THE PROBLEMS WITH GOVERNANCE AND ACCOUNTABILITY IN FRENCH CHARITIES

Keith Hooper*, Samir Ayoub**, Rowena Sinclair***

Abstract

This paper identifies problems with governance and accountability in respect to French charities by assessing current reporting practices. To identify the most common practices, an exploratory study was conducted with accountants, auditors and academics with expertise in charity financial reporting. Compliance emerged as the major issue with charity reporting in France. In many cases, the accounting treatments adopted were decided by the charity involved. No standardisation of accounting treatment can be presumed, with many charities producing reports that are opaque or lacking vital detail. A key finding is the need for an accountability discharge mechanism to support accountability discharge documents such as financial statements. This reflects the lack of centralized oversight on whether these statements are audited or conform to French codes.

Keywords: Governance, Charities, French, Accountability, Discharge Mechanism and Oversight

**Corresponding author. AUT University, Private Bag 92006, Auckland 1142, New Zealand, Telephone 64 9 921 9999, Fax 64 9 921 9940*
Email: keith.hooper@aut.ac.nz

1 Introduction

In France there are, it is thought, 1.1 million not-for-profit organisations (NFPs), which operate and appeal for donations for their worthwhile causes (Tchernonog, 2007). The largest 20 of these organisations comprise 75% of the sector's revenue, while only the top 40,000 in descending order of size are regulated by the French code CRC. 99.01-3 (*Comité de la Réglementation Comptable*, 2004). It is surprising that the remaining NFPs (including charities), estimated at over 1 million organisations, have no reporting financial obligations. In many cases, especially with smaller NFPs there is a seeming lack of control, let alone financial accountability, in their financial reporting.

The paper's objective is to first identify from the literature the problems relating to accountability with respect to French charities. We then seek solutions to these problems by gathering advice from interviews with French auditors, academics and accountants with expertise in the French charities sector. The motivation is to promote the development of a European standard applicable to all European charities. Such a standard is necessary as many charities combine financial results from branches operating across national boundaries. Otherwise branches in different countries will be motivated to construct results tailored to local outcomes. For example, the accounts of the British branch of Teri Europe in 2008 showed an income of GBP8,000, a figure below the GBP10,000 threshold above which charities must publish full accounts. After an enquiry was instigated, the 2008 income was raised to GBP103,980 – the errors were explained by inexperience in preparing the financial accounts (Booker, 2010). The point of this is that if each national branch of an international charity tailors its account to suit local outcomes the combined international result could be gravely distorted.

The accountability of charitable organisations is a concern of the European Commission (2005). Currently, the European Commission is trying to draft a code of conduct to promote accountability best practice by charitable organisations. After years of being ignored by the European Commission, charities now find that the Commission is poised to become a fledging regulator largely because some European registered religious charities may be funding anti-western activities (Breen, 2008). However, the European Commission leadership in Brussels has not specified the actual treatment of various contentious transactions, and it is the purpose of this paper to propose such treatment for greater accountability in the charities sector.

This paper is organised as follows. First, the paper provides an explanation of why accountability is important to charities' financial reports. It outlines a number of problems with accountability discharge documents drawn from the extant literature. The paper then presents the research method adopted in this study, before discussing the research findings and recommendations derived from interviews with experts in the French charities sector.

A profusion of nomenclature has been employed within the charities sector to refer to organisations within this sector. These include: non-profit organisation (NPO), NFP, non-governmental organisation (NGO), public benefit, and other terms. Such terms are used interchangeably in this paper as some of the research that we draw on focuses solely on charities or sectors, such as those previously mentioned, for which charities are a sub-group. The theoretical framework on which this study is based is now presented.

2 Accountability Theorisation

Although the term accountability is utilised widely, its meaning is not always clear. Many authors have tried to define accountability within a charitable, NFP or NGO context (Agyemang et al., 2009; Ahmed and Wickramsinge, 2009; Aimers and Walker, 2009; Archambault et al., 1999; Bracci, 2009; Cordery, 2008; Crofts, 2008; Dellaportas et al., 2008; Eisenberg, 2005; Flack, 2007; Fowler, 2008; Hyndman, 2008; Jayasinghe and Soobaroyen, 2009; Keating and Frumkin, 2003; Nowland-Foreman, 2000; O'Dwyer and Unerman, 2008; O'Sullivan and O'Dwyer, 2009; Steccolini, 2004; Unerman and O'Dwyer, 2006; van Staden and Heslop, 2009; Watts, et al., 2009). There are two consistent parts to the definitions used by these authors, which supports Stewart's (1984) seminal definition: the need for information, i.e. 'the account' and the discharge of that account.

The first part– the 'account' for charities – should relate to their charitable purpose, which reflects Fishman's (2007, p. 13) definition of accountability as:

The process by which assets devoted to charitable purpose are put to their proper purpose and information about their use is made available to public or to state authorities.

The second part, is mentioned in the later part of Fishman's accountability definitions and relates to the discharge of that account. The discharge of accountability can take place through the production of financial reports such as financial statements or annual reports. Hyndman and McDonnell (2009, p. 28) consider that the discharge of accountability is "*reflected in the production and use of best-practice compliant financial statements.*"

Hyndman and McMahon (2010, p. 455) consider that good accountability leads to a reduction in scandal and instils confidence, which leads to increased charitable donation. In England and Wales, the Charity Commission takes the view that "*accountability is a charity's response to the legitimate information needs of its stakeholders*" (Charity Commission, 2004, p. 2). They also interpret both transparency and accountability as "*[p]roviding relevant and reliable information to stakeholders in a way that is free from bias, comparable, understandable and focused on stakeholders' legitimate needs*" (Charity Commission, 2004, p. 2).

