

## The process of accountability in third sector organizations in Brazil: An assessment of accountability in private foundations overseen by the MPDFT

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### Abstract

This article examines the accountability process of private foundations that are overseen by the Public Prosecutor's Office for the Federal District and Territories (MPDFT) in Brazil. Accountability is a process that provides credibility to the management of nonprofit organizations. Private foundations and nonprofit civil associations use public resources by means of tax exemptions and fiscal immunity when they perform their statutory activities, mainly those related to education, health and social assistance. The research analyzes accounting reports of a sample of 31 private foundations to verify compliance to eight basic requirements of the accounting regulation ITG 2002/12 applicable to third sector nonprofit organizations. By using comparative and quantitative methodology, the research identifies robust evidences that the private foundations overseen by the MPDFT do not fully comply with basic regulatory requirements and produce incomplete accountability.

**Keyword:** accountability, third sector; foundations, nonprofit

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# The process of accountability in third sector organizations in Brazil: An assessment of accountability in private foundations overseen by the MPDFT

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## ABSTRACT

*This article examines the accountability process of private foundations that are overseen by the Public Prosecutor's Office for the Federal District and Territories (MPDFT) in Brazil. Accountability is a process that provides credibility to the management of nonprofit organizations. Private foundations and nonprofit civil associations use public resources by means of tax exemptions and fiscal immunity when they perform their statutory activities, mainly those related to education, health and social assistance. The research analyzes accounting reports of a sample of 31 private foundations to verify compliance to eight basic requirements of the accounting regulation ITG 2002/12 applicable to third sector nonprofit organizations. By using comparative and quantitative methodology, the research identifies robust evidences that the private foundations overseen by the MPDFT do not fully comply with basic regulatory requirements and produce incomplete accountability.*

**Key words:** accountability, third sector; foundations, nonprofit

## 1 INTRODUCTION

The organizational functioning of nonprofit entities in Brazil is conceptually and empirically supported in the legal structuring of civil associations and private foundations, among others, that comprise the third sector. Because these organizations, in a direct or indirect way, benefit from public resources, they undertake the obligation of being transparent towards society in their accounts and management actions, in a permanent accountability process.

As part of this accountability process in third sector organizations, they are required to comply with a specific accounting regulation, ITG 2002/12, which is applicable to nonprofit entities. Considering that, this article examines compliance to basic requirements of this specific accounting regulation by private foundations overseen by the Public Prosecutor's Office for the Federal District and Territories (MPDFT), relative to the measurement, recognition, disclosure and accounting of management actions.

Accountability is a process with great amplitude in democratic societies and encompasses social, governmental, ethical and political contexts, as well as relationships among agents, which requires

managers in general to display permanently evidences of their actions and management bookkeeping, as described by ABRUCIO and LOUREIRO (2004, p. 75-102) and O'DONNELL (1998) in their discussions on *vertical* and *horizontal accountability*, as relevant parts in responsibility processes. However, to reach the objective of this article, the type of accountability that is considered is the horizontal one, which is achieved by complying with the accounting procedures required by the regulation mentioned above.

Private foundations, regulated by the Brazilian Civil Code (BRAZIL, Law 10.406/2002; Art. 44), and civil associations, such as nonprofit organizations, perform activities with several objectives in such areas as: social assistance; culture; education; health; nutrition and food security; scientific research; alternative technology development; production and publicity of technical and scientific information and knowledge; promotion of ethics, citizenship, democracy and human rights; and activities related to religion, among others, as discussed by GRAZZIOLI, PAES, SANTOS and DE FRANÇA (2016). Such diversity in activities, performed by organizations of different sizes, causes the third sector to be institutionally heterogeneous, presenting diversity of organizational “visions, ideologies, theories and philosophies”, as described by MOULAERT and AILENEI (2005).

A private foundation is different from a civil association because it has specific characteristics. The main differences are possessing available assets, oversight by the Public Prosecutor's Office (BRAZIL, Law 10.406/2002, Arts. 62 e 66) and binding to its founder. These differences, however, are related just to the formal context because both, as third sector participants, as described by ETZIONI (1973), contribute to the reduction of the government (first sector) and to the involvement of the private sector (second sector) in answering domestic demands.

