A Conceptual Framework for not-for-profit sustainability: renovation or reconstruction?

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ABSTRACT

Purpose of the paper

This paper identifies how a stewardship approach can enhance not-for-profit (NFP) sustainability, advocates a NFP-specific conceptual framework, and illustrates the potential of a stewardship foundation to resolve NFP financial reporting issues.

Design/methodology/approach

Archival sources are used to examine contentious conceptual framework and NFP financial reporting issues. Concepts are theorized through metaphor.

Findings

There is a need for accounting practices that provide a complete picture of NFPs' financial realities. A conceptual framework based on a stewardship approach can make such a contribution.

Research limitations/implications

The paper is selective in its exploration of NFP accounting issues. Metaphor is a powerful device for building an argument.

Practical implications

The paper provides a timely identification of the important role financial reporting can play in enhancing NFP sustainability.

Originality/value

The paper uses metaphor to bring together theory and not-for-profit practice in the current conceptual framework debate.

Keywords: not-for-profit accounting; conceptual framework; financial reporting; metaphor; not-for-profit sector sustainability.

Type of paper: research paper

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INTRODUCTION

Not-for-Profit (NFP) organizations play an important and growing role within the global economy. Salamon *et al*., (2007) provide the most comprehensive global data on the size and significance of the NFP sector. NFP organizations account for nearly 4% of global Gross Domestic Product increasing to over 5% when the value added by volunteers is included. Further, nationally, the contribution made by the sector is similar to the contribution of the construction and financial intermediation industries and much larger than industries responsible for the provision of electricity, gas and water. In the US, for example, the size and importance of the sector is evident, with over 2 million NFP organizations, and, in the 2007 year, public charities' revenue reported at over $1.4 trillion, expenses at nearly $1.3 trillion, and assets of nearly $2.6 trillion (The Urban Institute, 2007). Moreover, Canada, the US and Japan have all experienced growth in the NFP sector at a rate exceeding their general economy (Salamon *et al*., 2007).

It is not surprising, therefore, that at state, national and global levels, the sustainability of the NFP sector is being recognized as a practical and political imperative, due to governments' reliance on the sector to provide social services (IPSASB, 2007; IPSASB, 2008; Mort and Weerawardena, 2008) and to "continue to deliver social value via the pursuit of its social mission" (Weerawardena *et al*., 2009, p. 2). For a NFP, sustainability can be defined as "being able to survive so that it can continue to serve its constituency" (Weerawardena *et al*., 2009, p. 2). This means that an organization will be able to fulfill commitments to "its clients, its patrons, and the community in which it operates" so that the groups who depend on it can "place their trust in that commitment" (Weerawardena *et al*., 2009, p. 2). In this paper, we adopt this conception of sustainability.

In the past decade, in recognition of the importance of NFP organizations to the fabric of society, many western governments have entered into compacts with the sector. These compacts have all been framed around cooperation between government and the NFP sector, and the sustainability of the sector. In the UK, the Blair compact in 1997 recognised that infrastructure support for voluntary organizations was critically low and that they could not sustain an "expanded role" in service delivery (Melville, 2008). Canada launched its Voluntary Sector Initiative in 1998. This five-year project had a budget of $96.5 million (LeRoy, 2002) and resulted, in 2002, in an Accord between the government and the voluntary sector (Voluntary Sector Task Force, 2001; Ball, 2006). In New Zealand, a Charities Commission was established in 2005, to oversee the regulation of the sector and provide education and assistance to the charitable sector (Charities Commission, 2009). The Australian government is in the process of developing a National Compact with the NFP sector, and has identified sustainability as one of six underlying principles (National Compact Consultation Paper, 2009). This is an acknowledgment of the need to streamline and reform Government requirements and regulation, and to develop "more effective methods of evaluating organisations' practices" to address the "financial viability" of the sector by reform of funding agreements and "the identification and addressing of areas of particular unmet need, for example, capital investment" (National Compact Consultation Paper, 2009).

These compacts have focused on the sustainability of the sector and improved relationships between government and NFPs. However, little or no recognition has been given to the contribution financial reporting can make to the sustainability of the NFP sector. Appropriate accounting standards based on a theoretically robust conceptual framework need to be developed, to resolve the many problematic NFP accounting issues and to ensure that as complete and relevant an account as possible of a NFP's financial realities is presented in financial reports. The sector cannot continue to be ignored. Recent debate surrounding the conceptual framework and the objective of financial reporting provide a timely opportunity to bring the needs of the NFP sector to the fore.

