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TRANSPARENCY IN FINANCIAL REPORTING BY EUROPEAN FOUNDATIONS

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Title:

Transparency in Financial Reporting by European Foundations

Abstract:

The increasing role of the European Foundations, urges for more transparency. The prevalent accounting frameworks in which they operate and report their activities are mostly based on national laws. This lack of harmonization, limits comparison between European foundations. Thus, this Work Project analyzes the current financial reporting by European foundations, and evaluates the similarities, differences and data availability between countries. The research provides evidence about little information available, deficiency in the financial reporting, within and between countries. The research recommends the need to ensure uniformity by providing a clear definition for public-benefit purpose, harmonization of laws and financial reporting.

Key Words:

European Foundation, Financial Reporting, Regulation, Transparency, Accounting Standards

1 Introduction

As the Foundations in Europe continues to generate interest, it is increasingly evident that the existing information is sparse, scattered and essentially qualitative. The foundation sector in Europe consisted in 2008 of approximately 114,000 public-benefit purpose foundations. A report of the European Foundation Centre (EFC) "suggests there are between 750,000 and one million full time employed staff working for the foundation sector across the European Union (EU) and further one million persons as volunteers" (EC, 2012a, p.6). Foundations are active in education and research, approximately 30% of all foundations, social and health services with an average of 25% in the area of social services, and 17% in the area of health and arts and culture (EC, 2012a). Foundations, as part of the third sector[1], contribute to fundamental objectives and values in society, and tend to operate across borders and seek internationalization. However the legal framework in which the Foundations operate within the EU is based on national laws. Therefore when foundations decide to operate across borders, they cannot channel funds efficiently since they spend resources on legal advice and fulfilling the different countries administrative requirements.

The lack of harmonized accounting regulation and reporting standards creates obstacles that raise costs, making cross border operations expensive. Thus this is a consequence from not having a common legal framework to enforce and guarantee a coherent and proper approach to financial reporting by foundations in Europe. Meaning that the prerequisites of foundations are specific for each country, "thus not allowing a unified European reporting standard yet, ultimately limiting comparability" (Wagner, 2013, p.4). The evidence gathered by the European Commission (EC),

[1] *Third Sector* is a term used to describe the range of organizations that are neither public sector nor private sector (NAO, 2015). ´They consist of civil society associations, foundations, volunteers, and other citizen organizations and activities, offers unique renewable and sustainable resources for social and economic problem-solving, democracy, and civic engagement (TSI, 2015).

shows that such difficulties can limit the scope of foundations work as well as the amount of funds available for their activities of public-benefit purpose. A proposal for a Regulation on the Statute for a European Foundation (Fundatio Europaea, FE) was released in 2012 in order to provide a supplementary option to facilitate the work of foundations.

The FE notices the need for a common framework, with a set of harmonized rules that would not jeopardize the current national laws but enhance the tax treatment of public-benefit purpose foundations and donors. The initiative of creating a new European legal form intends to facilitate foundation's establishment and operation. It will allow foundations to more efficiently channel their funds and resources to public-benefit purposes on a cross-border basis in the EU (EC, 2012b). Although the Proposal covers several aspects of the FE, this Work Project mainly focuses on transparency in financial reporting. This Work Project analysis financial reporting practices by European Foundations with the aim to evaluate transparency and recommends improvement in the framework to explore possibilities of cross-border activities within the EU. Through analyzing the current financial reporting practices of European foundations, this research provides an insight into the current financial reports of European Foundations.

This report proceeds as follow. Section 2 introduces the general information for foundations and the European Foundation. Section 3 provides the legal framework for foundations in Europe. Section 4 presents the literature review, while section 5 describes the applied methodology, the research questions, the sample, as well as the subsequent filtering of the collected data. Section 6 answers to the research questions, and discusses the results and recommendation. Finally section 7 provides a summary of the conclusions of this research, recommendation and suggestions for future research.

