Accounting for charities from an international perspective: a review of principles and practice in the United Kingdom, The Netherlands, Hong Kong and New Zealand.

Carolyn Cordery
Lecturer, School of Business
The Open Polytechnic of New Zealand[a]

[a] Corresponding author: Carolyn Cordery, The Open Polytechnic of New Zealand, phone: (0644)913-5536; fax: (064)913-5656; email: carolyn.cordery@openpolytechnic.ac.nz

Abstract:

New Zealand has recently announced a Charities Commission, but, in the interim, donors and funders rely on sector-neutral accounting standards and charities' integrity to provide accountability. This paper explores the nature of not-for-profit reporting in New Zealand as well as the United Kingdom, Netherlands and Hong Kong. Specifically, it considers charitable institution reporting frameworks within each country, comparing and contrasting philosophical and practical differences between them. Accountability for charities is vital to ensure public funding. Misappropriation of funds harms the individual charity and the industry as a whole.

Both the United Kingdom and the Netherlands use regulation to encourage charities to provide transparency and fiscal accountability. Whilst in the United Kingdom this is compulsory, in the Netherlands the system is a voluntary one, supported by a media campaign to inform donors. Hong Kong currently has regulation only for public appeals, although a voluntary accountability system to cover all charitable activity is being considered.

Financial reporting for charities therefore shows great diversity across these countries, despite International Accounting Standards, and this paper makes suggestions for further research in this area.

Key Words: Charitable reporting; International Accounting.

i. Introduction

"Instead of following the inexorable sweep of the IASB's[1] world domination, why not examine the indigenous and different accounting systems that we are in danger of losing?" (Gray, 2002, p. 377). Bradshaw and Miller (2002) report there *are* still significant differences in the characteristics of accounting information across borders, despite the growth of multi national enterprises, cross listing of securities and the rise of International Financial Reporting Standards (IFRS).

Gray (2002) has thrown down the gauntlet and this paper is, albeit limited, a reply. The paper aims to identify differences in accounting principles and practices for charitable institutions across four different countries, and to explore some of the reasons for those differences. As IFRSs currently are being developed for profit oriented entities only, reporting by nonprofit organisations is more likely to reflect the requirements of local stakeholders. This paper considers reporting for the charitable sector, where income is mainly from public fundraising activities. Those countries are; the United Kingdom (UK), the Netherlands, Hong Kong (HK) and New Zealand (NZ).

The specific choice of the UK, Netherlands, HK and NZ was made to include countries from two geographic regions for the purpose of exposing differences and similarities in regulation and accountability across the countries. Each of the countries considered has a UK base to their accounting standards. UK influence through early company law and the accountancy profession has been mitigated by situated cultural and environmental differences (Nobes & Parker, 1995). Therefore, within each separate country sub-section is a review of the recent development of accounting regulation as it pertains to the local business environment. Any regulatory bodies governing charitable institutions are described.

[1] International Accounting Standards Board

Further, although there is a growing body of research in the nonprofit area in the Northern Hemisphere, the writer is unaware of a study such as this, to compare two European countries with two in the Southern Hemisphere. The impetus for this study is the writer's desire to be informed on the alternatives in use in different regions, coupled with concern that IFRS currently do not encompass charitable reporting.

Individual countries display various accounting regimes for charities. The countries chosen for this paper display different methods for obtaining accountability from this growing sector. In the UK, compulsory registration of charities with a government funded body responsible for promulgating regulations and for monitoring, provides a strict accountability regime. The Netherlands has chosen a voluntary system and promoted it on nation-wide television. HK is considering a voluntary system but currently it regulates public collection activities only, and ignores accountability for related charitable activity. NZ has a legal structure for charitable incorporation with few statutory requirements on reporting, but Financial Reporting Standards (FRS) that are sector-neutral. Such a framework enables accountability but requires donor demand to deliver it. Within each country's structure, fiscal accountability provided by accounting has evolved quite differently and more detail is provided later in the paper.

In the first section is an outline of what constitutes a charitable institution. The following sections discuss the accounting and regulatory environment that surrounds charitable institutions in each of the four countries in two regions, Europe and West Pacific. The final section summarises the similarities and differences between each of the countries, as observed by the writer. As an exploratory study, there are also suggestions for further research in this area.

ii. Charities

The writer acknowledges there are few definitions on the exact constituents of a charity. Under common law in NZ, four main charitable purposes are recognised and these have broad appeal:

1. the relief of poverty,
2. the advancement of education,
3. the advancement of religion,
4. other purposes beneficial to the community (James & Felstead, 2002).

Charitable product is therefore less tangible and measurable than that produced by profit oriented organisations. Charities are involved in activities of common concern to members and donors, but which typically benefit people beyond that membership (Saxon-Harold, 1990). These organisations depend for their very survival on donors and funders. Competition among charities and the desire to cultivate multiple revenue streams to resist donor capture, requires these organisations to be transparent and accountable, despite the difficulty in measuring the 'product'.

Kramer notes "the concept of accountability is particularly difficult to grapple with because its popularity in the human services is exceeded only by the lack of agreement about its meanings" (in Leat, 1990, p. 141). While it is beyond the scope of this paper to tease out the arguments on accountability, Leat (1990) describes fiscal accountability as being based on power and knowledge between groups. Funders of projects, providing long term and significant percentages of revenue, will have the power to demand fiscal and programme accountability in a format that best suits the funder. Donors represent a heterogeneous group, whose reasons for providing revenue, goods and services, encompass concepts of solidarity and altruism, the motivations for which also engender debate (Anheier, Helmut and Seibel, 1990). This diversity reduces the group's power to demand tailored fiscal accountability and accounting standards seem suited to this task. However IFRS are "developed … for application by profit-oriented reporting entities and are not specific to any particular country" (Hickey, Spencer, van Zijl and Perry, 2003, p. 5). They are not sector-neutral standards and therefore cannot provide accounting disclosure guidance to charities.

