



International financial reporting for the not-for-profit sector

A study commissioned by CCAB

Final Report

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Executive Summary

“Charities and other non-governmental organisations (NGOs) increasingly work internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting.” (From the CCAB project brief.)

Key Findings

- The majority of survey respondents (72%) indicated that they thought it would be useful to have international standards for financial reporting by not-for-profit organisations (NPOs) – though respondents interpreted the term ‘standards’ in different ways.
- Many respondents, especially those involved with NPOs operating in developing countries, would welcome a standard if it could contribute to resolving the diverse and inconsistent demands from funders.
- However, 14% were opposed to an international NPO standard. The strongest objections appear to come from countries such as the UK, which already have well developed frameworks for NPO accounting.
- This report is the first step towards establishing whether or not there is a case for developing harmonised international standards for NPO financial reporting.
- Much more analysis and discussion will be needed between interested parties: the findings presented in this report have the potential to inform the debate and move that discussion forward.

Study approach

This study was carried out by a team from Sheffield Hallam University and the University of Dundee, with the support of the other institutions listed on the cover page. It aimed to provide a better understanding of financial reporting practices in the not-for-profit sector worldwide and to provide a body of evidence to determine whether a need exists to develop international financial reporting standards for NPOs.

International Financial Reporting for the Not-for-Profit Sector

THE LITERATURE SHOWS:

- Difficulties with definitions relating to NPO accounting issues and not-for-profit concepts.
- If IFRS or IPSAS were used as a basis for an international financial reporting for NPOs, there would be a need for further standards to deal with NPO-specific accounting issues.
- Particular issues exist for NPO financial reporting, such as non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NPO-specific assets.
- Many jurisdictions across the globe are currently trying to develop national financial reporting standards for NPOs.

THE SURVEY RESPONSES CAME FROM:

- 605 persons involved with NPO financial reporting in at least 179 countries
- Responses came from small community based NPOs up to large international NGOs
- 68% primarily involved with accrual accounts, and 24% with cash-based receipts and payments accounts
- Respondents using a wide range of existing financial reporting frameworks for the content of NPO financial statements.

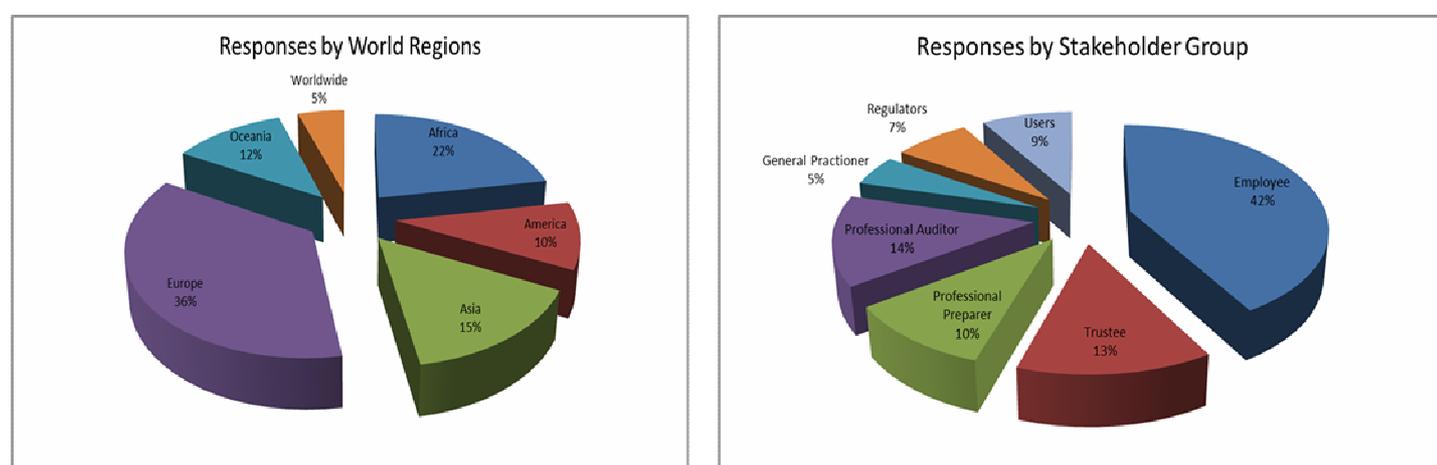
The focus throughout the study was on NPOs defined as organisations that were:

- constituted on a not-for-profit basis;
- self-governing; and
- established for public benefit.

The study was designed in two stages. First, an extensive literature review was undertaken to identify specific financial reporting issues in the not-for-profit sector internationally. Second, an online survey was developed and distributed globally, to: NPO staff and trustees; accountants and auditors; regulators; standard setters; funders; and users, to seek a wide range of opinions regarding their understanding of financial reporting in the not-for-profit sector.

The survey responses

The survey demonstrated an extraordinary level of interest and engagement with the issues, attracting over 600 responses representing experience of NPO financial reporting in 179 countries as shown below. All had direct involvement in NPO financial reporting – the *Stakeholder Groups* figure illustrates the spread of roles. The number and the quality of the responses – particularly as judged by the very high volume of narrative comments – were both exceptional.



Key views demonstrated from the survey

Arguably the central question in the study was a statement, to which respondents indicated the extent of their disagreement or agreement:

“It would be useful to have international standards for NPO accounting.”

In all, 72% of respondents expressed agreement with this statement and 14% disagreed (including 7% that strongly disagreed). However, there were notable differences across world regions with respondents involved in European NPOs expressing 64% support compared to 82% in African countries.

Nevertheless, it is important to note that the survey did not seek to explain what form any such international NPO standard might take, but it allowed respondents to interpret this as they saw fit. It is therefore likely the different respondents will have interpreted the term in different ways, and narrative comments indicate that respondents envisaged anything from a mandatory international standard to voluntary guidance for the sector. Also, one of the limitations of the study was that participants, whilst drawn from a wide range of international contacts, were ultimately self-selecting, and the title of the survey may have attracted respondents who were receptive to the idea of an international standard for NPO reporting.

Conclusions and recommendations

This study makes a significant contribution to the understanding of the specific financial reporting issues experienced by NPOs internationally.

It identified four possible ways forward with a view to developing discussion and debate amongst interested parties – all of these were supported to some extent by the research. Further approaches falling somewhere between these four options could also be suggested.

Option 1: Do nothing.

Whilst a number of respondents would prefer no action, this did not seem to be the majority view of those who took part in the survey.

Option 2: Press for improvements to existing national NPO financial reporting frameworks to address concerns identified in this study (but without creating an international standard).

On this option, many respondents seemed resigned to the problems of existing frameworks. Whilst some in countries such as the UK and New Zealand were welcoming forthcoming developments in their own national NPO reporting frameworks, it appears there was limited evidence of comparable developments elsewhere.

Option 3: Seek to develop international guidance on NPO reporting but not a formal accounting standard.

This could take various forms ranging from ‘helpful guidance’ issued by umbrella bodies (infrastructure organisations in the not-for-profit sector providing support, representation and guidance to local NPOs) to suggested standards endorsed by key international stakeholders. This suggestion would not involve any formal development by an international standard setter. The option was not explored in detail, as the survey focused on formal accounting frameworks and standards, but it was raised in a number of narrative comments.

Option 4: Development of international standards for NPO financial reporting, prepared by an international standard setting body, and (eventually) endorsed by appropriate regulatory regimes in jurisdictions across the globe.

The development of a formal international standard appears to command a good deal of interest, as shown by a range of narrative comments. The majority of those who commented on detailed frameworks in response to narrative survey questions seemed to suggest such a standard should be

THE SURVEY RESPONSES FOUND:

- 72% agree that it would be useful to have international standards for NPO accounting, whilst 14% disagree.
- 30% of respondents thought a standard should be applied to all NPOs regardless of size.
- Fewer than 50% of respondents believe that the value of NPO-specific assets and narrative reporting are adequately dealt with in national reporting frameworks.
- National legislation (32%) and national GAAP (20%) are used most frequently to determine the content of NPO financial reports across the globe.
- IFRS (9%), IFRS for SME (4%) and IPSAS (1%) are used infrequently across the globe to determine the content NPO financial reports.
- There are important perception differences across the globe, with those involved in African NPOs being the most supportive to the idea of an international NPO standard, the most subject to reporting demands from funders and the most likely to use cash-based receipts and payments accounting.

NARRATIVE RESPONSES IN THE SURVEY SHOW:

- Concerns about the demands of any developed reporting regime and the scope of a standard.
- Concerns about the capacity, in terms of education and training of staff, of NPOs to take on new reporting standards.

IFRS-based. In contrast, evidence from the closed questions showed that IFRS-based financial reporting frameworks are infrequently encountered by survey participants across the globe. Indeed, those currently seeking to produce NPO financial statements within an IFRS framework (or the IFRS for SMEs) reported significant problems and difficulties, so there is little doubt that specific additional guidance for NPOs (or even complete new standards) would be welcomed.

Further research – scope of a new standard

Of necessity an exploratory study of this kind can only begin to address the issues. Further work is needed, including more systematic sampling of NPOs in a range of countries, to assess:

- (a) the extent to which they would welcome a formal international standard for NPO financial reporting and be willing to use it;
- (b) the form which any standard should take – for example, in terms of content, scope and presentations (comparing views of users on a range of options regarding the presentation of a standard);
- (c) if it is suggested that such a standard should be mandatory, to assess the size range of NPOs to which it would apply – or, conversely, the extent to which such a standard would be used in the absence of mandatory requirements;
- (d) whether any new standard should allow for an option of receipts and payments accounting (at least for smaller NPOs);
- (e) how far the issues raised in this study could in practice be addressed by non-mandatory guidance rather than formal standards (option 3 above); and
- (f) the impact of different legal structures under which NPOs can be constituted in different jurisdictions (in particular, the fact that many NPOs are not incorporated as companies and hence fall outside the requirements and standards for company reporting).

Further research – development approaches for a new standard

If the fourth option above – the development of formal international standards for NPOs – were to take place, various approaches can be envisaged (which are not necessarily mutually exclusive):

- constituting a new international standard setting body for the not-for-profit sector;
- adapting existing international financial reporting standards, for example IFRS or IPSAS, to incorporate NPO specific accounting issues; or
- promoting an existing national financial reporting framework for NPOs, which may have been developed by a funder, regulator or national standard setter, that appears to reflect best practice, and develop international standards on this basis.

Each of these could be the subject of further research to determine the views of stakeholders and their willingness to engage in such a process. It was clear from responses to the survey that development of standards or guidance for the NPO community internationally will have to be an inclusive process, to ensure that the resulting international NPO financial reporting standards can be complied with and enforced at the national level – indeed, the majority of survey respondents (63%) felt that their country would be able to contribute to such a process.

However, a wide range of respondents commented on the skills and capacity of NPO finance staff and external accountants. Several stressed that any process to introduce an accepted international framework for NPO accounting (whether a formal standard or non-mandatory guidance) will have to incorporate consideration of the education and experience of those individuals who will ultimately be responsible for setting, complying, and (potentially) enforcing standards.

1. Introduction

1.1 The aims and scope of the study

In August 2013, CCAB commissioned a team from Sheffield Hallam University and the University of Dundee, with the support of the other institutions listed on the cover page, to undertake a short but intensive study of *International Financial Reporting for the Not-for-Profit Sector*.

The objectives of the study, as set out in CCAB's Research Brief (CCAB 2013a) were as follows:

- (a) To identify what is meant by the not-for-profit sector internationally and the nature and scale of issues;
- (b) To identify current accounting framework, standards and guidance applied to the various specialisms in the not-for-profit sector (e.g. UK Charities SORP¹);
- (c) To focus on specific accounting issues relating to charities; and
- (d) To make recommendations on whether there is a need or not for the development of some form of international financial reporting framework, guidance or standard(s) for the not-for-profit sector.

As set out in the CCAB Brief, the study was designed in two stages:

- The first stage comprised a review of existing accounting and management literature to identify specific accounting/reporting issues in the not-for-profit sector internationally.
- Using an online questionnaire sent to standard setters, regulators, public practice firms, regulators, not-for-profit organisations and academics, nationally and internationally, the second stage sought a wide range of opinions regarding the understanding of financial reporting in the not-for-profit sector, and the application of accounting frameworks applicable to not-for-profit organisations (NPOs).

The study uses the term 'financial reporting' in a broad sense to include any kind of financial statements issued by NPOs, including narrative information which accompanies the statements.

1.2 Literature approach and contribution

In order to gain initial evidence for aims (a) to (c) above, a systematic literature review was undertaken for this report. The literature search included both academic research and reports from standard setters, regulators and practitioners. This stage includes a review of existing legal frameworks applicable to NPO financial reporting, and an analysis of existing standards and approaches.

Searches were run in databases (Proquest, SAGE, Wiley Online Library) for the years 1999-2013 for articles using the terms: 'financial reporting', 'GAAP' (Generally Accepted Accounting Practice) and (in abstracts only) 'accounting' in conjunction with leader terms: 'charities' and 'nonprofit'. Further, papers from specialist not-for-profit sector journals, conferences, not-for-profit specialist groups (representing standard setters, professional bodies and firms), referred by the CCAB and academic colleagues, were also accessed.

This stage identified areas and issues to be explored further in the online survey research in the second stage.

¹ *Accounting and Reporting by Charities: Statement of Recommended Practice* (Charity Commission 2005; Charity Commission & OSCAR 2013a).

1.3 Survey approach

The second stage sought to examine objectives (b) and (c) in more depth by seeking opinions from a wide range of individuals across the world with direct experience of the issues involved in NPO financial reporting. It also addressed objective (d) by asking respondents for their views on whether international not-for-profit financial reporting guidance would be useful and if so, what it should cover.

The survey was conducted online with a mixture of open and closed questions. Details of the survey were circulated extremely widely (see Chapter 3 for details) with a view to gaining the broadest possible views on the issues being explored.

Over 600 responses to the survey were received, with participants reporting specific experience of NPO financial reporting from 179 countries.² The responses were analysed using both quantitative and qualitative approaches.

1.4 The contribution of the research

This research contributes to the body of knowledge about the not-for-profit sector and financial reporting in five ways:

1. It investigates jurisdictional beliefs about the meaning of NPOs and the stakeholders to whom such entities should report.
2. It provides extensive evidence on the opinions, experiences and concerns of a very wide range of accounting practitioners, users and regulators who are involved in NPO financial reporting using existing financial reporting frameworks, across a wide range of countries and working with NPOs of all sizes.
3. It answers calls for a better understanding of how NPOs report their performance to stakeholders (CCAB, 2013c).
4. It fills a gap in the literature. Much attention in the academic literature has been aimed at understanding international financial reporting practice and the politics of standard setting in the for-profit sector (Crawford, Ferguson et al., 2013), and comparatively little attention has been devoted to appreciating financial reporting by NPOs across the globe.
5. Finally, this report highlights important NPO accounting issues that should be incorporated into any emerging NPO reporting framework and standards.

1.5 The structure of this report

This report presents a discussion of the findings from both stages of the study.

Chapter 2 presents a wide range of analysis from the literature concerning the nature of the sector, and the specific issues for financial reporting in not-for-profit organisations (NPOs) across a wide range of countries and jurisdictions.

Chapter 3 outlines the design of the survey, and the process of contacting potential respondents. This chapter also gives a profile of 605 individuals who responded. (The full survey questions and a summary of those selecting each option on the closed questions are given in Appendix B.)

Chapter 4 provided an analysis of principal findings from the closed (multiple option) questions, showing respondents' views on international financial reporting for NPOs. It breaks down the main findings in relation to the different categories of respondents and different world regions, and it explores whether there are differences between the views emerging from these different groups of respondents.

² Participants could indicate experience of NPO financial reporting in more than one country; however this total is based on those identifying specific countries rather than those "worldwide". See Chapter 3 for further details.

Chapter 5 presents a discussion of the narrative comments given in the open questions of the survey – with a wide range of verbatim comments provided as an illustration of views expressed.

Chapter 6 offers conclusions from the two stages in relation to the study objectives as above.

1.6 Relevance

The research is directed towards developing a better understanding of the accounting issues that are particular to the community of organisations that form the not-for-profit sector internationally. The results will be of interest to the professional accountancy bodies that constitute CCAB, as well as the accountancy profession, regulators and standard setters, operating nationally and internationally in the field, and will facilitate such stakeholders to inform debates and developments in NPO financial reporting.

The study has the potential to contribute substantially to understanding the extent of the role played by IFRS (International Financial Reporting Standards) and IPSAS (International Public Sector Accounting Standards) in relation to NPOs across numerous countries.

It also considers to what extent the findings from the literature and empirical evidence demonstrate a case for developing specific accounting standards for NPOs internationally. In particular it asks whether the development of standards will enable NPOs to report to their stakeholders appropriately and thus, meet their needs. It also presents a wide range of insights from those with direct experience of NPO financial reporting.

This research should contribute to the debate surrounding the harmonisation of reporting regimes for NPOs. Ultimately if this leads to improved NPO financial reporting it will increase the accountability of the NPO sector worldwide, which will enhance the ability of such organisations to attract resources to meet their public benefit goals.

2. Insights from the Literature

2.1 Introduction

This chapter explores a wide range of literature concerning the nature of NPOs and the various regimes of financial reporting in terms of their potential application to NPOs. It is structured as follows.

- Section 2.2 introduces more broadly the focus of the study and the various possible definitions of the sector.
- Section 2.3 explores the conceptual issues in not-for-profit financial reporting – in particular the issues of accountability to a wide range of stakeholders as potential users of NPO accounts.
- Section 2.4 discusses the globalisation of financial reporting, the relevance of international standards and application in the not-for-profit sector.
- Section 2.5 identifies a range of specific issues from the literature which are widely considered to be of particular importance for not-for-profit financial reporting.
- Section 2.6 reviews current accounting frameworks, standards and guidance applicable to not-for-profit financial reporting in a broad range of countries. This is supported by a detailed tabulation in Appendix A of jurisdictional requirements of reporting by NPOs.

2.2 The NPO Sector: Focus and Definitions

2.2.1 Context

This research seeks to attain a better understanding of the financial reporting practices of not-for-profit organisations operating in different jurisdictions across the globe. In particular, we investigate stakeholder perceptions of concerns and benefits that could arise for not-for-profit organisations (NPOs), the sector, its stakeholders and standard setters, if sector specific, globally converged, international financial reporting framework and standards are to be developed. Such internationally converged financial reporting standards may go some way to address challenges faced by the sector, as noted by CCAB which stated:

Charities and other non-governmental organisations (NGOs) increasingly work internationally with grants from government funding their development and relief activities, while private donors and international foundations are increasingly taking a global approach to their work. As a result, charities and other NGOs face a multiplicity of international grant regimes, often made more complex by the lack of an agreed approach to financial planning and reporting. (CCAB, 2013a).

This research focuses on providing a “... body of evidence [to determine] the need to develop international financial reporting standards ... for non-profit entities, including charities” (CCAB, 2013b).

The term ‘not-for-profit sector’ is used in this report, but the sector can also be referred to as the ‘third sector’, ‘community and voluntary sector’, and ‘civil society’ (Salamon & Anheier, 1992a). As shown in Figure 2.1, the third sector comprises organisations that are neither for-profit entities nor public sector entities. NPOs exclude government entities, therefore the terms NPO and NGO (Non-Governmental Organisation) are essentially equivalent. However, it is worth noting that some countries tend to see NGOs as being large NPOs with funding from other countries, as opposed to smaller community-based organisations, so the term “NGO” can suggest a certain type of organisation in certain jurisdictions (for example, Unerman & O’Dwyer, 2006a) – so this study uses the term NPO.

The scope of this report is, however, narrower than the field of third sector organisations (TSOs) (Figure 2.1, box 3) as the third sector generally includes certain profit-distributing organisations such as co-operatives where trading is undertaken for social purposes (box 3.1); such organisations are excluded

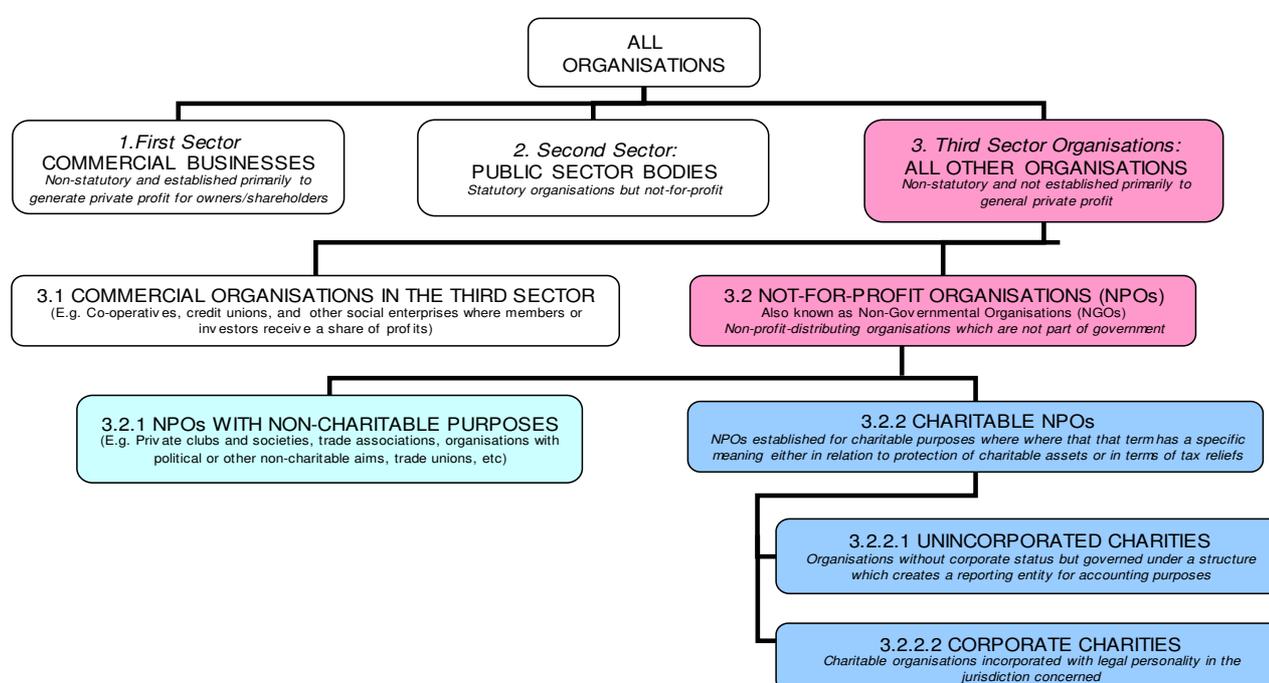
from our study.³ We further narrow the NPO field to those organisations that are established for public benefit or which would be seen as charitable organisations in jurisdictions where the term ‘charity’ is used (box 3.2.2 of Figure 2.1).

However it should be noted that the term ‘public benefit’ as applied in charity law jurisdictions has a somewhat narrower meaning than the term ‘public benefit entity’ used in financial reporting (see further in Section 2.2.1 below).

In order to extend our approach to countries where there is no formal recognition of charities, we define our focus as encompassing organisations in any country which would probably meet the English definition of charity⁴ and organisations in any country which are entitled to charitable-type tax reliefs (whether or not the actual term ‘charity’ is used). In any case, it is worth noting that the term ‘charity’ has a different meaning in different jurisdictions, and in many countries it has no formal meaning at all (Breen, Ford, & Morgan, 2009).

Specifically, therefore, in this report we use the term NPOs to refer to those organisations that align with box 3.2.2 definition in Figure 2.1; thus our focus is NPOs with a charitable purpose.

Figure 2.1: Scope of this study - NPOs compared to other sectors



Key:		
Organisational context for this study		
Relevant, but outside the direct scope of this study		Source:
Core focus of this study		Adapted from Morgan (2013).

³ The term public benefit entity (PBE) which is used in the new UK accounting standard FRS102 – is defined therein as “An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members”. Accordingly, in this respect, PBEs are closer to the term TSOs (Figure 1, box 3) rather than NPOs (box 3.2).

⁴ Charities Act 2011 [England and Wales], ss1-5. The English definition of charity focuses on two principles, being an organisation which has exclusively charitable purposes and is established for public benefit – a charity is not a specific legal structure (Morgan 2013, p. 23).

2.2.2 International financial reporting frameworks

While this ‘third’ sector is significant nationally and internationally (for example, Hopkins, 2010), unlike the first and second sectors, there is currently no globally converged set of financial reporting standards available for NPOs to use in order to discharge accountability (as noted by the CCAB, 2013a).

In many jurisdictions, for-profit sector financial reporting (especially for publicly accountable firms – including those listed on stock exchanges), conforms to the standards that are issued by the International Accounting Standards Board (IASB). International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) developed by the IASB have been adopted or adapted for use by publicly accountable firms in approximately 120 countries (IASB, 2013a). The IASB has also published IFRS for Small and Medium Enterprises (SMEs) for use primarily by smaller for-profit entities (International Federation of Accountants, n.d.).

In addition, there is now also a growing motivation amongst public sector/state organisations in some countries to adopt International Public Sector Accounting Standards (IPSASs), issued by the International Public Sector Accounting Standards Board (IPSASB, 2013a). The IPSASB is one of the standard setting boards of International Federation of Accountants (IFAC)⁵ and it has already issued over 30 accounting standards for public sector entities around the world. For example, in 2013, IPSASB reported that ten countries and a number of international organisations have adopted or plan to adopt IPSAS or at least IPSAS-based standards. Multi-national organisations, including The United Nations, the European Commission, the OECD and NATO support IPSAS adoption, and in 2010, the United Nations and their system of organisations began the process of implementing IPSAS to “harmonise financial reporting practicesand allow for better comparability of their financial statements” (Biraud, 2010, p. iii).

The goals of the IASB and IPSASB are similar. The IASB seeks to “to develop a single set of high quality, understandable, enforceable and globally accepted IFRSs” (IFRS Foundation, 2013). The IPSASB’s objective is to “enhance the quality and transparency of public sector financial reporting by establishing high-quality accounting standards ... [and] promot[e] the adoption and international convergence to IPSASs” (IPSASB, 2013a). Both the IASB and IFAC state that their work of developing and pronouncing internationally converged financial reporting standards is in the public interest.

By contrast, converged international financial reporting standards or guidelines for the global community of NPOs have not been developed – those standards which exist are mostly country-specific, as discussed further in section 6 below. Whilst there has been considerable academic interest in financial reporting by NPOs in certain countries, the sector’s financial reporting practices vis-à-vis international standards have received comparatively little attention in the academic literature.

The NPO sector represents a heterogeneous mix of organisations with accountability relationships to a diverse range of stakeholders, including: beneficiaries, funders, government and regulators (Connolly, Hyndman, & McConville, 2013; Unerman & O’Dwyer, 2006a). Specifically, any development of globally converged financial reporting standards for the NPO sector would need to facilitate the accountability of different sizes and structures of NPOs (Salamon & Anheier, 1992b) operating at different levels (national, regional or international) and engaging in different activities, from operational to advocacy (Unerman & O’Dwyer, 2006a). In addition, standards would need to incorporate and account for sector-specific transactions that are not evident within the for-profit sector, for example, non-exchange transactions (for example, Rossouw, 2007) and for different users.

⁵ In addition to the IPSASB pronouncing IPSASs, IFAC has three other boards responsible for developing and pronouncing standards on: auditing (International Standards on Auditing (ISAs), published by the International Auditing and Assurance Standards Board); ethics (International Code of Ethics for Professional Accountants, published by the International Ethics Standards Board for Accountants); and professional education (International Education Standards published by the International Accounting Education Standards Board).

The very breadth of the sector is at once its strength and the challenge for financial reporting standard setters. NPOs may be involved in businesses, investment, services, membership activities and so on, but all with the mission of delivering on a social goal. In particular, these different NPOs have a wide range of users that have differing needs. These users are more diverse than those identified by the IASB, which is likely to limit the wholesale adoption of IFRS and, while the IPSASB acknowledges a range of users, as discussed in section 3, differences between public and private NPOs also mean that IPSAS would need adaptation to be applicable to NPOs.

2.3 Accountability in the not-for-profit sector

This section explores issues of accountability in the not-for-profit sector generally by referring to other sectors (the market and the state are recognised as the first and second sectors). It analyses literature focusing on what the not-for-profit sector is and why financial reporting is important. NPOs exist to meet social (non-financial) goals, meaning that the mode of accountability for these organisations cannot be solely on fiscal accountability, but is also based on the purpose for which they were established in the first instance.

2.3.1 Differentiating the not-for-profit sector from the for-profit and public sectors

Davies and Maddocks (2012) list sixteen key differences in NPOs from for-profit entities and a number of differences in NPOs when compared to public sector entities. They deal with these under four key factors as shown in Table 2.1: Ownership, Beneficiaries, Social Purpose, and Financing (Davies & Maddocks, 2012).⁶ The Not-for-Profit Sector Advisory Committee (NFPSAC) of the New Zealand Institute of Chartered Accountants (2009) concurred with a number of these and also highlighted the impact of size on the ability of NPOs to bear the costs of financial reporting and to participate in standard setting activities.

In those documents, NPOs are also described as being public benefits entities (PBEs). PBE is the term used by the United Kingdom (UK) and New Zealand standard setters to distinguish from for-profit entities, those entities that share common objectives to provide goods or services for the general public or social benefit rather than profits, have a high level of non-exchange revenue transactions and use capital assets for service provision, rather than to generate cash flows (Davies & Maddocks, 2012; NFPSAC, 2009). However, as noted above, the term PBE encompasses a wider range of NPOs than those which meet the ‘public benefit requirement’ as used in most systems of charity law.⁷

⁶ In Table 2.1, differences numbered 14 and 15 by Davies & Maddocks (2012) are combined.

⁷ For example Charities Act 2011 [England and Wales], s.4.

Table 2.1: Differences between sectors (extracted from Davies and Maddocks, 2012; NFPSAC, 2009; United Nations, 2013)

Common key factors	Different impacts on financial reporting		
	NPOs	For-profit entities	Public Sector entities
A: Ownership			
Constitutional form	Extremely varied (Mulgan, 2001). Includes charitable trusts, charitable companies, member-owned organisations (co-operatives, community benefit societies, credit unions), community interest companies with shares, clubs, associations, established by royal charter	Limited by shares or guarantee (companies with a for-profit motive), limited liability partnership	Established by constitution or legislation
Ownership and residual interest	Classic non-owned entities with limited or weak property rights held by members or community at large	Equity providers of risk capital	The State (government and the people)
Share transferability and redemption	Very rare. On dissolution residual property goes to similar NPO. Transfer to for-profit entity only for full worth	Typically transferable. On dissolution residual funds to shareholders	Very rare. On dissolution, residual assets returns to public funds
Management and Control	As per governing document. Accountable to beneficiaries, members or mix of these. Governance roles often held by volunteers. Audits or similar may be required by constitution/regulator	As per governing document. Accountable to shareholders. Employed governors elected by shareholders. Audits or similar required for 'publicly accountable' entities	Organisations/individuals exercise control under statutory remit. Accountable to parliament. Employed governors appointed. Audits required by statute undertaken by Auditor General or appointee of the state
Voting rights	Typically membership/participation	Linked to number and type of shares	Democratic rights
Business Combinations and common control	Combine to further common aims (e.g. service delivery). No equity typically	Control in order to gain economic advantage	Government-defined boundaries. Control for purposes of probity and services provided
B: Beneficiaries			
Business model and liabilities	Seek a balance to prudently manage scarce resources to meet goals	Minimise liabilities to maximise returns	Regulated through statute reflecting government priorities
Constructive Obligations	These may be the main source of liabilities to beneficiaries, members or user of service provided	Minimised to those required to sell goods/services	Constructive obligations limited by statutory responsibilities
Economic purpose of concessionary finance	Often used to further social purpose of NPO, therefore non-financial reporting will be important	Concessionary finance offered to customers to induce purchase (underpinned by financial data)	Provided to induce changes in economic behaviour/ further purposes, therefore non-financial reporting will be important

C: Social Purpose			
Uneconomic activities and community cohesion	Not organised to make a profit. Often formed to increase community cohesion. Driven by social or ideological impulses	Requires economic return to survive	May also trade at below-cost to provide social benefits
Cash flows and exploitation of assets	Hold assets to further social objectives	Hold assets to further economic objectives ('service potential')	Hold assets to further social objectives
Volunteers	Significant volunteer input to outputs/ outcomes	No intentional volunteer involvement	May be some volunteer involvement but seldom
Social agenda and tax relief	Some if advanced by State (e.g. to charities, sports organisations)	Perhaps for specific economic purpose e.g. regeneration	Yes
D: Financing			
Business Model/Economic return	No single business model, depending on donations, income from goods and services or both. Surplus most often used to provide other goods and services	Sale of goods and services to produce return on shares held by equity providers	Coercive power to tax provides income along with sale of goods/services. Surplus to public funds
Income from non-exchange transactions including gifts	Dominant form of income is donations and grants which may have restrictions on use	No	Taxes comprise main form of non-exchange revenue. Goods and services may be non-exchange

2.3.2 The types of NPOs, the scale of the sector and definitions

The NPO sector is diverse and has a major economic presence in many countries throughout the world (United Nations, 2013). NPOs are often referred to operating in 'the third sector', being the space between government and for-profit enterprises.

As noted, there are a number of terms to describe the bodies (or activities) whose financial reporting could potentially be considered in any consideration of not-for-profit financial reporting: not-for-profit organisations (NPOs), nongovernmental organisations (NGOs), charities, public benefit entities, voluntary organisations, donee organisations, membership organisations (for example, cooperatives, sports and arts clubs), professional associations, societies, mutuals, and non-investor-owned social enterprises.

However, some of the latter categories may allow at least some distribution of profits and could not be classed as NPOs in the strict sense. The CFG Symposium (2012) noted that co-operatives, credit unions and some other trading organisations may be part of the third sector if they operate for social goals, rather than being focused on returning profits. As explained in Section 2.2.1 above, the focus of *this study* is on those NPOs which could be considered to be charitable (box 3.2.2 in Figure 2.1).

It should also be noted that within the broad category of NPOs there may be a range of organisational forms and structures, which may have specific financial reporting requirements. For example, in the UK they may form as charitable trusts, charitable associations and not-for-profit focused companies (often Companies Limited by Guarantee (CLGs)), Community Interest Companies (CICs), Industrial and Provident Societies (which are divided into Co-operatives and Community Benefit Societies (CBS)), and, more recently, Charitable Incorporated Organisations (CIOs) (Morgan, 2013; Salamon & Anheier, 1992a).

There is a proliferation of regulators relating to organisational form, activities undertaken and NPO status (as a charity or not) (Breen et al., 2009; CFG, 2012). Some countries apply different rules to

foundations as opposed to associations. Many countries, including the UK, require compliance with additional requirements under company law when an NPO has the legal structure of a company.

Likewise the status of an NPO as a charity (where applicable) typically triggers additional reporting requirements that do not generally apply to other voluntary organisations.

A number of studies have attempted to map the not-for-profit sector into categories. In such mappings, NPOs are defined according to two organisational attributes: firstly, an NPO could be characterised depending on the orientation of the activities in which it engages, for example: “welfare, development, education, networking research and advocacy”. Secondly, the level at which an NPO operates can be used to characterise NPOs as local, national or international (Vakil, 1997, Unerman & O'Dwyer 2006a & 2006b).

At the organisational level, Salamon and Anheier (1992a) use a structural/operational definition to assert that NPOs are:

- Formal (governed by some sort of rules or constitution or can be observed to have regular meetings and so on);
- Private (that is, they are independent from government/public sector);
- Non-profit distributing;
- Self-governing; and
- Organisations in which volunteers comprise an important staff resource.

The size of the not-for-profit sector in both the developed and developing countries is undoubtedly large. In the UK it is estimated that there are about 870,000 entities in the sector with total contribution of around £116 billion to the UK economy (Hopkins, 2010). By the end of 2011, there were over 161,000 registered charities in England and Wales alone with a total income in excess of £55.8 billion (Irvine & Ryan, 2013) – probably over 250,000 charities if exempt and excepted charities, and those in Scotland and Northern Ireland are included. At about the same time, there were about 1.1 million charities in the US, with over \$1.51 trillion in revenues in 2012 (Irvine & Ryan, 2013; National Center for Charitable Statistics, 2013) 85,000 registered charities in Canada, 60,000 in Australia (Productivity Commission, 2010) and over 26,717 charities in New Zealand (New Zealand Charities Services, 2013). In emerging economies like, India, China, Nigeria, Ghana, Pakistan, it is estimated that there are between 1 and 2 million charities (Tully, n.d.).

The economic significance of NPOs means that the sector is increasingly a focus of statisticians, policy makers and social scientists who variously seek information on the economic impact of NPOs, ways to improve NPOs' service quality and reduce their costs (and thus, reduce the size of government) and understand how independent NPOs can improve communities (Cordery & Sinclair, 2013; United Nations, 2013).

Salamon and Anheier, through the Johns Hopkins Centre for Civil Society Studies, have analysed the extent of the sector in a number of different countries. While they variously label these studies as being in the 'not-for-profit sector, 'the 'third sector' or 'civil society', their definition of the organisations within this sector has remained unchanged. Salamon and Anheier (1992a) note that the UK has both one of the most highly-developed NPO sectors and one of the most complex due to the different legal systems in the separate jurisdictions of the UK.

2.3.3 The role of reporting and accountability

Due to the rapid increase in the influence of NPOs and their reliance on third party funding, interest into how they measure and manage performance has intensified. Such performance reporting is jurisdiction-specific; indeed often NPOs prepare reports of different types and styles depending on the audience for that information. Further, financial reporting differs not only according to the potential users or

audience for that information, but often lacks homogeneity within a particular country, due to a lack of regulation (CFG, 2012). Financial reporting is also inconsistent between countries due to a lack of international financial reporting standards for NPOs.

The CFG Symposium (2012) identified a need for a “shared understanding, commonly known terms or agreement” for NPOs’ financial reporting so that donors, beneficiaries and global networks can use this information appropriately. For example, concern about money laundering and financing of terrorism has recently been focused on criminals’ and financiers’ ability to establish and utilise NPOs to clean and move money around the world (as intimated by CFG, 2012, p. 6). In addition, fraud in NPOs has reinforced the need for greater reporting and disclosure requirements (Holtfreter, 2008).

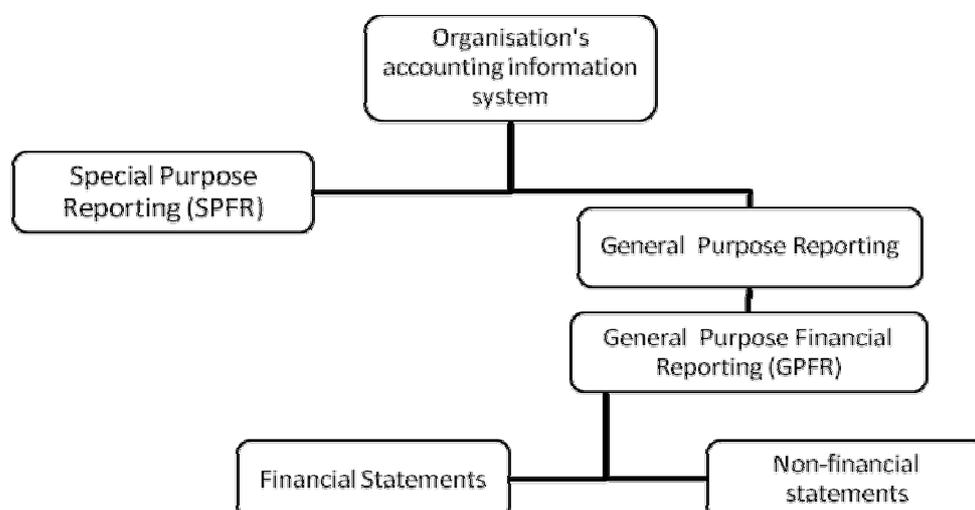
With the rapid growth of NGOs to assist community development in developed and lesser-developed countries (Tully, n.d.), some feel that international standards will be a cost-effective way to ensure accountability of these NGOs and that it would result in savings in terms of audit and regulatory effort (CFG, 2012). Quality reporting should also increase donors’ trust and confidence in NPOs, when they can see that their donations have been directed appropriately.

