

The Accounting Regulations for the Non-Profit: A Comparative Study Between Egypt and UK

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Abstract:

The researchers have shed the light on the specific nature of NPOs by reviewing two models, the CAs in the Arab republic of Egypt and charities in the United Kingdom from legislative side and determine the most important organizational and financial aspects. And The Researchers found a rapprochement between the concept, characteristics and activities nature of both the CAs and charities, but the United Kingdom is more significantly regulated than Egypt in the legislative and accounting regulation, so the researcher will address in the next section the problems and challenges facing the NPS at the international level with a focus on the Egyptian CAs.

Keywords: Accounting Regulations/ NPOs / CAs/ Disclosure.

Introduction:

During the last two decades, NPOs became the third sector (TSOs) in the economic and social systems beside public and private sectors (Albaz & Albaz, 2019) The third sector is usually seen in the middle between the two sectors – commercial sector where profit is the central aim, and the public sector. Where the economic and social reforms undertaken by many governments between 1980 and 1990, brought about significant shifts in the roles played by government and the third sector. A reduction in government provided services combined with increasing social needs has led to greater utilization of the NPS by governments for the delivery of social services (Saxton, Kuo, & Ho, 2012) internationally; this shift has seen the sector grow extensively in size and prominence, And its impact on the degree of the society's welfare. Where (Kirk & Beth Nolan, 2010) suggested that the growth of the NPS's role in society is due to the prevailing belief among the donors that these sector organizations are more cost-effective from the governmental bodies in the provision of social services. Therefore, the academic research attention tends recently to examine the current reality of the accounting regulation and the possibility of development in this sector's organizations. In this sense, the researcher in this chapter conducts a comparison between the current accounting Indigenization for the Civil Associations (CAs) in the Arab republic of Egypt and charities in the United Kingdom, in order to put forward accounting development proposals for these Egyptian CAs from an international view.

NPOs represent those institutions have been established in order to provide a public service to society (Saxton, Kuo, & Ho, 2012). And the CAs consider the Egyptian model of the NPOs where it's become necessary after 25 Jan 2011 and 30 June 2013 revolutions and the growth in size and role of these associations in the Egyptian society, to restructure this associations sector's role in order to contribute in establishing an appropriate economic and social system. On the other hand, charities consider the model of the NPOs in the United Kingdom. Despite the global recognition with the NPOs' role as one of the most important mechanism for achieving the economic and social development, yet so far, there is no generally accepted conceptual framework for this sector's organizations at the international level. In addition, Laws and rules which governing the NPO varies



from country to another. Based on this point, the Researcher in this section sheds light on the specific nature of the NPOs in general and the CAs operating in the Arab Republic of Egypt. According to the Egyptian civil associations and institutions law No.84 for 2002. And charities in the United Kingdom, according to the charity law for 2011. So, the researchers addressed in this Paper the following: First, The Nature of the NPOs, Second: The Current Scientific Framework of the Egyptian CAs from an Accounting Perspective, Third: The Current Scientific Framework of the Charities in United Kingdom from an Accounting Perspective, Fourth: A comparative study between Egypt and United Kingdom from regulatory and accounting perspective.

First: The Nature of the NPOs:

1-The concept and characteristics of NPOs:

NPOs have been appeared in the early of last century to help the governmental sector in providing social services as a result of the inability of the states to fill the gap in public services (Costa, 2014) where Copenhagen Conference (1995) considered the beginning of the international recognition with the NPOs' role. Where, the conference sets an initiative for a partnership between the governmental and private sector from side and the NPS from the other side as a strategy for the development. And recently, NPOs become an important part of the economic system in the developed countries. But First and most importantly, there are many definitions associated with the concept of NPOs in the accounting thought (Hooper, Sinclair, Hui, & Mataira, 2008) for instance.: " social entities engaged in a variety of activities with social, charitable and cultural nature, aimed to provide goods and services with a basic aim to arise the community welfare, without profit motive, and in case of achieving surplus. This surplus redirected for the development of social activities".

The Researchers set a definition for the NPO according to five considerations have identified by the United Nations as: (1) has formal regulation, (2) separate from the state, (3) not-for-profit, (4) self-management, (5) voluntary (United Nations, 2003). Where the first, second and fourth conditions points out that the organization must be a not-for-profit purpose; motive, with an official status and independent of the founders or the State authority. The third and fifth condition referred to its reliance on volunteer work, donations and without the profit motive from its operational activities. These considerations are also consistent with the definition of the financial accounting standard board (FASB) that is required to consider an organization as Non-profit: The main funding source dependent on donations and contributions from others. From the above definition, NPOs share important underlying characteristics that differentiate them from private and public sector organizations, and according to the literature, and the researchers concluded the most important features and characteristics of the NPOs in the following themes:

The First Theme: Formal Regulation:

- A. NPO has a legal and Organizational form according to laws, based on that; it has Independent personality from its founders or managers.
- B. The absence of the economic sense from the organization's equity - the lack of ownership interest - Where the equity is considered in the NPOs owned by a social entity. And the equity/capital does not transmit between individuals such as FPOs (profit-sharing). Moreover, the organization is managed by elections among its members and its managers are responsible to the relevant governmental authorities not founders or shareholders.
- C. Non-profit regulation is different from the traditional regulation with the traditional concept. Where this theme refers to the idea (regulation) which include the overall aspects of human life (social, cultural and economic).
- D. The NPO is subjected to special provisions and rules for its management, administrative, regulatory and financial structure and these rules are different from country to another according to the prevailing law of each country.

The Second Theme: Separate from the state:

1. NPOs are different from the governmental sector organizations. In the sense that these organizations are not related or following any governmental body/authority. But this point does not prevent the government authorities from overseeing the NPOs within the terms

established by the laws and take into account the principles of (Non-profit establishment and activities freedom).

2. Despite the similarities between the activities of the non-profit and public sector. But NPOs don't consider from the administrative bodies of the state. And they are not associated structural or administrative with the state that is Mean that the organization is institutionally separate from the state and not a part of the state administration.
3. Although the NPO receives support and funds from the government almost every year, the organization is fully independent with regard to the management of its affairs and therefore, the organization is self-managed and can control its activities according to its statute. Moreover, there is no competition market for its activities and services.

The Third Theme: Not-For-Profit:

1. The main purpose is providing public services and benefits to the society in general without the focus on profit motive (Mitchell, Van Buren, Greenwood, & Freeman, 2015) Thus the profit in these organizations is a technical term linked to the existence of a surplus of revenue over expenditure. So NPOs working under a Non-distribution constraint, meaning that these organizations have no residual claimants and therefore, all surpluses remain within the organization. So, the surplus does not distribute between founders or the Board of Directors (Costa, 2014) Simplifying a little, the organization may achieve profit (surplus) but is not available for distribution and this point distinguishes the Non-profit from FPOs, so the organization must exist for the public benefit, in other words, it must seek to benefit a wide range of people.
2. Donors don't expect to recover or get any economic benefits commensurate in value with the donated resources (Chueva, 2016) So the NPOs' funds consider as a public fund. Therefore, these organizations often audit by the relevant governmental authorities according to the prevailing laws in each country.
3. Despite the fact that Non-governmental organizations in some countries called NPOs. This Feature must be met in all Non-governmental organizations in order to distinguish them from the commercial organizations which the basis of its establishment is making-profit. While in the Non-governmental organizations the purpose of its establishment is providing services to the society. The other difference between the commercial companies and NPOs is profit-sharing, where commercial companies usually share the profits obtained by, but NPOs can carry out some profit-generating activities with a term that doesn't distribute profit to founders or managers and allocated again to carry out the activities that the organization has established for.
4. NPOs have governmental privileges and tax exemptions according to the prevailing law in each country.
5. NPOs do not seek to make profit and exempt from taxes (Aldoseri, Albaz, & Ghali, 2022) So the traditional accounting (commercial), including the accounting for income taxes considered inappropriate to adopt.

The Fourth Theme: Self-Management:

1. NPOs "self-governing" by a statute and internal procedures and don't follow any external entities where the organization governs by internal system which Considered as Constitution of its operations (Kingston, Furneaux, de Zwaan, & Alderman, 2020)) so NPOs are self-governing organizations formed to serve the society.
2. NPO has an independent legal personality (as mentioned in the first theme). But its independence doesn't preclude it from receiving grants, gifts and donations from any party whatsoever but these donations shouldn't have any conditional or associated with the imposition or restricted terms that make the organization lose its independence. As these organizations derive their independence in terms of being social organizations operating in the context of voluntary work.
3. The Decisions are made - particularly operational - by voting through the majority of the management board, and usually decision-making process is in public, and available to the media (Andreaus & Costa, 2014)



4. NPOs are not relatively subject to political pressures or state's general policy, where these organizations operate largely in isolation from the surrounding political conditions and have a greater degree of freedom in the choice of its activities from governmental organizations. Indeed, this freedom is one of the main reasons for governments to rely on the NPOs in carrying out some activities rather than the governmental organizations.

The Fifth Theme: Voluntary:

1. NPOs under the united nation's definition: its work is voluntary "not obligation", that's mean the membership in the Organization or donations or performing of any voluntary services, are not required or imposed by the law or specific legislation.
2. Voluntary participation is a for-free voluntary work. That includes voluntary participation in carrying out the organization's activities or management but that does not mean all or most of the resources provided to the organization must be through voluntary contributions or volunteers. In this sense, to say that the work in these organizations is voluntary work does not prevent from granting of bonuses and allocations; allowances for the individuals whose work or manage the organization.