Notwithstanding, Rose-Ackerman notes "donors are likely to want some sort of fiscal accountability" (1990, p. 159) and, when it is uncertain that the contribution actually relieves the need of the beneficiary, people are less inclined to give (Bekkers, 2002). Whilst 'good' fundraisers will be interested in providing public accountability, Bekkers suggests "a single media report of poor performance and misallocation of funds may easily scandalize the entire philanthropic sector" (2002, p. 3).

Therefore the regulatory framework and practice which evolves, in order for charities to be accountable for the donations and public subsidies given via tax exemptions, should reflect appropriate levels of accountability and encourage trust in charities to ensure an adequate and informed donor base.

Such accountability for charities can be mandated by statute with a government agency monitoring all activities by these institutions. This is the situation in the UK and it can be costly in terms of administration, both for the government and for the charity. Regulatory environments range from the compulsory through to voluntary accountability schemes, such as occurs in the Netherlands. When accountability schemes are voluntary, donors need to make themselves more familiar with a charity than if government monitors accountability. However, any structure can inform choices and enable donor comparison with other similarly accountable charitable institutions (HK Social Welfare Department 2003a). Issues of interest for donors would include equitable distribution of funds and economic efficiency, including a minimisation of the costs of fundraising, a particularly sensitive issue (Simon, 1990).

In the following sections, are outlines of the reporting environment and the regulatory environment for charities in each country considered. The UK and Netherlands are dealt with under the section title of Europe, whilst HK and NZ are dealt with under the heading West Pacific.

iii. Europe

This section discusses two European Union (EU) countries, the UK and the Netherlands. Although Great Britain joined the EU's forerunner in 1973, the writer believes it continues to act independently as evidenced by its government's recent inaction on the euro debate, "because Britain's economy had not converged sufficiently with that of the 12-nation euro zone" ("Swedes deal blow", 2003).

Each individual EU country's company or corporation laws govern its accounting and financial reporting standards. However, since the 1957 Treaty of Rome, member countries have sought to harmonise their respective country laws via 'directives' that each country implements as law. These directives have not sought specifically to harmonise accounting, but in fact EU directives do contain accounting standards that are legally enforceable and, in March 2002, the EU parliament ruled that all the Union's listed companies must follow IFRS from 2005. Consequently, harmonisation is bound to occur

1. United Kingdom

With the rise of the British Empire, British accounting systems provided a measure of accounting harmonisation within that empire. Requirements for annual reporting to shareholders, independent audit and the provision of other accounting services by nationally spread partnerships began as British phenomena. Foreign influence was limited until 1973 when Britain joined the EU's forerunner. However even this event was slow to influence principles and practice and it is only since the 1990s that corporate financial reporting in Germany, France and the Netherlands has impacted British standards (Parker 1995a).

The UK is a common law country with economic systems driven by private sector enterprises and accounting standards have traditionally been set through private-sector, professionally based efforts. “The basic British orientation is laissez-faire, which leads to accounting basically driven by professional accounting judgements and rule making” (Choi, 1997, p. 11:24/5). Since the 1990 *Dearing Report*, the Accounting Standards Board (ASB), has been responsible for standards setting. While this Board has strong support from government it remains part of a private sector process of self regulation and accordingly, government is still “not highly directive towards business” (Parker, 1995a, p. 186).

(a) Charitable Institutions

“The nonprofit sector has a rich and varied history in the UK, stretching back at least to the Elizabethan Statute of Charitable Uses of 1601” (Salamon and Anheier, 1996, p. 95). Diverse organisations form this sector, with many different types of legal entity represented. Apart from trusts, charitable may be unincorporated associations, incorporated (but limited by guarantee), or governed by special legal requirements. These latter would include charities that fall within the Industrial and Provident Societies Act 1965, those incorporated by Royal Charter, or those with their own Act of Parliament (Chitty & Morgan, 2001).

Although charity income is tax-exempt, any trading profits are taxed (even where the funds raised are for charitable aims) therefore charities are encouraged to establish separate companies to run these activities (Palmer and Randall, 2002). Charities receive tax relief on donations received from individuals, but to gain this, prior to 2000, individuals had to covenant to contribute to a charity for three years. Tax benefits on those contributions were refundable direct to the charity, although individuals in the highest tax bracket received some tax relief. Consequently Salamon et al (1996) found lower levels of giving in the UK compared to the US. Palmer et al (2002) report that this covenant system has recently been replaced by Gift Aid in an effort to ‘get Britain giving’. As with the covenant system, Gift Aid benefits accrue both to the charity which can reclaim tax and to individuals as tax rebates (Palmer et al, 2002).

The Charity Commission, which derives its current authority from the Charities Act 1993, reviews by-laws and documents for qualifying organisations in England and Wales, being "responsible to the courts for our decisions and to the Home Secretary for the way we use our resource" (Charity Commission, 2003). This quasi-independence reflects low levels of direct government involvement already noted. The Commission aims to improve charitable reporting, both financial and non-financial, to meet the expectations of stakeholders, increase public confidence and raise awareness (Connolly and Hyndman, 2000). Its publication, Statement of Recommended Practice (SORP), impacts all charitable reporting and in its current form has been effective since 1 January 2001. As well, the Charities Act 1993 requires registered charities to provide a full set of annual accounts within 10 months of year-end (s. 45).

The SORP requires timely publication of both financial and non-financial information detailing the main activities and achievements of the charity in respect of their objectives (Charity Commission, 2003) and has force of law under the Charities (Accounts and Reports) Regulations 2000. Although differential reporting requirements exist for smaller charities, this prescriptive approach to accountability can provide simplicity and consistency, and enable comparisons between charities (Palmer et al, 2002).

