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DO NOT-FOR-PROFITS NEED THEIR OWN CONCEPTUAL FRAMEWORK?

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ABSTRACT

This paper raises the issue of whether not-for-profit (NFP) organisations require a conceptual framework that acknowledges their mission imperative and enables them to discharge their broader accountability. Relying on publicly available documentation and literature, it suggests the current Conceptual Frameworks for the for-profit and public sectors are inadequate in meeting the accountability needs of NFPs. A NFP-specific conceptual framework would allow the demonstration of broader NFP-specific accountability and the formulation of NFP-appropriate reporting practice, including the provision of financial and non-financial reporting. The paper thus theoretically challenges existing financial reporting arrangements and invites debate on their future direction.

Keywords: conceptual framework; accountability; NFPs; non-reciprocal transfers; volunteers

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INTRODUCTION

Not-for-Profit (NFP) organisations[1] play an important and growing role within the global economy (Salamon *et al*., 2007; Kreander *et al*., 2009)[2]. With their increasing economic and social significance (Weerawardena *et al*., 2010), the practical and political importance of robust and comprehensive demonstrations of NFP accountability, including financial accountability, is increasingly being recognized (Ebrahim, 2003a, 2003b; Unerman and O'Dwyer, 2006; O'Dwyer and Unerman, 2008; AcSB and PSAB, 2009; ASRB, 2009).

Private sector NFPs, as voluntary, mission-oriented organisations, are distinct from both for-profit and public sector organisations (Dacombe, 2011; van Staden and Heslop, 2009). For-profit organisations are driven by the measurable goal of profitability and operate in an environment of arms length voluntary exchange transactions. Public sector organisations are driven by economic and political goals in an environment of involuntary funders and primarily non-exchange transactions. In contrast, NFP organisations usually have a specific purpose which is defined in their mission. They operate in an environment of primarily non-exchange transactions with voluntary funders (Dacombe, 2011; Ellwood and Newberry, 2006; Pallot, 1992). In each of these sectors, organisations operate in both a national and international context.

Conceptual frameworks are designed to create a strong foundation for the development of financial reporting and accounting standards (FASB, 1976). The FASB has defined a conceptual framework as 'a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribe the nature, function and limits of financial accounting and reporting' (FASB, 1978). This definition clearly indicates the importance of a conceptual framework being fit for purpose. Thus, unless the conceptual framework identifies the objectives and function of financial reporting in a particular context then the accounting standards that devolve from it will not be appropriate for the specific information needs of those governed by the framework. The International Accounting Standards Board (IASB) has a program to develop a conceptual framework program for the for-profit sector[3]. Their Conceptual Framework focuses on the reporting of financial information to satisfy the decision usefulness needs of users of resources in capital markets. Additionally, the International Public Sector Accounting Standards Board (IPSASB) has a project which began in 2006, developing a Conceptual Framework for public sector organisations (IPSASB, 2006a). The IPSASB argues that the objectives of financial reporting for the public sector are significantly different to those of the private sector, warranting a separate conceptual framework (IPSASB, 2008). They argue that a conceptual framework that is comprehensive will encompass both financial and non-financial information. This will be vital for the development of the sector since it will allow financial reporting to evolve as it satisfies the broader accountability requirements of users, rather than solely satisfying a decision usefulness objective (IPSASB, 2010).

In different nation states, there is great diversity of accounting practice across the NFP sector (Torres and Pina, 2003; Irvine and Ryan, 2010). Further, internationally, the introduction of International Financial Reporting Standards (IFRS) and their degree of applicability to the sector have heightened the uncertainty of relevant and applicable accounting practice. In this context, we argue that NFP organisations require a purpose-designed conceptual framework that acknowledges their mission imperative and enables them to discharge their broader accountability. Relying on archival material in the form of standard setting documents and academic literature, we argue that merely adapting either of the current conceptual frameworks to accommodate NFP needs is inadequate, as they both ignore the primary driver of NFP organizations, their mission imperative. It is vital that appropriate accounting standards[4] from which financial reports are derived, are based on a separate conceptual framework with the primary objective of accountability. This will enable NFPs to demonstrate their financial accountability in the context of a broader accountability that includes mission achievement. Such a conceptual framework will potentially assist in resolving the many problematic NFP accounting issues, the current diversity of practice, and in ensuring that as complete and relevant an account as possible of a NFP's use of its resources is provided.