2- The impact of NPOs characteristics on the financial and operational sustainability:

From the above, it became clear to the researcher, the unique nature and characteristics of the NPS from the for-profit and public sector. In this sense, NPOs' characteristics affecting the operational sustainability, which, (Albaz & Albaz, 2019) defined it as being able to survive so that it can continue to serve its constituency. And from another perspective, the operational sustainability is enhanced or undermined by the amount of financial resources and volunteer work available to the organization (van Puyvelde, Caers, du Bois, & Jegers, 2012) This argument confirmed by Epstein and McFarlan (Kaba, 2021) and supported by (Dmitrieva & Kharakoz, 2020) through demonstrating the relationship between fund's Diversification and operational sustainability.

Where, (Costa, 2014) observed that the greatest challenge in this sector is how to achieve the operational and financial sustainability at the same time of performing the social mission without making-profit. In the same way, (Connolly & Hyndman, 2013) shown the importance of revenue diversification to achive the financial sustainability in NPOs, where (Albaz & Albaz, 2019) summarized the Operational and financial sustainability in one word "survive".

From the financial sustainability's perspective, The NPOs are characterized by the funding-resources diversification, and these resources are different from FPOs. So the researcher here attempts to review the funding-resources in NPOs in order to identify the criteria which can guide the accounting treatments during the study in the light of the confirmation of many academic studies about the relationship between the fund-resources and the accounting practices in the NPOs.

From the operational sustainability's perspective, Funding is one of the most important factors influencing the operational sustainability in the NPOs because the activities' volume determines based on the amount of fund-resources. And this importance increased due to the nature of the available fund-resources which are often flexible and continuous fluctuation in addition to the competition between the sector organizations as a result of economic and political considerations.

3-Fund-Resources in NPOs:

NPOs subjected to two types of accountability (monetary; operational). The monetary accountability requires the provision of information about the fund-resources in terms of how it was used and the nature of the restrictions imposed on it. Also the Operational accountability requires the provision of information about the result of the utilization/exploitation of these funds. Therefore, the Distinguish between the fund-resources is necessary to meet the requirements of both monetary and operational accountabilities. So according to the literature, the Researchers have divided the fund-resources in NPOs based on its concept, nature and characteristics into three main groups as following:

The First Group- Restricted Fund:

Restricted fund units are used to account for the funds where there are some external conditions on how the fund can be used; the conditions arise by the donors in order to achieve specific objectives. So the organization's managers don't have the ability to make decisions that lead to use

these funds in any activities except that have allocated for by the donors, and the researcher has distinguished between three categories of restricted fund:

A-Endowment Fund:

Endowment fund units are the funds which used to account for the resources that usually in the form of cash or investments - which their donors required to maintain the fund's origin to either permanently or for a specified purpose and after that the organization can spend it but the main characteristic of these funds is that, it is non-spending resources. These funds also used to account for the gains generated from the investment of endowment funds that the organization able to spend or add it to the fund's origin and These gains may be restricted or unrestricted according to the donors' conditions and terms, such as endowment gifts or land and the donations to purchase fixed assets.

B-Replacement and Expansion Fund:

Replacement and Expansion funds are used to account for funds provided in the form of cash or investments or pledges. And the donors restrict these funds to use in the acquisition or replacement of capital assets. So these funds considered as additions to the permanent capital not as income or revenue. Also, the investment's revenue of these funds should be added to the Replacement and Expansion funds and when the organization purchases capital assets by these funds, it converts funds used in this acquisition process from the restricted fund to the unrestricted fund as an increase in the unrestricted fund balance not as income.

C- Specific purposed fund:

Some of the Specific-purposed fund are used to account for funds which their usage restricted to spend on specific operational purposes or activities. So these funds are considered from available-to-spend fund-resources. Therefore, cash and investments are usually the source to get these funds.

The Second Group: Unrestricted Fund:

Unrestricted funds are considered the main fund-resources in the NPOs, and usually called the operation-funds, public-funds or liquid fund. These funds used to account for the fund-resources which managers can make a decision about it without donors. And used for all revenues and expenses that generated from unrestricted funds (Ledgerwood & Morgan, 2012), so information about these funds Reflect the operational accountability. Because it's considered the result of managers' decisions to achieve the operational objectives, in this sense, unrestricted funds consist of:

- A. Operations and activities fund, which included available-to-spend fund that represents in short-term financial assets and resources, and unavailable-to-spend fund that represented in long-term financial assets and recourses.
- B. Funds that can be used by managers for operational purposes.
- C. Funds converted from restricted funds.
- D. Revenue from the organization's operations and activities.
- E. Grants, donations and membership subscriptions to the organization without any restrictions on its usage.