The current SORP's major change, was the replacement of the income and expenditure account with a Statement of Financial Activities (SOFA). The SOFA, providing an overview of the way in which incoming resources have been applied, must include fund raising costs and gifts in kind received. Where gifts are not material they may be separately disclosed as a note. Furthermore the SOFA should also provide a reconciliation of the movement of any designated funds the charity controls (Chitty et al, 2001).

Table 1: Differential reporting: Charity Commission influence (extracted from Palmer et al, 2002, p. 118/9)

Note: Charities whose annual income is below £1,000 do not need to register with the Charities Commission. Copies of accounts need not be submitted for charities where income is less than £10,000, unless the Charity Commission specifically requests them. The remaining charities fall within s. 45 of the Charities Act (1993).

Annual gross income	**Type of financial reporting (accounts)**	**Type of review – non-company charity**	**Type of review – for charity registered as a company**
Below £10,000	Receipts and payments	None	None
Above £10,000 and below £100,000	Receipts and payments	Independent examination	Independent examination (£90,000 to £250,000 audit exemption report allowed)
Above £100,000 and below £250,000	Accruals and prepared under UK FRS 18 *Accounting Policies*	Independent examination	Independent examination (but see above)
Above £250,000	Accruals (prepared under UK FRS 18 *Accounting Policies*)	Audit	Audit

With some 180,000 registered charities in the UK and an estimated 750,000 voluntary charity trustees (Chitty et al, 2001), the task of the Charity Commission is extensive. Williams and Palmer, in a review of compliance with SORP, found "only a minority of charities had adopted the SOFA as their primary resource flow statements" (1998, p. 277). Palmer, Isaacs and D'Silva (2001) in a later study found the diverse practices of over a third of the 125 largest charities they surveyed caused non-compliance with SORP.

Even when a charity complies with SORP, legal structure can vary and the manner in which 'gifts in kind' and fundraising costs are detailed, differs. Flexibility in reporting, specifically for charities, means continued donor education will be required to ensure appropriate levels of trust and income flows.

Given the UK's move to IFRS and membership of the EU, it will be interesting to follow the future of the Charity Commission and its regulatory structure which attempts to increase accountability. It would be disappointing to see the Commission designed sector-specific reporting provisions like the SOFA, replaced with an IFRS preferred Profit and Loss Statement.

2. The Netherlands

In common with many other European countries, accounting in the Netherlands is widely regarded as applied business economics rather than as a discipline in its own right (Choi, 1997). Parker (1995b) reports that prior to 1970, there was negligible legislation on the format or content of published financial statements.

Although one of the six founding members of the EU's forerunner, accounting as it evolved in the Netherlands displayed quite significant differences from the others. The governments of Germany and France, its neighbours, legislate numerous and detailed accounting standards and tax law is paramount (Parker, 1995b). Dutch accounting rules emanate largely from private-sector efforts (Choi, 1997), but the promulgation of the EU's Directives and now the move to IFRS for listed companies is bringing financial reporting practices closer together for all member countries (Parker, 1995b).

Parker comments that, accounting in the Netherlands is a "combination of almost extreme permissiveness with high professional standards" (1995b, p. 217). Albeit the permissiveness is moderating due to the EU directives, however, the high standards remain.

Public and private companies, cooperatives and mutual guarantee associations are all corporate bodies under Dutch law. Large companies must maintain a board of managerial directors as well as a supervisory board (consisting of at least three persons). These are similar to the two-tier boards operating in France and Germany and reflect the desire for wider stakeholder input to company decisions. Social reporting and public scrutiny of accounts is also encouraged (Parker, 1995b).

The Council of Annual Reporting (Raad voor De Jaarverslaggeving) has developed generally accepted accounting principles' guidelines from Recommendations issued by the Institute of Chartered Accountants in England and Wales prior to 1970. This council comprises representatives of employers, users and employees as well as accountants. Recently its authority has been strengthened as it now operates under a governmental advisory body, the Social and Economic Council (Sociaal-Economische Raad). Most corporations follow accounting guidelines, even though they are not mandatory. A contributing factor to compliance in financial reporting may be the provision for interested parties to complain to the Court of Justice in Amsterdam. This is not an empty court as both shareholders and trade unions have taken successful action in the past (Parker, 1995b).

(a) Charitable Institutions

The Netherlands has long been a commercial country and yet philanthropy has been dominated by religious entities until quite recently. As with much of the rest of Europe, in the past decade "large, secular organisations, often focused on Third-World causes, have taken the lead in fund raising and social action" (Carnie, 1999, p1). This extraversion may be encouraged by a high social infrastructure, evidenced by, for example, the lack of any local sub-standard housing (Habitat for Humanity Netherlands, 2003). Compared to profit oriented corporations, the number of fundraising charities is quite small, with an estimated 400 active in the Netherlands (Bekkers, 2002)).

Central government requires charities to submit future plans and budgets to an independent external commission (CFP-brad) before they provide subsidies or funding. Charities enjoy tax-exempt status and donors can also receive a rebate for donations over a set percentage of their income (based on income brackets). However, despite a growing number of guidelines and rights of appeal in the corporate system, there are no specific rules requiring publication of annual reports or other detailed financial information in the charitable sector. This reflects the culture of high professional standards highlighted by Parker (1995b).

Therefore, although the number of active charities in the Netherlands is quite small, charities still need to be able to respond appropriately when non-government benefactors seek information or question their bona fide. Accordingly, a ‘Centraal Bureau Fondsenwerving’ (CBF) has been designed by the Dutch Council of Foundations, and the Association of Philanthropic Organizations (Bekkers, 2002). This organisation, a member of the International Committee on Fundraising Organizations (ICFO), runs a voluntary accreditation system.[2] The CBF targets charities involved in social, humanitarian, environmental and health sectors. The CBF is funded mainly by public subsidies with 40% of its funding coming from fees paid by the charitable institutions. It maintains a full-time staff responsible for the accreditation system. Around 90% of the fundraising market (and 50% of known active charities) have gained accreditation and therefore the right to use the accreditation seal, CBF-Keur (Bekkers, 2002).

