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ANALYSIS AND PROPOSALS RELATED TO LEGAL FRAMEWORK FOR ACCOUNTANCY FOR CSOs IN REPUBLIC OF NORTH MACEDONIA

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EXECUTIVE SUMMARY

As part of the project "Technical Assistance for improving the enabling environment for Civil Society Organisations in the Republic of North Macedonia" the following tasks have been established:

- Analysis of legislation on accountancy for CSOs
- Developing the proposal on the legal framework on the accountancy for CSOs

In the introductory part, the basic definitions of the terms used in the analysis have been presented, related to the relation of accountability and accounting in CSOs, the basic accounting history and standard setters, as well as related concerns in the sector related to potential administrative burden. In this chapter, basic accounting terms are also explained, together with the specific nature of some financial transactions in CSOs.

In "Related EU Regulation" provisions related to CSOs and financial reporting in EU are presented. The main points are:

- The European Union (EU) has established primary legal sources, namely the Treaty of the European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), which recognise and protect the rights and freedoms of Civil Society Organizations (CSOs). The TFEU, in particular, emphasises the participatory role of CSOs in European governance.
- The Economic and Social Committee (EESC) plays a significant role, advocating for a positive image of CSOs and urging European institutions to enhance their capacity and independence. While EU-level regulation of CSOs has been considered, studies concluded that a facilitative role, rather than a regulatory one, would be more suitable.
- In summary, while there are no direct secondary EU law regulations specifically for CSOs, various primary and secondary legal instruments safeguard their interests. Financial and accounting regulations ensure transparency, sound financial management, and accountability in the receipt of EU funding by CSOs.

In the main part of the analyses, the legal framework and practices in twelve representative EU countries and countries with close connections or candidate countries have been presented and compared.

Main conclusions are as follows:

- The accounting standards for Civil Society Organizations (CSOs) in European Union (EU) member states vary, with each country having its own regulations. While international accounting references like International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) are adopted for commercial and public organisations, there is no common regulation specific to CSOs in the EU.
- The legal forms of CSOs, such as associations and foundations, have diverse structures across countries, impacting their tax treatment, business activities, and accounting frameworks.
- Registration and tax treatment have many common points;
- Accounting practices, mandatory reports, and exemptions based on income and assets differ by country. However, in almost all countries, micro entities may opt for simple books and cash based recognition of transactions;
- The absence of a unified conceptual framework for CSOs results in diversified implementation of accounting standards. However, the convergence process is ongoing, and all recent changes recognise the importance of CSO activities;
- Mandatory audit is one more area where rules are very diversified. From all CSOs, like the Czech Republic Foundation, to 5,7 million in income as criteria for mandatory audit in Spain.

Details for each country are presented in Annexes I-III.

In the “Legal Framework for Accountancy for CSOs in the Republic of North Macedonia”, it is presented that, in general, the Republic of North Macedonia faces challenges in aligning its accounting and audit practices with EU standards, as outlined in the North Macedonia Report 2023. Recommendations include updating national legislation, adopting EU-aligned accounting and audit laws, and strengthening oversight bodies.

The legal framework for Civil Society Organizations (CSOs) in North Macedonia includes the Law on Associations of Citizens and Foundations. While registration and management align with EU practices, the accounting framework falls behind.

Tax treatment for CSOs includes exemptions from income tax, with some benefits for personal income tax. Public interest status is available but comes with reporting burdens. Economic activities are allowed, but net income must align with the organisation’s mission. However, concerns are expressed related to basic financial statements, which lack clarity and are not aligned with specific transactions and activities in CSOs. Audit requirements are not mandatory, except for organisations with public interest status, but many engage auditors voluntarily. There are no audit requirements based on income or assets threshold.

The conclusions highlight deviations from EU practices, particularly in the modified accounting recognition of income and expenses, the format of financial reports, the absence of fair value measurement, unclear definitions for micro-entities, and the lack of mandatory activity reports and audit requirements for large CSOs.

The accounting and financial reporting practices in North Macedonia require significant improvement to become internationally comparable and enhance transparency and accountability for Civil Society Organizations.

As recommendations for changes in the legal framework on accountancy for CSOs, it is a completely new Law on accounting for CSOs which will address current weaknesses in accounting framework, and make provisions for different requirements for different sizes of CSOs based at least of assets and income criteria. For large organisations, full IFRS should be allowed as an option.

An example of a Croatian-related legal framework is presented as a possible starting point for the new Law. Croatia has been chosen as a country with a solution close to the current solution in our country.

INTRODUCTION

The overall objective of the EU-funded project "Technical Assistance for improving the enabling environment for Civil Society Organisations in the Republic of North Macedonia" is to strengthen the civil society effectiveness by improving the enabling environment for civil society at the central and local level, and by structured CSOs cooperation with public institutions and business community in the country.

As part of the project, the following tasks have been established:

- Analysis of legislation on accountancy for CSOs
- Developing the proposal on the legal framework for the accountancy of CSOs

It has been established that both tasks have to be based on EU best practice.

This document is a deliverable prepared under these tasks.

1. NPO, NGO and CSO

NPO, NGO, and CSO are terms commonly used to describe different types of organisations that operate in the non-profit sector. While there is some overlap in their objectives and activities, distinct differences set them apart.

1. NPO (Not-for-Profit Organization):

NPO is a broad term encompassing a wide range of organisations operating for purposes other than generating profits. NPOs can include charitable organisations, educational institutions, religious organisations, foundations, and more. The key characteristic of an NPO is that it does not distribute its profits to owners or shareholders. Instead, any surplus generated is reinvested in the organisation to further its mission or used to benefit the community it serves.

2. NGO (Non-Governmental Organization):

NGO is a term often used to refer to non-profit organisations that operate independently of government control or influence. NGOs are typically driven by a specific cause or agenda, such as human rights, environmental conservation, public health, or social justice. They can operate at local, national, or international levels, and their activities often involve advocacy, awareness campaigns, capacity building, service delivery, and policy influencing. NGOs may rely on funding from various sources, including grants, donations, and partnerships with governments, corporations, or individuals.

3. CSO (Civil Society Organization):

Civil society presents a complex contested term, usually referring to all people, their activities and their relationships that are not part of the process of government. It may also be used to cover all processes other than government and economic activity. CSO is a term used to describe organisations that are formed by groups of citizens to pursue common interests, address social issues, and contribute to the well-being of society. CSOs encompass a wide range of organisations, including NPOs and NGOs, as well as community-based organisations, trade unions, professional associations, and advocacy groups. CSOs play a vital role in promoting democratic values, citizen participation, and social development. They often engage in activities such as community organising, public awareness campaigns, policy advocacy, and service provision.

This document will refer to CSO as a broadest term for organisations which do not function as part of the government and are not distributing profit based on ownership.

2. Accountability of the CSOs

The question of accountability is elaborated in many organisations and projects:

- The Istanbul CSO Development Effectiveness Principles as the consensus expression of decades of experience by thousands of CSOs involved in the Open Forum (now CSO Effectiveness) process and its consultations as fifth principle establishing **Practice transparency and accountability** – "CSOs are effective as development actors when they … demonstrate a sustained organisational commitment to transparency, multiple accountability, and integrity in their internal operations. "
- Other sources such as Global Accountability Project (GAP) as part of the Accountability Programme at the One World Trust identifies four core dimensions that make an organisation more accountable to their stakeholders: transparency, participation, evaluation, and complaint and response mechanisms. Their definition of accountability is "the processes through which an organisation makes a commitment to respond to and balance the needs of stakeholders in its decision-making processes and activities and delivers against this commitment."

Whatever source is consulted, one thing is common for CSOs: They are accountable in far more different layers than business entities, and their financial accountability and transparency are just the tip of the iceberg. Unlike businesses that aim to maximise profit, NPOs rely heavily on donated funds, grants, and contributions to finance their activities. CSOs are accountable for ensuring that funds are allocated appropriately and in accordance with donor intent, while also allowing organisations to plan and execute their programs effectively.

Accountability is not only a responsibility but also an opportunity for CSOs to build trust, strengthen relationships with stakeholders, and enhance their credibility. By embracing accountability, CSOs can demonstrate their commitment to ethical practices, transparency, and achieving their mission in a responsible and effective manner.

As per (Sgueo, 2015) . narrower financial (or functional) accountability is based on four key elements:

(1) compliance with legal obligations;

(2) transparency about the use of resources (e.g. publication of reports about revenue and expenditure);

(3) sound financial management;

(4) wise use of their resources, especially to avoid pursuing activities contrary to the not-for-profit status.

As a strategy to overcome criticism of their accountability, CSOs have begun to adopt self-monitoring. Self-monitoring, as the definition suggests, consists of the voluntary adoption of standards of transparency and responsiveness, as well as the commitment to respect, and be evaluated for the respect of, such standards.

On the regional level in publication "Enabling environment for civil society development" (BCSDN, 2013) in Area 1 "Basic Legal Guarantees of Freedoms" Sub-area 1.1: Freedom of association, as standard 3 quotes "CSOs can freely seek and secure financial resources from various domestic and foreign sources to support their activities"

In the same publication, in Area 2 Framework for CSO Financial Viability and Sustainability following standards are quoted:

Sub-area 2.1: Tax/fiscal treatment for CSOs and their donors

Standard 1 - Tax benefits are available on various income sources of CSOs

Standard 2 - Incentives are provided for individual and corporate giving

Sub-area 2.2: State support

Standard 1 - Public funding is available for institutional development of CSOs, project support and co-financing of EU and other grants

These standards ask for financing and taxation different from the for-profit organisations. The CSOs expect to obtain income toward the mission of the betterment of society and the advancement of their respective causes and in general not in exchange for goods and services. As such they become guardians of public trust and stewards of donated resources. This role asks for accountability on resources and benefits gained as CSO.

In the above-mentioned publication, Area 3: Government – CSO Relationship, Sub-area 3.3: Collaboration in service provision this is established through the Standard 4 "There is a clear system of accountability, monitoring and evaluation of service provision".

We will agree that CSO must be accountable, and it cannot be without proper accounts and accounting.

3. Short history of accounting

Accounting is more than just the act of keeping a list of debits and credits. It is the language of business and, by extension, of all things financial. Our senses collect information from our surroundings that our brains then interpret; accountants translate the complexities of finance into information that the public can understand.

As such, it begins with early barters and develops in parallel with trade development and more and more sophisticated trade methods.

The Mesopotamians 7.000 years ago, kept the earliest records of goods traded and received, and these activities are related to the early record-keeping of the ancient Egyptians and Babylonians.

Italian monk Luca Pacioli revamped the common bookkeeping structure and laid the groundwork for modern accounting. Pacioli introduced list of an entity's resources separately from any claims on those resources by other entities. In the simplest form, this meant creating a balance sheet with separate debits and credits.

The appearance of corporations in the United States and the creation of the railroad were the catalysts that transformed bookkeeping into the practice of accounting. Change to a uniform system was introduced in 1883, because it was necessary to have goods delivered and unloaded at certain stations at predictable times. In parallel shipping schedules, fare collection, competitive rates needed to be followed and analysed for efficiency. Accounting becomes the way to evaluate whether all of this is being done most efficiently.