The Third Group: Specific Nature Fund:

- A. Legacies: cash, assets or Properties that donors Recommended to convert its ownership to the organization.
- B. Voluntary services or contributions: NPO relies on Volunteer services to achieve its activities such as Business Advisory, facilities and other. These services play a vital role in the operational sustainability of the NPOs. (Saxton, Kuo, & Ho, 2012) Pledges: pledges or account receivables are a pledge from donors to contribute with an amount of funds to the organization, where some donors pledge that they will pay their contribution with a specific value on annual or monthly payments, and these pledges are usually in the form of promissory notes, therefore, the recognition with these pledges in the financial reports requires a proof in the form of documents or any other means by which to validate these pledges
- C. Governmental grants and subsidies: Governmental funding is one of the main fund-resources which third sector depends on (Lopez-Arceiz, Bellostas, & Moneva, 2021) where the state budget includes grants and subsidies according to the laws for the NPS. In addition, there are some arguments in the accounting thought calls to consider tax exemptions and other financial privileges within the scope of government grants.

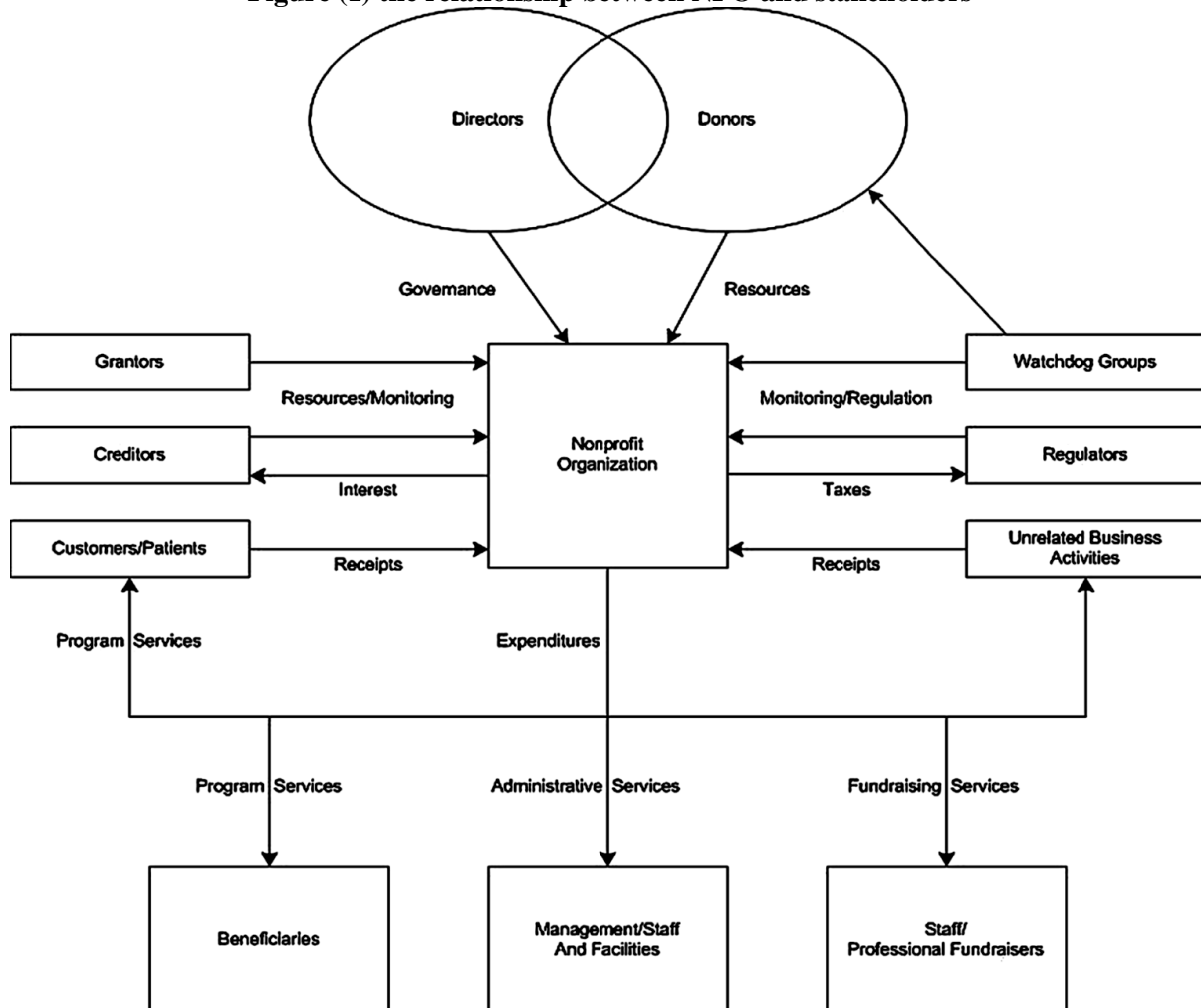
From the above, the researcher observed that the NPOs characterized by their reliance mainly on external fund-resources especially governmental fund and public fund (Breen, 2013) for example In the United States of America the volume of fund-resources increased from \$ 260 billion in 2009 to \$ 316 billion in 2013 and in the United Kingdom, it was estimated that about one-third of the total income of charities is derived from statutory sources, with the vast majority of those emanating from government contracts