2 What is a FOUNDATION?

The European Foundation Centre, defines foundations as “independent, separately constituted non-profit bodies with their own established and reliable source of income, usually but not exclusively from an endowment, and their own governing board” (EFC, 2015, p.8). Foundations are a specific type of non-profit organizations and carry out activities in areas, such as research, social and health services, education, culture, respect for human rights, protection of minorities, the protection of the environment and technological advances. Legacies, donations and gifts are mostly their own source of capital, which they spend accordingly to their own judgment, projects and activities of public or private benefit. Foundations do not distribute profits and frequently rely on volunteers to perform their activities.

The proposed Statute of 2012 for the FE intends to clarify the current flexible use of the term and the concept of foundation. It would also help to develop a common definition of public-benefit purpose foundation, as currently the term foundation is such too loosely used (Salole, 2008). Finally, in 2012, the European Commission concluded that a Statute for a European Foundation (*Fundatio Europaea*), with automatically applied non-discriminatory tax treatment, would be the most appropriate option, removing cross-border obstacles for foundations and donors and facilitating the efficient channeling of funds for public-benefit purposes. One major point of the statute is enhancing foundations accountability through financial accounting, creating a set of regulations and best practices. The term accountability has gained impetus in the world of non-profit organizations, since it provides organizational legitimacy in terms of effectiveness and efficiency to their donors. Thus, “the need for and design of general purpose financial statements (GPFS) by non-profits have become one emergent issue” (Baumüller et al., 2014, p.4).

Accountability involves two questions: To whom are these organizations accountable and what form should this accountability take? (Connolly & Hyndman, 2013). To answer these questions it is necessary to understand that, first, many of the actual GPFS ignore that NPO hardly rely on donations and secondly, whether financial accounting regulations designed for profit-oriented entities are useful for non-profit organizations (Anthony, 1989; Mautz, 1994). For profit and non-profit organizations show similarities as well as differences that might have an immediate impact on the design of adequate accounting practices (Gordon, 2013). It is still to know whether the actual reported practices applied for profit organizations can be used to provide reliable and accurate results in the context of non-profits or if they require specific standards.

The proposal on FE lays down rules regarding governance, in particular the governing board, the management team and the supervisory board and states that high standards of transparency and accountability must be ensured to provide integrity and reliability which are achieved by keeping updated and audited records of financial transactions and annual accounts audited.[2]

3 Legal Framework

The term "foundation" can have different meanings as becomes evident when one compares the legal definitions of the European Member States. Such differences urge the fact that the Proposal for a European Statute is an important improvement in the framework of the law of non-profit organizations creating a uniform tool. It is clear that its adoption would be beneficial to the settlement between the legal systems of the Member States in the field of the third sector. Given this inherent ability of European law, the European Foundation Statute could be a harbinger of conceptual cleanliness (Rossi, 2014). The proposed action would also tackle the most significant

[2] The proposal is in accordance with requirements laid down in Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006.

obstacles that foundations encounter when operating across borders, with special regard to tax treatment (EC, 2012b). In March 1971 the International Standing Conference on Philanthropy (INTERPHIL) presented to the European Commission a draft regarding the tax treatment for non-profit organizations, whit tax exemptions and the adoption of requirements for harmonization and regulation. This draft was considered unrealistic and ambitious because it would involve significant amendments to the national laws and policies of the member states. However it failed the implementation due to the fact that it "included a crucial element which deprived the contracting states of their autonomy" (Koele, 2007). Countries in general provide tax exemptions for public-benefit purpose foundations. However once again, in Europe, there is no framework defining public-benefit standards that would make available tax advantages and benefits for foundations and donors. Virtually there are in total 25 public-benefit activities recognized in one or more countries in Europe (Moore et al. 2008). Therefore what may be considered as public-benefit in some countries may not be viewed as so in others. For instance Polish legislation considers 24 activities as public-benefit while in Hungary that number decreases for 22 activities (Moore et al. 2008). Procedures to grant tax advantages also vary from country to country, as in few countries (e.g. Belgium, France, Finland) the tax exemption is granted automatically, while in the majority of European countries foundations should demand a special recognition from the local tax authority in order to obtain tax benefits[3].

Regarding the eligibility for tax relief for charitable donations both individual and corporate donors can claim it in the majority of the countries. However in some countries, such as Portugal,

[3] For example, in Portugal, foundations should request the exemption, which will be recognized by the Ministry of Finance, and published in the Official Journal (*Diário da República)*. The exemption states that the foundation must spend 50 per cent of its net income, during a period of four financial years, to pursuit its activities, otherwise the tax exemption will be removed. In Netherlands a foundation needs to be first recognized as a charity by the tax authorities in order to receive tax exemption (EFC, 2011).