In the next section of the paper, we illustrate the diversity and deficiencies of current practice by focusing on the NFP-specific issues of non-reciprocal transfers and reporting on volunteers. The section that then follows explores the unique accountability relationships which exist in the NFP sector. We contribute to this "relatively unexplored and untheorised" (Kreander *et al*., 2009, p. 157) area by proposing accountability for mission as the primary objective of a conceptual framework for the NFP sector. The paper then addresses the current conceptual framework debate surrounding the objective of financial reporting and its applicability to NFP organisations. In particular, we identify the necessity for NFPs to report on both the financial and non-financial dimensions of their mission-focused activities. We conclude that a NFP-appropriate conceptual framework will allow the demonstration of broader NFP-specific accountability and the formulation of appropriate reporting practice, thus challenging existing financial reporting arrangements and inviting debate on future development.

NFP ACCOUNTING FAILURES: DIVERSITY AND DEFICIENCIES IN CURRENT NFP ACCOUNTING PRACTICE

In this section we draw on two unique transactions of NFPs to highlight the inadequacy of current financial reporting practice to report consistently and meaningfully on the way in which a NFP has discharged its accountability for mission achievement. The global diversity and deficiency of practice results from the absence of an international purposeful conceptual framework designed to address the specific reporting needs of organisations that have as their primary objective mission achievement rather than a profit imperative or a political and social imperative.

Diversity in accounting for non-reciprocal and restricted financial contributions

Globally, it is estimated that 62% of NFP revenues are received in the form of contributions either from governments or private philanthropy (Salamon *et al.*, 2007, p. 10)[5]. These inflows would typically include voluntary cash contributions in the form of donations, grants, endowments and bequests, and non-cash contributions in the form of capital assets, materials and services. They result from transactions where, in many cases, the contributor receives no direct economic benefit, but may receive utility from seeing others helped, and derive pleasure from the act of giving itself (Andreoni, 1990; Rose-Ackerman, 1996). They are variously termed “non-reciprocal transfers” or “non-exchange transactions”, reflecting an economically one-sided relationship. Non-reciprocal transfers do not often occur in the for-profit sector, as most transactions are exchange based. Although non-reciprocal transfers are a feature of the public sector (e.g. taxes), their involuntary nature differentiates them from the voluntary nature of these transactions in the NFP sector.

The controversial issue, from an accounting perspective, relates to the fact that not all contributions may be used at the discretion of the donee organisation, but may have restrictions and conditions attached. For example, grants may be accompanied by a restriction that limits the purpose for which the grant may be applied, but generally does not require funds to be returned if not used in the intended way. Alternatively, grants may be accompanied by attached binding conditions that specify a particular purpose for which the grant is to be applied, or contain other performance criteria that may need to be met before the NFP has unconditional entitlement to the funds. When the conditions are not met, then the grant, in full or in part, may need to be returned. The disclosure of these restrictions on the use of funds is an important part of a NFP's financial accountability.

Internationally, jurisdictions have responded to the need for the recognition and disclosure of these restrictions in a variety of ways. In Australia all contributions are to be recognised as income when the entity obtains control of or has the right to receive the contribution; it is probable that the incoming resource will be contributed to the NFP; and the contributed amount can be measured reliably (AASB, 2007, paragraph 12). The relevant Australian accounting standard does not distinguish between contributions received but accompanied by restriction or condition and contributions received without restriction or condition (Kilcullen *et al*., 2007)[6]. This restricts the relevance of the information available to stakeholders, and in consequence reduces the extent to which NFP organisations can be held accountable for their use of restricted funds.

Other jurisdictions adopt a different approach. In the United States, according to the *ASC Topic 958-605* (previously *Statement of Financial Accounting Standards (SFAS) No. 116*), a distinction is made between donor-imposed conditions and donor-imposed restrictions, the latter not being a factor in the recognition of revenue (FASB, 2009; Jordan *et al*., 1993). A contribution received or receivable with a donor-imposed condition is disclosed as revenue in the year in which any conditions have been substantially met (FASB, 1993). The IPSASB adopts a similar position to *ASC 958-605*, whereby conditions attached to a non-reciprocal transfer, but not restrictions, may give rise to a present obligation (liability), which includes the possible need to return the resource to the contributor. For such non-reciprocal transfers, the incoming resource (asset) will initially be recognised as deferred revenue (liability) and realised as income in the period in which the condition is *fulfilled* (IPSASB, 2006b).

With effect from 1 January 2012, Canadian private sector NFP organisations may prepare their financial reports in accordance with IFRS or pre-existing standards that focus specifically on NFP reporting requirements commonly referred to as the ‘4400 series’ contained in the Canadian Institute of Chartered Accountants (CICA) Handbook. The CICA Handbook distinguishes between restricted and unrestricted funds (AcSB, 2010; CICA, 1997). Unrestricted contributions received or receivable are disclosed as income in the current year whereas restricted contributions are initially disclosed as unearned income and then progressively realised as income in the year in which the related expense is incurred, that is, the recognition of income is matched to the expense (CICA, 1997).