From stakeholder theory perspective, Accounting and reporting compliance can be analyzed as a mean to safeguard the flow of resources to organizations (financial sustainability). And when organizations are convinced the governmental subsidies, public donations are linked with or depend on financial reporting compliance, they will make the necessary efforts to ensure that compliance. Where the degree of dependence increase with concentration and importance of providing resources, which means that organizations that depend heavily on one or very few resource providers are likely to experience stronger constraining influences from their environment.

4-The relationship between NPOs and stakeholders:

The essence of accountability lies in the relationships between the organization and the society and/or stakeholder groups (Albaz & Albaz, 2019) and the diversity of these stakeholder groups for NPOs means they “have multiple accountabilities, both “downwards” to their partners, beneficiaries, staff and supporters, and “upwards” to trustees, donors and governments”. so NPOs characterized by multi-stakeholder, where stakeholders –in general- could be viewed in terms of groups or individuals who impact, or are impacted upon. and the following Figure can be summed the relationship between the NPOs and stakeholders:

Figure (1) the relationship between NPO and stakeholders



Second: The Scientific Framework of the CAs from an Accounting Perspective:

Third sector organizations play an important role in the provision of social services and the implementation of the development programs. Where these organizations' experience plays a complementary role to governmental sector. The term "third sector" refers to a large group of non-governmental, and NPOs. in the Arab Republic of Egypt, the third sector includes several organization forms (political parties; professional unions; CAs ; non-governmental organizations) (SIS), And the importance of this sector in the Egyptian society is due to what can be done by these organizations from an effective role in achieving the society's welfare.

Egypt has known the Volunteer work from a long time, as a result of a cumulative heritage "charity" concept. And there are more than 35000 CAs operating in the Egyptian society in different activity areas such as education, culture, public services and others Walks of life. For this reason, these associations considered as an important partner which cannot be ignored in the path of development and progress. So the state cleared the way to emerge as the state provided all means of financial support and legal protection available to begin its work Freely, Where the CA plays a mediating role between individual and state and it guarantees the improvement of individual by spreading knowledge, awareness, democracy, and the mobilization of individual and collective efforts to further social and economic development. Moreover, the influence of public policy and reinforce the concept of social solidarity.

The concept of CAs has been mainly emerged in Arab Republic of Egypt with the acknowledgement of Constitution of 1923; article No.30, The right of Egyptians in assembly and association. But the historical real emergence of the CAs in Egypt back to 1891 with the establishment of the first CA (the Greek Association in Alexandria). Indeed, the seventies of the past century considered as a real start for the CAs in Egypt with the modern sense.

From regulatory and supervisory perspective. Egyptian legislature concerned with setting a framework for the CAs – as NPOs – like For-profit organizations. Where the first law for CAs in Egypt No (49) of 1945 to the current law No (84) of 2002. In the same way, Egyptian legislature also concerned with the CAs in the Constitution of 2014, especially with its role in the Egyptian Society During the last period. So Egyptian legislature enacted two articles in this Constitution:

1. Article No.75 Stipulates that "All citizens shall have the right to form non-governmental associations and foundations on democratic basis, which shall acquire legal personality upon notification."
2. Article No.219 Stipulates that "The Central Auditing Organization shall be responsible for monitoring the funds of the State, the funds of the State public and independent legal persons and other authorities as specified by Law"

According to the CAs and institutions law. (84), Article No.1: "For the purpose of enforcing the provisions of the present law there shall be deemed as an association, each group of an organization continuing for a definite or indefinite period, comprising natural or judicial persons or both of them with a total of at least ten persons in all cases, and oriented to a purpose other than material profit. ". And according to article No.2: "It is a requirement for an association, to be founded that it shall have a written statute of its own signed by all founders and to possess an appropriate headquarters in the Arab Republic of Egypt". as article No.3 determines the components of the association's statute, fund-resources, how the association should use/spend it, invest surplus and the Financial monitoring. Thus, the CAs considered as a legal person under this law, and profit motive is not the purpose of its activities. So it's different from FPOs which its main purpose is making-profit. This implies, the CA is an accounting unit with a legal personality. it aims to provide economic, social and cultural services to the public society without any benefits to donors, hence the CAs considered according to the law, Non-governmental; NPOs in the international sense.