Because private foundations and civil associations are involved with social issues, they must have an adequate accountability system, as defined by SCHAFER (1999) and discussed by CANDLER and DUMONT (2010) as “**the duty to give an account**”. However, accountability must consider not only the duty to give an account, but also the constructive spontaneous action of adopting transparency in relation to management decisions. This process, as discussed by HAUGH and KITSON (2007), is also legally and technically required and enforced by authorities in the United Kingdom.

The specific accounting regulation for nonprofit organizations, including foundations, comprehends, besides recognition, measurement and publicity procedures, the compilation of financial reports and standardized financial statements, as demanded by regulatory authorities and donors. Nevertheless, in Brazil, the assessment of how this obligation is fulfilled is carried out on a regular basis only by institutional regulators, such as the Public Prosecutor's Office when overseeing foundations, in a horizontal accountability process.

Horizontal accountability, in its strict meaning of giving an account, is the main motivation and concern as a research problem of this article, which assesses the fulfillment of basic regulatory requirements demanded from private foundations overseen by the MPDFT. Thus, the question is: do private foundations overseen by the MPDFT, when producing their annual accounts, comply with the specific nonprofit accounting regulation as a minimum requirement of accountability? To answer the stated problem, three objectives are proposed: **(a)** choosing the eight main requirements prescribed by ITG 2002/12 that are applicable to all third sector organizations; **(b)** identifying compliance to regulatory requirements in the

accounting reports sent to the MPDFT; and (c) sorting the frequencies of *compliance* and *non-compliance* to the eight main regulatory requirements.

The research results are relevant to the literature of the field because private foundations, by means of tax exemptions and fiscal immunity when executing their primary activities, as well as those related to education and social assistance (BRAZIL, FEDERAL CONSTITUTION/1988. Art. 150-VI-c), employ civil society resources to strengthen their objectives with the use of tax breaks. Considering this, by complying with the specific accounting regulation, as a minimum horizontal accountability obligation, with good information quality, organizations offer a positive signal that they are transparent in their use of public resources.

Premises of good information quality are: full compliance to governance and accounting practices, as well as giving proper account; transparency in the disclosure of financial reports and of management actions. It also entails respect for donors, contributors, regulators and other stakeholders interested in the information. When this set of requirements is fulfilled, there is a reliable accountability process. Otherwise, financial flow may be interrupted, accounts may not be approved by donors and regulators and tax breaks may even be suspended or revoked, with the risk of such an organization ceasing to exist.

Besides this introduction, the article is structured in the following sections: Theoretical discussion (2), presents and discusses research related to the subject; Third sector preliminaries in Brazil (3), where organizations, sorted by geographical distribution and activity, and requirements from ITG 2002/12 are presented to verify compliance to the regulation by foundations overseen by the MPDFT and civil associations; Methodology (4), where the analytical model used to assess compliance to the accounting regulation for nonprofit organization is demonstrated; Analysis of the data and of results (5), where the findings of this research are analyzed and discussed; Conclusion (6), summarizes the main findings of the research; and **References**, where contributions of the available literature are listed.

## 2 THEORETICAL DISCUSSION

This section discusses the regulation requirements that govern the third sector in Brazil, to which private foundations and civil associations belong; descriptive studies and the relevance of accountability as an instrument for transparency and giving account to society.

### 2.1 Regulation requirements

The Brazilian Federal Constitution (FC/1988) establishes that education and social assistance institutions have fiscal immunity. When foundations or civil associations perform at least one of these activities, they benefit from fiscal immunity, which is normally called tax break. If some other activity, distinct from these two, is also performed, taxes on those apply if there is not tax exemption. In order to keep the benefit of both fiscal immunity and tax exemption, however, foundations must prove that they comply with a specific accounting regulation and with other accessory obligations required by tax laws. Tax law accessory obligations are not part of the objectives of this article.