Concerns have been raised about the accountability of charitable organisations, particularly the adequacy of financial reporting (Keating and Frumkin, 2003). The *Assemblée Nationale* (2004, p. 15) regrets that multiple standards of charities' financial reporting coexist and propose to set in place accounting obligations that will work towards the harmonisation of European standards for charities (Proposition No. 17). Given such a disparity of accounting systems it is not surprising that *Fondation Prometheus* (2008) find problems with the uniformity of European charities' and French charities in particular[19].

This paper reviews the transparency of accountability discharge documents, such as financial statements, and the problems prevalent in the French charities' sector. Next, the paper considers the regulatory framework that charities, in the guise of associations, are guided by in France.

3 Regulatory Framework of French Charities

In France, the 1901 charities regulation invites associations 'to account for' their activities but it does not oblige them to adopt precise accounting rules. Since the implementation of this regulation, a series of regulations has been published to regulate and supervise the activities of associations, i.e. charities. , including:

- Regulation of 1938 (article 14): Any association that receives a State donation is held to provide its budgets and accounts to the Ministry that grants the donation. Any refusal of communication involves the cessation of the donation in the future.
- Law of March 1st 1984 Outlines obligations to do accounting and produce financial statements for associations as a legal entity taking part in the economy. These obligations include financial accounting to measure the activity and the wealth of the association, the budgets to carry out the financial forecasts, and cost accounting to analyse accounts.
- Law of August 7th, 1991 Any association must annually publish an account of annual use of the collected resources, which specifies the assignment of donations by type of expenditure.
- In 1999, adaptation of the commercial accounting set (Plan Comptable Général) to the specificities of associations. Regulation 99.01 obliges

[19] Created at the end of 2005, the Prometheus Foundation was founded by ten big French companies operating in so-called "strategic sectors" (energy, defence, health, banks, insurance etc.). Chaired by a member of the French Parliament, it is defined as a platform of exchange between academic, economic, political and social players. It is devoted to the analysis of the challenges of globalisation, in order to develop operational and original tools and promote transparency of financial markets (Fondation Prometheus, (2008).

an association to appoint an external auditor if it meets at least two of the following conditions:

- Having more than 50 employees
- Having 3.1 million Euros of assets
- Having 1.55 million Euros on its total balance sheet

- The decree of July 28th, 2005: Any association that receives more than 153,000 Euros (a million French-francs) in donations must publish a balance sheet and an income statement. At this stage, an external auditor should be nominated to audit the accounts.

These regulations provide the regulatory framework for charities in France, with particular emphasis on accountability discharge documents. In the next section, problems in accountability discharge documents, such as financial statements, for French charities are considered.

4 Problems with Accountability Discharge Documents

In Europe, a recent survey indicates that only a minority of NGOs are obtaining a good level of transparency and accountability. The *Fondation Prometheus* considers the availability (in their terms, transparency) of accountability documents such as financial statements. The *Fondation Prometheus* (2008) conducted a survey of European NGOs that were large organisations and acted in a consultative status at the European Council, through participating with committees of the European Commission and the *Grenelle de l'Environnement*. The study found that, of 54 major French and European NGOs, only 11 of them achieved a reasonable level of accountability and 23 of them offered no report of accountability at all. The *Fondation Prometheus* used a 5-point barometer scale to rate the level of accountability reporting by the surveyed organisations. This scale ranged from the lowest level of reporting, level 1 (effectively no reporting at all i.e. no discharge documents) to the highest level of reporting, level 5 (website offers direct access to discharge documents). Of the 36 French charities surveyed by *Fondation Prometheus* (2008), 15 obtained a score inferior to level 1. Only 8 of the charities surveyed achieved a score better than 2.5on the 5 point barometer scale; in other words, 28 of the charities rated 2.5 or below. A rating level of 2.5 means only a balance sheet, more than one year old, is provided without an accompanying income statement and report of activities.

According to the *Assemblée Nationale* (2004), in 1989 some 56 French NGOs committed themselves to *Comité de la Charte*, which established fundamental principles for charities with more than €500,000 income per year. The primary concern is financial transparency and uniform presentation. These NGOs agreed to make public their balance sheets and methods of accounting with comparative figures from prior years.

Despite the existence of the *Comité de la Charte*, there remain problems with accountability discharge documents applicable to the thousands of French NGOs who have not committed to *Comité de la Charte*. The *Observatoire KPMG* (2007) survey of 164 large French charities in 2006 identified several problems including the inability or unwillingness to follow French accounting regulations, lack of experience and competence among treasurers, a lack of communication and an in-built preference for opacity. Some 65% of the 164 respondents experienced difficulties in being transparent, i.e. they could not fulfill all their legal obligations in terms of obligatory accountability such as annual accounts, audit accounts and subsidies. Paradoxically, the under-performing 65% still considered themselves to be transparent as they did not consider that their accounting obligations to be a good test of their function (*Observatoire KPMG*, 2007, p. 32). Furthermore, of the 50 largest French charities surveyed by *Observatoire KPMG* (2007), it was considered by KPMG that 67% could improve their balance sheets and 76% could improve their income statements. It was noted the large charities have a tendency not to respect the presentation of documents to the standards required, while the attitudes of smaller French charities were even worse (*Observatoire KPMG*, 2007, p. 37). The *Observatoire KPMG* (2007, p. 34) report reveals that these deficiencies are worse among smaller French charities. Indeed, the *Observatoire KPMG* (2007) report states that French charities have long developed an image of opacity, taking the form of resistance to rendering accounts, and conservative tactics in certain treatments. However, there is now growing recognition in France to such opacity as a result of recent scandals, such as that concerning 17 small French charities that stand accused by French authorities of breach of trust and embezzlement of several million Euros (*Le Parisien*, 2009). The reasons advanced by *Observatoire KPMG* (2007) for poor reporting standards were: inadequate laws, cost, a culture of non-communication, lack of competency among treasurers, and frequent turnover of staff.

