

Improving NPOs' accountability in the enlarged EU: towards a common framework for financial reporting in European NPOs

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Not for Profit Organizations (NPOs) are ~~the subject in the middle~~ of a relevant debate by scholars, politicians and public opinion. The European Commission issued ten years ago a Communication regarding the promotion of associations' and foundations' role, the problems and the challenges they have to face to improve their actions and to be able to better operate in a European context. [\(1\)](#)

~~Some efforts were done to measure economic dimensions of "third sector" by r~~Research centres and international institutions made some efforts to measure economic dimensions of "third sector" while there is a remarkable lack of homogeneity concerning NPOs' accounting regulation in the European Union.

Each country has its own accounting regulatory system, strongly depending by civil and tax laws; this reduces ~~both~~ NPO's disclosure and prevents scholars to comprehend the real state of social economy system at European level and their financial performance. Moreover it makes NPOs' chance to operate in a foreign country into the enlarged EU very difficult and make difficult an homogeneity in NPOs treatment at European level.

A European agenda to support the accountability development in the third sector should define a minimum common framework for institutional and governance features, financial accounting and social accountability for different kinds of NPO, ~~beginning starting~~ from the different national regulations. [\(2\)](#) [\(3\)](#)

In particular an ~~hypothesis~~ hypothetical of "European NPOs' framework" for financial reporting (a first step to a better accountability) has ve to consider different regulations in order to:

- a) legal ~~entities form~~ in which NPOs ~~are have constituted instituted~~ in EU countries ~~end and~~ their regulations (specific for NPOs or general for commercial entities);
- b) accounting ~~and auditing~~ obligations (keep accounting records, prepare annual accounts, provide financial reporting) ~~and auditing~~;
- c) mandatory annual report provided by the NPOs (mission statement, asset and liability statement, statement of financial activities, explanatory notes, trustees report)
- d) ~~disclosure of~~ accounts ~~disclosure~~ (make the accounts available to the public on request or deposit it in a public register)
- e) accounting principles for NPOs (cash or accrual basis, light regulation for smaller entities, IFRS implementation)
- f) ~~a~~ model for NPOs financial performance evaluation based on financial statement (significant ratio in accounting aggregates) (4)

To define a common framework we start from a ~~comparison matching~~ between Spanish, Italian, and English regulations (law and practice) applied to NPOs to highlight ~~similitudessimilarities~~ and differences.

The paper is the first step of a wider research whose final goal is a “meeting path” to a common accounting framework for non-profit organizations in European Union.

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Paper for Panel Session on
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The Use Of Charitable Status as a Basis for Regulation of Nonprofit Accounting: Assessing a Decade of Legal Reforms in the UK

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ABSTRACT

Most of the framework for regulation of nonprofit organisations in the UK is linked to the issue of charitable status. A charity is not a particular legal form – rather a wide range of organisations can be recognised as charities if they meet two fundamental tests: (a) exclusively charitable objects and (b) public benefit. These concepts date back to legislation first enacted in 1601, and only recently revised in the Charities Act 2006 which will take effect in 2008.

But whilst the *definition* of charity has only just been updated after more than 400 years, various laws have affected the *regulation* of charities. In particular, the Charities Act 1993 introduced a major new statutory regime for charity accounting in England and Wales which came into effect for most charities in 1997; it was subsequently updated in 2000 and again in 2005. This regime required all charities to publish financial statements, it set standards for the presentation of accounts (with all but the smallest having to follow a specific standard, the Charities SORP (see Charity Commission 2005 for the latest version). The regime also set various levels of independent scrutiny of the accounts with the trustees of the smallest charities (up to £10,000 income) permitted to approve accounts without external scrutiny, then a requirement for “independent examination” of the accounts (originally allowed up to £250,000 income, now extended to £500,000) and above this a professional audit. A slightly different regime applies in Scotland, and new proposals are under consideration for Northern Ireland.

Various aspects of this regime have received attention by researchers, including Palmer et al (1998, 2001, 2002); Morgan (1999, 2004, 2006); Connolly and Hyndman (2000, 2001, 2004); and Beattie et al (2001). However, most research has focused on levels of compliance with the regime, rather than assessing its wider implications.

But the UK has no specific accounting framework for those nonprofits which are *not* charities: everything hinges on the issue of charitable status. In particular, a new legal form of a Community Interest Company (CIC) has recently been created for non-charitable social enterprises (CIC Regulator 2007), but although the directors of a CIC must produce an additional report, the annual accounts are subject only to the normal UK requirements for company accounts.

This paper will draw on direct analysis of the legislation, analysis of previous studies, and fieldwork by the author with a wide range of representations of nonprofit organisations. It will explore and assess the UK's specific emphasis on charitable status in relation to nonprofit accounting, including comparisons between the different jurisdictions within the UK (England and Wales, Scotland, Northern Ireland). It will ask how for the first decade of this regime (1997-2007) has affected the wider understanding of civil society organisations in the UK.

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