Table 2: Extract from Tables 2.1; 2.2; 3. Selected standards of ICFO Member Organizations (Wilke, 2003, Attachment C):

The Netherlands – Board composition		**The Netherlands - Accountability**		**ICFO – The Netherlands requirements (CBF)**	
Minimum number of Board Members	5	**Public access to financial statements**	Yes	**Monitoring conducted by**	Staff members (with evaluation 5 yearly)
Board membership must be an unpaid activity	Yes, except CEO who can be a board member	**Ceiling on overhead expenses**	No	**Monitoring fees**	Annual audit fee €250-€5,000. Initial fee €3630.
Possibility of being Board Member and CEO	Yes, a minimum of 2 persons, and a supervisory body of 3 persons min.	**Revenues presented separately for each fund-raising activity**	No	**Documen-tation?**	Draft report submitted for comments and final report submitted
Ban on family links in the Board	Yes	**Commissions for the collected funds permitted?**	Yes	**On-site visits to head-quarters?**	Not as a rule
Ceiling on fundraising costs*	25% of fundraising income	***Inferring an inverse amount is spent on the organisation’s goal.**		**Appeal against decision**	Yes, appealing committee

[2] ICFO is concerned to ensure that charitable institutions worldwide fundraise and administer their affairs in a way that is in the interests of donors. Accordingly, ICFO provides principles for accounting and guidelines for annual reports and public access to members (Wilke, 2003). Accreditation can be a tool to enable charities to highlight their concern for donor accountability (Palmer & Vinten, 1998).

Many of the requirements for CBF-Keur accreditation are similar to those placed on corporations in the Netherlands. For example, the requirement to maintain a supervisory board and the right of public access to financial statements, mirror that required of large corporations under Dutch law, but financial statement access must also assist in the maintenance of public trust. Bekkers (2002) notes that annual reports must include costs, an accountant's report, a policy-evaluation and a policy plan that includes future activities and expenses for the coming years.

Charity specific aspects of financial reporting can include 'gifts in kind'. However, no guidelines are provided to standardize valuation of these. Further, the calculation of fundraising costs might include or exclude internally assessed overhead expenses. Awareness raising is a separate category that also might be used by charities to re-allocate excess fundraising expenses, thus hiding information that may harm donors' views of the organisation, or to ensure the charity does not breach the CBF 25% limit on fundraising costs. However, provision of future year budgets as well as a breakdown of fundraising costs aids fiscal accountability. Although the CBF-Keur is a voluntary system, the governance required to comply is commensurate with the UK regulatory system of a government sponsored Charity Commission.

In December 2000, the CBF launched a television campaign to raise awareness of their accreditation system. Funded as it was by charities that had already 'bought' legitimacy by becoming accredited, this publicity may be seen as a move to decrease the risk of free riding by those who had not paid for or attained a CBF-Keur accreditation (Bekkers, 2002). However such a proactive stance by the CBF should increase trust as well as encourage giving. Bekkers (2002) did find an increase in public trust in charities in the two years following this campaign, but he concluded the CBF-Keur was no substitute for that trust.

As the influence of the CBF-Keur grows, further guidelines on such issues as gifts in kind, and fundraising costs may assist charities, donors and beneficiaries in assessing accountability. The system continues to place the burden of monitoring on the industry itself. Given the influence of the ICFO, it is likely that any accounting standards emerging from this system will continue to follow a European model with Dutch overtones.

iv. West Pacific

The next two sub-sections discuss HK and NZ, countries that are part of the West Pacific, an area which “is, much more than North America or even Europe, a region of great diversity, both political and economic” (Parker, 1994, p. 1). This region is also known for rapid growth and openness to outside investment. Thus, accounting standards have been important to attract those investors. IFRS have been the basis of HK accounting standards since 1993, whilst NZ have announced that IFRS are to be adopted from 2007 at the latest.

1. Hong Kong

Hong Kong is unique in that, whilst it shares a British colonial background with NZ, it has recently (1997) been ceded back to China and is known as a ‘special administrative region’ (SAR). Under the Joint Declaration, Hong Kong’s lifestyle of liberal capitalism will continue for fifty years (Cooke and Parker, 1994). Accordingly, much of the structure of the former democratic colony is currently preserved, despite it now being part of a socialist market country.

Government participation in Hong Kong’s economy is minimal, with only the railway and water supply being government owned as even note-issuing banks are private. Political liberalism and an open economy “differentiate Hong Kong from all its neighbours in the Western Pacific” (Cooke et al, 1994, p. 163).

Company law and the commercial code is very important in HK business life[3]. The Hong Kong Companies Ordinance 1984 includes disclosure requirements based on the UK 1948 Act. Cooke et al (1994) believe it is alarmingly outdated as this is still essentially the UK 1929 Companies Act, but it appears to suit the local business community. Some provisions of later Companies Acts from the UK have recently been incorporated but currently, unless compelled to re-incorporate as 'public' in order to list on the stock exchange, most companies retain the reporting and supervisory advantages of private companies. They therefore can side step any recent public accountability changes.

Accounting standards do not have legal backing but are required to be followed by Members of the Hong Kong Society of Accountants (HKSA) (HKSA, 2000) founded in 1973 (Nobes et al, 1995). Although previously based on UK regulations, since 1993 financial reporting standards have been based on IFRS and include a comparison to them. For governmental and non-profit organisations a number of Technical Practice Aids have been issued, but practice varies widely with cash accounting being quite acceptable (HKSA, 2003).