Spain and Italy, they can only be claimed under certain circumstances which allow the donors to allocate a certain percentage of their payable taxes to a public-benefit organization of their choice (EFC, 2011). Even though in the majority of countries foundations may operate abroad without compromising their tax status, foundations may lose their tax-benefit status if engaging in activities mainly outside of their home country (e.g. Austria, Portugal and Denmark). Therefore, the proposal for a council regulation on the FE showed that the most appropriate option would be to apply automatically non-discriminatory tax treatment, thus removing the cross-border obstacles and simplifying the process of efficiently conducting the funds for public-benefit causes. By doing so it would be possible to tackle the cross-border obstacles that foundations encounter, without laying down exhaustively all the rules applicable to the European Foundation and avoiding a new set of tax rules (EC, 2012b).

It is therefore necessary to enforce the articles 49, 50 and 51 from the Chapter VIII, Tax Treatment of the Council Regulation on the Statute for a European Foundation (EC, 2012b) in order to provide to all the same information and to grant the same tax advantages and benefits, creating a positive impact and preventing discrimination in Member States of the European Union.

3.1. Financial Reporting

As argued by Feng et al. (2014), it is only in the last decade that non-profit accounting research has built momentum toward developing a critical mass. It is claimed that the importance to improve accountability in non-profit organizations is due to the fact that they strongly rely on donations, and volunteers' work.

According to the Proposal for a European Foundation, Article 34th on Transparency and accountability "full and accurate records of all financial transactions" (EC, 2012a, p.28) containing all the information regarding the activities of the foundation and the public-benefit purpose of the foundation including the list of beneficiaries of the grants must be sent to the supervisory authority. All this information must be disclosed "within six months from the end of the financial year" (EC, 2012a, p.28). Approved and audited annual accounts, by one or more persons, as well as the annual activity report shall be publicly disclosed by the governing board.

The international financing reporting standards (IAS/IFRS)[4] comprise a set of rules, considered as the common language for financial reporting, which attempt to harmonize the book accounts providing them relevance, reliability, comparability and understandability. The full set of financial statements required by the IFRS are the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, and the notes to the financial statements. National governance and financial reporting standards for foundations still diverge in European countries and in some countries are not similar to IAS/IFRS yet. In Belgium public utility and private foundations should present the annual accounts and budget to the commercial court. Large private foundations above a certain size[5] also have to deliver information regarding the members of the board and the annual accounts. An auditor's report and the tax income return should also be filled and delivered to the National Bank of Belgium (EFC, 2011). In France public utility foundations should deliver an annual report and financial statements to the Ministry of the Interior (Module Statute, Art.16). Corporate foundations must present the annual report and financial

[4] The International Accounting Standard Board (IASB) is nowadays the entity responsible for the development of International Financial Reporting Standards (IFRS). These new standards resulted from the revision of international Accounting Standards (IAS).

[5] A foundation is classified as *very large* if at the end of the year: (a) its annual workforce (in full-time equivalents) exceeds 100 employees on average or (b) at least it exceeds two of the following criteria: (1) fifty employees, annual average (2) annual income, other that exceptional income (excluding VAT) exceeds € 7,300,000 (3) total assets exceeds € 3,650,000. A foundation is considered to be *large* if it meets or exceeds at least two out of the three size criteria at the end of the bookkeeping year, as follows: (1) annual average workforce exceeds five people; (2) the annual income, other than exceptional income (excluding VAT) exceeds € 3,125,000; (3) total assets exceeds € 1,249,500. The full presentation of the annual accounts for non-profit foundations must be used by very large foundations. (National Bank of Belgium, 2015).