Moreover, in the beginning of this century the CAs' activities began to expand in all public fields (culture services; environment Protection; economic development; family issues; disables care; child care and Motherhood; etc.) as determined in the association's statute. But article no. (11) In law 84 of 2002 stipulated that Associations shall not be allowed to conduct any of the following purposes or activities:

1. Form military or Para-military formations or detachments.



2. Threaten national unity, violate public order or morality or advocate discrimination against citizens, an account of sex, origin, color, language, religion or creed
3. Practice any political or trade union activity exclusively restricted to political parties and trade unions.
4. Seek profit or practice any profit-oriented activity. However, adopting commercial controls to generate such income that contributes to the realization of the association's purposes shall not be considered a contravening activity.

On the other hand, the CAs in Egypt operating according to a set of rules, procedures and privileges stipulated in Law No. (84) Of 2002 and its executive regulations, which considered the only organizational law to the civil associations in Egypt, and according to this law as a civil societies and nonprofit organization for several features, according to article No.13, which stipulated that: Without prejudice to any privileges set forth under any other law, associations subject to the present law shall be eligible to the following privileges:

1. Exemption from registration and entry duties, payable by the association in all types of contracts to which it may be party to, such as contracts of ownerships, mortgage or other rights in kind.
2. Exemption from taxes and stamp duties currently or to be in future levied on all contracts, powers of attorney, printed material and records, etc.
3. Exemption from customs, taxes and other duties on the imported equipment, tools and production requirements as well as giveaways, donations and aids from abroad, under a resolution by the prime minister based on a proposal by the Minister of Social Affairs and presentation by the Minister of Finance, on condition that these objects are necessary for its main activity. Of these objects, it is prohibited to dispose of such durable goods as are identified under a resolution by the Minister of Social Affairs in agreement with the Ministry of Finance before the elapse of five years, as long as the taxes and customs duties due thereon remain unpaid.
4. Exemption of real property owned by the association from the real-estate tax.
5. A 25% reduction on railway transport duties for equipment and machinery.
6. Household telephone subscription and call tariffs shall apply for associations, which shall be defined under a decision by the administrative body.
7. A 50% reduction shall be given on consumption value of water, electricity and natural gas produced by the public authorities, public sector companies and any other government bodies.
8. Contributions given to associations shall be considered an income liability up to a maximum of 100%.

From an accounting perspective, the Egyptian legislator has set some articles to organize the accounting function of Associations and civil organizations operating in the Arab Republic of Egypt under law No.84 of 2002 as following:

1. Article No. (3) Paragraph (e) stipulated that, the statute of an association shall include fund-resources, and how the association should use and spend it, and in paragraph (h) includes the financial control system.
2. Article No. (4) stipulated that, in no case shall a statute of an association may stipulate for its property to devolve, upon termination, to any party other than NGO Assistance Fund or any other association or NGO or federations governed by the provisions of this law.
3. Article No. (19) stipulated that, the association shall keep at its management center the relevant documents, registers and correspondence. The executive regulations define such records and how to use them and the data contained. These records shall be stamped before being used by the administrative body.
4. Article No. (21) Stipulated that, An NGO shall have an annual balance sheet. and recorded in its accounts, and illustrate expenses, revenue, donations and fund resources according to the model of revenue and expenses account no (11) in the executive regulation of the law. But in case, if revenue or expenses exceeded twenty thousand Egyptian pounds, the financial report

must be audited by an external auditor and supported by documents and this report must be submitted before (The general assembly) at least one month.

5. Article No. (22) Stipulated that, the association undertakes to deposit with a bank or a saving fund, its cash funds in its same registered name. The association shall expend its own funds in such manner as may fulfill its purposes. It may invest its surplus income in areas of guaranteed gain that ensure a fixed source of income or reinvest same in its productive or service projects. In all cases, associations shall refrain from engaging into financial speculations.
6. The association may have records or other accounts in accordance with its activity needs, according to Article no. (61) Of the executive Regulations for Law No. (84).

From the above, the Researcher observed that law No.84 of 2002 and its executive regulation doesn't provide appropriate regulations for the accounting function dimensions in the CAs. Where the law was Limited to the legal aspects only. In addition, chapter two of the executive regulation regarding financial aspects was limited to list fund-resources and some models for accounting records such as revenue and expenditure record, general ledger, cash and bank, without any reference to the special nature of the CA's activities and its impact on the accounting function requirements. These reasons provide a logical explanation for the significant weakness in the accounting regulation and financial report in the CAs operating in the Arab Republic of Egypt.