(a) Charitable Institutions

As with all the countries surveyed, HK charities enjoy a tax-exempt status (under Sec. 88, of the Inland Revenue Ordinance, Cap 112) and donors receive some tax relief as well. Any donation to approved charities that are over HK$100, to a total of up to 10% of the donor's net income, are allowed as a deduction. There is currently no body that controls charities or monitors their financial accounts. A limited number of charities have been established by special ordinance, including the Community Chest of Hong Kong, but most are registered as private companies or incorporated societies.

Public fund raising activities such as door to door fund raising and collecting on street corners are, however, captured under the requirement (in Section 4(17) of Summary Offences

[3] As an SAR, HK cannot pass laws, but instead regulations are called ordinances.

Ordinance, Cap 228) to obtain a Public Subscription Permit (PSP). Charities apply to the Social Welfare Department (SWD) for a PSP to raise funds in one of two categories. For a special appeal day (known as a Flag Day), a charity must apply annually in May to the SWD Lotteries Fund Advisory Committee who approves and selects the order in which days are allocated. Seventy organisations did this for the year ended 31 March 2004. Also, other appeal-type public fund raising must be authorised by PSP before being undertaken and around 700 more organisations request these each year (HK SWD, 2003a). Within 90 days of the approved fundraising event, an audited account must be provided to the SWD (HKSA Practice Note 850, 2000). Continued approval for Flag Days and other events, shows the charities have complied with SWD requirements and their reporting is in accordance with HK generally accepted accounting practice, but the ready acceptance of cash accounting is of concern.

Many charities also receive government grants that enable them to provide welfare services for the public good. Grants are managed by the SWD, who require the non-governmental organisations' annual financial reports to be reviewed by HKSA Members[4]. Whilst there is no specific requirement for these charities to prepare financial reporting under generally accepted accounting principles, this is a topic of healthy discussion amongst HKSA members involved in non governmental organisations (HKSA, 2003).

Appeals by direct marketing and advertising or selling of tickets to charity events, are not covered by the ordinance mentioned above. There is growing concern for "greater transparency and accountability with regard to the raising and disposal of funds for charitable purposes" (HK SWD, 2003b, p. 2). Consequently the SWD undertook a public consultation in late 2003 on a proposed Reference Guide for Charities on Best Practices for Fund-raising Activities (the 'Reference Guide'). "Charities which voluntarily undertake to comply with the provisions of the Reference Guide may apply to have their names included in a Public

[4] The SWD sponsored the writing of HKSA Practice Note 851 for this purpose

Register maintained by the SWD" (HK SWD, 2003a, p. 4). Due to the voluntary nature of the proposed scheme, donor complaints will alert the SWD to charities contravening the Guide. This continues the culture of minimal regulation and encourages donors to be informed about the charities they intend to support. No level of resources to follow up such complaints has yet been published. Neither is there any guidance offered on the appropriate membership of governing boards, although they are to be responsible for ensuring compliance to the Guide.

The Reference Guide requires charities "commit to manage responsibly the funds that donors entrust to them, and to report their financial affairs accurately and completely " (HK SWD, 2003b, p. 10). Annual financial reports are to be prepared in accordance with generally accepted accounting principles and standards established by the HKSA, along with separate externally audited financial statements for individual public appeals as required for a PSP. Further, a limit of 10% on expenses for individual fund raising events is requested, with the expectation that spending in this area will be published in publicly available financial accounts (HK SWD, 2003b). Charity events may change in nature with a proposed 10% limit on expenses[5]. The experience of the UK and the Netherlands is that 20-25% is more appropriate and it would be interesting to research how the limit of 10% was decided.

The new scheme is a step to provide transparency and accountability for donors' money but no provisions have yet been made within HK accounting standards for charitable reporting. This will continue to put pressure on HKSA members and, accordingly, the Society should be encouraged to develop sector appropriate standards as a foundation to support the SWD as it seeks to improve accountability in the charitable sector. The final form, if it is to remain voluntary, may need more elements of the Netherlands quality seal approach in order to be truly useful to donors. The influence of IFRSs and the continued reduction of barriers

[5] Events such as televised charity boxing matches (see Alley & Fisher, 2003) are much more expensive to run than a street appeal.

between HK and Mainland China, means that charity reporting in HK has challenges ahead as it attempts to integrate all charitable accounting under the new voluntary scheme.[6]

2. New Zealand

Similar to HK, New Zealand was a British colony, but obtained independence for self-government in 1947 (Baydoun, Nishimura and Willet, 1997). The ties to the 'motherland' were slow to loosen but the impetus of Britain joining the EU's forerunner and 1970's economic shocks spurred New Zealand's encouragement of other export markets and non-British foreign investment. Over recent years these moves have brought about a new emphasis on competition in the NZ economy. Subsidies and import controls have been withdrawn, causing re-organisation in a deregulated economy (Department of Statistics NZ, 2000).

"The Parliamentary system, legislature and judiciary in New Zealand were based on the British model" (Newby, 1994, p. 383) and therefore on common law. With the new Companies Act 1993, private and public companies disappeared, strengthening the distinction between shareholder and the company itself. The old Companies Act (1955) was replaced by 22 pieces of legislation, including the Financial Reporting Act 1993 (FRA) and the Takeovers Act 1993. Simultaneous moves to open the economy also brought about new laws regulating fair trading (Fair Trading Act 1986), anti-competitive behaviour (under the Commerce Act 1992) and the Consumer Guarantees Act 1993 (Department of Statistics NZ, 2000).

It is the Financial Reporting Act 1993 that established the Accounting Standards Review Board (ASRB) which has, as one of its functions, the authority to give direction on accounting policies which have authoritative support in NZ (Institute of Chartered Accountants, 2001).