Although the internet, offers the possibility of publicly accessible financial reports of charities, as various studies have shown the lack of uniformity and opacity to be found in these does not discharge accountability effectively. Having established that there are problems with charities' financial reporting, the paper now focuses on four areas identified in the literature that impact on the effective discharge of accountability documents: (1) fund accounting; (2) property, plant and equipment (PPE); (3) consolidation of subsidiaries; and (4); the accounting basis.

4.1 Fund Accounting

Fund accounting is commonly used in charities and is a system of separating assets, liabilities, equities, revenues and expenditures into several different entities (Wacht, 1991, p.71). These funds "*are like a collection of cookie jars*" (Herzlinger and Sherman, 1980, p. 8) where monies for different activities are stored separately. Such separation could be the result of a donor imposing restrictions on the funds that they contributed. Such funds may even be set up in subsidiaries tasked with a special purpose. Herzlinger and Sherman (1980, p. 96) support the use of fund accounting in charities on the grounds that "*the fund accounting statements provide three essential pieces of information on resources: their purpose, the legal limits on their use attached by the donors, and the revocable decisions made by the board on their use*". Problems with the practice of fund accounting include: (1) different titles used to describe similar funds (Bird and Morgan-Jones, 1981); (2) money being transferred among funds so as to hide surpluses (Herzlinger and Sherman, 1980); and (3) stakeholders not understanding the difference between surpluses and funds, such as where surpluses can be used without restrictions whereas some funds must be used for the purposes for which they were created. Generally, little attention has been paid to fund accounting despite some charities using differing forms of fund or reserve accounting (Newberry, 1992). In fact, Walker (2004) refers to fund accounting as the perennial problem.

In France, some smaller charities may use a specific fund to maintain their published income below €153,000, which exempts them from filing accounts with the Prefecture and from employing an external auditor (*Cour des comptes*, 2007). Such funding out of general income is possible because few charities accompany their income statements with funds statements as required (*Cour des comptes*, 2007, p. 21). Therefore, the question to be resolved is: *Can funds be used for purposes other than for which they were created?*

4.2 Property, Plant and Equipment

PPE are tangible assets held for use in the supply of goods or services that have future economic benefits (International Accounting Standards Board, 1993). The balance sheet of a charity should reflect all assets that are under the control and responsibility of that charity (Bird and Morgan-Jones, 1981). Some questions of definition may blur the treatment to be followed. For example, some charities hold large stores of blankets, tents, food or clothing. Should these be regarded as an expense or an asset when they are destined to be given away? O'Connor (2007) regards such stores as assets because of their service potential but some charities may regard such stores differently.

In England, Bird and Morgan-Jones (1981) surveyed 85 large charities and discovered that some charities do not depreciate their PPE. While some charities write-off assets on purchase, many other charities do not disclose their depreciation policies. Those charities who do depreciate their PPE consider that the immediate write-off of PPE to the revenue account and the omission of PPE from the balance sheet do not give a true and fair view of a charity's financial position at the year-end (Bird and Morgan-Jones, 1981).

Hines and Jones (1992) suggest several possible reasons why charities do not depreciate their PPE. Firstly, if capital assets are purchased using donee contributions, there is no cost to the charity. Therefore, there is no need to cover the cost from revenues and no depreciation charge is needed.

So, the question is: *Should assets (such as blankets, etc.) purchased by a charity or gifted to a charity should be capitalised and depreciated in accordance with generally accepted accounting practice?*

4.3 Consolidation of Subsidiaries

In France, the CRC 99-02 code (*Comité de la Réglementation Comptable*, 2004) requires charities to consolidate subsidiaries where there is control (*Fondations d'entreprise*, 2007). Yet, despite these regulations, the *Observatoire KPMG* (2007) reports that from their survey of large French charities, 26% of charities that should consolidate did not, and a further 52% did so in a manner leaving much scope for improvement. Elsewhere in Europe the problem of no consolidation or inappropriate consolidation is common, despite the Statement of Recommended Practice (SORP) (Charity Commission, 2005), applicable in England and Wales, recommending that in all cases subsidiaries should be consolidated[20]. Connolly and Hyndman (2001) find that only 50% of Irish charities with subsidiaries, which are supposed to follow SORP 2005 (Charity Commission, 2005), presented consolidated accounts. By not consolidating subsidiaries, it is possible to hide assets, surpluses and or losses. Thus, for the sake of uniformity and given the dangers of off-balance sheet financing, it is pertinent to ask: *Are subsidiaries consolidated?*

4.4 Accounting Basis

Generally, accounts of an entity are prepared on either a cash basis or an accrual basis. Where donations are received, the basis should be cash rather than accrual as large amounts of donations could be pledged but not necessarily honoured. For example, Aglionby (2005) reports that in the case of the 2004 Boxing Day tsunami only one third of the £1.95 billion pledged

[20] The 2005 SORP replaced the earlier SORPs (Cordery and Baskerville, 2007).

was received. Bird and Morgan-Jones (1981) suggest that, in addition to a cash basis and an accrual basis, there are two other accounting bases, a modified cash basis (receipts recorded on a cash basis, expenditure on an accrual basis), and a modified accrual basis (revenues recorded mainly on an accrual basis but some on a cash basis). The accrual basis is a fundamental accounting concept in preparing financial reports and, with regard to charities in France, it is relevant to ask: *Are the accounts prepared on a cash, accrual, modified cash basis, or modified accrual basis?*

5 Research Method

The primary purpose of this study is to identify problems relating to accountability discharge documents such as financial statements in French charities by assessing the current reporting practices of French charities. To identify the most common practices, eight in-depth interviews were conducted with accountants, auditors and academics with expertise in charity financial reporting. Such a selection is justified as the interviewees have considerable experience in the area of charity accountability and represent an informed body of opinion. The findings represent an exploratory analysis of the problems surrounding the governance of charities.