Regarding specific accounting regulations, the Federal Council of Accounting (CFC<sup>1</sup>), established in ITG 2002/12, modified by ITG 2012/15 (R1), that nonprofit organizations must present a minimum set of basic information in their accounts. This set of information may be summarized as: operational context, standardized financial statements (accounting reports), explanatory notes, revenue and expense recognition criteria, tax breaks, free services, own and third-party asset segregation.

In the legal sphere, the Brazilian Civil Code (Law 10.406/2002) deals with nonprofit organizations in several articles. Art. 44 establishes that private foundations are legal entities governed by private law. Arts. 62 and 64 establish three fundamental characteristics of foundations, which are: earmarking of assets, oversight by the Public Prosecutor's Office, and a close relationship to their founders.

## 2.2 Descriptive studies

MOULAERT and AILENEI (2005) analyzed the third sector within the concept of social economy. They consider that the different association forms of the 19<sup>th</sup> and 20<sup>th</sup> centuries were inspired by a “number of visions, ideologies, theories and philosophies”, which sometimes competed, that influenced associationism formation. They argue that this associationism had been under the control of the Church or the State and that clandestine associations, repressed by the authorities, “would contribute to the dissemination of the ‘new’ idea of ‘freedom of association’”. From their conclusions, this diversity may be associated to heterogeneity among organizations.

ETZIONI (1973) argued that for over a century there had been a discussion about which would be the adequate means to fulfill economic and social needs, in the name of capitalism, which praises the Market, and of socialism, which favors the State. He highlighted that, although this discussion was concentrated in the alternance of public versus private, a third way, called the Third Sector, grows between the public and the private sectors, and that it does not seek to replace either. He pointed out that there seems to be knowledge enough to say that there is greater dependency on the third sector, both to reduce the size of the State and to involve the private sector in fulfilling domestic demands.

PAES (2006); GRAZZIOLI, PAES, SANTOS and DE FRANÇA (2016) understand the third sector as a set of nonprofit organisms, organizations or institutions that have autonomy, are self-managed and whose main objective and function is to do voluntary work in the civil society aiming at its improvement. Regarding foundations, they argue that, in line with the Civil Code, the purpose of these entities is multiplied by activities related to social assistance; culture; protection and conservation of historical and artistic heritage; education; health; food security and nutrition; protection, preservation and conservation of the environment and promotion of sustainable development; scientific research; alternative technology development; management system modernization; production and publicity of information and technical and scientific knowledge; promotion of ethics, citizenship, democracy and human rights; and religious activities, forming a wide field of action.

Education and assistance activities related to health is one of the strongest areas of action for nonprofit organizations in Brazil, as argued by CARVALHO (2006) and SILVA (2010), starting with Holy Mercy Hospitals and religious schools during the colonial period. The State only started being the leading

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<sup>1</sup> In Portuguese: Conselho Federal de Contabilidade

agent of social policies with the 1934 Constitution, with the creation of the National Social Service Council, which granted to the registered institutions with public utility status the right to receive government subsidies and exemption of social security contributions.

### 2.3 Accountability relevance

ARVIDSON (2009) revised the literature concerning the assessment and impact of third sector activities in the United Kingdom, which is comprised by a multitude of organizations with each entity performing its own role, in different fields, working for a specific cause in which they intend to be the main provider of information to citizens, in the defense of public interest issues, with the motivation of influencing government policies. He argues that impact assessment and evaluation of these activities must not rely only on adequate accountability and policies, but also on finding evidences to be used as basis for legitimacy and, consequently, he asks: how does and organization justifies its right to exist? What role does evidence play on evaluation and accountability? He concludes stating that, although it is not clear in which ways value-driven organizations are different from public or private sector organizations in terms of accountability, and even if there are questions on how to frame and use evaluations and non-intended consequences, the suggestion is not to abandon accountability demands, but to find different ways to express them.