On the side, corporations, to attract investors, began to publish their financials in the form of a balance sheet, income statement, and cash flow statement. These documents were proof of a company's profit-making abilities. The new category of owners, shareholders, did not trust the management that the profit was fairly presented, and audits of the financial reports were introduced. The accounting profession was established with a title-chartered accountant in 1854 in Scotland. Governments found their interests in the process of fair reporting through income taxation.

In 1930 after the crash of the stock markets the American Institute of Accountants, in partnership with the New York Stock Exchange (NYSE), formed the Committee on Accounting Procedure (CAP), which recommended six broad principles of accounting, thus beginning the process of establishing accounting standards.

Two major accounting standard setters are:

1. Financial Accounting Standards Board (FASB):

The Financial Accounting Standards Board (FASB) is a private non-profit organization formed in 1973 by the Financial Accounting Foundation (FAF), that is responsible for creating and interpreting financial accounting standards in the United States (US GAAP). FAF is appointed with oversight function.

2. International Financial Reporting Standards Foundation:

The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards—IFRS Standards—and to promote and facilitate the adoption of the standards. It does so through due process established by its bodies, the International Accounting Standards Board (for standards setting) and the IFRS Interpretations Committee (for interpretations of the standards).

The International Public Sector Accounting Standards Board® (IPSASB®) adapts these standards for the public sector by developing of IPSAS®, international accrual-based accounting standards, for use by governments and other public sector entities worldwide. This body is also responsible for the cash-based International Public Sector Accounting Standards.

Modern accounting has undergone significant evolution in recent years, driven by technological advancements, shifts in reporting frameworks and changing stakeholder expectations. The integration of technology, digital reporting, expanded non-financial reporting, and emphasis on risk management and real-time information has transformed the accounting profession, enabling greater efficiency, transparency, and informed decision-making. Accountants now play a pivotal role in leveraging these advancements to provide valuable insights, guide strategic planning, and navigate the complexities of the modern business landscape.

However, there is no clear international standard setter for the accounting standards for the CSOs. Even though most of the specifications for how transactions and other events are to be recognised, measured, presented and disclosed in financial statements are the same for businesses, governments and CSOs; there are specific ones in the sector which ask for specific solutions.

4. Accounting and financial reporting for CSOs – burden or necessity

As per the previous chapter, accounting, financial reporting, and audit have originated within the business sector for various investors' needs. So, why would they be needed in the CSO.

The usual argument that accounting is burden for them, especially small, CSOs:

1. Limited Resources: CSOs, particularly smaller ones, often operate with limited financial and human resources. They may need more funds to hire dedicated accounting staff or invest in sophisticated accounting systems. In such cases, managing accounting tasks alongside other organisational responsibilities can be overwhelming and time-consuming for CSO staff members who may not have specialised accounting knowledge or skills. Limited financial resources may make allocating funds for accounting services or software licenses challenging, especially if the organisation prioritizes direct programmatic activities.

2. Cost Benefit Considerations: Related to the above, the cost-benefit principle states that the cost of providing the information in the financial statements should not exceed the benefits the users get from reading those statements. The argument that cost may overweight the effects may often be raised. Cost considerations can add to the perception that accounting is burdensome for CSOs.

3. Complex Regulatory Environment: CSOs must comply with various legal and regulatory requirements related to financial reporting, tax obligations, and transparency. Navigating these regulations and keeping up with changes can be challenging for CSOs, particularly if they need access to expert advice or financial resources to seek professional assistance. Compliance obligations can add administrative burden and complexity to the already demanding workload of CSO staff.
4. Accounting Expertise: Accounting principles and practices can be complex, and CSO staff members may not always have the necessary accounting expertise or training. Ensuring accurate financial reporting and maintaining proper bookkeeping can be challenging without a solid understanding of accounting principles. This can lead to errors, inefficiencies, and potential financial mismanagement, causing additional stress and burden for CSOs.

5. Time Constraints: CSOs often engage in numerous activities, including program implementation, fundraising, stakeholder engagement, and advocacy. With limited time and competing priorities, allocating sufficient time for accounting-related tasks can be difficult. CSO staff may find themselves stretched thin, balancing accounting responsibilities with other essential activities, potentially leading to errors, delays, or neglect of accounting tasks.
6. Administrative Overhead: Some CSOs aim to keep administrative overhead costs low to maximise the proportion of resources allocated to their mission-related activities. Often seen as an administrative function, accounting can be perceived as diverting valuable resources away from direct service delivery or advocacy work. This perception can contribute to viewing accounting as a burden rather than a necessary aspect of organisational management.

In addition, there are rising concerns that Income and asset declarations for CSOs, if translated from originally designed for the public sector, are not an appropriate tool to increase transparency and accountability among CSOs, based on the principles of democracy and the existing accountability relationships of civil society and different actors, or they may be used as an instrument for limitation of their activities. On the other side, there are cases of CSOs misusing funds, which imposes high reputational risk on the sector, and the accounting establishes an additional layer of control over possible fraudulent behaviour.

Whatever legal reporting requirements are, accounting and financial reporting is something CSOs cannot do without if they expect their effort to be sustainable. For the challenge of managing limited resources efficiently while maximising their impact, it is crucial for these organisations to accurately assign expenses to different programs, administrative functions, and fundraising efforts. By doing so, they demonstrate responsible financial management and provide stakeholders with a clear understanding of how resources are utilised to achieve their mission. Furthermore, effective expense allocation enables organizations to evaluate the cost-effectiveness of their initiatives and make informed decisions regarding resource allocation.

The accounting in CSO extends beyond financial statements and encompasses the art of storytelling through numbers. The financial statements of CSOs, including the statement of financial position, statement of activities, and statement of cash flows, serve as a powerful medium for conveying the impact and success of these organisations' endeavours into meaningful narratives illustrating the tangible outcomes, transformative change, and social value created.

So, despite the challenges and arguments for accounting as a burden, it is important to recognise the value and importance of accounting for CSOs. Effective financial management, transparency, and compliance are essential for maintaining the trust of donors, funders, and stakeholders. Accounting provides CSOs the necessary information to make informed decisions, allocate resources efficiently, and demonstrate their impact. Exploring options such as outsourcing accounting tasks, seeking pro bono support, or leveraging technology can help alleviate the burden and ensure that accounting processes are manageable for CSOs.

Accounting and financial reporting are the main supporting functions for most of the CSOs if they are to have a positive impact on society such as:

Accountability: Not-for-profit organisations have a responsibility to be accountable to their stakeholders, including donors, volunteers, and the public. Proper accounting and financial reporting provide transparency and accountability, giving stakeholders confidence that their contributions are being used appropriately and effectively.

Compliance: Not-for-profit organisations are subject to a variety of laws and regulations governing their financial reporting and disclosure. Proper accounting practices ensure compliance with these laws and regulations, reducing the risk of legal and financial penalties.

Strategic decision-making: Accounting and financial reporting provide essential information for strategic decision-making by not-for-profit organisations. Financial statements and reports help organizations

evaluate their financial position and performance, identify trends, and make informed decisions about resource allocation, program expansion, and fundraising.

Fundraising: Not-for-profit organisations rely on donations and grants to fund their operations and programs. Proper accounting and financial reporting provide donors and grant makers with the information they need to evaluate the organization's financial health and impact, which can increase the likelihood of securing funding.

Reputation: Not-for-profit organisations rely on their reputation to attract and retain stakeholders, including donors, volunteers, and staff. Transparent and accurate accounting practices can help build and maintain a positive reputation, while poor accounting practices can damage an organization's reputation and credibility.

5. Basic accounting terms and principles

Speaking the same language as CSOS treasurer, accountant, or software developer is a necessary evil that will serve well in the future. Anyone involved in managing the CSO has to know exactly where internal and external contributions are going and understand the financial health of your organisation.

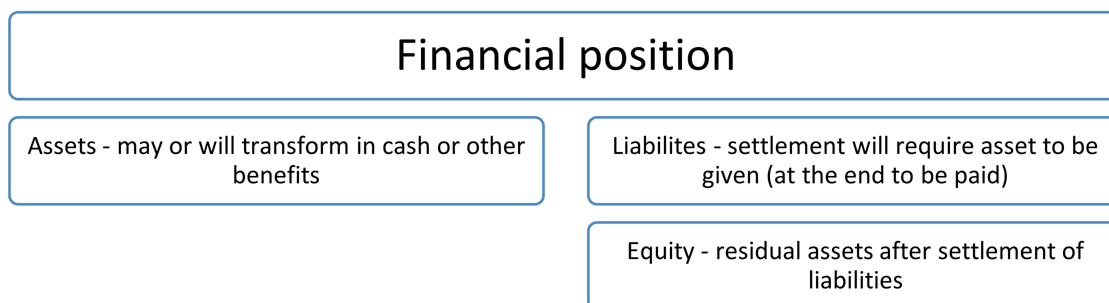
The overarching goal of accounting principles is to boost transparency and make it easier to compare the different financial statements. The following terms are defined as in the IFRS conceptual framework where applicable.

Double entry accounting – is a method of recording transactions where for every business transaction, an entry is recorded in at least two accounts as a debit or credit. In a double-entry system, the amounts recorded as debits must equal those recorded as credits.

Going concern - assumption that an entity will continue in operation for the foreseeable future

Elements of financial statements

Financial position – assets, liabilities and equity. Simply put:



Noncurrent or long-term assets and liabilities – assets and liabilities for which inflow or outflow of money is not expected within the specified period, usually within a year

Income – revenue and gains resulting in a rise in assets or lowering the liability

Expenses – outflow of assets or increase in liability

Profit and loss– surplus of income over expenses represents profit; loss is another way around

Recognition of the elements of financial statements

Recognition of the elements may be:

1) Cash-based - Income is recorded when it is received, expenses when they are paid**;**

2) **Accrual** - A little more complex than the cash method, accrual accounting focuses on when revenue was actually earned and when expenses were actually incurred, even in the case when the payment

has yet to be received or made. Two additional rules has to be followed – the transaction is probable and can be measured reliably.

3) **Modified** – Various modifications of the cash-based and accrual recognition, based on the certain event, usually the date of payment or changes in the definition of reliable measurement or probability.

Measurement of the elements of financial statements

Historical cost - The amounts of cash or cash equivalents paid for assets or paid to satisfy the liability for receiving the asset in the past

Current cost – An amount that would have to be paid if the same or an equivalent asset was acquired or liabilities settled currently.

Realisable (market) value – Undiscounted amounts expected to sell an asset or settle the liability under market conditions

Present value – The present discounted value of the future net cash inflows related to assets or outflows related to liabilities

With exceptions, accounting elements are measured at historical cost as the most reliable.

Presentation of Financial statements

Statement of financial position – assets, liabilities and equity classified as current and non-current

Statement of profit or loss and other comprehensive income – income and expenses for the period as well as results

Statement of changes in equity – amounts which affected the equity summarised by the nature of transactions

Statement of cash flows – the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows

Notes – presentation of accounting policies and other relevant information

Accounting policies - accounting methods, measurement systems, and procedures for presenting disclosures used in preparation of the financial statements

6. CSOs specific accounting terms and principles

CSOs are entities whose prime purpose is not profit-making. It does not mean that they cannot have surplus of income over expenses from certain activities. As a general rule, CSOs cannot distribute the profit to owners and it should be used solely for the mission of the CSO.