statements to the administrative authorities. Germany foundations should deliver their annual reports to the state authorities according to the laws of the *Bundeslander*[6]. The tax privileges are revised every three years by the tax authorities and Germany foundations have no legal obligation to publicly provide the information available (EFC, 2011). In Portugal the foundations must e-mail the annual report and accounts of the last three years to the Secretary-General of the Presidency of the Council of Ministers. These documents must be sent within of six months after approval. All the information in Portugal is publicly available and should be available within 30 days after the approval of the annual report and accounts[7]. As for Spain, annual reports must be delivered to the Protectorate, the supervisory authority from the state, which makes them accessible by sending them to the Public Register (*Registro Ùnico de Fundaciones de Competencia Estatal*). In Switzerland, recent changes to accounting regulations modified the framework for non-profit organizations. Since 2013, assets size has been the main criterion for assessing the applicable accounting requirements. Thus, foundations have to apply the same regulations as corporations do when registered with the Commercial Register. Swiss GAAP *Fachempfehlungen zur Rechnungslegung* (FER), national specific standards for recommended practices, in particular FER 21, introduced in 2002, directly addresses the accounting standards for social non-profit organizations, such as financial statement presentation, fund accounting and also the provisions regarding the performance reports. In United Kingdom all the foundations have to prepare an annual report and accounts and make them publicly available. Also, depending on their level of income, send this information to the Charity Commission. The information to be sent to the Commission must include a list of the trustees, the annual accounts and the annual report. The

[6] Federal States.
[7] Law Nr. 24/2012, dated of July 9th, 2012, known as *Lei Quadro das Fundações*.

Summary Information Return must also be filled and sent to the Commission for charities with annual income higher than one million pounds (EFC, 2011).

In summary, the diversity of laws, regulations and standards for foundations in Europe is real, limiting the scope of actions on cross border operations. The lack of harmonization also creates transparency issues which can be highlighted by evaluating the actual accounting standards and information disclosed in the financial reports. Anheier et al. (2009) claims that as there is no harmonization it is needed to find a solution that makes it possible to work with different national and legal concepts of foundations.

4 Literature Review

By the year of 2002 in the report *A Modern Regulatory Framework for Company Law in Europe* by the High Level Group of Company Law Experts it is stated that "the focus of the EU should be to eliminate obstacles for cross-border activities of business in Europe" (Commission of the European Communities, 2002a, p.4). In order to do so it is suggested the harmonization of the Member States laws. However only in February 2012, the European Commission presented a proposal for a European Foundation Statute, with the intention of facilitate the cross-border activities for public-benefit foundations and it provided the starting point for this work project. With this proposal the EC proposes a theoretical approach on the characteristics of a public-benefit purpose entity and the idea of a uniform tool. The book *Development in Foundations Law in Europe* (Prele, 2014) and the report *Comparative Foundations Laws in Europe* (EFC, 2015) describe the different foundation laws that exist in the different countries and enhances the importance for the foundations to have reliable financial mechanisms in place to ensure that foundations can pursue its public-benefit purposes.

Being the regulation the central point for harmonization in 2003, Keating and Frumkin wrote about *Reengineering Nonprofit Financial Accountability: Toward a More Reliable Foundation for Regulation* where they proposed a new direction for non-profit financial accountability. Also in 2003, the United Nations Statistics Division issued a *Handbook on Nonprofit Institutions in the System of National Accounts* (SNA), recommending that national statistical agencies produce regular “satellite accounts” to highlight the role of non-profit institutions (United, 2003). In 2008 a revision of the SNA introduced improvements in the treatment of non-profit institutions. The revision of the handbook is underway and the final document is expected soon to be published.

Empirical studies on financial reporting by European Foundations are scarce. Claudio Travaglini (2008) compared laws and accounting practices and highlighted similarities and differences between Spain, Italy and United Kingdom with the final goal of his studies was to define and propose a “a path of harmonization of accounting reporting” (Travaglini, 2008, p.4) for the foundations in the European Union. Two other empirical researches analyzed the Portuguese foundations: Coelho (2010) analyzed their financial reporting and Carvalho (2014) studied the characteristics of Portuguese foundations that influence the disclosure process, as well as financial and non-financial indicators disclosed. In order to get a comprehensive overview of the importance and the role of the foundation sector the consortium comprehending The Max Planck Institute for Comparative and International Private Law and the University of Heidelberg (Anheier et al., 2009) performed a feasibility study from the autumn 2007 to November 2008. This empirical analysis evaluated the main types of foundations and performed a comparative analysis regarding the main regulatory differences, regarding transparency in financial reporting across the EU. Wagner (2013) performed an overview of financial reporting of foundations in Europe and claimed that, there is little harmonization, and concluded that therefore comparison between countries is difficult. This work project is a continuation of Wagner's research assessing the evolutions and changes that occurred since financial reporting by foundations in 2011, with special focus regarding the current financial reporting, similarities, differences and data availability. With it is intended to feel the void of information on the European foundation sector as claimed by Anheier et al (2009).

