the dramatic results of year 2014 war on Gaza. Consequently, these damages include the destruction of supplies, which are in prior shortage already.

Islamic Relief has been doing successful interventions to enhance education access and quality. Through rehabilitating existing schools and KGs and building new ones. It is not only about construction, IRPal has been doing intensive efforts to develop comprehensive curricula that utilize innovative and active learning resources where children can experience life-changing education and exhibit their talents and ambitions.

Gaza has been through a number of crises and conflicts that lift serious residues on the community in general and children in specific; this resulted in children losing their basic right of safety. As a result, number of children in need for immediate intervention is increasing, as children and their caregivers' coping mechanisms and resilience are severely affected. This made feelings of fear and frustration among the community at large to spread and the levels of violence at home, at school, and in community to increase.

IRPal psychosocial interventions aim to improve and synchronize service standards provided to children through strong local community based organizations (CBO) in cooperation with school counsellors. IRPAL considers psychosocial support to children as an integral factor of the educational process to build decent and well prepared good citizens.

Children are part of the community suffering from deteriorated health services in Gaza; most cases that require referrals outside Gaza are unable to travel.

Many other children have received hearing and visual aid that enabled them to live normally after suffering since they were born.

Additionally, Islamic Relief (IR) has also contributed to improving services provided to children with Autism and children with thalassemia. Interventions that not only alleviate the suffering of children, it also alleviates the suffering of parents unable to take care of their children's needs.

4.1.3.1.3 Water, Sanitation and Hygiene (WASH) and Environment

Water, sanitation and hygiene are among the top humanitarian priorities in Gaza because access to clean water and improved sanitation are essential to life, health and dignity.

The water quality in the Gaza Strip has been severely compromised due to increasing salinity of groundwater, contamination of water resources with fertilizers, pesticides and solid waste and lack of adequate water and sewage treatment options.

IRPAL contributes in securing people WASH needs through improving access to safe and clean drinking water and improving the environment of an affected area to help children grow within a proper environment.

4.1.3.1.4 Sustainable Livelihoods

IRPal strives to revive micro-businesses affected by recurring disasters and economic crises that Gaza went through; such businesses that used to provide their owners with food security for their families, but were faced with a "force majeure" that caused them to go bankrupt. Through this revival and empowerment program, IRPAL brings micro-businesses to a better position through capacity building, couching and financial support.

4.1.3.1.5 Civil society capacity building

The major area of intervention in the Civil Society Capacity Building sector is focused on strengthening and building the capacities of local civil society organizations – CSOs – towards more proactive participation in poverty alleviation, in terms of organizational behavior and system building and enhancing their effectiveness, efficiency and sustainability towards poverty alleviation.

In 2016-2107 IRPAL aims to capitalize on the built system, gained experience and success in the field of civil society capacity building through targeting particularly the youth-based CSOs – Youth Civil Society Organizations (YCSO)–, strengthening their capacities and enhancing their role in rights fulfilment and social and economic empowerment for poor and marginalized people in the Gaza Strip with income generation initiatives such as reviving credit funds, coupled with short-term direct employment of youth following a market-led training. This intervention aims to achieve the result of "enhanced role of youth organizations towards social and economic empowerment".

IRPAL will intensify the targeting and partnering with youth-based CSOs around the following outcomes:

- Improving YCSOs – capacities to fulfill their mandates in providing social protection and welfare services.
- Improving YCSOs capacity in achieving social transformation and empowerment focusing on rights/obligations-based approach and 21st century life-skills coaching.
- Improving YCSOs capacity in sustainable livelihoods approaches.

The product of all these efforts will be a well cultured, self-confident and socially empowered male and female youth of real positive behavioral attitude in terms of rights, obligations, life skills, positive values as well attitude towards productivity and sustainable livelihoods.

4.1.3.2 Protecting life and dignity

Gaza strip community is remarked for high levels of food insecurity and unemployment rates, resulting in low resilience of its people and high vulnerability to shocks, as many of them are classified as poor.

Inadequate investments in main food providing industries, especially agriculture and fishing, in addition to slow reconstruction of essential productive assets destroyed during the 2014 conflict have resulted in increased dependency on short term assistance.

Islamic Relief strives to guarantee food security for vulnerable groups in Gaza Strip, through providing the basic needs of survival, in addition to linking with for livelihood potentials to be invested in.

4.1.3.2.1 Temporary job creation

IRPAL has been implementing and promoting temporary opportunities as means of providing minimum food security to the most vulnerable youth who are capable to work and support their families. Job opportunities do not only contribute to food security, it also contributes to enhance youth capacity to face the ever-increasing life challenges.