The UK Charities SORP (Statement of Recommended Practice) (Charity Commission, 2005) presents a more detailed level of disclosure, differentiating between contractual arrangements (e.g. fee for service or other performance-related grants) and grants, donations and non-cash resources. Under a contractual arrangement, incoming funds are recognised as income only to the extent that the service/performance has been provided. Grants and donations without any pre-conditions are recognised immediately as income while grants and donations that have conditions attached are assessed on a case-by-case basis. Where there is sufficient evidence that meeting the condition is within the charity’s control and will be met, the incoming resource will be recognised as income. However, where meeting the condition is outside of the charity’s control or uncertainty exists as to whether the charity can meet the condition, then the income will be deferred and only realised once the condition has been met. Notably, a condition that allows for the recovery by the donor of any unexpended portion of a grant does not preclude its recognition as income and any liability for repayment is only recognised when repayment becomes probable (Charity Commission, 2005, paragraph 110). In 2011 the Accounting Standards Board released Financial Reporting Exposure Draft (FRED) ‘FRED 45 - Financial Reporting Standard for Public Benefit Entities’ (ASB, 2011). In many respects

FRED 45 simplifies the accounting for incoming resources from non-exchange transactions. It recognises such transactions immediately as income when the incoming resource has no performance condition attached, or if a performance condition is attached, then the non-exchange transaction will be recognised as income when the performance condition is met.

Arguably such lack of international consistency and standardisation in the recognition and disclosure of income and reserves will create uncertainty about practice in jurisdictions where there are no NFP-specific accounting regulations, or where those regulations are ambiguous on this matter. In those cases, it will be difficult for stakeholders to assess the extent to which the organisation has fulfilled its financial and 'designated purpose' obligations. This emanates from the lack of a NFP sector-specific conceptual framework and brings into question the extent to which accountability has been demonstrated.

For many NFPs which receive funds in advance of satisfying the restriction or fulfilling the condition, the timing of income recognition is important so as not to create the impression that the NFP has an abundance of resources despite the fact that it is still to provide the goods or services for which it has been funded. Indeed, an overstatement of the revenue generating capability of NFP entities may cause donors and funders to make judgments based on inflated reported surpluses that may bear no relation to the on-going capability of the NFP to fulfil its mission. If stakeholders are provided with relevant information about the conditions behind income recognition, they are better equipped to hold the organisation accountable both for its accounting treatment of revenue, and for its revenue-earning performance. Or conversely, if accountability for these matters is prioritised, stakeholders will have access to more complete and relevant information.

Deficiencies in accounting for volunteer contributions

The integral role that volunteers play in NFP organisations is a situation not experienced in either for-profit or public sector organisations. It is estimated globally that approximately 1 billion people annually volunteer their time, at an estimated value added of $US1,348.1 billion (Salamon *et al*, 2011). However, currently, financial reports fail to demonstrate a NFP's accountability for its reliance on, and use of, volunteers. Although the contributions of volunteer services generate a significant amount of value for NFPs, the current conceptual frameworks do not allow for NFPs adequately to report on the extent of their reliance on volunteer labour. Consequently, because no market transaction is involved, the full extent of such non-reciprocal transfers is not reflected in conventional financial statements (Mook *et al*., 2005). Internationally, some limited reporting of volunteer services is permitted, but, in practice, very few NFPs report the value of volunteer services in their financial statements (Helmig *et al*., 2009; Mook *et al*., 2005; Mook *et al.*, 2007).

Guidance provided by the Institute of Chartered Accountants in Australia (ICAA, 2003) suggests that volunteer services should only be recognised as revenue when three conditions are met: the services received create or enhance an existing asset; they require specialist skills, and they would otherwise be purchased if they were not donated (Kilcullen *et al*., 2007). In the United States, *ASC Topic 958-605* (previously *Statement of Financial Accounting Standard No. 116*) (FASB, 2009) adopts a similar position. Canadian NFPs are only required to recognise contributed services in the form of volunteer labour if they are used in the normal course of operations (Mook *et al*., 2005).

Donated services that individuals would normally provide as part of their normal trade or profession, and the contributions of volunteers, are differentiated in the UK Charities SORP (Charity Commission, 2005). Donated services are required to be recognised as income measured at fair value, with a corresponding expense, while the contributions of volunteers are not to be recognised due to difficulty in measurement (Charity Commission, 2005, paragraph 134). While recognising these measurement difficulties, the Charities SORP nevertheless reinforces the importance for report readers to be provided with “sufficient information to understand the role and contribution of volunteers” (Charity Commission, 2005, paragraph 51). This would be appropriately included in the annual trustees’ report.