In July 2006, a joint *Discussion Paper* was issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on a common conceptual framework for financial reporting in the for-profit sector (IASB, 2006). Consistent with the approach taken since the 1960s (Ravenscroft and Williams, 2009), the Discussion Paper proposed one objective for financial reporting, that of decision-usefulness. Stewardship (or accountability), while not rejected outright, was encompassed by the decision usefulness objective. Two IASB members presented an alternative view. They advocated the inclusion of stewardship as a second objective of financial reporting, alongside decision-usefulness (EFRAG, 2007). This dissenting view typifies 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). Peasnell et al (2009, p. 521) reported that a possible reason for the side-lining of stewardship was due to the desire to "reduce the need for trade-offs" in the development of a conceptual framework that would satisfy European and US constituents. We argue in this paper, that the current conceptual framework debate continues to marginalize accounting in the NFP sector. Merely renovating the current conceptual framework ignores the economic, social and political impact of the NFP sector and wastes the potential that financial reporting can make to the sector's sustainability and to society's well-being. The NFP sector requires a reconstructed conceptual framework based on the single underpinning of stewardship encompassing, but not excluding decision-usefulness.

In the context of this debate, the purpose of this paper is three fold. First, it identifies the way in which a stewardship approach can enhance the sustainability of the not-for-profit (NFP) sector. Second, it argues for a separate NFP financial reporting conceptual framework, based on the single underpinning of stewardship. Third, it illustrates the potential of a stewardship approach to resolve some financial reporting issues specific to the NFP sector.

This is a conceptual research paper that relies on archival material in the form of accounting standard setting documents and academic literature. In addition, it theorises the issue by using metaphor (Llewellyn, 2003). The use of metaphor in academic inquiry, while extensive, has been contested (Cohen *et a.l*, 1972; Pinder and Bourgeois, 1982; Morgan 1980; Morgan, 1983; Llewellyn, 2003). It is sometimes distrusted as a mere rhetorical device (Walters-York, 1996), or having the potential to be "misleading" (Pinder and Bourgeois, 1982, p. 643). In the tradition of research that portrays a financial reporting framework as conceptual underwear (Page and Spira, 1999), the quest for a holy grail or hunting a snark (Page, 2005), we harness the power of metaphor as "a basic structural form of experience through which human beings engage, organize, and understand their world" (Morgan, 1983, p. 601).

Throughout this paper, we use the metaphor of a building to portray financial reporting in the NFP sector. A building needs a strong foundation if it is to fulfil the purpose for which it is designed. Based on its foundational objective, a conceptual framework for NFP financial reporting provides the structure for the development of accounting standards and accounting practice, and thus the financial reports it produces have a vital contribution to make to the financial health and sustainability of NFPs. We argue that a decision-usefulness objective is an inadequate foundation for assessing and reporting on NFP organizational needs, thereby jeopardizing the sustainability of individual organizations and, by extension, the sector.

Without a strong and appropriate foundation, structural cracks appear and the integrity of a building is compromised. Likewise without a strong and appropriate conceptual framework for financial reporting the sustainability of the NFP sector is also compromised. As portrayed in Figure 1, under the present conceptual framework, the foundational objective of financial reporting is “decision-usefulness”. This is an inadequate foundation for NFP financial reporting, since it identifies for-profit accounting issues, and promulgates for-profit accounting standards. The result is that NFP accounting practice is forced into a for-profit framework, resulting in the failure of NFP financial reports to realize their potential in contribution to the sustainability of the NFP sector.

[Take in Figure 1]

The next section of the paper examines the IASB’s conceptual framework, with a specific focus on the objective of financial reporting. Following this, we explore the concept of stewardship and its contribution to organizational sustainability. Two NFP-specific accounting issues are then identified to illustrate the potential of a separate NFP framework to address the variability and incoherence of current practice, and thus enhance the sustainability of the sector.

A CONCEPTUAL FRAMEWORK: RENOVATION OR RECONSTRUCTION?