5 Methodology and Sample

This work project aims at providing an overview of financial reporting by the European foundations, regarding transparency and accountability. Knowing that foundations rely on legacies, private donations, sponsorships and fundraise it enhances their importance since transparent and accountable reports increase the legitimacy of foundations that may create tax benefits and attract new donors.

The not-for-profit sector has undergone significant changes, with the necessity to move to a more competitive, professional mode of operations which necessitated the adoption of new accounting and financial reporting systems (Irvine H., 2011). By increasing the accountability of the non-profit organizations also increases the transparency level with respect to the activities and achievements of the organization. Allowing the management team and stakeholders to be better informed when making decisions and at the same time provide an extra stimulus to improve performance (Connolly & Hyndman, 2013). Moreover accountability increases non-profit organizations legitimacy and reduces risk of sanction (Cordery & Baskerville, 2007).

5.1. Research Questions

The research questions were designed to get evidence on the actual situation of financial reporting by European Foundations. The following questions are answered:

RQ 1: In how many languages are the reports available?

RQ 2: What names are given to the reports?

RQ 3: Who is the responsible for the financial reporting of foundations?

RQ 4: Which accounting standards are foundations adopting?

RQ 5: What characteristics do financial reporting by foundations present?

RQ 6: Which financial statements are foundations presenting? How many statements are being reported?

RQ 7: What information is disclosed under the notes?

RQ 8: Are there differences from the results in Wagner's research?

Foundations with headquarters in Europe were selected from the following ten countries: Belgium, France, Germany, Ireland, Luxembourg, Netherlands, Portugal, Spain, Switzerland and United Kingdom accounting to an initial sample of 144 foundations. The choice of countries was done considering the written language of the annual reports, which the author of this report and his supervisor are able to read and understand, since not all the reports are provided in English.

All the 144 websites of the foundations were visited and an exhaustive search was made in order to obtain the annual reports. A first comment on transparency in financial reporting is that empirical evidence on this work project reveals that some foundations websites lack in providing easy access to the financial reports due to the fact that an exhaustive exam in the website is necessary to find them. Indeed from the initial sample only 78 foundations have their reports available online. This number can be explained by the fact that in some countries foundations are not obliged to release publicly their reports (i.e. Germany), or by the fact that in some others they are not posted online. Further filtering regarding the amount of information available, i.e. financial reporting, reduced the sample from 78 to a final sample of 50 foundations[8]. Eleven of the foundations in the final sample are also part of Wagner's (2013) sample for 2011. For every foundation, the report obtained is the most recent available online with dates from 2013 (10%), 2014 (88%) and 2015 (2%). Thus, regarding the period of analysis, the research covers the years 2013 to 2015. Periods of reporting differ among foundations from different countries. In all the reports from 2013 the year ended is at 31st of December, and for the 2015 report the year end is at 31st of March. [9] No explanation was found for the lack of update regarding the 10% of reports for the year 2013, since the foundations are from different countries. This diversity in year-end poses as an obstacle for comparison. As a recommendation a framework with harmonized periods of reporting could prevent it from happening.