[6] In November 2003, the HK SWD released a Best Practice Module and a Sample Code of Conduct for Non-Governmental Organisations (NGOs) providing social welfare services to ensure that their administrative system has adopted adequate checks and balances to prevent possible malpractice or corruption, as well as to enhance accountability in the use of public funds (HK SWD, 2003c).

The ASRB approves the issuance of FRS and, to date, these have all emanated from the Financial Reporting Standards Board of the Institute of Chartered Accountants. Although a public accountancy body has been in operation since 1894 and has always been influential in constructing and policing accounting standards, it was the Financial Reporting Act 1993 that provided legislative support for those accounting standards (Baydoun et al, 1997).

The unusual characteristic of the FRS is that government and non-government organisations, as well as profit-oriented organisations, are required to use them (Institute of Chartered Accountants, 2001). The move to accrual accounting in NZ, with a financial management regime built around outputs, was a world first for governments and this sector-neutral characteristic of FRS is unusual when compared to other countries in this study.

(a) Charitable Institutions

Voluntary organisations in New Zealand may choose to incorporate and also choose by which Act they will be governed. Incorporated societies generally choose the Incorporated Societies Act 1908. In 1999, over 23,000 societies were registered under the Incorporated Societies Act 1908 (Department of Statistics NZ, 2000). The groups need to lodge annual financial accounts with the Registrar (part of the Ministry of Economic Development), but these need not be audited.

Charitable organisations can choose to be incorporated under the Charitable Trusts Act 1957 (over 14,000 are incorporated under this Act). Such charities' income is exempt from taxation (including income from any business carried out). The exemption extends to relief under the Estate and Gift Duties Act 1968 and also, any land used exclusively for public and charitable purposes is exempt from local authority rates (von Dadelszen, 2000). The Charitable Trusts Act 1957 does not require organisations to file annual financial statements, however, in order to obtain grants from government or other funding institutions, these trusts may need to be audited, or reviewed (von Dadelszen, 2000).

Therefore a large diversity in reporting practices of individual charitable institutions occurs. Whilst one would expect larger charities to produce audited annual accounts prepared under NZ FRS, the writer has found that obtaining these can be difficult and they are quite often restricted to members of the organisations only.

In NZ, a select few charitable institutions are separately registered under their own statutes. These include: Royal New Zealand Foundation for the Blind and The New Zealand Foundation for Child and Family Health and Development (who administer Children's Health Camps). Each statute has requirements for financial reporting for the institution involved. Given that these two examples receive government funding for their work in NZ, their accounts are fully compliant with NZ FRS and include Statements of Service Performance. The government auditor is also responsible for reviewing these accounts (The Royal NZ Foundation for the Blind, 2002; The NZ Foundation for Child and Family Health and Development, 2002).

Therefore, whilst there exists case law and statutes to guide charitable institutions, there are few regulations requiring such organisations to report in a manner consistent with NZ FRS. Periodically the media reports public questions about costs of fundraising, for example when less than 33% of funds raised by the Yellow Ribbon Fight for Life event was passed on to charities (therefore the fund raising costs were over 67%) (Alley et al, 2003). However, unlike the requirements of ICFO in the Netherlands, there is no body that monitors fundraising costs or levels of distributions. The only redress for the public is to shun the fund raising event or charity if they feel it is not worthy of support. Even the sector neutral accounting standards NZ maintains currently, do not provide specific formulae for valuing such items as 'gifts in kind' or these fundraising costs. Given the emphasis on the latter in the other three countries surveyed, this may be an area that requires more thought.

In a 2001 review of the taxation system in NZ, the Ministers of Finance and Revenue produced a discussion document titled 'Tax and Charities'.[7] Suggesting changes to the definition of charitable purpose, it included moves to make the trading operations of charities subject to tax and to introduce 'safeguards' to ensure organisations were continuing charitable work before allowing tax-exempt status to continue (James et al, 2002). Submissions expressed concern about the practicalities of the new systems under consideration and their propensity to work against the facilitation of "redistribution of income in a fair manner" (Philanthropy NZ, 2001, p. 6). Consequently, the government indicated these reforms would not proceed, but the issues would continue to be monitored in light of international trends in this area (James et al, 2002). In late 2003, the formation of a Charities Commission was announced, foreshadowing a move towards a UK-styled best practice. The structure and effects of this change will be interesting to follow.

Whilst settler NZ has long held an attitude of helping one's neighbour, the public financial accountability required of charities will be impacted by IFRS adoption[8]. Further, the establishment of a Charities Commission will provide opportunity for the profession to assist charities in fiscal accountability.

[7] Lobbying at this time by Philanthropy NZ and others, managed to increase the rebate level for personal donations to charities listed by the Inland Revenue Department. Individuals receive 33% of their donations, up to a rebate limit of $600 per annum as a tax benefit.

[8] A review of the Financial Reporting Act has been launched which will increase reporting responsibilities for charities by requiring compliance with some NZ IFRS and perhaps a full audit (Ministry of Economic Development, 2004).

v. Summary and Analysis

This paper highlights the diversity in both accounting principles and practice as it relates to charities in the UK, Netherlands, HK and NZ. Although in the past they shared a common accounting standards base, both the regulatory environment and standards now used for reporting have varying levels of government and professional intervention as outlined below.