4.1.3.2.2 Disaster Preparedness and Response

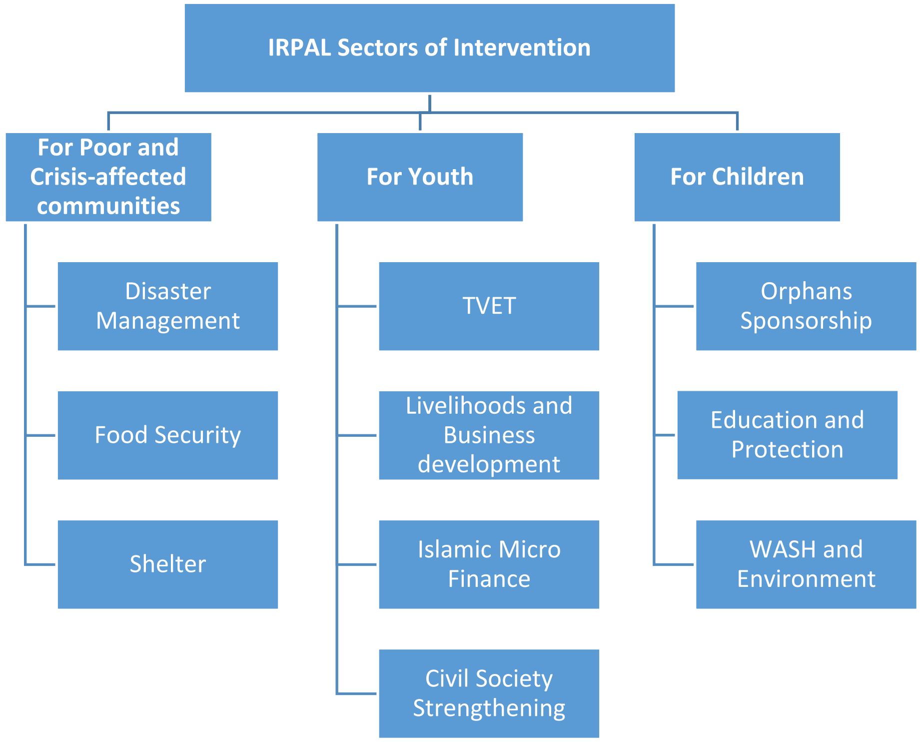
Islamic Relief has been responding to emergencies for over 15 years, providing a lifeline for vulnerable communities affected by natural and man-made disasters. We continue to increase our work to protect those living in high-risk areas, with a focus on innovative disaster-risk reduction and climate-change adaptation.

As a measure of preparedness for any emergency situation that might arise in the Gaza strip, IRPAL have an updated plan for disaster preparedness, based on Sphere standards. The plan main purpose is to save lives, minimize disaster damage, and enhance disaster response operations. It is regularly updated upon accurate needs assessment and continuance planning with INGOS through clusters.

IRPAL responds to disasters immediately and effectively within the first hours of occurrence, relying on staff capacity, proper planning and systems.
Such assistance is focused on meeting the basic humanitarian needs of the affected groups until more permanent and sustainable solutions can be found.

4.1.3.2.3 Seasonal

Ramadan and Qurbani projects, although short term and each is implemented once a year, they are considered core for Islamic Relief worldwide operation. They help IR donors and friends practice their rituals of supporting the poor, by shortening the distance between the rich and poor on the “global village” through Islamic Relief strong and trustworthy global offices, which Palestine is one of.



- Source : IRPAL annual Report 2015

4.1.4 Role of Finance

A reliable system of financial management provides a sound basis for planning ahead and for utilizing resources in the best possible manner. An efficient financial administration contributes significantly to the smooth running and successful outcome of relief and development programmes. Therefore, a good system should provide a reliable source of information, and a base on which to implement modifications to the original plans with the minimum of interference.

Conversely, inadequate financial management can seriously undermine potential achievements. Auditors need to be assured that satisfactory systems of control over transactions are maintained regarding regulatory requirements. Further, major donors need assurance that their donations are accurately administered and allocated, and that they are consistent with their reasons for giving. The Accounting/Finance function should maintain good record keeping; this is critical for verification and for reporting back to management and major donors.

It is important for managers to be familiar with what to expect when examining the budgets and accounts; and to understand the underlying principles of good accounting practices. Islamic Relief is committed to strict compliance with all legally prescribed regulations governing charitable work and charitable organizations, wherever it operates.

In general, these rules devised to ensure:

1- The ability to disclose (with reasonable accuracy) the financial position of Islamic Relief at any time;
2- That accurate accounts can be prepared from appropriately maintained records;
3- That records show all monies received and expended;
4- The records provide a register of all assets and liabilities.

The highest professional accounting practice is recommended throughout the organization. In order to ensure compliance with Islamic Relief must externally audit all operations by (suitably qualified Auditors).

However, the responsibility for implementing the guidelines rests with management in each location.

Compliance with the financial policies set will help the organization achieve standardization of reports and operations. This will have a direct and positive impact on the credibility of Islamic Relief, and will therefore play a pivotal role in protecting the organization.

4.1.4.1 Users of financial information

One of the main reasons for keeping accounting records is so that information about how the organization is being run can be obtained. After setting up accounting systems and budgets, the next step is to produce financial reports to report on and monitor the organization's financial affairs. Financial reports are needed primarily by those responsible for managing the organization and by current and potential donor agencies; but those responsible for financial management of an NGO also need to give an account of their stewardship to a wide range of stakeholders.