In-depth interviews were chosen to provide an in-depth understanding of the problems associated with accountability discharge documents in French charities. The interviewees are informants on activities such as what particular accounting treatments are used (Taylor & Bogdan, 1998). Interviews enable an accurate and clear picture of an interviewee's position to be obtained.

The research consisted of eight in-depth interviews. Interviews were conducted in the interviewee's office in order to allow the interviewer and interviewee to interact with each other freely, to develop unexpected themes. The profile of interviewees is presented in Table 1.

Table 1. Demographics of Interviewees

Interviewees	*Role*	*Age*	*Length of Interview*
Interviewee 1	Chairperson of « Comité de la Charte »	55	1 hour 20 minutes
Interviewee 2	Manager of a small charity	62	1 hour
Interviewee 3	Treasurer of a big French charity	42	1hour 15 minutes
Interviewee 4	Independent accountant working for charities	45	1 hour 30 minutes
Interviewee 5	Auditor specialised in not-for-profit sector	52	1 hour 5 minutes
Interviewee 6	Auditor specialised in not-for-profit sector	48	1 hour 10 minutes
Interviewee 7	Auditor specialised in not-for-profit sector	50	1 hour 20 minutes
Interviewee 8	Academic	35	1 hour 5 minutes

To determine the number of participants involved in qualitative research, Lincoln and Guba (1985) suggest that sampling should continue to the point of 'information redundancy' i.e. when no more new information is elicited from interviewees (Morse, 1995). For this research, this point was reached after interviews with eight experts on the French charities sector

We are unable to quantify the number or type of organisations involved in the research as some interviewees have links to several hundred charities. Although we had hoped to view the financial reports of some of these charities, , many of them choose not to publish a balance sheet and an income statement , even though French charities are now obliged to do so. Only a cash flow statement (*compte emploi des ressources*) is presented in the annual report, which does not enable us to have an answer to our research questions.

Interview notes were transcribed and analysed thematically. These transcripts were verified by the interviewees, which enabled the researchers to check their understanding and to further discuss, in person, by phone or email.

The final stage was to re-analyse the interview data with particular emphasis on the constructions inherent in each interview. This was undertaken through an inductive thematic analysis and coding of the interview transcripts. Through this analysis we sought to examine what was meant in each case. Next, the paper will consider the outcomes of the interviews.

6 Findings

6.1 Fund Accounting

In England and Wales, the recommendations by Bird and Morgan-Jones (1981) have been acted on by the publication of SORP 2005 Appendix 1, Paragraph 27 (Charity Commission, 2005, p. 68), which defines a "fund" as:

A pool of resources, held and maintained separately from other pools because of the circumstances in which the resources were originally received or the way in which they have subsequently been treated. At the broadest level a fund will be one of two kinds: a restricted fund or an unrestricted fund.

SORP 2005 (Charity Commission, 2005) further categorises funds into unrestricted funds and restricted funds/special trusts. Unrestricted funds are funds that are expendable at the full discretion of the trustees, whereas restricted funds are funds that are subject to limitations imposed by the donors (Charity Commission, 2005).

The situation in France is similar to that of England and Wales in that regulations exist to ensure funds cannot be used for purposes other than for which they were created. However, one of our "Big 4" experts familiar with auditing charities admitted that the substance of practice falls far short of the regulated form:

No one seems to pay any attention to the rules. The fact that charities do not follow standard accounting procedures is made possible by the fact that only few charities accompany their financial statement by notes except assessments like the 'fund statements', even if they have the obligation to do so…

This statement would seem to be a familiar refrain. Although the French 99.01-3 code (*Comité de la Réglementation Comptable*, 2004) sets out the accounting treatments required, no monitoring is done other than that provided by the audit assurance, if indeed there is in place a formal audit procedure. *Cour des comptes* (2007, p 21) concludes :

« Le modèle de compte d'emplois-ressources couramment utilisé par la plupart des organismes ne respecte pas le cadre législatif et réglementaire qui s'applique aux organismes faisant appel à la générosité publique » [The accounts presented by most organisations do not respect the law and the rules that apply when collections are made with public monies].

Indeed, our research has uncovered instances where charities with income of nearly €1 million have not filed accounts or employed external auditors. The point being that with regard to the €153,000 exemption there is no system in place to monitor breaches either by diverting income to specific funds or by simple negligence.

Very few French charities have audit committees and interviewees reported to us, as the literature has also disclosed, that within this sector financial obligations are little respected by the trustees and managers who control most charities. This is not to suggest dishonesty but rather preference for secrecy together with a traditional French view that accounting is a fiscal construct and of little public relevance. However, the lack of monitoring does mean that funds could be used for the purposes other than those for those for which they were created.