There is an inference that quality financial reporting should be prepared on an accrual basis (for example, Torres & Pina, 2003). Nevertheless, if such a move were to be successful, there would need to be high levels of education for preparers, trustees and stakeholders due to the underdevelopment of NPOs’ accounting systems (CFG, 2012; Torres & Pina, 2003). For example, Ledgerwood and Morgan (2012) discuss problems arising in Sub-Saharan Africa where a scarcity of qualified accountants, a lack of auditors, resource scarcity and an underdevelopment of infrastructure, all limit the quality of NPOs’ financial reporting.

The CFG symposium also identified a need for ‘differential reporting’, that is different standards for different sized NPO organisations. Nevertheless, not all stakeholders are convinced that standards are required, and the CFG Symposium (2012) suggested ‘guidance’ would be an alternative solution which would enable different countries to adapt to their particular contexts.

In this literature review, ‘reporting’ is perceived in a holistic sense – as General Purpose Financial Reports (GPFR). Defining the scope of GPFR is important, as the objectives and qualitative characteristics of financial reporting emanate from the definition. As shown in Figure 2.2, financial statements are a subset of GPFR. GPFR can be contrasted to Special Purpose Reporting which can be demanded by, for example, funders. Lennard (2007) provides a helpful comment in this regard when he noted the wider reach of financial reporting over the narrower financial statements.

Figure 2.2: GPFR within an organisation's reporting system



GPFR include financial statements and ‘non-financial’ statements, or narrative reporting. It is in this latter area that there has been a rise of interest in recent years, as NPOs grapple with how to report the difference they make to their stakeholders (see for example, Cordery & Sinclair, 2013; Crawford, Ferguson, et al., 2013; Morgan & Fletcher, 2011).

2.3.4 Stakeholders and accountability

NPOs will seek to report to a wide range of stakeholders with whom the entities interact. Ashford (2007) suggests that, although funders are seen as the primary users of NPOs accounts, the stakeholder list is much wider and will include:

- Actual and potential beneficiaries
- Employees and volunteers
- Funders
- Media
- Partner Organisations
- Regulators
- Bankers (investors)
- Suppliers
- Special interest groups
- Members and supporters
- Those whose policies, programmes/behaviour they want to influence.

The wide range of users of NPO financial reports suggests differing needs for accountability. In order to execute effective accountability between the NPO and its stakeholders, the accountee must be identified and their accountability needs understood. This is a challenge in the NPO sector where, unlike for-profit organisations, there are no clear owners to whom directors owe an account of how shareholder resources have been used to generate profit (see table 1). Several studies have attempted to identify NPO and charity stakeholders. Ebrahim (2003) distils diverse groups into: funders; regulators and clients, while Keating and Frumkin (2003) identify: directors/trustees; NPO staff; clients who use the NPO services; donors who provide charitable support; and the community that benefits indirectly from the NPO services.

Accountability to NPO stakeholders can take a narrow or broad form of responsibility. Unerman and O’Dwyer (2006a) argue that organisations hold three levels of accountability beliefs across a spectrum: accountability to all stakeholders who are affected by the actions of an entity (broad relational accountability); accountability only to those stakeholders who can influence the achievement of the organisation’s objectives (mission critical accountability); and accountability to maximise economic return (narrow financial accountability). While the social objectives of NPOs means that reporting should extend beyond narrow financial accountability, literature suggests that some NPO managers operate a narrow ‘identity’ accountability, deeming themselves accountable only to themselves for achieving a set mission.

Other accountability frameworks have been proposed in what has been an explosion of literature in this area over recent years. These include, for example ‘upward accountability’ to funders and ‘downward accountability’ to beneficiaries (Unerman & O’Dwyer, 2006b) and another well-cited accountability framework from Stewart (1984) (in a public sector framework) offers a ‘ladder of accountability’ from narrow forms of accountability at the bottom of the ladder through to broad notions of accountability for judgement and actions at the top of the ladder.

GPFR provides an avenue through which NPOs can discharge their accountability to users. As Mulgan (2001, p. 92) notes that “[a]ll organisations may also be expected to report accurately on their current

financial situation”, whilst recognising that the NPO’s general direction and performance is also important. The purpose of accountability in broad terms is to:

“provide mechanisms through which all those affected by an organisations actions can demand an account from managers of that organisation regarding how and why the organisation has acted in the manner it has” (Unerman & O’Dwyer, 2006a, p. 351).

The managers of NPOs therefore act as either agents or stewards in respect of the accountee. The accountability relationship between directors of for-profit entities with shareholders and managers with directors assumes, under agency theory, that agents are motivated by self-interest. By comparison, stewardship “assumes a long term relationship ... based on trust, collective goals and ... relational reciprocity” between the accountee and the accountant (Kluvers & Tippett, 2011, p. 277), and arguably better explains the accountability relationship between those who manage and govern NPOs with NPO stakeholders (Connolly et al., 2013; Kluvers & Tippett, 2011; Unerman & O’Dwyer, 2006a).

This report investigates the components of GPFR which are lacking in current accounting frameworks which many authors suggest would need to be included if NPOs were to provide reporting of a general purpose nature that would assist them to discharge accountability to a wide variety of stakeholders (see Section 5). We recognise that GPFR are not the sole means through which this accountability may occur, but the present study is focused specifically on financial reporting.

We further reflect a bias towards accrual accounting, although we recognise the arguments for cash accounting in smaller NPOs (for example, Cordery & Patel, 2011; Rossouw, 2007, Morgan 2008). Finally, while often there are calls for greater accountability in NPOs, we concur with standard setters and others (for example, Palmer, 2013; Rossouw, 2007; Torres & Pina, 2003) that the costs of preparing accountability reports (including GPFR) must not be more than the benefits that these provide for NPOs’ management and GPFR users.

2.4 Globalisation of financial reporting in the not-for-profit sector

In this section, literature recounting the push for globalisation is discussed. This is compared to the rise of international financial reporting standard setters in both the for-profit and public sectors. While some of the major differences in the sectors (see Section 2.2.1) give rise to the differences highlighted here, specific financial reporting differences are further developed in Section 2.5. In Section 2.6, the various frameworks used in different countries are described.

2.4.1 Globalisation

The NPO sector worldwide represents the community of organisations in this study. Hoffman (1999) defines an organisational field as “a community of organisations that partake of a common meaning system and whose participants interact more frequently and fatefully with one another than actors outside the field” (p. 352 as cited originally in Scott, 2001). The common meaning system of the not-for-profit sector is underpinned by an ideology of social benefit and non-profit-making activities. This sector has grown rapidly in recent years, arguably due to governmental trends to privatise and outsource activities that were previously the domain of the public sector (Lehman, 2007).

One proposal for developing a ‘shared understanding’ for NPO accounts and accountability, is to develop internationally converged accounting standards for the NPO sector; this would mimic the efforts of the IASB and IPSASB to converge accounting for the first and second sector organisations, respectively. Such convergence of reporting standards facilitates ‘globalisation’, which, according to Lehman (2005, p. 976), refers to the “economic consequences of internationalisation” and enables

“expansion of trade and commerce between countries”. Supporters⁸ of globalisation promote the ideology of capital market liberalisation and believe this will be enabled by international harmonisation of accounting (and auditing) practice. Observers of globalisation argue that, as national governments focus their efforts on supporting capital markets and corporate activity in the public interest, the number of public organisations have declined and NPOs have “risen to prominence ... to provide important public services” (Lehman, 2007, p. 646); thus globalisation has, ironically, fuelled the number of NPOs and concomitant need for such organisations to be accountable to society.

Interestingly, Kreander, McPhail and Beattie (2013, p3) argue that some NPOs, specifically large international charities, now have a “potentially regulatory influence” over capital markets though their investment policies, by attempting to align [the charity’s] mission to investments they make in for-profit companies.

However, NPOs may have a different perspective on globalisation. Although discourses point to globalisation, and related harmonisation of accounting standards, benefiting the ‘global community’, critics warn of destabilising local and national communities (for a critique of this view, see Lehman, 2009). Unlike the notions of globalisation used by the for-profit sector, the NPO sector is concerned with ‘social’ consequences. Economic consequences are of course relevant to NPOs, but arguably relate to NPOs securing funding in order to precipitate social benefit rather than to an NPO’s explicit mission. The underpinning ideology of globalisation may be a contributory reason for the existence of so many NPOs worldwide, but may not be wholly relevant to the ‘civil society’ ideology which is fundamental to the existence of many NPOs.

2.4.2 International standards

At present there are two sets of international accounting standards issued and widely used by professional accountants: IPSAS and IFRS/IAS for financial reporting practice in public sector and for-profit organisations respectively.

2.4.2.1 International Accounting Standards Board and IFRS

IFRS/IAS compliance in nation states has attained high level support from such organisations as IMF, World Bank, G20 nations, IOSCO and the EU (Humphrey, Loft, & Woods, 2009); this indicates that IASB standards have attained a form of legal legitimacy in the field (Durocher, Fortin, & Cote, 2007). Indeed, some regimes, notably the European Union, issue regulations which have the effect of making IFRS compliance mandatory in the case of listed companies.

As noted in Section 2.2, IAS/IFRS are developed by the IASB and in use by publicly accountable firms in approximately 120 nations (IASB, 2013a). The IASB is governed by the IFRS Foundation.⁹ The IFRS framework is clearly designed for the for-profit sector, a position expressly acknowledged by the IFRS Foundation Trustees, albeit one subject to change should the foundation’s resources permit expansion to issues affecting nonprofit reporting in the future (Breen 2013). While the IFRS Foundation’s constitution allows it to develop accounting standards for NPOs (and public sector entities), Simpkins (2006) found that resource constraints and a commitment to profit-oriented financial reporting, meant it was unlikely that the IFRS Foundation would develop standards for NPOs in the near future. One aspect of these constraints is the 2002 agreement with the FASB (the US Financial Accounting Standards Board) to converge IFRS and US GAAP, a process that has consumed scarce resources (Controller and Auditor-General, 2009). This has led to a measure of discord from national and regional standard setters

⁸ For a critique of accounting’s role in globalisation and alternate views on celebrating global difference, see Accounting Forum, Vol 27 (4) (2003). This special issue includes appraisals of alternatives to globalisation from, for example: Everett, (2003); Cooper, Neu and Lehman, (2003); and Graham and Neu (2003).

⁹ The International Accounting Standards Committee Foundation was renamed the IFRS Foundation in 1 July 2010, in an attempt to harmonise names within the organisation (see <http://www.ifrs.org/news/announcements-and-speeches/Pages/iasc-foundation-name-change.aspx>; downloaded 17 October 2013).

that believe US convergence must not drive harmonisation of international standards (Bengtsson, 2011; Crawford, Ferguson, et al, 2013).

The IFRS Foundation comprises independent trustees with a ‘formal public accountability link to a Monitoring Board of capital market authorities’ (IASB, 2013b). The IASB is subject to annual review by the Due Process Oversight Committee and the IFRS Foundation trustees must review the Board’s Constitution on a five-yearly cycle. Similar to many other standard setting bodies, the IASB has public meetings and a public submission process on draft standards’ (IASB, 2013b). The IASB utilises committees and working groups to extend its reach, such as the recently instigated Accounting Standards Advisory Forum (ASAF).

The IASB’s (2008) conceptual framework focuses on firms’ GPFR providing useful financial information to present and potential investors, lenders and other creditors, with potential capital providers being the prime stakeholders. The IASB’s (2008, 2013c) Conceptual Framework recognises decision-usefulness as the objective of financial reporting, but does not focus on stewardship to the same extent, which has caused some disquiet in the for-profit sphere, especially in Europe (European Financial Reporting Advisory Group, 2013; Lennard, 2007).

While the IASB has achieved broad international reach, recent research investigating the impact of requiring IAS/IFRS to be implemented at the national level illustrates that acceptance of international practice is not whole-hearted. For example, Bengtsson (2011) argues that complying with IAS 39 contributed to the Financial Crisis of 2007, and Crawford, Ferguson et al. (2013) highlight the tensions between the IASB as a standard setter for entities operating in the European Union and the member states of the EU, with particular insight into the political controversy surrounding the adoption of IFRS 8 ‘Operating segments’ in pursuit of convergence with US GAAP.

2.4.2.2 International Public Sector Accounting Standards Board and IPSAS

The IPSASB (as noted in Section 2.2) is a standard setting board of the International Federation of Accountants (IFAC). As part of its due process, IFAC’s Compliance Programme seeks to support members in developing and incorporating IFAC standards into their own national standards (IFAC, 2012). Member bodies¹⁰ are required to monitor and evaluate their compliance with IFAC standards by documenting how they meet IFAC’s Statements of Membership Obligations (SMOs), including the extent of compliance with IPSAS. The United Nations is implementing IPSAS (Biraud, 2010), and several other international organisations and countries have committed to observing IPSAS for public sector entities (Brusca, Montesinos, & Chow, 2013; IPSASB, 2013b). In a recent assessment of the suitability of the IPSAS for the Member States of the EU, the European Commission concluded that, although IPSAS may not easily be implemented in EU Member States as it stands currently, “the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts” (European Commission, 2013, p. 8). Indeed, the European Commission has adopted IPSAS for its own financial statements (IPSASB, 2013c).

However, neither IFAC nor IPSASB has the legislative power to require public sector organisations to comply with IPSAS (Brusca et al., 2013). Thus, there can be a lack of comparability in public sector financial statements at a time when many countries’ public sector budgets are in turmoil and the financial crisis “has created distrust and increased the need to demonstrate greater accountability and transparency in the public sector” (Brusca et al. 2013, p. 437).

In recent years IPSASB has revised its standards so that those similar to IAS/IFRS are converged (except for public sector differences), while it has also developed specific public sector standards on other

¹⁰ The International Federation of Accountants (IFAC) was established in 1977 with an original membership of 63 professional accountancy bodies spread across 51 countries. IFAC today has 173 members and associations across 129 countries and professes to represent 2.5 million accountants world-wide (from <http://www.ifac.org/about-ifac>; downloaded April 2013).

issues. It has also been an active advocate for better financial reporting to be used for statistical purposes through the System of National Accounts (SNA) and through its own standard (IPSAS22) which is a bridge between GPFR and the SNA reports (Kevin Simpkins Advisory Services Ltd, 2006).

The IPSASB (2013b, para 2.4) states that financial reporting standards “are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes”. It can therefore be seen that the users are a wider group than those catered for under IFRS and also that there is a dual objective for financial reporting which includes accountability or stewardship as well as decision-usefulness.

However, unlike the other standard setting boards of IFAC (see footnote 5 on page 16) IPSASB has not been subject to oversight by IFAC’s Public Interest Oversight Board. To that end, a recent IPSASB meeting reports the formation of the IPSASB Governance Review Group.¹¹ Nevertheless, the IPSASB does hold its meetings in public and follows due process in its standard setting deliberations.

2.4.3 NPO international reporting standards?

The prior subsections show that there are differences in the way that the IASB and IPSASB are organised. There are also differences in the financial reporting standards which are developed by those Boards to meet the aims they have developed for GPFR and their users.

Sectoral differences make it unlikely that either the IASB or the IPSASB is currently prepared or able to develop standards for NPOs’ use. (The particular financial reporting issues are outlined in Section 2.5.) This subsection considers an argument for and against sector-neutral standards and the challenges which would face an entirely new standard-setter, were it to be established.

2.4.3.1 Sector-neutrality arguments

NPOs may seek their own standards due to the different users of their financial reports, which is acknowledged by standard setters. These users also have differing information needs due to the social objectives of NPOs.

The IASB’s prime users are resource providers (such as potential shareholders) and, while the IPSASB (2013b) acknowledges a range of users, differences between public and private NPOs also mean that IPSAS would need adaptation to be applicable to NPOs. A set of standards focussed on NPOs would need to encourage GPFR that was acceptable to the specific users of NPOs’ financial accounts and their needs. Table 2.1 showed a number of differences between the sectors which provided a potential argument in support of sector-specific (rather than sector-neutral) standards.

Nevertheless, Simpkins’ (2006, p. 64) report on sector- (transaction-) neutrality in Australia notes that some believe there are real benefits in having standards as similar as possible between sectors, including:

- “enhanced comparability and understandability ...
- greater mobility for accounting professionals ...
- efficiency in standard-setting ...”.

Palmer (2013) also noted (in his analysis of Australian submissions on their new charity regulator) that a minority sought sector-neutrality in order for NPOs to have easy access to assurance (audit) ‘markets’ and to have international comparability.

¹¹ This group comprises representatives from the IMG, World Bank, OECD, IOSCO, the Financial Stability Board and the International Organisation of Supreme Audit Institutions (from <http://www.ifac.org/news-events/2013-08/ipsasb-enews-august-2013>; downloaded 17 October 2013).

Despite these benefits which provide an argument against sector-specific standards (and for sector-neutrality), the New Zealand experience is that adapting IFRS for public sector use was not successful (Controller and Auditor-General, 2009) and in that country IPSAS are being adapted for NPOs as well (see Section 2.6). It should further be noted that the Simpkins (2006) report also quoted arguments in support of sector-specific standards, and the majority of the submissions analysed by Palmer (2013) were also in support.

2.4.3.2 Resourcing and compliance

Three main issues present themselves from the IASB and IPSASB discussion, which must be considered in any decision about developing globalised reporting standards for NPOs. The first two are the need for resources to ensure appropriate governance arrangements and also to ensure adequate and informed engagement with constituents. The third is the vexed question of how compliance would be encouraged.

For high quality financial reporting standards to be developed in the public good, it is necessary for the standard setter to show that it can achieve the public good. Such governance procedures must be financed and also take time. The discussion above has noted that each of the international standard setters runs open board meetings, makes its papers available and also encourages submissions to its standard setting process. Many national standard setters undertake similar due process work to ensure 'buy-in' from their constituencies and the quality of their standards (for an example from the Third Sector, see Sinclair & Bolt, 2013). These are also resource-intensive actions.

On the question of compliance, the IPSASB and the IASB are non-state, independent standard setters; the standards they pronounce are not based on, nor mandated by, national or international law – except where national legislation or requirements of regulators demand this or in wider instances such as with European Union regulations applicable to listed companies. This lack has particularly hampered the adoption of IPSAS (although the financial crisis has encouraged adoption) and led to a number of country-specific versions of IFRS. Member bodies (accounting professionals or other groups) may declare compliance with all IFAC standards and IASB standards, but may not actually have mechanisms for monitoring or enforcement. For example, in the case of IFAC education standards, there is evidence that disclosure of compliance with IFAC standards does not result in converged practice across the globe. The IASB argues that without comparable and rigorous programmes of professional education across the world, interpretation and implementation of international standards will vary (Crawford, Helliard, Monk, & Veneziani, 2013).

This scenario presents a challenge experienced by international, non-governmental organisations that aspire to influence practice in different jurisdictions, as part of a 'polycentric' regulatory regime, where multiple regulatory authorities seek to regulate and control practice (Black, 2008). Any international board developing and pronouncing international standards for NPOs would also share these challenges. Compliance with any such emergent standards would depend upon the influence that such a board had directly, and indirectly, to regulate accounting practice at the national level. It is likely that NPOs, which are known for being tardy in filing with regulators and non-compliant with standards (for example, Morgan & Fletcher, 2011; Reheul, Caneghem, & Verbruggen, 2012), will also be tardy in complying with financial reporting standards.

Of course, external assurance on financial statements – whether audit, or lesser forms of scrutiny such as independent examination of charity accounts in the UK (Morgan 2011b) – will typically create strong pressures for compliance, provided those giving the assurance have relevant expertise. Perceptions of skill and qualification requirements for auditors or examiners of NPO accounts are explored in stage 2 of this research. But the primary focus of this review is on reporting by NPOs, rather than assurance issues.

In conclusion, an organisation embarking on setting international financial reporting standards for the not-for-profit sector would have to ensure that: (i) standards are developed in a process that ensures

they are implementable by diverse NPOs operating in different jurisdictions across the globe (with a wide group of stakeholders involved in the input); and (ii) mechanisms to monitor and enforce compliance exist, to ensure comparability and convergence of practice across the sector.

2.5 Financial reporting issues specific to the NPO sector

This section presents the specific accounting and financial reporting issues for NPOs that have been highlighted in the literature. These are discussed in three main sub-sections:

- 2.5.1 Conceptual framework and reporting entity;
- 2.5.2 Elements; and
- 2.5.3 Broader elements of GPFR, including non-financial reporting.

The items included in this section are not an exhaustive list of what would be required to develop a set of international financial reporting standards for NPOs, but instead are those that have been raised by various authors as areas where the needs of NPOs and the users of their General Purpose Financial Reports (GPFR) differ from those of for-profit and public sector organisations. Kilcullen, Hancock and Izzard (2007) suggest that the biggest issue is ‘operationalising’ the definition of a NPO and this report has already agreed that there is fuzziness around the edges of this. Simpkins’ (2006) respondents also highlighted this issue, especially when entities move from one sector to another.

2.5.1 Framework and reporting entity

2.5.1.1 Conceptual Framework

A number of authors (CFG, 2012; Kevin Simpkins Advisory Services Ltd, 2006; NFPSAC, 2009) have cited a need for principles, rather than templates to guide NPOs' financial reporting. This suggests the need for a framework to guide these principles, and Conceptual Frameworks have been developed by the IASB. At present, the IASB is revising its Conceptual Framework and the IPSASB is also developing its Conceptual Framework with Exposure Drafts (EDs) issued for four parts. (References used in this section are to the documents relevant at October 2013.)

This sub-section highlights the two main issues that are of concern to NPOs from the current IASB Conceptual Framework. It is not primarily a synopsis or comparison of the different conceptual framework projects underway, but we quote them to analyse:

- a) the objectives of financial reporting; and
- b) the users of financial reports (and their needs).

a) Objectives of financial reporting

The IASB's Conceptual Framework (OB2) states “the primary objective of financial reporting is to provide financial information about the reporting entity that is useful to users ... in making decisions about providing resources to the entity”. This single objective of decision-usefulness represented a change for the IASB and its user countries which had previously held a dual objective of stewardship/accountability alongside decision-usefulness. The 2013 ED (para 9.7) refutes the suggestion that stewardship has been dropped from the Framework; however, it has been suggested that a focus on future information (that is, a focus on fair value) is an indication of the subservience of stewardship over decision-usefulness which is still a matter of discontent amongst some for-profit organisations (European Financial Reporting Advisory Group, 2013; Lennard, 2007).

It is unsurprising, given the discussion in Section 2.3.3 about accountability, that users of NPO accounts will want both to make decisions about future resources and to assess accountability or stewardship of the governors (CFG, 2012; Leo, 2000). The draft IPSASB Conceptual Framework (2013b) states that GPFR should provide information that would allow users to assess whether:

- “current levels of taxes or other charges are sufficient to maintain the volume and quality of services provided” (para 2.8) (a decision-useful focus);
- “the entity is achieving the objectives established as the justification for the resources raised during the reporting period” (para 2.10) (an accountability focus); and
- “the entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests” (para 2.8) (both an accountability and a decision-useful focus).

It is likely that, when users do seek information to make decisions about providing resources to the entity (decision-usefulness) they will also focus on social aims rather than merely economic decision-making (Davies, 2012). Again, this is more closely covered in the IPSASB Conceptual Framework and does not appear in the IASB Conceptual Framework.

b) Users

As noted in Section 2.4.2 the IASB (2008, 2013c) when setting standards considers a narrow range of users, while the IPSASB (2013b) considers service recipients and resource providers. Examples of NPOs' GPFR stakeholders/users have been provided in Section 2.3.4. In the UK, the Charities Act 2011 specifically lists other users by stating that one of the duties of the Charity Commission for England and Wales is “to enhance the accountability of charities to donors, beneficiaries and the general public”.¹²

Further (as previously highlighted) these users are likely to want to make decisions about more than economic resources, but also social aims (CFG, 2012; Leo, 2000; NFPSAC, 2009; United Nations, 2013). It is therefore likely that the unique combination of a dual objective of financial reporting and multiple users and their needs, will lead to different emphases in the qualitative characteristics of NPOs' GPFR.

As described below, the reporting entity will also be linked to the users' needs. For example, when an entity reports at a consolidated level, there may be fewer users than there would be if the entity reports at a local level. In particular, local donors will be interested in the work being done at their (local) level and how their funds have been spent. Such detail can be lost when an entity consolidates its operations and reports at a summarised level only. The definition of a 'branch' of an NPO and when it should be consolidated as part of the parent has received much debate in the UK in successive versions of the Charities SORP (see footnote 1).

2.5.1.2 Reporting entity

The reporting entity is a basic premise of financial reporting.¹³ In this respect, IFRS 10-12 and IPSAS 6-8 (recently updated to reflect changes in the relevant IFRS) seek to clarify the reporting entity in relation to for-profit and public sector entities respectively. The IASB's and FASB's Conceptual Framework project issued an ED on this matter in 2010 (IASB, 2013c).

The IASB/FASB ED stated that reporting entities are a “circumscribed area of economic activities” and recognises that most single legal entities have the potential to be reporting entities, unless they lack barriers to distinguish their economic activity from another entity. The single biggest difficulty in NPOs is defining that economic boundary (PBE Working Group, 2012). This is because the majority of entities in the NPO sector are unincorporated (for example, Sanders, O'Brien, Tennant, Sokolowski, & Salamon, 2008), therefore defining those entities' boundaries is even more difficult than if the boundaries related solely to legal entities.

¹² Charities Act 2011, s.14 para.5.

¹³ This discussion is about the parameters of the reporting entity as the term as used here – not, as in Australia, to distinguish between entities that must use GPFR and those that may report to their public using Special Purpose Financial Reports (see, for example, Palmer, 2013) (see also Section 2.6).

Further, the lack of ownership equity is also an issue (Kevin Simpkins Advisory Services Ltd, 2006; NFPSAC, 2009). The existence of items held in trust further complicates the reporting entity definition. In the not-for-profit sector items in trust may include physical items (as in a museum) or monetary amounts held in a variety of special trust accounts. Defining the reporting entity to provide adequate accounting for these trust funds requires further guidance in reporting standards (Davies, 2012; NFPSAC, 2009) (see also Section 2.5.2.5 below on fund accounting).

Reporting entities that are able to define their own boundaries may also have relationships with other entities (as joint arrangements, associates or through a type of ownership). The relationship for reporting purposes has traditionally rested on the notion of 'control' (defined under IFRS as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities") although IFRS 10 links issues of control, power, and relevant activities.

The power to control is not necessarily obvious when the organisation is 'governed' from the ground up. In the IPSASB Exposure Drafts¹⁴ (released in 2013), control is defined more widely as occurring "when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amount of those benefits through its power over the other entity". Consequently, the potential receipt of non-financial benefits may be evidence of control. Further, these (draft) EDs also highlight the role of risk-bearing in considering for which entities a group may be responsible.

If an entity does control another entity, it must consolidate that entity's accounts. Yet, in the not-for-profit sector, it has been found this does not often occur, as consolidation is perceived as expensive and difficult and there may be limited users for the consolidated GPFR that is produced (Charity Finance Directors' Group, 2004; Connolly & Hyndman, 2000; External Reporting Board, 2012; Kevin Simpkins Advisory Services Ltd, 2006; Newberry, 1993). In addition, Davies (2012) highlights the issue when assets or funds are restricted by law or by the NPO's constitution and therefore the entity's control is tenuous or contestable. There are numerous issues to consider.

2.5.2 Elements of financial statements

In this sub-section, the core accounting elements are considered and specific issues that arise in the not-for-profit sector compared to IFRS and IPSAS.

2.5.2.1 Revenue recognition

Key revenue streams in the not-for-profit sector are donations, grants and contracts and other contributions. Many of these items are non-exchange revenue, that is, funds received where the donor does not expect to personally receive goods or services of equal value in return (Rossouw, 2007). Non-exchange revenue is not considered in IFRS, although guidance is provided in IPSAS23. IPSAS23 reflects the complex nature of this area, as shown in the discussions in the IPSASB Conceptual Framework Exposure Drafts on elements.¹⁵ In particular, the distinction between exchange and non-exchange revenue which at first appears quite simple, is not necessarily so. For example, sponsorship funds (potentially a non-exchange transaction) may include an exchange element (such as the necessity to provide access to staff or programmes). Torres and Pina (2003) highlight the uncertainty in the receipt of pledges and bequests, but typically entities recognise these only once they are received.

Another difficulty is in the area of valuing and recognising donated items/services (guidance is also offered in IPSAS 23 *Revenue from Non-Exchange Transactions*). In particular, reliability has been

¹⁴ These exposure drafts were issued October-December 2013 (see <http://www.ifac.org/publications-resources/exposure-draft-ed-54-reporting-service-performance-information>).

¹⁵ Specifically, the issues around the receipt of non-exchange revenue and the use of that revenue gave rise to some IPSASB Board members suggesting 'deferred inflows' and 'deferred outflows' as extra elements (International Public Sector Accounting Standards Board, 2013c).

prioritised over relevance of information about donated time, leading to few NPOs reporting such inputs, even though volunteers are ‘absolutely essential’ to many NPOs (Cordery & Narraway, 2010).

Further, given that all changes in assets and liabilities must pass through the revenue and expenditure statements, when non-exchange revenue is received for capital items there are significant debates as to whether or not it comprises current year revenue (Shadow SORP Working Party, 2013). This excess in revenue could be misconstrued by users (Davies, 2012; NFPSAC, 2009). Depending on the approach adopted, the recognition of revenue in one year may not provide information to a user as to the likely revenue for the following year, thus reducing the decision-usefulness of the GPFR.

Also, when donations are received in one period for use in another, an obligation to repay those funds or assets is required before these funds can be recognised as a liability and in effect, carried forward to the next year. Often such an obligation is lacking (that is, there is only a constructive obligation or no obligation at all), meaning that the income statement may show swings from a large surplus one year to a large deficit in another, which can cause difficulties when communicating with resource providers (Kevin Simpkins Advisory Services Ltd, 2006; The Urban Institute & Indiana University, 2004). The Urban Institute and Indiana University (2004) note, however, when NPOs prepare a Statement of Cash Flows, they can show users the cash received for operating purposes separately from the non-cash donations received. Nevertheless, this does not assist with the cut-off issue.

On a related issue, even assuming that revenue variability can be overcome, a number of authors (for example, CFG, 2012; Davies, 2012; NFPSAC, 2009) have noted that there is insufficient advice on the appropriate way for entities to report the receipt of restricted or conditional grants/contracts. Issues include the allocation across funded or partly-funded programmes, and the liabilities imposed from endowments and constructive obligations. It is recognised that some endowments represent a net liability to NPOs (see also Section 2.5.2.5 below).

In addition, the major area of bequests and endowments is inadequately dealt with in IFRS and IPSAS. For this reason, the drafts now exposed by the New Zealand Accounting Standards Board (NZASB) have drawn heavily on its predecessor’s “Not-for-Profit Financial Reporting Guide” (New Zealand Institute of Chartered Accountants, 2007) which provides guidance for dealing with many permutations of bequests, including perpetual trusts held by external trustees in trust for the NPO (which result in an entitlement to future revenue due to endowments). Due to uncertainty around receipt of many bequests and endowments, often such revenue streams are dealt with on a cash basis (in fact there is a requirement to do so under Canadian GAAP).

2.5.2.2 Expenses

Neither IFRS, nor IPSAS have clear guidance on reporting of fundraising, which means that some entities choose to report fundraising income net of expenses and others, gross (NFPSAC, 2009). NPOs’ fundraising practices also mean that there are wide variances in what expenses legitimately form part of the cost of fundraising or the programme-spending ratio; furthermore, many do not gather the information needed to calculate these ratios (Keating, Parsons, & Roberts, 2008; The Urban Institute & Indiana University, 2004). The Charities SORP in the UK (Charity Commission 2005) prohibits “netting off” so fundraising expenses must be shown in full, but only where incurred directly by the charity (fundraising by external supporters’ groups is shown purely as a net donation).

The cost of fundraising, an issue of international NPO sector concern, is therefore unable to be calculated effectively and “it is difficult for donors to know just how much of their donations are being spent on charitable purposes” (Dellaportas, Langton, & West, 2012, p. 239). Variability of standards allows ‘window dressing practices’ (Torres & Pina, 2003) as confirmed by Connolly et al. (2013) who found that, when the guidance on these ratios changes (as they did in the Charities SORP), NPOs ‘gamed’ the standards by re-coding expenditure against non-overhead items in order to show that more funds are being spent on charitable purpose.

In addition to the issue of which expenses legitimately form part of the costs of fundraising, there is also concern about tagged spending (NFPSAC, 2009). That is, whether spending on an area that is covered by a bequest (see above) or internally decided reserve is an expense or whether it is a reduction in a liability. Users need to be educated about the volatility of ‘profit’ or ‘surplus’.

A third area where practice is variable and advice lacking in IFRS is paying out of charitable distributions (grants). Van Staden and Heslop (2009) argued that the entities they analysed sought to overstate profit and pay these from the Statement of Movements in Equity – in effect treating grants as dividends. Nevertheless, as many charitable trusts have a policy to pay grants from a prior year’s earnings, there is an argument that these should not be treated as expenses, as shown by differences in auditors’ reports in van Staden and Heslop’s study (2009).

2.5.2.3 Assets

There is an assumption in this report that accrual accounting will be required for at least larger NPOs and therefore that assets will need to be valued and disclosed. IFRS defines an asset as “a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise” (IASB, 2008). This focuses on the cash generating unit and the economic benefit to be derived from assets, and is at odds to the reason for holding assets in the not-for-profit sector, as assets held by NPOs are most likely to be held for their service potential (Bradbury, M. & Baskerville, 2008; Davies, 2012; NFPSAC, 2009; Rossouw, 2007). On the contrary, the IPSASB Exposure Draft (2013c) recognises the service potential of an asset proposing to define it as “a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event”. This would allow preparers to value an asset at a ‘value in use’ rather than an ‘open market’ value when assets are used for a purpose other than their best purpose. Nevertheless, under IFRS such a decision creates both disclosure and valuation problems.

Further difficulties occur with the recognition and valuation of heritage assets in that (CFG, 2012; Craig, Taonui, & Wild, 2012; Davies, 2012; NFPSAC, 2009):

- control of assets may be shared (as for example, if the NPO must care for a monument which is readily accessible to the public) and the control criterion may not be met;
- costs of obtaining a fair value (including impairment) may outweigh the benefits;
- valuation may not meet the underlying concepts of financial reporting (for example understandability, reliability, relevance).

A related issue is NPOs’ control of encumbered assets which create valuation and disclosure issues. Obtaining a statement of obligation free funds may be impossible and reporting assets in a way that is meaningful, whilst noting their encumbrance, requires further guidance. (CFG, 2012; Davies, 2012; NFPSAC, 2009).

Further, and linking to the issue of donated assets, The Urban Institute and Indiana University (2004) recount the US (SFAS116) solution which allowed NPOs to recognise the gift of depreciable assets gradually to coincide with depreciation on that asset. For non-depreciable assets, SFAS117 allowed capital gifts to be reported separately from operating gifts. No conceptual argument is provided for these approaches, although the concept of ‘matching’ still holds popular appeal.

2.5.2.4 Liabilities

In relation to liabilities in general, and specific issues already raised in the revenue and assets sub-sections, fair presentation continues to challenge NPOs, particularly how long a potential liability needs to be tracked and the ability to identify when an item ceases to be a liability (CFG, 2012; NFPSAC, 2009).

Guidance on liability definition is required, specifically in relation to unearned revenue (see above in the Revenue sub-section). This is because some items may be liabilities or equity (see below) (NFPSAC,

2009). For example, restricted funds may represent a liability (and the restriction may be imposed, either by an external party due to an endowment, or by conditions defined by the NPO itself when soliciting funds); but such funds may also represent residual equity. Another example is concessionary loans provided by, for example, members to the entity. These may be liabilities in one period, but if the member decides to forgive the debt, they would become equity. While such lending is not covered overtly in IFRS, two IPSAS standards offer guidance and highlight this issue (IPSAS23 *Revenue from Non-Exchange Transactions* and IPSAS30 *Financial Instruments: Disclosures*).

2.5.2.5 Equity and Funds

The accounting equation is problematic as the residual, equity, is unlikely to relate to the governors who have no claim on it, and is seldom paid directly to beneficiaries even if it arguably held on their behalf. Residual equity typically does not return to members of an NPO (in the case of a charity this would usually be illegal). Where a charity is wound up, the assets are typically transferred to another charity, so neither the main donors, nor the current beneficiaries may be the residual equity holders (CFG, 2012 (in relation to co-operatives); Davies, 2012; NFPSAC, 2009).¹⁶

Further, while IFRS defines an acquirer and acquiree in terms of a merger/takeover occurring in the for-profit sector, often there is no defined acquirer in NPO mergers (CFG, 2012; Davies, 2012; NFPSAC, 2009).

However, it is often the case that the equity of an NPO comprises a number of funds subject to different conditions as a consequence of grants or donations received on trust for specific purposes. The use of fund accounting assists the stewardship objective of financial reporting, as it allows donors and funders to track their inputs through equity accounting. It is considered important to users (Hyndman, 1990; Khumawala & Gordon, 1997; Kilcullen et al., 2007), yet it may reduce transparency as users commonly perceive that all accumulated funds are resources available for the objectives of the entity (NFPSAC, 2009). The Charities SORP applicable in the UK (Charity Commission, 2005) distinguishes between unrestricted funds (able to be applied to the charity's objects), restricted funds (to be spent in accordance with donor restrictions), and endowment funds (which are generally retained for investment income) (Ashford & Charity Commission International Programme, 2007). Similar requirements, but with differences of terminology, apply in the US and Canadian standards for NPO reporting.

Nevertheless, Rossouw (2007, p. 33) suggests that "fund accounting is not consistent with GAAP". IFRS is virtually silent on the issue of fund accounting as on so many issues specific to NPOs (Hooper, Sinclair, Hui, & Matairea, 2008). The IASB's (2008) Conceptual Framework acknowledges that equity may be sub-classified and may indicate legal or other restrictions. This means that diversity of practice could ensue if no guidance was provided for any one of six possible solutions listed below. Possible options that could be used by NPOs include:

1. Preparation of separate financial statements for each fund.
2. Provision of a separate income statement for each fund, but with all funds of the entity brought together on a single balance sheet.
3. Presentation only of unrestricted fund movements through financial statements with movements on restricted funds not regarded as part of the reporting entity for either the

¹⁶ Difficulties arise when cooperatives have non-marketable shares that are redeemed on surrender of membership. While previously these were considered equity, they are now considered loans under IAS32 as they can be withdrawn (CFG, 2012). López-Espinosa, Maddocks and Polo-Garrido (2012) make the point that in co-operatives there are typically restrictions on distributions of residual assets to members, which makes them more like NPOs than for-profit organisations. They argue that many factors must be taken into account in the definition of equity (rather than just describing it as a residual).

income statement or balance sheet but disclosed as ‘funds held on trust’ through notes to the accounts.

4. Provision of a balance sheet showing restricted funds as current liabilities (creditors) but with no recognition in the income statement.
5. Showing different classes of funds in columns with a total (as in the UK Statement of Financial Activities) (Charity Commission, 2005).
6. Amalgamation of funds in a single income statement and balance sheet, with no distinction between restricted and unrestricted revenue except by way of notes to the accounts.

Under IPSAS23, assets and income of restricted funds are likely to be recognised as in (6) above, if it is probable that an asset can be recognised and measured reliably. Principled-based decisions are required for NPO fund accounting, as the assumed IPSASB answer is very different from the approach in the UK Charities SORP where restricted income is recognised at the point of entitlement (option 5).

Whilst it would be possible in principle for an international framework for NPO accounting to require that fund accounting must follow the IPSAS approach, it may not be the most helpful for users of NPO accounts as it is hard to see the total income and expenditure of the NPO as a whole, and hard to identify movements on restricted funds unless detailed notes are added for each “transferred asset”.

2.5.3 Broader elements of GPFR

As noted by Simpkins (2006) and Rossouw (2007), the terminology of both national GAAP frameworks and of IFRS can present issues for NPOs. Terms such as profit, and loss, which permeate the standards, are not necessarily suitable. In particular, the concentration on profit or loss as an indicator of performance confuses the meaning behind NPOs’ GPFR which should be focused on the social objectives of these entities. Further, Bowman, Tuckman and Young (2011) note that, while ‘profit’ is often translated as ‘surplus’ in not-for-profit accounting, there are at least five different meanings of surplus in NPOs’ filings and therefore comparability between NPOs’ GPFR is difficult.