International Financial Reporting Standards (IFRS) and the IASB conceptual framework have now been adopted by in excess of 100 jurisdictions worldwide. However, the framework has been prepared from the particular perspective of for-profit entities (IASC, 1989; IASB, 2009), with decision-usefulness as the single objective for the preparation of financial reports. Specifically, the Framework notes that “the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions” (IASB, 1998, p. 80). While the Framework does acknowledge that the financial reports may also be useful to assess “the results of the stewardship of management, or the accountability of management for the resources entrusted to it”, these objectives are subsidiary to decision-usefulness, being assessed in order to make “economic decisions” such as “whether to hold or sell their investment in the entity or whether to reappoint or replace the management” (IASB, 1998, p. 80). So the consideration of stewardship only in the context of decision-utility leaves the concept of decision-usefulness as the single objective of financial reporting, thereby marginalizing the concept of stewardship in financial reporting.

Support for decision-usefulness as a single objective of financial reporting, however, is not unanimous. In 2006 the IASB (2006), as part of its joint conceptual framework project with the FASB, issued a Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information* for public comment (IASB, 2006). While this discussion paper advocated a decision-useful objective for financial reporting, it also contained an “alternate” view (IASB, 2006). Two members of the IASB advocated that stewardship should not be encompassed within the decision-useful concept but should in fact be identified as a separate objective. They effectively advocated a conceptual framework supported by two objectives, decision-usefulness and stewardship. These two IASB members argued that the provision of information that would meet the decision-useful objective would not necessarily be sufficient to meet the needs of the broader concept of stewardship. This alternate view generated considerable debate about whether the conceptual frameworks should be based on the twin objectives of decision-usefulness and stewardship, or on the single objective of decision-usefulness. The large majority of respondents (86%) to the Discussion Paper were not in favour of decision-usefulness being the sole objective of financial reporting (IASB, 2007). Further, a report prepared under the auspices of the UK Accounting Standards Board (although not representing an official position) argued that stewardship was an essential objective for financial reports as the information required to satisfy the decision-usefulness objective would be insufficient to meet stewardship obligations (Lennard, 2007).

Despite this obvious concern, the Exposure Draft *An Improved Conceptual Framework for Financial Reporting* (IASB, 2008) was issued largely unchanged. Decision-usefulness was again identified as the single objective of financial reporting. This conceptual framework iteration has significant implications for the NFP sector. Simpkins (2006), in a report prepared on behalf of various national accounting standard setters [1], identified that in the context of NFP entities the Discussion Paper placed insufficient emphasis on stewardship and, further, placed an inappropriate emphasis on cash flows. As a consequence, the current framework did not meet the needs of the NFP sector (Simpkins, 2006).

These outcomes from the IASB/FASB conceptual framework project are reflected in the decision by the International Public Sector Accounting Standards Board (IPSASB) to develop its own conceptual framework rather than merely to extend that of the IASB for the public sector. To this end, the IPSASB (2008) produced a Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IASB, 2008). The objectives of financial reporting in the public sector proposed by this 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 both 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) .

While international standard setters have been resistant to the modification of the conceptual framework, national regulators, closer to their NFP constituencies, have needed to act, with the result that piece-meal adaptations have been made to accommodate the specific needs of the NFP sector. In the UK, for example, the Charity Commission’s Statement of Recommended Practice (SORP (Charity Commission for England and Wales, 2005) has been approved by the Accounting Standards Board. It provides a specific framework that enables charities to discharge their public accountability and stewardship obligations. In the US, the FASB addresses issues of accounting and reporting specific to the NFP sector, within its framework, and in both *SFAS 116 Accounting for Contributions Received and Contributions Made* (FASB, 1993a) and *SFAS 117 Financial Statement for Not-for-profit Organizations* (FASB, 1993b). In addition, the FASB has announced the establishment of a NFP Advisory Committee, to “serve as a standing resource for the FASB in obtaining input from the not-for-profit sector on existing guidance, current and proposed technical agenda projects, and longer-term issues affecting those organizations” (FASB, 2009). Canada, while having decided to adopt IFRS for private sector organizations that are publicly accountable, has identified the need to develop a separate set of standards for both private for-profit organizations and NFP organizations (ASB, 2006). Only Australia and New Zealand, with their sector neutral approach, have adapted IFRSs to suit the requirements of the NFP sector (see for example AASB, 2004, Aus paragraph 49.1).