6.2 Property, Plant and Equipment

Our interviewees were divided over the question of what PPE were capitalised and what were expensed. Most interviewees agreed that for PPEs such as stores of blankets, tents, medicines or food, the current French practice is to expense such items. Further, interviewees stated that PPEs such as vehicles and pre-fabricated buildings purchased for overseas use were expensed immediately. This means that many PPEs purchased by French charities are not capitalised and depreciated over their useful life. The choice over whether to expense such PPEs seems to be at the discretion of the charity concerned. Only a minority of interviewees were of the opinion that all PPEs should be capitalised and depreciated in line with International Accounting Standard 16 Property, Plant and Equipment (International Accounting Standards Board, 1993). The chairperson of the *Comité de la Charte* concludes:

"Even among the rare organizations which depreciate their fixed assets, the fixed assets are often depreciated without regular frequency during their life-cycle. In addition they do not reveal their rules of depreciation, which does not give a clear vision to the financial statement".

6.3 Consolidation of Subsidiaries

Our interviewees agreed that the question of consolidation is a major problem area. Many charities are organized in a federated structure, quasi independent, with self-operating branches throughout the major cities of France. Indeed, some branches of major charities spill over into neighboring countries. The question of control from the main office is difficult to ascertain and may vary among charities. It would seem consolidation is a matter left to the discretion of the charities themselves.

Among small charities, there is also a desire to keep the incomes within the €153,000 limit (beyond this sum charities are obliged to provide accounts to the local prefecture and employ an external auditor), with the result that a practice has developed of creating subsidiaries or affiliated associations specializing in some part of the charity's activities. In this way, interviewees told us, incomes are kept below the limit. As there are no regulations requiring consolidation the accounts are not consolidated.

6.4 Accounting Basis

Our interviewees, who supported the use of an accrual basis, recognised the difficulty in enforcing payment of donations that are promised i.e. pledged by donors. One auditor emphasised that these are just promises and donors consider that there is no contractual obligation for them to pay. These promises are uncertain and unreliable. There is no guarantee that donations promised would be received in the future. Thus, the recommended practice is that a modified cash basis be adopted – that is, accruing expenses but not revenues unless there is certainty in receipt.

7 Discussion

Our goal is to find ways to contribute to the adoption of consistent accounting treatments that will improve the discharge of accountability in French charities. From our study, some specific issues have emerged relating to accountability discharge documents. In particular, there is a problem around determining whether charities with subsidiaries should be consolidated given that charities often have a scattered federal structure. The heart of the issue is one of control and the extent of central control may vary among charities. There is, however, no specific requirements concerning consolidation and many smaller charities use subsidiaries to divert income such that their apparent income remains below the €153,000 threshold. Further research is required to standardise a treatment which removes the danger of off-balance sheet accounting and diversion of incomes.

Moreover, in many of the specific issues raised in our research the accounting treatments adopted were decided at the discretion of the charity involved. Thus, no standardisation of accounting treatment can be presumed, meaning that many charities produce reports which are opaque or lacking in vital detail. In France, this opacity may be explained by the traditional French attitude that accounts are only of fiscal importance and have little meaning for other stakeholders. This can be explained by the fact that International Financial Reporting Standards (IFRSs) are not compulsory for charities, who still use French GAAP (generally accepted accounting practice) to establish their account. French GAAP are traditionally fiscally oriented whereas IFRS highlight exclusively financial reporting (Ayoub & Hooper, 2009).

However, specific issues in the accountability discharge documents are limited by the most important finding from this research, which is that there is no effective accountability discharge mechanism; i.e. there is no central oversight of the quality of financial reporting in France apart from that provided by auditors or the *Comité de la Charte*. Hyndman and McMahon (2010, p. 461) argued that the failing in financial reporting identified by Bird and Morgan-Jones (1981) was a direct result of inactivity by government.

The reason why it is important and relevant that this and other papers contribute to this area is because, as Dóchas (2006, p. 12) points out:

Much of the impetus for change in the charity legislation is inspired by the European Commission's push to tighten up on loopholes that can be exploited by ill-willing individuals.

In July 2005, the European Commission recommended that "*Member states should put in place a mechanism for the oversight and monitoring of the not-for-profit sector*" (Dóchas, 2006, p. 12). Despite this, in Europe, only England, Wales, Scotland and Ireland have bodies to oversee charities that are independent of government. For the most part, there is no supervision by government of the charities sector to ascertain reliable information on the number of active charities, the financial worth of the sector and the way charities spend their funds. Furthermore, there is no international accounting standard setting out to standardise the treatment of various technical transactions that regularly arise in charitable operations.

With the exception of the largest 20 charities in France, problems of ineffective accountability discharge documents with incomplete final reports and poor accounting records are common. As interviewees explained to us, such a situation arises because of the failure of medium and small sized charities to employ qualified financial officers. Further, such charities rely on volunteers and donors who prefer to see the charity's resources used to fulfil their obligations rather than on adding to administrative expenses.

Our interviewees did not foresee that any sanctions to improve reporting among charities are envisaged. The reasoning is that there is already a sanction implied by the threat that donors will be less generous if the accounts are not transparent. However, our interviewees acknowledged that such a sanction has little effect as very few donors ask to see the accounts (*car très peu de donateurs demandent les documents financiers*).

The request by the European Commission (Dóchas, 2006, p. 12) is important in France because the French have commendably put in place rigorous codes of accounting treatments through the 99.01-3 code (*Comité de la Réglementation Comptable*, 2004). although if they are not observed what is the point? In fact *La Cour des comptes*, one of the organisations of control of the sector, estimates in a report published in 2007, that the codes are not respected by French charities (*Cour des comptes*, 2007, p. 20).