It is not apparent that there is any need for segment reporting (as required under IFRS 8), but no research was found that could confirm users’ need or otherwise for this.¹⁷ Similarly the need for prospective (budget) information is also not clear.

Further, and as noted above, narrative reporting is “absolutely essential” in NPO reporting (Tully, n.d.). There is a plethora of academic articles underpinning this statement, for example, early work in particular countries include: Hyndman’s (1990) study in the UK, Khumwala and Gordon’s (1997) in the US, and Kilcullen et al.’s (2007) in Australia. Information types identified include a statement of goals, objectives and measures of outputs and outcomes which are suited to the users of the reports. Yet, as noted by Torres and Pina (2003) performance indicators are a developing issue; in particular, attribution remains an issue especially in respect of outcomes (CFG, 2012; Cordery & Sinclair, 2013).

Going further still, Davies (2012) highlights the need to extend the concepts of capital maintenance (based on financial and physical capital needs) to service potential. This allows the analysis of performance against service performance as well as financial sustainability (CFDG 2004). In particular, information from service performance reporting can answer a number of questions that stakeholders will have about how the NPO has achieved its objectives.

¹⁷ BDO LLP (2013) note current requirements for UK NPOs with listed debt on issue to report on operating segments. This would be common in many IFRS-compliant countries.

2.6 Review of current accounting frameworks, standards and guidance applied to NPOs in different countries

The needs of NPOs, users, and user diversity, are recognised in different countries in different ways as discussed in this section. Nevertheless, in many countries where standards exist, there remains a lack of a conceptual underpinning that is tailored to the NPO sector.

In this section, the financial reporting frameworks of nine different countries are analysed. In particular, charity regulatory frameworks are presented, as these NPOs are more likely to have financial reporting requirements, due to the tax benefit that accrue to them, and often their donors: provision of tax reliefs implies a higher level of accountability. The countries are grouped into:

- Europe (United Kingdom, Ireland and Switzerland)
- North America (United States and Canada)
- South Africa
- Asia-Oceania (Australia, Japan and New Zealand).

In examining each of the jurisdictions, account is taken of the input of the primary regulator in the sector, the role of the tax authority (if separate from the primary regulator) and the role of the accounting standards setter. The coherence of the resulting accounting framework depends to a large extent on the degree to which there is joined-up thinking between these bodies and the jurisdiction's overarching approach to adoption, convergence or alignment with IFRS and or IPSAS (see, for example, Breen, 2013; Phillips, 2012).

This presentation is limited to literature in English and, as such, other countries with NPO or charity financial reporting frameworks may have been missed. Nevertheless, this section provides an insight into the variety of frameworks internationally.

2.6.1 Europe

2.6.1.1 The United Kingdom

In the United Kingdom (UK), it is only charities that are regulated and must comply with specific GAAP, as described in this sub-section – although other NPOs if incorporated as companies or industrial and provident societies must comply with normal accounting rules for such bodies.

Charities in the UK can adopt a wide range of legal forms such as trusts, associations, companies, community benefit societies, charitable incorporated organisations (CIOs) (Morgan 2013) and the choice of structure affects the reporting requirements. All charities must prepare annual accounts which are available to any member of the public on request.

There are three separate charity regulators corresponding to the three UK jurisdictions, though the largest number of charities fall under the Charity Commission for England and Wales (CCEW) – though not all charities in England and Wales have to be registered with the CCEW: some in fields such as education or religion are exempt or excepted. Registered charities with an annual income between £25,000 and £250,000 must file their annual accounts with the CCEW. These charities (if not incorporated as companies) may file either on the basis of accrual accounting or receipts and payments. Charitable companies and all with an income in excess of £250,000 must file accrual accounts. All accrual accounts must comply with the Charity Statement of Recommended Practice (SORP).¹⁸

In Scotland, the Office of the Scottish Charity Regulator (OSCR) in Scotland acts as primary regulator. Section 44 of the Charity and Trustee Investment (Scotland) Act 2005 and the Charities Accounts

¹⁸ See Charities (Accounts and Reports) Regulations 2008 (SI 269 of 2008) at 8(5).

(Scotland) Regulations 2006 (as amended) govern the type of accounts required to be prepared. As has been the case in England and Wales, since from April 2011 non-company Scottish charities with a gross income of less than £250,000 may prepare receipts and payments accounts whereas all other unincorporated charities and all charitable companies must prepare SORP-compliant financial accounts on an accrual basis (OSCR, 2011).

The creation of the Charity Commission for Northern Ireland (CCNI) and the establishment in 2013 of a Charities Register will see new reporting requirements for Northern Ireland charities. At present, charities in Northern Ireland are not required to submit annual monitoring returns or accounts and reports to the Commission for inspection. It is planned to introduce the reporting requirements on a phased basis. To this end the CCNI has issued a Public Consultation Paper on interim reporting requirements for registered charities, which was open for submissions until December 2013 (see CCNI, 2013). This consultation is focused on phase one, the interim requirements, where registered charities are expected to submit an annual monitoring return, including their annual accounts and reports in the format they currently prepare them, to the Commission for annual inspection.

A level of cooperation existed in the UK between the Accounting Standards Board (ASB)¹⁹ and the respective charity regulators (OSCR and CCEW) in so far as the former authorised the latter regulators to act as the Joint-SORP making body for charities through the SORP committee.²⁰ In light of current efforts to align UK GAAP with IFRS through FRS102, the SORP committee issued an Exposure Draft of the new SORP in July 2013, which was the subject of consultation until November 2013 (Charity Commission & Office of the Scottish Charity Regulator, 2013a). Following the promulgation of the new SORP, all UK charities preparing accrual accounts must follow the SORP recommendations in order to present a true and fair view of their financial position and financial activities for the reporting period (Charity Commission & Office of the Scottish Charity Regulator, 2013b). This SORP reflects the requirements of FRS102 for financial reporting entities, including those entities that are not constituted as companies and those that are not profit-oriented (FRS102, para (xii)).²¹ Charities are currently prohibited from applying full IFRS (BDO LLP, 2013). However, FRS102 is based on the IFRS for SMEs (FRS102, para (vii)) and hence, arguably, reflects the underlying IASB conceptual principles. Yet, the IASB conceptual framework discussion paper does not consider NPO specific issues (as shown in Section 2.4); it would therefore appear that much more needs to be considered.

However, the proposed SORP (like the current SORP 2005) will include additional requirements to those of accounting standards. In particular, charities have requirements relating to the trustees' annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders (Charity Commission & Office of the Scottish Charity Regulator, 2013a). Charities obliged to follow SORP must provide an explanation of any departures from SORP. However, in the event of a conflict arising between SORP and the new financial reporting standards *after* January 2015, the new FRS will take precedence (Irvine & Ryan, 2013).

It should be borne in mind that a large proportion of charities are not required to file accrual accounts and thus are not subject to SORP. According to Morgan (2011a), nearly 80% of registered UK charities prepare cash-based receipts and payments accounts. There are no regulations in England and Wales governing the form of accounting used for receipts and payments accounts, which unlike accounts

¹⁹ The Accounting Standards Board was replaced by the Financial Reporting Council which Board, since July 2012, makes accounting standards through its Accounting Council (BDO LLP, 2013).

²⁰ The Chief Executive of the CCNI has observer status on the SORP Committee and one of the public interest representatives is drawn from Northern Ireland. See <http://www.charitycommission.gov.uk/about-the-commission/our-status/sorp-committee-latest/sorp-committee-members/> (last accessed September 27, 13).

²¹ Compliance with FRS102 will only be compulsory for the largest charities; the SORP also allows for smaller and medium sized charities to follow the FRSSE (Financial Reporting Standard for Smaller Entities.)

prepared on an accrual basis in accordance with SORP, are not intended to give a 'true and fair view' of a charity's financial position (Morgan, 2008). Nevertheless, the CCEW provides guidance to cash-based reporters, and the content of receipts and payments accounts are specified in the Scottish charity accounting regulations. Further, under Appendix 5 of SORP 2005, there are reduced disclosure requirements for smaller entities.

2.6.1.2 Ireland

From 2014, Ireland is poised to establish a new statutory charity regulator, which will play an important role by requiring financial reporting from unincorporated charities. Prior to its establishment, there is no primary regulator of charities in Ireland. By default, Revenue have fulfilled this role of regulatory oversight but Revenue do not impose accounting requirements on charities other than to require the preparation of audited accounts if annual income exceeds €100,000 pa.

While incorporated charities prepare and submit accrual accounts to the Companies Registration Office under company law currently, unincorporated charities are not currently required to file their annual accounts with any regulator on a regular basis. With regards to the present accounting standards applied, Irish GAAP applies but in contrast to the UK, there is no statutory regulation that makes compliance with SORP compulsory for charities. As a result, it is estimated that less than 3% of incorporated charities that would be eligible to apply SORP in the preparation of their annual accounts comply with these requirements (Irish Nonprofits Knowledge Exchange, 2012). It is also notable that the current SORP Committee, charged with the revision of SORP, does not include any Irish representatives in a regulatory, public interest or observer status capacity.

Upon commencement of the Charities Act 2009, preparation of accruals accounts will become the norm (compliance with s. 47(4) requiring proper books to give a true and fair view of the state of affairs of the charitable organisation). The scope for the continued preparation of accounts on a receipts and payments basis is unclear; although s. 48(3) and (6) would seem to indicate a non-accrual accounting standard may be possible for smaller organisations, the language of s. 48(3)(a) is, however, couched in terms more commonly associated with the preparation of accrual-based accounts. With the Regulator due to be established by April 2014, greater clarity on these matters will be required. The Minister of Justice has power under this part of the 2009 Act to set the reporting standards for unincorporated charities. Incorporated charities will continue to file annual accounts in compliance with company law with the Companies Registration Office even after the commencement of the Charities Act, though it is worth noting that in the context of the annual report made by all charities to the Charities Regulator, the Minister has power to require different information from different classes of charities (s. 52(3)(a)).

The realignment of Irish GAAP with IFRS through FRS102 will have a significant impact on charity financial reporting in Ireland. Charities that prepare accounts on an accruals basis will have a choice of either following FRS102 or potentially the updated FRSSE (*Financial Reporting Standard for Smaller Entities*) if authorised for Ireland. FRS102 will be relevant for medium and large non-listed companies as well as small firms who opt not to avail of FRSSE. FRS102 will effectively replace all existing UK and Irish GAAP. FRS102 incorporates Public Benefit Entity (PBE) standards. As a result, those charities preparing their accounts under FRS102 will be required to comply with the PBE headed paragraphs within FRS102. The intention is to align the new Charity SORP with FRS102 (as explained above for the UK). In the case that a conflict arises between FRS102 and the existing Charity SORP, pending revision, the latter will take precedence up until January 2015 (Financial Reporting Council, 2013, para 1.14).

Secondly, FRS102 expressly states that where an entity's financial statements are within the scope of an existing SORP (such as the Charities SORP), the requirements and guidance in that SORP must be referred to and considered in the preparation of accounts (Financial Reporting Council, 2013, para 10.5). It is thus anticipated that for the first time in Ireland it will become mandatory for preparers of charity accounts to consider and apply SORP if they are to comply with FRS102, though the position is less

precise where the FRSE is used.²² However, for unincorporated charities, the extent to which SORP compliance will be explicitly required in the regulations under the 2009 Act is not yet clear.

2.6.1.3 Switzerland

The Swiss Foundation for Accounting and Reporting is the national standard setter for Switzerland and publishes accounting standards (ARR/FER, or 'Swiss GAAP') (IASB, 2013a). All companies require compliance with ARR/FER. However, compliance with IFRSs ensures compliance with ARR/FER, and many large Swiss companies thus follow IASs/IFRSs. Being a non-EU country, Switzerland is not subject to EU IAS Regulation or Accounting Directives.

The aim of Swiss GAAP RPC standards is to provide a coherent and transparent framework for the presentation of annual accounts of small and medium entities, as well as NPOs. Developed by the Swiss Foundation for Accounting and Reporting, Swiss GAAP RPC 21 'Etablissement des comptes des organisations sociales d'utilité publique à but non lucratif' focuses on the accounting requirements of NPOs of public utility (Swiss GAAP RPC, 2013). Application of RPC 21 is voluntary with those organisations adopting the standard required to state so in their annual accounts (Geneva Welcome Center (CAGI), 2013). For NGOs wishing to obtain the ZEWO seal of quality, however, application of the standard is mandatory (Müller, 2003).

2.6.2 North America

2.6.2.1 The United States

The Financial Accounting Standards Board (FASB), an independent accounting body, sets the standards of accounting for all non-governmental entities, including charities. In conjunction with the American Institute of Certified Public Accountants (AICPA), it publishes US GAAP.

Established in 1973, FASB turned its attentions to NPO financial reporting standards in 1993. In that year, it issued SFAS No. 116 – Accounting for Contributions Received and Contributions Made (FASB, 1993a) and SFAS No. 117 – Financial Statements of Not-for-Profit Organizations (FASB, 1993b). SFAS 116 provided guidance on recognising contributions received from and given to others and set out the distinct requirements for dealing with unrestricted, temporarily restricted and permanently restricted assets. SFAS 117, on the other hand, provided guidance on the preparation of NPO statements of financial position, activities, and cash flows.

As part of the convergence process of US GAAP towards IFRS, the FASB initiated an Accounting Standards Codification project in 2009, which moves towards a single source of authoritative US GAAP for all nongovernmental entities (including charities). As a result, SFAS 116 and 117 are now superseded and have been subsumed into the new Codification Accounting Standard 958 NFP (FASB, 2013a). The Codification does not change GAAP. Instead, it introduces a new structure for accounting rules wherein only two levels of U.S. GAAP exist: authoritative represented by the Codification, and non-authoritative represented by all other literature (FASB, 1993b).

Substantive change to NPO accounting standards is more likely to come about through the work of the FASB-established Not-for-Profit Advisory Committee (NAC). The role of NAC is to help the FASB understand the issues and needs of the NPO sector and how they differ from for-profit entities. Following NAC outreach to the sector in 2010-11, the FASB has added two NPO projects to its agenda, the effect of which will be to substantially change accounting rules for NPOs. The first project, entitled *Not-for-Profit Financial Reporting: Financial Statements*, examines existing NPO financial reporting standards relating to net asset classification requirements. It also seeks to improve disclosure information relating to liquidity, financial performance and cash flows. NAC deliberations are underway and an exposure draft is expected in the first half of 2014 (FASB, 2013b).

²² The detailed implementation of this regime in Ireland will also be a matter for the Irish Auditing Accounting and Supervisory Authority (IAASE). The IAASE has permanent observer status on the Accounting Council of the FRC.

The second project, entitled *Not-for-Profit Financial Reporting: Other Financial Communications*, is a research project related to NAC proposals to include a 'Management's Discussion and Analysis' (MD&A) section in the financial statements of NPOs. This project focuses on the perceived failure of the current accounting-reporting framework to allow non-profit organisations adequately "to tell their story." The project seeks to bring about a new framework that would enable a NPO to better explain trends, the organisation's financial health and stability, and its liquidity (FASB, 2013c). The proposed vehicle for this supplementary material is the MD&A, which would appear before the auditor's report and contain four areas – introduction and overview; financial health; operations and liquidity. Thus, while similar in concept to the UK's Trustees Annual Report, the material focus of the MD&A would be significantly different. A planned discussion document is to be released to coincide with the 2014 issuance of the Exposure Draft on the NPO financial statements project, referred to above.

The primary charity regulator in the US at federal level is the Inland Revenue Service (IRS). Charities enjoying §501(c)(3) tax exemption that reach certain asset or income threshold levels must file an annual Form 990 return with the IRS and outline the financial reporting responsibility of their charity boards.

Revised in 2008, the new 990 comprises an 11-page core form that seeks basic information about a charity's structure, revenues, expenses and activities, as well as its governance and its transactions and relationships with board members, contributors and related entities. The form is supplemented by a further 16 schedules, which organisations complete according to relevance, covering matters ranging inter alia from public charity status, compensation, transactions with interested persons and supplemental information of fundraising activities. Many of these matters were not previously subject to Form 990 disclosure.

Many charities do not comply with GAAP when completing their Form 990 (Keating & Frumkin, 2003). More perversely, the IRS does not allow compliance with GAAP in several sections of the 990, particularly with respect to reporting on in-kind contributions.²³ The form includes a cross-reference table to reconcile 'tax accounting' with GAAP accounting. It follows that much of the confusion and controversy dealing with Form 990 stems from conflicts between the requirements of the IRS and other regulators and US GAAP (Chasin, Kaweck, & Jones, 2002). These two separate filing requirements – Form 990 for federal tax purposes and GAAP aligned accounts for other state regulatory purposes – are neither integrated nor coherent.

2.6.2.2 Canada

The primary charity regulator in Canada is the Canada Revenue Agency (CRA). Registered charities are required on an annual basis to complete and file Form T3010 with the CRA reporting on their activities, sources of revenue, and expenditures. However, an organisation can be registered as a not-for-profit society or corporation without necessarily being registered as a charity.

From 1 January 2011 IFRS replaced Canadian generally accepted accounting principles (Canadian GAAP) for all Canadian publicly traded companies as well as for non-listed financial institutions, securities dealers and many cooperative enterprises that qualify as "publicly accountable enterprises." Canadian private enterprises were permitted, but not required, to adopt IFRS. In the context of NPOs, the Public Sector Accounting Board (PSAB) and the Canadian Accounting Standards Board (AcSB) are the relevant standards setters.

Both bodies issued separate accounting standards for NPOs in 2010 and 2011, respectively (The Canadian Institute of Chartered Accountants, 2013a, 2013b (CICA)). The distinction in jurisdiction turns upon whether the NPO is classified as a private sector NPO (in which case the AcSB standards as set

²³ The GAAP definition of 'contributions' in FAS 116 differs from the Form 990 definition. While GAAP requires accounting for volunteer labour (under certain conditions), contributions reported on line 1 of Form 990 should not include the value of volunteer labor, other donated services or the use of facilities.

down in Part III of the Canadian Institute of Chartered Accountants' ('CICA') Handbook – Accounting will apply) or whether the NPO is controlled by government, in which case it would refer to the CICA Public Sector Accounting Handbook for applicable standards. In both cases, the standards are effective for annual financial statements for fiscal years beginning on or after January 1, 2012, with earlier application permitted.

Thus, Canada established separate NPO accounting standards but it applies different standards depending upon whether the NPO in question is classed as public or private. This distinction is thus important and to that end CICA²⁴ issued a Guide to Accounting Standards for Not-for-Profit Organizations in Canada (CICA, 2012) but it does not hold any authoritative position. This guidance defines a not-for-profit private organisation (NFPO) as being “an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. An NFPO’s members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization” (CICA, 2012, p. 4).

By contrast, a government-controlled not-for-profit (GNFPO) is defined as “an organization controlled by a government [that] exhibits all four of the following characteristics:

1. It has counterparts outside the public sector.
2. It is an entity normally without transferable ownership interests.
3. It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
4. Its members, contributors and other resource providers do not receive any financial return directly from the organization” (CICA 2012, p. 5).

Historical practices and accounting standard setting structures have influenced this categorisation (Barton, 1999).

At present, in their joint Statement of Principles on Improvements to Accounting Standards for Not-for-Profits, the AcSB and the PSAB are publicly consulting on possible further improvements. The deadline for submissions on the Statement of Principles, issued in April 2013 was to December 2013 (AcSB, 2013). The Statement contains 15 proposed principles, which will be of varying interest to NPOs, depending on the nature of the organisation and its particular circumstances.

A description of the detailed amendments are beyond the scope of this literature review, but the main principle affecting both public and private nonprofits relates to the definition of ‘assets’ and recognition of ‘capital assets’. Principles 1-3 provide that “a contribution would be recognized as an asset, when the NFPO has control of the contribution, would exercise that control if necessary and can reasonably estimate the amount to be received. A contribution would be [recognized as] revenue, except when the contribution gives rise to an obligation that meets the definition of a liability.”

The proposals replace the deferral and restricted fund methods previously utilized, and would affect the recognition of contributions by NPOs in both the private and public sectors. The proposals could also have a significant impact on the accounting for contribution pledges and endowment contributions.” Under Principle 7, “a capital asset would be recognized by an NFPO on its statement of financial position regardless of the size of the NFPO,” which would thereby remove the size exemption currently available for NFPOs in both the private and public sectors.

²⁴ On January 1, 2013, CICA and the CMA (Certified Management Accountants) merged to create CPA Canada (Chartered Professional Accountants) as the national organisation to support unification of the Canadian accounting profession under the CPA banner. An integrated CPA Canada website will be launched in January 2014 until which time both bodies will continue to host their own separate legacy sites

2.6.3 South Africa

South Africa maintains separate accounting standards for the private sector and the public sector. Private sector standards are the responsibility of the South African Institute of Chartered Accountants (SAICA). For financial periods commencing in December 2012, IFRS replaced South African GAAP for all listed companies and public entities. Other entities may elect to use this framework. The IFRS for SMEs is also in place and applies to entities that have no public accountability and prepare general purpose financial statements.

Public sector standards, known as ‘generally recognised accounting practice’ (GRAP), are promulgated by the South African Accounting Standards Board (ASB) and receive Ministry of Finance approval. As initially developed, GRAP were based on IPSAS. Where the IPSAS standard lacked guidance on a particular topic, the GRAP standard was based directly on the IFRS standard. The result of this was that many of the initial standards of GRAP issued contained similar principles to the principles found in IFRS either as resulting from convergence of IPSAS and IFRS or through direct adoption of the IFRS approach (Deloitte and Touche, 2012). In recent years in South Africa there has been a widening gap between GRAP and IFRS with the result that “there are now several GRAP standards ... for which there is no IFRS equivalent and other standards where there are significant differences between IFRS and GRAP” (Deloitte and Touche, 2012, p. 2).

Unlike in other countries such as Canada and the United States of America, there are no major bodies, in South Africa, that issue accounting standards for NPOs. As such NPOs rely on IFRS. Thus, problems similar to those experienced in Australia and New Zealand arise for NPOs in South Africa in the application of the IFRS standards (Rossouw, 2007).

2.6.4 Oceania and Asia²⁵

2.6.4.1 Australia

Until 2013, Australia had no charity regulator (as described below). Therefore, NPOs are only required to produce General Purpose Financial Reports (GPR) if they perceived themselves to be a ‘reporting entity’ (required to report). The great majority of NPOs therefore produce Special Purpose Financial Reports (SPFR) which are not required to comply with GAAP. Nevertheless, Leo (2000, p. 2) notes “there have been numerous calls over the years for the development of an accounting standard for not-for-profit entities”.

An early adopter, Australia adopted IFRS in 2002, for application by reporting entities from January 2005. The national review body for accounting standards is the Australian Accounting Standards Board (AASB). Since 2000, this body comprises both the AASB and the Australian Public Sector Accounting Standards Board (PSASB). The AASB operates under a sector-neutral or transaction-neutral policy. In other words, the AASB strives to treat similar transactions and events in a similar manner whether they are carried out by a for-profit entity or a NPO or by a public sector entity – unless there is a sound reason for differential treatment. In preparing new and revised IFRSs for adoption in Australia (as A-IFRS), the AASB notes that it considers the specific needs of NPOs in the private and public sectors but unlike the situation in Canada or the US there are no specific NPO or charity accounting standards.

In 2011, the cause of Australasian financial reporting standard harmonisation was advanced by the Deputy Prime Ministers of Australia and New Zealand (English, 2011) who agreed that each country’s financial reporting policy would enable for-profit entities to utilise a ‘single set of accounting standards’ so that Trans-Tasman companies would prepare only one set of financial standards in the short term and similarly for NPOs in the medium term. Nevertheless, anecdotal evidence suggests that no NPOs operate on a Trans-Tasman basis. Harmonisation is unlikely to be achieved, as will be noted when comparing this sub-section with the information about New Zealand.

²⁵ For the purposes of this study, *Oceania* is defined as Australia, New Zealand and the Pacific Islands.

According to the AASB definition glossary, a 'not-for-profit entity' may be defined as an entity whose principal objective is not the generation of profit (AASB, 2012a). Reports suggest that there has been widespread acceptance of the need to consider financial reporting issues specific to the private NPO sector in Australia (Leslie, 2006; Palmer, 2013; Productivity Commission, 2010) and, accordingly, in 2009 the AASB launched a Project, *Disclosures by Private Sector Not-for-Profit Entities*. Consisting of a 3-phased project focusing firstly on new financial and non-financial disclosures, followed in phase 2 by an assessment of existing disclosure requirements for NPOs and finishing in phase 3 with the possible presentation of private sector NPO general purpose financial statements, to date work has occurred only under the first phase (AASB, 2012b).

In March 2013, the AASB issued Exposure Draft 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities. The period for comment and consultation on this draft closed on June 30, 2013. The AASB released a standard on consolidated statements in late 2013 together with guidance on related party disclosures in NFP public sector entities (under Exposure Draft 214). High priority is also being accorded to the preparation of an Exposure Draft on Income from Transactions of NFP entities with the draft expected in the 2nd quarter of 2014 (AASB, 2014).

In terms of reporting standards, the AASB has taken up the reduced disclosure provisions of the IFRS for SMEs but it has not otherwise significantly modified or simplified the recognition and measurement standards of the IFRS SME accounting standard. There is thus no Australian equivalent to the UK and Irish FRS102.

The new charity regulator in Australia, the Australian Charities and Not-for-Profit Commission was established in 2012. The Australian Tax Office (ATO) supports its regulatory work and it is engaged in consultation with the AASB.²⁶ The Annual information statement ('AIS') which all charities (except religious charities) have to file with the ACNC will not include financial information for 2013/14 but thereafter, depending on the size of the charity, basic financial information will be required of small charities while medium and large sized charities must submit a financial report, which must be audited in the case of the larger charities (ACNC, 2013a). The financial questions on the published 2014 AIS map on to the National Standard Chart of Accounts (NSCOA) developed at QUT, Brisbane, which were handed over to the ACNC in June 2013.²⁷

The Australian Treasury issued an *Exposure Draft: Australian Charities and Not-for-profits Commission – Financial Reporting Requirements* for which the deadline for submissions closed in February 2013 (Bradbury, D. & Butler, 2013). This draft provides that a charity's financial statements and notes will need to comply with accounting standards issued by the Australian Accounting Standards Board (AASB), providing either General Purpose or Special Purpose Financial statements as the case may be (ACNC, 2013b, p. 2). In certain limited circumstances, such as where the ACNC approves new types of reporting (e.g., joint or collective reporting), there may be a departure from accounting standards. The Exposure Draft expressly notes that:

“Depending on the circumstances, joint and collective reporting may diverge from particular accounting standards, such as accounting standard AASB 10 Consolidated Financial Statements. In such cases, the regulations provide that NFP entities will still be required to apply all relevant accounting standards, except for those which are inconsistent with this type of reporting.” (ACNC, 2013b, p. 10).

²⁶ See AASB submission to the ACNC Discussion Paper on Australian Charities and Not-for-profits Commission: Implementation design (April 2012). See also Treasury Department ED on requirements for annual financial reports under ACNC (2013) (which states, “The AASB (as standard-setter) and the ACNC (as regulator) will work together to develop guidance on financial reporting for entities registered with the ACNC, including reporting requirements of non-reporting entities registered with the ACNC.”)

²⁷ A data-entry, rather than a reporting tool, NSCOA has been developed for small to medium sized NPOs that do not have an accounting department or a sophisticated accounting system. Further details on NSCOA can be accessed at <https://wiki.qut.edu.au/display/CPNS/Standard+Chart+of+Accounts> (last accessed September 26, 2013).

Submissions to the Treasury highlight some of the shortfalls in the current AASB standards as applied to charities. Most notably, neither the IFRS nor AASB standards currently provide a consistent basis and guidance on how to account for donations and grants received. Similarly, calls have been made for more relevant disclosure on income received, how it is spent, over what period of time and how it is allocated, along with guidance on administration costs so that those interested in the work of charities would be better able to determine how such entities operate.²⁸

2.6.4.2 Japan

Japan established its Accounting Standards board (ASBJ) in 2001 as a private sector organisation. It is responsible for developing accounting standards implementation guidance that are then authorised by the Japanese Financial Services Agency. Since 2005 meetings have taken place between the IASB and ASBJ on matters relating to IFRS. The ASBJ is represented on the newly established ASAF, which has been designed to replace multiple bilateral agreements between the IASB and individual standard setters with a single ASAF agreement. Work is underway to bring about a convergence of Japanese GAAP with IFRS as a result of the 2007 Tokyo Agreement (IASB, 2013a).

The Japanese Institute of Certified Public Accountants (JICPA) is a member body of IFAC. At present, accounting standards vary between the different types of NPOs that exist in Japan (Amenomori, 1993 lists 9 separate NPO types in operation in Japan currently). JICPA has recommended the introduction of a common accounting framework to be used by NPOs and to this end, it published a research report, “Towards Establishing an Accounting Framework for Non-profit Organisations” in July 2013 (JICPA, 2013). It is hoped that this report, which is only available in Japanese, will serve as the basis for further discussions between the JICPA and NPO stakeholders.

2.6.4.3 New Zealand

Like Australia, New Zealand was an early adopter of IFRS, making the decision to do so in 2002. Early adoption could occur from 2005, with compulsory adoption in 2007 for all entities. From 1993, it too applied a transaction- and sector-neutral approach to its accounting standards (Bradbury, M. & van Zijl, 2007). The sector-neutral approach is common only to Australia and New Zealand. These two countries share a Closer Economic Relations Framework and, through the argument it will reduce business costs, this has resulted in a concerted push for harmonisation of accounting and auditing standards as much as possible (Kevin Simpkins Advisory Services Ltd, 2006).

As noted, IFRS was developed primarily for application by for-profit entities and its standards are thus not always entirely relevant to NPOs or public sector entities. At the time of New Zealand’s adoption of IFRS it had been intended to modify IFRS (as NZ IFRS) to include additional reporting requirements for NPO and public bodies such that these provisions would primarily apply to NPOs but that sector neutrality would be maintained. In practice, this approach turned out to be unworkable in New Zealand. While Bradbury and van Zijl (2007) noted a limitation for for-profit entities (in that they could not follow public sector specific paragraphs), the Controller and Auditor General (2009) noted his increasing concern about the quality of IFRS as they had been amended, for communicating with the stakeholders of public sector entities. The drive to avoid a departure from IFRS whilst maintaining a sector-neutral approach resulted in the adoption of a minimalist approach to changes to IFRS which affected NPOs as well. The downsides to this include a dilution of the guidance available to NPOs (through the disappearance of considerable amounts of PBE guidance from GAAP) and a slowing progress on PBE financial reporting issues, coupled with the risk of compromising the credibility of standard-setting processes in the NPO sectors (Bradbury, M. & Baskerville, 2008; Breen, 2013; Kevin Simpkins Advisory Services Ltd, 2006).

Until 2010, the New Zealand Institute of Chartered Accountants (NZICA) through its Financial Reporting Standards Board set the accounting standards that were then submitted to the Accounting Standards

²⁸ See submission of Grant Thornton, February 15, 2013.

Review Board (ASRB) for final approval (Irvine & Ryan, 2013, p. 135). In 2011, a new regime was introduced which saw the ASRB reconstituted as the External Reporting Board (XRB) (Cordery, 2013). Under this new structure, the New Zealand Accounting Standards Board (NZASB) is a Committee of the XRB Board that has delegated authority from the XRB to develop or adopt and issue accounting standards for general purpose financial reporting in New Zealand.

In March 2012, the XRB Board announced its decision to adopt two sets of standards: one set for for-profit entities based on IFRS, and another set for public benefit entities based primarily on IPSAS modified as necessary for the New Zealand PBE environment, together with 'Simple Format Standards' for smaller entities (XRB, 2011). The work of advancing these sector-specific accounting standards frameworks falls to the NZASB (NZASB, 2013). To this end, the NZASB has issued standards for public sector PBEs and has issued an Exposure Draft on Public Benefit Entity (Not for Profit) standards for tier 1 and 2 entities.²⁹ It has also consulted on standards for PBE (Not for Profit) simple format reporting for tier 3 and 4 entities, which account for the majority of registered charities in New Zealand.³⁰

The Tier 1 and 2 Standards have an XRB A1 Accounting Standards Framework (the overarching framework which sets out and explains the tier structure), and a suite of 39 standards that will apply to large and medium-sized public sector PBEs which are primarily based on International Public Sector Accounting Standards (IPSAS), with some modifications for application in New Zealand, and the Public Benefit Entities (conceptual) Framework. When issued, the standards will be applicable from July 2015 (with early adoption allowed).

The Charities Act 2005 requires registered charities to submit annual financial reports to the New Zealand Department of Internal Affairs (formerly, the New Zealand Charities Commission) (Cordery, 2013). These reports must comprise a statement of financial performance and position but no accounting standards are imposed. According to its website, Charities Services is cooperating with the XRB Board to minimise additional compliance requirements for registered charities and Charities Services is currently investigating the options for changing the online Annual Return to reflect the new proposed XRB requirements (Department of Internal Affairs: Charity Services, 2013).

In addition, incorporated societies (membership bodies with a special incorporation) are required to file financial accounts annually with their registrar. However, currently there are no requirements to comply with any particular GAAP, although proposals to bring them into the remit of the Financial Reporting Act 2013 have been mooted (New Zealand Law Commission, 2013).

2.6.5 Summary

In order to develop legitimate and implementable standards for the NPO sector internationally, the diversity of the sector, its issues and stakeholder perceptions regarding financial reporting practice, must be explored and understood (Loft, Humphrey, & Turley, 2006). As can be seen, the variety of options is a contextually-based mix of the identity of the regulator and therefore those that are required to report. Typically requirements are placed only on charities.

As noted above, the diversity of NPOs' legal structures (the sector includes companies, unincorporated societies and otherwise incorporated entities) means that jurisdiction-specific legislation surrounding the legal structures also impact the sector-specific reporting required. Appendix A shows the information provided above in summary form. (India is also included in the Appendix – this country is not yet IFRS compliant and there is no accounting standard for NPOs. However the rules depend on the

²⁹ Tier 1 entities are defined as those with annual expenditure over NZ\$30 million; Tier 2 entities, are defined as those with annual expenditure between NZ\$2 million and NZ\$30 million

³⁰ Tier 3 entities are those with annual expenditure under NZ\$2 million which prepare accrual accounts. According to the New Zealand Charity Commission, 95% of all registered charities in New Zealand have expenditure of less than NZ\$2m and approximately half of those have expenditure less than NZ\$500,000. Tier 4 entities are those with NZ\$125,000 in annual expenditure or less under the Financial Reporting Act 2013.

legal form of the NPO and the legislation for that particular structure. Many of the issues raised in other jurisdictions are therefore applicable to India.)

What is required to be reported depends on the underlying GAAP for each country and its historical expectations. The most developed and separate from IFRS and IPSAS, is the Charities SORP applicable in the UK and Ireland and the US NPO standards (Tully, n.d.), yet they are limited in their conceptual underpinning. For those countries where the IFRS conceptual framework is inferred in standards, in the light of the recently-issued IASB (2013c) discussion paper, debate on the applicability of that framework has re-surfaced. Therefore, this research could contribute to contemporary debates and consultations relating to developing NPO reporting *and* principles.

3. The International Survey: Methods, Questions and Profile of Respondents

3.1 Introduction

As previously outlined, this research is directed towards developing a better understanding of beliefs held, and the accounting practices implemented, by the community of organisations that form the not-for-profit sector internationally.

In order to meet this objective, we firstly conducted an in-depth literature review to establish what is known about the not-for-profit sector internationally together with the reporting issues that are specific to this sector; this is presented in Chapter 2. The literature review, in addition to the expertise of the research team and in-depth discussions with the Steering Group (Appendix C), enabled us to identify areas and issues to be explored further using an online, web-based questionnaire survey ('the survey').

This chapter explains how the survey was designed and distributed, and profiles the overall responses to the survey by stakeholder group and world region.

3.2 Method

Using a web-based questionnaire survey as the research instrument for this study is arguably the most effective means of collecting the information sought from across many different countries about beliefs and practices in the not-for-profit sector, internationally (Smith, 2003).³¹

The survey comprised a mixture of closed (multiple option) questions and open questions inviting narrative responses. The full list of questions used in the survey, together with a tabulation of responses to the closed questions is shown in Appendix B.

The survey comprised introductory questions about the profile of the respondent (Q1, Q2, Q3,) followed by a mixture of closed questions seeking respondents' opinions (Q4, Q5, Q6, Q8, Q9, Q10, Q12, Q14). These were presented as a series of statements and respondents were required to select an answer (or in some cases, multiple answers) that best reflected their belief or involvement in an aspect of NPO financial reporting. The open questions (Q7, Q11, Q13, Q15, Q16, Q17, Q18) required a narrative response.

The results emerging from the multiple option questions are presented in Chapter 4 and the findings from the narrative questions are presented in Chapter 5.

The survey was piloted amongst the research team³² and with the Steering Group (see Appendix C) before going live on 8 November 2013; access to the survey was closed on 9 December 2013.

The survey contained seven sections presented to survey respondents as seven screens, each of which had to be completed before proceeding to the next. Sections 1-3 asked respondents to identify: their involvement in NPO financial reporting; the country(ies) that account for the main involvement in NPO financial reporting; the size of NPOs, types of accounting involved and financial reporting frameworks observed. Section 4 then asked respondents to elaborate on their perceptions about: developing

³¹ The survey was drafted in English and uploaded onto Bristol Online Survey software. Given the limit on funding and time, it was not possible to translate the questionnaire into different languages; this limited responses to those participants who speak and understand English. In addition, web access in some countries is less available than in other countries, and this will bias the response to participants in countries where internet facilities and email communication is more fully developed. It should be noted also that response rates to web-based surveys can be fairly poor, and for this reason it was important to contact potential participants in advance and encourage them to participate prior to distributing the survey instrument as widely as possible to a large number of potential participants.

³² The research team comprised the key authors and contributors to this project.

international financial reporting standards for NPO accounting; financial reporting issues to be addressed; and whether compliance with any such developed standards should be size dependent or not. This was followed by a section asking for respondents' perceptions about: the usefulness of NPO financial statements; to whom NPOs are accountable; and the sources of influence governing NPO financial reporting. Section 6 contained open questions about whether NPO preparers and auditors/independent examiners should be professionally qualified.³³

Finally, respondents were given the opportunity to identify themselves to enable the research team to contact them if required (Appendix B, Q19). Certain questions were compulsory (questions 1, 2, 5, 8, 9, 12) and respondents were not allowed to progress to the next section of the survey until they responded in full to compulsory questions. The decision to make these questions compulsory was determined based on the importance of the information to facilitate analysis of responses by either stakeholder or geographic category, and the importance of the information to directly inform the objective of this research in light of issues identified in the literature review.

The survey was distributed by email to two contact lists of potential respondents who were specifically involved in NPO financial reporting; these two lists are referred to as 'Individuals' and 'Gatekeepers'. The contact lists included NPO staff members, NPO board members/trustees, national and international standard setters, NPO regulators, practitioners involved in preparation, audit or independent examination of NPO accounts, professional accountancy bodies, academics with an interest in NPO financial reporting and users of NPO financial reports. The 'Individuals' contact list comprised 144 named persons and 'Gatekeepers' list comprised 64 contacts in professional organisations or networks whose members were involved in NPO financial reporting.³⁴ These lists were generated from the research teams' professional networks and from the Steering Group's senior positions held in various relevant organisations.

To motivate support from contacts to complete the survey, Individuals and Gatekeepers were contacted in advance of the survey going live with information about the research project and a request for their support to complete the survey when it went live; Gatekeepers were asked to support the research by distributing and encouraging their networks to complete the survey. As a result, many professional organisations supported this research by: setting up email alerts to their members directly; publicising the research objective and survey link in newsletters and professional magazines; displaying the survey link on their websites; and/or tweeting the survey link to their members. The research team sent out individual, personal emails to all contacts to inform them the survey was live, as of 8th November 2013. Reminder emails were sent to the contact lists prior to the survey closing on 9th December 2013.

3.3 Profile of respondents: experience, geographic regions, and size of NPOs

The survey generated 605 usable responses³⁵; the percentage of responses by stakeholder group is presented in Figure 3.1. Further analysis is given in Table 3.1 at the end of this chapter.