From a wide regulatory context, DOLNICAR and LAZAREVSKI (2009) analyzed marketing in nonprofit organizations in Australia, where they are regulated by the three government levels, including local, state and federal regulations, and that the nonprofit segment is regulated by the Charity Commission of England and Wales. They state that the commission implements operational standards and accountability for the nonprofit sector in the United Kingdom. They argue that organizations must adopt practices imposed by the government or by demands from donors. Besides that, they state that the influence of globalization on economic restructuring practices, accounting practices and accountability standards has increased and that these practices must now be adopted not only in a national level, but also internationally. They exemplify this with the adoption of western accounting standards in developing countries with facilities from international organizations, such as The World Bank.

In an attempt of evaluating the complexity of the process, SCHAFER (1999) and CANDLER and DUMONT (2010) introduced an accountability theoretical matrix structure, duty to pay account, to nonprofit organizations. Using this matrix structure, they discuss *accountability to whom* and *accountability for what* and categorize stakeholders, such as clients, donors, the government, founders and others. They argue that the obligation of nonprofit organizations of giving account is important in theory (if not in practice), at least from the organization to its donors. However, the importance of accountability increases when nonprofit organizations seek private funding of public goods to become public providers of such goods. In this context, they discuss two types of accountability: **(a)** procedural (law, mission, ethics and legitimacy); and **(b)** consequential (financial resources, voluntary resources, reputational capital, goods and services, social capital and policy impact), which, according to their understanding, allow better assessment of the process.

In order to understand the relationship between the third sector and the State, KENDALL (2000)



researched the pact between the English labour government and the third sector in 1988. He declares that the main agreements had different forms of accountability with common values of commitment to integrity, objectivity, openness, honesty and leadership.

ABRUCIO and LOUREIRO (2004, p.75-102) approached accountability in the context of public finance in Brazil. They highlight democratic accountability as a type of responsibility policy that permanently forces individuals in the government to give account to their constituents. They mention that the electoral process is a starting point of accountability and emphasize that more democracy means more accountability. In this context, they comment on criticism regarding vertical and horizontal accountability processes and their inability to hold representants fully responsible as punishment measures are not implemented, as stated by O'DONNELL (1988). As vertical accountability, they highlight:

*“Elections, social demands that may normally be delivered, without the risk of coercion, and regular media coverage at least to the more visible of those demands and to the supposedly illicit actions of public authorities are dimensions of what I call ‘vertical accountability’”*

And, for horizontal accountability, they say

*“the existence of State agencies that have the right and the legal power and that are in fact willing and able to perform actions that go from routine supervision to legal sanctions or even to impeachment against actions or issues of other agents or State agencies that might be qualified as criminal”*

HAUGH and KITSON (2007) analyzed the labour government in the United Kingdom, which had promised to fight economic inequality and social exclusion by stimulating the third sector to fulfill part of this agenda. Because of this stimulus, since 1997, the third sector has received significant government support, as KENDALL and ALMOND (1999) state, making it possible for them to move from the margin to the economic mainstream, as observed by KENDALL (2000), OSBOURNE and McLAUGHLIN (2004a) and CAIRNS et al. (2005), by performing a growing role in the British economic, political and social life. From that point on, there was a revision in the charity tax that created a modern legal structure to support and stimulate a strong, diverse and independent voluntary sector that would promote greater efficiency and efficacy in charity institutions and would strengthen accountability in tax immune or exempt beneficent institutions.

### **3. Preliminaries of the third sector in Brazil**

This section presents all the third section organizations in Brazil by geographical distribution, statutory activity for which they have been created, and the legal form of their constitution.

#### **3.1 Basic accountability requirements**

As there is no data base containing financial and management information of nonprofit organization in Brazil, which would make evaluating their accountability effectivity and quality possible, the starting point of the research was to make a list of requirements to gather data from their accounting reports to the MPDFT. From this data, compliance to the basic requirements instituted by ITG 2002/12 started to be assessed, such as JORGE, SOUZA and DALFIOR (2015) did. Among the requirements presented by the

mentioned ITG, the eight listed in Table 1 are applicable to any third sector organization and, therefore, were chosen to assess compliance.