Table 3: Summary of Charity Reporting requirements

Country	**Legal Form**	**Regulating body/ Acts of Parliament**	**Accounting Standards**	**Charity Specific Financial Reporting Inclusions**
United Kingdom	All forms except partnerships	Charity Commission (Act 1993)	SORP – sector specific	Fundraising costs must be included – no limit but preferred under 20%. Gifts in Kinds included.
The Netherlands	Stichting (foundation)	CFP- voluntary accreditation seal for charities. No Acts.	Developed by CBF – sector specific.	Fundraising costs must be under 25%. Gifts in Kind included as well as future plan and next year's budget.
Hong Kong	All forms except partnerships	SWD for public appeal days. Voluntary system being developed. No Acts.	HKSA Technical Practice Aids	None, but proposed system will have limit on fundraising costs of 10%.
New Zealand	All forms except partnerships	No body at present. Charities Commission from late 2004. Charitable Trusts Act, Incorporated Societies Act.	NZ FRS (soon to be NZ IFRS)	Statements of Financial Performance (rather than Profit or Loss), Service Performance encouraged.

European countries, the UK and the Netherlands, have specific regulations requiring charities to provide transparency and fiscal accountability, separate from current IFRS or FRS used by profit-oriented concerns in those countries. Whilst the Netherlands' system is voluntary, a media campaign to make donors more aware of accreditation and its benefits for them means that 90% of Dutch charities use the CBF-Keur. Donors may prefer such charities, as the CBF system is concerned about charitable conduct and advisory board composition. Conversely, the UK system is compulsory, as all charities with an income over £1,000 are required to register, with those receiving over £10,000 in income needing to provide annual financial accounts to the Charity Commission. The SOFA accounting report provides sector specific information for readers of charity reports. Both countries also require public disclosure of fund raising costs, whilst the Netherlands is the only country surveyed where publication of future policy plans with budgets is required.

Currently HK regulates only charities' public appeals. The method of donor accountability is left to the charity itself, as it is in NZ. However HK is considering implementing a voluntary system through which charities will be monitored from donor complaints. No other detail about specific financial reporting has yet been provided by the SWD, the body undertaking the review. Although media reports can be an effective method for complaints, they provide only snapshots of one aspect of public opinion and not full fiscal accountability. In NZ, for those charities choosing public reporting, accounting standards are sector-neutral and provide for a Statement of Financial Performance (rather than a Profit and Loss) more appropriate for charities which are not profit (or loss) oriented. Statements of Service Performance also give useful information to users on outputs.

Each of the four countries reviewed is moving to use IFRS for profit oriented ventures. Whilst the UK Charity Commission and the Netherlands CBF provide sector-specific financial reporting regulations, there are no moves from HK to provide these. NZ has signalled it wishes to retain sector-neutral standards despite adopting IFRS, a process which will require much resource.

The variety in the regulations that surround these organisations is greater than the writer expected. Perhaps donors are active only in their own country, and therefore the international trends that impact IFRS are less likely to be relevant. Interdisciplinary research into the way in which donors use annual reporting and the underlying stimuli for charity selection, especially in the local NZ context, could build on the reviews of the UK experience by Hyndman (2001) in a more informed manner. Leat (1990) suggests that accountability is meaningless unless those for whom it is obtained have the knowledge and understanding to ask the right questions. Therefore, the writer expects that the importance of financial reporting to donors in assessing accountability would be linked to confidence in the regulatory environment and the way in which it can make accountability meaningful.

Some large charities are effectively ‘multi-national corporations’, and the writer believed there may be a tendency to standardise reporting across countries with pressure from such charities changing the local flavour of charity reporting. However, this has not been apparent. Research specifically designed to test multinational charity reporting requirements would provide an interesting insight to compare to the harmonisation moves in profit oriented reporting. A forth-coming paper provides more detailed comparisons across a sample of charities in each of the four countries whose regulations have been compared here.

Although a preliminary study of cultural impacts on accounting in each country was undertaken, it was not possible to study in depth the actors in the regulatory environments surveyed in order to apply nonprofit and governmental models such as those developed by Hodges (2003) to charity accounting worldwide. Even in the UK, HK and NZ models where the state has been, or will be involved in regulation, local differences provide distinct flavours. Further research into the quality or practice of charity sector reporting would be of interest, and a longitudinal study to report and monitor changes in the reporting environment would also be helpful.

Gray (2002) is concerned that we are in danger of losing unique accounting systems with the domination of IFRS, yet the charity sector seems to have eluded harmonisation and retains many country-specific features. Although change is inevitable, these changes will be judged on whether they provide greater transparency and accountability to donors. Such improvements must also assist charities to achieve their aims and ensure the best use of the scarce resources at their disposal.

References

Alley, O. and D. Fisher, 2003, 21 September, Yellow Ribbon gets fraction of boxing cash, Sunday Star Times, A1.

Anheier, Helmut K. and W. Siebel, 1990, eds., The Third Sector: comparative studies of nonprofit organizations (Walter de Gruyter & Co, Berlin).

Baydoun, N., A. Nishimura, and R. Willet, 1997, eds., Accounting in the Asia-Pacific region (John Wiley & Sons (Asia) Pte. Ltd, Singapore).

Bekkers, R., 2002, Trust, accreditation and philanthropy in the Netherlands, Paper presented at the 31st Arnova Conference, Montreal.

Bradshaw, M. T., and G.S. Miller, 2002, Are detailed accounting standards sufficient to ensure compliance? Evidence from non-US firms adopting US GAAP, Working paper (Harvard Business School, Boston, MA).

Carnie, C., 1999, Fund raising renaissance, Currents, October, 1-6.

Charity Commission, 2003, CC61. Charity Accounts – The Framework*.* [Online]. Retrieved September 24, 2003, from http://www.charity-commission.gov.uk.

Chitty, D., and N. Morgan, 2001, Charities: an industry accounting and auditing guide – 3rd ed*.* (The Institute of Chartered Accountants in England and Wales, Suffolk).

Choi, F. D. S., ed., 1997, International Accounting and Finance Handbook, 2nd ed (John Wiley & Sons Inc, New York).

Community Chest of Hong Kong, 2002, Annual Report, 31 March 2002 (Author, Hong Kong).