Table (4.1) : Main users of NGO reports and why they need these information

Stakeholder	Why do they need it?
Project staff	To know how much money and resources are available for their projects and what has been spent so far.
Managers	To keep an eye on how project funds are being used, especially compared to the original plans. To help plan for the future
Finance staff	To make sure that there is enough money in the bank to buy the things the NGO needs to run its programmes
Board of Trustees	To keep an eye on how resources are being used to achieve the NGO's objectives
Donors	To make sure that their grants are being used as agreed and that the project's objectives are being fulfilled. To consider whether to support an organisation in the future
Government departments	To make sure that the NGO pays any taxes due and that it does not abuse it status as a 'not for profit' organisation.
Project beneficiaries	To know what it costs to provide the services they are benefiting from and to decide if this is good value for their community.
The general public	To know what the NGO raises and spends during the year and what the money is used for

* Mango 2015

4.1.5 Financial status of IRPAL

Annual expenditures of IRPAL – Gaza Field Office (FO) were about 20 Million USD when calculating average for the last five year 2011-2015. These expenditures covered previously mentioned projects with average number of 50 project per year for the same period.

Donors for these projects varies from IR Partners (IR fundraising offices), Institutional donors, and UN agencies.

This size of expenditures and diversified donors imposed implementing specified financial procedures and strong internal control procedures.

Knowing how to understand reports is essential for donors. The meaningful interpretation and analysis of balance sheet, income statements and cash flow is very important as well.

4.2 Compliance with IAS 16 - Property, Plant and Equipment

The researcher investigated IRPAL financial statements to examine their treatment for fixed assets in appendix A, B, C, D, and E.

4.2.1 Definitions

IRPAL didn't mention specified definitions related to assets, but in general the definitions stated in IAS 16 are applicable. These definitions are as follows:

> ***Carrying amount*** is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.
>
> ***Cost*** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
>
> ***Depreciable amount*** is the cost of an asset, or other amount substituted for cost, less its residual value.
>
> ***Depreciation*** is the systematic allocation of the depreciable amount of an asset over its useful life.
>
> ***Entity-specific value*** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
>
> ***Fair value*** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
>
> **An *impairment loss*** is the amount by which the carrying amount of an asset exceeds its recoverable amount.
>
> ***Recoverable amount*** is the higher of an asset's fair value less costs to sell and its value in use.

The ***residual value*** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset.

Useful life is the period over which an asset is expected to be available for use by an entity; or

4.2.2 Recognition

IRPAL set specific condition for any purchases to be recognized as assets which are:

1- The benefits associated with the purchased items will extend to more than one year; and
2- The cost of the purchases exceeds NIS 500.

These conditions are consistent with the standard as the standard defines cost of an item of property, plant and equipment to be recognized as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

4.2.3 Initial costs

Items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

This is applicable for IRPAL.

4.2.4 Subsequent costs

IRPAL didn't explicitly mention the treatment of subsequent costs, but after reviewing the standard the researcher found that this standard is applicable by IRPAL. The standard mentioned an entity don't recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in profit or loss as incurred. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment and this is exactly applied by IRPAL.

4.2.5 Measurement

IRPAL mention that the cost of the assets includes the price and any related costs paid until the asset becomes available for use. This comply with the standard as the standard mentioned the following:

1- An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

2- **The cost of an item of property, plant and equipment comprises:**

   (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

   (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

   (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date and its applicable by IRPAL.

IRPAL believe that after recognizing an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

4.2.6 Revaluation model

The standard mentioned that items of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

This is not applicable by IRPAL .

4.2.7 Depreciation method

IRPAL defines depreciation as the accounting treatment that recognizes the consumption of the asset and recurs monthly until the asset is fully depreciated or retired and disposed.

IRPAL currently records assets value as expense at the time of acquisition to charge the amount as per donor budget, and in the same time they record the asset cost and accumulated depreciation fully. In addition the assets are recorded in fixed assets register for controlling purposes.

Thereby, the accounting treatment will be as follows**:**

Dr. PP&E Assets expense account (Income & Expenditure Statement)

Cr. Bank (balance sheet)

Dr. PP&E Assets Cost (balance sheet)

Cr. PP&E Assets Accumulated Depreciation (balance sheet)

Thereby the asset is fully written off in the year of purchase. The net impact on balance sheet is zero.

The standard says that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset.

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The future economic benefits embodied in an asset are consumed by an entity principally through its use. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method.

4.2.8 Impairment and Compensation

The standard explains that an asset impairment arises when there is a sudden drop in the fair value of an asset below its recorded cost. The accounting for asset impairment is to write off the difference between the fair value and the recorded cost.

This paragraph is not applicable for IRPAL as their asset are not required to generate cash inflow from using them as business entities.

4.2.9 Derecognition

The standard says that the carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised. Gains shall not be classified as revenue. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

This is applicable for IRPAL, and IRPAL policy is to donate assets with small recoverable values and sell assets with big recoverable values. The limit of these amount is specified by management.

This will result a gain or loss from asset donation or sale.

4.2.10 Disclosure

The financial statements shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period

(f) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(g) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(h) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(i) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

This is applicable for IRPAL and any user for financial information can find these information stated on annual audit report.

4.2.11 Transitional provisions

This paragraph refers to an exchange of one non-monetary asset for another. The cost of such an item of property, plant and equipment is measured at fair value.

This is applicable for IRPAL.