The ASB's (2011) FRED 45 proposes that donated services that can be "reasonably quantified" should be recognised in the reporting entity's financial statements. Although New Zealand does not require volunteer services to be recognised in the financial statements, the New Zealand Institute of Chartered Accountants (NZICA) does acknowledge that including the value of volunteer services in the financial statements is helpful to users because it provides more complete information on the resources required and used by the NFP in fulfilling its mission (NZICA, 2007, paragraph 5.38). Thus, while the importance of recognising the contribution of volunteers is acknowledged, the difficulty of quantifying that contribution is also acknowledged.

It would seem inconsistent that NFPs can only report on contributions of volunteer services that have been received as a substitute for, but not supplementary to, paid services. To present financial statements in this way implies that volunteers have zero impact on the operating capability of the NFP. As argued by Mook *et al.* (2007, p. 60), the exclusion of volunteer labour from NFP accounting statements undervalues a “key and valuable resource” on which many NFPs rely. The silence of financial reports on volunteering thus represents a grave deficiency in organisational accountability resulting from the lack of a NFP sector-specific conceptual framework.

This silence also represents a failure of the financial reports to achieve the aspirations of the Conceptual Framework’s qualitative characteristics of understandability, relevance, reliability and comparability (AASB, 2009). In particular, with reference to the contribution of volunteers, the absence of information about this key NFP resource calls into question the relevance, reliability (faithful representation and completeness) and comparability of NFP reports prepared under a for-profit conceptual framework.

These two items, the disparate treatment of non-reciprocal and restricted financial contributions and the absence of information on the value of volunteer contributions, provide evidence of the inadequacies of current NFP financial reporting. Within the context of their reliance on primarily non-exchange transactions, NFPs need to account for how effectively they have used these resources in accordance with any donor-intended purpose, and to the benefit of beneficiaries. The treatment of these items is currently constrained by trying to fit them into a conceptual framework which does not cater for the accountability needs of mission-driven organisations.

GROUNDING NFP ACCOUNTING PRACTICE IN ACCOUNTABILITY

In proposing "broader" accountability as a foundation for NFP reporting, we tap into the notion of stewardship[7], and thus accommodate a wider conception of responsibilities that eclipse economic matters, to include political, social and environmental issues (O'Dwyer *et al*., 2005; Unerman and O'Dwyer, 2006). Such a notion would see accountability as being "more than accounting" (Connolly and Hyndman, 2004, p. 129). Financial reporting information, in consequence, would be de-emphasised, and non-financial information increased (ASB, 2007), since NFP contributors place most value on this (Hyndman, 1990).

Researchers have tried to encapsulate this broader notion by using terms such as "public" accountability (Coy *et al*., 2001), "broad perspective" accountability (Unerman and O'Dwyer, 2006, p. 351), "socialising" accountability (Hardy, 2008), or "entity accountability" (Laughlin, 2008, p. 248). This type of accountability needs to be explored and defined, however, since accountability is a notion that has been extensively debated and its meaning is by no means straightforward (Alexander *et al*., 2010; Ebrahim and Weisband, 2007; Connolly and Dhanani, 2009).

Identifying accountability as “the giving and demanding of reasons for conduct” (Roberts and Scapens, 1985, p. 47) is a useful starting point that implies a two-way relationship between the account-giver and the one to whom the account is given, i.e. being held to account for one’s “conduct and responsibilities” (Hyndman and McMahon, 2011, p. 168). The account is produced as a demonstration of an organisation’s “willingness to endure public scrutiny” (Lawry, 1995, p. 175) by fulfilling what can be conceived as an ethical or moral obligation consistent with the social norms of the day (Sinclair, 1995; Mulgan, 2000).

The investigation of “who is expected to account for what, to whom, and in which manner” (Messner, 2009, p. 920) can lead to the conception of accountability as being the production of reports for a narrow cohort of regulators, in order to constrain powerful interests, or to a broader cohort of interests in order to fulfill an obligation to society (Roberts, 1991, 2001). In this vein, NFP accountability relationships have been described variously as external or internal, hierarchical or holistic, upward or downward, and functional or social (Ebrahim and Herz, 2007; O’Dwyer and Unerman, 2008; Ebrahim, 2003a, 2005; Agyemang *et al*., 2009; Connolly and Dhanani, 2009). Recognizing the diversity and complexity of these accountability relationships, Ebrahim (2005, p. 194) identified the need for NFP accountability to encompass a broader account presented to both external and internal stakeholders[8] of the actions of “individuals and organizations” regarding “organizational missions, goals, and performance”.