So the financial reporting involves choosing the best accounting method, understanding compliances and tax responsibilities, and creating and reporting the figures in the appropriate financial statements reflecting their mission and activities.

CSOs specific

Most of the principles and definitions mentioned in the previous chapter apply to the CSOs as well. Still, there are certain areas where the accounting of CSOs differs from that of other organisations that aim at earning profit.

Restricted income - The CSO receives grants and donations from different individuals and business entities. The donations can be general or specific donations, where general donations are used for any purpose in the organisation. In contrast, the specific or individual donations are used only for the purpose for which the they were restricted.

Expenses separated by project and programme - The main motive of CSOs is to provide services for the welfare of society, and there are specific programmes and projects that CSOs conduct for the same. The accounting for such programmes is done separately to separate surplus or deficit (profit or loss) from such programmes.

Net assets - Equity, typically referred to as shareholders' equity (or owners' equity for privately held companies), represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation. This term does not apply to CSOs as they do not expect to distribute funds to founders. Net assets is far more adequate term for CSOs.

Surplus or deficit - Total profit or loss is what is earned minus what has been spent. The surplus or the deficit is the same by definition. But the main difference is what they are used for. The profit may be distributed to the owners, while the surplus will be used for CSO's further activities.

Statement of activities – CSOs analogue for a statement of profit or loss and other comprehensive income with one difference: grant and donations should be separated from operating income

Functional expenses and related report – expenses by separate funds and programs

Income from grants and donations – usually recognised on a cash basis when received, not on an accrual basis, as there is usually no legal obligation of the donor to donate.

Fund accounting

The focus of fund accounting is on accountability. Fund accounting enables CSOs to allocate money in different groups or "funds" to keep them organised and spend as needed. Users can determine how much cash has been used for its intended purpose. Examples of entities that may use fund accounting are artistic foundations, charities, churches, colleges and universities, governments, hospitals, nursing homes, and orphanages.

The usual grouping of the funds in CSOs:

Restricted Funds: The funds are donated as limited for certain projects and activities and will be spent accordingly.

Temporarily restricted funds: The funds are donated to be spent on certain projects and activities for a certain period of time. After that time period, the fund becomes unrestricted funds.

Unrestricted funds: These funds can be spent on anything the CSO requires without limitation other than internal decisions.

RELATED EU REGULATIONS

The EU Treaties are the Treaty of the EU (TEU), and the Treaty of the Functioning of the EU (TFEU), which have equal legal standing and are the main sources of primary EU law. Both Treaties contain provisions which can be relied on, in different ways, to claim from the EU and its Member States respect of CSOs' rights and freedoms and civic space safeguards.

The recent Treaty on the Functioning of the European Union (TFEU) further reinforced the participatory dimension of the European governance model, and the role of CSOs has been further expanded.

In Chapter 3, the Advisory body Economic and Social Committee (EESC) is established, consisting of employers, the employed, and other parties representatives of civil society, notably in socio-economic, civic, professional and cultural areas. In this own-initiative opinion in 2017, the EESC (EESC, 2017) calls on the European institutions to promote a positive image of CSOs, preserve their independence and strengthen their capacity for action. The document also asks the Commission to call on national and regional authorities to use the technical assistance provisions designed to boost capacity-building for civil society organisations. In the opinion, strengthening civil society also means improving access to financing for the smallest organisations and the most disadvantaged sectors of society.

Even though the opinion mainly deals with the limitations imposed on CSOs and the possible responses at the European level; there Is also the requirement for the CSOs to "continue to apply the highest self-reporting transparency standards".

Regarding the regulation of CSOs, in 2004, the Financial Action Task Force (FATF), as the leading multilateral institution in developing standards in the fight against terrorist financing and related to CSOs, established 'Recommendation 8' which requires CSOs to "take into account the issues of financial accountability and transparency".

Proposing a code of conduct for all CSOs was the first reaction by EU governing bodies. The proposal, however, was so heavily criticised by CSOs that the Commission turned its proposal into a further assessment of the, at the time, existing regulatory framework about transparency and accountability.

Two studies were commissioned. Both pointed to the need for increased exchange and sharing of best practices among Member States but did not substantiate the need for an EU-level regulation. In other words, studies concluded that EU should assume the role of 'facilitator', or possibly that of a 'qualifier', but not that of a 'regulator' of CSO transparency and accountability.

In the meantime, FATF adopted a risk-based approach and the issue of transparency related to "non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse" and on a recommendation for "focused and proportionate measures, in line with the risk-based approach, to such non-profit organisations to protect them from terrorist financing abuse".

So, there are no Secondary EU Law regulations directly related to CSOs. However, The Charter of Fundamental Rights as primary EU law and many secondary law regulations safeguard the CSO's legitimate interest. The support to CSOs is primarily through the funding of their activities. And the possibility for cross-border activities will widen as per "CSOs organisations (NPOs) have been developing in the context of the EU Member States' or other countries' national regulatory frameworks, yet with the completion of the European single market they too will be able to take full advantage of the opportunity to engage in cross-border activities" (Müller, 2021) . However, inconsistent treatment of cross-border transactions and the significant administrative costs and barriers ask for additional policies and possibly relevant legislation.

EU funding to CSOs may take two main forms: (1) public contracts on purchase goods and services and (2) grants to co-finance specific activities and projects. Grant can cover 'operational expenditure', directly linked to the implementation of a project or 'administrative expenditure', consisting of the costs necessary for the functioning of the organisation that have no direct link with the implementation of the project.

1. Financial regulation

Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union. This is also a main legal source of regulation of funding to CSOs; even this is not explicitly mentioned in the regulation. Grant rules are part of the regulation, and references to this regulation, such as "sound financial management", are made part of the grant contracts. Also, basic rules for procurement are established within regulation.

The accounting and financial reporting rules are also part of the regulation. The financial statements should be comprised of:

a) the balance sheet, which presents all assets and liabilities and the financial situation prevailing on 31 December of the preceding financial year;
b) the statement of financial performance, which presents the economic result for the preceding financial year;
c) the cash-flow statement showing amounts collected and disbursed during the financial year and the final treasury position;
d) the statement of changes in net assets presents an overview of the movements during the financial year in reserves and accumulated results.
e) The notes to the financial statements shall supplement and comment on the information presented in the statements

The accounting standards used are International Public Sector Accounting Standards

For the purposes of this analysis and related to grants obtained by CSOs, from this comprehensive regulation, two topics may be considered most important:

Sound financial management

Appropriations shall be used by the principle of sound financial management following the principles of economy, efficiency and effectiveness.

Specific, measurable, attainable, relevant and time-bound objectives and relevant, accepted, credible, easy and robust indicators shall be defined where relevant.

For the purposes of budget implementation, internal control shall be applied at all levels of management and shall be designed to provide reasonable assurance of achieving the following objectives:

(a) effectiveness, efficiency and economy of operations;

(b) reliability of reporting;

(c) safeguarding of assets and information;

(d) prevention, detection, correction and follow-up of fraud and irregularities;

(e) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes and the nature of the payments concerned.

Conflict of interest

Conflict of interest exists where the impartial and objective exercise of the functions of a financial actor or other person is compromised for reasons involving family, emotional life, political or national affinity, economic interest or any other direct or indirect personal interest.

2. The June 2013 Accounting Directive

"Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings" provides the legal framework for single company and consolidated accounts for

undertakings based in the European Union (EU) that has been transposed into the national legislation of each Member State.

It starts with the accounting requirements for small undertakings and then adds additional accounting and reporting requirements as undertakings pass the thresholds for medium and large undertakings.

It contains new size thresholds for small, medium and large undertakings that impact not only their accounting and reporting requirements but also the requirement to prepare consolidated financial statements and to have an audit.

The following are mandatory thresholds for determining the category into which an undertaking (or group of undertakings) falls:

Category	Turnover	Total assets	Number of employees
Micro	<= 0,7 millions	<= 0,35 millions	<=10
Small	<= 8 millions	<= 4 millions	<=50
Medium	<= 40 millions	<= 20 millions	<=250
Large	> 40 millions	> 20 millions	>250

The undertaking must be within any of the three thresholds for two successive accounting periods, with the option for the numbers to be adopted to country-specific circumstances only for small entities.

Financial Statements must comprise of a balance sheet, profit and loss account and selected notes to the financial statements. Member States can require medium-sized and large undertakings to include other statements, such as a cash flow statement or statement of other comprehensive income.

Member States have no option in defining the size criteria for micro-undertakings but have the option whether or not to grant any or all of the following accounting simplifications:

- To prepare an abridged balance sheet;
- To prepare an abridged profit & loss account;
- There is no obligation to prepare notes to the financial statements nor a management report (providing those details relating to the acquisition of own shares, financial commitments and guarantees and credit arrangements with management and participators are then disclosed at the foot of the balance sheet);
- To use of "Cash +" accounting - the accruals basis is used only for revenue, raw materials\consumables, staff costs, value adjustments to assets and taxation;
- Not to publish annual financial statements as long as the balance sheet information is filed with one national authority.

Similar appropriate simplification and additional requirements from the one in the Directive are possible for small and medium size entities.

Large undertakings and public interest entities

In addition to large as defined above definition, Public interest entities (PIEs) include those with traded securities, credit institutions, insurance institutions and any others designated as such by a Member State. For these entities, the full requirements of the Directive have to be applied, and in addition, the following disclosures:

- Analysis of turnover by geographical markets and type of activity;
- Details of payments made to auditors.

- Member state may stipulate for PIEs and large undertakings to provide disclosures in the financial statement in addition to those specified in the 2013 Directive.

Audit

The financial statements of all public interest entities, including medium-sized and large companies, must be audited. The 2013 Directive does not require the audit of a small undertaking. Still, it permits Member States to require an audit after considering the specific conditions and needs of small undertakings and users of their financial statements.

3. EU Grant contract accounting requirements

The EU grant accounting requirements are stipulated in "General conditions applicable to European Union-financed grant contracts for external actions" (GC) usually Annex II of the grant contracts.

As per Article 14.1 criteria d), to be eligible, expenses have to be "recorded in the accounting records of the beneficiary(ies) and determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary(ies)". As per criteria f) the expenses should "comply with the requirements of sound financial management, particularly regarding economy and efficiency".

As per Article 14.1 a) ii. "Costs incurred should be paid before the submission of the final reports. They may be paid afterwards, provided they are listed in the final report together with the estimated payment date". So part of the expenses, if not paid, should be recorded on an accrual basis.

Article 16.1 stipulates, "The beneficiary(ies) shall keep accurate and regular accounts of the implementation of the action using an appropriate accounting and double-entry book-keeping system." The accounting records may be separate accounting or part of the Beneficiary accounting system, shall comply with accounting and bookkeeping policies and enable income and expenditure relating to the action to be easily traced, identified and verified. This may be possible with separate codes in addition to the chart of accounts of the Beneficiary.