Table (4.2) : Summary for IRPAL compliance with IAS 16

#	standard	Comply/ Not Comply
1	Definitions	Comply
2	Recognition	Comply
3	Initial costs	Comply
4	Subsequent costs	Comply
5	Measurement	Comply

#	standard	Comply/ Not Comply
6	Revaluation model	Not Comply
7	Depreciation method	Not Comply
8	Impairment and Compensation	Not Comply
9	Derecognition	Comply
10	Disclosure	Comply
11	Transitional provisions	Comply

The researcher found that 8/11 of the comparison items were followed by IRPAL and the non-compliance areas were as follows

1- Revaluation model
2- Depreciation method
3- Impairment and Compensation

This result show that IRPAL have a strong financial accounting system.

This result agrees with the study of (Bird & Morgan-Jones, 1981) who surveyed 85 large charities in UK to discover that some charities do not depreciate their fixed assets. Other charities write-off assets on purchase and many others do not disclose their depreciation policies.

Also (Hines & Jones, 1992) conducted a longitudinal study of 40 large UK charities reporting practices from 1988 to 1990, and discovered that there are still charities who do not depreciate their fixed assets.

(Hooper et al., 2007) Identifies four problems that limit the way forward of the financial reports of charities. The first problem is fund accounting where different titles are used to describe similar funds and specific funds are utilized to remove items from performance measurements. The second problem involves the practice of recording fixed assets as an expense rather than capitalization and depreciation. Third, the accounting basis is a problem for charities where several pledges are made and not received. The final problem surrounds the issue of the allocation of fund raising expenses and the subsequent variable proportion of donations that reach beneficiaries as a result of differing accounting treatments.

4.3 The role of external auditor

An external audit is an independent examination of the financial statements prepared by the organization.

An external audit can be conducted either as part of the annual review of accounts or as a special donor requirements. It is conducted by a one of auditing companies working in Palestine.

IRPAL external auditors for the last five years were Price Water House (PWC), Talal Abu-Ghazaleh and Co. International (TAGI-Auditors), Farag & Nashwan partners, and Earnest & Young (EY) for specified projects.

The purpose of external audit is to verify that the annual accounts provide a true and fair picture of the organisation's finances, and that the use of funds is in accordance with the aims and objects as outlined in funding agreements.

An audit results in a report which gives an 'audit opinion' about whether the financial statements give a 'true and fair' view of the state of affairs of the organisation and operations for the period.

The auditor issue his report after getting signed financial statements from the administration.

For the purpose of examining the external auditors point of view about recording assets fully on income and expenditures statement with a zero net book value in balance sheet as explained in point 4.2.7 , the researcher examined the external auditors reports in the last 5 years (2011 to 2015) and found that the auditor issued unqualified audit report with an explanatory paragraph to highlight the specific accounting procedures followed by IRPAL.

For more details about the auditor`s opinion and explanatory notes, please see appendices F, G, H, I, and J.

Even though IRPAL were audited by a credited auditing firms, none of them objected about depreciating assets fully at the time of purchase as explained before, but they summarize this method in the explanatory notes to the financial statements.

This result show that the external audit don't paly a role in enhancing compliance with IAS 16 property, plant, and equipment.

This result agree with (Musalam, 2011) whose study title was "Extent of external audit effectiveness for Palestinian NGOs working in Gaza strip : A Pilot Study" .The study found that the external audit is not providing guidance as required.

Also this result agree with the study of (Maina, 2016) "The Role Of External Audit Services To Donor Funded Organizations in Kenya : case study of donor funded organizations based in Nairobi". The study concluded that there are benefits of conducting external audits to donor funded organisations in that external audit services help improve the budgetary controls, fund utilisation efficiency to donor funded organizations through enhanced degree of participation thus increasing the degree of acceptance and motivation.

4.4 IRPAL Donors

IRPAL relies mostly on what is called IR partners which is Islamic Relief fundraising offices around the world, and institutional donors in funding their projects. They work all year round to raise funds for their programmes and address new emergencies as they occur.

Regularly updated information about their operations, financial requirements and donor contributions is available to the donors and other funding agencies.

To understand the effect of donors on specifying the accounting method for fixed assets, the researcher divided IRPAL donors into two main groups, the first group is IR Partners and the second group is institutional and non IR donors.

As the researcher mentioned before in point 4.1, IRPAL is an affiliate for Islamic Relief Worldwide so the researcher examined all IRPAL funding agreements except IR partners agreements to investigate whether donors state in their funding agreements any paragraph that provide guidance on implementing IAS 16 property, plant and equipment or not.

The agreements that have been checked is for 5 years from 2011 to 2015, and the answer was yes or no.

Table 4.3) : Whether donors state in their funding agreements any paragraph that provide guidance on implementing IAS 16 property, plant and equipment or not.