All data regarding the foundations was hand collected from the available reports online and an excel database was created[10], which adds to the existing literature and updated database, with more countries, by increasing from six to ten countries, and with more foundations under study by having a sample of fifty foundations *versus* the original sample of thirty three. Thus this is part of the contribution from this work project, which can be used as a starting point for future research as well as a comparative analyzes of the evolution of financial reporting by foundations. All the information regarding the data collected is presented in Section 10. The data gathered is used to answer the research questions. Firstly, regarding only one variable and also more complex questions which answers are obtained by correlating variables from the available data. By doing it, is expected to obtain information that will better help to assess the current overview of financial

[8] Belgium (10%), France (8%), Germany (6%), Ireland (2%), Luxembourg (2%), Netherland (16%), Portugal (12%), Spain (12%), Switzerland (6%) and United Kingdom (26%).
[9] All the foundations analyzed have a reporting period of 12 months and the year end of the reports is as follows: 31st March (10%), 30th April (2%), 30th June (6%), 31st July (2%), 30th September (2%), 31st December (78%)
[10] The databases created for this work project comprises 49 variables with a grand total of 2450 available data.

reporting by foundations and evaluate similarities, differences and evolutions regarding data availability of financial reporting by foundations in European countries.

6 Results

This section enhances the current transparency situation of financial reporting by foundations by answering the research questions stated in section 5. Outcomes are discussed and scrutinized and some recommendation is given.

Languages of reporting (RQ 1)

All the 50 foundations present their financial reports in the domestic language of the country where they are based. Additionally, 80% of them also have their reports available in English. Excluding from the sample the native English countries (United Kingdom and Ireland), the total sample is reduced to 36 foundations where 26 of those still have their reports in English. Therefore one concludes that at least 72% of the foundations are reporting in more than one language. Reports with more than one language allow more people to understand them and therefore creates a higher level of transparency and may attracts donors from other countries. It is important to remind that language was an initial limitation when performing the choice of countries to be present in this Work Project.

Names of the report (RQ 2)

The names given to the report differ among the European Foundations: 52% of the foundations name it "annual reports", 14% of the foundations, mostly from United Kingdom, title it "trustee's report" and others 20% call it "annual reports and accounts". Some others (12%) give different names to the reports and 2% simply refer them as just "accounts". Such diversity in the terminology may lead to miss interpretations regarding what is being disclosed, and jeopardize comparisons, and thus further analysis.

Responsible for the financial reporting of foundations (RQ 3)

According to the good practices of governance the management team is responsible for keeping and preparing proper and timely accounting records in accordance with the applicable laws and accounting standards applied at the country of establishment or operation of the foundations. Regarding who signs the report, from the data collected, 34% of the reports are not signed, 16% are signed by one person and 50% are signed by more than one person. From the data collected 68% of the times the responsibility lies on the Board of Directors, 28% on the Board of Trustees while the remaining 4% are signed by others such as the Executive Board or the Managing Board. It is also possible to conclude that from the ones signed by more than one person the ones who sign it are usually members of the board and the auditor. The ones signed just by one person are often signed by the president of the board. Regarding auditing 82% of the foundations have their accounts audited and 18% do not report any type of certification to their accounts. The "Big Four"[11] audit companies account for 48% of the audit certifications, while other, smaller accounting companies, mostly in United Kingdom, account for 34%. From the total of 41 foundations audited 78% (32 foundations) show unqualified opinion and 22% (nine of them), present a qualified audit opinion with an explanatory paragraphs pinpointing to some concern regarding the audited accounts[12]. It is worth noticing that one particular fact is that eleven of the audited accounts have the opinions provided by auditors but the report available online is not signed nor is the auditor report accessible.

[11] Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young

[12] The concerns are related with a departure from GAAP - when one or more areas of the financial statements are not according to the GAAP - or a Scope Limitation - when the auditor is not able to audit some areas of the financial statements.

Accounting standards adopted by foundations (RQ 4)

The harmonization of accounting standards are still a major cause of concern regarding financial reporting by foundations. In section 3 it was noticed that financial reporting standards in European countries differ and do not follow in general the IAS/IFRS standards, while accounting regulations specific for foundations or NPOs only exist in few countries. However it is possible to assess that 54% of the foundations use accounting standards specific for foundations *versus* 26% that adopt general national accounting standards. While 14% do not disclose in their reports what accounting standards are being followed only 6% uses the IAS/IFRS. In Portugal, the Netherlands, and the United Kingdom the majority of foundations adopt specific standards for foundations in the financial reports.[13] Foundations that apply IAS/IFRS are, all of them large foundations with assets over one billion euros.