The disquiet over the failure of the current conceptual framework to meet the needs of the NFP sector is not limited to regulators. Researchers have argued that a decision-usefulness model is not appropriate for public benefit entities (Ellwood and Newbury, 2006), and consequently, that a conceptual framework primarily concerned with reporting performance in terms of profit and loss does not have the capacity to adequately and fairly reflect the performance of organizations whose operating motive is the fulfilment of mission rather than the generation of profit (Kilcullen *et al*., 2007; Ellwood and Newbury, 2006; van Staden and Heslop, 2009; Cordery and Narraway, 2008). A conceptual framework designed for the for-profit sector and based on a decision-usefulness foundation, could encourage managerial behaviour that focused on profit rather than on the broader stewardship objective of fulfilling the organization's mission [2].

There is international agreement that a conceptual framework devised for the private sector is not applicable to the NFP sector. There is also a clear recognition in all jurisdictions that stewardship is an important concept which must form the foundational underpinning of financial reporting by NFP organizations, to ensure that they can meaningfully report on their activities, satisfy their stewardship obligations and determine whether they are sustainable, i.e. whether they have maintained their operating capacity. Merely renovating the current conceptual framework, we argue, will not address this fundamental issue. A reconstructed framework with a stewardship foundation that is specific to the NFP sector is required. While the concept of stewardship has been widely used in this debate, it has a variety of interpretations.

STEWARDSHIP: A FOUNDATIONAL UNDERPINNING FOR A RECONSTRUCTED CONCEPTUAL FRAMEWORK

The ancient concept of stewardship has a number of defining characteristics, including religious connotations. The religious connotations involve the pro-active conservation and cultivation of resources (Jeavons, 1994a), since "all we have, even our lives, is a gift we hold in trust to use as wisely as possible to further God's intentions for the creation" (Jeavons, 1994b, p. 76). However, to a greater extent the "moral power" (Hardy, 2008, p. 20) and "long-standing Western and Christian tradition of stewardship", have been largely lost, according to Blomberg (1999, p. 253). More generally, stewardship includes the responsibility to attend to another's interests and a concern with matters that are more than merely economic. The steward is therefore in a trust relationship, where "there is a responsibility of diligence and faithfulness in the administration of resources" (Mohon, 1999, p. 4). This view offers a broad conception of stewardship.

The accounting focus on stewardship declined markedly in the second half of the twentieth century (Ravenscroft and Williams, 2009), although corporate collapses and their related accounting scandals may have stimulated renewed interest in the concept (O'Connell, 2007). Stewardship is often given a "narrow interpretation" (Irvine, 2005, p. 220), and, particularly within accounting, viewed merely as a "discharge system", subsumed under a broader notion of accountability that "ranges more freely over space and time, focusing as much on future potential as on past accomplishments" (Hoskin, 1996, p. 265). While some research suggests that the terms stewardship and accountability may be interchangeable (Jacobs, 2005; Ravenscroft and Williams, 2009), stewardship has also been attested as having a more holistic focus than accountability, with "the capacity to remind us of the broader accountability literature of social and societal accounting and of the moral nature of the discourse that is being undertaken, in ways that the term accountability may not be able to" (Hardy, 2008, p. 48). How stewardship and accountability are related therefore depends on the way the concepts are understood.

Chen (1975) identified several stewardship models, each with different relationships between the owner and the agent, and different emphases on "primary" and "secondary" stewardship responsibilities. Primary stewardship responsibility, illustrated in the "managerial" stewardship concept (Chen, 1975, p. 539), was to society at large, and required a broader system of accountability, similar to the "public accountability" espoused by Coy *et al.* (2001). Secondary responsibility, illustrated by "classical" stewardship, and prevalent in financial reporting, was to the owner alone (Chen, 1975, p. 538). The notion of primary responsibility for broader societal issues runs counter to the narrow, more restricted view of "secondary" stewardship responsibility portrayed in much current accounting literature and practice.

This narrow view interprets stewardship reporting as being to demonstrate that those assets entrusted to the steward have not been "misappropriated" (Jones and Pendlebury, 2000, p. 131). It conceives stewardship as sitting within a broader "accountability" responsibility, which, in turn, goes beyond "the narrowly defined stewardship of assets to include responsibility for the performance of those assets" (Jones and Pendlebury, 2000, p. 131). In a similar vein, Whittington (2008) identified accountability being the broader responsibility, encompassing stewardship which also had a corporate governance dimension. Birnberg (1980, p. 73) noted the narrow focus of early stewardship accounting, which recorded the servant's performance of a "custodial function" that was concerned with "returning the corpus intact". This view had a legal focus, in which stewardship reports documented the way "legally measured resources" were used (Prince, 1964, p. 554).