Third: the scientific framework to charities in the United Kingdom from the accounting perspective:

Non-profit entities regulation returns back to many centuries in United Kingdom, which dating back to the 1601 AD "statute of charitable uses", the first law organizing the activities of these institutions and to the 1853 establishment of the charity commission, which had the purpose of regulation and control over the third sector (Kingston, Furneaux, de Zwaan, & Alderman, 2020) In many developed countries like the United Kingdom, certain types of third-sector organizations and Charities considered the largest part in this sector (Connolly & Hyndman, 2013)

Charities in United Kingdom are subject to the "Charities Act 2011", in the light of this law "charity" means an institution that is established for charitable purposes only, and subject to the control of the High Court in its exercise with respect to charities (Charities Act 2011, United Kingdom). the definition of " charity " technically relates to the purposes of a charity rather than its activities (Costa, 2014) According to the law, a charity purpose must first be included on a list of thirteen purposes guaranteed by law, and second the purpose shall be for the public benefit. Also there are also many organizational structures of charitable organizations that are subject to different laws according to the geographical location within the United Kingdom, and Researchers observed the difference of legal requirements in United Kingdom related to accounting and auditing requirements for charities: (The Auditing Practicing Board, 2011).

1. charitable companies: Companies Act 2006 (CA 2006)
2. Charities in England and Wales; the Charities Act 2011.
3. All Registered Charities in Scotland: The Charities (Scotland) Act 2005
4. charitable companies in Northern Ireland: The Charities Act (Northern Ireland) 1964, All registered charities in Northern Ireland with the Charity Commission for Northern Ireland (CCNI): The Charities Act (Northern Ireland) of 2008

according to study requirements, the researcher focused on charities in England and Wales, which are considered the largest proportion within the sector in the United Kingdom through number and Business volume, as noted the charities divided in to two main forms, charitable incorporated organizations (CIO) and charitable company (CLG company limited by guarantee), and these charities subjected to:

1. Charities Act, 2011.
2. Statement of recommended practices (SORP)
3. Charity Commission for England and Wales (CCEW)
4. the Companies Act 2006 (for CLG)



During the last two decades, the charity sector has become an essential component in economic system, as there are over 190,000 registered charities in England and Wales income of these associations exceeded £61 billion in 2012, In recent years, charity sector has extended considerably in the UK, with increased funding from donors, which led to increase of amounts of money flowing into this sector organizations, Hence accounting problems appeared with increased amounts of money flowing into this sector, so that stakeholders in the UK charity sector have advocated greater accountability for charity performance after they realized the weakness of accounting reporting and practice

From an accounting perspective, The Accounting Standards Board (ASB) is the official authority responsible for issuing accounting standards in the United Kingdom, and in 1960 it issued the first regulatory guide/manual for charities, then in 1988 issued statement of recommended practices (Saxton, Kuo, & Ho, 2012) So nowadays, charities adhere to (SORP), which set certain practices to prepare the annual financial reports, which considered as reflection and interpretation of the general accepted accounting principles in the united kingdom (UK-GAAP) to charities, as this statement provides an explanation of the mechanism of applying the related accounting standards, in addition to develop some accounting treatments for charities' special operations that have not addressed by the accounting standards, so this statement aimed to: (SORP, 2013)

1. Improve the quality of financial reporting by charities.
2. Enhance the degree of credibility and the ability to understand and compare of the information presented in charity accounts.
3. Provide clarification, explanation and interpretation of accounting standards and their application to charities and to sector specific transactions; and thereby
4. Assist those who are responsible for the preparation of the trustees' annual report and accounts.

From a supervisory perspective. Charities controlled by The Charity Commission which is the independent regulator for charities in England and Wales. Its overall mission is to ensure that charities work effectively in the society for the benefit of the public. For that the commission has strong legal powers to investigate and deal with fraud and dishonesty in charities, including the powers to protect and freeze charity assets, if a formal investigation establishes serious mismanagement or abuse. So Most charities in England and Wales must register with the Commission, and has main aims such as the public confidence in charities performance, through promoting compliance by charity trustees with their legal obligations in exercising control and management of the administration of their charities, and to enhance the accountability of charities to donors, beneficiaries and the general public. (The Charity Commission, WS).

In the following, researcher summarized the most important financial and accounting aspects for charities in the United Kingdom (England and Wales) according to (SORP), (UK-GAAP) and charities act 2011, in main points:

- 1- The 1990s was the beginning of real development in charity reports in England and Wales, as a result of mandatory accounting requirements in the Charity Act 1992 (Andreus & Costa, 2014). And the first issue of (SORP) in 1988.
- 2- According to the charities Act in 2011 chapter (8) part (1), Charities must ensure that accounting records are kept in respect of the charity which are sufficient to show and explain all the charity's transactions, and which are such as to disclose at any time about the financial position of the charity, (Charities Act 2011, Part 8 Chapter 1), and The accounting records must in particular contain:
 - A. entries showing from day to day all sums of money received and expended by the charity, and the matters in respect of which the receipt and expenditure takes place.
 - B. A record of the assets and liabilities of the charity.
 - C. The charity trustees of a charity must preserve any accounting records at least 6 years from the end of the financial year of the charity in which they are made.