Article 16.9 asks for "Accounting records (computerised or manual) from the beneficiary(ies)'s accounting system such as general ledger, sub-ledgers and payroll accounts, fixed assets registers and other relevant accounting information" as well as all supporting documents including underlying proofs for incurred expenses.

ACCOUNTING STANDARDS FOR CSOs IN EU MEMBER STATES

European countries have adopted international accounting references for both commercial (through the International Financial Reporting Standards – IFRS) and public organisations (International Public Sector Accounting Standards – IPSAS) but there is no common regulation related to CSOs in EU, and member states have their own regulations, without common standards.

However, the member states have to adapt to global cultural, political and economic trends and more and more voices are raised on behalf of the harmonisation process.

The legal forms in which CSOs may be established are very diverse. There are legal forms which have no status as legal persons or have limited rights as legal persons. For these analyses, only rules applied to CSOs established as legal persons are considered. They in the continental Europe are mostly in the form of:

Associations, organisations with members and a general assembly as well as a management board, conform to the articles of associations, and the association may impose duties to its members.

Foundations are organisations with no members, but affiliated persons may be contractually connected with them. There is a management board, and normally, it has no countervailing power. However, supervisory, or other boards may be created.

They are additionally divided by purpose, public benefit or limited or unlimited commercial purposes, which influence, in most cases, their tax treatment. The analogue is a charity in common law countries, such as England and Wales, Ireland and the USA.

In this analysis, the main aspects of accounting framework in various EU member states considered to CSOs established as legal persons are:

a) Registration and management

b) Tax treatment and business activities

c) Accounting, Recognition system and Measurement of the elements of financial statements

d) Mandatory reports

e) Difference in regulation by amounts of income and total assets

f) Mandatory audit

Twelve countries are selected for analysis, two of the biggest countries, Germany and France, one Mediterranean country Spain, one with a common law system Ireland, Netherlands and Norway as Scandinavian countries (Norway is not EU member but is part of the European Economic Area), Estonia as Northern country similar to Republic of North Macedonia, Czech Republic as smaller country in Central Europe, and EU members countries Bulgaria, Slovenia and Croatia as countries close to ours. Serbia is included as a candidate country.

Details are presented in Annexes I-III

1. Registration and management

All analysed countries as legal forms of CSOs have association as any form of free and voluntary association of several natural or legal persons and foundations as an asset intended to serve a general benefit or charitable purpose permanently.

Of course, there are many variants of CSOs based on different criteria, such as research institutes.

They all have one thing in common, they are not formed for profit.

Registration and management define primary users of financial information within the CSOs. Even in the case of the smallest members interest-based CSOs, there is a General Assembly in all analysed countries

as a supreme governmental body for associations which will need financial information, if for nothing else, for decision-making on the organisation's future.

In many countries such as Germany, Norway, Ireland, and the Netherlands, where legal form does not dictate the not-for-profit status, a limited liability company becomes the legal form of choice for forming a CSO. As business entities by name and registrations, these CSOs are under strict regimes for financial reporting under the commercial codes. In Spain, independent form registration in the business registry is required if commercial activities are planned and performed.

The duty of care and loyalty requirement for the board and members exists in all countries included in the analysis. The duty of information and the duty to render accounts are part of the requirements.

So, there is no organisation where there is no accountability to anyone. And there is no accountability without accounts, accounting and financial reports.

2. Tax treatment and business activities

For all analysed countries, having not-for-profit treatment means that the surplus from any activity has to be spent on public benefit purposes. In part of the countries there is a time limit when this surplus should be spent, thus limiting the possibility of creation of reserves within CSOs.

Usually, Tax law and Tax authority determine and control not-for-profit status and tax benefits. Regulations vary:

- Extensive restrictions on how funds are used (Germany, Ireland, Spain)
- Different status depending on activities (The Netherlands)
- Applying tax exemption only to certain incomes, such as membership fees, grants and donations in other countries.

Economic or business activities are allowed with limitations related to the ratio of not-for-profit and business activities as ancillary to the primary purpose and may be limited by form (in France, foundations may not engage in such activities).

Income tax on business activities is applicable in most countries with reduced tax base, tax rate or both. In the Netherlands, expenses unrecognised for tax purposes (accommodation, transport, entertainment) in for-profit entities are not taxable in not-for-profit entities. Croatia has a test for unfair market advantage for income tax exemption. In Serbia there is no tax exemption for business activities.

Additional requirements may be imposed for having beneficial tax status:

- In Germany, France and Estonia, there are requirement related to limitations on payment to members and the board;
- In Spain, the members of the Board may not have remuneration and must work voluntarily.
- In the Netherlands, in addition to limited remuneration to members, there is a requirement for a reasonable administrative vs activity expense ratio.
- In Serbia, salaries are limited at no more than double the average for the type of activities in the country and separate accounting for business activities.
- Norway, Czech Republic, Slovenia, Bulgaria and Croatia do not have additional requirements;

In all countries, there is a clear requirement that all surplus income from a business or any other activities be spent for the mission of the organisation and public benefit purposes.

There are some requirements to report on donors in detail (Norway, Spain). This is often required through additional disclosure in notes of the financial statements for a broad categories of donations.

As a general rule, in almost all countries, business activities ask for additional reporting to Tax authorities and additional accounting requirements.

3. Accounting, recognition system and measurement of the elements of financial statements

Accounting and record-keeping requirements are quite diversified.

Double entry accounting is usually required in all countries as primary choice. However, for small CSOs under thresholds for income, assets and the number of employees' simple books such as bank accounts, invoices, fixed assets and petty cash are allowed. In Norway for foundations simple books are not allowed, and only double entry is possible. In Croatia, for very small entities, only a cash book of giving and receiving is allowed.

Chart of accounts is not mandatory in Germany, Netherlands, Norway, Ireland, Estonia and Bulgaria, while there is a prescribed chart in France, Czech Republic, Slovenia, Croatia and Serbia. A mandatory chart of accounts represents difficulties for foreign organisations with different charts of accounts in the network, and they have to perform mappings between the two charts.

Development in the electronic filings of financial data, on the other hand, asks for a defined structure for the exchange of data with tax and filing authorities; thus, there is a need to map individual charts of accounts to the prescribed data structure. Large companies, insurance and financial institutions are adopting XBRL as the open international standard for digital business reporting to address this issue.

In Bulgaria, even though there is no prescribed chart, the former mandatory chart of accounts is widely in use by accountants, as a clear example that accountants do not like changes.

Year-end inventory and other assets count and reconciliation with accounting is required in all countries.

Adequate supporting or source documents such as vouchers, invoices, bank statements, contracts, and proof of work done are required in all countries as physical or, nowadays, electronic evidence that a financial transaction actually occurred, and there are adequate documents trial for transactions before making the accounting record. Retention period, on the other side, varies by country from three (Bulgaria) to ten years (France, Slovenia), usually five years in other countries.

None of the analysed countries have developed conceptual frameworks specific to CSOs. IASB, as IFRS standard setter, had this on its agenda in 2004, but the project was discontinued. In Ireland, the Charities Statement of Recommended Practice (SORP) is applicable but lacks an accounting framework and establishes requirements through standards and practices.

In all countries, historical cost and fair value, depending on the type of assets and liabilities, are used to measure elements of financial reports. In France, Estonia, Croatia and Serbia revaluation may also be applied.

The recognition system is accrual in all countries. Matching of expenses with income and deferred income is in all other countries for larger organisations, where IFRS or accounting standards in line with IFRS are in use. Croatia has matching principle prescribed in the Law on accounting for donations. In France, donations income should be deferred till received.

Cash-based accounting is allowed for small entities with limited income and assets in Germany, Norway, Slovenia and Croatia.

The standards in use are most diversified:

- Germany, Netherlands, Norway, Spain and Ireland regulate the basic accounting standards in Commercial and Civil codes. These standards are broadly in line with IFRS as accepted in the EU. In addition, full IFRS are allowed for large entities and when entity is part of the group which prepares consolidated financial reports. In Ireland, the choice is on the organisation's national standards or IFRS.

- Czech Republic has accounting rules determined by the Ministry of Finance and are based on National Accounting Standards, aligned with IFRS but with some differences;
- France is using The French Accounting Standards amended by the Law on accounting for associations and foundations with specific accounting standards for CSOs such as recognition for income on donations, restricted – unrestricted assets;
- Slovenia uses national accounting standards for associations, in general the accounting standards for companies, based on IFRS, with the added specific standard for associations.
- Estonia adopted the Accounting Act as a law and accepts IFRS as issued by IASB.
- Bulgaria and Serbia implement IFRS for SME for small entities and IFRS for medium and large through the Law on accountancy. However, in Bulgaria, the small entity may opt for IFRS, while in Serbia, it cannot.

In most countries where national standards are in use, standard setters are specific standard setter boards (Germany, France, Netherlands, Norway, Spain). In Slovenia, the standard setter is the Institute of Auditors. In Ireland and Estonia, the basic standards are set by the law and IASB pronouncements in IFRS may be used. In the Czech Republic, the Ministry of Finance is a standard setter. Bulgaria and Serbia use pronouncements from IASB.

In conclusion, while the basic requirements for records, inventory, supporting documents and measurement of the elements are the same or very similar, when it comes to the standards, the lack of an accounting framework specific to CSOs leads to a very diversified implementation of accounting standards.

Most jurisdictions accept that there cannot be the same rules for the sector because of significant variations in size and capacity, and different rules for small entities are very common.

4. Mandatory reports

As may be expected, all of the countries as basic reports have balance sheets (or statements of financial position), income statements with various names (e.g. statement of activities, statement of changes in net assets) and notes. Cash flow is not required or optional. However, cash flow statements are mandatory for organisations that opt for IFRS.

The reports are based on two concepts: models and forms. Models are in use when reports are based on standards and forms, usually when the reports are based on laws. For tax purposes forms are used in all countries.

But this is where the similarities end.

Narrative, additional non-financial activity report, depending on size but mandatory for medium and large organisations, is required for:

- Large entities (Germany, Norway, Spain, Ireland, Estonia)
- Foundations (Czech Republic)
- Organisations with public benefit status (Bulgaria)
- Such a report is not required in the Netherlands, where an adequate income statement is considered to be the same as an activity report.
- Slovenia, Croatia and Serbia do not require narrative reports.
- In France, there is the additional functional income statement.

Additional requirements for reporting on specific issues exist:

- France on fundraising activities
- Ireland based on requirements by Charity Regulator

- Czech Republic for foundations an assessment of whether, in its business management, complied with the rules for the provision of foundation grants and an overview of the costs of its own administration
- Serbia on loans to employees, members and bodies
- Other countries do not have such requirements.

Publication of the report with rare exemptions is required. At least filling in the body or institution where the organisation is registered or published in the Official Gazette.

However, based on the size and type of organisation in Germany, the Netherlands, Norway and France, they may be exempt from this requirement. In France the reports are filled with Ministry of interior, in Netherland at Chamber of Commerce, in Croatia at Ministry of finance.

In all countries, tax authorities have a right to supervise. Different state and regional authorities may also have supervision rights. In France, the governmental body and a court, in Spain, the Higher Council of Foundations as an advisory body, Ireland Charity Regulator, Slovenia for public interest Ministry responsible for the public interest status, Bulgaria Ministry of Justice, Croatia Ministry of Finance.