Table 1: Basic requirements instituted by ITG 2002/2012 – Nonprofit organizations

Ite m	ITG 2002/15 requirement	Item	ITG 2002/15 requirement
1	Result recognition by the regime of competence (RC)	5	Recognition and evidence of free service sacrifices (FS)
2	Donation and subsidy recognition by realization (DS)	6	Complete set of standardized financial statements (SS)
3	Result recognition by activity (RA)	7	Recognition and evidence of tax break benefit (TB)
4	Recognition and evidence of voluntary work (VW)	8	Segregation of partnership resources (PR)

Source: The authors. ITG 2002/2012

For each requirement in Table 1 with which organizations complied, a score of 1 was assigned and for each non-complied requirement, a score of zero was assigned. A sum of scores equal to 1 signals full compliance and smaller than 1 signals partial compliance with one requirement by each organization or of one organization with the requirements. This metric is applied to the model described in the section Methodology (4) and conveys compliance or non-compliance to the eight requirements listed as basic by ITG 2002/12.

### 3.2 Geographical distribution of third sector activities in Brazil

The third sector in Brazil, according to the Brazilian Institute of Geography and Statistics (IBGE<sup>2</sup>, 2010), as shown in Table 2, geographically distributed, totals 556.8 thousand organizations and corresponds to 5.2% of all the corporations registered at the Central Register of Enterprises (CEMPRE<sup>3</sup>). From this total, 290.7 thousand are private foundations and civil associations, while 266.1 thousand are entities constituted in other legal forms.

The Southeast region is the one with highest concentration of nonprofit organizations, in the total of organizations in general, in the total of foundations and associations, and in the total of other entities, all of them formally registered at CEMPRE.

Table 2- Geographical distribution of nonprofit organizations – Brazil – IBGE (2010)

Region	Total of organizations	TrF	Private	FArF	Other entities	OErF
			foundations and civil associations			
North	24,126	0.0433	14,128	0.0486	9,998	0.0376

<sup>2</sup>In Portuguese: Instituto Brasileiro de Geografia e Estatística

<sup>3</sup>In Portuguese: Cadastro Central de Empresas



Northeast	114,700	0.2060	66,529	0.2289	48,171	0.1810
Southeast	261,468	0.4696	128,619	0.4425	132,849	0.4991
South	121,961	0.2190	62,633	0.2155	59,328	0.2229
Center-West	34,591	0.0621	18,783	0.0646	15,808	0.0594
<b>Total</b>	<b>556,846</b>	<b>1.0000</b>	<b>290,692</b>	<b>1.0000</b>	<b>266,154</b>	<b>1.0000</b>

**Source:** IBGE, Directorate of Surveys, Central Registry of Enterprises 2010.

TrF=total relative frequency; FArF= private foundations and civil associations relative frequency; OErF=other entities relative frequency.

Considering statutory activities, as shown in Table 3 below, private foundations total 7,664 organizations and associations total 283,028. The most recent data are those from the 2015 census, but, due to the different methodologies used by IBGE, it is not possible to segregate foundations from associations. Because of this and because it does not interfere with the research results, 2010 data were used, instead of 2015. In the legal category of *foundation*, the most concentrated activity is *education and research*, with a frequency of 22.94%; in the category association, the highest concentration is in the activity *religion*, with 28.69%. A relevant counterpoint is in the activities *housing* and *environment and animal protection* with the smallest frequencies of all.

Table 3 – Nonprofit private foundations and civil associations by activity – Brazil - 2010

Activities	Foundation	FrF	Association	ArF	Total	TrF
Housing	5	0.0007	287	0.0010	292	0.0010
Health	648	0.0846	5,381	0.0190	6,029	0.0207
Culture and leisure	803	0.1048	36,118	0.1276	36,921	0.1270
Education and research	1,758	0.2294	15,906	0.0562	17,664	0.0608
Social assistance	1,043	0.1361	29,371	0.1038	30,414	0.1046
Religion	1,653	0.2157	81,200	0.2869	82,853	0.2850
Patron, professional and rural producer associations	218	0.0284	44,721	0.1580	44,939	0.1546
Environment and animal protection	139	0.0181	2,103	0.0074	2,242	0.0077
Development and protection of rights	322	0.0420	42,141	0.1489	42,463	0.1461
Other private nonprofit institutions	1,075	0.1403	25,800	0.0912	26,875	0.0925

<b>Total</b>	<b>7,664</b>	<b>1.0000</b>	<b>283,028</b>	<b>1.0000</b>	<b>290,692</b>	<b>1.0000</b>
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**Source:** IBGE, Directorate of Surveys, Central Registry of Enterprises 2010; and Demographic Census 2010.