Casting stewardship in a broad and positive light, Lennard (2007, p. 63) identified a stewardship objective as providing the "basis for discourse between management and shareholders". A broader understanding of stewardship sees it as including not only responsibility for the use of assets, but ultimately strategic flexibility in their employment. These interpretations require expanded notions of accounting and financial reporting that move from mere custodial reports to include "more general measures of performance", including "both prospective and retrospective data" (Birnberg, 1980, pp. 73 – 74), i.e. potentially moving away from the strict "objectivity and verifiability" criteria of accounting information (Ijiri, 1983, p. 77). This has resonance with Chen's (1975) managerial stewardship which satisfies the primary responsibility to society and Hardy's (2008, pp. 51 - 52) identification of the relevance of these links between "stewardship and broader accounting". Stewardship in government financial reporting has been conceived in this broader sense, carrying a responsibility to report not only on the government's current financial position, but also on its ability to sustain its public services (Granof, 2007, p. 671, citing *Statement of Federal Financial Accounting Concepts No. 1, Objectives of Federal Financial Reporting*).

What implications can be drawn from this discussion for a conceptual framework for NFPs? The majority of respondents to the IASB/FASB Discussion Paper referred to stewardship, but interpretations of what the term meant varied (EFRAG, 2007). This lack of agreement on the meaning of "stewardship" no doubt weakened the argument in favour of adopting it as a financial reporting objective alongside decision-usefullness (EFRAG, 2007). Respondents usually linked stewardship to agency theory, but some also recognized the "broader context" of stewardship as including a focus on corporate governance and risk management (EFRAG, 2007, p. 7). Some consequences of omitting stewardship as an objective of financial reporting were identified as a "weakening of shareholder rights", and a "disconnect" between financial reporting objectives and a company's own objectives (EFRAG, 2007, p. 18). In addition, the omission of stewardship/accountability would mean that financial reports would fail to meet "all the needs" of private entity investors and NFP entities' stakeholders (EFRAG, 2007, p. 15). It is noteworthy that the EFRAG response to the IASB/FASB Discussion Paper equates the concepts of stewardship and accountability. If a stewardship objective is to encompass a broad stewardship, conceived as "strategic" (Birnberg, 1980) or "managerial" (Chen, 1975), this will have reflexive theoretical and practical implications.

The choice of a paradigm which determines the objective of financial reporting is not merely an academic or theoretical issue (Palmer and Vinten, 1998). Ijiri (1983, p. 75) argued that the choice of a paradigm was "critical", advocating an "accountability" paradigm that ensured "a fair system of information flow between the accountor and the accountee". Ijiri's contentions reinforced the prior research of Gjesdal (1981) who, in an empirical analysis, determined that the criteria of stewardship informativeness and decision-making informativeness were not identical and needed to be differentiated. In advocating a "public accountability" paradigm, Coy *et al.* (2001) identified differences between the emphases of the decision-usefulness and accountability/stewardship paradigms, including foci on usefulness and fairness respectively, and highlighted the practical implications in terms of the financial information provided under the different paradigms.

These insights reinforce the necessity of reconstructing a conceptual framework for NFPs, with stewardship as the financial reporting objective, rather than simply renovating the existing conceptual framework to include stewardship. A conceptual framework based on a stewardship objective, grounded in the NFP entity's perspective, will enhance the organizational and sector sustainability of NFPs by emphasizing the organization's capacity to continue to fulfil its mission in the future.

In financial reporting terms, what is measured and how it is measured will affect the assessment of whether the stewardship of resources has been acquitted in such a way that renders the organization sustainable. We maintain that the current financial reporting framework does not enable such an assessment to be made. The adoption of a conceptual framework underpinned with a single foundational underpinning of stewardship, which also encompasses decision-usefulness, will flow through the financial reporting system to the identificiation of NFP accounting issues, the promulgation of NFP-sppropriate accounting standards and the implementation of NFP accounting practice. All this will contribute to the provision of financial reports that will enhance the sustainability of the sector. These inter-relationships are portrayed in Figure 2.