5. Difference in regulation by amounts of income and total assets

In almost all countries, based on size related to criteria of total assets, income and number of employees, there are different requirements for reporting, with much simpler models and forms. The thresholds usually vary in higher amounts for larger and developed countries.

The amounts and criteria are:

- France, donations amounting to less than 153 thousand EUR.
- Norway, Spain, Ireland, Czech Republic, Serbia, Bulgaria, Slovenia, Germany, and Netherlands, and Germany have ruled two of three thresholds reached not to be considered small: total assets, total income and number of employees.
- Croatia has threshold of 30 thousand EUR for income and total assets in three consecutive years.

6. Mandatory audit

Audit, in general, is not mandatory for micro and small organisations.

However, there are significant differences for whom the audit is mandatory:

- Germany, compulsory if organisation uses public funds.
- France has mandatory requirements for public utility foundations and corporate foundations as well as endowment funds if annual income is over 10.000 EUR.
- The Netherlands has an option for an accounting expert review instead of the auditor.
- Norway has mandatory requirement for all foundation and most cases when income is over 420 thousand EUR.
- In Spain, it is related to the size requirements as above threshold for two of three criteria: Total assets of €2,850,000 or less, annual turnover of €5,700,000 or less and average number of employees during the year of 50 or fewer.
- Ireland has a specific possibility for any one member to request an audit, even if it is not mandatory. Charities which have been granted a charitable tax exemption must keep audited accounts if their annual income exceeds €100,000.

- In Estonia, mandatory audit if two of the following are true: Sales income > 4 million, Assets >2 million, number of employees >50 or one of the following: Sales income > 12 million, Assets >6 million, number of employees >180.
- The Czech Republic has mandatory audits for all foundations and certain types of CSOs regardless of form or thresholds.
- In Slovenia, it is mandatory for income over 1 million EUR.
- In Bulgaria, entities with public benefit status exceed one of the following: Total assets of EUR 500 thousand EUR , total revenue of EUR 1 million, not absorbed financing from current and previous years 500 thousand EUR.
- In Croatia, review for income between 400 thousand and 1,5 million EUR and audit for income over 1,5 million EUR.
- In Serbia, mandatory audit for all entities with income above 4,4 million EUR.

7. Conclusions on EU best practice on accountancy for CSOs

Currently, the legal and policy framework for non-profit organisations and foundations within the European Union differ – in some cases slightly, in others significantly.

The absence of a conceptual framework based on accountability leaves space for very diversified regulations related to accountancy in EU countries. Such a framework is recognised as necessary to unlock the potential of CSO reporting to include financial, nonfinancial and narrative information. This would contribute to the demonstration of broader entity accountability and ultimately to enhancing the sector's role in society. The non-financial and narrative information is, in many studies, recognised as the main lever in attracting donors and fundraising.

The aspects of registration and management of CSOs are highly unified across the EU countries. Also, there are major improvements in determining the definitions of public interest. In the Act on non-governmental organisations in Republic of Slovenia in the article related to public interest status is stated "A non-governmental organisation may be granted the status of a non-governmental organisation operating in the public interest in the fields of culture, education, health care, social security, family policy, the development of democracy, protection against discrimination, human rights protection, disabled persons protection and conduct of humanitarian activities, protection of equal opportunities for women and men, care for the elderly, integrity in the state and civil society, consumer protection, food safety and security, promotion and organisation of voluntarism, the youth sector, promotion of tourism, cultural heritage protection, environmental protection, nature conservation, spatial planning, animal health and welfare protection, agriculture, forestry, rural development, sport, defence, protection against natural and other disasters, road safety, international relations, external affairs, international development cooperation, international humanitarian aid, the development of non-governmental organisations, the development of the information society, science or other areas." This is a clear attempt to cover the areas of public interest as wide as possible but also to make a distinction between associations created in the interest of its members.

With regard to the tax treatment of this public interest CSOs as well as CSOs in general, there is still much to be desired. In more and more countries, tests are implemented to make distinctions between the CSOs working in the public interest, thus opening possibilities for further tax benefits and lowering the opportunities for misuse of these benefits.

Requirements for reasonable administration costs exist in Germany, France, Spain, Estonia, Ireland and Serbia. However, this requirement may cut two ways. Limited administrative expenses may be a reason for non-compliance with the requirements of the legal framework, especially regarding the more and more regulation requirements related to financial management and accounting.

All these improvements are yet to be followed in CSOs reporting to the public.

While the basic accounting rules for record keeping, supporting documents, bases of recognition of the transactions and measurement of elements are highly unified when it comes to accounting standards there are many different implementations, from IFRS, National Accounting Standards with or without additional rules for CSOs to simple regulation in the Law on accountancy for CSOs.

These differences are further reflected in requirements for financial reporting, where very different models and forms are applied. The differences go deeper with requirements for non-financial and narrative report.

There is already EU Non-Financial Reporting (NFR) Directive which requires public-interest companies in EU Member states with more than 500 employees to disclose certain types of non-financial and diversity information related to sustainability in their yearly management reports in categories:

- Environmental
- Social and employee matters
- Anti-bribery anti-corruption
- Diversity
- Human rights

It is already amended with the new Corporate Sustainability Reporting Directive entering into force on 01.01.2024.

Large CSOs should follow as soon as possible, giving the general public and donors insight in their social responsibility.

One of the best practices in EU countries is different requirements for different sizes of CSOs. The majority of CSOs are micro entities, which cannot handle the administrative burden of implementation of accounting standards, and even with the double entry accounting rules without professional help, in regard to financial limitations they have. Simple books and simplified financial reporting may benefit them. However, even smallest of CSOs should do more in the narrative and non-financial reporting, as base for fundraising activities.

Mandatory audit is one more area where rules are very diversified. From all CSOs, like the Czech Republic Foundation, to 5,7 million in income as criteria for mandatory audit in Spain.

An important aspect of CSOs' work is volunteers. Volunteers can do an enormous amount of good for CSOs, from saving money to increasing the quality of service delivery to beneficiaries. In the General Conditions for EU grants, the value of the work provided by volunteers can be recognised as eligible cost of the action and may be treated as co-financing by the beneficiary. The country's legislation must do more to support this activity in CSOs, especially those of public interest.

The things are moving in the right direction, but much must be done.

LEGAL FRAMEWORK FOR ACCOUNTANCY FOR CSOS IN REPUBLIC OF NORTH MACEDONIA

The country lags behind in the area of accounting and audit, in general. This is noted in North Macedonia Report 2023 by DG NEAR for the period June 2022 to June 2023:

"As last year's recommendations were not fully implemented, they remain valid. In the coming year, North Macedonia should, in particular:

- align national legislation with the acquis on encouraging long-term shareholder engagement, on cross-border conversions, mergers and divisions and on the use of digital tools and processes in company law;
- adopt legislation on accounting and on audit aligned with the latest EU acquis in these areas, to include strengthening the role and capacity of the Council for Advancement and Oversight of Audit."

In addition, as noted in the report, "In the area of non-financial reporting, the legal framework remains to be aligned with the EU acquis."

Standards in use are determined in Article 469, paragraph 1, as IFRS published in the Official gazette. In paragraph 2, it is foreseen that these standards will be updated yearly; however, in practice, the last published standards are in Official Gazette No. 159 from December 29, 2009, with translated pronouncements of the IFRS from 31.12.2008.

IFRS for SMEs are translated and published in Official Gazette No. 107 from August 2009, but there is no clear reference to which entities should apply them.

IFRS is updated, and new standards are adopted almost every year. IFRS for SMEs has amendments in 2015. All these changes have not been implemented, and the country has lag behind the standards for 15 years now.

In the new "Law on performing accounting" from August, 2022 the tasks related to translations of IFRS and IFRS for SME standards are assigned to the Institute of Accountants and Certified Accountants. The process is still ongoing.

The new "Law on accounting" for business entities is in the draft phase.

1. Legal framework for formation of CSOs

Law on Associations of Citizens and Foundations published in Official Gazette No. 52 from April 16, 2010, amended in 2011, 2016 and 2022, establishes the association and foundation of two main forms of CSOs. Other CSOs like institutes, associations of professionals, trade unions, religious groups etc., based on mutual interest may also be established as regulated by other laws.

The minimum number of members for associations is five, with at least three residents of the country. The assembly of all members is the highest authority within the association, and the association must have one or more legal representatives. Other bodies may be formed with statutes. Foundation has board as highest authority and director.

Registering the entity with the Central Registry of the Republic of Macedonia requires no special permits or licenses from the government bodies. The register is publicly available.

The legal framework is broadly adjusted to EU policies and practices.

2. Tax treatment and business activities

Main tax exemptions and benefits for CSOs are related to income tax and personal income tax. As a general rule, CSOs are exempt from income tax and only pay 1% of total income after a deduction of approximately 17 thousand EUR on business activities. No other liabilities related to income tax exist. Related to personal income tax, accommodation, food and transport as expenses for associations and foundations, otherwise taxed for business activities, are exempt.

Public interest status is foreseen in the Law on Associations of Citizens and Foundations with little if any, benefits but the additional burden of reporting to the Government and auditing over the threshold of income amounting to 20 thousand EUR. Only six organisations are registered as public interest organisations. No audited report may be found for most of them, at least not as publicly available. As the existence of this report is a basis for organisations to be deprived of this status, their public benefit status is questionable.

There are no limitations for administrative expenses or related reporting requirements.

Economic or business activities are allowed but limited to activities related to the goals of the organisation foreseen in statute.

Any net income from business or any other activities has to be spent on the mission of the organization and its goals.

Business activities with income over 17 thousand EUR ask only for income tax report to Tax authorities.

There are no requirements for additional reporting except for organisations with public interest status, which have to fill financial and business reports to the government.

The conclusion is that tax benefits are also broadly adjusted to EU policies and practices.

3. Accounting, recognition system and measurement of the elements of financial statements

Accounting and record keeping are regulated by the Law on accounting for not-for-profit organisations covering a wide number of organisational forms with one common criterion to be established with a primary goal different from for profit.

A double-entry accounting system is prescribed, with the possibility for organisations with total assets or total income less than 2.500 EUR to keep simple books consisting at least of petty cash book and book of income and expenses.

There is a mandatory chart of the accounts established by the Minister of Finance.

Historical cost and revaluation are used to measure elements of financial reports.

The recognition system is based on the accounting principle of modified recognition of the effects of transactions and other events for income and expenses. For income when they are realised in the accounting period or within 30 days after the expiration of the accounting period, provided that the revenues refer to the accounting period and serve to cover the liabilities of that accounting period. Expenses are recognised under the accounting principle of a modified occurrence of business changes or transactions, i.e. they are recognized in the accounting period in which they occurred or within 30 days after the expiration of the accounting period, provided that the payment obligation has occurred in that accounting period. The assets and liabilities are recognised on an accrual basis with deferred income and expenses.

There is no possibility for IFRS or standards for business entities to be implemented.