FrF=foundations relative frequency; ArF=associations relative frequency; TrF=total relative frequency.

The private foundations overseen by the MPDFT and the civil associations object of this research are included in the geographical distribution for the Center-West of Brazil, as shown in Table 4. There is no segregation between private foundations and civil associations in the IBGE data base. The sample of foundations used to perform the tests are contained in the total of foundations and associations.

**Table 4- Nonprofit private foundations and civil associations by federative unit – Center-West region - 2010**

<b>Center-West region</b>	<b>Total of Organizations</b>	<b>TaF</b>
Mato Grosso do Sul	3,733	0.1987
Mato Grosso	4,070	0.2167
Goiás	6,609	0.3519
Distrito Federal	4,371	0.2327
<b>Total</b>	<b>18,783</b>	<b>1</b>

**Source:** IBGE, Directorate of Surveys, Central Registry of Enterprises 2010; and Demographic Census 2010.

TaF=total accumulated frequency

## 4 METHODOLOGY

The methodology used is comparative, as it interposes disclosure practices of private foundations overseen by the MPDFT to the accounting rule for nonprofit organizations (ITG 2002/12). The practices were identified in accounting reports for 2016 from a sample of 31 private foundations made available by the MPDFT (APPENDIX A), in which compliance to the eight basic requirements listed in the previous section (Preliminaries of the third sector in Brazil) is verified as an accountability requisite. In this context, required compliance is verified and tests based on the analytical model described by Equations (1) and (2) below are executed. The software used to obtain the results specified by the model is Gretl and Excel statistical package.

### 4.1 Compliance

Compliance status is measured by foundation as well as by requirement and shows whether organizations observe the regulation. Compliance by foundation ( $CO_{fr}$ ) considers recognition and

evidence practices that are intrinsic to each requirement. Compliance by requirement ( $CO_{rf}$ ) considers the number of foundations that *comply* or *do not comply* with each requirement. For each type of measurement, *score 1* is attributed to *comply* and *score zero* to *do not comply*, as defined in 3.1.

**a) Compliance coefficient by foundation ( $CO_{fr}$ )**

$$CO_{fr} = \frac{1}{n} \sum_{f=1}^n f_i; i \in [0,1]; f = 1,2, \dots, n \quad (1)$$

**b) Compliance coefficient by requirement ( $CO_{rf}$ )**

$$CO_{rf} = \frac{1}{n} \sum_{r=1}^n r_i; i \in [0,1]; r = 1,2, \dots, n \quad (2)$$

Where  $f$  is foundation;  $r$  is requirement;  $i$  is binary and indicates *compliance* or *non-compliance*.

The  $CO_{fr}$  and  $CO_{rf}$  coefficients are 1 if a foundation fully complies with the eight requirements and if all foundations comply with a requirement. In this case, *horizontal accountability* is complete. Otherwise, it is incomplete or nonexistent.

**(c) Accountability status coefficient (ASC)**

The coefficients produced by Equations (1) and (2) are used to test *horizontal accountability* status. The coefficients indicate compliance by a foundation with all requirements and with a requirement by all foundations. There are three possible status for each coefficient, as shown below:

$$ASC = \begin{cases} CO_{fr} = 1 \Rightarrow \text{complete accountability by foundation} \\ CO_{fr} = 0 \Rightarrow \text{nonexistent accountability by foundation} \\ CO_{fr}(0,1) \Rightarrow \text{incomplete accountability by foundation} \\ CO_{rf} = 1 \Rightarrow \text{complete accountability by requirement} \\ CO_{rf} = 0 \Rightarrow \text{nonexistent accountability by requirement} \\ CO_{rf}(0,1) \Rightarrow \text{incomplete accountability by requirement} \end{cases}$$

The closer to 1 the  $ASC$ , the more compliant the process. Conversely, the closer to zero, the further from compliance the process.