In keeping with this interpretation, and acknowledging that the one to whom the account is given consists of a broader cohort of interests, we interpret accountability as “entity accountability”, as advocated by Laughlin (2008). Entity accountability opens up the possibilities of accountability as encompassing not only the provision of a mandated account to external parties, but also the demonstration to internal stakeholders that a moral responsibility has been fulfilled (Roberts, 1991, 2001; Ebrahim, 2003a; Fry, 1995; O'Dwyer and Unerman, 2008). While this is appropriate for all entities, it is particularly pertinent for NFP entities where the mission imperative, rather than profit or political motives, drives performance, including financial performance.

Regarding the "for what" question of accountability, this entity accountability view leads to the production of a broader account of NFP organisational performance, with financial accountability conceived as one of multiple accountabilities. This is in contrast to both the for-profit organisation, where the profit motive and decision-usefulness dominate the financial reporting agenda, and the public sector organisation, where, although accountability is important, the emphasis is on service delivery in the form of outputs delivered, rather than ultimate mission fulfillment, i.e. outcomes, over the longer term.

The question of the manner in which accountability would be demonstrated, i.e. what it would look like in practice, leads to a consideration of the transparency aspects of accountability and the challenge of achieving an "intelligent" accountability (Roberts, 2009). Roberts (2009, p. 963) is critical of claims of transparency and accountability that mask the complexity of operations by reducing them to "a few simple indicators" abstracted from their context. Thus, the mere presentation of additional information on NFP mission and governance may not bring an actual increase in accountability, since this strategy could lead to the decoupling of image from achievements, particularly evident in the production of league tables, or the invention of categories of information that are not meaningful to NFP stakeholders. Accountability therefore should be more than the transparent presentation of information, but should involve ongoing, active enquiry that produces more than a mere snapshot of performance (Roberts, 2009, p. 966). These dimensions of accountability are particularly appropriate for NFP organizations, with their focus on mission, governance and financial performance over the longer term (O'Dwyer and Unerman, 2008; Strom, 2010).

These sentiments are consistent with recent studies that have highlighted the desirability and practice of an increased emphasis on non-financial and narrative reports to a broader range of stakeholders (ICAEW, 2003; Charity Commission, 2005; Jetty and Beattie, 2009; Connolly and Dhanani, 2009; Kreander *et al*., 2006). This emphasis should produce accounts that are a microcosm of broader, socialising accounts (Agyemang *et al.*, 2009; O'Dwyer and Unerman, 2008), in keeping with the notion of entity accountability.

A conceptual framework for NFPs that is based on an accountability objective, rather than a decision-usefulness objective, therefore has the potential to address broader mission accountability issues. Consistent with Roberts (2009), this will open up as yet undiscovered possibilities that will flow through a NFPs reporting system to the identification of NFP accounting issues, the promulgation of NFP-appropriate accounting standards and the implementation of NFP accounting practice, all under the umbrella of a broader accountability.

WHY NFPs NEED THEIR OWN CONCEPTUAL FRAMEWORK

The inappropriateness of the current for-profit and proposed public sector Conceptual Frameworks to meet the reporting needs of the NFP sector has been demonstrated practically by reference to two specific accounting issues, and also theoretically by identifying an expanded notion of accountability. However, further justification for developing a sector-specific conceptual framework for NFPs can be found from the deliberations of the IASB, the IPSASB and the activities of the regulatory regimes in other jurisdictions.

The IASB and Financial Accounting Standards Board (FASB) are currently working together on a joint Conceptual Framework for the for-profit sector (IASB, 2006). This project considers only the provision of financial information to be used primarily for decision-usefulness purposes with little consideration of accountability. Phase G of this project, currently inactive, was to consider the applicability of the framework for the NFP sector. Clearly there is either doubt in the minds of these standard-setters as to whether a conceptual framework developed for the needs of the for-profit sector will transpose to the NFP sector, or the needs of the NFP sector are simply not a high priority given the resource constraints of both the IASB and the FASB.

Further, as discussed in the prior sections, the accountability needs of the NFP sector are different from those of the for-profit and public sectors. With a mission imperative, NFP organisations need to provide evidence of their mission achievements alongside financial information. This will likely be in the form of both narrative and numerical information that identifies the purpose to which funds have been applied, and assists stakeholders to understand the mission implications of financial reports. The current debate that surrounds the development of the for-profit Conceptual Framework illustrates the difficulty not only of developing an improved conceptual framework for the for-profit sector, but of developing a framework that is relevant for entities outside this sector (Lennard, 2007; Laughlin, 2008; IASB, 2006).