4. Mandatory reports

Basic reports are balance sheets, statements of income expenses and notes. However, in practice, this financial report is prescribed by the Minister of Finance as forms consisting of the balance sheet, statement of income

and expenses, note for distribution of results and data for state records for not-for-profit organizations and no other explanatory requirement.

Additional requirement for reporting exists only for organisations with public benefit status.

Publication of the report is mandatory on the website and as filling in the Central Registry.

The right of supervision is at tax authorities for tax-related issues. Commission for organisations with the status of public interest also has supervision authority over such organisations.

5. Difference in regulation by amounts of income and total assets

Organisations with total assets or total income less than 2.500 EUR do not have to fill the financial reports in the Central Registry. In this requirement, as well as not defined time frame, is the source of controversies. If an organisation has millions in assets, should it not fill the financial reports in the year when the income is lower than 2.500 EUR? What if income and expenses are in the millions and the organisation has assets lower than 2.500 EUR? However, when receiving EU grants, a double-entry account is a requirement of the grant contract.

6. Mandatory audit

The audit is not mandatory except for organisations with public interest status with income higher than 20 thousand EUR.

However, most of the international and larger organisations audit their financial statements. Financial statements, when audited, consist of the balance sheet, income statement and notes as foreseen in the standard. Part of the income from different donors also may have requirements for different forms of audit engagements.

7. Conclusions on accountancy legislation for CSOs in North Macedonia

Registration and management of CSOs are aligned with best EU practices. They are simple and do not have high administrative burdens or high expenses.

While the income and personal tax benefits are in line with practices in most EU countries analysed, benefits and exemptions for tax laws related to donations and gifts do not exist or are with heavy administrative burden.

The basic accounting rules for record keeping and supporting documents align with usual practices in EU countries.

Different record-keeping, accounting rules and financial reporting rules for record-keeping for micro entities are in line with this practice, but the threshold may be considered low and unclear.

However, overall, the accounting and financial reporting deviates from the rules and practices in the analysed EU countries. The conclusion is based on the following:

1. Modified accounting recognition of income and expenses

   In analysed EU countries, accrual or cash-based systems are allowed. Both methods have clear definitions and rules of implementation in applicable standards, accrual in IFRS and cash in IPSAS, Financial Reporting under the Cash Basis of Accounting. The modified cash-based system is not supported in any accounting standard.

   Under modified bases as implemented, income statements can easily be manipulated by postponing the payment of expenses after receiving the income., thus making assessment of long-term sustainability impossible. The absence of uniformity, transparency, and standardized reporting practices hampers the ability to evaluate CSOs' financial performance and accountability.

The thirty-day cut-off cannot be supported by availability criteria as stipulated in the Law. There are no standards which support the modified recognition principle. Nor is there logic in why something is recognized on 30.01 and not on 31.01. There are two critical dates in financial reporting: the end of the reporting period and the date of the financial report. 30 days after the end of the year is neither of them. Even UN and Governments are transitioning to accrual IPSAS which consists of International Financial Reporting Standards (IFRSs) that are modified to meet the needs of the public sector.

Cash bases and modified cash bases are suitable only for simplifying and lowering accounting costs in micro entities.

International organisations cannot compare the reports based on this principle, and the local network entities have to prepare double sets of financial reports or depart from this principle, which may mean in compliance with the Law.

2. Forms used for financial reporting

Forms used for financial reporting do not separate activities from administrative costs. They are divided on material expenses, other expenses and capital expenses. Most of the activities are reported under other expenses in the form for income statement. There are no notes where these expenses may be further disclosed by type or activity.

Accumulated uncovered expenses – loss is reported under total on the assets side, thus distorting the balance sheet report. This again makes reports of international organisations incomparable.

In the note for surplus of income over expenses, there is a position part of it to be distributed for salaries even if it is strictly forbidden by the Law on Associations of Citizens and Foundations. Even if there may be organisations established under different laws where this may be allowed, there should be a remark that this does not apply to associations and foundations.

Data for state records for not-for-profit organizations adds unnecessary complexity to the financial reporting, mostly repeating the numbers from other financial reports or empty because there are no transactions under that description.

3. Fair value measurement not foreseen.

In almost all EU countries fair value is used for measuring financial assets and liabilities related to securities.

4. Absence of clear definition for micro-entities.

Classification of organisations in the micro category with total assets or total income less than 2.500 EUR, as mentioned above, may classify otherwise large organisations with significant total assets and low income and vice versa as micro.

5. There is no requirement for stamen of activities, non-financial information or other narrative reports explaining the mission and goals of the organisation even for very large entities.

In the European Union (EU) countries, not-for-profit entities are generally required to prepare activity or narrative reports as part of their financial reporting obligations. These reports provide additional information beyond the financial statements and offer a comprehensive overview of the organisation's activities, achievements, and impact on society. This is especially the case for the large entities.
Even without such requirements, international and part of larger organisations in the country prepare such reports, considering them important for fundraising activities.

6. No audit requirements except for organisations with public interest status, for most of which this audited report cannot be found on their websites.

All analysed EU countries impose statutory audit requirements on CSOs based on certain criteria. These criteria typically include factors such as the organisation's size, annual turnover, or the presence of public

funding. CSOs that meet these criteria must undergo an external audit or review by a registered or certified auditor.
However, many organisations in the country engage auditors and publish audited financial reports. They rightfully consider audited financial reports advantage in fundraising activities and applications for donations and grants.

Recommendations for changes in the legal framework on accountancy for CSOs

While aligning with international standards is crucial, it's equally important to recognise the unique characteristics of CSOs. The legal framework should be adapted to address the specific financial reporting needs of CSOs, considering factors such as fund accounting, restricted and unrestricted funds, and programmatic reporting. This ensures that the accounting standards are both comprehensive and relevant to the sector.

Transparency is a cornerstone of effective governance in the non-profit sector. Enhancements to the legal framework should encourage CSOs to adopt transparent financial reporting practices. This may involve the mandatory disclosure of key financial information on public platforms, ensuring that stakeholders, including donors and beneficiaries, have access to clear and comprehensible financial statements.

1. Weaknesses to be addressed

The modified recognition principle as main weakness

Recommendation: The modified recognition principle should be abandoned and replaced with accrual or cash-based recognition. Specific rules may apply for transactions that represent nonreciprocal revenues (revenues by special regulations, membership fees, grants, contributions, and other similar revenues).

Mandatory revaluation based on index on price changes from producers of industrial products

Recommendation: Mandatory revaluation based on an index on price changes from producers of industrial products should also be abandoned and changed with revaluation based on market prices as an optional measurement in accordance with accounting standards.

No variation in requirements by size and criteria of CSOs with income below 2.500 EUR for the year not having to fill statutory reports

Recommendation: The current solution of not filling statutory financial reports for income **or** assets below 2.500 EUR should be changed with a higher amount of the threshold, more than one criterion (e.g. income **and** assets) and instead of not filling at all, filling simplified forms. On the other hand, for large and international organisations, a full IFRS should be allowed for use in order to ensure internationally comparable financial data.

The absence of a possibility to measure transactions by methods other than historical price

Recommendation: The reality is that more and more financial instruments exist in the country, which CSOs also use as investments or possibilities for fundraising. More and more diversified financial activities of CSOs should be reflected in the financial reporting with other methods of measurement foreseen in IFRS:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); or
- fair value through profit or loss (FVTPL).

The forms for statutory financial reporting in use do not reflect the specific activities performed by CSOs

Recommendation: As in the current financial reports, most of the expense amounts and in the fields “other expenses”, the forms for statutory reports should be changed so they adequately reflect the activities of the CSOs and provide adequate insights into relations between the program and financial report.

Mandatory audit is not required even for large CSOs

Recommendation: Mandatory audit should be mandatory for large organisations, especially ones comparable with large business entities, for which this requirement exists.

No requirement for non-financial information or other narrative reports

Recommendation: Non-financial information or other narrative reports explaining the mission and goals of the organisation for large and entities of public interest, especially those receiving government grants, should be mandatory and publicly available.

2. Proposed changes

It is doubtful that weaknesses can be adequately addressed with amendments to the current "Law on accounting for not for profit organisations". There should rather be a new Law on accounting for CSOs to not only address weaknesses but also to enable CSOs in the country to compare with CSOs from EU countries, and provide adequate transparency for donors and the broader public regarding the activities of CSOs.

This should be informed by clear examples of possible solutions based on best practices in countries with legal frameworks sufficiently similar to the one in the Republic of North Macedonia so the latter can be adjusted with limited effort.

As for the practices in large European countries such as France, Germany, or Spain, their implementation will need changes in the broader legal framework, such as trade and civil laws, to incorporate references and their application to CSOs. Such changes cannot be expected for the reasons of improving the accounting framework for CSOs.

Serbia, Bulgaria and Slovenia may be good examples to follow; however, this would require following their accounting standards and establishing a standard setter in the Republic of North Macedonia.

That being said, based on the analysis performed, the Croatian model may be most adequate due to the following factors:

- Croatia has implemented the accounting and financial management framework basically in the same way as the Republic of North Macedonia – through the Law on accounting for not for profit organisations and supplementing rulebooks based on Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.
- They have adopted the Law in 2014 on 19 pages, with amendments up to 2022 which means the Law considers the requirements of the most recent Directives which simplifies the process of adoption.
- The entities foreseen as subject to the Act are almost the same as in the Law of the Republic of North Macedonia, including the political parties.
- Have prescribed chart of accounts.

Beyond that, the Croatian model contains the following substantial improvements to the current solution in the Republic of North Macedonia:

- An internal control system and the self-assessment of efficient and effective functioning of the financial management and control system.
- Reporting on the budget funds spending and the right of the competent authority to perform on-the-spot checks regarding the spending of funds from the state budget and the budgets of local and regional self-government units.
- Two criteria for possible options for CSOs to apply for simplified accounting and general ledger are used: assets and income lower than 30.526 EUR, instead of one as in the Republic of North Macedonia, income lower than 2.500 EUR.

- Accrual recognition except for specific income for not for profit:
    - nonreciprocal revenues (revenues by special regulations, membership fees, grants, contributions and other similar revenues) are recognised in the reporting period to which they refer under the condition that they are available (collected) in the reporting period. They may be recognised in the reporting period if they are collected not later than by the moment of presenting financial statements for the same period.
- Recognition of income from grants and donations is recognized on the matching principle:
    - donations related to the execution of the contracted programmes (projects and activities) are recognized in the balance sheet as postponed revenue along with being recognised as revenues of the reporting period proportionally to the costs of the implementation of contracted programmes (projects and activities).
    - donations connected to non-financial assets that are amortised are recognized in the balance sheet as postponed revenue along with being recognised as revenues of the reporting period on a systematic basis proportionally to the costs of the use of non-financial assets within the period of use.
- Cash-based accounting is possible as per the threshold above. Also, the CSO may fill the statement of inactivity instead of statutory financial reports if it had no financial activities in the period.
- Defined audit and review thresholds.

Croatia also established robust oversight mechanisms through the Ministry of Finance to reinforce compliance with the legal framework. Foreseen audits and IRS assessments of economic activities further ensure adherence to financial reporting requirements.