In spite of these comprehensive accounting rules, in France oversight and monitoring of financial results relies on another accountability discharge mechanism – that of audit, in particular, the audit report, as there is no enforcement of these accounting rules. Interviewees advised us that many smaller organisations present un-audited accounts to members, or accounts audited by unqualified auditors. The problem is exacerbated by the lack of any central registration of charities or NFP organisations. More worrying for those concerned with uniformity in the European NGO sector is the inability of some French NGOs to raise their reporting standards so as to qualify to commit to the *Comité de la Charte*. Some larger charities that have applied to the *Comité de la Charte* have been rejected for various reasons, including an inability to consolidate, no annual reports and/or no auditors. Fears concerning the lack of accountability of the sector were justified by the scandal surrounding the *Société Palestinienne pour la protection des droits de l'homme et de* *l'environnement,* which in the absence of a transparent accounting system managed to transfer publicly raised funds to secret accounts for use by terrorists (*Assemblée Nationale*, 2004).

Interviewees also disclosed that many of the audits undertaken are done at below cost or for token fees. Thus, while such audits done by professional firms are correct some of the audits may not be as rigorous as those done for for-profit organisations. Such low cost audits may not prescribe accounting treatments or spend time enquiring of managers or trustees why specific treatments were adopted. Instead, auditors may concentrate valuable time on checking for accuracy and integrity within the accounts presented. Perhaps, surprisingly there is hardly any call from within the sector for greater oversight or registration. As reported, there is little respect in France for financial reporting, which is seen as a fiscal by-product.

Is this the case in England, which has an oversight body in the guise of the England and Wales Charity Commission? From his survey Palmer (1997, p. 33) concludes, "*The view that England has the most developed criteria of accounting, audit and supervisory practices appears to be supported by the survey's finding*". However, as Hillsdon (2003,p. 34) notes of English charities: "*Even a cursory look at a random sample of trustees' reports will reveal a wide variation in quality*". This observation is supported by the England and Wales Charity Commission who has published reports on the themes and wider issues facing charities, including those concerning financial reporting, that arise from their compliance work (Charity Commission, 2008, 2009).

Palmer (1997, p 32) also asks the question, "*How does the British model compare with its European counterparts?*" Similar to the situation that exists today, Palmer (1997, p. 33) found it difficult to answer this question because "*obtaining information on the auditing, accounting and supervision practices of other European countries in respect of their voluntary sectors has proved problematic*" as there is no central knowledge of the differing accounting and auditing requirements.

However, Palmer et al. (2001) found in England and Wales even auditors with charity expertise were failing to ensure that charities were complying with the appropriate charity reporting requirements. We have no reason to think that the situation is different in France, especially among auditors outside the "Big 4" accounting firms. This was supported by the argument by one of our interviewees:

"Even for the big charities, the nomination of an auditor, it is not therefore a guarantee of full transparency. He has only the role of presenting and of auditing the annual accounts and of submitting a general report to the board of trustees and the general assembly. This report checks initially the countable formalism and even if it contains reserves, is likely to be left at the bottom of a drawer. The auditor contribution does not relate to the quality of management or the relevance of accounting practices. It is only in the presence of one significant and deliberated conflict and bad practice that the auditor has the obligation to inform the justice of the facts, which is a very rare situation".

Smaller charities may escape all surveillance and may not even be audited. Worse, by capitalising some sources of income into special funds, some charities may avoid external surveillance. A revenue threshold is set in France whereby fully audited accounts are required to be filed but it is rarely policed and easily avoided by the techniques outlined earlier in this paper.

The issue of compliance has emerged as the major problem with charity accountability discharge documents. Only 151 large charities in France listed in 2006 are supposed to file accounts with the local Prefecture, which as far as can be ascertained has no monitoring role. Thus, there is no accountability discharge mechanism through a central registration of organisations and the exact number operating of charities in France is unknown. In France, the 99.01-3 code (*Comité de la Réglementation Comptable*, 2004) indicates that the form is in place but, from information given 'off the record' by interviewees, much substance is lacking. On the record, the report of the *Cour des comptes* (2007, p. 21) concludes in bold type that the laws and accounting regulations of France are largely not respected by organisations calling for public donations. The report goes on to declare that no legislation is foreseen that will put organisations under an obligation to follow the prescribed accounting treatments and reporting practices (*Cour des comptes*, 2007: 59).

8 Conclusion

To achieve the goal of European conformity for governance and reporting of charities there is a need for a standard, produced along the lines of England and Wales' SORP (Charity Commission, 2005) and the French 99.01-3 code (*Comité de la Réglementation Comptable*, 2004), together with an effective accountability discharge mechanism in the guise of a central European body that monitors charities. Because many charities operate across European national borders, it is imperative that the European Commission addresses this situation and strives to produce a comprehensive standard for all European countries to follow and administer.

It is hoped that the findings reported in this paper will encourage the development of common European standards for charities together with a uniform system of ensuring standards of conformity through accountability discharge mechanisms that will enhance the accountability of the charities sector. This research has found that accountability through standardisation is useless without a robust oversight body actively monitoring compliance and that French norms are traditionally orientated to taxation, contrary to IFRS, which favour financial communication exclusively.