Panel A of Table 3.1 shows the absolute number of responses by stakeholder group. The largest response group comprised 252 individuals who identified themselves as working for an NPO and being

³³ Whilst the study is primarily about financial reporting by NPOs, rather than audit requirements, the literature suggests (see Section 2.3.3) that the availability of suitably experienced persons to undertake the audit or examination of NPO accounts may be a key factor in the quality of NPO reporting. It was therefore felt useful to include a question to gain respondents views on this.

³⁴ For example, the research team used their contacts to identify participants across different jurisdictions, especially in the UK, Ireland, New Zealand, USA, Nigeria and Pakistan. Gatekeepers, with help from the CCAB Steering Group, included organisations such as: the professional body members of the International Federation of Accountants; Charity Finance Group; The Asia Foundation; The European Centre for Not-for-Profit Law; Australian Charities and Not-for-profits Commission; Third Sector Foundation of Turkey; MANGO and the IFRS Foundation.

³⁵ In total, 611 responses were received. However, six responses were excluded from the final analysis as five respondents identified themselves as having no involvement in NPO financial reporting and one response was a duplicate.

involved in the NPO’s annual financial reports – denoted (E) in the table. A further 80 responses were received from Trustees/Board members (T) of NPOs. Responses from 176 accountants in practice and involved in NPO annual financial reports were received, being: 63 professionally qualified and involved in preparation (PP); 84 professionally qualified and involved in audit/independent examination (PA); and 29 non-professionally qualified general practitioners (GP). Forty-four responses were received from Regulators³⁶ (R) who were directly or indirectly involved in regulating the content of NPO financial reports and 53 users³⁷ of NPO financial reports participated in the survey.

Across these stakeholder groups, 68% of respondents report more than 5 years of significant involvement in NPO financial reporting (Table 3.1, Panel A). Auditors are the most experienced group with 67% reporting more than 10 years’ involvement, compared to the only 28% of general practitioners indicating that this group is the least experienced amongst respondents.

Figure 3.1: Stakeholder groups responding to the survey (Appendix B, Q1). Percentages are expressed as the number of stakeholder group responses out of the total of 605 responses received.



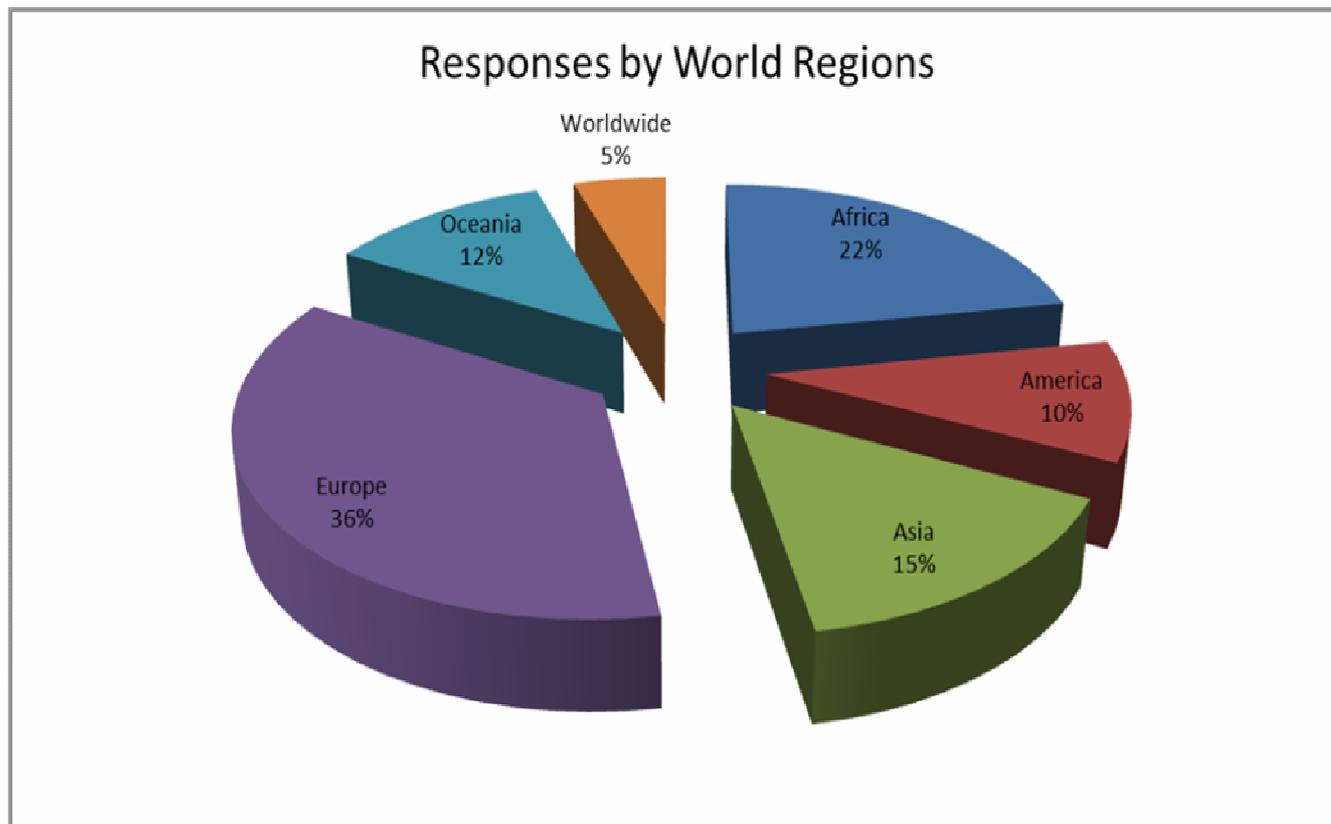
The 605 respondents are involved in the financial reporting of NPOs operating across all continents of the world (Figure 3.2). When asked to identify the country or countries that represent their main involvement from a list of over 200 countries, 1335 choices were made, including 37 respondents choosing worldwide involvement. Finer analysis of this data shows that 481 respondents are involved in only one country and 124 are involved in more than one country (data not shown). The largest number of responses represents stakeholders involved in European countries’ NPOs (44% of responses), being 187 responses from the United Kingdom & Northern Ireland and 97 responses from continental Europe. This is followed by respondents involved in African NPOs (27% of respondents), Asia (18%), Oceania (15%) and the Americas (13%). Collapsing the individual stakeholder responses by country responses

³⁶ The ‘Regulator’ group comprised 16 professional accountancy bodies; 2 regulators of not-for-profit sector organisations; 17 standard setters and 9 funders (see Appendix B).

³⁷ Users included 35 academics/researchers of NPO financial reporting (see Appendix B).

into six world regions, being the five UN continents plus ‘worldwide’, shows 746 choices are made across the world regions³⁸ (Table 3.1, Panel C).

Figure 3.2: World regions accounting for respondents’ main involvement with NPO financial reporting
(Appendix B, Q2). Percentages are expressed out of 746 response choices made.



Respondents were asked to identify the size³⁹ and approximate number of the NPOs in which they are directly involved as either a preparer or auditor of NPO financial statements (Table 3.1, Panel E). Analysis of income-Band 1 (NPOs less than £30,000) shows that 164 respondents are directly involved preparation or audit of NPO accounts (Band 2: 250; Band 3: 233; Band 4: 207) (Table 3.2). The vast majority of respondents across all income-bands are directly involved in fewer than 10 NPOs (Table 3.2, Panel A). The total approximate number of NPOs’ financial statements either prepared or audited by survey respondents, after adjusting for two large outliers, is 18,574 NPOs in Band 1 (Band 2: 8,910; Band 3: 4,946; Band 4: 2,182 (Table 3.2, Panel B). Further analysis of Q4 shows up to 117 and 74 respondents, respectively, are involved across two and three size income-bands and 30 respondents are directly involved across all four income bands (data not shown).

3.4 Profile of respondents: Types of accounting and financial reporting frameworks

Survey responses show that 68% of respondents are most frequently involved in NPO financial reports prepared as accruals accounts, compared to 24% as cash-based receipts and payments accounts (Table 3.1, Panel B; Appendix B, Q5). Eight percent of respondents reported involvement with ‘other’ forms of accounting, and narrative explanations given in this respect predominantly described the use of “hybrid” or “modified cash” systems capturing elements of both cash and accruals accounting.

³⁸ Bearing in mind that respondents can choose more than one country, then adding up individual country responses will always sum to more than world region responses.

³⁹ Band 1: less than £30,000; Band 2: more than £30,000 and less than £300,000; Band 3: more than £300,000 and less than £3m; Band 4: more than £3m. Income band options were also stated in US Dollars and Euros in the survey (Appendix B, Q4).

Survey respondents were then asked to identify the financial reporting frameworks they most frequently encountered to determine the NPO financial reports they are familiar with (Appendix B, Q6). For all stakeholder groups, apart from GPs, the most frequently experienced financial reporting framework by survey respondents is based on national GAAP (310 respondents reported using national GAAP), followed closely by national corporate law (257 respondents) and national not-for-profit sector law (237 respondents) (Table 3.1, Panel D). Sector specific accounting requirements, imposed by regulators (176 responses), funders (142 responses), or national sector-specific accounting standards (155 respondents) are also reported. However, the use of international standards, such as IFRS and IFRS for SMEs (121 and 65 respondents, respectively) is less frequently encountered, and IPSAS (21 respondents) are used infrequently (Table 3.1, Panel D).

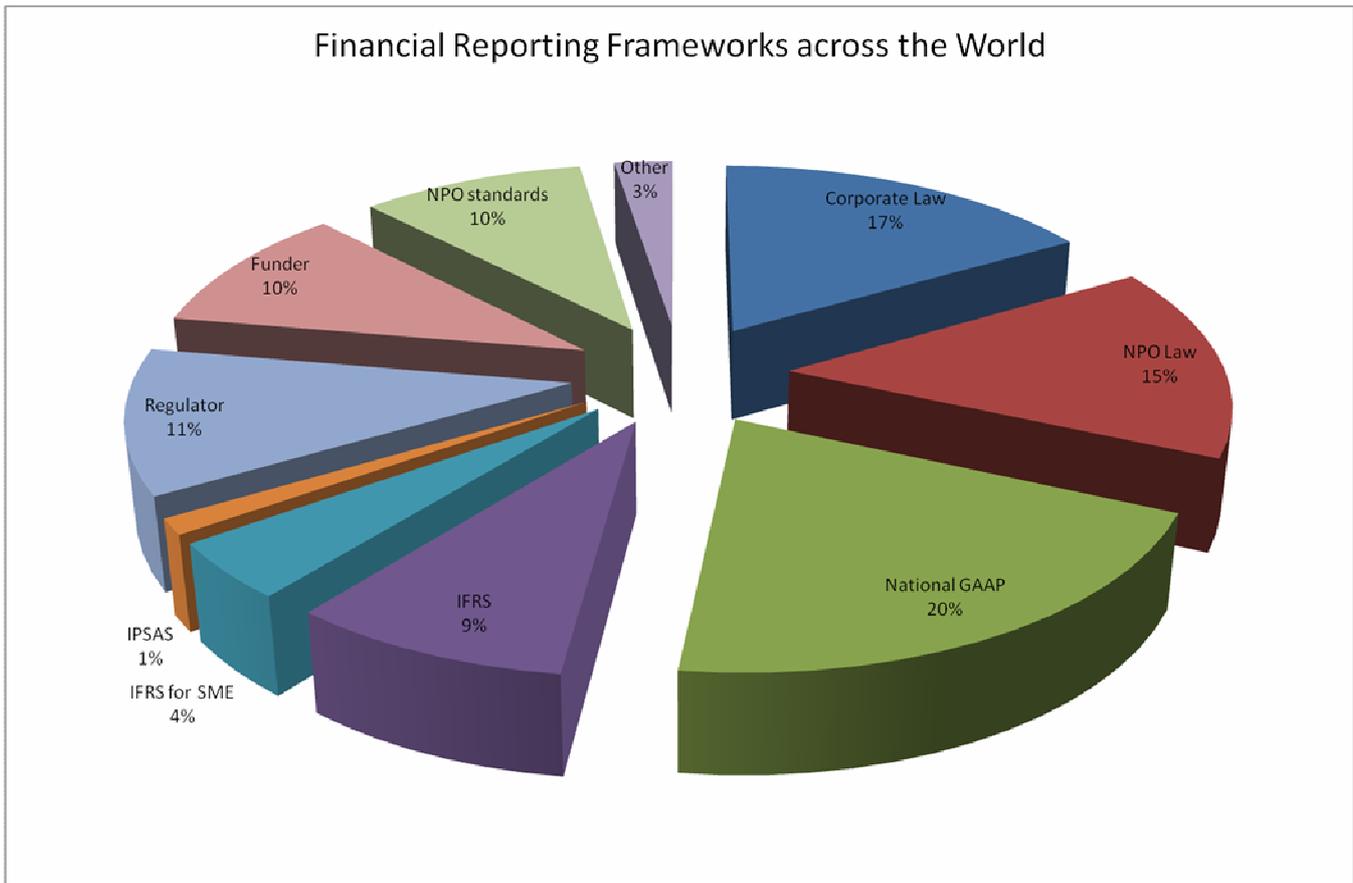
All regions, including worldwide, show the most frequently experienced form of accounting is accruals accounting (Table 3.3, Panel A) determined predominantly by national GAAP (Table 3.3, Panel B). However, some subtle differences in the types of accounting and financial reporting framework experienced emerge when survey responses are analysed according to the number of responses by geographic region (Table 3.3). In this respect, when compared to other geographic regions, stakeholder groups report that:

- the frequency of cash accounting noted for NPOs operating in Africa (41%) and Asia (34%) is relatively high compared to other regions (Americas: 22%; Europe: 17%; Oceania: 14%);
- for NPOs operating in African countries, funder requirements (16%) are more likely to influence NPO financial reporting compared to funder influence in other geographic regions (12% or less);
- NPOs operating in the Americas and Europe (both 13%) are more likely to report according to sector-specific accounting standards compared to NPOs in other geographic regions (8% or less);
- NPOs operating in Asia (15%) are more likely to determine their financial statements based on IFRS, followed by Africa (12%) and other regions (9% or less);
- NPOs operating in Oceania countries show evidence that IFRS for SMEs contributes to determining reporting requirements; and
- IPSAS are rarely implemented in any region of the world.

It therefore appears that there is evidence of variations in prevalence of types of accounting across the world and the financial reporting requirements that determine the types of accounting (Figure 3.3). This variation arises from: differences in national GAAP and national legislation across countries; differences in extent to which NPOs are influenced by funder requirements; and differences in the extent to which NPOs have implemented international standards.

Figure 3.3: Stakeholders' experience of different financial reporting frameworks across the world.

Percentages are expressed out of a total of 1,938 occurrences reported by all respondents (Table 3.3, Panel B).



3.5 Conclusion

The online survey generated 605 responses from seven different stakeholder groups with experience of NPO financial reporting across all regions of the world. In addition, survey respondents have experience in the financial reporting of a broad spectrum of NPOs as categorised by income size, ranging from NPOs with an income of less than £30,000 to NPOs with an income of more than £3m. The vast majority of types of accounting experienced by survey respondents show that accruals accounting (68% of stakeholder responses) is predominantly practiced across the globe, however a significant minority of respondents report experience of cash accounting (24%) by NPOs and fewer respondents experience forms of mixed cash-accrual methods of accounting. Financial reporting frameworks governing these types of NPO accounting are most frequently based on national GAAP, national company law and national sector-specific law. Very few respondents experience IFRS reporting frameworks within the sector and IPSAS are rarely practised.

Table 3.1: Survey response profile by stakeholder group

	E		T		PP		PA		GP		R		U		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Panel A: Years of involvement with financial reporting of NPOs																
Less than 3 years*	54	21%	14	18%	12	19%	9	11%	12	41%	12	27%	15	28%	128	21%
4 to 5 years	38	15%	10	13%	3	5%	3	4%	3	10%	3	7%	8	15%	68	11%
5-10 years	70	28%	14	18%	22	35%	16	19%	6	21%	7	16%	9	17%	144	24%
More than 10 years	90	36%	42	53%	26	41%	56	67%	8	28%	22	50%	21	40%	265	44%
Total	252	100%	80	100%	63	100%	84	100%	29	100%	44	100%	53	100%	605	100%
Panel B: Types of Accounting used by all respondents																
Cash	61	24%	16	20%	21	33%	13	15%	10	34%	11	25%	13	25%	145	24%
Accruals	175	69%	59	74%	41	65%	67	80%	15	52%	26	59%	29	55%	412	68%
Other**	16	6%	5	6%	1	2%	4	5%	4	14%	7	16%	11	21%	48	8%
Total respondents	252	100%	80	100%	63	100%	84	100%	29	100%	44	100%	53	100%	605	100%
Panel C: World regions of NPO financial reporting involvement by all respondents																
Worldwide	20	8%	3	4%	1	2%	2	2%	1	3%	3	7%	7	13%	37	6%
Africa	81	32%	14	18%	29	46%	10	12%	15	52%	8	18%	8	15%	165	27%
America	36	14%	6	8%	10	16%	10	12%	3	10%	5	11%	7	13%	77	13%
Asia	46	18%	9	11%	17	27%	11	13%	7	24%	10	23%	11	21%	111	18%
Europe	116	46%	48	60%	27	43%	41	49%	4	14%	13	30%	19	36%	268	44%
Oceania	38	15%	12	15%	6	10%	12	14%	2	7%	11	25%	7	13%	88	15%
Total	337	134%	92	115%	90	143%	86	102%	32	110%	50	114%	59	111%	746	123%
Panel D: Financial Reporting Frameworks used by all respondents																
Corporate Law	102	40%	43	54%	29	46%	48	57%	7	24%	12	27%	15	28%	257	42%
NPO Law	92	37%	42	53%	16	25%	41	49%	10	34%	14	32%	22	42%	237	39%
National GAAP	128	51%	37	46%	35	56%	50	60%	11	38%	23	52%	26	49%	310	51%
IFRS	64	25%	7	9%	17	27%	15	18%	3	10%	8	18%	7	13%	121	20%
IFRS for SME	24	10%	9	11%	8	13%	15	18%	3	10%	4	9%	2	4%	65	11%
IPSAS	3	1%	1	1%	1	2%	5	6%	2	7%	6	14%	3	6%	21	3%
Regulator	70	28%	27	34%	15	24%	27	32%	8	28%	12	27%	17	32%	176	29%
Funder	65	26%	11	14%	12	19%	22	26%	8	28%	13	30%	11	21%	142	23%
NPO standards	55	22%	19	24%	13	21%	31	37%	6	21%	13	30%	18	34%	155	26%
Other	18	7%	2	3%	4	6%	8	10%	0	0%	4	9%	5	9%	41	7%
Total responses	621	246%	198	248%	150	238%	262	312%	58	200%	109	248%	126	238%	1525	252%
Panel E: Respondents directly involved in audit or preparation of NPO financial reports																
Band 1 (<£30K)	42	17%	29	36%	29	46%	41	49%	6	21%	7	16%	10	19%	164	27%
Band 2 (£30k- £300k)	75	30%	48	60%	39	62%	59	70%	12	41%	6	14%	11	21%	250	41%
Band 3 (£300k -£3m)	92	37%	32	40%	27	43%	57	68%	13	45%	6	14%	6	11%	233	39%
Band 4 (> £3m)	117	46%	20	25%	10	16%	41	49%	6	21%	6	14%	7	13%	207	34%
Total	326	129%	129	161%	105	167%	198	236%	37	128%	25	57%	34	64%	854	141%

* Includes some responses where no clear answer given.

** 'Other' includes 15 'I don't know' responses and 33 responses describing the use of a mixed method cash and accruals approach to NPO financial reporting.

See next page for explanations of column headings.

Note: This table profiles the survey respondents by stakeholder group – see explanation below.

Panel A shows how many years the respondents have been involved with NPO financial reporting (Q3).

Panel B shows the types of accounting with which each group is most frequently involved (Q5).

Panel C shows the continents where each group has its main involvement – respondents were asked to identify all countries in which they were involved in NPO financial reporting, therefore there are more responses than number of respondents (Q2).

Panel D shows the financial reporting frameworks used to determine the NPO accounts that each group is most frequently involved with – respondents were asked to identify all sources of financial reporting guidance used to determine the financial reporting of NPOs with which they are involved, therefore there are more responses than number of respondents (Q6).

Panel E shows the number of stakeholders who are directly involved in the preparation or audit of NPO financial reports, by income band (Q4). Each respondent may be involved in an NPO in more than one income band.

For all panels, percentages are calculated as the number of responses received divided by the total number of responses for the relevant stakeholder group. Respondents could make more than one choice when responding to Q2, Q6 and Q4 – so percentages in these cases do not add up to 100%.

The stakeholder groups as shown in the heading of the table are as follows (these are based on respondents' answers to Q1)

E= Employee/Staff Member of an NPO: involved in its annual financial reports

T= Trustee/ Board member of an NPO involved in its annual financial reports

PP= Professional Accountant Preparer: a qualified accountant in practice involved in preparation of NPO financial reports

PA= Professional Auditor: involved in the audit examination of NPO financial reports

GP= General Practitioner: in practice supporting the preparation/examination of NPO financial reports but not a professional accountant

R= Regulators etc: NPO regulator, professional body representative, accounting standard setter, or funder (see Appendix B, Q1 for actual numbers)

U= User: of NPO financial reports, including academics and researchers.

Table 3.2: Number and size of NPOs that survey respondents have a direct involvement in the preparation or audit of NPO financial statements

	Band 1	Band 2	Band 3	Band 4
	(< £30k)	(£30k- £300k)	(£300k -£3m)	(> £3m)
Panel A: Number of stakeholders directly involved with one or more NPOs				
1-9 NPOs	124	199	195	182
10-100 NPOs	32	46	31	23
>100 NPOs	8	5	7	2
Total	<u>164</u>	<u>250</u>	<u>233</u>	<u>207</u>
Panel B: Total number of NPOs represented by survey respondents who have direct involvement in financial statement preparation or audit				
Total NPOs	59,851	50,188	87,635	43,466
Exclude outlier	<u>-41,277</u>	<u>-41,278</u>	<u>-41,289</u> <u>-41,400</u>	<u>-41,284</u>
Adjusted NPOs	<u>18,574</u>	<u>8,910</u>	<u>4,946</u>	<u>2,182</u>

Note: This table shows number and size of NPOs that survey respondents report to having a direct involvement in either the preparation or audit of NPO financial statements (Q4). (Income bands were also presented in US Dollars and Euro in the survey.)

After adjusting for an outlier, the survey respondents indicated direct involvement in the financial statements of a total of 34,612 NPOs (across all income bands).

Table 3.3: Survey response profile by world region

	Africa		Americas		Asia		Europe		Oceania		Worldwide		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Panel A: Types of Accounting used by world region														
Cash	68	41%	17	22%	38	34%	46	17%	12	14%	7	19%	188	25%
Accruals	82	50%	55	71%	55	50%	211	79%	66	75%	25	68%	494	66%
Other**	15	9%	5	6%	18	16%	11	4%	10	11%	5	14%	64	9%
Total responses	165	100%	77	100%	111	100%	268	100%	88	100%	37	100%	746	100%
Panel B: Financial Reporting Frameworks by world region														
Corporate Law	61	16%	23	12%	34	13%	158	20%	29	13%	16	15%	321	17%
NPO Law	43	11%	26	14%	38	14%	154	20%	18	8%	15	14%	294	15%
National GAAP	78	20%	46	24%	47	18%	152	20%	51	22%	19	18%	393	20%
IFRS	47	12%	13	7%	39	15%	33	4%	21	9%	17	16%	170	9%
IFRS for SME	23	6%	7	4%	9	3%	20	3%	23	10%	3	3%	85	4%
IPSAS	7	2%	2	1%	3	1%	5	1%	5	2%	2	2%	24	1%
Regulator	37	10%	20	11%	35	13%	94	12%	23	10%	10	9%	219	11%
Funder	60	16%	22	12%	31	12%	46	6%	28	12%	8	8%	195	10%
NPO standards	19	5%	24	13%	20	8%	99	13%	15	7%	11	10%	188	10%
Other	6	2%	5	3%	8	3%	10	1%	15	7%	5	5%	49	3%
Total responses	381	100%	188	100%	264	100%	771	100%	228	100%	106	100%	1938	100%

Note: This table profiles the survey respondents by world region. **Panel A** shows the types of NPO accounting that survey respondent normally experience (Q5) by geographic region. **Panel B** shows the types of financial reporting frameworks (Q6) that govern how NPO financial reports are determined, by geographic region. Percentages are calculated as the number of responses received for type of accounting or financial reporting framework in a particular geographic area, divided by the total number of responses received in respect of that area. For example, 494 respondents are encounter accrual accounting out of the total 746 responses received across all regions, which is 66%.

4. Perceptions held by Stakeholders about International Financial Reporting for NPOs

4.1 Introduction

As discussed in Chapter 3, the survey was designed as an online questionnaire using a mixture of open and closed questions. This chapter will discuss survey responses to five closed questions. Each of these questions asked survey respondents to: report their perception about developing international financial reporting standards for NPO accounting (Appendix B, Q8); identify financial reporting issues specific to the sector (Q9); indicate their belief about the purpose for which NPO financial reports are used (Q12); and identify the main influences on NPO financial reporting in the countries that the respondent has experience (Q14). These questions were a mixture of compulsory (Q8, Q9 and Q12) and optional (Q10 and Q14); however, the following appraisal of survey results shows that optional questions were answered by virtually all survey participants. The results of these questions are presented and discussed in the following sections.

4.2 Stakeholder perceptions about the potential development of international financial reporting standards for the NPO sector

4.2.1 Stakeholder beliefs about harmonising financial reporting internationally

Survey participants were asked to express their views about the extent to which they disagreed or agreed with six statements about international financial reporting for NPOs (Appendix B, Q8). Specifically, they were asked about their perceptions relating to: whether an international standard would be useful; if the not-for-profit sector should follow an internationally converged standard; whether country specific frameworks would make compliance with such a standard difficult; whether national jurisdictions would be reluctant to comply with an international standard; if donors would find it valuable; and whether stakeholders thought they could influence the development of any such standard. (The forms which any such standards might take are explored further in Chapter 5, through analysis of the narrative comments from respondents. The survey did not seek to guide respondents towards any specific interpretation of the term 'internationally converged standard' but allowed them to interpret this as they saw fit.)

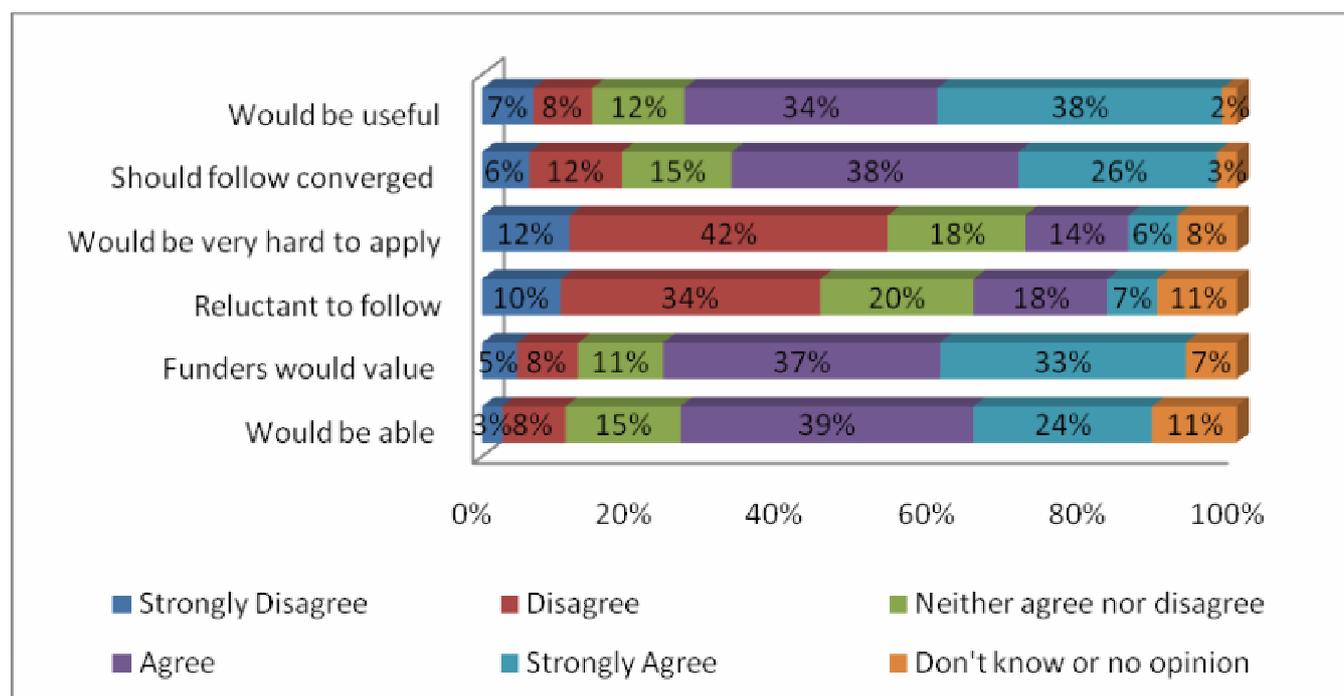
Figure 4.1 presents an overview of the proportion of total responses received across the spectrum from strongly disagree to strongly agree, including a separate category for 'I don't know or no opinion' responses.

It can be seen clearly in this figure that the majority of respondents agreed that:

- an international standard would be useful (72% agreeing or strongly agreeing);
- the not-for-profit sector should follow converged standards (64%);
- funders would value NPO accounts prepared in accordance with an international standard (70%); and
- most survey respondents (63%) believe their nation would be able to influence the development of such a standard.

A majority of survey respondents *did not* believe an international standard would be hard to apply at the national level, nor that there would be national reluctance to comply with an international standard.

Figure 4.1: Stakeholder beliefs about the introduction of an international reporting standard for NPO accounting



Note: This figure uses abbreviations – for the full wording of the statements on which stakeholders were asked to express the extent to which they disagree or agree, please refer to Table 4.1 or Appendix B, Q8.

Table 4.1 at the end of this chapter (Panel A) shows the mean value of responses from survey participants by stakeholder group, where a mean value closer to 1 indicates strong disagreement and mean value closer to 5 indicates strong agreement with the statement. This tabular presentation of Q8 data confirms the interpretation above and shows that a significant majority across all stakeholder groups agreed that:

- it would be useful to have international standards for NPO accounting (mean value 3.88);
- the not-for-profit sector should follow converged financial reporting standards (mean 3.66);
- leading funders/donors would value NPO financial reports prepared in accordance with a sector-specific international standard (mean 3.84); and
- individual nations would be able to influence the development of international standards for NPOs (mean 3.72).

Although the direction of agreement or disagreement with the six statements is reflected by all stakeholder groups, the extent to which the different groups agree or disagree with the statements differs (Table 4.1, Panel A). For example, interpreting the mean value calculated for each stakeholder group as an indication of the strength of opinion held by the group, NPO staff (E) demonstrate more than any other group the belief that an international NPO standard would be useful and that leading funders would value NPO accounts prepared in accordance with an international standard. Regulators etc (R) and professional preparers (PP) disagree more strongly compared to other groups with the view that an international standard would be difficult to apply or nations would resist complying with an international standard, respectively.

Kruskal-Wallis (KW) testing is applied and this test gives an indication of whether the perceptions held by at least one stakeholder group are significantly different from other stakeholder groups. This is of interest when considering which stakeholder groups may be more able to contribute to the international standard setting process if an international standard is to be developed. For example,

individuals and organisations with specialist knowledge, experience and resources might be better placed than others to contribute and be involved in standard setting and therefore it there is more chance that the perceptions held by such groups will be reflected in any resulting standard (see Chapter 2 for a discussion of relevant literature relating to standard setting in a global context). The answers to Q8 show whether or not this is perceived to be an issue.

In respect of survey Q8, KW testing indicates that significant differences between stakeholder perceptions *do exist* in relation to the strength of opinion expressed about:

- whether it would be useful to have an international standard;
- whether the sector should apply converged standards;
- whether countries would be reluctant to follow them; and
- whether funders would value NPO accounts prepared using such a standard.

Further statistical analysis⁴⁰ of the data indicates that the strength of opinions expressed by NPO staff (E), professional preparers (PP) and general practitioners (GP), are not significantly different from each other. Thus these groups' views about international financial reporting for NPOs may reflect more similarity with one another than the opinions expressed by the other stakeholder groups.

Analysis of Q8 views by world region (data not shown) indicates the respondents involved with African NPOs (82%) agree more strongly that an international standard would be useful and that NPOs should comply (79%) with such converged standards, compared to respondents with European experience (64% and 62% respectively).

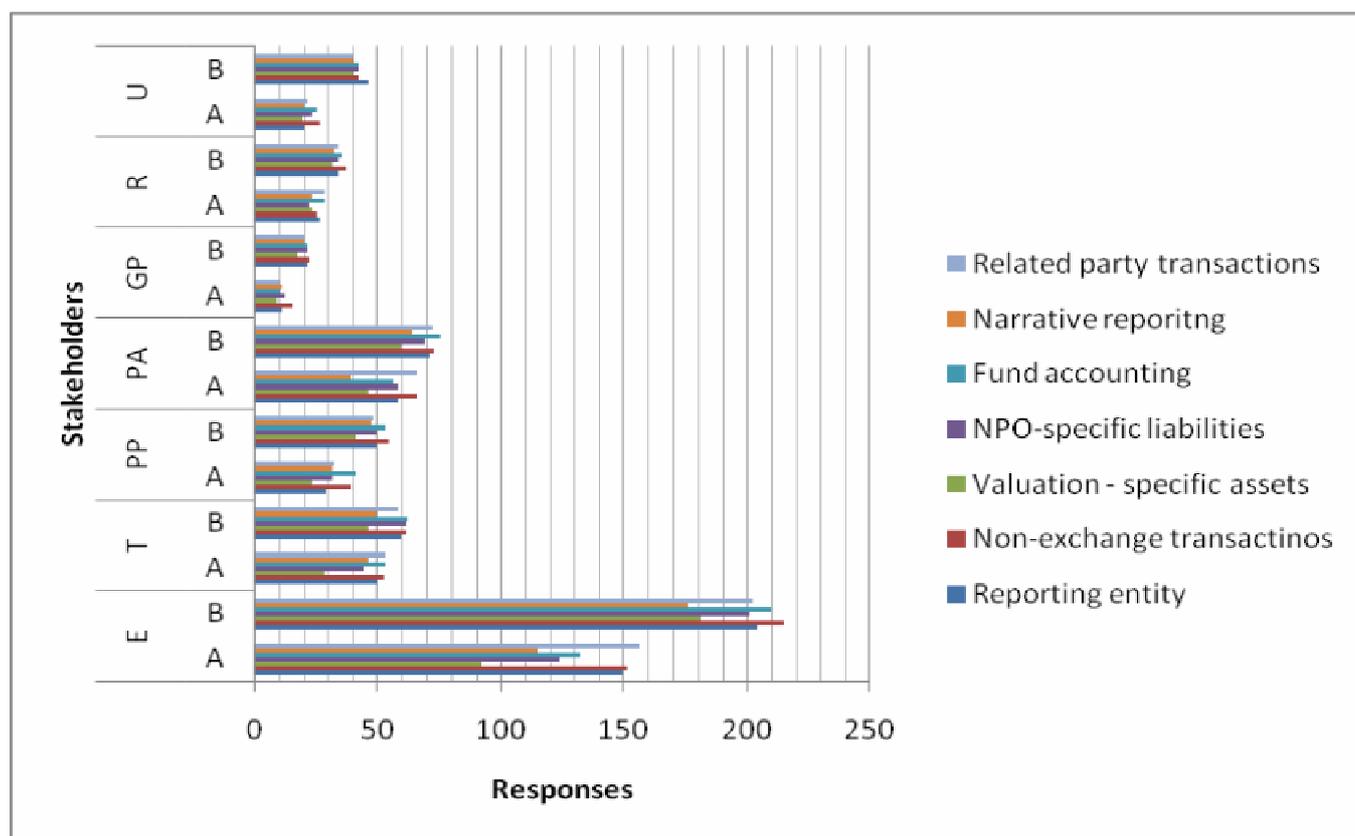
4.2.2 Stakeholder beliefs about specific NPO accounting issues

After expressing their views on developing international financial reporting standards for the not-for-profit sector, survey respondents were asked about sector specific accounting issues (Appendix B, Q9). Specifically, respondents were asked: (i) whether sector specific issues were adequately addressed in existing national financial reporting frameworks; and (ii) if the specific issue should be addressed in an international standard if such a standard were to be developed. Table 4.2 lists the seven NPO specific accounting issues, which comprised: defining the reporting entity; non-exchange transactions; asset valuation; NPO-specific liabilities; fund accounting; narrative reporting; and related party transactions.

Table 4.2 (Panel A) shows the number of survey respondents by stakeholder group, together with the relative percentage of this group, who believe that the accounting issues (listed in the table) are adequately dealt with within existing national NPO accounting frameworks. Panel B of this table presents data about whether stakeholders believe these accounting issues should be included in an international standard for NPO accounting. In all cases, a larger number of responses indicated that the issue should be dealt with in an international standard as compared to stakeholders who regarded the accounting issue as adequately dealt with in national financial reporting guidance. This pattern of responses is presented in Figure 4.1 where each stakeholder group response from Table 4.2-Panel A is plotted alongside the comparable data from Panel B.

⁴⁰ Further statistical analysis performed was Mann–Whitney testing to detect if significant differences of opinion occur between pairs of stakeholder groupings (data not shown).

Figure 4.2: Stakeholder perceptions of sector specific accounting issues



Note: This figure presents responses from the various stakeholder groups on the issue explored in Q9 of whether NPO specific accounting issues are adequately addressed in existing national financial reporting frameworks (A) compared to whether stakeholders believe the specific issue should be addressed in an international standard (B). Please refer to Table 3.1 for a list of stakeholder abbreviations.

Looking specifically at Table 4.2 (Panels A and B), the analysis shows that:

- fewer than 50% of respondents believe that the valuation of NPO specific assets, which are important to the NPO but which have little realisable value, is adequately dealt with in existing national reporting frameworks;
- similarly, fewer than 50% of respondents believe that narrative reporting is adequately covered in existing national frameworks; and
- between 52% and 62% of respondents believe that: the definition of the reporting entity; revenue recognition for non-exchange transactions; grant liability commitments; fund accounting; and related party transactions are adequately dealt with in national NPO reporting frameworks, indicating that a large minority of respondents do not believe these sector specific accounting issues are satisfactorily dealt with by existing national requirements.

When the perceptions of each stakeholder group are considered separately (Table 4.2, Panel A), it appears that the professional auditor/independent examiner (PA) group (range 55%-79%) is more inclined to report that sector specific issues are adequately dealt with within national reporting frameworks compared to other groups. In contrast, users (U) and general practitioners (GP) are less inclined to believe sector-specific issues are accounted for satisfactorily (range 38%-49% and 34%-52%, respectively). When asked if these issues should be addressed if an NPO international accounting standard is to be developed, between 69% and 83% (Panel B) of all respondents believed that they should; this perception is broadly reflected across all stakeholder groups.