3. Capacity bulding for CSOs

Even the best of Laws cannot replace fair and transparent financial reporting. The large CSOs in the Republic of North Macedonia have built extensive capacity in the area. However, recognising that many CSOs may lack the resources and expertise required for complex financial reporting, the legal framework should incorporate provisions for capacity building. This could involve training programs, workshops, or the provision of resources to help CSOs meet the changes in accounting and to improve financial reporting even under the current Law on accounting.

Another solution is to ensure there are members with adequate competence in the area in the relevant management and oversight boards.

Strengthening the financial acumen within CSOs will contribute to the overall health and sustainability of the sector at large.

ACCOUNTING AND FINANCIAL REPORTING FOR CSOS IN SELECTED EU COUNTRIES

1. ANNEX – Germany, France, Netherland and Norway

Aspect	Germany	France	Netherlands	Norway
Formation and management				
Forms for CSOs as legal persons	Associations (Verein- e.V.) Foundations (Stiftung) Limited liability companies (Gesellschaft mit beschränkter Haftung, or GmbH)	Associations (Association Loi 1901) , Public Utility Foundations (Fondations reconnues d'utilité publique), Sheltered Foundations (Fondations abritées or sous égide), Corporate Foundations (Fondations d'entreprise) and other types of foundation	Association (vereniging) with full legal capacity Foundation (Stichting)	Association (forening) Foundation (stiftelser) Limited liability company that exclusively distribute funding for non-profit activity
Establishment regulation	German Civil Code (Bürgerliches Gesetzbuch-BGB) Commercial Code (Handelsgesetzbuch – HGB Laws in the 16 states	Law on Associations of July 1, 1901 Law No. 2003-709 of August 1, 2003 on Philanthropy, Associations, and Foundations Other laws for certain specific types of foundations Alsace-Moselle region wit separate rules	Dutch Civil Code (Burgerlijk Wetboek,)	No specific law for association. Principles for qualifying for registration Separate law on foundations (Lov om stiftelser)

Aspect	Germany	France	Netherlands	Norway
Registration and access to registration data	Local court Register of associations (Vereinsregister) Company register - (Unternehmensregister) Publicly available	Préfecture or Sous-Préfecture with declaration in Official journal Alsace-Moselle region magistrate court The registry of associations proceeds automatically upon registration in the National Directory of Associations (NAS)	The Dutch trade register	No mandatory registration. However, registering in the Register of Norwegian NGOs enables participating in many grant schemes. Registering in Foundation register (Stiftelsesregisteret) is compulsory through the Foundation Authority (Stiftelsestilsynet) Registering in Central Coordinating Register for Legal Entities is done at the same time.
Governance	Assembly in associations minimum 7 persons Manager/Board Minimum one person no upper limit	Members, minimum three, general meeting annually in associations President, Manager/Board Minimum one person no upper limit, form by decision	Members, minimum two, general meeting Manager/Board Minimum one person no upper limit	Members, minimum two, general meeting Board and the election of the board is stipulated in article of association which is mandatory if registered.

Tax exemption status

Aspect	Germany	France	Netherlands	Norway
Requirements for tax exemption as not for profit	Regulated in Tax code with extensive requirements including: -restrictions on the use of funds -restrictions on economic activity -strict limitations on payments to members -extended accounting obligations Donors may be tax exempt too.	General Interest Status with tax exempt possibility for donors Public utility status, which are more regulated and restricted Solidarity Enterprise of Social Utility Status which may be granted even to commercial companies under conditions	Regulated in tax code as ANBI Public Benefit Organisation (PBO) (Algemeen Nut Beogende Instelling (ANBI)). Organisation Representing Social Interests (ORSI) (Sociaal Belang Behartigende Instelling (SBBI)). Foundation Supporting an ORSI (Steunstichting (SBBI)). No tax liable for profit less than 15 thousand EUR	Exempt from income and wealth tax based on type of income. Threshold 6.000 EUR for tax exemption from commercial activities
Requirement for reasonable administration costs	Yes	No maximum, but excessive payments are prohibited, management on voluntary basis	No, but limitation for tax exemption status of renumeration, asset retention and cost expenses ratio.	No
Requirement to spend their income for public-benefit purposes	Yes	Yes	Yes, for tax exemption status	Yes
Economic activities	Possible with limitation (e.g. not to be major source of income)	Only associations. Foundations may only engage in public benefit activities	Yes	Yes, taxable after threshold
Requirement on reporting on donors, recipients and salaries of personnel	No	Not in details, only as broad categories	No	Details of the donor and gift amount for tax purposes, not publicly available. Only for approved organisations.
Requirement of duty of care/loyalty	Yes, members of the board personally liable	Yes, members of the board personally liable	Yes, members of the board personally liable	Yes
Accounting and standards				

Aspect	Germany	France	Netherlands	Norway
Accounting	Double entry, simple books allowed for small entities	Double entry	Double entry	Double entry, simple books allowed for smaller entities For foundations only double entry
Mandatory chart of accounts	No	Yes	No	No, but there is defined structure for exchange of data with tax authorities
Inventory requirement	Yes	Yes	Yes	Yes, for tax purposes
Supporting documents to accounts	Mandatory, ten years retention	Mandatory, ten years retention	Mandatory, seven years retention	Mandatory, five years retention
Conceptual framework specific for CSOs	No, accounting principles	No, accounting principles	No, accounting principles	No, accounting principles
Measure of elements	Historical costs, fair value	Historical costs, revaluation, fair value	Minimum historical costs and fair value for selected elements	Historical costs, fair value
Recognition system:	Accrual in compliance with Commercial code (HGB) cash based for entities bellow 600 thousand EUR income and 60 thousand EUR profit	Accrual, for specific CSOs transactions like donations should be on deferred bases till received	Accrual	Accrual, cash based for small entities

Aspect	Germany	France	Netherlands	Norway
Standards in use	Stipulated in Commercial Code (Handelsgesetzbuch – HGB); Generally Accepted German Accounting Principles compliant with IFRS in use	The French Accounting Standards, or Normes Comptables Françaises (NCF) based on IFRS. Specific accounting standards for CSOs such as recognition for income on donations, restricted – unrestricted assets, recognition of volunteers work) are regulated with separate Law on accounting for associations and foundations	Soft law instruments to provide guidance for example the SBF Code for Good Governance 2015 Choice for small and micro entities: - Book 2 of the Dutch Civil Code combined with fiscal valuations principles; - Dutch Accounting Standards for micro- and small legal entities; - Dutch Accounting Standards for medium sized and large legal entities; or - IFRS-EU	Norwegian Accounting Act and Norwegian generally accepted accounting principles (Norsk RegnskapsStiftelse - NRS) IFRS allowed where they improve ease, relevance, reliability and comparability of financial reports
Standard-setter	The Deutsches Rechnungslegungs Standards Committee (DRSC)	Autorité des Normes Comptables (ANC)	De Raad voor de Jaarverslaggeving	Norsk Regnskapsstiftelse (Norwegian Accounting Standards Board)
Reporting				
Financial reports	Balance sheet, income statement and notes. Cash flow is optional	Balance sheet, income statement and notes. All reports are based on standards with specific requirements for not for profit (volunteer work, usage of donated assets)	Balance sheet, income statement and notes. Cash flow for higher standards if chosen.	Income statement, balance sheet, cash flow statement and note information. Small entities without cash flow statement. Minimal elements prescribe by Law on accounting.
Annual activity report	In part of the states, with annual report	Specific functional income statement is prepared as well as note on benefits and resources from abroad	No, requirement for adequate income statements for activities	For medium and large entities

Aspect	Germany	France	Netherlands	Norway
Reporting on specific issues	No	Fundraising activities	No	No
Requirements for publication of the report	Depending on the form, for GmbH yes for other forms in general no	Reports must be published each year on the website of the Official Gazette Compulsory for CSOs with donations and/or grants amounting 153 thousand or more. Publication is compulsory for all endowment funds	An association or foundation that runs one or more businesses of a certain size (with a minimum of €6 million annual turnover in the last 2 financial years) Public benefit organisations are required to publish certain information on an internet site	Yes, for organisations with over 1,7 million EUR and more than 20 employees
Reporting based on the size	Yes, simplified forms and no notes for micro entities. For associations no specific form is mandatory, but they must clearly show separation of not for profit from economic activities	Yes, no public reports necessary if income amounting less than 153 thousand. However, all public utility foundations send an annual report and financial statements to both the competent Préfet (representative of the state at local level) and the Ministry of the Interior	Yes, micro and small entities may choose standards	Yes, micro entities with less than 20 employees have no obligations limits for small are bellow two of three criteria Revenue 6 million Assets 3 million Employees 50 full time
State authority responsible for filling CSO reports	Tax office for associations, Official gazette for companies	Official Gazette	Dutch Chamber of Commerce (KVK)	Accounting Register, where applicable
External supervision	Tax office for not for profit status, state and regional authorities	A combination of a governmental body and a court	Tax office for the tax-exempt status. Members have the right to inspect documents.	Depending on the activities, related supervisory bodies. No specific authority for associations. Foundation Authority for foundation.
Mandatory external audit:	Depending on size, generally no. Compulsory for public funds usage.	Public utility foundations and corporate foundations must appoint an auditor, plus a substitute. The same rule applies to endowment funds when their annual income exceeds €10,000	Option for no audit, auditor or review by accounting expert.	No requirement for income from business activities less than 420 thousands EUR. Mandatory in most cases for higher income. All foundations have an audit obligation

2. ANNEX – Spain, Ireland, Estonia and Czech Republic

Aspect	Spain	Ireland	Estonia	Czech Republic
Formation and management				
Forms for CSOs as legal persons	Association Foundation	General CSOS and charitable organisation: Unincorporated associations and Trusts, but without legal personality Company limited guarantee. (CLG) with legal personality	Association Foundation (Asutamine)	Associations (spolek), Foundations (nadace), Funds (nadační fond) and Registered institutes (ústav),
Establishment regulation	Organic law 1/2002, of 22 March, regulating the right of association Law 50/2002, Of 26 December, Foundations.	The Companies Act 2014 (the "Act") Charities Act 2009	Non-profit Associations Act Foundations Act	The Civil Code
Registration and access to registration data	Registry of Associations, national or regional For foundation approval from Protectorate for purpose, and activities, Foundations Registry under the Ministry of Justice Local regulation in autonomous provinces exist. Mercantile Registry if commercial activities are involved.	Register of Charities at Charities regulator. Ten classification group	Non-profit associations and foundations register is part of the Estonian business registry	One registry for all legal entities