Characteristics of financial reporting by foundations (RQ 5)

With the purpose of finding evidences regarding the characteristics of the available information in the financial reports the following variables are studied: length of the report, type of statements, currency of the report, and precision of the results. Regarding the length of the reports the average number of pages is 67, being the minimum six pages (*King Baudouin Foundation*, Belgium), the maximum 347 (*Fundação Calouste Gulbenkian*, Portugal) and the median 50 pages. The reports under 20 pages have only individual statements and a maximum of three statements. Concerning the types of statements, 78% of the foundations only present individual statements, while 18%

[13] In the UK 46% of the foundations applies the Section 132(1) of the Charities Act 2011, while 30% still applies the Charities Act 2005 with amendments. One foundation applies specific charities foundations legislation for Northern Ireland and one other applies legislation regarding IFRS. Regarding Netherlands the standards used depend on the activity of the foundation since some foundations use the Dutch Accounting 640 “Not-for Profit Organizations”, while others use the Dutch Accounting 650 “Fundraising Institutions”. In Portugal foundations use the accounting standards for non-profit institutions stated by decree law 36-A/2011. In France the specific rules for foundations are under the *Comité de la Réglementation Comptable*, CRC 2009-01 an improvement regarding the CRC 99-01. For Spain the foundations that apply specific foundations regulation use the norms approved in March 2013 by the *Instituto de Contabilidad y Auditoria de Cuetas*, Real Decreto 1491/2011.

reported in consolidated statements and the remaining 4% present both consolidated and individual statements. From the 18% that only present consolidated statements 66% are from the United Kingdom. Thus, 22% of foundations are part of a group, presenting on a single document the information of the umbrella company and its subsidiaries, with financing and investing being part of the group decisions and strategy.

From the data collected 58% report in euros, 30% in pounds Sterling, 8% in United States (U.S.) dollar and 4% in Swiss franc. From the 8% that reports in US dollars only one foundation reports in two currencies (U.S. dollar and Swiss franc). Reporting in U.S. dollar is related with the scalability of the foundation and their donors, since two of them are Global Trusts, one of them an International Fund and the other, the *Fondation Sinopec-Addax Petroleum,* which is stablished by Addax Petroleum Corporation. Thus these foundations are directly reporting for their U.S. stakeholder. Regarding precision of the financial reports, 50% of foundations report is unitary value, 28% reports in thousands, 16% reports in cents and 6% reports in millions. Correlation between the level of precision of reporting and the country of origin, the data of establishment of the foundation or the currency was not found.

However concerning the level of precision in reporting, it is concluded that for cents the average total assets of foundation is under 100,000 euros, for units it is under 300,000 euros, for thousands it is circa 700,000 euros and for millions it is above one billion euros the size of foundations, using total assets as a proxy for size.

Set and number of financial statements presented and reported by foundations (RQ 6)

According to IAS/IFRS a full set of financial statements comprises the five following pieces: statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, and the notes to the financial statements (IAS 1, 2007). The results show that 22% of the reports just present the two primary financial statements, that is the balance sheet and the income statement, 36% have three statements that is additionally disclose the notes; 28% four statements which includes the statements of cash flows and only 14% have all the five statements required by the IAS/IFRS. From the three foundations that follow the IAS/IFRS standards it is worth noticing that out of those three foundations two of them present the full set of five required financial statements while in other both the statement of changes in equity and the statement of cash flow are missing. The number of statements is once again not related with the country of the foundation.

Additional information disclosed under the notes (RQ 7)

It is worth to mention that the notes are part of the five financial statements which form the full set of financial reporting under IAS/IFRS, and they should be read together with the other statements. Thirty nine foundations in the sample, (78%) disclose notes to the financial statements which contain relevant description and information of the items presented in the financial statements. All the foundations in the sample from Luxembourg, Netherlands, Portugal and Switzerland disclose notes in their financial reports. The content of the notes focuses in topics mentioned in the IAS 1[14] which states that the notes must present information about the basis of preparation of the financial statements and the specific accounting policies used and disclose any information required by IAS/IFRS that is not presented elsewhere in the financial statements. Thirty four out of the 38 foundations with notes disclosure specify the accounting policies used. However, four out of the 11 foundations that did not disclose any notes, provide information

[14] IAS 1 *Presentation of Financial Statements*, last amended 18th December 2014

regarding accounting policies used in the introductory text of the financial report. Meaning that in total 76% of the foundations are disclosing the policies applied when doing their financial reports.