Connolly, C., and N. Hyndman, 2000, Charity accounting: an empirical analysis of the impact of recent changes, British Accounting Review 32, 77-100.

Cooke, T. E., and R.H. Parker, 1994, Financial Reporting in the West Pacific Rim (Routledge, London).

Department of Statistics New Zealand, 2000, New Zealand Official Year Book 2000 (Government Printer, Wellington).

Gray, R., 2002, Of messiness, systems and sustainability, British Accounting Review 34, 357-386.

Habitat for Humanity International, 2003, Habitat for Humanity Netherlands, [Online]. Retrieved October 15, 2003, from http://www2.habitat.org/intl/countryprofiles.fm.

Hickey, L., J. Spencer, T. van Zijl, and J. Perry, 2003, Adoption of IFRS – background and process, Chartered Accountants Journal, July.

Hodges, R., 2003, Regulating accounting in the public sector, Seminar paper presented at Victoria University of Wellington, July.

Hong Kong Social Welfare Department, 2003a, Control of Charitable Fund-raising Activities. [Online] Retrieved September 17, 2003, from http://www.info.gov.hk/swd/text_eng/sup-ser/con-fund-ras/index.html.

Hong Kong Social Welfare Department, 2003b, Public Consultation on Monitoring Charitable Fund-raising Activities, August 2003, [Online] Retrieved September 17, 2003, from http://www.info.gov.hk/swd/text_eng/sup-ser/con-fund-ras/index.html.

Hong Kong Social Welfare Department, 2003c, Subvention Reform, November 2003, [Online] Retrieved April 21, 2004, from http://www.info.gov.hk/swd/text_eng/sup_ser/subven/sub_reform/index.html.

Hong Kong Society of Accountants, 2000, Members' Handbook, (Author, Hong Kong).

Hong Kong Society of Accountants, 2003, Public Sector Accounting [Online] Retrieved September 17, 2003, from http://www.hksa.org.hk/publications/bulletins/ps/ps.php.

Institute of Chartered Accountants, 2001, New Zealand Accounting Standards, (Author, Wellington).

James, J. and P. Felstead, 2002, (presenters). Charitable Trusts & Entities, Continuing Legal Education Programme, Auckland District Law Society.

Leat, Diana, 1990, Voluntary organizations and accountability: theory and practice, in H. K. Anheier and W. Siebel, eds., The Third Sector: comparative studies of nonprofit organizations (Walter de Gruyter & Co., Berlin) 141-154.

Ministry of Economic Development, 2004, Discussion Document. Review of the Financial Reporting Act 1993. Part 1: The Financial Reporting Structure, (Author, Wellington).

Newby, S., 1994, New Zealand, in T. E. Cooke and R. H. Parker, eds., Financial reporting in the West Pacific rim (Routledge, London) 383-439.

Nobes, C., and R. Parker, 1995, Comparative International Accounting – 4th ed., eds. (Prentice Hall International (UK) Limited, Hemel Hempstead).

Palmer, P., M. Isaacs, and K. D'Silva, 2001, Charity SORP compliance – findings of a research study, Managerial Auditing Journal 16 (5) 255-262.

Palmer, P., and A. Randall, 2002, Financial management in the voluntary sector: new challenges (Routledge, London).

Palmer, P. and G. Vinten, 1998, Accounting, auditing and regulating charities – towards a theoretical underpinning, Managerial Auditing Journal 13 (6) 346-355.

Parker, R. H., 1994, Context Diversity and harmonization, in T. E. Cooke and R. H. Parker, eds., Financial reporting in the West Pacific rim (Routledge, London) 383-439.

Parker, R., 1995a, Financial reporting in the United Kingdom and Australia, in C. Nobes and R. Parker, eds., Comparative International Accounting – 4th ed. (Prentice Hall International (UK) Limited, Hemel Hempstead) 173-205.

Parker, R., 1995b, Financial reporting in the Netherlands, in C. Nobes and R. Parker, eds., Comparative International Accounting – 4th ed. (Prentice Hall International (UK) Limited, Hemel Hempstead) 205-222.

Philanthropy New Zealand, 2001, Submission by Philanthropy New Zealand to the Tax Review 2001 (Author, Wellington).

Rose-Ackerman, Susan, 1990, Efficiency, funding, and autonomy in the third sector, in H. K. Anheier and W. Siebel, eds., The Third Sector: comparative studies of nonprofit organizations (Walter de Gruyter & Co, Berlin) 157-164.

Salamon, L. M., and H.K. Anheier, 1996, The emerging nonprofit sector: an overview (Manchester University Press, Manchester).

Saxon-Harold, Susan K. E., 1990, Competition, resources, and strategy in the British nonprofit sector, in H. K. Anheier and W. Siebel, eds., The Third Sector: comparative studies of nonprofit organizations (Walter de Gruyter & Co, Berlin) 123-140.

Simon, J.G., 1990, Modern Welfare State Policy, in H. K. Anheier and W. Siebel, eds., The Third Sector: comparative studies of nonprofit organizations (Walter de Gruyter & Co, Berlin) (31-44).

Swedes deal blow to euro, 2003, 16 September, The Dominion Post p. B1.

The New Zealand Foundation for Child and Family Health and Development, 2002, Annual Report, 30 June 2002 (Author, Wellington).

The Royal New Zealand Foundation for the Blind, 2002, Annual Report, 30 June 2002 (Author, Wellington).

von Dadelszen, M., 2000, Law of Societies in New Zealand - unincorporated, incorporated, and charitable (Butterworths, Wellington).

Wilke, B., 2003, Monitoring charitable organizations: criteria and assessment methods, OECD/DAC Workshop Development Partners in Evaluation, Paris.

Williams, S., and P. Palmer, 1998, The state of charity accounting – developments, improvements and continuing problems, Financial Accountability and Management 14 (4), 265-279.