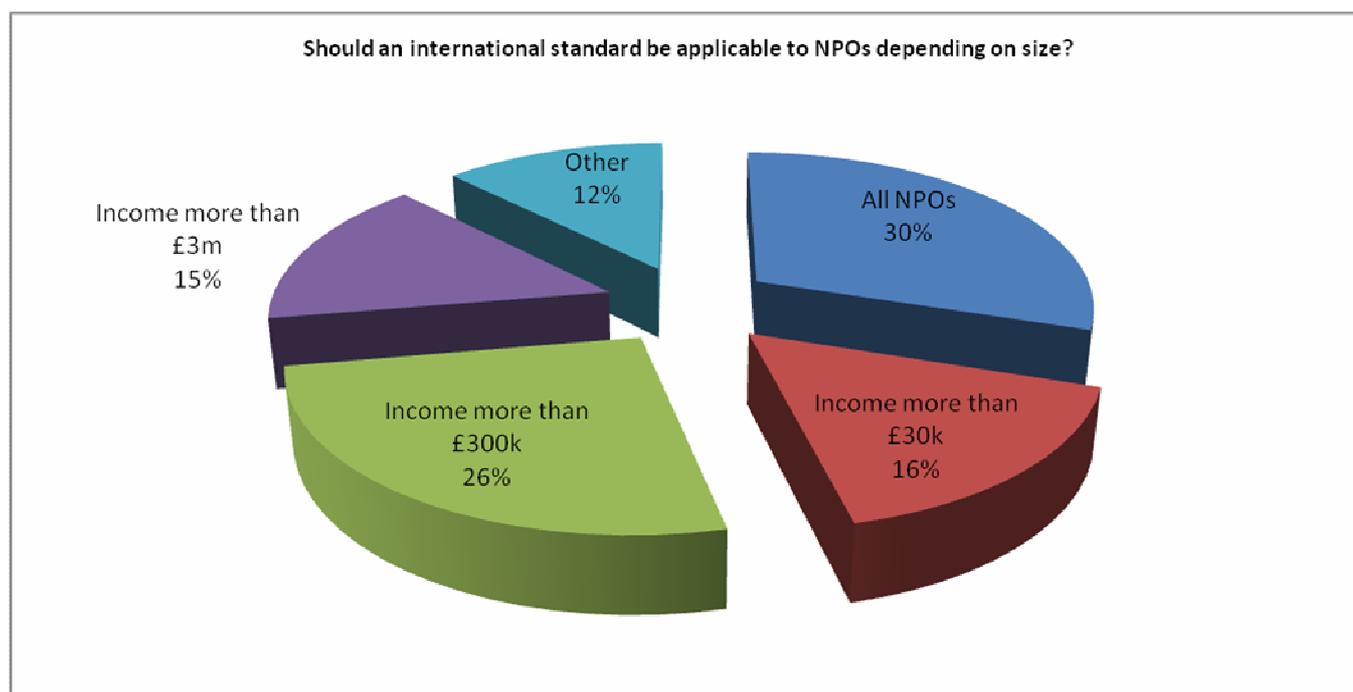
When stakeholder beliefs are attributed to different world regions (Table 4.3), it can be seen that fewer than 50% of survey responses from stakeholders who reported involvement in NPOs operating in African countries, were satisfied that all seven NPO accounting issues are adequately covered in financial reporting frameworks. Asset valuation was also perceived by respondents operating worldwide (24%) to be particularly poorly covered in any accounting guidance. In contrast to the responses relating to African jurisdictions, between 57% and 71% of survey responses from stakeholders involved with European NPOs report that six of the seven accounting issues are adequately covered, with only adequate accounting guidance in respect of asset valuation (43%) being less frequently encountered.

There is an interesting parallel between these perceptions by world region and the main types of accounting experienced by survey respondents involved in different countries. For example, reference back to Table 3.3 (Panel A, showing types of accounting by world region) shows that respondents involved in NPOs operating in Africa (50%) and Asia (50%) experience accruals accounting less often than those involved in Europe (79%) and Oceania (75%). It is also interesting to note that responses from stakeholders operating in African and Asian countries are generally less content that NPO accounting specific issues are adequately dealt with in existing national frameworks (see section 4.2.2). Perhaps this implicit lack of guidance for accruals accounting and NPO-specific accounting issues makes survey respondents involved with NPOs operating in African countries (and, to a lesser extent, Asian countries) more open to the notion of an international reporting standard for NPOs. Indeed, scrutiny of responses to Appendix B, Q8 (statement “an international standard would be useful”) received much more support from respondents with experience of African NPOs compared to the European context.

4.3 Perceptions about the scope of an international standard

Survey respondents were asked whether an international standard should be applied to all NPOs or only to those above a certain income level (Appendix B, Q10). In relation to this question of scope, 30% of respondents believe that all NPOs should be required to comply; however, views are fairly mixed across the stakeholder groups and no clear picture emerges regarding perceptions of the most appropriate scope by stakeholder group (Table 4.2, Panel C). Figure 4.3 shows the percentage of survey responses who believe an international standard should be applied to all NPOs (30%) or applied to NPOs depending on their size by income.

Figure 4.3: Stakeholder perceptions on the scope of an NPO international financial reporting standard



Note: This figure shows the percentage of respondents who believe an international standard should apply to all NPOs and those who believe it should only apply to those NPOs above a certain income size.

Interestingly, however, when responses to Q10 are related to world regions (Table 4.4), closer scrutiny of the data shows that respondents who are involved with financial reporting of NPOs in African countries gave considerable support for this proposition, with 53% of responses agreeing that all NPOs should fall into the scope of a sector-specific international standard. However, in all other regions, respondents tended to support the view that some level of income-size stratification should determine the scope of an international standard. For example, over 30% of stakeholders involved with NPOs in Europe and Oceania indicated that an international standard should be applicable to NPOs with an income over £300k (or €350k or \$500k).

4.4 Perceptions about NPO financial reporting: usefulness and influences

The final two closed questions in the survey (Appendix B, Q12 and Q14) sought views from stakeholders about the purpose and characteristics of NPO financial reports, and the main national influences governing NPO financial reporting. The findings from these two questions are discussed in the following subsections.

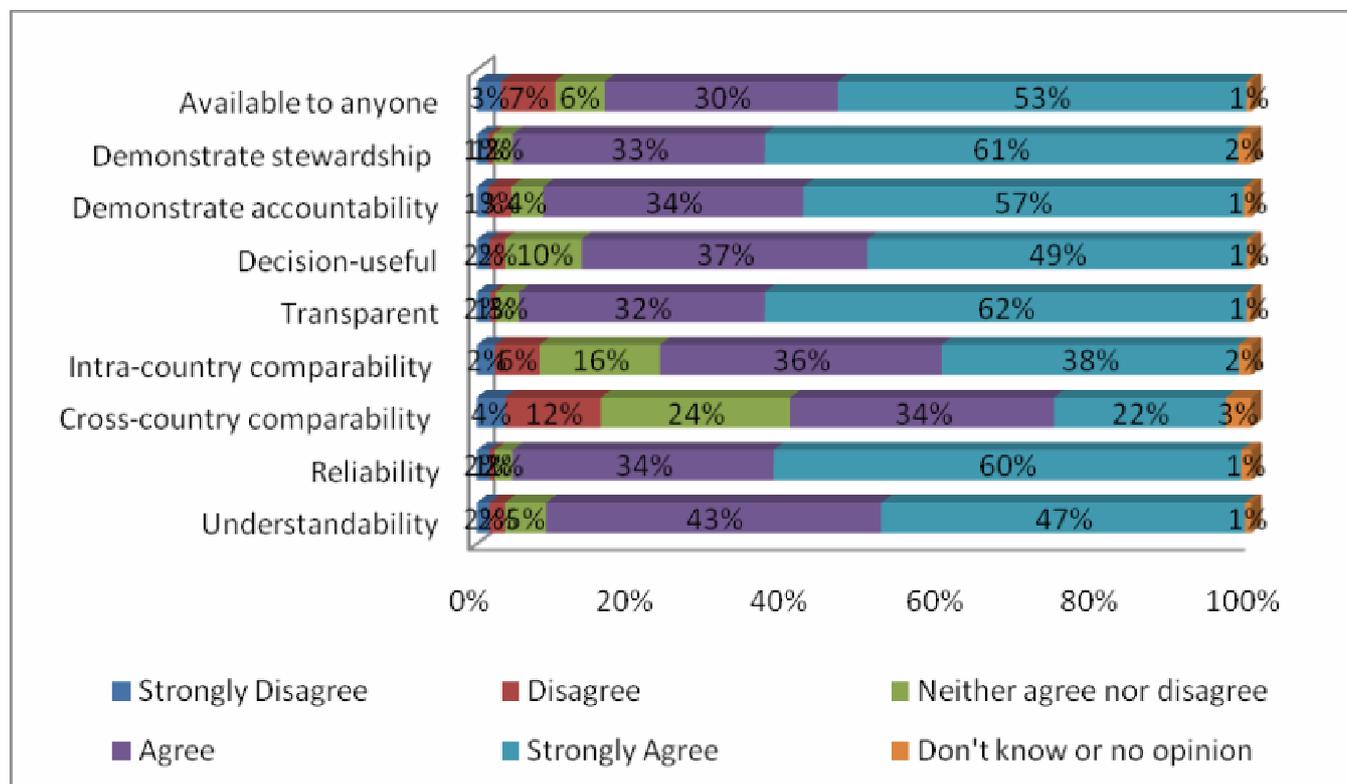
4.4.1 Stakeholder beliefs about the purpose and characteristics of NPO financial reports

In relation to the purpose and characteristics of NPO financial reports (Table 4.1, Panel B), survey participants were asked to relay their beliefs about the purpose and [some] characteristics of NPO financial reports (Appendix B, Q12). Specifically they were asked to express the extent to which they disagree or agree with statements on whether NPO financial reports should: be available to anyone; demonstrate stewardship of resources; demonstrate accountability; be decision-useful; be a key means of transparency; enable intra-country comparability; facilitate cross-country comparability; be reliable; and be clearly understandable.

An overview of the proportion of total responses received, from 'strongly disagree' to 'strongly agree' (including a separate category for 'I don't know or no opinion') is given in Figure 4.4. The figure shows that a majority of stakeholders strongly agree that the purpose of NPO financial reports is to

demonstrate stewardship (61%) and accountability (57%), and to a lesser extent (49%), be useful for decision making. In terms of characteristics, a majority strongly agreed that NPO financial reports should be transparent (62%), reliable (60%) and understandable (47%); the extent to which stakeholders show strong agreement with intra- and cross-country comparability (38% and 22%, respectively) is much less pronounced.

Figure 4.4: Stakeholder beliefs about the purpose and characteristics of NPO financial reporting



Note: for the full legend of the statements on which stakeholders were asked to express the extent to which they disagree or agree, please refer to Table 4.1 or Appendix B, Q12.

Stakeholder perceptions about purpose and characteristics are summarised in Table 4.1 (Panel B) by showing the mean value of survey responses by stakeholder group, where a mean value closer to 1 indicates strong disagreement and a mean value closer to 5 indicates strong agreement with the statement. This tabular presentation of Q12 data confirms the interpretation demonstrated in Figure 4.4, and shows that there is strong agreement with the statements across each individual stakeholder group, thus confirming that:

- NPO financial reports should be available to everyone (mean: 4.22);
- NPO financial reports are a key means by which NPOs demonstrate their accountability (mean: 4.41) and stewardship (mean: 4.51) of resources, and should be useful for decision making (mean: 4.29); and
- should be transparent (mean: 4.52), reliable (mean: 4.50) and understandable (mean: 4.32).

In addition, each stakeholder exhibited agreement with the notion that NPO financial reports should allow comparability, although the strength of agreement with this was not as strong as with other characteristics (intra- and inter country comparability mean value: 4.03 and 3.59, respectively).

Kruskal-Wallis testing (explained in section 4.2.1 above) indicates that the strength of feeling across all groups is not consistent in relation to perceptions about NPO financial reports being available to anyone (Table 4.1, Panel B). Further analysis (see footnote 40 on page 58 for the methods) shows that the NPO board member/trustee (T) group is more conservative in their views about the purpose and

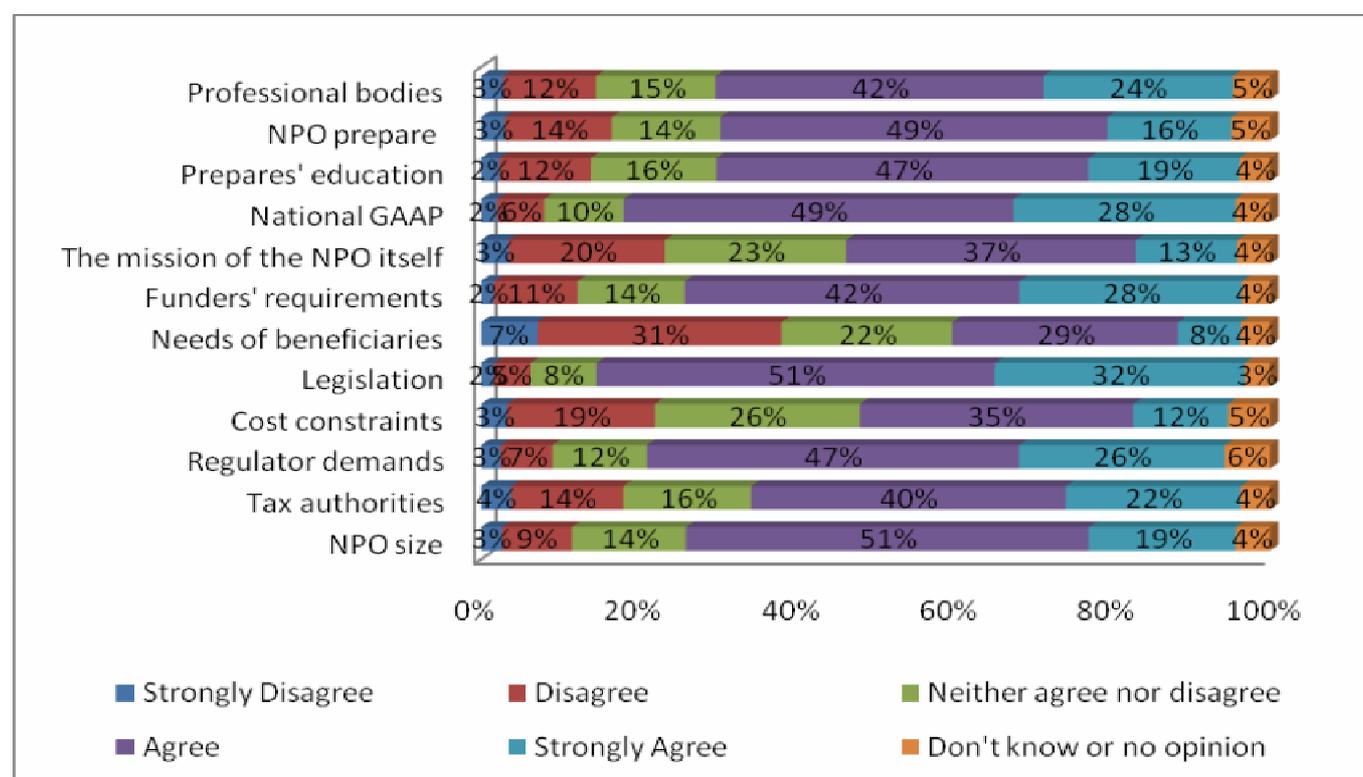
characteristics of NPO financial reports; specifically, trustees' perceptions indicate that this group are less enthusiastic about NPO financial reports being made available to anyone. Interestingly, this group also agree less with the view that NPO accounts should be: useful for decision making; allow intra-country comparability; and be clearly understandable to a wide range of audiences, compared to other stakeholder group perceptions.

4.4.1 Stakeholder beliefs about the influences governing national NPO financial reporting

The final closed question of the survey (Appendix B, Q14) asked respondents to report their view about the influences governing NPO financial reporting in their country (Table 4.1, Panel C). Specifically, stakeholders were asked to express the extent to which they disagree or agree with whether NPO financial reports are influenced by: professional bodies; preparers' views; preparers' education/qualifications; national GAAP; the NPO's mission; funder requirements; beneficiaries' needs; legislation; cost constraints; regulator demands; tax authority requirements; and NPO size.

An overview of the proportion of total responses received to each of these twelve influences, from strongly disagree to strongly agree (including a separate category for 'I don't know or no opinion') is given in Figure 4.5. It is perhaps more useful to study this figure by looking at the total percentage of agree plus strongly agree. From this, we can see that the strongest perceived influence governing national NPO accounting practice comes from legislation, as perceived by 83% of survey respondents. This is followed closely by the perceived influence of: national GAAP (77%); regulator demands (73%); funder requirements (70%) and NPO size (70%); professional bodies (66%) and preparer education (66%); the views of the preparer (65%) and tax authorities (62%). To a lesser extent, the NPO's mission (50%) and cost constraints (47%) are perceived as influential to NPO financial reporting. However, only 37% of stakeholders thought that the needs of beneficiaries influenced NPO reporting.

Figure 4.5: Stakeholder beliefs about the influences on NPO financial reporting



Note: for the full legend of the statements on which stakeholders were asked to express the extent to which they disagree or agree, please refer to Table 4.1 or Appendix B, Q14.

Table 4.1 (Panel C) summarises perceptions about the influences over national NPO accounting by showing the mean value of survey responses by stakeholder group (where a mean value closer to 1

indicates strong disagreement and a mean value closer to 5 indicates strong agreement with the statement). This tabular presentation of Q14 data confirms that all stakeholder groups perceive national legislation to be the most influential factor governing NPO financial reporting (mean score of 4.06). Further confirmation of the overall survey response perceptions expressed can be observed with all stakeholders believing the needs of beneficiaries do not constitute a significant influence over NPO financial reporting; this is particularly reflected in the views of NPO staff (E, mean value: 2.94) and users (U, mean value: 2.60).

This is interesting when compared to the beliefs reported in responses to Q12 that NPO financial reports should demonstrate accountability and stewardship of resources; it is difficult to argue that these reporting purposes will be achieved if beneficiaries and service users have limited influence over the content of NPO reports. It is also noteworthy that a majority of stakeholders believed that the mission of the NPO influences financial reporting, which may imply a narrow concept of accountability to oneself rather than to wider groups with an interest in NPOs (though a focus on mission can also be seen in terms of accountability to beneficiaries).

Kruskal-Wallis testing (explained above) indicates that stakeholder perceptions pertaining to the extent to which they believe that NPO reporting is influenced by national GAAP, funder requirements and tax authorities are not similar across all stakeholder groups. Specifically, NPO staff more strongly believe that national GAAP influences NPO accounting compared to other stakeholder groups' beliefs. Also, professional preparers (PP) and general practitioners (GP) perceive more strongly that the requirements of funders are more influential on NPO financial reports, compared to other stakeholder groups.

Overall therefore, stakeholders were broadly agreed that the main influences on national NPO financial reporting emerge from the coercive pressure of national legislation, national GAAP and regulator demands. These beliefs about influence reflect the respondents' experience of NPO financial reporting frameworks across the globe (see Chapter 3, Table 3.1-Panel D and Table 3.3). It is arguably safe to assume that national legislation, GAAP and regulator-requirements will have to be considered by any organisation setting out to develop international standards for national NPOs. Any such standard setting strategy will have to be cognisant of national regulatory frameworks already embedded in distinct jurisdictions to ensure that developed international NPO financial reporting standards can be complied with and enforced at the national level.

4.5 Conclusion

This chapter has discussed the responses from stakeholders to the closed questions in Sections 4 and 5 of the survey (Appendix B). These questions sought information about the beliefs held by those involved with NPO financial reporting across the globe in relation to: the development of international financial reporting standards for NPO accounting; NPO-specific accounting issues; the scope of NPO international standards; NPO financial reports' purpose and characteristics; and the national influences that shape NPO financial reports. Each section has discussed the overall survey response, followed by more detailed interpretation of the data according to individual stakeholder groups and/or world regions.

The survey evidence shows that a substantial majority of respondents (72%) expressed agreement that an international standard would be useful and 64% agreed that the not-for-profit sector should follow converged international standards. In addition, 69% of survey respondents thought funders would value NPO accounts prepared in accordance with an international standard. There was also a majority belief (64%) that individual nations would be able to influence the development of such a standard. The majority of survey respondents (53%) did not believe an international standard would be hard to apply at the national level, nor that there would be national reluctance to comply with an international standard (44%, against just 24% who saw this as a problem). Nevertheless, it must be stressed that the survey did not impose any specific interpretation of these terms, so respondents may have had varying perceptions of what was meant by an 'international standard' (this is discussed further in Section 6).

In relation to NPO-specific accounting issues experienced by survey respondents, fewer than 50% of respondents believed that two accounting issues: the valuation of NPO specific assets and narrative reporting, are adequately dealt with in existing national reporting frameworks for NPOs. Indeed, accounting for NPO-specific asset valuation appeared to be the issue attracting most dissatisfaction across all stakeholder groups and across all world regions.

A significant minority expressed the opinion that several NPO specific issues were inadequately covered in national frameworks. These respondents believed that: the definition of the reporting entity; revenue recognition for non-exchange transactions; grant liability commitments; fund accounting; related party transactions; and narrative reporting were not adequately dealt with. Interestingly, compared to other groups, responses from the professional auditor/independent examiner (PA) group reflected a more positive perception that sector specific issues are adequately dealt with at the national level. There were also differences in perception across stakeholders involved in NPO accounting in different world regions, with 'African' survey responses indicating less satisfaction that all seven NPO accounting issues investigated were adequately covered in existing financial reporting frameworks.

In relation to the issue of scope, 30% of respondents believed that all NPOs should be required to comply with international standard should these be developed. However, although views were fairly mixed across the stakeholder groups, the survey shows that those involved with financial reporting by NPOs in African countries demonstrated considerable support for the proposition that an international standard should be applied to all NPOs, regardless of size. This may reflect survey evidence showing that accruals accounting is less frequently encountered in African countries and accounting issues are perceived as poorly dealt with in existing frameworks. In contrast, the majority of stakeholders operating in all other world regions believed that some level of income-size stratification should determine the scope of an international standard to be applied only to larger NPOs.

The majority of stakeholders strongly agree that the purpose of NPO financial reports is to demonstrate stewardship and accountability, and to a lesser extent, decision-usefulness. In terms of characteristics, a stakeholder majority strongly agree that NPO financial reports should provide a key means of transparency, reflect a high degree of reliability and be clearly understandable to diverse users of NPO accounts. Comparability, as a desirable characteristic of NPO reports, receives less support from stakeholders, particularly comparability between NPOs in different countries. Finally, the majority of survey respondents believe NPO financial reports should be available to anyone, although the board member/trustee group of respondents were less inclined to agree strongly with this.

In considering the main national influences on NPO financial reporting, stakeholders broadly agreed that coercive pressure from national legislation, national GAAP and regulator demands are prevalent. There was no significant belief expressed that beneficiaries/service users influence NPO financial reports though some stakeholders believe the NPO's mission influences the content of NPO accounts. These diverse views about influences raise further questions about the nature of NPO accountability and stewardship perceptions expressed by stakeholders. These beliefs about influence reflect the stakeholder experience of NPO financial reporting frameworks across the globe in the light of the range of NPOs they encountered (as profiled in Chapter 3). Arguably, national legislation, GAAP and regulator-requirements will have to be considered by any organisation setting out to develop international standards for national NPOs. Any such standard setting strategy will have to be cognisant of national regulatory frameworks already embedded in distinct jurisdictions, and the process will have to be inclusive of diverse NPO stakeholders, to ensure that developed international NPO financial reporting standards can be complied with and enforced at the national level.

Table 4.1: Stakeholder perceptions about international financial reporting standards for NPO accounting

Stakeholder perceptions about international financial reporting standards for NPOs and NPO financial reporting	All		Group Mean							KW
	Mean	SD	E	T	PP	PA	GP	R	U	
Panel A: Perceptions about international financial reporting for the not-for-profit sector										
It would be useful to have international standards for NPO accounting	3.876*	1.194	4.02	3.60	3.97	3.67	3.83	3.93	3.81	.018
The not-for-profit sector should follow internationally converged financial reporting standards.	3.657*	1.172	3.80	3.49	3.86	3.42	3.38	3.93	3.30	.001
NPO accounting in my country is very specific - it would be very hard to apply international standards even if they were specific to NPOs	2.613*	1.064	2.60	2.68	2.60	2.69	2.45	2.36	2.77	.591
Even if an international standard for NPOs were produced by a reputable international body, NPOs in my country would be reluctant to follow them	2.757*	1.070	2.70	2.84	2.57	2.65	2.72	2.93	3.15	.032
Leading donors/funders of NPOs would value accounts prepared in accordance with an international standard for NPO accounting	3.844*	1.106	4.02	3.58	3.92	3.62	3.86	3.86	3.66	.010
My country would be able to influence the development of internationally converged financial reporting standards for NPOs.	3.723*	1.001	3.71	3.65	3.76	3.82	3.45	4.05	3.58	.174
Panel B: Perceptions about the purpose and use of NPO financial statements										
The financial reports of NPOs should be published and available to anyone	4.223*	1.054	4.35	3.90	4.11	4.24	4.38	4.20	4.15	.017
NPO financial reports should demonstrate appropriate stewardship of resources	4.509*	.745	4.57	4.41	4.46	4.48	4.38	4.59	4.49	.282
Producing financial reports is a key means by which NPOs demonstrate their accountability	4.413*	.839	4.42	4.24	4.43	4.54	4.21	4.55	4.42	.369
NPO financial reports should be useful for decision making	4.294*	.859	4.31	4.10	4.33	4.37	4.34	4.45	4.17	.097
NPO financial reports should provide a key means of transparency	4.517*	.762	4.53	4.36	4.52	4.58	4.62	4.59	4.45	.184
It is important that financial reports allow comparability between NPOs in a given country	4.026*	.998	4.06	3.81	4.03	4.04	4.03	4.16	4.06	.538
Financial reports should allow comparability between NPOs in different countries	3.586*	1.074	3.69	3.30	3.51	3.52	3.66	3.64	3.62	.289
Users should be able to place a high degree of reliability on the financial reports of NPOs	4.504*	.749	4.56	4.48	4.41	4.52	4.34	4.45	4.49	.472
NPO financial reports should be clearly understandable by someone who has no direct knowledge of the organisation	4.319*	.811	4.38	4.25	4.27	4.36	4.28	4.23	4.25	.537
Panel C: Perceptions of the influences on NPO financial reporting										
Requirements of professional bodies	3.722*	1.044	3.75	3.95	3.66	3.75	3.62	3.47	3.53	.303
The views of those who prepare NPO financial statements	3.609*	1.003	3.64	3.37	3.71	3.54	3.55	3.91	3.58	.170
The education or qualifications of those who prepare NPO financial statements	3.691*	.985	3.66	3.55	3.90	3.55	3.82	3.76	3.88	.184
National financial reporting standards	3.956*	.920	4.02	4.18	3.90	3.78	3.63	3.95	3.81	.049
The mission of the NPO itself	3.356*	1.045	3.41	3.32	3.44	3.24	3.41	3.26	3.29	.886
The requirements of funders	3.84*	1.003	3.80	3.73	4.11	3.93	4.14	3.98	3.54	.020
The needs of beneficiaries/service users	2.993	1.097	2.94	3.06	3.10	3.19	3.14	3.02	2.60	.071
Legislation	4.058*	.875	4.02	4.26	4.06	4.12	4.07	3.84	4.00	.356
Cost constraints	3.333*	1.018	3.29	3.41	3.33	3.20	3.72	3.40	3.34	.315
The demands of the regulator of NPOs	3.877*	.955	3.84	4.13	3.84	3.96	3.76	3.91	3.65	.055
The requirements of tax authorities	3.624*	1.093	3.72	3.80	3.69	3.23	3.75	3.35	3.60	.007
The size of the NPO	3.740*	.951	3.74	3.89	3.47	3.83	3.52	3.98	3.65	.125

Note: This table shows the extent to which stakeholders disagree or agree with statements about international financial reporting for the not-for-profit sector. Means are calculated in respect of responses, where 1 = strongly disagree and 5 = strongly agree. The mid-point of 3 combines 'neither agree nor disagree' responses with 'don't know or no opinion' responses (see Appendix B, Q8, Q12 and Q14). Standard deviation (SD) is shown for the total of responses to each statement. Highlighted p-values show a Kruskal-Wallis (KW) result of less than 0.05 thus rejecting the null hypothesis that the mean is equal to 3. This indicates that the perception of at least one of the stakeholder groups is significantly different from other stakeholder groups. For stakeholder groups, see Table 3.1. **Panel A** shows the stakeholder responses to statements about international financial reporting for NPOs. **Panel B** shows stakeholder responses in respect of the purpose and characteristics of NPO financial statements. **Panel C** shows stakeholder perceptions of influences governing NPO financial reporting.

Table 4.2: Stakeholder perceptions of sector specific accounting issues

Sector Specific Accounting Issues	E		T		PP		PA		GP		R		U		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Panel A: Is the issue adequately covered in national reporting frameworks?																
Reporting entity	149	59%	50	63%	29	46%	58	69%	11	38%	26	59%	20	38%	343	57%
Non-exchange transactions	151	60%	52	65%	39	62%	66	79%	15	52%	25	57%	26	49%	374	62%
Valuation - specific assets	92	37%	28	35%	23	37%	46	55%	9	31%	23	52%	19	36%	240	40%
NPO-specific liabilities	124	49%	44	55%	31	49%	58	69%	12	41%	22	50%	23	43%	314	52%
Fund accounting	132	52%	53	66%	41	65%	56	67%	10	34%	28	64%	25	47%	345	57%
Narrative reporting	115	46%	46	58%	31	49%	39	46%	11	38%	23	52%	20	38%	285	47%
Related party transactions	156	62%	53	66%	32	51%	66	79%	10	34%	28	64%	21	40%	366	60%
Total in stakeholder group	252	100%	80	100%	63	100%	84	100%	29	100%	44	100%	53	100%	605	100%
Panel B: Should the issue be addressed in an international standard?																
Reporting entity	204	81%	59	74%	49	78%	71	85%	21	72%	34	77%	46	87%	484	80%
Non-exchange transactions	215	85%	61	76%	54	86%	73	87%	22	76%	37	84%	42	79%	504	83%
Valuation - specific assets	181	72%	46	58%	41	65%	59	70%	17	59%	31	70%	40	75%	415	69%
NPO-specific liabilities	201	80%	61	76%	49	78%	69	82%	21	72%	34	77%	42	79%	477	79%
Fund accounting	210	83%	62	78%	53	84%	75	89%	21	72%	35	80%	42	79%	498	82%
Narrative reporting	176	70%	49	61%	47	75%	64	76%	20	69%	32	73%	40	75%	428	71%
Related party transactions	202	80%	58	73%	48	76%	72	86%	20	69%	34	77%	40	75%	474	78%
Total in stakeholder group	252	100%	80	100%	63	100%	84	100%	29	100%	44	100%	53	100%	605	100%
Panel C: Should an international standard be applicable to NPOs depending on size?																
All NPOs	87	35%	8	10%	26	41%	20	24%	12	41%	9	20%	17	32%	179	30%
Income more than £30k	40	16%	16	20%	10	16%	9	11%	4	14%	8	18%	10	19%	97	16%
Income more than £300k	67	27%	27	34%	12	19%	25	30%	7	24%	5	11%	12	23%	155	26%
Income more than £3m	31	12%	20	25%	9	14%	16	19%	1	3%	8	18%	6	11%	91	15%
Other	25	10%	9	11%	5	8%	14	17%	5	17%	11	25%	5	9%	74	12%
Total in stakeholder group	250	99%	80	100%	62	98%	84	100%	29	100%	41	93%	50	94%	596	99%

Note: **Panel A** and **Panel B** of this table shows stakeholder responses relating to specific accounting issues encountered in NPO accounting (Appendix B, Q9).

Panel C shows stakeholder responses regarding the scope of an international standard should it be developed (Appendix B, Q10).

Percentages are calculated to show the proportion of respondents by stakeholder group who said 'yes' to Q9 (each statement in Q9 was presented in columns A and B, corresponding to Panels A and B in the table).

For Panel C, percentages show the proportion of respondents by stakeholder group choosing different NPO size categories; Q10 was not compulsory and therefore responses are slightly less than the whole population of 605 responses received.

See Table 3.1 for details of the stakeholder groups.

Table 4.3: Perceptions about NPO specific accounting issues by world region

Sector Specific Accounting Issues	Africa		Americas		Asia		Europe		Oceania		World		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Panel A: Is the issue adequately covered in national reporting frameworks?														
Reporting entity	66	40%	47	61%	56	50%	174	65%	53	60%	20	54%	416	56%
Non-exchange transactions'	79	48%	49	64%	59	53%	188	70%	51	58%	20	54%	446	60%
Valuation - specific assets	47	28%	28	36%	42	38%	116	43%	34	39%	9	24%	276	37%
NPO-specific liabilities	62	38%	37	48%	45	41%	155	58%	46	52%	18	49%	363	49%
Fund accounting	65	39%	51	66%	62	56%	180	67%	38	43%	24	65%	420	56%
Narrative reporting	63	38%	30	39%	45	41%	153	57%	31	35%	21	57%	343	46%
Related party transactions	75	45%	51	66%	48	43%	191	71%	56	64%	24	65%	445	60%
Total world region responses	165	100%	77	100%	111	100%	268	100%	88	100%	37	100%	746	100%
Panel B: Should the issue be addressed in an international standard?														
Reporting entity	140	85%	61	79%	94	85%	204	76%	68	77%	35	95%	602	81%
Non-exchange transactions	146	88%	67	87%	98	88%	215	80%	73	83%	34	92%	633	85%
Valuation – specific assets	128	78%	52	68%	79	71%	172	64%	65	74%	29	78%	525	70%
NPO-specific liabilities	143	87%	62	81%	89	80%	206	77%	72	82%	30	81%	602	81%
Fund accounting	149	90%	64	83%	95	86%	213	79%	71	81%	33	89%	625	84%
Narrative reporting	133	81%	53	69%	81	73%	184	69%	59	67%	24	65%	534	72%
Related party transactions	149	90%	63	82%	85	77%	206	77%	64	73%	29	78%	596	80%
Total world region responses	165	100%	77	100%	111	100%	268	100%	88	100%	37	100%	746	100%

Note: **Panel A** and **Panel B** of this table shows survey responses relating to specific accounting issues encountered in NPO accounting (Appendix B, Q9 columns A and B respectively), analysed by world region.

Percentages are calculated to show the proportion of responses by geographic area where a 'yes' response to Q9-A (Panel A) or Q9-B (Panel B) is received.

Table 4.4: Perceptions about the scope of an international financial reporting standard for different sizes of NPOs by world region

	All NPOs		Income of more than 50,000 USD / 35,000 EUR / 30,000 GBP		Income more than 500,000 USD / 350,000 EUR / 300,000 GBP		Income more than 5M USD / 3.5M EUR / 3M GBP		Other		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
Africa	86	53%	30	19%	29	18%	6	4%	11	7%	162	100%
Americas	17	22%	19	25%	20	26%	8	11%	12	16%	76	100%
Asia	35	33%	23	21%	27	25%	12	11%	10	9%	107	100%
Europe	51	19%	41	16%	80	30%	59	22%	32	12%	263	100%
Oceania	17	20%	9	10%	30	35%	16	19%	14	16%	86	100%
World	12	32%	4	11%	8	22%	7	19%	6	16%	37	100%
Total	218	30%	126	17%	194	27%	108	15%	85	12%	731	100%

Note: This table shows responses regarding the scope of an international standard in relation to the size of an NPO by world region (Appendix B, Q10). Also note, Q10 was not compulsory, which explains the fewer total responses of 731 compared to 746 received by world region in response to Q5, which was a compulsory question.

Percentages show the proportion of responses received by geographic area for each NPO size band, divided by the total number of responses received for that area.

5. Specific Comments by Survey Respondents

5.1 Introduction

In addition to the survey questions where respondents made discrete selections (as discussed in chapters 3 and 4) a number of questions invited narrative responses. These allowed respondents to give *reasons* for their views, or to raise issues beyond the specific options offered.

See Appendix B for the full list of questions. Seven questions gave opportunities for respondents to provide narrative comments – Q7, Q11, Q13, Q15, Q16, Q17, Q18.

This chapter discusses the views and opinions raised in these narrative answers.

Of the 605 useable responses to the survey, approximately 500 respondents gave further comments on each of the main narrative questions, and approximately 200 on the final questions asking if they had any further points to add.

In total, these narratives responses amounted to around 63,000 words of comments. The majority of responses were presented as a single sentence, but some longer answers were offered, running occasionally to several paragraphs on one question. In a number of cases just a single word answer was given – these are largely discounted as it is difficult to discern any rational argument. Apart from one brief comment in Spanish, all narrative responses were in English (the language of the survey).

The discussion below is based on a thematic content analysis of issues raised on each question. Where diverse views were expressed on an issue, we seek to offer responses from both sides (or all sides) on a point of debate. On occasions, the analysis provides an indication of whether an issue was mentioned frequently or rarely, but it is important to note that this was not a systematically sampled survey, and the extent to which specific issues were mentioned is not necessarily an indication of their significance.

We include a range of direct quotations from individual responses to illustrate views expressed, but with respondents identified only by role and main country or countries of involvement as indicated by the initial questions (see chapter 3 for the overall profile of respondents). Minor corrections to spelling and grammar have been made to give consistency – though where whole words have been added or amended they are shown in square brackets.

5.2 Strengths and weaknesses of existing financial reporting frameworks

Question 6 of the survey (see Appendix B) asked respondents to select the financial reporting framework(s) which currently apply to the NPO accounts they use or prepare, and question 7 asked: **What do you see as the strengths or limitations of preparing financial reports on this basis?**

Initially we discuss general themes raised, followed by comments on particular regimes and countries.