Regarding the information about the financial position and financial performance 92% have notes on the tangible assets, 38% on the intangible assets and 54% have notes for the cash and cash equivalents which are required according to IAS 7[15]. Many foundations also disclaim information regarding their pension funds and the personal expenses (82%) as well as the administrative expenses (61%). Another point particularly important for the foundations is notes on taxation. It is worth to highlight that the FE proposal enhances the tax treatment of public purpose foundations and donors as important topics. However, only 56% of the notes include information on taxation which is still a very small percentage. Regarding the voluntary work, which is a characteristic of NPO and foundations, thirty nine foundations (78%) do not have or do not report information on them, what is not in line with the report of the EFC that states that are over one million persons working as volunteers for foundations sector across the EU. Therefore should be encouraged and is recommended further reporting on that topic.

Differences that can be found from 2011 (RQ 8)

Using the data collected by Wagner's research in 2011 (Wagner, 2013) and the data collected for this Work Project it was possible to create a subsample of eleven foundations present in both databases. Small but important conclusions were obtained. Regarding the statements disclosed, seven out of the 11 foundations have changed the number of statements disclosed. The three Portuguese foundations have increased the number of statements disclosed from four to the full set of five adding the Changes in Equity to the financial reports, which is in line with the 2011 changes

[15] IAS 7 *Statement of Cash Flows*, last amended 1st January 2012

to the Portuguese Decree of Law 36-A/2011 and the regulation, that are in accordance with the IAS/IFRS standards and this is a positive sign of change. On contrary, the three foundations from the United Kingdom reduced the number of statements presented: two of them have reduced from five statements to four (by removing the statement of changes in equity) and the other to three statements (both removed the cash flow statement and the changes in equity statement). Only one foundation – the *Jacobs Foundation* from Switzerland – increased the number of statements from three to five, by adding both the cash flow statement and the changes in equity statement. Regarding the auditing results, only one foundation, *Fundação Oriente*, presented an evolution on the reporting moving from a qualified opinion with and explanatory paragraph to an unqualified opinion. There was also a slight improvement on the notes disclosure due to the fact that two foundations are now providing them in their reports.

Changes in the sector are urgent and needed. Transparency, harmonization and accountability can affect the perception towards the work of foundations and only a standardized and clear framework will create positive perception of their work towards their donors.

Conclusions

This Work Project provided an overview of the transparency and accountability framework in which the European Foundations operate when doing the financial reporting. The results evidence the lack of harmonized regulations which creates obstacles and legal concerns not only in different countries but also inside the same country, concluding that the problem is far bigger than supposed. It also was concluded that many foundations still do not publish online their financial reports, while others provide less than the minimum information required. Enforcing foundations to report according to a set of accounting standards would eliminate this issue and create higher levels of transparency. Financial accounting information enhances the contractual relationships with stakeholders and donors. Foundations that disclose high quality financial reports and performance information on their public websites are considered to be more accountable and trustworthy.

The proposal for a Regulation on the Statute for a European Foundations would contribute to diminish barriers, like different accounting policies, and statements publicly disclosed. Harmonization will make it possible for foundations to account with higher levels of transparency and accountability improving also that tax benefits that may arise. This Work Project, based on Wagner's research, intended also to assess the actual situation and compare it with the results obtained from the accounting reports of 2011. The comparative results revealed small but positive changes, although the current situation still urges for harmonization. This research also provides a data sample which is made available for further studies. However in future research a larger scope with all the registered foundations, with more periods and countries, would be a better approach in order to assess the foundations in Europe, their exact activity, who are the donors and what is being publicly disclosed regardless the size of the foundation. A further statistical analyses is also recommended.

It is also alarming that in a period where Europe is facing major challenges due to the crisis it is still possible to ignore the accounting practices of the entities that operate within its borders creating opportunities for eventual corruption and money laundry. On a recommendation would be that the European Commission should put into practice the *Fundatio Europea* Regulation discussed in 2012 since it covers and provides a solution for the major problems encountered today. The main focus of any action regarding the financial reporting of Foundations should be transparency and accountability.

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