These difficulties can be identified as emanating from the different operational imperatives, financial reporting objectives and accountability requirements of the for-profit, public and NFP sectors. Table 1 portrays some of these key distinctions.

Table 1: Contrasting financial reporting dimensions of for-profit, public sector and NFP sectors

	For-profit sector	Public sector	Private sector NFPs
Imperative	Profit	Political and social	Mission
Financial reporting objective and orientation	Decision-usefulness (profitability-oriented)	Accountability and expanded decision-usefulness (economically and politically oriented)	Accountability (mission-oriented)
Primary transaction type	Voluntary/ exchange	Involuntary/non-exchange	Voluntary/non-exchange
Users/ stakeholders	Users: investors, employees, lenders, suppliers and other trade creditors, customers, government, public.	Users: taxpayers, lenders, donors, other resource providers; public	Stakeholders: funders (donors), employees, volunteers, advocates, lenders, suppliers and other trade creditors, customers, members, service beneficiaries, regulators, public
Primarily user/stake-holder interests	Profitability	Service provision in response to political imperatives	Mission fulfillment
Accountability implications	Narrow, hierarchical, external financial accountability primarily to capital providers (investors and creditors) and regulators	Accountability to resource providers and the public for the use and management of those resources	Accountability to all stakeholders, including funders, members, service beneficiaries, volunteers and advocates

For-profit organisations are typically driven by the profit motive, are answerable primarily to their shareholders and credit providers but also to a wider cohort of stakeholders, all of whom rely on financial reports for information in order to make economic decisions. Their business is conducted as a series of voluntary or exchange transactions. Public sector organisations, in contrast, are driven to provide services according to the political and social agenda of governments in response to public perceptions of need. They are therefore accountable to the public, who contribute by paying taxes, and to other resource providers, who demand demonstrations of accountability for the way these organisations have used and managed the resources entrusted to them (Mulgan, 2000). Their activities include involuntary or non-exchange transactions, as they are both in receipt of government budgetary allocations and also disburse payments to a range of businesses and beneficiaries. Private sector NFPs, in contrast, are motivated by their mission, which is formulated at their inception and is strategised in accordance with political imperatives rather than being driven by them. They therefore must account for their success in achieving mission imperatives to a broad range of stakeholders represented by clients, contributors and the community (Ebrahim, 2003b). They operate with a combination of voluntary (business) and non-exchange transactions (receiving non-reciprocal contributions and dispensing services to clients).

Consequently, when considering that the objectives and orientations of these three sectors are so different, the difficulty of transferring a conceptual framework designed for one sector into another sector is not surprising. This difficulty is clearly reflected in the IPSASB's determination that a standalone fit for purpose conceptual framework is required for the public sector. It has indicated that a for-profit conceptual framework does not address the broader political and social imperatives of public sector organisations. Consequently, it has decided to develop its own conceptual framework, rather than merely adapt the existing framework to the public sector. To this end, the IPSASB (2008) published a Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB, 2008).

The objectives of financial reporting in the public sector proposed in the IPSASB (2008) Consultation Paper are significantly different from those contained in the IASB/FASB Exposure Draft. The IPSASB document emphasises accountability and an expanded notion of decision-usefulness that includes not only resource allocation but also acknowledges political and social issues. Further, the IPSASB has indicated that it believes the scope of its Conceptual Framework should be broad enough to enable public sector bodies to report financial and non-financial information, with respect to meeting their objectives, their capacity to provide service into the future and to report on the resources needed to support them (IPSASB, 2008). The IPSASB Consultation Paper also foreshadowed the inclusion of more narrative information in financial reports:

> Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information *useful for accountability and decision-making purposes [emphasis added]* (IPSASB, 2010, p.22).[9]

This Consultation Paper was followed by *Conceptual Framework Exposure Draft 1*, which was issued in September 2010, with comments closing in June, 2011 (IPSASB, 2010). The Exposure Draft has taken substantially the same approach to the objectives of financial reporting as the Consultation Paper.

The IPSASB determined that the IASB for-profit conceptual framework was inadequate to meet the needs of the public sector as a consequence of the differences in accountability and their expanded notion of decision-usefulness. Similarly it can be argued that the conceptual framework under development by the IPSASB, while potentially coming closer to meeting the needs of the NFP sector than the IASB conceptual framework, will none the less still be inadequate.