References

1. Aglionby, J., (2005, 27 September), "President urges world to honour tsunami pledges", *The Guardian,* p. 20.
2. Agyemang, G., Awumbila, M., Unerman, J., & O'Dwyer, B., (2009), "NGO accountability and aid delivery", *ACCA Research Report 110,* pp. 1-37. Retrieved from http://www.accaglobal.com/content/dam/acca/global/PDF-technical/sustainability-reporting /rr-110-001.pdf.
3. Ahmed, Z. & Wickramsinghe, D., (2009), "Hegemonic and counter hegemonic dynamics and NGO accountability change: the case of BRAC in Bangladesh", paper presented at the meeting of the Interdisciplinary Perspectives on Accounting Innsbruck, Austria. Retrieved from http://www.uibk.ac.at/atr/ipa2009/.
4. Aimers, J., & Walker, P., (2008), "Alternative models of accountability for third sector organisations in New Zealand", paper presented at the meeting of the International Society for Third Sector Research, Eighth International Conference, Barcelona, Spain. Retrieved from http://www.communityresearch.org.nz/resoruces.php?view=1165.
5. Archambault, E., Gariazzo, M., Anheier, H.K., & Salamon, L.M., (1999). "France: from Jacobin tradition to decentralization", in Salamon, L.M., Anheier, H.K., List, R., Toepler, S., Sokolowski, S.W. and Associates (Eds.), *Global Civil Society: Dimensions of the Nonprofit Sector,* Johns Hopkins Center for Civil Society Studies, Baltimore, pp. 81-97. Retrieved 27 November 2008 from http://www.jhu.edu/~cnp/research/country.html.
6. Assemblée National, (2004), *Rapport d'Information en Conclusion des Travaux d'une Mission d'Information Constituée,* Assemblée Nationale, Paris.
7. Ayoub, S. & Hooper, K., (2009), "Les freins culturels à l'adoption des IFRS: une analyse du cas français", *Revue Sciences de Gestion*, Vol. 68, pp. 117-136.
8. Bird, P. & Morgan-Jones, P., (1981), *Financial Reporting by Charities,* The Institute of Chartered Accountants of England and Wales, London.
9. Booker, C., (2010, October 2), "The anomalies of Dr Rajendra Pachauri's charity accounts", *The Telegraph*, online. Retrieved 4th October 2010 from http://www.telegraph.co.uk/comment/columnists/christopherbooker/8039035/The-anomalies-of-Dr-Rajendra-Pachauris-charity-accounts.html.
10. Bracci, E., (2009), "Autonomy, responsibility and accountability in the Italian school system", *Critical Perspectives on Accounting,* Vol. 20 No. 3, pp. 293-312.
11. Breen, O.B., (2008), "European regulation of charitable organisations in the twenty-first century: the path less taken?" paper presented at the 7th European Social Science History Conference, Lisbon, Portugal.
12. Charity Commission, (2004), *RS8 - Transparency and Accountability,* Charity Commission, London.
13. Charity Commission, (2005), *Accounting and Reporting by Charities: Statement of Recommended Practice,* Accounting Standards Board, London.
14. Charity Commission, (2008), *Charities Back on Track: Themes and Lessons from the Charity Commission's Compliance Work 2007-08*, Charity Commission, London.
15. Charity Commission, (2009). *Charities Back on Track: Themes and Lessons from the Charity Commission's Compliance Work 2008-09*, Charity Commission, London.
16. Comite de la Réglementation Comptable, (2004), *Règlement No 99.01-3*, Ministère de l'Economie, des Finances et de l'Industrie, Paris.
17. Connolly, C. & Hyndman, N., (2001), "A comparative study on the impact of revised SORP2 on British and Irish charities", *Financial Accountability & Management*, Vol. 17 No. 1, pp. 73-97.
18. Cordery, C.J., (2008), *Dimensions of Accountability: Voices from New Zealand Primary Health Organisations*, Victoria University of Wellington, Wellington.
19. Cordery, C. J., & Baskerville, R. (2007), "Charity financial reporting regulation: a comparative study of the UK and New Zealand", *Accounting History,* Vol. 12 No. 1, pp. 7-27.
20. Cour des comptes, (2007), *Rapport d'Observations Définitives sur la Qualité de l'Information Financière Communiqué aux Donateurs par les Organismes Faisant Appel à la Générosité Publique*, Cour des comptes, Paris.
21. Crofts, K., (2008), "Accountability reporting by faith based benevolent institutions", paper presented at the Australia New Zealand Third Sector Research Conference, Auckland, New Zealand.Dellaportas, S., Langton, J., & West, B., (2008), "Financial reporting andaccountability in charitable organisations", paper presented at the meeting of the Accounting and Finance Australia and New Zealand Conference, Sydney, Australia. Retrieved from http://www.afaanz.org/openconf-afaanz2008/openconf.php.
22. Dóchas, (2006), *Charities Regulation & Legislation: A Dóchas Briefing*, The Irish Association of Non-Governmental Development Organisations, Dublin.
23. Eisenberg, P. (Ed.), (2005), *Challenges for Nonprofits and Philanthropy: The Courage to Change - Three Decades of Reflections by Pablo Eisenberg*, Tufts University Press, Medford, Massachusetts.
24. European Commission, (2005), *Draft Recommendations to Member States Regarding a Code of Conduct for Non-Profit Organisations to Promote Transparency and Accountability Best Practices: An EU Design for Implementation of FATF Special Recommendation VIII Non-profit Organisations,* European Commission, Brussels.
25. Fishman, J.J., (2007), *The Faithless Fiduciary and the Quest for Charitable Accountability 1200-2005,* Carolina Academic Press, Durham, North Carolina.
26. Flack, T., (2007), *The Role of Annual Reports in a System of Accountability for Public Fundraising Charities* (PhD), Queensland University of Technology, Queensland.
27. Fondations d'Enterprise, (2007), *Devenir une Entreprise Mécène*, PriceWaterhouseCoopers, Paris.
28. Fondation Prometheus, (2008), *Non-Gouvernemental Organizations Transparency Index 2008*, Fondation Prometheus, Paris.
29. Fowler, C., (2008), "Not-for-profit and public sector accountability and legitimacy: evidence from colonial

New Zealand", paper presented at the meeting of the Accounting and Finance Australia and New Zealand Conference, Sydney, Australia. Retrieved from http://www.afaanz.org/openconf-afaanz2008/openconf.php.