5.2.1 General themes raised

Several participants questioned the need for any kind of reporting frameworks for NPOs on the grounds that NPOs are based on charitable objectives and do not add economic value. Some suggested that the whole framework of accruals accounting is irrelevant to NPO reporting:

Accounting frameworks are established for for-profit organizations and when applied to non-profit organizations do not reflect the real activities, budget accountability and other important issues of NPOs. (NPO board member, Argentina)

The frameworks are all still based on economic value being the key driver for the existence of the entity, which is not the case of NFPs. They are established for social benefit, not financial and the frameworks are not designed for this. (NPO staff member, UK)

Given the predominant cash basis of accounting, accrual basis becomes rather cumbersome. IFRS tend to be profit oriented which is not the case with a majority of NGOs this introduces reporting conflicts - for example: the traditional income statements focus on profit while NGOs focus on budget led utilization of donor funds. (Accountant working in Kenya and Sudan)

It was suggested that such requirements actually lead to a *lack of understanding* especially for the users and even preparers of NPO financial reports:

The existing frameworks, which are aimed at increasing transparency for users, actually only provide transparency for accountants trained and specialising in the sector. Otherwise they are completely opaque, even to other, qualified but non-specialist accountants. There are too many levels of analysis that merely bewilder most users. (NPO staff member, South Africa)

This problem is felt to be particularly acute in international NPOs who have field offices:

Local NPOs that I supervise have difficulties in understanding the different rules, laws and requirements that they have to follow. Some local partners have many donors with different requirements which makes it difficult for accountants to know what rules applies for each donor. (Accountant working in five African countries)

However, others saw both sides of the argument:

By using cash basis and then accruing outstanding liabilities and receivables, we capture relevant information to a particular year and grant and makes accounts complete in that sense. However, this can lead to confusion by someone from another sector especially tax liabilities as the point of taxation comes into question. ... Generally NGOs with different projects in a region are somewhat confused as which standards to adhere to and hence the reason that individual projects in individual countries file their own returns. (NPO staff member in Kenya and Sudan)

Strengths - The standard guidelines are sometimes available and accessible. Also the donor is clear on their requirements which helps keep to a standard that can be applied elsewhere. Limitations - The standard guidelines are not popularised, easily accessible, regulated and enforced efficiently ... (NPO staff member working in Zambia and Europe)

Consequently many respondents mentioned a capacity problem in the NPO sector, arguing that small to medium sized NPOs are struggling and overburdened:

NGOs struggle to afford the accountants and auditors needed to run the financial system that would ensure their good governance and accountability, and donors will not contribute to these costs. This makes it difficult to maintain a high standard. (NPO staff member, South Africa)

Strengths [of a demanding framework] - consistency with private company reporting standards so statements are generally understood. Framework has good guidance. Weaknesses - some disclosure requirements too complex/onerous and add little value to the reader, especially for smaller organizations. (NPO staff member, Canada)

We feel that attempting to understand the complicated structures is difficult. As a small, inexperienced team with a limited training budget, we spend an enormous amount of time trying to figure out what to report etc. (NPO staff member, South Africa)

A lot of ritual is occurring, which places much knowledge/power in the hands of the high priests i.e. accountants, others in position of formal authority over the "beneficiaries". (Academic/researcher, Kiribati)

Hence, international comparability, consistency and consolidation become problematic:

Having worked in a number of jurisdictions, the key issue for me is the lack of consistency across national borders, often in key areas of the financial reports (eg income recognition, treatment of different types of charitable funds). (NPO board member, UK)

This prompted a few respondents to comment on standardisation of reporting, before the survey raised this explicitly:

As NPOs expand their global reach, standardization of best practices across countries is paramount. (NPO staff member working in North America and Europe)

5.2.2 Impact of donor and funder requirements

Many contributors reported that multiple donor / funder reporting requirements and financial statement reporting was creating a heavy burden, which was resulting in conflict especially regarding the treatment of fixed assets. Whilst fixed assets are capitalised according to the accruals convention, many donor regulations stipulate that they should be expensed and, some felt even IFRS and IPSAS guidance was not clear:

Often we tend to concentrate more on the requirements of the funder or donor. (NPO staff member, US and Europe)

For NPOs receiving funds from many funders, it is a burden for the accountant of the NPOs who need to prepare so many financial reports with different reporting format required by each different funder. (Accountant, Malaysia)

The [framework set by a funder] only works in favour of the funder of NPOs since it becomes easier for them to consolidate with their system. However, the framework places some limitations on preparing financial reports for the local NPO since it poses a challenge when consolidating their accounts. It's difficult to link the different templates. For example in our case, we are funded by 8 different funders each with his requirements or templates. At the end of every year you have to do the job twice when consolidating all the projects in preparations for the annual external audits. (Accountant working in Zimbabwe, US and Europe)

I work as director of finance and operations for a local NGO that was found in 2010. One of the observations the auditors have repeatedly had in previous audits of our financial statements is the issue of "Capitalization of Fixed Assets", for which we have found no solution. Most of our fixed assets ... have been given to us by our donor and the rest have been purchased by us out of the donor's funds. But they have not been donated to us forever and we are required to transfer them back to the donor after the project ends. According to the auditors, since we use these assets they have to be somehow reflected in our balance sheet. In our budget under our contract with the donor, these assets appear as project expenditure and we therefore need to record any such asset that we purchase as an expense and include it in our expenditure report to the donor at the end of reporting period (end of the month). ... Furthermore, recording a depreciation expense after a year or so and charging it to donor's invoice will not be accepted by the donor. (Accountant, Afghanistan)

I think the 2005 SORP guidance/requirements for UK charities is generally very clear and helpful. However, I would welcome the development of international accounting guidelines for NGOs, if that were possible. The specific issue which causes me a little difficulty in discussion with "my" UK charity's partner NGO in Uganda is the issue of accounting for disposal of fixed assets (for NGOs recording capital expenditure as an immediate expense from revenue funds, nevertheless recording fixed assets by creating a capital fund and charging depreciation subsequently to the capital fund). (NPO board member, UK)

The accounting of assets (stocks, fixed assets) in field projects needs clearer standards. Neither IFRS nor IPSAS or national legislation take into account the variety of situations and complexity we face (and accounting of assets is very dependent on specific MoUs with counterparts, etc. (NPO staff member, Spain and Argentina)

5.2.3 The role and impact of IFRS

The role of IFRS (and specific national implementations such as FRS102 in the UK and Ireland) was appreciated on the grounds that it would lead to international comparability and standardisation – although the strongest support came from standard setters:

*Benefits of adopting transaction-neutral/sector-neutral accounting standards based on IFRS for general purpose financial reporting include: * assists comparability across entities * enables transfer of accounting skills across private and public sectors * adds rigour to the standard-setter's deliberations. (Standard setter, Australia)*

FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, was issued in March 2013, with an effective date of 1 January 2015. This standard can be applied by UK and Irish entities that are not required to apply EU-adopted IFRS. Therefore it will be applied by public benefit entities (PBEs) as well as profit-oriented entities. It includes PBE specific paragraphs to address the accounting for transactions and other circumstances relevant to PBEs. (Standard setter, UK)

But others were more critical, mentioning problems of complexity, implementation, relevance and the overall capacity of NPOs (in terms of skills and expertise):

The financial statements of an NPO produced under IFRS are not particularly useful for the users. NPO users' demands are very different from "normal" users of financial statements which is all that IFRS considers. No guidance on NPO specific issues. Extremely demanding. Difficult for a NPO to apply because the scenarios they face on a day to day basis are often just not envisaged by IFRS. The proposed new IFRS leasing standard would be an example. It is technically complex and means you need accountants in field offices to account for leases properly. The reality of the staff you have available is that they will be little more than cashiers. (NPO staff member working worldwide)

[Funder requirements mean we are] generally expected to follow IFRS which just does not suit. We don't have any way of recording bequests but as huge flows of funds even when restricted. The US not-for-profit approach is much better. (NPO board member, Australia)

Strengths with IFRS ... financial statements achieve global standard. Weaknesses ... often times NPOs do not recruit professional accountants and so this leads to misinterpretation of IFRS. (NPO board member, five countries in Africa)

The standards often does not address the particular issues of non profit organisations - for example the treatment and reporting of restricted funds (income and balance of unspent funds). The minimum disclosure requirements sometime means that important information for user of financial reports are not reported, for example more information on sources of funding, and nature and purpose of expenditure. There is insufficient guidance on the application and interpretation of general principles of IFRS - ie the definition of liability as applied to unspent restricted funds, the definition of revenue etc. Certain aspects seem unduly demanding particularly where they seem to be irrelevant - accounting for leases, deferred taxation, etc. (Accountant, South Africa)

5.2.4 The role and impact of IPSAS

Respondents were generally less critical of IPSAS. Various respondents considered IPSAS to be superior to IFRS standards on the grounds that they were designed specifically for non-profit entities. However, they still felt IPSAS lacked some guidance:

Specific accounting standard that apply are mostly build on IASs and refer to IFRS but are not fit to express social value - more connection to the concepts of IPSAS would be helpful. (NPO staff member working in a wide range of developing countries)

IPSAS standards are aimed at ensuring resource providers and service recipients are provided information on performance, solvency, liquidity, operating and financial capacity and adaptability for accountability and decision making purposes (refer IPSAS Conceptual Framework). IFRS are aimed at ensuring capital providers are provided information to assist them in assessing prospects for future cash flows for decision-making purposes (refer IFRS Conceptual Framework). Clearly IPSAS are a more relevant base for not-for-profits. The standard setter can update IPSAS, and in NZ's case does by making modifications specific to NPOs, including differential reporting, down to simple format reporting for small NPOs. (Standard setter, New Zealand).

5.2.5 Country-specific issues – North America

A number of respondents focussed on country-specific GAAP or other regulatory requirements in specific countries. These comments are grouped on a regional basis beginning with North America.

Several respondents were positive about the Canadian framework, albeit with some concerns highlighted:

In Canada the standards are purpose made for NPOs and generally are reasonable; [one] could argue that main problem is that smaller NPOs (churches etc) cannot afford professional review so this is partly an accounting and partly an assurance issue. Most get 2 members to review so there is a significant small charity segment that is largely outside of the standards. (NPO staff member, Canada)

The actual framework is in use since 1997 with an update in 2009. The NPO are used to work with this framework. There is an SOP (statement of principles) circulating presently to change the framework for NPOs because Canada is now using a balance sheet conceptual framework for companies and wants to apply it to NPOs... The NPOs don't agree with this change because they all say that the income statement approach is more relevant for their kind of organization. (Academic/researcher, Canada)

In the USA, as discussed in chapter 2, the principal form of public financial reporting by NPO is the IRS form 990, a publicly available document. However, several respondents felt this was open to abuse:

A problem with the IRS Form 990 is that there is no compulsion to be honest and accurate. Many organizations understate expenses. As well, Form 990s are not submitted with consolidated information for many organizations that have a lot of affiliates, making the study of the largest organizations much more difficult. (Academic/researcher, USA)

In the USA, the differences between GAAP and the instructions for the Form 990 cause both confusion among reviewers and mistakes by reporting organizations. The statement of functional expenses on the Form 990 does not adequately recognize the existence of many organizations where the distinction between "G&A" [general and administrative] and "Program" is difficult to discern. The imposition of further (and different) accounting standards by some state governments in the US causes further confusion, leads to errors (and prevarication), and is expensive for compliant organizations. It is not clear that the additional or different information is actually used for any administrative purpose. (User of NPO financial reports, USA).

5.2.6 Country-specific issues – UK and Ireland

Various respondents (mainly, but not solely from the UK) mentioned the UK Charities SORP (see chapter 2). Many felt that it was a robust reporting framework that gave clear guidance, ensured consistency, transparency, accountability and had become an international benchmark:

SORP 2005 gives very clear guidance on treatment of income from charitable activities/ generated funds and allocation of costs of charitable activities between restricted / unrestricted

and designated funds. Advice on structure of Council Members' Report is also helpful. (NPO board member, UK)

The UK SORP for charities is well established now and provides a consistent basis to prepare NPO accounts. (Accountant, UK)

I work for a Dutch Stichting [charity] that has its headquarters in the UK. We prepare our accounts under UK GAAP. There is no requirement for us to prepare accounts in the Netherlands. My organisation is an international secretariat and we receive accounts from member organisations. The disparity in formats can make them difficult to compare. Things I particularly like about the UK framework is the distinction between restricted/designated and undesignated funds and the link this enables us to make with our reserves and reserves policies. I miss this when reviewing the accounts of membership organisations prepared under other bases. (NPO staff member, US and UK)

It is possible to compare accounts between one organisation and another. You can tell whether they are a going concern. You can tell whether their income is restricted to particular purposes or not. Some complain that there is too much regulation but given that they have public funds, they need to report on them. (Accountant, UK)

Compliance with Charities SORP enables regulators to review accounts for specific issues such as trustees' remuneration (which may be disguised profit distribution) or low levels of charitable expenditure v management costs. (Accountant, UK)

On the other hand, some contributors thought that the preparation of financial reports under the Charities SORP was an administrative burden on small and medium sized NPOs and questioned whether trustees fully understood SORP:

The financial statements are unnecessarily detailed, taking excessive resources and cost to produce, when no-one reads them. (NPO board member, UK)

Detail provided in the SORP is excellent, but I remain unconvinced that the readers of the accounts (usually funders) are interested in the restricted/unrestricted distinction required in the SOFA. I feel that a general purpose income/expenditure statement would be of more use than the formal SOFA, for the size of charities with which I deal. (Accountant, UK)

The UK SORP (the Charity interpretation of GAAP) is generally very well written and relevant to preparing Charity accounts. There is also frequent consultation with the sector to improve and develop the SORP. It however produces a result which is difficult to understand without specialist knowledge, or a good interpretation in the narrative report. And although most charities prepare simple summaries which are aimed at public understanding this is not compulsory or consistent. (NPO staff member, UK)

Certain technical issues were raised which were seen as criticisms of the SORP such as income recognition and cost classification:

...There are limitations, particularly on the understanding of what otherwise might be regarded as 'core costs' when they are funded by restricted income; in other words, it is not always fully transparent the extent to which core costs are covered by restricted income and hence in understanding what total funding is required to cover core costs in any particular accounting period. (NPO staff member, UK and Malawi)

Charity SORP requires all funds received in the year to be accounted for in that year – even if the funds are to cover expenditure over a number of years. This can distort the picture. Whilst I welcome the reporting of spending on the charitable outcomes/operational areas, this can disguise the specific cost categories. This can make accounts more difficult to read and analyse for those more used to accounts for commercial companies. (NPO board member, UK)

The guidance surrounding the SORP PL classifications I find lacking. It's difficult to differentiate between the classifications, particularly the difference between Income generating activities and fundraising activities and which of these classifications is absolutely necessary. (NPO staff member, UK)

There were some comments on the specific role of the SORP in Ireland (and in Northern Ireland which is part of the UK):

There is a lack of consistency in accounts preparation in Irish NPOs. Some comply partially with SORP UK but only with those parts that they like and ignore the more open and transparent parts eg Remuneration disclosures. (Accountant, Ireland)

SORP is not mandatory in the Republic of Ireland, therefore it is not used by all. This makes it difficult to benchmark one NGO against another. (NPO staff member, Ireland).

The UK Charities SORP provides comprehensive and clear guidance. However it is not mandatory throughout the UK, in particular for some exempt charities and for charities in Northern Ireland. Outside of charities there is no not-for-profit guidance, so various other forms of NFP organisation apply a variety of reporting styles of varying quality. (Professional body representative, UK)

One respondent raised a specific perspective from Scotland:

The format required under the Charities and Trustee Investment (Scotland) Act 2005 is a rough one style fits all approach which, while it may satisfy the regulators (ie it makes it easier for them), it does not make the resultant accounts user friendly to its lay readers – eg we produce one set of accounts to satisfy OSCR [the Scottish charity regulator] and another to advise our Church members. (NPO board member, UK).

5.2.7 Country-specific issues – Europe (excluding UK and Ireland)

A number of respondents from the rest of Europe raised critiques of local NPO accounting requirements. For example, it was suggested that in Belgium, NPO-specific GAAP is underdeveloped:

Limitations: the Belgium GAAP set for NGOs are quite general and based on the for-profit format. Therefore, the standard financial reports of NGOs present general financial information (income per type, expenses per type, balance sheet items) but are really limited in term of indicators or information relevant to NGOs (for example: there is no information about fundraising expenses, how money is spent on programmes, who are the donors backing [the organisation], etc) (NPO staff member, Belgium)

Regarding the requirements in France, one person commented:

Main strengths [of French GAAP]: Specific accounting rules describe the accounting treatment of specific operations met in the not for profit sector such as donations, legacies & bequests; restricted funds (when a donor determines a restriction on the use of its fund ...); in kind contributions; endowment funds. When the entity calls on the generosity of the public, it should prepare a specific report presenting the use of the funds raised from the generosity of the public etc. Main limitations: French accounting principles for non-profit organizations disclose that assets are goods that can be used by the NPO itself or distributed for free to its beneficiaries. Therefore, this principle is not in line with the definition of an asset as it has been fixed by IFRS. ... In France there is no accounting obligation neither to combine nor to consolidate accounts when entities are members of the same NP network or controlled by an NP entity. ... (Accountant, France)

Respondents appeared to be more supportive of the Swiss and Norwegian NPO GAAP regimes – in particular a number commented positively on the Swiss framework – but both were also seen to have limitations in practice:

The standard we use to consolidate the accounts is Norwegian, since the head office is located in Norway. It is designed to accommodate a wide variety of NPOs/NGOs/Charities [but it] falls short of allowing comparability between them, mostly because allocation of costs to the organisations main purpose is wide open to individual interpretation. (NPO staff member working in developing countries and Norway)

We would have liked to switch to Swiss GAAP called RPC. Unfortunately we have not obtained the green light from our donors. Our donors request us to maintain either IFRS or IPSAS. (NPO staff member, Switzerland)

[We use] Swiss GAAP and IFRS – insufficient guidance on revenue recognition for NPOs. IFRS unduly demanding and not intended for NPOs. (NPO staff member working in a wide range of developing countries and in Europe)

5.2.8 Country-specific issues – Australia and New Zealand

Several respondents mentioned the multi-tier system of financial reporting for NPOs in New Zealand (this has some parallels with the tiers in the UK jurisdictions – see chapter 2) although it is relatively new and few felt able to offer comment on how it is working.

The new Accounting Standards Framework has a tier structure and different sets of standards to cater to the size and circumstances of the NPOs. The Framework is better targeted at eliciting the relevant information for users. For example, at Tier 1, NPOs that have "public accountability" (as defined) or are "large" (expenses over NZ\$30 million) comply fully with Public Benefit Standards based on IPSASs. In Tier 2 (expenses between NZ\$2million and NZ\$30 million and no "public accountability" (as defined)), NPOs comply with Public Benefit Standards but with reduced disclosure requirements. In Tier 3 (expenses under NZ\$2million) NPOs apply an accruals standard. In Tier 4 (operating payments under NZ\$125,000), NPOs apply a cash-based standard (that is a non-GAAP standard). Tiers 3 and 4 standards include explanatory guides and optional templates to assist the NPOs. (Accounting standard setter, New Zealand)

However, several respondents mentioned that there is no explicit requirement to report on how charity resources are used for public benefit:

Financial statements only tell a part of the story ie incoming resources and how they were applied or expended. Unlike in the UK, charities in New Zealand do not report on public benefit - the presumption of charitability applies, hence there is no focus on what the charity actually does that is of public benefit. ... Lawyers and accountants do not talk to each other! (Academic/researcher, New Zealand)

Also, there appears to be limited awareness of the new charity reporting regime due to take effect in New Zealand 2015 (although at the time of the survey, the legislation was still under debate):

There are no particular requirements for the charities that I prepare the financial accounts, however, as I am a Chartered Accountant, I prepare them under GAAP in accordance with the New Zealand Institute of Chartered Accountants Rules. (NPO board member, New Zealand)

Several respondents suggested that Australian GAAP presents problems primarily due to lack of flexibility and it was also suggested that different demands between the States and the Commonwealth (central government) makes comparison complicated:

The IFRS, IAS and Australian Accounting Standard Board guidance lacks sufficient detail to allow the one-size-fits-all concepts to be applied in NPOs in ways that satisfy user requirements. (NPO board member, Australia)

We are required to complete financial accounts in accordance with the Australian Taxation guidelines as well as complete financials statements for the funders, in the main the Commonwealth Government and State Government covering their particular funding. We have difficulty in doing this [but we] have no concerns with the basis of financial reporting. (NPO staff member, Australia)

Comparability is a limitation. [The] national regulator was implemented to address the issue in Australia [but] there are significant differences in requirements based on jurisdictional differences depending on entity structure, grant makers' requirements, accounting standards and regulatory requirements. (NPO regulator, Australia)

Some felt that the revenue recognition criteria for NPOs had not been adequately addressed by Australian GAAP:

The accounting standards take into consideration factors specific to not-for-profits while being aligned closely with Australian equivalent to IFRS. There is one controversial standard on recognition of revenue from contributions (including grants). This may result in revenue recognised in full upon becoming entitled to the revenue. This results in revenue not being matched to the expenditure. (Accountant, Australia)

Revenue recognition of non-conditional grants in NFP in Australia is not logical under accounting standards, ie not matching revenue and expenditure. (Accountant, Australia)

5.2.9 Country-specific issues – Developing countries

In the developing world some examples were mentioned which respondents saw as good practice, for example in Pakistan which was seen to have a developed GAAP and in Mongolia which has enforced IFRS:

In Pakistan, there are standardised practices being followed as statutory requirements by the Securities and Exchange Commission of Pakistan (SECP). Besides, the Institute of Chartered Accountants of Pakistan (ICAP) ensures and governs the preparation of financial statements in compliance with IFRS. The institute also issues technical releases. ... However, in a country like Afghanistan, there is no accounting body or framework for NGO's financial reporting despite the presence of a number of [Big Four] accountancy firms. The authorities responsible for NGOs give insufficient guidance and sometimes irrelevant information on issues which need to be considered in NPO financial statements. (Accountant, Afghanistan and Pakistan)

In Mongolia, there is an Accounting Law entered into force in 1993 initially, but with subsequent amendments. This law still requires all entities and organizations, including NPOs, running in Mongolia to follow IAS/ IFRS, irrespective of their size and form. A working group established for drafting amendments to the existing Accounting Law has proposed to make some changes in the law, for example, not requiring all entities and organizations to apply IAS/ IFRS, but requiring them to use IFRS or IFRS for SMEs depending on which category of entity falls under. So, we expect if this draft is approved, NPOs will be exempted from the requirements which unnecessarily burden resources of NPOs. (NPO staff member, Mongolia)

However, there remains a capacity problem in many other developing nations such as India and Ghana which respondents suggested lack any clear guidelines regarding NPO financial reporting:

There [are] no clear guidelines nor standards available in India for presentation of financial statements of NPO. (Professional body representative, India)

It can be hard to gain a clear basis for all standards that need to be maintained in Ghana.
(Accountant, UK and Ghana)

A salient example is Malaysia which has NPO GAAP but comments suggested that problems of capacity and lack of NPO expertise persist:

Strengths: [the Malaysian framework] reflects real donations received. Limitations: lack of experts in preparing the financial reports, lack of internal control based on these problems. Thus [the] NPOs registrar in Malaysia should emphasise the format of financial reports and strictly highlight the criteria of [the] financial report preparer (should be someone who is expert and familiar with NPOs financial reporting and not just the ordinary member who was appointed as the treasurer for fund collection). (Academic/researcher, Malaysia)

Finally, one respondent made an interesting request that reporting frameworks should be aligned to MDGs (Millennium Development Goals):

Guidance on funding and support from government agencies and political leaders to admitted as addressing certain issues comply with global and national commitment like MDGs etc.
(Consultant, Sudan)

5.2.10 Summary of views on existing frameworks

Respondents offered a wide range of comments on the existing NPO financial reporting frameworks, sometimes raising very specific comments on particular regimes. Around 80% of respondents made comments of some kind – although it was clear that not all the respondents were experts on NPO reporting, and it appears that some of the comments may have been due to misunderstandings of existing requirements.

Several had positive comments on particular frameworks such as the Charities SORP in the UK, or the Swiss GAAP regime applicable to NPOs, or the multi-tier framework being introduced in New Zealand. However, whatever the regime, the vast majority of comments raised some kind of concerns regarding existing requirements. Those required to apply IFRS without any specific adaptation for NPOs seemed particularly critical. Many also commented on the difficulties, especially in developing countries, of obtaining sufficient accounting expertise to apply accounting standards of any kind.

5.3 Levels of applicability and the process of development of an international NPO standard

Questions 8 and 9 of the survey (see Chapter 4) asked about specific features which respondents would wish to see in an NPO standard, and question 10 asked whether this should apply to all NPOs or only those above particular income thresholds. Question 11 allowed respondents to discuss the issues further by asking: **Would you like to give reasons for your answers to the last question? Please add any further comments in relation to the process of developing an international standard for NPO accounting.**

As might be expected, comments reflected the context in which respondents were working, and the use by respondents of terms such as “small charities” or “small NGOs” clearly had very different meanings for different respondents. Comments on this question are thus analysed on the basis of responses to the threshold selected in Q10 – so the term “small” in each sub-section below generally refers to NPOs below the threshold indicated in the heading.

Some respondents made more general comments not related to the issue of thresholds – these are discussed below in relation to the final question.

5.3.1 Views supporting universal applicability of an NPO standard

As reported in chapter 4, more than 30% of respondents on question 10 felt that any international standard for NPO accounting should apply to *all* NPOs (even the very smallest). Arguments in support of this included:

It should be an all or nothing discussion. (NPO staff member, UK)

I think it is important for comparability purposes to have one standard for NPOs. (NPO staff member, Zimbabwe)

I think it would be rational to have all NPOs regardless of their size to be included in the implementation of the yet to be developed standard for uniformity purposes hence improve on quality. (Accountant, Kenya)

Where to draw the line? Every 'corner-shop' has to have proper financial reporting in Germany – why not any charity? If it is a small entity financial reporting the workload will be reduced in practice. ... Why provide any exit rules? (Accountant, Switzerland/Germany)

The international standard should be drafted in such a manner that it is applicable to all NPOs for better accounting and reporting and transparency. (NPO staff member, Afghanistan/Pakistan)

Because some NPOs have been engaged in fraudulent activities and governments have used some NPOs to engage in corruption. So, in order to curb that they must all adhere to the standards. (NPO staff member, Uganda)

Several respondents made the case against different rules for smaller and larger NPOs on the grounds that it would create confusion or simply on the grounds that small organisations may grow:

Uganda is a developing country and requiring it to give size limits for the application of the standard would be to bring extra complication to the process. Already the application of the IFRS for SMEs is not well developed due to size and public interest definition difficulties. There is also very limited capacity for analysis ... on what the adequate size limit should be. Therefore a single standard would be easier to monitor and apply and anyway (Accountant, Uganda and Rwanda)

Small NPOs will grow gradually. So, they need to practise the substantive laws of accounts and finance from starting the organisation, which will be easier to follow in a bigger context. (NPO staff member, Bangladesh)

Nevertheless, a number of respondents seemed to assume that all NPOs receive public funds, and based their arguments on that:

The grant to any NPO is public money so [the standard] should apply regardless of size. (Accountant, UK & Pakistan).

A number of respondents were explicit that a universal standard could only work if it were simple to apply for NPOs of all sizes:

In principle, an international standard should apply to all, but only if the standard can be made simple enough. Let's not drown small NPOs by making a demanding framework mandatory. If it's not possible to make it simple, either have a high threshold, or have principles that smaller NPOs can follow without applying the full standard. (NPO staff member working in a wide range of developing countries)

Also, whilst wanting a standard applicable to all NPOs, many accepted the case for multiple tiers within this:

The standards should be universal in total, albeit there could be simplifications and/or reduced disclosures for smaller entities. (NPO staff member working worldwide)

For transparency and accountability towards donors/stakeholders, adherence to standards should be compulsory for all NPOs. Reporting may be different depending on the size as is currently with SMEs. (Auditor working worldwide for a donor organisation)

The standard should have basic reporting requirements for NPOs up to a certain income level and then additional reporting levels as the NPO's income increases. That way whether I do NPO's in the UK or South Africa, I know that one set of standards count for both. (Accountant, South Africa and UK)

5.3.2 Respondents wishing to exempt only the smallest NPOs – so the standard would apply to all NPOs with incomes over \$50,000 or €35,000 or £30,000

Just over 16% of respondents supported a universal standard with exemption only for the smallest NPOs with incomes up to \$50,000 or equivalent. A number of reasons given for selecting this cut-off, often related to capacity issues.

Small entities do not have the know-how. (Accountant, UK)

Micro NPOs shouldn't be burdened with restrictive reporting especially because they don't have (at least in most cases) a qualified person to prepare them. (Accountant, Rwanda)

We have a huge number of community based organisations with low incomes for whom it would be extremely difficult if not impossible to comply and would, for those who wish to apply, simply end up taking money away from the work to pay accountants. Monitoring of compliance would also in practice be impossible and defining penalties for non-compliance difficult. For an organisation receiving more than 50,000 USD I would expect them to employ an accountant with sufficient experience to follow guidelines and within the range selected most NPO's should be being audited, at least by their donors if not independently. (NPO staff member, Mozambique)

The point was also made that most small NPOs would gain little or no benefit from following an international standard:

Small organisations should not have to go to the expense of completing detailed and complex accounting statements. It adds very little value while being costly in time, energy, and other resources for small nonprofits. It may also discourage people from forming corporations, at least nonprofit ones, due to this extra burden (Academic/researcher, USA)

Some respondents commented on the problem of setting thresholds in this way:

I think the principles [should] apply to all NPOs, however many small NPOs have operations so simple that reporting receipts and payments is probably enough. The problem is that small in developed countries = large in developing countries. (NPO staff member, USA and UK)

5.3.3 Respondents wishing to exempt NPOs with income up to \$500,000 or €350,000 or £300,000

In question 10, almost 26% of respondents chose this threshold.

Arguments included in support of an international NPO standard with exemption below this level were frequently cost-driven:

There needs to be a sense of proportionality and what is realistic for a small NPO. There needs to be protection for the donors and users, but within reason. £300k feels about the right cut-off. (NPO staff member, UK)

The reality is that small NPOs have no resources to deal with complicated accounting issues and their accountants provide a basic "cost effective" service. Applying international standards to small NPOs would increase costs in an already difficult environment. (Accountant, Israel)

Value for money issue - smaller NPOs have to direct their limited funding to their chosen causes and spend less money preparing convoluted accounting that in the main no one reads. ... It would be more expedient for smaller NPOs to account on a cash basis. (NPO staff member, Australia)

Below the level indicated it is probable that the cost of full compliance is likely to outweigh any potential benefits. However there should still be some form of abbreviated compliance to ensure transparency and accuracy in the recording of all transactions. (NPO staff member, UK)

5.3.4 Respondents wishing to apply the standard only to larger NPOs with incomes over \$5m or €3.5m or £3m (with all smaller NPOs to be exempt)

This threshold was chosen by 15% of respondents to question 10. Arguments included:

[An] international standard is really only of any interest whatsoever to those charities which have sufficient level of income to be concerned with issues of a global nature – and that is really only those above the £5m level. Even though audit applies over £500,000 and we have 15 of those – all are community based charities with no international perspective – what use would they have for an international standard? (Accountant, UK)

No easy answer to this one. I think that for an organisation to be internationally comparable its operations need to be of a significant enough size to compare. Smaller local organisations can be much harder to understand as they are more rooted in their own cultural context. (NPO staff member working in four developing countries).

I think that the thrust of any IFRS NPO standard should be at international charities. It is of very little benefit to charities that operate within only one country and which are funded by donations from within that country. Indeed, if a charity were funded by donations from outside the country but participated in no international fundraising to obtain those donations, that would not justify adoption of IFRS. The solution must be proportionate to the problem needing to be solved. (NPO board member, UK)

I consider that compliance with international requirements will have only added value for those organisations that have a significant size, and can be compared across the world. Also compliance will be somehow costly, and for small organisations that could deviate some funds from their main purposes. (NPO staff member working worldwide)

5.3.5 Respondents selecting other thresholds for an international standard for NPO accounting

Nearly 13% of respondents to question 10 suggested other thresholds for a standard.

A number of these saw no need for an international NPO standard at all, or suggested even higher thresholds such as only for those over \$100m income:

This is bureaucracy gone mad. Who cares how each country does their own charity? Why do we have to create international standards for this? A waste of time. (NPO board member, UK)

I see no need for international standards other than IFRS. We must avoid additional layers of complexity. Whilst commercial listed companies can benefit due to market requirements and standardisation of operations I see little or no benefit for NPOs. Of greater importance is the need for donors, grant makers and other stakeholders to obtain clarity and assurance on the use of funds and operating practices. This is better achieved by certain forms of assurance reports than accounting standards. I am in favour of convergence, over time, to best practice but the frequency of change must be managed carefully. (NPO Board member, UK and various Middle Eastern countries)

Others made the case for tiered thresholds, as currently applies in a number of countries, but still saw a case for an international standard at some level.

In France, very small NPOs can use the cash basis. Accruals basis and specific GAAP for NPO must be used when income is > €3m or when public subsidies are > €153,000 euros or for endowment funds with revenues > €10,000. More and more, NPOs/NGOs develop their activities through international network of cross border collaboration seeking to increase social impact. Therefore, developing an international standard for NPO accounting could bring more transparency and facilitate benchmarking. ... The international standard should also require the preparation of combined or consolidated accounts (if an entity of the group controls the others). (Accountant, France)

One or two respondents saw no case for international standards at all, or at least argued that any standard should be optional:

I am resistant to 'standards'. NPOs are so varied that any 'standard' however thoughtfully developed, would (and, I suggest, does) stultify the development of accounts appropriate to particular NPOs. (NPO board member UK).

Others suggested that any size threshold should vary by country and region, on the grounds that small and large have very different meaning in different countries, as in some of the arguments above. One respondent suggested that application of an international standard should depend on whether the NPO operates overseas, rather than by income.

5.3.6 Summary of views on thresholds for an international standard

The answers to question 11 highlight a huge diversity of perspectives on the applicability of an international standard for NPO financial reporting. Most respondents accepted the case for some kind of tiers or exemptions for NPOs below a certain level, but there was no clear consensus on any cut off point.

A substantial number wished to see no exemptions at all, with even the smallest NPOs required to apply an international standard on grounds of consistency. Conversely, some argued clearly that there is no case at all for an international NPO standard, or only perhaps for the very largest NPOs with extensive international operations.

5.4 Accountability and users of NPO financial reporting

In considering respondents' views on the possible development of an international standard for NPO financial reporting, it was important to ask who they saw as the main users of NPO financial statements – which is closely linked with identifying those to whom they saw NPOs as being accountable. A strong theme in the literature (see chapter 2) was the ambiguous nature of NPO accountability. In question 13 we asked an open question: **When thinking about the stakeholder groups and users of NPO financial reports, to whom do you see the NPO as being accountable and why?** This was amplified with the comment: “Stakeholders and users include (for example): funders; beneficiaries; employees; board members and trustees; local community; government; regulators, the wider public.”

In all, 492 comments were received on this question, but more than 100 simply said “all the above” or words to that effect (referring to the possible stakeholders and users listed).

Many chose to highlight accountability to particular types of users/stakeholders, especially to beneficiaries, or to donors/funders. There were also some comments on accountability to governments, and a few respondents discussed accountability to the wider public. A number stressed accountability to their boards or to a wider membership and a few mentioned accountability to employees. There were also a small number of more detailed answers, presenting in some cases a hierarchy of accountability.

5.4.1 Views on accountability to beneficiaries or service users

The issue of accountability to beneficiaries through the NPO's financial statements was mentioned by many, with more than 30 respondents adding comments putting beneficiaries or users first. Reasons included:

Beneficiaries primarily (since they are the purpose for which the NPO exists)... (NPO funder, UK)

Beneficiaries: We use their plea as the call for funds. Funders: They entrust funds that need to be accounted for. (NPO staff member, South Africa)

They need to be accountable for all above but most of all to the beneficiaries. (NPO staff member working worldwide).

5.4.2 Views on accountability to funders and donors

Many respondents felt that the primary users of NPO financial statements are funders, but many added other stakeholders too. Comments specifically reflecting on accountability to funders included:

Primarily to those who give them money! – whether that be organisations or the public – ie individuals. (Accountant, UK)

Funders, including both public and private donors – to make sure that funds are being utilised as expected. Board members and other key decision makers within the organization – to facilitate their oversight and decision making. (Accountant, Norway)

I like the IPSAS formulation of resource providers, service recipients and their agents. That clarifies why they are interested in holding the entity accountable: for the resources they provided or for the services they rely on. It could include all the groups mentioned. (Standard setter, New Zealand).

5.4.3 Views on accountability to governments or for fiscal privileges

Several comments saw the main accountability as being to governments or regulators:

Government: since the efforts of any NPO should address the gap a government can not deliver to its community and implementing a programme – otherwise will be creating a need which is not a priority for a community. (NPO staff member, Rwanda and Ethiopia)

[The financial statements] are drafted for charity or regulatory bodies, and government donors. Government, grant giving bodies and corporate donors generally receive tailored accounts. Joe public is not given much in the way of accountability – so why give money to an NPO which has so little respect for its main source of funding? (User of NPO accounts worldwide)

A few respondents made reference to tax reliefs, with one raising questions about the accountability link between charitable status and support from taxpayers:

This is a vexed question. In my opinion, as charities benefit from fiscal privileges such as exemption from income tax and donations concessions they are accountable to the taxpayer for how they apply the funds they would otherwise have paid in tax. ... There is a link between the trust deed, case law and income tax legislation which financial reporting ignores. (Academic/researcher, New Zealand).

5.4.4 Views on accountability to the wider public or community

A number of respondents stressed quite firmly the issue of NPO accountability to society as a whole. Many just said “the public” but some elaborated:

Truly everyone. If the goal is community benefit, then the full community should be able understand how resources are being used towards those ends. (Accountant, USA)

5.4.5 Views on accountability to boards and/or to members

A few respondents argued that accountability to the board or membership was central:

Question 12a above apparently makes some very distinct assumptions about NPO's as "public service" entities and allows no room for those membership organizations whose financial activity is completely internal and no one else's business! There is, among other things, a powerful philosophical principle here that this survey simply tramples: There are cases of NPOs in which external stakeholders (like accountancy!) has absolute no right to interfere or claim sovereignty!!! (Academic/researcher, USA⁴¹).

5.4.6 Multiple dimension of accountability

Several respondents stressed a number of dimensions of accountability, sometimes in a hierarchy:

(1) Beneficiaries, (2) funders, (3) others working in the same area (e.g. government, other NPOs, etc), (4) employees - in that order. (Accountant, Vietnam and nearby countries).

Beneficiaries as the money is raised in their name, donors because they have to be satisfied the funds are used for the purpose intended, board members as they are ultimately accountable for the financial affairs of the NGO. The wider public for general transparency. (User of NPO financial statements worldwide).

While NPO executives are accountable to the governing body, the NPO itself is accountable primarily to its funding partners for the stewardship of contributions received. The NPO is also accountable to the wider community, which down to the level of an individual, may have contributed to the work of the NPO through contributions to one of its funding partners. (NPO staff member working in Africa, Switzerland and Israel)

Wider public, as some NPOs highly rely on them to function (in our case 89% of our income); beneficiaries, as they are the groups we work with to relieve their suffering (in our case) though maybe a bit difficult to understand for them, and other accountability mechanisms more operational could be developed; board members and trustees (and I would include here also management) as it should be a valuable tool for decision making (in our case it is); employees, as in many cases they work for the values of the organisation, and these values should be reflected in the financial reporting; governments, as they should be able to have better tools to decide allocation of institutional funds, and comparable financial statements should provide this visibility. (NPO staff member working worldwide)

5.4.7 Accountability - summary

Whilst there were few comments on the accountability issue which go beyond the issues summarised from the literature (see Section 2.3) it is perhaps significant that so many respondents wished to elaborate on the sometimes rather abstract issues of accountability in NPO financial reporting.

Whilst those who responded to this survey may have been particularly keen on the fundamental reasons for NPO reporting, the sense of accountability to particular groups of stakeholders was clearly felt passionately in many cases. Respondents provided strong rationales for accountability, in most cases to a wide range of stakeholders.

⁴¹ Whilst this comment raises interesting issues, it should be noted that this respondent seems to be using a definition of NPOs which goes beyond the scope of this study. As indicated to respondents at the start of the survey (see Appendix B) the research is concerned with reporting by not-for-profit organisations established for public benefit (see Section 2.2.1).

5.5 Other country-specific considerations

In case there were further country-specific issues which had not emerged elsewhere in the survey, question 15 asked: **Do you consider that there are any other significant influences on NPO financial reporting in your country?**

Of the 605 respondents, only 188 choose to add comments in this question, and 56 of these answered “none” – ie there were no further country-specific issues which they wished to mention. However, a few offered substantive points, as exemplified by the responses below.

5.5.1 Auditors and funders

Several comments mentioned further generic influences on NPO financial reporting which had not been specifically discussed before – in particular, the influence of auditors and their interpretations of requirements. The pressures of individual donors that wished to see financial reports on a single restricted fund, rather than the financial statements of the NPO as a whole were also raised.

Others added comments on the costs of preparing or auditing NPO financial statements in specific jurisdictions:

Angola is an expensive country, strongly dominated by the oil industry, and auditors expect to be paid very well for their services, which is a strong disincentive for smaller organisations to conduct annual audits as standard practice. (User of NPO financial statements, Angola)

5.5.2 NPO regulators

A number of respondents mentioned the requirements of particular NPO regulators as a key driver. For example, the perceived power of the Charity Commission for England and Wales to determine financial reporting in that jurisdiction was mentioned, though respondents appeared largely content with this. The power of the IRS in the USA was also mentioned:

The Internal Revenue Service sets the standards for the 990. End of story. (Academic/researcher, USA).

However, the lack of a regulator was also a cause for concern:

A significant influence is the lack of a regulator of NPOs in Ireland. The legal structure of NPOs dictates the financial statement requirements more than anything else. (NPO staff member, Ireland).

5.5.3 Sector neutrality

At least four respondents raised points concerning with the issue of “sector neutrality” in the development of accounting standards in Australia (which might make adoption of a specific NPO standard highly problematic). In particular:

We have transaction neutrality in Australia, whereby all sectors have to apply Australian IFRS. (Academic/researcher, Australia)

Government and accounting bodies in Australia want sector neutral statements which is ridiculous. (NPO board member, Australia)

The problem of conflicting requirements in Australia between states and national requirements was also raised:

[A key factor is] whether [the NPO] is a state based or national body. The smaller groups are bound by the individual state legislation, nationals then have to contend with all, this is a ridiculous set of rulings within compliance annually, expensive, and a waste of time, very expensive wasting capital. (User of NPO financial statements, Australia)

5.5.4 Specific technical issues

A few respondents also mentioned specific problem areas which they suggested an international NPO standard should address, such as local currency exchange rates which may differ from international exchange rates.

5.5.5 Other country considerations - summary

The fact that relatively few further issues were raised on this question suggests that the previous questions had already captured many of the country-specific issues (see in particular the discussions above in subsections 5.2.5 to 5.2.8). However, the responses to this question serve to highlight the central role of NPO regulators (without their support it would be difficult or impossible for any international NPO standard to take effect). It also highlights the difficulties for NPOs in any country which rejects the need for specific NPO standards. The comments on auditors also suggest that to gain acceptance, any international NPO standard will need support from audit firms (and, given the comments on costs, a willingness to implement it without imposing large fee increases on their NPO clients).

5.6 Perceptions of qualifications needed by those preparing and auditing NPO financial statements

If an international standard for NPO financial reporting were to be developed, a key consideration in practice would be the extent to which NPOs would expect to use qualified accountants (a) in the preparation of the financial statements, and (b) in the external review or audit of such statements.

We therefore asked respondents to comment on these issues *in the context of their own country*.