[Take in Figure 2]

The European Financial Reporting Advisory Group's (EFRAG, 2007) response to the IASB/FASB Discussion Paper put forward some examples of the financial reporting implications of omitting stewardship/accountability as a separate objective. One of the issues they highlighted was the failure of financial reporting to meet "all the needs of investors of private entities and the stakeholders of not-for-profit entities" (EFRAG, 2007, p. 15). Similarly, Lennard (2007) highlighted the narrow focus of the Discussion Paper on private sector business entities, and the neglect of issues relating to not-for-profit sector entities such as charities. If the form of a conceptual framework follows a stewardship function, then design implications are inevitable. In the next section, we illustrate two of these implications by focusing on the argument for a stewardship function on NFP financial reporting needs.

A STEWARDSHIP FOUNDATION FOR NOT-FOR-PROFIT FINANCIAL REPORTING

If accounting is to realise its potential in contributing to an assessment of stewardship and to the enhancement of NFP sustainability, then organizational accounting systems need to provide information that is relevant to the sector. As financial reports are an important source of information about the activities of NFP entities, any flaws or omissions in the way in which current accounting practice does or does not account for issues that are unique to the sector would indicate that financial reporting is not currently fulfilling its potential. By way of example, the following discussion focuses on two unique NFP issues. First, the issue of how contributions are currently reported is examined, and secondly, the issue of volunteer contributions, which are not currently included in financial reports, is raised. These two examples highlight the deficiencies of current financial reporting practice to report meaningfully on the activities of a NFP, the way it has discharged its stewardship responsibilities, and whether its activities are sustainable.

Globally, it is estimated that 62% of NFP revenues are received in the form of contributions either from governments or private philanthropy, including the value of volunteer time (Salamon, 2007, p. 10). These inflows would typically include 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 little, if any, value in return. 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 private sector, as most transactions are exchange based.

The controversial issue, from an accounting perspective, relates to the fact that not all contributions may be used at the discretion of the donee organization, 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.

Internationally, differences exist in the recognition of contributions received with restrictions and/or conditions attached. For example, 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 1004, 2007, paragraph 12). The standard does not distinguish between contributions received but accompanied by restriction or condition and contributions received without restriction or condition (Kilcullen *et al*., 2007). Other constituencies adopt a different approach. In the US, according to SFAS 116, a distinction is made between donor-imposed conditions and donor-imposed restrictions (FASB, 1993a), the latter not being a factor in the recognition of revenue (Jordan *et al*., 1993). A contribution received or receivable with a donor-imposed condition is recognised as revenue in the year in which any conditions have been substantially met (FASB, 1993a). The IPSASB adopts a similar position to SFAS 116, 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, 2006).

The Canadian Institute of Chartered Accountants distinguishes between restricted and unrestricted funds (CICA, 1997). Unrestricted contributions received or receivable are recognised as income in the current year whereas restricted contributions are initially recognised as unearned income and then progressively realised as income in the year in which the related expense is incurred, i.e., the recognition of income is matched to the expense (CICA, 1997). The UK Charities SORP (Charity Commission for England and

Wales, 2005) presents a more detailed approach, differentiating between contractual arrangements (e.g. fee for service or other performance related grant) 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 for England and Wales, 2005, paragraph 110).

Arguably such lack of international consistency and standardisation in the recognition of income not only creates uncertainty as to practice, and undermines comparability, but does not enable an assessment of the extent to which the organization has fulfilled its stewardship obligations. This brings into question the quality of information upon which to base decisions affecting the NFP, its mission and its sustainability. For many NFPs who 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 decisions based on inflated reported surpluses that may bear no relation to the on-going capability of the NFP to fulfil its mission. The problems of income recognition are exacerbated in constituencies where the financial statements focus on the consolidated entity approach under the decision-usefulness model, rather than report on individual segments differentiated by stewardship over resources.

There is general agreement that non-reciprocal transfers, recognised as assets, liabilities and/or income, are to be measured at the fair value of the contribution[i], if they come within the parameters of the financial reporting framework. As a concept, the measurement of fair value is based on an "arm's length market price" whereby "the assumptions as to how the asset can be used are those adopted by the market, rather than the "entity specific" beliefs of the current owner" (van Zijl and Whittington, 2006, p.123). Thus, measurement is limited to items defined by market transactions, but more fundamentally, to items included within the financial reporting framework. This introduces our second issue, of reporting non-reciprocal transfers in the form of volunteer contributions. There is increasing competition for this valuable resource (Jager *et al*., 2009), with volunteers being major assets for non profit organizations, but ignored in financial reports.