30. Herzlinger, R.E. & Sherman, H D., (1980), "Advantages of fund accounting in 'nonprofits'", *Harvard Business Review*, Vol. 58 No. 3, pp. 94-105.
31. Hillsdon, A., (2003), "Charity reporting: the way forward", A*ccountancymagazine.com,* Vol. 132 No. 1324, pp. 32-34.
32. Hines, A. & Jones, M.J., (1992), "The impact of SORP on the UK charitable sector: an empirical study", *Financial Accountability & Management,* Vol. 8 No. 1, pp. 49-67.
33. Hyndman, N., (2008), "Accountability and transparency: fundamental to building confidence?", presented at the Stakeholders Forum, Charity Commission, London.
34. Hyndman, N. & McDonnell, P., (2009), "Governance and charities: an exploration of key themes and the development of a research agenda", *Financial Accountability & Management,* Vol. 25 No. 1, pp. 5-31.
35. Hyndman, N. & McMahon, D., (2010), "The evolution of the UK charity Statement of Recommended Practice: the influence of key stakeholders" *European Management Journal*, Vol. 28 No. 6, pp. 455-466.
36. International Accounting Standards Board, (1993), *International Accounting Standard 16: Property, Plant and Equipment*, International Accounting Standards Board, London.
37. Jayasinghe, K. & Soobaroyen, T., (2009), "Religious 'spirit' and peoples' perceptions of accountability in Hindu and Buddhist religious organizations", *Accounting, Auditing & Accountability Journal,* Vol. 22 No. 7, pp. 997-1028.
38. Keating, E.K. & Frumkin, P., (2003), "Reengineering nonprofit financial accountability: toward a more reliable foundation for regulation", *Public Administration Review,* Vol. 63 No. 1, pp. 3-15.
39. Le Parisien, (2009, 14 October), "Une information judiciaire ouverte pour escroquerie vise des associations caritatives", *Le Parisien*, p. 1.
40. Lincoln, Y.S. & Guba, E.G., (1985), *Naturalistic Inquiry,* Sage, Newberry Park, California.
41. Morse, J.M., (1995), "The significance of saturation". *Qualitative Health Research,* Vol. 5 No. 2, pp. 147-149.
42. Newberry, S., (1992), *Special Issues of Accounting for Charities in New Zealand*, New Zealand Institute of Chartered Accountants, Wellington.
43. Nowland-Foreman, G., (2000), "Dangerous accountabilities: remaking voluntary organisations in someone else's image", paper presented at the meeting of the Association for Research on Nonprofit Organisations and Voluntary Action, New Orleans, United States of America. Retrieved from http://www.communityresearch.org.nz/resoruces.php?view=1118.
44. Observatoire KPMG, (2007), *Transparence et Associations*, KPMG, Paris.
45. O'Connor, A., (2007), "Are blankets assets?", A*ccountancymagazine.com,* Vol. 140 No. 1368, pp. 86-87.
46. O'Dwyer, B. & Unerman, J., (2008), "The paradox of greater NGO accountability: a case study of Amnesty Ireland", *Accounting, Organizations and Society,* Vol. 33 Nos. 7-8, pp. 801-824.
47. O'Sullivan, N. & O'Dwyer, B., (2009), "Stakeholder perspectives on a financial sector legitimation process: the case of NGOs and the Equator Principles", *Accounting, Auditing & Accountability Journal,* Vol. 22 No. 4, pp. 553-587.
48. Palmer, P., (1997), "Auditing, accounting and supervision in the European charitable sector", *Corporate Governance,* Vol. 5 No. 1, pp. 29-36.
49. Palmer, P., Isaacs, M. & D'Silva, K., (2001), "Charity SORP compliance - findings of a research study", *Managerial Auditing Journal,* Vol. 16 No. 5, pp. 255-262.
50. Steccolini, I., (2004), "Is the annual report an accountability medium? An empirical investigation into Italian local governments", *Financial Accountability & Management,* Vol. 20 No. 3, pp. 327-350.
51. Stewart, J.D., (1984), "The role of information in public accountability", in Hopwood, A. & Tomkins, C. (Eds.), *Issues in Public Sector Accounting*, Philip Allan, Oxford, pp. 13-24.
52. Taylor, S.J. & Bogdan, R., (1998), *Introduction to Qualitative Research Methods: A Guidebook and Resource,* John Wiley & Sons, New York.
53. Tchernonog, V., (2007), *Les Associations en France: Poids, Profiles et Évolutions*, Association Pour le Développement de la Documentation sur l'Économie Sociale, Paris.
54. Unerman, J. & O'Dwyer, B., (2006), "Theorising accountability for NGO advocacy", *Accounting, Auditing & Accountability Journal,* Vol. 19 No. 3, pp. 349-376.
55. van Staden, C. & Heslop, J., (2009), "Implications of applying a private sector based reporting model to not-for-profit entities: the treatment of charitable distributions by charities in New Zealand", *Australian Accounting Review,* Vol. 19 No. 1, pp. 42-53.
56. Wacht, R.F., (1991), *Financial Management in Nonprofit Organizations,* Georgia State University Business Press, Atlanta.
57. Walker, R., (2004), "Reporting by not for profits", *Chartered Accountants Journal,* Vol. 83 No. 4, p. 36.
58. Watts, T., Baard, V. & McNair, C.J., (2009), "The rise and decline of a mandatory accountability measure", paper presented at the meeting of the Performance Measurement Association Conference, Dunedin, New Zealand. Retrieved from http://www.pma.otago.ac.nz/pma-cd/papers/1055.pdf.
59. Williams, S. & Palmer, P., (1998), "The state of charity accounting - developments, improvements and continuing problems", *Financial Accountability & Management,* Vol. 14 No. 4, pp. 265-279.