A fundamental characteristic of the public sector is that resources are provided involuntarily by taxpayers without any expectation of a fair exchange (Mulgan, 2000). Rather, funds are used by the government of the day to meet social, political and economic goals identified by the government (Barton, 1999). In the NFP sector, however, while there may still not be an expectation of an exchange or personal benefit, participation in the funding process is voluntary and determined by belief in the objectives or mission of the organisation (Lyons, 2001).

In the public sector, especially in those jurisdictions defined by the Westminster system, there is a path of accountability relationships between the various agencies that comprise the public sector through the minister to parliament and ultimately to citizens (Stewart and Ward, 1996; Davis *et al.*, 1993: Lyons, 2001). This accountability is defined in terms of delivery of services, appropriate expenditure of funds and meeting budget objectives. Further, governments are required to report their results in specific formats to meet the reporting requirements of various international and national financial and economic regulatory agencies. This is a much broader notion of accountability than in the private sector but also different to that of the NFP sector. As identified in the previous section, accountability in the NFP sector is driven by demonstrating performance in relation to mission achievement (Charity Commission, 2004; O'Dwyer and Unerman, 2008). This emphasis on accountability for performance on the achievement of NFP-specific mission renders the IPSASB's proposed conceptual framework unsuitable for the NFP sector, since it stems from the social, political, economic and regulatory roles played by governments, and not on the discharge of the individual mission accountability which is the focus for NFP stakeholders.

Further evidence of global diversity and ad hoc development of NFP practice is evident in the different approaches taken by various national jurisdictions. Australia and New Zealand, which were early adopters of IFRS, took a transaction-neutral approach and required NFPs to fit into IASB standards[10] However others such as the UK, US and Canada, have developed NFP-specific accounting standards designed to meet the expanded accountability requirements of the NFP sector.

As an example, in the UK there have been sustained efforts to address the needs of accounting and reporting for charities since the 1980s[11] (Connolly *et al.*, 2009). The

Accounting Standards Committee has worked with stakeholders within the sector to develop relevant reporting practice including the provision of non-financial information through the Charities SORP (Hyndman and McMahon, 2011). Over the last twenty years these statements have evolved from initially being predominantly adaptations of existing for-profit standards to now being substantially different from for-profit standards and incorporating financial statements that more appropriately report the activity of the NFP and discharge its accountability (Hyndman and McMahon, 2011; Charity Commission, 2005). More recently the Accounting Standards Board's FRED 45 (ASB, 2011), as foreshadowed in its 2010 "The Future of Financial Reporting in the UK and Republic of Ireland" (ASB, 2010), appears to be a return to the notion of merely adopting a private sector focus in attempting to meet the needs of the NFP sector with respect to financial reporting.

We have identified dissonance between the for-profit and public sector conceptual frameworks and the needs of the NFP sector. We therefore argue that at the heart of this dissonance is the lack of a fit-for-purpose NFP conceptual framework that meets the expanded accountability needs of NFPs.

CONCLUSION

This paper is timely. Internationally, the importance of the NFP sector is growing. Consequently, many jurisdictions, as exemplified by the UK Accounting Standards Board's FRED 45 (ASB, 2011), are examining regulatory change or new regulatory structures for their NFP sectors. In the accounting community, there is a current debate about appropriate conceptual frameworks for different types of organisations, and also about the impact of the introduction of IFRS.

Robust accounting standards and principles are developed from an appropriate conceptual framework. The IASB is developing its standards for the for-profit private sector within a decision-usefulness (profitability focussed) conceptual framework. The IPSASB is developing its standards for the public sector within an accountability (economically and politically focussed) conceptual framework. This leaves mission focussed private sector NFPs with no appropriate overarching conceptual framework under which appropriate accounting practice can be developed.

This raises a number of challenges and questions. A fundamental issue is the diversity of the sector, encompassing as it does organisations from charities to health care organisations, educational institutions, trade associations and many more. Given this diversity, who would develop a NFP Conceptual Framework? Would this be the role for the IASB, which has pushed consideration of NFP issues off its active agenda, or should a new international body be formed to address the needs of the sector? Perhaps a place to start would be in considering charities. Various jurisdictions have already set in place accounting standards or regulations for charities. A co-operative venture at international level might start this process and open debate and discussion on the development of a NFP conceptual framework and a way ahead. Although this may represent a significant mind-set issue for the IASB, at this stage it would appear to be the organisation most able to take up this challenge and move consideration of a NFP-specific conceptual framework onto its active agenda. Failing that, the NFP sector may need to follow the route of the public sector, and determine its own conceptual framework and accounting standards.