While it is widely acknowledged that contributions of volunteer services generate a significant amount of value for NFPs, 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). Nevertheless, internationally, some limited reporting of volunteer services is permitted. For example, 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 receive, 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). However, 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).

In the US, SFAS 116 (FASB, 1993a) adopts a similar position. It notes that the restricted practice of recognizing the contribution of volunteers in financial reports is due to practical, not conceptual reasons, and is dependent on the relevance, measurability and cost-benefit of providing such information (Jordan *et al*., 1993). 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). The UK Charities SORP (Charity Commission for England and Wales, 2005) differentiates between donated services that an individual would normally provide as part of their normal trade or profession, and the contributions of volunteers. 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 for England and Wales, 2005, paragraph 134). Although NZ and the IPSASB do not require volunteer services to be recognised in the financial statements, they do 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).

It would seem absurd 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), “excluding volunteer labour in nonprofit accounting statement undervalues a key and valuable resource that many nonprofits rely on”, with the impact being that “the value added by volunteers for many organizations can be the difference between sustainability and not”.

These two items, the disparate treatment of contributions and the absence of information on the value of volunteer contributions, illustrate the “implications for financial reporting of omitting stewardship/accountability as a separate objective” (EFRAG, 2007, p. 13). They represent deficiencies in the current financial reporting framework, which, by failing to provide a broad stewardship focus, neglects sustainability issues.

CONCLUSION

While academic literature identifies various NFP accounting and financial reporting anomalies (Cordery and Baskerville, 2007; Flack and Ryan, 2005; Keating and Frumkin, 2003), little attempt is made to link financial reporting with the enhancement of sector sustainability.

This paper fills this gap, by arguing for a financial reporting framework based on the notion of “stewardship”. At present, stewardship, or “the accountability of management for the resources entrusted to it” (AASB, 2004, paragraph 14), is encompassed within a decision-usefulness perspective, and its potential is therefore constrained. For example, in Australia, the Australian Accounting Standard Board’s (AASB, 2009, p. 1) project, *Disclosures by private sector not-for-profit entities*, acknowledges that NFP stakeholders require “different information” to shareholders in the business sector, and proposes including both “narrative and numeric” reporting. Nevertheless, it still assumes the dominant decision-usefulness paradigm and, apart from a brief reference to the “accountability obligations” of private NFP entities, does not allude to the potential role of financial reporting to contribute to the sustainability of the sector. A reconstructed system of financial reporting whose conceptual framework foundation is based on stewardship offers the potential for a financial reporting regime that can assist in the assessment and achievement of NFP sustainability.

This paper uses the concept of metaphor as a device to propose stewardship as the single foundational underpinning for NFP financial reporting. In an international context, the paper identifies the sustainability of the NFP sector as integral to an efficient and thriving society (Weerawardena *et al.*, 2009). Because NFP organizations are driven by their mission and purpose, a broader foundation of stewardship is more appropriate. However, the current financial reporting framework, based on a decision-useful foundation, does not assess stewardship issues or enhance NFP sector sustainability. A stewardship foundation enables the construction of a structure appropriate for accounting issues unique to the NFP sector, the promulgation of accounting standards and the implementation of NFP accounting practice. All these attributes, we argue, have the potential to enhance NFP sustainability.

Concurrently with this increasing awareness of the importance of the NFP sector's sustainability, accounting policy-makers are recognizing the unique financial reporting needs of the sector (AASB, 2009; FASB, 2009; AcSB and PSAB, 2009). The international debate in the accounting standard setting process concerning the conceptual framework is therefore timely, as it provides an opportunity to challenge the way in which the requirements of NFP financial reporting have come to be marginalized, and to propose the way in which a NFP conceptual framework can enhance NFP sustainability. The existing financial reporting framework, and hence accounting practice, does not enhance sector sustainability. The sector needs to be considered and to have a voice in the debate. Too often discussion about NFP financial reporting is focused on renovating existing for-profit accounting practice rather than examining the foundations of NFP financial reporting and reconstructing a framework based that is theoretically NFP-appropriate. Indeed, the focus of recent announcements by the FASB (2009), the AASB (2009), and the Canadian Accounting Standards Board and Public Sector Accounting Board (AcSB and PSAB, 2009) appears to be the renovation of existing practice. This paper also adds a theoretical dimension to the NFP accounting debate and provides informed theoretical reflection on foundational issues and concepts, enabling reconceptualization and reconstruction.