## 5 ANALYSIS OF THE DATA AND OF RESULTS

This section analyzes the horizontal accountability status produced by the compliance coefficients by foundation and by requirement. The responses were gathered directly from the documents that comprise the set of accounting reports of the foundations in the sample.

### 5.1 Responses to the selected basic requirements

The responses to each basic requirement were obtained based on the model demonstrated by Equations (1) and (2) in the Methodology (4) section. Using a binary combination [0,1], Table 5 below

displays compliance signals relative to the eight basic requirements from ITG 2002/12 provided by the models. These responses show *full compliance*, *partial compliance* or *non-compliance* with each basic requirement and by foundation, which produces the three horizontal compliance status by coefficient.

Table 5: Compliance to the eight basic requirements from ITG 2002/12 gathered from the sample of accounting reports from 2016 of 31 private foundations overseen by the MPDFT signaling *accountability* status

FOUNDATION	BASIC REQUIREMENTS		FOUNDATION	BASIC REQUIREMENTS	
	Number	Compliance		Number	Compliance
<b>a) How many of the eight basic requirements from ITG 2002/12 each foundation complies with</b>					
F 1	6	0.750	F 17	4	0.500
F 2	4	0.500	F 18	6	0.750
F 3	3	0.375	F 19	6	0.750
F 4	4	0.500	F 20	4	0.500
F 5	4	0.500	F 21	-	-
F 6	6	0.750	F 22	2	0.250
F 7	7	0.875	F 23	6	0.750
F 8	6	0.750	F 24	7	0.875
F 9	1	0.125	F 25	6	0.750
F 10	3	0.375	F 26	3	0.375
F 11	2	0.250	F 27	5	0.625
F 12	3	0.375	F 28	7	0.875
F 13	2	0.250	F 29	3	0.375
F 14	5	0.625	F 30	4	0.500
F 15			F 31		

	6	0.750		5	0.625
F 16	6	0.750			

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	FOUNDATION		FOUNDATION		
	Number	Compliance	Number	Compliance	
<b>b) How many of the 31 foundations comply with each of the eight basic requirements from ITG 2002/12</b>					
<i>RC</i>	25	0.806	<i>FS</i>	17	0.548
<i>DS</i>	24	0.774	<i>SS</i>	30	0.968
<i>RA</i>	20	0.645	<i>TB</i>	0	0.000
<i>VW</i>	7	0.226	<i>PR</i>	13	0.419

Source: the authors.

F = foundation; RC= Result recognition by the regime of competence; DS= Donation and subsidy recognition by realization; RA= Result recognition by activity; VW= Recognition and evidence of voluntary work; FS= Recognition and evidence of free service sacrifices; SS= Complete set of standardized financial statements; TB= Recognition and evidence of tax break benefits; PR= Segregation of partnership resources.

Part (a) of Table 5 above shows how many of the eight basic requirements from ITG 2002/12 is complied with by each foundation. It shows that none of the 31 foundations complied with all eight requirements, the larger number of requirements with which a foundation was compliant is seven, which corresponds to the incomplete accountability status closest to 1 (0.875). The smallest number of requirements is zero and corresponds to the inexistent accountability status, with one foundation having complied with none of the requirements.

The most compliant foundations are F7, F24 and F8, having complied with seven of the eight requirements. It is important to note that foundation F21 did not comply with any requirement and, therefore, its accountability status is nonexistent.

Part (b) shows how many of the 31 foundations comply with each of the eight basic requirements from ITG 2002/12. The results show that the requisite with highest compliance is the need to produce a complete set of standardized financial statements (SS), with a frequency of 30 of the 31 foundations in the sample, totaling 96.8%, conveying the incomplete accountability status closest to 1. The requirement with which none of the foundations complied was the need to recognize and disclose tax break benefits (TB), with zero compliance, resulting in a nonexistent accountability status.