This paper thus argues for an accountability-based conceptual framework to support NFP reporting needs. It enters the current conceptual framework debate, challenging the applicability of applying or adapting current for-profit or public sector frameworks to the NFP sector, and argues for the development of a NFP-appropriate conceptual framework that acknowledges the mission imperative of NFPs and enables them to discharge their broader accountability. Although academic literature identifies various NFP accounting and financial reporting anomalies (Helmig *et al*., 2009; Mook *et al*., 2005; Mook *et al*., 2007), little attempt is made to link financial reporting to the enhancement of sector accountability, or specifically to a financial reporting conceptual framework. This paper fills this gap theoretically, by arguing that a conceptual framework based primarily on an accountability function will enable NFP reporting to contribute to a demonstration of broader NFP entity accountability, and open the possibility of including additional financial, non-financial and narrative information.

While we do not claim to have examined all the accounting issues that exist for private-sector NFPs, we have provided evidence that draws attention to the urgent need for work to be undertaken to develop a conceptual framework that addresses their reporting and accountability needs. A number of research opportunities arise from the issues explored in this paper. Further debate on the utility of a primary accountability objective to meet the financial reporting needs of the NFP sector is needed to explore the issues raised in this paper. At a practical level, the development of appropriate accounting practice in the area of non-reciprocal and restricted financial contributions, and the pressing challenge of accounting for the key resource of volunteers is warranted.

Also worthy of consideration is the potential cost to NFPs of delivering this expanded level of accountability. Where it is merely a matter of greater or more detailed disclosure of existing practice, this should not be a huge disadvantage. However, in areas where it will require additional systems of accounting and reporting, as in the case of volunteers, there will inevitably be associated costs. Weighing the accountability benefits and the practical benefits of instituting, for example, better volunteering management systems against the cost of providing such systems would be a fruitful avenue of future research.

A conceptual framework based on accountability will unlock the potential of NFP reporting to include financial, nonfinancial and narrative information. This will contribute to the demonstration of broader entity accountability by NFPs, and ultimately to the enhancement of the sector’s role in society.

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NOTES

[1] "Not-for-profit" is just one way of describing organizations that are variously referred to as non-profit, charities, third sector organizations, community-based organizations, voluntary organizations, or are described as being part of civil society. They take on many organizational forms, depending on the jurisdiction in which they are established, and vary hugely in size and mission. They are found in the fields of health, education, social services, arts and culture, religion and many other areas. Their inflows include funds from governments, private philanthropy, and, increasingly, revenue from service contracts.

[2] A Johns Hopkins study on civil society and volunteering found that, including the value of volunteering, the NFP sector contributed 5% of the GDP in the eight countries (Canada, US, Japan, Belgium, New Zealand, Australia, France and Czech Republic) for which satellite account data were available (Salamon *et al*., 2007, p. 6).

[3] Work is currently paused on this project (IASB, 2011).

[4] While we acknowledge that a conceptual framework provides the basis for the setting of accounting standards, we do not limit our discussion to a consideration of financial reporting issues.

[5] This includes the value of volunteer time.

[6] A joint Exposure Draft (AASB ED 180/ FRSB ED 118) released by the Australian and New Zealand standard setters in 2009 proposed an accounting practice that was comparable to the position adopted by the IPSASB accounting standard IPSAS 23 (AASB and FRSB, 2009). However, as a result of dissenting views from its constituents, the AASB has withdrawn ED 180 while it reconsiders its position.

[7] The UK's Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities, for example, advocates that a stewardship account should be provided to stakeholders to demonstrate the "use of funds and the safekeeping of its [the organisation's] resources" (ASB, 2007, p. 12). The Charity Commission of England and Wales (Charity Commission, 2004, 2009) identifies the importance of stewardship reporting. In the context of the development of the IASB's conceptual framework, Lennard (2007, p. 63) cast stewardship in a broad and positive light, identifying it as providing the "basis for discourse between management and shareholders".

[8] In the NFP context, internal stakeholders would include not only management, but also members of the governing body, employees and volunteers. NFP Governance can thus be seen as referring to the way "rights and responsibilities" are distributed between various stakeholders, and their demonstrations of accountability (Hyndman and McDonnell, 2009, p. 27).

[9] GPFRs (General Purpose Financial Reports) are defined as "financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs" (IPSASB, 2010, p. 10).

[10] NZ has recently reversed its commitment to transaction-neutrality (Devonport and van Zijl, 2010), promoting the idea that a new accounting standards framework should consist of "two sets of accounting standards: one applied by entities with a for-profit objective; and an alternative set applied by entities with a public benefit objective" (External Reporting Board, 2011).

[11] This has been evident since the development of the first Charities SORP in 1988 (Palmer *et al*., 2001).