Aspect	Spain	Ireland	Estonia	Czech Republic
Governance	For associations, General Assembly, three or more members, supreme authority Governing and representation bodies determined by the Statute Board of Trustees for foundation minimum three members	Two or more mebers. Members' Meetings At least 3 unrelated directors if the company is a charity	Two or more members in general meeting Management board, one member (director) or several members.	Supreme and governing body are determined in the article of association. However, members meeting or assembly of delegates is mandatory once per year.
Tax exemption status				
Requirements for tax exemption as not for profit	Specific Law 49/2002, Of 23 December, Tax Regime Of Non-Profit Entities And Tax Incentives To Sponsorship amending the Tax law 70% of the amount resulting from applying the legal interest rate to the total value of organisation at least for not for profit purposes	Public benefit requirement for CSO to be eligible for charitable status. Determined by Charities Act 2009 Charitable tax-exempt status determined by Revenue Commissioners	Tax exemption on profit and income only for public benefit and charitable status, but non-taxable expenses such as accommodation, transport, entertainment, and tax-free limits for some types of expenses are for all CSOs Public benefit and charitable status determined by Income Tax Act	Public Benefit Status exists but not elaborated in tax implications. All CSOs may benefit from reduced base for income tax calculation from business activities as they are considered publicly beneficial Tax exemption for income related to statutory activities and state and EU grants.
Requirement for reasonable administration costs	Members of the Board of Directors without remuneration	Only reasonable expenses incurred in carrying out duties may be reimbursed to trustees	Payment to management board in reasonable proportion to the duties of the members of the management board and the economic situation of the non-profit association	No
Requirement to spend their income for public-benefit purposes	Yes	Yes	Yes	Yes
Economic activities	Yes	Yes, trading exemption if they are ancillary to pursuing the charity's primary purpose	Anything necessary for fulfilling the objective set forth in its articles of association	Yes, as auxiliary activity

Aspect	Spain	Ireland	Estonia	Czech Republic
Requirement on reporting on donors, recipients and salaries of personnel	An accounting book will be kept and donations will be registered at the Mercantile Registry in Spain and/or Treasury	Not in details, but globally in the notes	No	No
Requirement of duty of care/loyalty	Yes	Yes	Yes, founders of a non-profit association and the members of the management board shall be solidarily liable for damage caused	Yes
Accounting and standards				
Accounting	Double entry	Double entry for companies, simple cash books possible for small entities	Double entry	Double-entry, simplified for small entities
Mandatory chart of accounts	Plan of Accounting for Non-profit Entities and Accounting Plan for Small and Medium Non-profit Entities	N	No	Yes, same with for profit entities
Inventory requirement	Yes	Yes	Yes	Yes
Supporting documents to accounts	Yes, five years retention	Yes, six years retention	Yes, seven years retention	Yes, five years retention
Conceptual framework specific for CSOs	No	No	No	No
Measure of elements	Historical costs, fair value,	Historical costs, fair value	Historical costs, revaluation, fair value	Historical costs, fair value
Recognition system:	Accrual	Accrual	Accrual for legal persons	Accrual

Aspect	Spain	Ireland	Estonia	Czech Republic
Standards in use	Spanish commercial code Different based on total assets, sales turnover and number of employees. For large organisations Spanish accounting standards broadly in line with IFRS	Choice: Companies Act IFRS	Choice: Accounting act, accounting principles generally accepted in Estonia broadly in line with IFRS IFRS	Czech accounting rules are determined by the Ministry of Finance and are based upon the National Accounting Standards .
Standard-setter	The Spanish Accounting Standards Board (AEAT)	Companies Act 2014 as a law IASB	Accounting act as a law IASB	Ministry of finance
Reporting				
Financial reports	balance sheet, income statement and notes	balance sheet, income statement and notes. For IFRS cash flow statement	For micro/small enterprises Balance sheet and income statement. For large entities, managerial report	The balance sheet and the profit and loss account must be prepared in accordance with the model available in the annex of the Czech Act on Accounting.
Annual activity report	Yes, pat of notes	Any other additional statements and information required by the financial reporting framework adopted	For large entities	Not specified for associations. Mandatory for foundations
Reporting on specific issues	No	Additional reporting to Charity Regulator	No	For foundations an assessment of whether, in its business management, complied with the rules for the provision of foundation grants and an overview of the costs of its own administration
Requirements for publication of the report		Yes, no exemptions	Yes, no exemptions	Yes

Aspect	Spain	Ireland	Estonia	Czech Republic
Reporting based on the size	Yes, different requirements for micro, small and large entities based on total assets, sales turnover and number of employees. For simplest rules assets < 1 million, income < 2 million, employees <10	Small company with two of three requirements lower than: turnover 8.8 million, total assets 1 million and average employees 250	Yes, micro entities total assets <175 thousand, liabilities lower than equity, income < 50 thousand EUR Small with to of three requirements lower than: turnover 8 million, total assets 4 million and average employees 50	Small entities with two of three requirements lower than: turnover 4,2 million, total assets 4,2 million and average employees 50
A,State authority responsible for filling CSO reports	Mercantile Registry if commercial activities are involved. The public registry in which they are registered.	Charity regulator Companies Registration Office	Business register	In the Collection of Deeds at the Public Register
External supervision	Tax authorities, Higher Council of Foundations as advisory body, Administrative measures by local authorities are possible	Charity regulator Revenue commisioner	Tax authorities	Tax authorities
Mandatory external audit:	Above two of the following requirements in two consecutive years Total assets of €2,850,000 or less. Annual turnover of €5,700,000 or less. Average number of employees during the year of 50 or fewer.	Audit exemption vis-à-vis its financial accounts. Any one member of a CLG may object and require an audit Small companies are not subject to mandatory audit Charities which have been granted a charitable tax exemption must keep audited accounts if their annual income exceeds €100,000.	Mandatory audit if two of the following are true: Sales income > 4 million, Assets >2 million, number of employees >50 Or one of the following: Sales income > 12 million, Assets >6 million, number of employees >180	Mandatory for foundation and certain type of CSOs

3. ANNEX – Slovenia, Bulgaria, Croatia and Serbia

Aspect	Slovenia	Bulgaria	Croatia	Serbia
Formation and management				
Forms for CSOs as legal persons	Associations; Institutes, which can be private or public; and Foundations.	Incorporated association (zdruzhenie); Foundation (fondacia) Regulated non-profit corporate body for carrying out socially useful activity	Association (Udruga) Foundation (zaklada)	Associations; Foundations; and Endowments (Legacies)
Establishment regulation	Law on Associations (Zakon o društvih) Act on non-governmental organisations determining public benefit status	Law for the non-profit corporate bodies (legal entities)	Law on associations (Zakon o udrugama) Law on foundation (Zakon o zakladama)	Law on Associations Law on Endowments and Foundations
Registration and access to registration data	Ministry of internal affairs, Business register of Slovenia	Non-Profit Legal Entities Registry kept by the Registry Agency of the Republic of Bulgaria. Non-profit corporate bodies for carrying out socially useful activity in central registry Ministry of justice	Registry of associations in municipalities	Registry of associations under Agency for business registers

Aspect	Slovenia	Bulgaria	Croatia	Serbia
Governance	For associations, General Assembly, three or more members, supreme authority Other bodies possible in statute	General assembly, for all members at least three, for association Managing board, at least three persons members of association Non-profit corporate bodies for carrying out socially useful activity shall have a collective supreme body and managing body	General assembly, for all members at least three, for association Person - Legal representative	General assembly, for all members at least three, for association One or more person(s) - Legal representative
Tax exemption status				
Requirements for tax exemption as not for profit	Any form of CSOs do not pay corporate income tax, except for the for-profit activities. Non-governmental organisation operating in the public interest is given by the Ministry for the relevant field NGO operates in. The status gives advantage for obtaining the state funding.	Non-profit corporate bodies for socially useful activity All not for profit entities are exempt on income tax on not for profit activities. The for profit activities are liable for income tax.	Compliance test for unfair market advantage for income tax exemption.	Exempt from taxation on grants, donations, membership dues, and non-economic sources of income Foreign grants and donations are not subject to VAT
Requirement for reasonable administration costs	No	No	No	Salaries no more than double from average for the type of activities in the country
Requirement to spend their income for public-benefit purposes	Yes	Yes	Yes	Yes
Economic activities	To extent necessary to achieve their primary purposes, and the economic activities must be specifically indicated in the association's governing documents	Auxiliary economic activities only insofar as necessary for the pursuit of their primary objects.	Yes, registration with tax authorities	Yes, limited

Aspect	Slovenia	Bulgaria	Croatia	Serbia
Requirement on reporting on donors, recipients and salaries of personnel	No	No	No	No
Requirement of duty of care/loyalty	Yes	Yes	Yes	Yes
Accounting and standards				
Accounting	Double entry. Simple bookkeeping possible if two of the following criteria are met: Employees not exceed two, revenue less than 30 thousand EUR, total assets less than to thousand EUR. Cash diary only for income less than 10 thousand EUR	Double entry	Double entry in first three years, simple books possible if for three consecutive years total assets and total income less than 30 thousand EUR otherwise double entry	Double entry
Mandatory chart of accounts	Yes, only framework without detailed accounts	No, former mandatory chart of accounts widely applied	Yes, specific for not for profit	Yes, for other legal persons
Inventory requirement	Yes	Yes	Yes	Yes
Supporting documents to accounts	Yes, ten years	Yes, three years	Yes, seven years retention	Yes,
Conceptual framework specific for CSOs	No	No	No	No
Measure of elements	Historical cost, fair value	Historical cost, fair value	Historical cost, revaluation, fair value	Historical cost, revaluation, fair value
Recognition system:	Accrual, cash based for very small entities	Accrual	Accrual, deferred income for donations matching with expenses Cash based for simple books	Accrual

Aspect	Slovenia	Bulgaria	Croatia	Serbia
Standards in use	Slovenian accounting standard for associations, in general the accounting standards for companies, based on IFRS, with added specific standard for associations	National Financial Reporting Standards for Small and Medium- sized Enterprises IFRS may be a choose even for smaller entities	Law on accounting for not for profit	Based on size: IFRS for SME IFRS
Standard-setter	Slovenian Institute of Auditors	Council of Ministers IASB	Not applicable	Translated IFRS (IASB)
Reporting				
Financial reports	Balance sheet, income statement and notes	Balance sheet, income statement and notes	Balance sheet, income statement. Notes are prepared but not filled For simple books only, inflow and outflow of cash	Balance sheet, income statement and notes, forms prescribed by Ministry of finance
Annual activity report	Not mandatory	For public benefit status have to submit additionally an annual narrative report	No	No
Reporting on specific issues	No requirement	No requirement	No	Loans to employees, members, bodies.
Requirements for publication of the report	Yes	Yes	Yes	Yes
Reporting based on the size	Yes	Yes, smaller entities with simplified reports	Yes	No
State authority responsible for filling CSO reports	Business registry (AJPES)	Non-Profit Legal Entities Registry	Ministry of finance	Agency for business registers

Aspect	Slovenia	Bulgaria	Croatia	Serbia
External supervision	For public interest organisation status ministry competent for the operation	Minister of Justice, and shall inform the respective state control bodies of the breaches of the law	Ministry of finance, tax authorities	Ministry for finance and Ministry of justice
Mandatory external audit:	Mandatory for income over 1 million EUR	Non-profit legal entities designated as operating for the public benefit where they exceed one of the following criteria: total assets as of 31 December: EUR 0,5 million revenue from for-profit and not-for-profit operations for the current year: EUR 1 million total amount of financing received during the current year and financing received in previous reporting periods not absorbed as of 31 December: BGN 0,5 million.	Review for income between 400 thousand and `1,5 million EUR Audit for income over 1,5 million EUR	All entities with income above 4,4 million EUR

Technical Assistance for improving the enabling environment for Civil Society Organisations in the Republic of North Macedonia

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