#	Donor	Yes / No
1	Aleslah Society in Bahrain	No
2	Aqsa Society_Yemen	No
3	British Consulate	No
4	Catholic Agency For Overseas Development (CAFOD)	No
5	European Commission (EC)	No
6	ForumSyd	No
7	ICC Panama	No
8	Islamic Development Bank (IDB)	No
9	Office of Her Highness Sheikha Moza bint Nasser (OHH)	No
10	International Islamic Charity Organization (IICO)	No
11	Jamal Saker	No
12	The United Nations Office for the Coordination of Humanitarian Affairs (OCHA)	No
13	OPEC Fund for International Development (OFID)	No
14	Reach Out To Asia (ROTA)	No
15	Swiss Agency for Development and Cooperation (SDC)	No
16	Shaikh Abdullah Annouri	No
17	The Swedish International Development Cooperation Agency (SIDA)	No
18	The United Nations Development Programme (UNDP)	No
19	The United Nations Children's Emergency Fund (UNICEF)	No
20	Zakat House - Kuwait	No

This table shows that none of the donors state in their funding agreements any paragraph that provide guidance on implementing IAS 16 property, plant and equipment.

This result show that donors don't paly a role in enhancing compliance with IAS 16 property, plant, and equipment.

This result contradict with the study (Daloul, 2013) whose study was about " Evaluating the Extent to which Non-Governmental Organizations in Gaza Strip Adhere to Financial Requirements of International Donors and the Impact of this on Fund Sustainability"

The findings of the study showed the agreement of NGOs and international donor organizations in opinion about the effective factors in obtaining funding and sustainability; the internal accounting system, and organization policies in local NGOs and financial reporting in accordance with donors requirements are effective factors in obtaining fund and sustainability.

Also this result contradict with (AL-Ramlawi, 2012) whose study was about the "Impact of International Funding Organizations on Building the Financial Management Capacity of NGOs Working in Gaza"

The study showed that fund from international organizations has a positive impact on building the financial management capacity of the NGOs working in Gaza through education and training, which had a major role in the development of NGOs.

This contradiction can be justified as the previous studies focused on studying the impact of donors on local NGOs rather than international NGOs.

4.5 The role of government

The public expects the government to maintain regulatory oversight of concerns about harm, abuse, and non-compliance in the NGO sector. Regulatory supervision and monitoring is an important tool in the identification and detection of harm and abuse within charities, and in disrupting the activities of those seeking to abuse them.

Compliance visits are an important monitoring and investigatory tool, providing the Foreign Association Committee at Ministry of Interior with an opportunity to directly engage with NGOs where it believes there may be serious risks to the NGO or to the sector.

They held field visits to IRPAL and other NGOs to observe NGOs operationally, to check whether they are functioning in accordance with its stated objectives, and to ensure that all operations are done within Palestinian Laws.

Council of minister's decision no. (192) for year 2014 about the financial issues for charities and civil society associations indicated in its Paragraph (15) about Fixed Assets the following:

1- Fixed assets are recorded using historical purchasing price, and this account is closed when the assets is sold or disposed. If the asset is totally depreciated while it is still in use, it must be shown in fixed assets records with value ILS 1.
2- Fixed assets depreciation is calculated based on straight line method according to the following depreciation rates:
    i) Computers %20
    j) Office equipment %20
    k) Furniture %10
    l) Building %2
    m) Vehicle %15
    n) Information resources and books %20
    o) Machinery %10
    p) Computer networks 20%
3- Assets sale or disposal should be done according to board of director's decision and foreign association committee at ministry of interior must be informed before two weeks from starting the process.
4- In case one of the assets have been lost or stolen, board of directors must be informed immediately and foreign association committee at ministry of interior must be informed within a week.
5- Annual inventory for warehouse and fixed assets must be done at the end of each year by at least three persons including one of board of director's members and the external auditor and these minutes must be kept in separate file. If any differences appear during inventory, it can be adjusted based on board of director's decision.
6- Fixed assets register must be kept and it should contain at least these information (asset name – description – department – number – purchasing date – purchasing

price – depreciation rate – accumulated depreciation – net book value – assets tag number – donor – place of asset – notes)

7- Borrowed fixed assets are kept in separate record and not merged with association assets.
8- In case of building a building on a rented land from others, the association have to use this building for at least twenty years free of charge.

The researcher checked ministry of interior supervision reports for IRPAL for the period 2011, 2012, and 2013.

The researcher found that the reports investigated procedural issues like methods of procurement, supporting documents, method of payments, and partners associations payments. No comments on the accounting procedure.

This result show that government requirements don't paly a role in enhancing compliance with IAS 16 property, plant, and equipment.
This result agree with the study of (Al-Hageen, 2014) "Evaluating the professional performance of the auditors in the management of associations at the Ministry of the Interior (From the point view of associations administrations in the Gaza Strip) " whose one the recommendations was Foreign Association Committee auditors need training to be familiar with all developments in the fields of control and auditing.

This result contradict with the study of (Burger & Owens, 2010) which was "Promoting transparency in the NGO sector:Examining the availability and reliability of selfreported data" , The study provided tentative indications that some NGOs may be more likely to hide information and be dishonest as IRPAL provide all information to the government and provide the required support.

Chapter Five
Results, Recommendations, and Future Researches

Results, Recommendations, and Future Researches

5.1 Results

This research investigated the extent of compliance by international NGOs with international accounting standard 16 property, plant and equipment and considered Islamic Relief Palestine as a case study.