Question 16 asked: **To what extent do you consider that those preparing financial reports for NPOs need to be professionally qualified?** Question 17 added: **To what extent do you consider that auditors/examiners of not-for-profit financial reports need to be professionally qualified?**

These issues particularly attracted detailed comments from the UK – whilst nearly 500 participants responded to each of these questions, many just offered comments such as “yes” or “desirable” or “depends on the size” without further detail.

5.6.1 Views regarding qualifications for those preparing NPO financial statements

A significant proportion of respondents to question 16 agreed that those preparing financial reports for NPOs need to be professionally qualified. Some were quite resolute on this:

All should be – it is a complex area. (Academic/researcher, UK)

Strongly agree – I do not think that even simplified accounts should be produced by those who have no accounting knowledge. (Accountant, UK)

Being professionally qualified was considered important by many participants on the ground that it ensured a higher degree of accuracy since NPO accounting can be highly complex. To some extent it was seen to guarantee reliability and better accountability especially to the public at large and to funders/donors:

It's a fact that accounting and analyzing financial transactions will not be done by someone who does not have competence in doing so. (NPO staff member, Niger)

Ideally as this generally improves quality and therefore reliability... (Accountant, New Zealand)

To a great extent. NPOs need to be transparent and accountable to board members, employees, volunteers, donors, public at large. (NPO staff member, Canada)

It is very important as more and more stakeholders now rely on NPO accounts. (NPO staff member, Zimbabwe)

The demands of existing legal frameworks were raised by a number of respondents

Specific rules and laws applicable to NPO have intensively increased over the past 15 years as a consequence those who prepare financial information should be both qualified and experienced in the NP sector. (Accountant, France)

Often GAAP is somewhat complex and needs a qualified person to prepare compliant statements. For organisations without [their] own staff this is often done by their qualified advisor/accountant. (NPO staff member, Canada)

Those who prepare NPO financial reports need to be professionally qualified since they will be able to understand the requirements of various stakeholders, plus also the accounting standard and its constraints and prepare financial reports which will fulfil the demands of all the stakeholders. (NPO staff member, India)

The current SORP accounting framework is both complex and specialised in places and even within the qualified professionals there is a significant knowledge gap. (Accountant, UK)

In the case of one African country, it was suggested that professional certification is effectively mandatory:

To the highest extent. Every accountant who prepares NPO financial statements in Nigeria should be a qualified accountant. (NPO staff member, Nigeria)

On the other hand, a sizeable population of contributors thought that although professionally qualified preparers of NPO financial reports were welcome, in reality the size and complexity of NPO organisations could not warrant the requirement of professionally qualified personnel in all cases:

[It] depends upon the entity size though and hence why it is important to have a multi-tier system that accommodates different entity size and complexity with appropriate accounting standards accordingly. (Accountant, New Zealand)

This varies depending on the size of the organisation. Smaller cash accounting organisations shouldn't need professionally qualified individuals to prepare the accounts in fact the accounting standards should be 'common sense' so as to allow non accountants to prepare them. (NPO staff member, UK)

Not for smaller NPOs but preparers of financial reports for larger NPOs should definitely be very experienced or professionally qualified. (NPO staff member, UK)

We need to be pragmatic by balancing standards with the wide variations in size, capacities and activities of the NPOs concerned. Professional qualifications should be mandated for NPOs of a size and capacity over a reasonable, predetermined threshold. (NPO staff member, Canada)

It depends on the size and complexity of the organisation. Simple community based NPOs should only need some-one with sound book keeping skills. Standards set should be at a level where the majority of NPOs don't need professionally qualified people. What this means is that the reports be understandable by a person with limited financial training. Currently what is often required is what non-users deem is necessary rather than the other way around. (NPO board member, Australia)

Other people thought that there should be a threshold, say a certain level of income, or certain legal triggers, before a professionally qualified preparer is required:

Yes - in the case of NPOs above a certain income/asset level. Ideally, all financial reports would be professionally prepared but affordability constraints rules this out for very small organisations. (NPO board member, UK)

Ideally if possible especially over \$500,000. Below not so critical if they know accounting. (Policy adviser, Canada)

With the exception of perhaps a basic receipts & payments accounts, you do need to be professionally qualified or very experienced to deal with the present level of legislation and disclosure. (Accountant, UK)

Professional qualification should be required for the higher threshold of income level for NPOs - perhaps £3m. (NPO staff member, Africa and Switzerland)

They need to be sufficiently qualified to prepare the financial reports in the legislative environment in which they operate - currently this varies around the globe. (Accountant, UK)

Even for those who felt a professional accountant was not always necessary, many commented that relevant expertise and some sort of minimum qualification was still appropriate. In particular several respondents mentioned the need for specific training/qualifications for NPO accounting, and even the possibility of an international qualification or training for non-accountants was raised in one case:

They need some education in the preparation of NPO accounts - I don't think the professional accountancy training in the UK currently equips accountants to prepare NPO accounts. A supplementary qualification, and maybe a stand alone for non-accountants, would be a good idea. (Academic/researcher, worldwide NPO involvement)

I would love to see an international NPO designation. This would be the logical next step if international NPO regulations were adopted. (NPO staff member, USA)

On the other hand, according to many contributors it was challenging to expect that preparers of NPO reports should be qualified due to availability of qualified staff, high cost of qualified personnel, lack of understanding of NPO finance / accounting, insecure / inhospitable environments, reliance on volunteers and conflict with charitable objectives:

This would be impossible to achieve at this stage in Mozambique. (NPO staff member, Mozambique)

For small charities, the cost of a professionally qualified person can be prohibitive. However, [a] professionally qualified person is the ideal. (NPO board member, UK)

It certainly helps, but more importantly those preparing financial reports need to be properly trained with an understanding of what they are doing (not always the same as qualified in my experience). (User of NPO financial statements, Nepal)

There is a lack of expertise, particularly in smaller organisations. The cost of acquiring expertise could be detrimental to meeting their charitable or other objectives. Standards need to be cognisant of this. (Accountant, Australia)

Many aspects of financial statement preparation is routine financial administration however when it comes to applying accounting standards these are often difficult for those not versed in the concepts and terminology to apply and when you are talking about international application there is a further challenge due to context and language barriers. (NPO staff member, UK)

Should be, not always possible. Cost, work permits and visas are of issue in addition to education. (NPO staff member, USA and Afghanistan)

Within the sector there is a reliance on volunteers and [it] may not always be possible to obtain professionally qualified preparers of accounts. So, providing appropriate support is available, non-professionals should be able to prepare accounts. (Accountant, UK)

In several instances respondents stated that they placed reliance on their auditors or examiners which dampened the need for qualified preparers – though some referred also to the size of organisation:

It is a benefit, but in Australia reliance is placed on the auditor. (Accountant, Australia)

Not much as they would be guided by qualified auditors / consultants. (NPO staff member working in various developing countries in Asia)

I don't believe you should be qualified to prepare the financial reports because they are assessed through an audit or independent examination. (NPO staff member, UK)

Professionally qualified for a major NPO (above €200,000); below €200,000 an external auditor statement can suffice. (NPO staff member, Netherlands)

Depends on size of NPO ... Below £300k turnover it's unreasonable to expect an NPO to be able to afford professionally qualified financial report preparation; nonetheless, there should be a requirement of simple external professional review / audit. (NPO board member, UK)

In at least one country it was suggested that it was completely inappropriate to demand qualified professionals to prepare financial reports for NPOs:

This should NOT and NEVER be necessary, as it would make it difficult for smaller, voluntary based organisations. In Denmark, this would be politically unacceptable. (NPO staff member, Africa and Denmark)

Also there is an issue of quality even if the professionals are qualified:

I'm not fully qualified myself so have to say 'No'. I've found those qualified as accountants do not necessarily have a grasp of charity accounting and the real world. (NPO staff member working in Africa and Latin America)

Others commented on the difficulty of comparing professional qualifications between developed and less developed countries.

Some respondents highlighted the role of qualified accountants giving voluntary support to NPOs, or being seconded to NPOs in developing countries:

One size definitely does not fit all. An NPO with a £50m turnover will always need professionally qualified input. An NPO with a £5k turnover should never require professionally qualified input (although it may benefit from such input if this is given voluntarily). (NPO funder, UK)

I think it depends on the size of the organisation and available funding. Organisations such as Afid (Accountants for International Development) provide the necessary access to mentorship and training. Our NPO will be hosting an Afid accountant from Australia for 2 months in 2014 who will mentor our financial manager. (NPO staff member, South Africa)

5.6.2 Views regarding qualifications for those reviewing/auditing NPO financial statements

The vast majority of respondents to question 17 agreed that auditors / examiners of not-for-profit financial reports needed to be professionally qualified.

However, only a few respondents (see later comments) distinguished between the different levels of review – for example in the UK a professional audit is generally only required for charities over £500,000 income. Below this, a lesser form of scrutiny of an independent examination is permitted: the rules differ slightly between the different nations of the UK, but in England and Wales, the independent examiner must professionally qualified for charities over £250,000 income (though the examiner does not have to be a registered auditor); below this a lay examiner can be used, and for charities under £25,000 income the accounts can simply be approved by the charity trustees (board members) with no external scrutiny required.

Some respondents were absolute in their response, insisting that all auditors and examiners should be professionally qualified:

Should be mandatory. (Accountant, UK)

Essential. (NPO board member, UK)

Strongly agree. (Accountant, Israel)

Absolutely - I don't think an audit or review report signed by someone who is not professionally qualified adds any value to the financial reports at all. (Accountant, New Zealand)

Others felt that knowledge of the sector was also crucial and suggested a minimum level of professional experience as well:

Auditors / examiners should be qualified and also have specific knowledge in the NPO sector. (NPO staff member, UK)

Professionally qualified with good practical knowledge of the thematic issues, implementation procedure and accounts, finance and audit techniques of the particular sector along with high integrity and morality. (NPO staff member, Bangladesh)

...Some auditors are nevertheless uneducated about small NGOs, and what to look for, and so we find that we are having to educate them. They can often assign juniors to us who are uneducated which requires us to educate them – bizarrely enough we end up telling them how to audit us. (NPO staff member, New Zealand)

Professional experience is as important as qualifications. It is annoying for the finance staff in an NPO to have to train and explain basic things to auditors who have qualifications but limited experience. Even large audit companies can be unprofessional in regard to training and preparing their staff for an audit, and leave some of it up to the NPO staff to explain real world issues. (NPO staff member, Australia)

Specific rules and laws applicable to NPOs have intensively increased over the past 15 years as a consequence auditors should be both qualified and experienced in the NP sector. (Accountant, France)

... Those people auditing service performance reports need to have additional and appropriate qualifications to measure the extent of public benefit and comment on the reliability of those parts of the annual report. (Standard setter, New Zealand)

... A qualified accountant is best placed to ensure compliance with accounting standards but non-accountants with seasoned business experience may be a better match with the qualities required of the auditor/examiner. For example, someone with real expertise in the types of activities performed by the NGO can go beyond the numbers. ... (NPO board member, UK)

According to several responses, being professionally qualified, in accordance with the relevant country requirements, is absolutely essential, regardless of the size of the NPO – though these comments seem to be referring the full audits rather than other forms of review:

US Standards require that all auditors who render an opinion be qualified. (Academic/researcher, USA)

Definitely need to be professionally qualified. However, Auditors for NPOs in Australia must be registered company auditors, which limits the access to many NPO's and increases the cost of the audits. (NPO regulator, Australia)

The law in my country requires auditors to be qualified and registered with the national accounting body. (Accountant, South Africa)

Auditors, by definition in my country, must be professionally qualified accountants. I agree with this proposition. (Academic/researcher, Ireland)

Being professionally qualified was also deemed necessary by many participants because of the assurance given to both internal and external stakeholders. It was also seen to ensure a high degree of accountability in a context where NPOs may be supported by public grants or funding and due to the complexity of NPO accounting:

Yes. Qualification assists (ensure) reliability and the assurance function is primarily about providing assurance. (Accountant, New Zealand)

100% for auditors. When can an auditor ever not be professionally qualified - how would they know what standards to follow, what changes are applicable and how to draw a fair conclusion? There should be no difference in requirement for qualification of auditors across any type or scale of business. (NPO board member, UK)

NPOs are a specialised area and as such require people with specialised knowledge. Using professionals gives comfort to the charity etc of the quality of the service and gives a comeback if any issues as can complain to the professional body. (Accountant, UK)

I believe they should be qualified and have experience since NPO funds are sensitive, requiring accountability and transparency. (Accountant, Tanzania)

It is essential. Otherwise, they don't have the credibility to influence organisations in a good way. The rules and regs keep changing so if it wasn't the person's job, they might not have the time or inclination to keep up to date. (Accountant, UK)

Yes. This independent assurance is important for the public and funder confidence and it is important appropriately qualified people are providing this assurance. It would be great if more of them would consider this as a support to the NPOs sector on a pro-bono basis. (NPO staff member, Ireland)

Some respondents accepted that not all reviewers necessarily had to be qualified accountants, but felt that there should be a minimum level of professional education – otherwise NPO financial statements would lose their value:

There is a great need for auditors/examiners to be professionally qualified, in order for reports to of any value. (NPO staff member, Solomon Islands)

They should be professionally qualified, to at least accounting technician standard (for receipts and payments accounts) and chartered accountant (for audited financial statements). (User of NPO financial statements, Ireland)

They need to be degree level educated and part of a professional body. Small mistakes by unskilled people could lead to big cost implications or allow fraud to slip through. (Accountant, UK)

In Canada it is interesting to note that two members not connected to the board can audit a small NPO:

In Canada, in Alberta for sure, if you are a small society (e.g. a church, local sports association) you can be audited by two members not connected to the Board. It works most of the time, which is what we can say for professional auditors! (NPO staff member, Canada)

Some supported regimes such as that in the UK which distinguishes different forms of scrutiny:

Depending on size, auditors/examiners should be professionally qualified. The existing UK requirements for independent examiners, for example, seem to be a sensible compromise. (NPO board member, UK)

[There needs to be a] check within the system on the competence of preparers. I believe the UK thresholds for qualified independent examiners and for audit are broadly appropriate. (Accountant, UK)

Other drew parallels with the corporate world:

Strongly agree - we need to be at par with our counterparts in the corporate world so whatever applies in the corporate world should translate to what happens in NPOs (NPO funder, Kenya)

– although on this point it is worth noting that in some countries only relatively sizeable commercial entities are now subject to a mandatory audit. (For example in many EU countries, the audit requirement for companies will often only be triggered when they reach €8.8m turnover). So if the same thresholds were applied to NPOs only the largest would be subject to audit.

On the other hand some contributors thought that although professionally qualified auditors / examiners were important it is also depended on the size and complexity of NPO accounts, risk profile of the NPO and if there were any donor / funder requirements:

For large national and international charities this is essential. For small local organisations it is desirable but many people who are not professionally qualified can do an acceptable job. (NPO board member, UK)

This depends on the size and complexity of the accounts. A very small organisations working on a cash basis may not need a professionally qualified accountant to do what is a relatively simple job. (NPO staff member working in various developing countries)

Depends on the size of the organisation. Small charities do not have the resources to spend on professional auditors. (NPO staff member, UK)

Other respondents thought that there should be a threshold; say a certain level of income, before a professionally qualified auditor / examiner is required – though there was a wide range of views on the appropriate threshold:

As most NPOs are very small, income of < \$50,000 – it should be possible for say a lawyer, [an] accountant not in public practice, [or a] small successful business person to examine the accounts of smaller NPOs. (NPO board member, Australia)

Not essential for the smallest organisations (up to, say, \$50,000 income) but above that it is increasingly important for examination. Auditors must always be professionally qualified, as required already in most countries. (Accountant, UK)

Must be professionally qualified if the NGO income is over say £50,000. (Individual providing finance support to NPOs in Uganda and Bangladesh 13195926)

The law says that for charities over 100,000 dinars income there must be an audit by a local expert accountant (CPA). I agree this is a good guideline. (NPO staff member, Tunisia 13191897)

They need to be professionally qualified for an organisation with income above \$US100,000 per year. (NPO board member, New Zealand)

... I think that if the NPO has revenue in excess of £300k, the examiners should be qualified. ... (User of NPO financial statements, UK)

Must be professionally qualified in some respect up to \$500k over \$500k certified as an auditor. (NPO staff member, Australia)

Should be qualified if auditing NPOs over £3m threshold. (NPO staff member, UK)

Finally there were important points about the quality of audit work especially internationally and the NPO sector in general:

Yes they should definitely be professionally qualified but the same issue [applies, as in Q16,] over the quality of auditing in the developing world. (Accountant, Ethiopia)

5.6.3 Qualifications – a summary

As with many issues in this survey, there was a diverse range of views on the need for qualified accountants in the preparation and scrutiny of NPO accounts. Whilst there was wide acceptance of the value of professional qualifications (which some saw as mandatory) others stressed that experience with the non-profit sector was almost equally important.

The need for qualifications was seen more strongly in relation to the audit role as opposed to preparers of NPO accounts, but many respondents accepted the appropriateness of different external scrutiny regimes depending on the size or income of the NPO, and were happy that only those over a certain size needed a professional audit.

Many stressed the difficulty of getting appropriate professional expertise, especially for smaller NPOs and those in developing countries, and wanted a pragmatic approach on both issues. It thus seems clear that any international standard for NPO financial reporting, unless it is limited to the very largest NPOs, will need to be capable of being understood by preparers and reviewers who may not be fully-qualified accountants.

5.7 Other issues raised

The final substantive question (Q18) sought to gather any additional issues by asking: **Do you have any further comments on the need for international standards for accounting by NPOs and the issues they should cover?**

This yielded many fewer responses than other sections of the survey. Many respondents just put “no” – indicating that they were happy that the survey had covered the issues adequately. One generously added:

No, the content of the survey thus far indicates to me that those who have prepared it have a very good grasp of what is important. (NPO staff member, Tanzania)

5.7.1 Rejection of any need for an international NPO standard

However, a number of respondents were critical of the whole rationale for the study (as perceived) or felt that under no circumstances would it help to have an international standard for NPO financial reporting:

Please don't force international standards on small charities! (Accountant, UK).

There is no need for international standards for NPOs with annual "turnover" of less than \$20m. (NPO staff member, Switzerland)

I think it's a piece of nonsense. Charity accounts are tough enough and international reporting would worsen the interpretation and place high cost on the most vulnerable organisations with the fewest resources. (NPO staff member, UK)

Before we go about creating another set of standards ... we should carefully examine the root causes to poor financial reporting. Is it the lack of adequate standards or is it competence related ie engaging non-professional finance staff as opposed to professionals? (NPO funder, UK).

You seem to have already decided in principle on most of the issues supposedly addressed in this survey and are just collecting numbers to back up your deduced ideas and get a few spurious data to make it seem engaging. (Academic/researcher, Kiribati)

There is NO NEED whatsoever for this. It is a waste of time and money. (NPO board member, UK).

5.7.2 Clear support for an international NPO standard

Conversely, some used this question to express strong support for the study and the possibility of an international NPO standard:

Thank you that you raise these questions - the matter is urgent. The donor domination in NPO-accounting is doing more harm than good. There is very little understanding on the donor side for this problem. "Alarmism" from the side of the auditors does not solve the problem, but makes it worse. (Accountant working in more than 20 developing countries)

This is a long awaited [need for a] guidance tool for NPO reporting. Fast tracking its development would save nations from the controversy surrounding the NPO sector in many of the countries of the world. (Professional body representative concerned with NPOs worldwide)

5.7.3 Technical issues

Several respondents involved in standard setting used this question to give more detail on specific technical issues which they consider an international standard might resolve – or to highlight particular problems in the task.

Cross-border differences - Foreign exchange - Matching of assets and liabilities - in particular the over-recognition of future commitments in a current year with no cognisance taken of an estimate of future income to cover those commitments (which might be a separate statement but would still help the user). (Standard setter, New Zealand)

The issue of gift-in-kind services and materials which sometimes over/underestimates the financial balance. (Standard setter working worldwide on cash-based accounts.)

The issue of grant treatment [may be] the most complex [issue]. Within the UK there is a multitude of different conditions for grant allocations even within one single NPO sector. Between sectors there are many other differences. Establishing one approach worldwide which has sufficient detail to be clear and aid implementation looks to be difficult to achieve. Having worked on the guidance for implementing FRS 102 for my sector ... I can confirm that the treatment of grants is the most contentious and one where achieving consensus is difficult. (Standard setter, UK)

One respondent attempted to map out in detail a possible way forward:

Development of International Financial Reporting Standards is vital in order to promote transparency, accountability and to develop, disseminate and promote implementation of better accounting standards and best practices for NGOs/NPOs. These standards should cover all aspects of NGOs' reporting obligations and should ideally correspond to the understanding of the transaction provision of the least cumbersome method of achieving the desired accounting treatment or disclosure for a NGOs/NPOs that is not complex provision of guidance. These standards should further be written in terms that can be understood by such entities ensuring that the measurement methods prescribed therein are reasonably practical for NGOs/NPOs.

Clear guidelines need to be provided to these organisations on how to conduct their affairs, including accounting and reporting. It is also acknowledged however, that extensive regulation is not necessarily fruitful, and that "too much" regulation might turn out to be equally as bad as "too little", considering the important role that these organisations play within society at large.

The following International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) have been identified as being relevant to Not-for-Profit Organisations. The requirements of these IASs may be considered and amended to suit the operations and transactions of these organisations. ... • Presentation of Financial Statements IAS 1 • Inventories IAS 2 • Cash flow Statement IAS 7 • Accounting Policies, Changes in Accounting Estimates &

Errors IAS 8 • Events after the Balance Sheet Date IAS 10 • Construction Contracts IAS 11 • Income Taxes IAS 12 • Segment Reporting IAS 14 • Property, Plant & Equipment IAS 16 • Leases IAS 17 • Revenue IAS 18 • Employee Benefits IAS 19 • Accounting for Government Grants and Disclosure of Government Assistance IAS 20 • The Effects of Changes in Foreign Exchange Rates IAS 21 • Borrowing Costs IAS 23 • Related Party Disclosures IAS 24 • Accounting for Investments IAS 25 • Consolidated and Separate Financial Statements IAS 27 • Investments in Associates IAS 28 • Interests in Joint Ventures IAS 31 • Interim Financial Reporting IAS 34 • Provisions, Contingent Liabilities and Contingent Assets IAS 37 • Intangible Assets IAS 38 • Non-current Assets held for Sale and Discontinued Operations IFRS 5 • Investment Property. (Professional accountant NPO staff member, Pakistan).

Others further stressed the importance of narrative reporting alongside financial statements:

Financial reports are important but there is a greater need to have commentary that explains the background to the figures. The reports should also cover items like risk, plans and whether the NPO has achieved its objectives. (User of NPO financial statements, New Zealand).

5.7.4 The process

A few respondents were broadly sympathetic to the idea of an international NPO standard, but had significant comments about the process by which a standard would be developed, especially in the light of donor demands or accounting capacity issues in developing countries:

Always ... look to the local context and from the local context you develop a capacity building program in a way that can be acceptable for the NPO to reach in a certain timeframe the accounting standards step by step. (User of NPO financial statements, mainly cash-based, working across five developing countries)

The main issue in my opinion is to get the key donors together to agree what they want (consistently!) so that NGO accounts meet their needs which should then reduce the number of specific audits and reports that they require. Currently donor requirements can be very onerous and all very different. (NPO staff member working across eight developing countries)

To date this has been difficult - I suspect pursuing this will [require] a huge amount of time and cost and still [have to] allow a huge amount of regional compromise. I would concentrate on getting this right for international charities first ie those working across different countries. (NPO staff member, UK)

Asking these questions about international standards in the absence of any type of context is highly problematic. "International" is not always the same thing everywhere. I can see a possible case for international standards in the European case (along the lines of the EU), and in the case of INGOs. Aside from that, I think the case for [international standards for non-profits] makes very little sense. (Academic/researcher, USA)

The need for simplicity was also an issue raised by a number of respondents:

When developing international accounting standards it is important that they are kept as simple as possible. Many NPOs are small organisations with limited resources and over-complicated accounting standards would be difficult for them to apply. (NPO staff member, Australia (NPO staff member, Australia))

One respondent, elaborating on an earlier question, mentioned the roles of IASB and IPSASB:

There are currently two international standard setting bodies, the IASB and the IPSASB. A third is not needed, and would be an impediment to preparers auditors and users involved in more than one sector. Rather, if there is demand for an international standard, IFAC and IPSASB should extend their mandate. (Standard setter, New Zealand).

5.8 Insights from the narrative comments as a whole

This chapter has demonstrated the extraordinarily rich volume of narrative comments which respondents provided in the course of completing the online survey. The depth of many of these comments and the proportion of respondents who chose to add comments (around 80% on most narrative questions) suggests an exceptionally keen interest in the issues.

However, the comments also demonstrate a wide diversity of views on the problems of NPO financial reporting and the extent to which an international standard could help to address these. Whilst there was wide awareness of problems or limitations in existing standards, and wide acceptance of a broad spectrum of NPO accountability, by no means all respondents favoured resolving these by means of an international standard.

On the issue of professional qualifications, most were positive about the role of professional accountants in the NPO sector, particularly where a formal audit is required. But many were clear that smaller NPOs, particularly in developing countries, had to be able to manage their finances and prepare financial statements without the need for qualified accountants. This has clear implication for development of an international NPO accounting standard. The reporting demands from donors and funders, conflicting in some cases with the NPO's general purpose financial statements, were also a concern for many.

Even from the many respondents who supported an international NPO accounting standard in principle, strong arguments were presented for exempting smaller NPOs (but with no clear consensus on where the boundary should be drawn). In general, those working with NPOs across a number of countries articulated the possible benefits of an international standard, but others were vehement that it would be a waste of time and effort which would only serve to divert resources away from the core charitable aims of NPOs.

6. Conclusion

6.1 Study overview

This study has explored a wide range of concepts on the theme of *International Financial Reporting for the Not-for-Profit Sector*. It draws on the combination of a detailed literature review in stage one (reported in Chapter 2) and a second stage comprising an online survey of those with direct experience of NPO financial reporting from across the globe (discussed in Chapters 3 to 5).

The objectives of the study, as outlined in Chapter 1 were:

- (a) To identify what is meant by the not-for-profit sector internationally and the nature and scale of issues;
- (b) To identify current accounting framework, standards and guidance applied to the various specialisms in the not-for-profit sector (e.g. UK Charities SORP);
- (c) To focus on specific accounting issues relating to charities; and
- (d) To make recommendations on whether there is a need or not for the development of some form of international financial reporting framework, guidance or standard(s) for the not-for-profit sector.

These objectives overlap in many respects, so no attempt is made to respond to them one by one. However, this Chapter offers conclusion on all these objectives, drawing on both stages of the study.

6.2 Identifying the NPO sector

Section 2.2 discussed a number of ways of defining the not-for-profit sector, and Figure 2.1 presented an approach to defining the sector in contrast to the *for-profit sector* and the *public sector*.

However, it was noted that not all organisations in the so-called third sector are necessarily established as not-for-profit bodies. Even amongst non-profit organisations, many are formed for private purpose rather than for the benefit of the wider public – for charitable purposes (where that term is used). Also, some so-called non-profit organisations are under the direct control of governments or other agencies, and are not self-governing organisations.

Following analysis of the literature, consideration of the CCAB brief and discussions with the Steering Group (Appendix C), the focus of the study was identified as an examination of financial reporting by organisations which:

- are constituted on a not-for-profit basis; and
- are self-governing; and
- are established for public benefit.

In this report, all references to “NPOs”, unless otherwise stated, means NPOs within this definition.

6.3 Major issues from the literature

The discussion in Chapter 2 canvassed a wide range of academic and practitioner literature in order to identify the scope of the not-for-profit sector internationally and the current accounting frameworks applied to various aspects of that sector. It considered the current NPO financial reporting requirements in a broad range of countries, and discussed a wide range of fundamental issues which arise. In particular, it identified where IFRS and/or IPSAS are being used or are planned to be used for NPO financial reporting.

From the literature it was clear that there are many differences between the for-profit sector (which in many countries uses IFRS), the public sector (where IPSAS are widely used) and the not-for-profit sector. These differences not only help to define the sector, but they also highlight why accounting is important for NPOs.

The review also focused on specific accounting issues that have been raised in relation to General Purpose Financial Reporting by charitable NPOs. It found a huge volume of existing work on the specific issues of NPO financial reporting, with studies from a wide range of jurisdictions – the field of NPO accounting and reporting has certainly not been overlooked by researchers or policymakers. It found that the systems of GAAP in many countries present specific problems for NPOs, and in developing countries there are often particular problems where frameworks are unclear.

In particular, it was noted that in many countries a high proportion of NPOs are unincorporated bodies (or, in some cases are incorporated under legislation that is distinct from company law⁴²). This means that reporting requirements under company law frameworks are often inapplicable to NPOs. Conversely, for those NPOs which are structured as companies, the relevant GAAP framework may require NPOs to use forms of reporting designed primarily for use by for-profit bodies, that may be inadequate to deal with NPO-specific accounting issues.

The literature highlighted the inadequacy of terminology used in the for-profit sector, difficulties with definitions (both on accounting issues and on not-for-profit concepts) and, in particular, the need for more guidance around issues such as recognition and measurement in the NPO context. For some aspects for which there is no equivalence in IFRS, there are standards in IPSAS which may help, but many NPO-specific accounting issues are not adequately dealt with by existing national or international financial reporting frameworks. Nevertheless, it appears from the issues raised by the literature that whether IFRS or IPSAS were used as basis for an international financial reporting framework for NPOs, there would be a need for further standards to deal with a number of specific areas. The literature particularly highlighted issues for NPOs such as non-exchange transactions, fund accounting issues, narrative reporting and the valuation of NPO-specific assets.

The governance and standard setting process of the IASB and IFAC/IPSASB were also briefly discussed and the necessity for any international standard setter to be accepted as legitimate, by NPO global stakeholders, for developing usable and implementable standards. This legitimacy is paramount if any such international NPO standards are to be developed, accepted and complied with in national jurisdictions.

The literature demonstrated particular challenges for financial reporting by NPOs (see Section 2.5 for more details). The survey stage of the research focused on these issues in capturing the views of those who prepare and use NPO financial reports.

6.4 Major issues from the survey

6.4.1 The respondents

The survey demonstrated an extraordinary level of interest and engagement with the issue of international financial reporting by NPOs. The number and the quality of the responses – particularly as judged by the very high volume of narrative comments – suggest an exceptional level of interest.

Responses drew on insights from the practices of NPO financial reporting in at least 179 countries, including NPOs from very smallest community-based organisations to large international NGOs.

All of the 605 participants whose responses were used had direct experience of NPO financial reporting, with over half reporting more than five years experience. Respondents ranged from NPO staff members

⁴² For example, as charitable incorporated organisations in the UK, as incorporated societies in New Zealand, as foundations or associations or corporate trusts in many European continental countries.

involved with NPO financial reporting, to accountants in practice, auditors and examiners, users of NPO financial statements, regulators, funders, standard setters, researchers and professional bodies.

Survey respondents reported a wide range of existing financial reporting frameworks used to determine the content of NPO financial statements. In particular, around a quarter were primarily involved with cash-based receipts and payments accounting, so the survey is no means solely collected views from users of conventional accounting standards.

6.4.2 Views from closed questions regarding the desirability of an international NPO standard

The survey comprised a mix of open and closed questions, and the numbers of responses to each option on the closed questions are tabulated in Appendix B. Arguably the central question in the study was Q8a which presented the statement:

“It would be useful to have international standards for NPO accounting.”

(Participants were invited to express their disagreement or agreement with the statement on a five-point Likert scale.)

In all, 72% of respondents expressed some measure of agreement with this and only 14% disagreed, but it should be noted that this included 7% who strongly disagreed – so the idea is by no means uncontroversial. However, there were notable differences across world regions with respondents involved in European NPOs expressing 64% support compared to 82% in African countries.

However, there is a difference between supporting the *existence* of an accounting standard, and actually following it. The level of agreement was somewhat lower at 64% on the more demanding statement (Q8b):

“The not-for-profit sector should follow internationally converged financial reporting standards”

As before, European involved stakeholders were less supportive of this (62%) compared to survey respondents familiar with African NPOs (79%). Moreover, when asked in Q10 whether such a standard should apply to all NPOs or only those above a given income level, a much more diverse range of views emerged. Thirty percent said it should apply to all, but analysis of narrative comments on Q11 indicated that many of respondents still felt some NPOs should be exempt. The next most popular response, supported by 26%, was for a proposal that it should only apply to NPOs with incomes over \$500,000 (or €350,000, or £300,000). Using the UK as an example, if the standard were required to be followed by NPOs above this level it would apply to roughly the largest 10% of registered charities in England and Wales⁴³. However, a number of respondents made the point that what is considered large and small varies extensively between countries – thus, this threshold would only capture a small proportion of NPOs in developing countries.

It is however of interest to note that 53% of survey respondents with experience of financial reporting by NPOs operating in African countries believed that an international standard should be applied to all NPOs regardless of size. Respondents in this category also reported: the strongest experience of NPO specific accounting issues not being adequately dealt with by national reporting frameworks; the highest occurrence of cash-based accounting for NPOs; and significant demands placed on them by funders.

The survey options also captured respondents' views on specific issues which such an international standard would need to address. Respondents identified particular problems in existing framework with: valuation of NPO-specific assets (assets important to the NPO which may have little value if sold); and with narrative reporting (fewer than 50% of respondents believed these issues were sufficiently addressed in existing financial reporting frameworks).

⁴³ Extrapolated from *Charities by income band Sept 2013* as published at www.charitycommission.gov.uk.

Survey respondents also articulated their broader views of accountability in NPO financial reporting, and their perceptions about the main influences determining NPO reporting (see Chapters 4, 5, and Appendix B for further discussion).

6.4.3 Narrative comments by survey respondents

The survey offered opportunities for respondents to provide narrative comments on the issues explored. Around 80% opted to add comment on the main issues – often in considerable detail. Comments were invited on:

- the strengths and weaknesses of existing financial reporting requirements for NPOs in the country(ies) concerned (discussed in Section 5.2 of this report)
- the case for development and application of an international standard for NPO financial reporting (Section 5.3)
- the perceptions of accountability in NPO financial reporting (Section 5.4)
- the need (or otherwise) for those preparing NPO financial statements, and those auditing or examining such statements, to be professionally-qualified accountants (Section 5.6).

In total, around 63,000 words were provided by way of comments. The comments showed a diverse range of views on these issues, often argued with some passion.

The central question of whether or not an international standard for NPOs would be useful is exemplified by the following narratives. At one end of the scale, an in-house accountant working for an NPO in Pakistan suggested:

Development of International Financial Reporting Standards is vital in order to promote transparency, accountability and to develop, disseminate and promote implementation of better accounting standards and best practices for NGOs/NPOs. These standards should cover all aspects of NGOs' reporting obligations ...

– and this respondent proceeded to set out detailed arguments on the specific IAS/IFRS standards which should be applicable to NPOs. Yet at the other end, an NPO staff member in the UK commented:

I think it's a piece of nonsense. Charity accounts are tough enough and international reporting would worsen the interpretation and place high cost on the most vulnerable organisations with the fewest resources.

However, it is important to note that the survey did not seek to explain what form any such international NPO standard might take, but it allowed respondents to interpret this as they saw fit. It is therefore likely the different respondents will have interpreted the term in different ways, and narrative comments indicate that respondents envisaged anything from a mandatory international standard to voluntary guidance for the sector.

There were also many concerns about the demands of any reporting regime – a researcher from the USA suggested:

Small organisations should not have to go to the expense of completing detailed and complex accounting statements. It adds very little value while being costly in time, energy, and other resources for small nonprofits.

A wide range of respondents also raised comments regarding the capacity of NPOs to take on any new reporting standards – for example an accountant in Rwanda said:

Micro NPOs shouldn't be burdened with restrictive reporting especially because they don't have (at least in most cases) a qualified person to prepare them.

Even within the accountancy profession in developed countries, problems were noted. An NPO staff member in New Zealand commented:

Some auditors are nevertheless uneducated about small NGOs, and what to look for, and so we find that we are having to educate them. They can often assign juniors to us who are uneducated which requires us to educate them – bizarrely enough we end up telling them how to audit us.

6.5 Recommendations

CCAB's objectives called for the study: "To make recommendations on whether there is a need or not for the development of some form of international financial reporting framework, guidance or standard(s) for the not-for-profit sector."

The research has identified many considerations regarding that issue, which can inform discussion and debate about the way forward, but it is difficult to offer a conclusive response to this question.

6.5.1 *The need for an international standard*

On the issue of whether there is a "need" to develop some kind of international financial reporting framework or guidance for NPOs, views were clearly mixed.

Although some narrative comments indicated strong opposition, the majority of survey respondents indicated that they thought it would be useful to have international reporting standards for NPO accounting.

In most countries, new legislation would be needed (or significant changes to existing legislation) for an international standard to become compulsory for the presentation of NPO financial statements. At a minimum, national NPO regulators, professional accountancy bodies and global organisations such as IMF, OECD and World Bank, would have to support the development of NPO international standards and encourage compliance across the globe. It would clearly take many years for national regulatory regimes to accept and incorporate NPO standards within their frameworks. Furthermore, if an international standard were to be developed, the survey shows a huge diversity of views on its approach and applicability, with some wanting all NPOs to comply, and others only wishing to see a minority of relatively large NPOs made subject to the standard.

It is clear, however, that many respondents, especially, it appears, those involved with NPOs operating in developing countries, would welcome a standard of some kind, especially if it could resolve the diverse views on how NPOs should present their accounts and the inconsistent demands of funders. The strongest objections to such a standard appear to come from countries such as the UK, which already have well developed frameworks for NPO accounting – although there are also many reservations from other countries.

6.5.2 *Possible ways forward*

In principle a number of possible ways forward can be considered:

- Option 1: Do nothing.
- Option 2: Press for improvements to existing national NPO financial reporting frameworks to address concerns identified in this study (but without creating an international standard).
- Option 3: Seek to develop international guidance on NPO reporting but not a formal accounting standard. This could take various forms ranging from 'helpful guidance' issued by umbrella

bodies in the sector⁴⁴ to suggested standards endorsed by a number of key international stakeholders, but without any formal development by an international standard setter.

- Option 4: Development of international standards for NPO financial reporting, prepared by an international standard setting body, and (eventually) endorsed by appropriate regulatory regimes in jurisdictions across the globe.

Further approaches falling somewhere between these four options could also be suggested.

Whilst a number of respondents would prefer option 1 this does not seem to be the majority view (though it must be noted that this was a survey to gather opinions and issues – not a representative sample).

On the second option, many respondents seemed resigned to the problems of existing frameworks. Whilst some in countries such as the UK and New Zealand were welcoming forthcoming developments in their own national NPO reporting frameworks, it appears there was limited evidence of comparable developments elsewhere. If this option were to be pursued, it is not obvious what organisation(s) would be in a position to lobby for national improvements on a global scale.

The third option, relating to international guidance rather than international standards, was not explored in detail, as the survey focused on formal accounting frameworks and standards (although, as noted, these terms may have been interpreted by respondents in various ways). Non-mandatory national and international guidance in the corporate sector can be seen in the form of, for example, corporate governance guidance and codes. However, there is little in the literature on the role of informal financial reporting guidance within the not-for-profit sector – although studies suggest that that limitations of financial capacity in NPOs can be alleviated to some extent through appropriate training and support using generic guidance.⁴⁵ It may be that transnational organisations, such as the IMF World Bank and OECD, might be persuaded to develop and issue best practice guidance for NPO accounting. This could be particularly useful if such an initiative was developed alongside encouraging funders and regulators of NPOs to harmonise their financial reporting demands to such international guidance.

However, it must be remembered that around a quarter of all respondents stated that their main method of financial reporting at present was on a receipts and payments basis, so pressure to move to any kind of formal accruals-based accounting standard could be a major additional demand. It may be that any standard would need to allow for a cash-based reporting approach by smaller NPOs. But it may be the case that for many smaller NPOs, a systematic layout for cash-based accounts is all that is required and pro-forma guidance could be issued with more detailed guidance for NPO accruals-based accounting, as well as guidance on narrative reporting for all NPOs.

Finally the fourth option – the development of a formal international standard – appears to command a good deal of interest, as shown by a range of narrative comments. The survey highlights views on specific NPO accounting issues that such a standard should address, and the importance of resulting reports demonstrating accountability and stewardship of resources.