- 3- The requirements of preparing accounting varies according to the size of income (If exceeded 6.5 million) and net assets (If exceeded 3.26 million), and in that case charities must subjected to An additional requirements, but generally the main financial statements are (statement of balance sheet SOBS; statement of financial activities SOFA; statement of cash flows SOCF), and prepared in according to statement of recommendation practice (SORP).
- 4- The financial report includes explanations on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular, the report includes the following:
 - A. the financial effect of significant events;
 - B. The nature of financial and policy investments and objectives. And how much (if any) take into account the social, environmental or ethical considerations.
 - C. The factors which are likely to affect the financial performance or position going forward.
 - D. The main fund resources for the report prior, and explain how it effect in achieve the fundamental objectives of charity.
- 5 - Review of funding sources in the financial report as follows:
 - A. Referring to the amount of funding obtained by the charity until the end of the financial period
 - A. Referring to the amount of any funds which are restricted and not available for general purposes of the charity until the end of the financial period
 - B. Referring to all amounts expended until the end of the financial period
 - C. Referring to the amount of fund that can only be achieved by disposing of fixed assets or investments related to performance of charity.
 - D. Referring to the amount of reserves that owned by the charity at the end of the financial period after making allowance for any restricted funds, and define the financial sheets, commitments (not provided for as a commitment in the accounts) or the book value of the functional assets which the charity considers it reduce the reserves.
- 6- In particular, the report should provide the following:
 - A. A summary of the objects of the charity as set out in it's in its statute.
 - B. An explanation of the charities aims including the changes or differences it seeks to make through its activities.
 - C. An explanation of the charity's main objectives for the financial period of the report.
 - D. An explanation of the charity's strategies for achieving its main objectives.
 - E. A review of the significant activities (programmes, projects, services), that identified within the analysis note accompanying the charitable activities set out in the Statement of Financial Activities (SOFA).
- 7- Charity accounts may be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as (company or association): (Charity Commission, 2013A)
 - A. Receipts and payments: This is the easiest way to prepare financial report and may be adopted if a charity has a gross income of less than £250,000. It consists of an account summarizing all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year. Charitable companies are not subjected to company's law to adopt this method.
 - B. Accruals: charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet, a SOFA and explanatory notes. These accounts are required in accountancy terms to show a 'true and fair view'
- 8- Since 2005, charities with an annual income in excess of £1 m must also file a 'summary information return ('SIR'). Acting as an executive summary, the SIR outlines a charity's key aims, activities and achievements. Providing information on factors that have affected performance, the SIR is intended to point readers to sources of more detailed information. (Breen, 2013)



Fourth: A comparative study for CAs between Egypt and United Kingdom from regulatory and accounting perspective:

The Researcher summarized the main accounting regulation aspects for CAs in Arab republic of Egypt and charities in the UK (England and Wales) in the following table:

Table (1) comparison between CAs and Charities from regulatory and accounting perspective

N	Main Aspects	CAs In Egypt	Charities In Uk
1	Financial statements	Balance sheet revenue and expenses account	Financial position (SOBS) Financial activities (SOFA) Cash flows (SOCF) and additional statements according to revenue and net assets volume
2	Management	Board of directors	Board of Trustees
3	Audit Authority	Central Auditing Organization Internal auditor and external auditor if revenue or expenses exceeded 20000 pounds	Depend on income: From 0 to 25000 approval of accounts by trustees only 25000 to 250000 independent examination by examiner of charity choice 250000 to 500000 independent examination by professionally qualified examiner more than 500000 full audit by a firm of registered auditors
4	Financial reports	Board director report Annual accounts auditing Report	Trustees annual report Annual accounts / Notes to the accounts Report of the auditor or independent examiner

Conclusion:

In the past 30 years, the NPS has become a key player in providing public and social services. And at the national level, The CA is considered a legal person, and in terms of the law, the association considered as an accounting unit (non-profit; non-governmental) with a legal personality, seeks to provide economic, cultural and social services for the public, without seeking to achieve benefits for donors. Where it doesn't have the profit motive. So the association provides mainly service activities but with the absence of market forces (demand; supply), and it faces difficulties in measure, control and assess its performance compared with FPOs. As the CA is not seeking to profit, it required to provide another standards and criteria to measure its performance. And by comparing the current situation for both of CAs in the Arab republic of Egypt and charities in the United Kingdom. The researchers found a rapprochement between the concept, characteristics and activities nature, but United Kingdom excels significantly on Egypt in the legislative and accounting regulation.

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