The results were as follows

1- 8/11 of the comparison items were followed by IRPAL and the non-compliance areas were as follows
   - Revaluation model
   - Depreciation method
   - Impairment and Compensation
2- External auditors don't provide recommendations or guidance for implementation of IAS 16 property, plant and equipment.
3- Donors don't provide recommendations or guidance for implementation of IAS 16 property, plant and equipment.
4- Government don't play a role in forcing NGOs comply with IAS 16 property, plant and equipment.

5.2 Recommendations

The following recommendations are derived to enhance IRPAL compliance with IAS 16 property, plant and equipment as follows

1- IRPAL can report the amount of the asset value totally to the donor for reporting purposes, while depreciating the asset along its useful life as required in IAS 16.
2- IRPAL must comply with international financial reporting standards as this will enhance the quality of financial reports and increase the credibility of the reports.
3- IRPAL should coordinate closely with IRW finance to enhance compliance with international accounting standards.
4- External auditors should provide guidance and recommendations for NGOs to comply with international financial reporting standards.
5- Government should play more effective role in forcing NGOs to comply with international financial reporting standards.

6- Government should issue a guideline for international Charities and NGOs like the one which have been issued for local charities and NGOs.
7- Palestinian Accountants and Auditors association must play a role in enhancing compliance by local and international NGOs in Palestine.

5.3 Future Researches

1- The extent of compliance by international NGOs with International Accounting Standard No. 16 Property, Plant and Equipment.
2- The extent of compliance by international NGOs with International Accounting Standard No. 21, The Effects of Changes in Foreign Exchange Rates.
3- The extent to which international NGOs affected by the requirements of institutional funding entities.
4- Impact of Institutional Funding Entities on Building the Financial Management Capacity of International NGOs.

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Appendices

Appendices

Appendix A : Financial Statements for 2011

Islamic Relief – Palestine/Gaza Office
Financial Statements for the year ended December 31, 2011

STATEMENT OF FINANCIAL POSITION
(All amounts are in Israel Shekel)

	Note	2011	2010
ASSETS			
Non-current assets			
Property and equipment	(3)	435,583	702,406
Total non current assets		**435,583**	**702,406**
Current assets			
Loan receivables, net	(4)	3,822,761	4,899,011
Inventory	(5)	642,985	1,454,389
Other current assets	(6)	713,851	7,988,311
Cash and cash equivalents	(7)	22,411,326	4,442,321
Total current assets		**27,590,923**	**18,784,032**
Total assets		**28,026,506**	**19,486,438**
NET ASSETS AND LIABILITIES			
Net assets			
Net assets is classified as follows:			
Project support		3,462,328	3,404,409
Projects' net assets – restricted for the projects	(8)	14,352,718	4,249,482
Net assets other – restricted for purchased inventory relating to the projects	(5)	642,985	1,393,251
Total net assets		**18,458,031**	**9,047,142**
Liabilities			
Non current liabilities			
UNDP loan	(9)	2,498,867	-
Total non current liabilities		**2,498,867**	-
Current liabilities			
Other current liabilities	(10)	7,069,608	10,439,296
Total current liabilities		**7,069,608**	**10,439,296**
Total Liabilities		**9,568,475**	**10,439,296**
Total net assets and liabilities		**28,026,506**	**19,486,438**

Appendix B : Financial Statements for 2012

Islamic Relief - Palestine (Gaza Office)

Financial Statements for the year ended December 31, 2012

STATEMENT OF FINANCIAL POSITION

(All amounts are in Israeli Shekel)

	Note	2012	2011
ASSETS			
Non-current assets			
Property and equipment	(3)	392,041	435,583
Current assets			
Contributions receivable	(4)	3,209,987	-
Loan receivables	(5)	7,854,385	4,583,816
Inventory	(6)	2,417,450	642,985
Other current assets	(7)	215,205	713,851
Cash and cash equivalents	(8)	14,933,985	22,411,326
Total current assets		**28,631,012**	**28,351,978**
Total assets		**29,023,053**	**28,787,561**
NET ASSETS AND LIABILITIES			
Net assets			
Unrestricted net assets for the projects support		3,980,790	4,105,313
Restricted net assets for the projects	(9)	12,580,858	14,352,718
Total net assets		**16,561,648**	**18,458,031**
LIABILITIES			
Non current liabilities			
Loan payable	(10)	1,594,343	3,259,922
Current liabilities			
Other current liabilities	(11)	8,625,404	7,069,608
Unearned revenues	(12)	647,315	-
Loan payable	(10)	1,594,343	-
Total current liabilities		**10,867,062**	**7,069,608**
Total Liabilities		**12,461,405**	**10,329,530**
Total net assets and liabilities		**29,023,053**	**28,787,561**

Appendix C : Financial Statements for 2013

Islamic Relief Worldwide
Palestine Field Office
(IR PAL) Gaza Office
Statement of Financial Position as at December 31, 2013 Exhibit (A)
(Amounts are expressed in NIS)