The majority of those who commented on detailed frameworks in response to narrative survey questions seemed to suggest such a standard should be IFRS-based, although this may be simply because that was the framework of which they were most aware. Evidence from the closed questions showed that IFRS-based financial reporting frameworks are infrequently encountered by survey participants across the globe. However, those currently seeking to produce NPO financial statements within an IFRS framework (or the IFRS for SMEs) reported significant problems and difficulties, so there

⁴⁴ The term 'umbrella bodies' typically includes infrastructure organisations in the not-for-profit sector which provide support, representation and guidance to local NPOs.

⁴⁵ For example: Morgan, GG et al (2006) *Analysis of Community Accountancy Services in England and Strategic Implications* (Sheffield Hallam University/Finance Hub).

is little doubt that specific additional guidance for NPOs (or even complete new standards) would be welcomed. Also, it should be noted that an overwhelming majority of survey respondents put issues of accountability and stewardship at the top of their priorities for NPO reporting, but that is not the position in IFRS where the primary stakeholders are investors.

If the development of formal international standards for NPOs were to take place, then there are various ways in which this could be envisaged (which are not necessarily mutually exclusive):

- constituting a new international standard setting body for the not-for-profit sector;
- adapting existing international financial reporting standards, for example IFRS or IPSAS, to incorporate NPO specific accounting issues; or
- promoting an existing national financial reporting framework for NPOs, which may have been developed by a funder, regulator or national standard setter, that appears to reflect best practice, and develop international standards on this basis.

But interest in such a development is not the same as acceptance. In addition to acceptance by NPO stakeholders, in those countries which have existing legislation on NPO financial reporting, legislative changes would be needed for any such standard to be used. The development of any such standard setting strategy will have to be cognisant of national regulatory frameworks already embedded in distinct jurisdictions, together with the organisations involved (for example: governments, funders, standard setters, regulators, etc.)

Moreover, financial reporting standards do not normally prescribe the levels at which they must be used: such decisions would eventually be a matter for national regulators and legislators, and, as noted above, there is a wide range of views from survey respondents on this issue. Some would argue for only the most basic level of stewardship to be demonstrated in any reporting framework for the smallest NPOs – others feel strongly that a standard should apply to NPOs of all sizes.

So it is possible that great effort could be used in developing an international NPO standard which might only gain limited use. Empirical evidence from this survey provides information on the potential challenges as expressed by survey respondents' opinion and beliefs and by their experiences of NPO financial reporting frameworks across the globe.

It was clear from responses to the survey that development of standards or guidance for the NPO community internationally will have to be an inclusive process, to ensure that the resulting international NPO financial reporting standards can be complied with and enforced at the national level.

On a final point, which was noted in some of the respondents' comments, any process to introduce an accepted international framework for NPO accounting (whether a formal standard or non-mandatory guidance) will have to incorporate consideration of the education and experience of those individuals who will ultimately be responsible for setting, complying, and (potentially) enforcing standards.

6.6 Further research

Of necessity an exploratory study of this kind can only begin to address the issues raised by its objectives. Further work is needed, including more systematic sampling of NPOs in a range of countries, to assess:

- (a) the extent to which they would welcome a formal international standard for NPO financial reporting and be willing to use it;
- (b) the form which any standard should take – for example, in terms of content, scope and presentations (comparing views of users on a range of options regarding the presentation of a standard);

- (c) if it is suggested that such a standard should be mandatory, to assess the size range of NPOs to which it would apply – or, conversely, the extent to which such a standard would be used in the absence of mandatory requirements;
- (d) whether any new standard should allow for an option of receipts and payments accounting (at least for smaller NPOs);
- (e) how far the issues raised in this study could in practice be addressed by non-mandatory guidance rather than formal standards (option 3 above); and
- (f) the impact of different legal structures under which NPOs can be constituted in different jurisdictions (in particular, the fact that many NPOs are not incorporated as companies and hence fall outside the requirements and standards for company reporting).

Even if a standard were developed, it would need to be drafted and pilot studies undertaken with a range of NPOs of different sizes in different countries before rolling it out more generally.

Further work would also be needed to determine the governance of any standard-setting process. However, the majority of respondents (Q8f) felt that it would be possible for their country to contribute to the standard setting process.

6.7 Limitations

Whilst the study has unpacked a wide range of issues concerning the possible internationalisation of financial reporting by NPOs, it had a number of limitations. In particular, it was conducted on a very tight timescale (only five months from start to finish) and some compromises had to be made for reasons of resources.

A wide range of literature was considered in Chapter 2, amounting to almost 140 research papers, reports, books, and publications by NPO regulators or by accounting standard setters. However, the scope of the study could potentially have included almost anything written on conceptual frameworks of financial reporting, the processes of developing of accounting standards (both national and international), the structure, regulation and governance of NPOs, and the existing financial reporting regimes to which NPOs are subject. So inevitably, selections had to be made. In particular, it was considered that the focus was primarily on General Purpose Financial Statements – rather than on specific reports to donors and funders. No consideration was given to specific reporting requirements to comply with religious requirements, even though many NPOs throughout the world have a faith-based foundation. The focus was also largely limited to literature published in English.

The international survey attracted an extraordinary range of over 600 respondents (see Chapter 3) – far more than the research team anticipated – covering a diversity of roles in relation to NPO financial reporting, and providing experience from a very wide range of countries. The respondents reported direct involvement in financial reporting by almost 35,000 NPOs across 179 countries. However, it is important to note that *this is not a random sample of opinions from all NPOs on the planet, nor even from all accountants involved with NPO reporting*. To have learned of the survey, participants had to be either on the initial contact list of individuals, or (more commonly) on a network reached by a gatekeeper,⁴⁶ or perhaps on the contact list of another respondent. Those who heard of the study then made their own decisions whether or not to participate.

Moreover, as explained in Chapter 3, resource constraints meant that the survey was only made available in English and only online, which will have excluded respondents unfamiliar with the English language and those with little or no internet access.

For any survey where completion is optional, the topic will have a major influence on whether individuals choose to respond, and the *nature of the survey may well have attracted those sympathetic*

⁴⁶ See Chapter 3 for explanation of these terms.

to an international standard, or at least with some interest in international issues affecting NPOs. So it is likely that those with concerns on the issue of international reporting by NPOs, or those with little interest in the issues, are under-represented compared with those inclined to support an international standard for NPO financial reporting.

Also, in line with the objectives set for the study, the survey questions were framed using terms primarily concerned with financial standards (however recipients interpreted that term) – it did not specifically ask for views on less formal guidance such as that discussed in option 3 above.

It should also be noted that this study was concerned with NPOs established for public benefit or charitable purposes (see Section 2.2.1 and 6.2) – further work would be needed to extend the issues to other organisations in the third sector or social economy, such as co-operatives, trade unions, or private clubs.

Moreover, even though the project was led by an international team with extensive experience of research concerning NPO financial reporting and the politics of international standard setting, and with the support of a very experienced Steering Group, the very tight time limits for the project and financial constraints meant that certain compromises had to be made. In particular, only limited direct contact between research team members was possible, with much of the interaction by email or telephone.

6.8 Final comments

The research team offers this report of the study as a significant contribution to the understanding of the specific financial reporting issues for NPOs internationally. It combined an analysis of the theoretic issues from the literature with the empirical evidence of the experience and opinions of more than 600 respondents from around the globe with direct experience in the preparation and/or use of NPOs' financial reports.

Whilst there have been previous studies comparing the accounting requirements for NPOs in different countries, this study is believed to be the first to link such comparative work with discussion and empirical evidence of the underlying concepts and beliefs about of NPO financial reporting internationally.

This report is the first step towards establishing whether or not there is a case for developing international standards for NPO financial reporting across the globe. Much more analysis and discussion will be needed between interested parties. However, the findings presented in this report have the potential to inform the debate and move that discussion forward.

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Appendix A: Jurisdictional summary of NPO financial reporting

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
England and Wales	900,000 ⁴⁷	180,000 ⁴⁸	Convergence towards IFRS. Adoption of FRS 102 from 2015 will see alignment of UK GAAP with modified IFRS for SMEs at least for largest charities. (Otherwise FRSSE allowed.)	SORP 2005 mandated for application by all charitable companies and by all charities preparing accrual accounts (compulsory with income exceeding £250,000)	Charity Commission for England and Wales Her Majesty's Revenue and Customs (HMRC)	Exposure Draft of Revised SORP to take account of changes required by FRS102 and other issues open until 4 November 2013.	Rules apply to charities as defined in Charities Act 2011	SORP does not apply to charities that prepare receipts and payments accounts (80% of English charities).

⁴⁷ Source: NCVO estimate of civil society organisations in England and Wales in 2010. See <http://data.ncvo-vol.org.uk/a/almanac12/almanac/civil-society/what-is-civil-society/> (last accessed September 25, 13).

⁴⁸ Source: Charity Commission for England and Wales. See www.charitycommission.gov.uk

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
Scotland	45,000 ⁴⁹	23,655 ⁵⁰	Convergence towards IFRS. Adoption of FRS 102 from 2015 will see alignment of UK GAAP with modified IFRS for SMEs at least for largest charities. (Otherwise FRSSE allowed.)	SORP 2005 mandated for application by charitable companies and by all charities preparing accrual accounts (compulsory with income exceeding £250,000)	Office of the Scottish Charity Regulator HMRC	Exposure Draft of Revised SORP to take account of changes required by FRS102 open until 4 November 2013.	Rules apply to charities as defined in Charities and Trustee Investment (Scotland) Act 2005	SORP does not apply to charities that prepare receipts and payments accounts.

⁴⁹ Scottish Council for Voluntary Organisations (SCVO), Scottish Third Sector Key Statistics, (2012), available at <http://www.scvo.org.uk/wp-content/uploads/2012/09/SCVO-Scottish-Third-Sector-Statistics-2012.pdf> (last accessed September 6, 13).

⁵⁰ Source: Office of the Scottish Charity Regulator (OSCR) at September 6, 13 - <http://www.oscr.org.uk/>.

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
Northern Ireland	Unknown - NICVA mapping survey underway (2012) – no published results yet.	6,500 ⁵¹	No general framework yet in force. Likely to be same as England & Wales once new regulations approved	Not yet – awaiting regulations. New SORP likely to be mandated for application by charitable companies and by all charities preparing accrual accounts (compulsory with income exceeding £100,000)	Charity Commission for Northern Ireland HMRC	CCNI Public Consultation on interim reporting requirements for registered charities open until 13 December 2013. The Department for Social Development (DSD) is responsible for developing the full accounting and reporting regulations, which will set out the form and content requirements for charity accounts and the level of review or audit these charity accounts must have. Expected to come into force January 2015.	Rules will apply to charities as defined in Charities Act (Northern Ireland) 2008	SORP does not apply to charities that prepare receipts and payments accounts.

⁵¹ Source: Charity Commission for Northern Ireland list of deemed charities as at September 2013 -- http://www.charitycommissionni.org.uk/Library/pdf_documents/Deemed%20List%20HMRC%2018%20February%202011.Updated%2023%20August%2013.xls

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
Ireland	24,000	8,200 ⁵²	Convergence towards IFRS. Adoption of FRS 102 will see alignment of Irish GAAP with modified IFRS for SMEs.	No. Awaiting implementation of the Charities Act 2009.	Revenue Commissioners. At present no specific filing or reporting accounting standards in place for charities. SORP is not mandatory and is applied by 3% of those charities eligible to do so.	Government Public Consultation on proposed Reporting and Registration requirements (March 2013).	Rules will apply to charities as defined in Charities Act 2009	Introduction of accrual based accounts for all charities under Charities Act 2009. This will make FRS 102 applicable which will make SORP mandatory for all charities by the back door.
Switzerland	12,000 ⁵³			Swiss GAAP RPC 21 – application is voluntary	Swiss Foundation for Accounting and Reporting			

⁵² Source: Revenue Commissioners List of organisations granted charitable tax exempt status at August 9, 2013. Available at http://www.revenue.ie/en/about/publications/charities_alpha.pdf

⁵³ This figure is based on the number of non-profit foundations only in Switzerland. See Dominique Jakob, Roman Huber and Katharina Rauber *Nonprofit Law in Switzerland* Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project, No. 47. Baltimore: The Johns Hopkins Center for Civil Society Studies, 2009, at 8.

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
United States of America	1.5 million	1 million with §501(c)(3) status	Ongoing harmonisation between FASB and IFRS standards	Yes. Separate for-profit and NPO accounting standards have existed since 1973. Current Codification Accounting Standard 958 NFP.	IRS – Annual Filing of Form 990 FASB (Not-for-Profit Advisory Committee ‘NAC’) AICPA – US GAAP	NAC project on Not-for-Profit Financial Reporting Standards: Financial Statements – ED expected first half of 2014. NAC project on Not-for-Profit Reporting: Other Financial Communications – planned Discussion Paper for first half of 2014.		Accounting standards applied in IRS Form 990 at times conflict with the accounting requirements of US GAAP
Canada	161,000 ⁵⁴	85,000	Since January 2011 IFRS replaced Canadian GAAP	Separate Accounting Standards applied for NPO and for-profit entities. And separate standards as between public and private NPOs	Canada Revenue Agency – Form T3010 Public Sector Accounting Board (PSAB) – new accounting standards in 2010 ⁵⁵ Accounting Standards Board (AcSB) - new accounting standards in 2011 ⁵⁶	Release of joint PSAB and AcSB Statement of Principles on Improvements to Accounting Standards for NPO organisations in April 2013 – open for comment until December 2013.	Yes. See Guide to Accounting Standards for NPOs in Canada 2012 which distinguishes between NFPO and GNFP	Issues for discussion include definition of ‘assets’ and recognition of ‘capital assets’

⁵⁴ Source: Imagine Canada as at September 6, 13 -- <http://sectorsource.ca/research-and-impact/sector-impact>

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
South Africa	109,781 ⁵⁷		IFRS replaced African GAAP from December 2012 for all listed and public entities. IFRS for SMEs also in application. Public sector standards (GRAP) also exist.	No institution issues separate accounting standards for nonprofits, which instead rely on IFRS	SAICA responsible for IFRS implementation ASB responsible for GRAP		Definition under Nonprofit Organisations Act, 1997 ⁵⁸	Fund accounting is not consistent with GAAP, causing nonprofits difficulties in the use of funds and reserves. GAAP definition of “assets” inconsistent with NPO understanding of this term causing difficulties re asset recognition, impairment and depreciation.

⁵⁵ See <http://www.cica.ca/applying-the-standards/financial-reporting/accounting-standards-for-not-for-profit-organizations/item73291.aspx>.

⁵⁶ See <http://www.cica.ca/applying-the-standards/financial-reporting/accounting-standards-for-not-for-profit-organizations/item73096.aspx>

⁵⁷ These bodies are registered under the Non-profit Organisations Act 1997.

⁵⁸ The Act (as amended in 2000) defines a ‘non-profit organisation’ as a “... trust, company or other association of persons (a) established for a public purpose; and (b) the income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered.”

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
Australia	600,000	58,048 ⁵⁹	Since 2005, IFRS compliance for NPs; main exceptions relate to impairment for non-cash generating assets and no-exchange income recognition.	Sector Neutral approach. Development of National Standard Chart of Accounts (NSCOA). Introduction of AIS for 2014.	Australian Taxation Office (ATO), Australian Charities and Non-profit Commission (ACNC), Australian Accounting Standards Board (AASB).	March 2013: AASB Exposure Draft 238 pm Consolidated Financial Statements - Australian Guidance for Not-for-Profit Entities. Revised AASB standard on consolidated statements and Guidance on related party disclosures in NFP Public Sector entities expected in third quarter of 2013. Australian Treasury ED ACNC - Financial Reporting Requirements (Feb 2013)	Operates under a sector neutral accounting policy. AASB defines 'not-for-profit entity' as "entity whose principle objective is not the generation of profit."	Need for consistent basis on how to account for donations and grants (absent from IFRS and AASB standards framework). Need for better disclosure on income received and allocations Difficulties due to divergence from New Zealand.
Japan	90,000 ⁶⁰	223 ⁶⁰	Convergence with IFRS is underway as a result of the Tokyo Agreement 2007. Membership of ASAF	No separate standards at present.	Accounting Standards Board of Japan (ASBJ - 2001) Japanese Institute of CPAs (JICPA)	JICPA Report towards Establishing an Accounting Framework for Non-profit Organisations (July 2013)		

⁵⁹ Source: Australian Charities and Not-for-Profit Commission as at September 2013 - http://www.acnc.gov.au/ACNC/FTS/Fact_NFPNotChar.aspx.

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
India	1.2 million ⁶¹	22,924 NPOs registered with Ministry of Home Affairs ⁶²	Not yet IFRS compliant, even for listed companies ⁶³		Institute of Chartered Accountants of India (ICAI)		Foreign Contribution Regulation Act 1976	

⁶⁰ The Economist, *Japan, Long hostile to non-profit groups is easing up* (July 7, 2011) available at www.economist.com/node/1892959 (last accessed September 25, 13).

⁶¹ S. S. Srivastava and Rajesh Tandon, How Large Is India's Non-Profit Sector? (2005) 40(19) *Economic and Political Weekly* 1948-1952.

⁶² Registration under Foreign Contribution Regulation Act 1976. Data dates from 2001. Source: Ghandi (2005). A far larger number of NPOs are registered with the Indian Income Tax Department but the list of such NPOs is not publicly available and thus it is not possible to estimate the size of the entirety of the charitable tax-exempt sector in India.

⁶³ The Indian Ministry of Corporate Affairs in 2010 announced a phased convergence towards IFRS to be carried out between 2011 and 2014. The original time-table for this phased adoption has not been met and no new time-table has been forthcoming.

Country	Size of NPO Sector (est.)	Size of charitable sector	IFRS Compliant	Existence of NPO Accounting Framework	National Regulators	Current Consultations	NP Definition	Challenges
New Zealand	97,000 ⁶⁴	26,597 ⁶⁵	Since 2007. Drive to avoid departure from IFRS while maintaining sector neutral approach has resulted in minimalist approach to changes to IFRS	2012: XRB Proposal for reporting standards based on International Public Sector Accounting Standards with Simple Format Standards for smaller entities May 2013: XRB issues package of new accounting standards for large and medium public sector PBEs.	External Reporting Board (XRB) from 2011 on. NZASB is a committee of XRB. Charities Act 2005 requires filing of statement of financial performance and position with Charities Service but no accounting standard imposed.	NZASB development of ED on Public Benefit Entity for Tier 1 and 2 entities. Consideration underway of Standards for PBE (NFP) simple format reporting for Tier 3 and 4 entities. Charities Service is cooperating with XRB to minimise additional compliance for registered charities and is considering changing online annual return to reflect proposed XRB reporting requirements.	Public Sector PBEs are public benefit entities that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament. Not-for-profit public benefit entities (NFP PBEs) are reporting entities that are public benefit entities but that are not public sector public benefit entities.	

⁶⁴ Source: Statistics New Zealand. This 2007 estimate is based on 2005 figures; see http://www.stats.govt.nz/browse_for_stats/people_and_communities/Households/Non-ProfitInstitutionsSatelliteAccount_HOTP2005.aspx (last accessed September 6, 13).

⁶⁵ Source: New Zealand Charity Register as at September 6, 13 <http://www.charities.govt.nz/the-register/statistics/>.

Appendix B: Survey questions and tabulation of results

Introduction

This Appendix gives details of the questions asked in the online survey, together with a tabulation of the numbers of respondents selecting each option in the closed (multiple option) questions.

- For further explanations of the design and distribution of the survey and a profile of respondents see Chapter 3.
- For discussion of the main finding on the closed questions see Chapter 4.
- For findings on the narrative questions – including many direct quotations from respondents – see Chapter 5.

The survey gained 611 responses within the timeframe allowed, of which 605 were considered useable.

Details shown

The survey appeared to respondents as a welcome screen followed by seven screens seeking responses.

This Appendix does not necessarily show the actual appearance of screens as presented to respondents. The closed questions were mainly presented in a tabular format for respondents to indicate the option closest to their view on issue each issue or statement.

The tabulation of responses to question 2 have been collapsed into regions – however, respondents were able to select any country or countries from the United Nations list of 227 nations, or to indicate involvement with NPO financial reporting on a worldwide basis.

Question 9 appeared with two columns for responses to two separate aspects:

- *Column A* – for respondents to indicate whether or not they agreed “*The issue is adequately covered in the existing NPO accounting framework which applies in my country*”
- *Column B* – for respondents to indicate whether or not they agreed “*It would be beneficial to address this issue in an international standard on NPO accounting*”.

Welcome Screen

International Financial Reporting for Not-for-Profit Organisations

Research by Sheffield Hallam University/University of Dundee

Welcome

The following screens ask a number of questions about your views regarding financial reporting issues for not-for-profit organisations (NPOs) in your country - both at present and in the future.

The focus of the survey is on financial reporting by organisations (NPOs) which:

- are constituted on a **not-for-profit basis** AND
- are **self-governing** AND
- are established for **public benefit**.

This definition of NPOs includes charities, NGOs, faith-based organisations, welfare organisations, schools and hospitals if outside the public sector, community organisations, and many others.

Please answer the following questions with reference to your own experience of working with NPOs. All mentions of "financial reports" relate to the final report and accounts for the NPO (normally for a 12 month period and often available to external parties).

Section 1

1. Which of the following best describes your involvement with NPO financial reporting? (If you have several roles, please select the most relevant.) [Choose one]		
I work for an NPO and have involvement in its annual financial reports.:	39.9%	252
I am a board member or trustee of an NPO and have involvement in its annual financial reports.:	12.6%	80
I am a professional accountant working in practice and involved in preparation of NPO financial reports.:	10.1%	63
I am a professional accountant working in practice and involved in the audit or external examination of NPO financial reports.:	13.4%	84
I am in practice supporting the preparation or examination of NPO financial reports but I am not a professional accountant.:	3.6%	29
I represent a professional body for accountants.:	2.5%	16
I represent a regulator of organisations operating in the not-for-profit sector.:	0.3%	2
I am directly involved in the development of accounting standards.:	2.6%	17
I am a funder of NPOs.:	1.3%	9
I am an academic or researcher who studies the financial reporting of NPOs.:	5.7%	35
I am a user of NPO financial reports in other ways.:	2.8%	18
Usable responses		605

2. Which country or countries account for your main involvement with NPO financial reporting? <i>[individual countries chosen more than 10 times or more are shown]</i>	
World wide	37
Africa <i>[Kenya: 31; South Africa: 45; Tanzania: 21; Uganda: 31; DR of Congo: 11; Mozambique: 10]</i>	165 (individual countries chosen 399 times)
America <i>[Canada: 23; USA: 39; Zimbabwe: 21; Zambia: 17; Ethiopia: 16; Nigeria: 15; Sudan: 18; Zambia: 17; Rwanda: 13]</i>	77 (individual countries chosen 143 times)
Asia <i>[Pakistan: 21; Bangladesh: 16; Cambodia: 17; India: 17; Afghanistan: 14; Myanmar: 10]</i>	111 (individual countries chosen 260 times)
Europe <i>[UK&NI: 187; Switzerland: 20; Belgium: 16; Germany: 15; Ireland: 16; Netherlands: 16; Denmark: 10; Norway: 10]</i>	268 (individual countries chosen 396* times)
Oceania <i>[Australia: 42; New Zealand 35]</i>	88 (individual countries chosen 100 times)

*United Kingdom & Northern Ireland chose 187 times; Continental European countries chosen 97 times.

Section 2

3. For how many years have you had a significant involvement with the financial reporting of NPOs?		
None:	2.3%	9
1 year:	4.7%	28
2-3 years:	13.1%	78
4-5 years:	11.4%	68
5-10 years:	24.1%	144
More than 10 years:	44.4%	265
Other		13

4. For each of the NPOs where you have a <i>direct involvement</i> in the preparation or audit of financial statements, please indicate roughly how many NPOs fall into each of the following income bands.	
Band 1 Number of NPOs -- Band 1: Income 0 -- 50,000 USD 0 -- 35,000 EUR 0 -- 30,000 GBP	164
Band 2 Number of NPOs -- Band 2: Income 50,000 -- 500,000 USD 35,000 -- 350,000 EUR 30,000 - 300,000 GBP	250
Band 3 Number of NPOs -- Band 3: Income 500,000 -- 5M USD 350,000 -- 3.5M EUR 300,000 - 3M GBP	233
Band 4 Number of NPOs -- Band 4: Over 5M USD Over 3.5M EUR Over 3M GBP	207

Section 3

5. Thinking about the form of NPO financial reporting with which you are most frequently involved, are the financial reports normally prepared as:		
Cash-based receipts and payments accounts:	23.9%	145
Accruals accounts:	67.6%	412
I don't know:	2.9%	15
Other (<i>please specify</i>):	5.6%	33

6. Which of the following financial reporting frameworks (if any) determine how these accounts are prepared?	
Company or corporation law in your country:	257
Specific law on the accounts of NPOs or NGOs or charities in your country:	237
General purpose accounting standards used in your country (sometimes called GAAP - Generally Accepted Accounting Practice):	310
IFRS or IAS (International Financial Reporting Standards - formerly International Accounting Standards) applied in full:	121
IFRS for SMEs (IFRS for Small and Medium Enterprises) or IFRS with reduced disclosures:	65
IPSAS (International Public Sector Accounting Standards):	21
Requirements set by a regulatory body which has oversight of NPOs or NGOs or charities in your country (including tax authorities if applicable):	176
Requirements set by a funder of NPOs or NGOs or charities in your country:	142
Specific accounting standards applicable to NPOs or charities in your country:	155
Other (<i>please specify</i>):	41

7. What do you see as the strengths or limitations of preparing financial reports on this basis? We are particularly interested in any issues where you feel the existing accounting framework: • gives clear and helpful guidance on how to account for NPO specific issues OR • gives insufficient guidance on issues which need to be considered in NPO financial statements (please mention specific issues) OR • is unduly demanding OR • is difficult to apply to NPOs (please say why)

(Narrative responses given)

Section 4

8. At present the practices of NPO accounting vary substantially from one country to another. It has been suggested that it might be useful to harmonise financial reporting across the sector by developing international standards for NPO accounting.

8.a. It would be useful to have international standards for NPO accounting

Strongly Disagree:		6.7%	41
Disagree:		7.7%	47
Neither agree nor disagree:		12.4%	74
Agree:		33.6%	203
Strongly Agree:		37.5%	228
<i>Don't know or no opinion:</i>		2.1%	13

8.b. The not-for-profit sector should follow internationally converged financial reporting standards.

Strongly Disagree:		6.2%	38
Disagree:		12.1%	74
Neither agree nor disagree:		14.7%	88
Agree:		38.0%	230
Strongly Agree:		26.0%	159
<i>Don't know or no opinion:</i>		2.9%	16

8.c. NPO accounting in my country is very specific - it would be very hard to apply international standards even if they were specific to NPOs

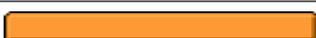
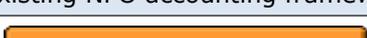
Strongly Disagree:		11.5%	70
Disagree:		41.7%	255
Neither agree nor disagree:		18.5%	110
Agree:		13.7%	83
Strongly Agree:		6.4%	39
<i>Don't know or no opinion:</i>		8.2%	48

8.d. Even if an international standard for NPOs were produced by a reputable international body, NPOs in my country would be reluctant to follow them

Strongly Disagree:		10.3%	63
Disagree:		34.0%	208
Neither agree nor disagree:		20.5%	123
Agree:		17.8%	107
Strongly Agree:		6.5%	40
<i>Don't know or no opinion:</i>		10.8%	64

8.e. Leading donors/funders of NPOs would value accounts prepared in accordance with an international standard for NPO accounting			
Strongly Disagree:		4.6%	28
Disagree:		8.0%	49
Neither agree nor disagree:		11.5%	68
Agree:		36.7%	222
Strongly Agree:		32.4%	197
<i>Don't know or no opinion:</i>		6.9%	41
8.f. My country would be able to influence the development of internationally converged financial reporting standards for NPOs.			
Strongly Disagree:		2.6%	16
Disagree:		8.3%	51
Neither agree nor disagree:		15.2%	92
Agree:		39.0%	235
Strongly Agree:		23.6%	143
<i>Don't know or no opinion:</i>		11.3%	68

9. If an international standard for NPO accounting were to be developed, it has been suggested it would need to address some or all of the following issues.			
9.a-A. Definition of the reporting entity (for example, identification of branches and whether or not they are part of the NPO for accounting purposes) -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		57%	343
No:		22%	133
<i>Don't know or no opinion:</i>		21%	129
9.a-B. Definition of the reporting entity (for example, identification of branches and whether or not they are part of the NPO for accounting purposes) -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		80%	484
No:		7%	42
<i>Don't know or no opinion:</i>		13%	79
9.b-A. Revenue recognition for non-exchange transactions such as grants, donations, legacies -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		62%	374
No:		25%	153
<i>Don't know or no opinion:</i>		13%	78
9.b-B. Revenue recognition for non-exchange transactions such as grants, donations, legacies -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		83%	504
No:		6%	37
<i>Don't know or no opinion:</i>		11%	64
9.c-A. Valuation of assets which may be important to the NPO but which have little value if sold -- Column A			

The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		40%	240
No:		36%	220
Don't know or no opinion:		24%	145
9.c-B. Valuation of assets which may be important to the NPO but which have little value if sold -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		69%	415
No:		14%	83
Don't know or no opinion:		18%	107
9.d-A. Liability issues in relation to grant commitments or other NPO-specific obligations -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		52%	314
No:		30%	184
Don't know or no opinion:		18%	107
9.d-B. Liability issues in relation to grant commitments or other NPO-specific obligations -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		79%	477
No:		7%	45
Don't know or no opinion:		14%	83
9.e-A. Fund accounting (e.g. the treatment of donated funds subject to restrictions on their use) -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		57%	345
No:		29%	173
Don't know or no opinion:		14%	87
9.e-B. Fund accounting (e.g. the treatment of donated funds subject to restrictions on their use) -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		82%	498
No:		7%	45
Don't know or no opinion:		10%	62
9.f-A. Narrative reporting -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		47%	285
No:		35%	213
Don't know or no opinion:		18%	107
9.f-B. Narrative reporting -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		71%	428
No:		15%	89
Don't know or no opinion:		15%	88
9.g-A. Transactions with connected parties (e.g. board members or their relatives) -- Column A The issue is adequately covered in the existing NPO accounting framework which applies in my country			
Yes:		60%	366

No:		25%	152
Don't know or no opinion:		14%	87
9.g-B. Transactions with connected parties (e.g. board members or their relatives) -- Column B It would be beneficial to address this issue in an international standard on NPO accounting			
Yes:		78%	474
No:		9%	57
Don't know or no opinion:		12%	74

10. If an international standard were developed for NPO accounting, do you feel it should be required to be used by *all* NPOs in your country (even the smallest organisations) or only those above a certain size?

It should apply to all NPOs regardless of size:	30.3%	179
It should apply to NPOs with a total income of more than 50,000 USD / 35,000 EUR / 30,000 GBP:	16.3%	97
It should apply to NPOs with a total income of more than 500,000 USD / 350,000 EUR / 300,000 GBP:	25.8%	155
It should apply to NPO with a total income of more than 5M USD / 3.5M EUR / 3M GBP:	15.1%	91
Other (please specify):	12.5%	74

11. Would you like to give reasons for your answers to the last question? Please add any further comments in relation to the process of developing an international standard for NPO accounting.
(Narrative responses given)

Section 5

12. The following table includes some statements regarding financial reporting information from the point of view of those who use the accounts of NPOs.

12.a. The financial reports of NPOs should be published and available to anyone

Strongly Disagree:		3.1%	19
Disagree:		6.9%	42
Neither agree nor disagree:		6.9%	39
Agree:		30.1%	182
Strongly Agree:		52.2%	319
Don't know or no opinion:		0.8%	4

12.b. NPO financial reports should demonstrate appropriate stewardship of resources

Strongly Disagree:		1.5%	9
Disagree:		0.7%	4
Neither agree nor disagree:		2.9%	15
Agree:		32.6%	197
Strongly Agree:		60.4%	369
Don't know or no opinion:		2.0%	11

12.c. Producing financial reports is a key means by which NPOs demonstrate their accountability

Strongly Disagree:		1.5%	9
Disagree:		2.9%	18
Neither agree nor disagree:		4.6%	25
Agree:		33.6%	203
Strongly Agree:		56.3%	344
<i>Don't know or no opinion:</i>		1.1%	6
12.d. NPO financial reports should be useful for decision making			
Strongly Disagree:		1.6%	10
Disagree:		2.0%	12
Neither agree nor disagree:		10.3%	60
Agree:		36.8%	223
Strongly Agree:		48.4%	296
<i>Don't know or no opinion:</i>		0.8%	4
12.e. NPO financial reports should provide a key means of transparency			
Strongly Disagree:		1.8%	11
Disagree:		0.7%	4
Neither agree nor disagree:		3.4%	18
Agree:		31.8%	192
Strongly Agree:		61.5%	376
<i>Don't know or no opinion:</i>		0.8%	5
12.f. It is important that financial reports allow comparability between NPOs in a given country			
Strongly Disagree:		2.3%	14
Disagree:		5.7%	35
Neither agree nor disagree:		15.9%	94
Agree:		36.3%	220
Strongly Agree:		38.0%	232
<i>Don't know or no opinion:</i>		1.8%	10
12.g. Financial reports should allow comparability between NPOs in different countries			
Strongly Disagree:		3.6%	22
Disagree:		12.3%	75
Neither agree nor disagree:		24.7%	148
Agree:		34.0%	206
Strongly Agree:		21.9%	134
<i>Don't know or no opinion:</i>		3.4%	20
12.h. Users should be able to place a high degree of reliability on the financial reports of NPOs			
Strongly Disagree:		1.6%	10
Disagree:		0.7%	4
Neither agree nor		2.8%	14

disagree:			
Agree:		33.7%	204
Strongly Agree:		59.7%	365
<i>Don't know or no opinion:</i>		1.5%	8
12.i. NPO financial reports should be clearly understandable by someone who has no direct knowledge of the organisation			
Strongly Disagree:		1.6%	10
Disagree:		2.0%	12
Neither agree nor disagree:		5.7%	32
Agree:		43.2%	262
Strongly Agree:		46.5%	284
<i>Don't know or no opinion:</i>		1.0%	5

13. When thinking about the stakeholder groups and users of NPO financial reports, to whom do you see the NPO as being accountable and why? Stakeholders and users include (for example): funders; beneficiaries; employees; board members and trustees; local community; government; regulators, the wider public.

(Narrative responses given)

14. To what extent do you disagree or agree with the following statements regarding the main influences on NPO financial reporting in your country?

14.a. Requirements of professional bodies

Strongly Disagree:		2.8%	17
Disagree:		11.7%	71
Neither agree nor disagree:		15.3%	91
Agree:		41.4%	250
Strongly Agree:		23.8%	145
<i>Don't know or no opinion:</i>		4.9%	28

14.b. The views of those who prepare NPO financial statements

Strongly Disagree:		3.0%	18
Disagree:		13.4%	81
Neither agree nor disagree:		13.9%	82
Agree:		48.8%	293
Strongly Agree:		15.8%	94
<i>Don't know or no opinion:</i>		5.1%	29

14.c. The education or qualifications of those who prepare NPO financial statements

Strongly Disagree:		2.3%	14
Disagree:		11.5%	69
Neither agree nor disagree:		16.1%	95
Agree:		46.8%	281
Strongly Agree:		19.1%	114

<i>Don't know or no opinion:</i>		4.2%	23
14.d. National financial reporting standards			
Strongly Disagree:		2.0%	12
Disagree:		6.0%	36
Neither agree nor disagree:		10.3%	60
Agree:		49.1%	295
Strongly Agree:		28.0%	168
<i>Don't know or no opinion:</i>		4.6%	26
14.e. The mission of the NPO itself			
Strongly Disagree:		3.5%	21
Disagree:		19.6%	119
Neither agree nor disagree:		23.1%	138
Agree:		36.7%	221
Strongly Agree:		12.7%	77
<i>Don't know or no opinion:</i>		4.4%	25
14.f. The requirements of funders			
Strongly Disagree:		1.7%	10
Disagree:		10.5%	63
Neither agree nor disagree:		13.8%	81
Agree:		42.4%	253
Strongly Agree:		27.9%	168
<i>Don't know or no opinion:</i>		3.8%	21
14.g. The needs of beneficiaries/service users			
Strongly Disagree:		7.1%	43
Disagree:		30.6%	186
Neither agree nor disagree:		21.7%	130
Agree:		28.7%	172
Strongly Agree:		7.9%	48
<i>Don't know or no opinion:</i>		4.0%	22
14.h. Legislation			
Strongly Disagree:		1.7%	10
Disagree:		4.6%	28
Neither agree nor disagree:		8.6%	50
Agree:		50.2%	303
Strongly Agree:		31.5%	190
<i>Don't know or no opinion:</i>		3.5%	19
14.i. Cost constraints			
Strongly Disagree:		3.3%	20

Disagree:		18.5%	112
Neither agree nor disagree:		26.1%	156
Agree:		34.5%	208
Strongly Agree:		12.0%	72
<i>Don't know or no opinion:</i>		5.6%	32
14.j. The demands of the regulator of NPOs			
Strongly Disagree:		2.5%	15
Disagree:		6.5%	39
Neither agree nor disagree:		12.1%	71
Agree:		46.9%	281
Strongly Agree:		26.0%	155
<i>Don't know or no opinion:</i>		6.0%	34
14.k. The requirements of tax authorities			
Strongly Disagree:		3.8%	23
Disagree:		14.0%	85
Neither agree nor disagree:		16.4%	97
Agree:		39.7%	239
Strongly Agree:		22.1%	133
<i>Don't know or no opinion:</i>		4.0%	22
14.l. The size of the NPO			
Strongly Disagree:		2.7%	16
Disagree:		8.8%	53
Neither agree nor disagree:		14.6%	86
Agree:		50.7%	305
Strongly Agree:		18.6%	111
<i>Don't know or no opinion:</i>		4.6%	26

15. Do you consider that there are any other significant influences on NPO financial reporting in your country?

(Narrative responses given)

Section 6

16. To what extent do you consider that those preparing financial reports for NPOs need to be professionally qualified?

(Narrative responses given)

17. To what extent do you consider that auditors/examiners of not-for-profit financial reports need to be professionally qualified?

(Narrative responses given)

Section 7

18. Do you have any further comments on the need for international standards for accounting by NPOs and the issues they should cover?

(Narrative responses given)

19. This survey is anonymous, but in some cases it may be helpful if we can contact you further to discuss your answers.

19.a. Name:

19.b. Organisation:

19.c. Position:

19.d. E-mail:

Appendix C: The CCAB Project Steering Group

The project had the benefit of support and guidance from a Steering Group whose members were as follows. Many Steering Group members also acted as Gatekeepers (see Chapter 3), circulating details of the survey to NPOs, accountants, professional bodies or others on their contact lists.

Membership

Chair: Ian Carruthers, Policy and Technical Director, CIPFA

Other members:

Bob Humphreys, F&IS Director, Oxfam GB

Carol Rudge, Partner Head of Not for Profit, Assurance, Grant Thornton UK LLP

Chris Harris, Partner, MHA MacIntyre Hudson

Jo Baker, Financial Management Trainer, MANGO

Katherine Smithson, Policy and Public Affairs Officer, Charity Finance Group (CFG)

Nigel Davies, Accountancy Policy Team, Charity Commission

Pesh Framjee, Partner, Head of Non Profits, Crowe Clark Whitehill LLP

Richard Martin, Head of Corporate Reporting, ACCA

Tim Boyes-Watson, Director, MANGO

Vanessa Harrison, Head of Special Interest Groups, ICAEW (and previously, Nicky Rushden)

Secretary to the Steering Group: Sharon Grant, Manager, CCAB

Others consulted

The following were not members of the Steering Group but were copied in and consulted on Steering Group documents:

Christine Scott, Assistant Director, Charities & Pensions, ICAS

John Maddocks, Policy & Technical Manager:Sustainability & 3rd Sector, CIPFA

Michelle Crickett, Director of Research, ICAS

Stephen Molloy, Manager Members Services, Chartered Accountants Ireland

About CCAB

The combined membership of the five CCAB bodies – ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland – amounts to 245,000 professional accountants in the UK and the Republic of Ireland (354,000 worldwide).

CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy.

CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

Consultative Committee of Accountancy Bodies

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