While a powerful theorising device, metaphor can cause data to be interpreted in a specific or biased manner. However, we would argue that whatever theorising device is used, the conclusions would be the same: urgent work needs to be undertaken to develop a conceptual framework that addresses the financial reporting needs of the NFP sector. The paper does not claim to have examined all of the accounting issues that exist in the NFP sector. Rather, it debates the foundations of financial reporting, and suggests that a stewardship foundation has the potential to enhance NFP sector sustainability. It leaves other papers to tease out sector-specific issues.

A number of research opportunities arise from the issues explored in this paper. At a foundational level, further debate on the utility of a single stewardship objective to meet the financial reporting needs of the NFP sector is needed to explore further the issues raised in this paper. At a practical level, the development of appropriate accounting practices, financial reporting formats and disclosures are warranted, including, for example, non-reciprocal transfers, and the particular and pressing challenge of accounting for the key resource of volunteers (Helmig *et al*., 2009).

A conceptual framework based on a stewardship underpinning will unlock the potential of financial reporting to include prospective, retrospective, financial, nonfinancial and narrative information. This will allow NFP organizations to report against their mission achievement, demonstrate the fulfillment of their stewardship obligations and enhance reporting on their sustainability.

NOTES

1. These were the Accounting Standards Boards of Australia, Canada, New Zealand and the United Kingdom, as well as the Canadian Public Sector Accounting Standards Board (Simpkins, 2006).

2. There is ample evidence that in the for-profit sector, managers behave in a way to maximise profits, as measured by the current decision-usefulness conceptual framework (Watts and Zimmerman, 1979).

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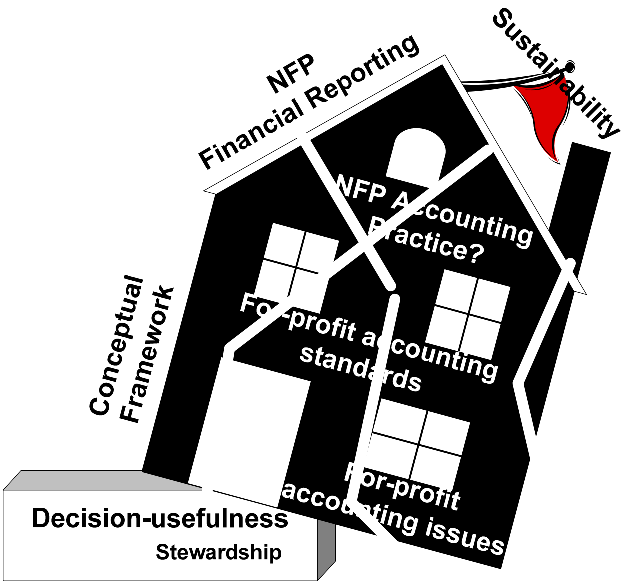

Figure 1. The inadequacy of decision-usefulness as a foundation for NFP financial reporting

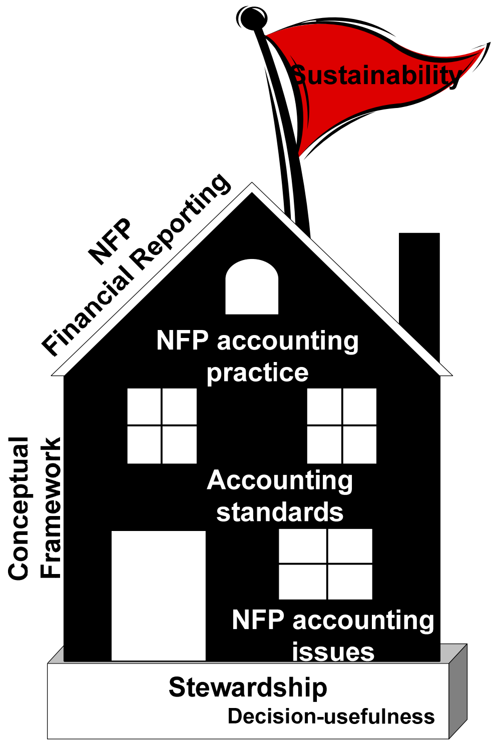

Figure 2. A stewardship foundation for NFP financial reporting