	Notes	December 31, 2013	2012
Assets			
Current Assets			
Cash and Cash Equivalents	3	13,076,826	14,932,122
Pledges Receivables	4	4,379,329	3,209,987
Loan Receivables	5	7,165,145	7,854,385
Inventory	6	5,764	2,417,450
Other Current Assets	7	519,564	217,068
Total Current Assets		25,146,628	28,631,012
Non – Current Assets			
Property, Plant and Equipment, Net	8	208,600	392,041
Total Non - Current Assets		208,600	392,041
Total Assets		25,355,228	29,023,053
Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Other Current Liabilities	9	5,944,053	7,950,519
Loan Payables	10	1,191,555	3,188,686
Unearned Revenues	11	731,592	1,322,200
Total Current Liabilities		7,867,200	12,461,405
Total Liabilities		7,867,200	12,461,405
Net Assets			
Temporarily Restricted Net Assets		14,471,014	12,580,858
Unrestricted Net Assets		3,017,014	3,980,790
Net Assets - Exhibit "B"		17,488,028	16,561,648
Total Liabilities and Net Assets		25,355,228	29,023,053

Appendix D : Financial Statements for 2014

Islamic Relief Worldwide
Palestine Field Office
(IR PAL) Gaza Office
Statement of Financial Position as at December 31, 2014 Exhibit (A)

(Amounts are expressed in NIS)

	Notes	December 31, 2014	December 31, 2013
Assets			
Current Assets			
Cash and Cash Equivalents	3	11,568,415	13,076,826
Pledges Receivables	4	---	4,379,329
Loan Receivables	5	5,892,689	7,165,145
Inventory	6	4,489	5,764
Other Current Assets	7	697,737	519,564
Total Current Assets		18,163,330	25,146,628
Non – Current Assets			
Property, Plant and Equipment, Net	8	212,388	208,600
Total Non - Current Assets		212,388	208,600
Total Assets		**18,375,718**	**25,355,228**
Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Other Current Liabilities	9	10,848,120	5,249,776
Loan Payables	10	2,007,547	1,885,832
Unearned Revenues	11	412,829	731,592
Total Current Liabilities		13,268,496	7,867,200
Total Liabilities		13,268,496	7,867,200
Net Assets			
Temporarily Restricted Net Assets		985,440	14,471,014
Unrestricted Net Assets		4,121,782	3,017,014
Net Assets - Exhibit "B"		5,107,222	17,488,028
Total Liabilities and Net Assets		**18,375,718**	**25,355,228**

Appendix E : Financial Statements for 2015

Islamic Relief Worldwide
Palestine Field Office
(IR PAL) Gaza Office
Statement of Financial Position as at December 31, 2015 Exhibit (A)

(Amounts are expressed in NIS)

	Notes	December 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash and Cash Equivalents	3	17,799,800	11,568,415
Loans Receivable	4	3,734,603	5,892,689
Inventory	5	4,443	4,489
Other Current Assets	6	499,423	697,737
Total Current Assets		22,038,269	18,163,330
Non – Current Assets			
Property, Plant and Equipment, Net	7	140,059	212,388
Total Non - Current Assets		140,059	212,388
Total Assets		**22,178,328**	**18,375,718**
Liabilities and Net Assets			
Liabilities			
Current Liabilities			
Other Current Liabilities	8	3,272,553	10,848,120
Loans Payable	9	1,956,919	2,007,547
Unearned Revenues	10	155,763	412,829
Total Current Liabilities		5,385,235	13,268,496
Total Liabilities		5,385,235	13,268,496
Net Assets			
Temporarily Restricted Net Assets	11	14,489,737	2,803,866
Unrestricted Net Assets		2,303,356	2,303,356
Net Assets - Exhibit "B"		16,793,093	5,107,222
Total Liabilities and Net Assets		**22,178,328**	**18,375,718**

Appendix F : 2011 external auditor opinion and explanatory paragraph for IRPAL

Opinion

In our opinion, the financial statements of Islamic Relief - Gaza for the Year ended December 31, 2011 are properly prepared, in all material respects, in accordance with the accounting policies described in note 2.

NOTE (2) BASIS OF PREPARATION

The accompanying financial statements are prepared in accordance with the IR PAL accounting policies summarized below.

The financial statements have been presented in the Israeli Monitory Unit (ILS) which is the functional currency of IR PAL.

Following is a summary of the IR PAL's significant accounting policies:

Property and equipment:

Property and equipment – Acquired through implementation of projects

IR PAL has a policy to expense at the time of their acquisition all property and equipment acquired through the implementation of several projects under the IR PAL administration. Accordingly, property and equipment acquired during the implementation of these projects are accounted for as expenses and included in the statement of activities and changes in net assets. Further, these assets are also stated at cost and related accumulated depreciation in full amount at the date of purchase on the statement of financial position resulting in a zero carrying value.

Property and equipment – Acquired through project support

Property and equipment that are acquired through project support for the benefit of the entity are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

	2011	2010
Furniture	12.5%	12.5%
Office equipment	12.5%	12.5%
Computers	25%	25%
Vehicles	20%	20%

Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalised only when they increase future economic benefits of the related item of property and equipment. All other expenditures are recognised in the statement of activities and changes in net assets as expense when incurred.

Appendix G : 2012 external auditor opinion and explanatory paragraph for IRPAL

Opinion

In our opinion, the financial statements of IR PAL are prepared in all material respects in accordance with the accounting policies described in note 2 to the financial statements.

NOTE (2) BASIS OF PREPARATION

The accompanying financial statements are prepared in accordance with the IR PAL accounting policies summarized below.

The financial statements have been presented in the Israeli Monitory Unit (ILS) which is the functional currency of IR PAL.

Following is a summary of the IR PAL's significant accounting policies:

Property and equipment

Property and equipment – Acquired through implementation of projects
IR PAL has a policy to expense at the time of their acquisition all property and equipment acquired through the implementation of several projects under the IR PAL administration. Accordingly, property and equipment acquired during the implementation of these projects are accounted for as expenses and included in the statement of activities and changes in net assets. Further, these assets are also stated at cost and related accumulated depreciation in full amount at the date of purchase on the statement of financial position resulting in a zero carrying value.

Property and equipment – Acquired through project support
Property and equipment that are acquired through project support for the benefit of the entity are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

	%
Furniture	12.5
Office equipment	12.5
Computer	25
Vehicles	20

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalised only when they increase future economic benefits of the related item of property and equipment. All other expenditures are recognised in the statement of activities and changes in net assets as the expense is incurred.

Appendix H : 2013 external auditor opinion and explanatory paragraph for IRPAL

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Islamic Relief Worldwide – Palestine Field Office (IR PAL- Gaza Office)**, as of December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in note (2) to the financial statements.

2.6 Property, Plant and Equipment

2.6.1 Acquired through Project Support

Property, plant and equipment are initially recognized at their cost being their purchase price plus any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

After initial recognition, the property, plant and equipment are carried, in the statement of financial position, at their cost less any accumulated depreciation and any accumulated impairment. The depreciation charge for each year is recognized in the statement of activities. Depreciation is calculated on a straight line basis, which reflects the pattern in which the asset's future economic benefits are expected to be consumed by IR PAL over the estimated useful life of the assets using the following annual depreciation rates:

Category	Annual Rate (%)
Furniture	12.5
Office Equipment	12.5
Computers	25
Vehicles	20

2.6.2 Acquired through the Implementation of Projects

According to IR PAL financial guidelines; property, plant and equipment acquired through the implementation of the Projects are directly expensed at the date of their acquisition in the statement of activities. Accordingly, these assets are stated at cost and related accumulated depreciation in full resulting in a zero net book value.

IR PAL-Gaza maintains a detailed fixed assets register for both categories of assets, whether acquired through project support or through the implementation of projects. The register contains all the information needed in terms of assets description, no. of units, status, cost, accumulated depreciation..etc.

Appendix I : 2014 external auditor opinion and explanatory paragraph for IRPAL

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Islamic Relief Worldwide – Palestine Field Office (IR PAL- Gaza Office)**, as of December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in note (2) to the financial statements.

2.6 Property, Plant and Equipment

2.6.1 Acquired through Project Support

Property, plant and equipment are initially recognized at their cost being their purchase price plus any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.
After initial recognition, the property, plant and equipment are carried, in the statement of financial position, at their cost less any accumulated depreciation and any accumulated impairment. The depreciation charge for each year is recognized in the statement of activities. Depreciation is calculated on a straight line basis, which reflects the pattern in which the asset's future economic benefits are expected to be consumed by IR PAL over the estimated useful life of the assets using the following annual depreciation rates:

Category	Annual Rate (%)
Furniture	12.5
Office Equipment	12.5
Computers	25
Vehicles	20

2.6.2 Acquired through the Implementation of Projects

According to IR PAL financial guidelines; property, plant and equipment acquired through the implementation of the Projects are directly expensed at the date of their acquisition in the statement of activities. Accordingly, these assets are stated at cost and related accumulated depreciation in full resulting in a zero net book value.

IR PAL-Gaza maintains a detailed fixed assets register for both categories of assets, whether acquired through project support or through the implementation of projects. The register contains all the information needed in terms of assets description, no. of units, status, cost, accumulated depreciation..etc.

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Appendix J : 2015 external auditor opinion and explanatory paragraph for IRPAL

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Islamic Relief Worldwide – Palestine Field Office (IR PAL- Gaza Office)**, as of December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in note (2) to the financial statements.

2.5 Property, Plant and Equipment

2.5.1 Acquired through Project Support

Property, plant and equipment are initially recognized at their cost being their purchase price plus any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.
After initial recognition, the property, plant and equipment are carried, in the statement of financial position, at their cost less any accumulated depreciation and any accumulated impairment. The depreciation charge for each year is recognized in the statement of activities. Depreciation is calculated on a straight line basis, which reflects the pattern in which the asset's future economic benefits are expected to be consumed by IR PAL over the estimated useful life of the assets using the following annual depreciation rates:

Category	Annual Rate (%)
Furniture	12.5
Office Equipment	12.5
Computers	25
Vehicles	20

2.5.2 Acquired through the Implementation of Projects

According to IR PAL financial guidelines; property, plant and equipment acquired through the implementation of the Projects are directly expensed at the date of their acquisition in the statement of activities. Accordingly, these assets are stated at cost and related accumulated depreciation in full resulting in a zero net book value.

IR PAL-Gaza maintains a detailed fixed assets register for both categories of assets, whether acquired through project support or through the implementation of projects. The register contains all the information needed in terms of assets description, no. of units, status, cost, accumulated depreciation..etc.