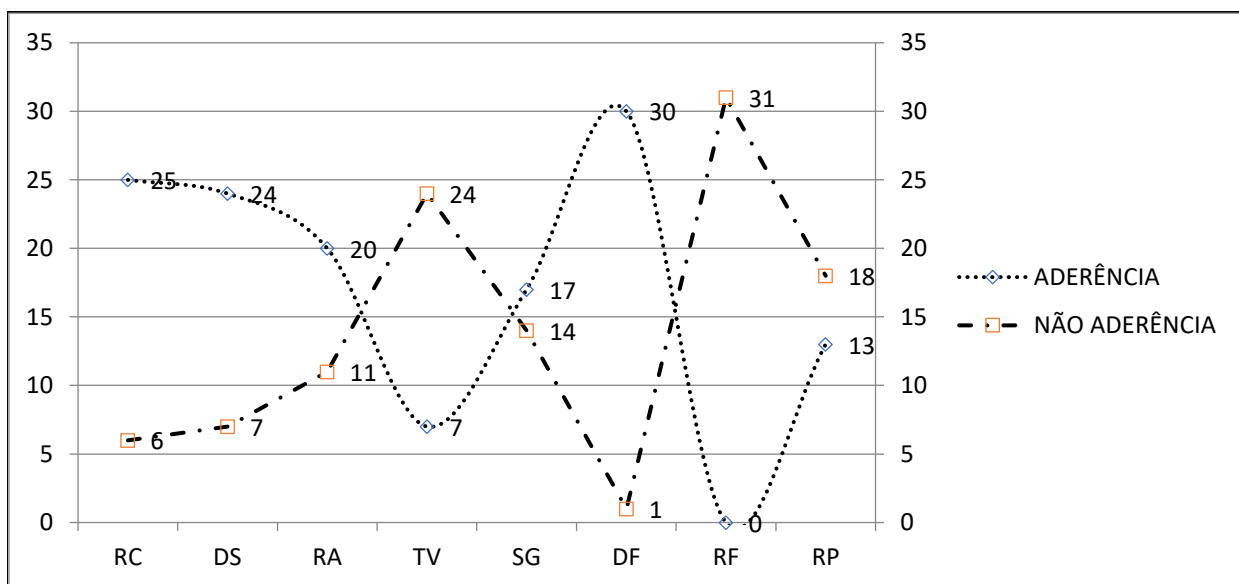
These results show that it is necessary to promote clarification and awareness concerning accountability processes among managers to improve compliance with the regulation, as well as to encourage transparency regarding management actions that justify the existence of a foundation, as argued by ARVIDSON (2009).

Regarding tax break benefits (TB), it is important that foundation managers understand that, even

though foundations have fiscal immunity, this fact does not mean that the organization is not obliged to comply with this requirement for accountability purposes. The compliance in question is of an economic nature, not legal. Thus, even when a private foundation works with education or social assistance, which would grant it fiscal immunity, there is a presumed calculation basis for taxes, legally determined, relative to accessory obligations and legal restrictions. In any circumstance, such organizations benefit from resources from society and this fact alone imposes them the ethical obligation of social responsibility in conforming to *horizontal accountability*, as discussed by ABRUCIO and LOUREIRO (2004, p. 75-102).

**5.2 Graphic demonstration of compliance and non-compliance**

Another way of presenting the findings of the research regarding *compliance* is shown by Figure 1. The results oppose *non-compliance* to *compliance* materialized by the compliance frequency for each of the requirements. The two lines in the graph show the number of foundations that comply with each requirement and the number of requirements with which each foundation complies. The compliance and non-compliance points show accountability status.



**Figure 1: Compliance with ITG 2002/12**

**RC**= Result recognition by the regime of competence; **DS**= Donation and subsidy recognition by realization; **RA**= Result recognition by activity; **TV (VW)**= Recognition and evidence of voluntary work; **SG (FS)**= Recognition and evidence of free service sacrifices; **DF (SS)**= Complete set of standardized financial statements; **RF (TB)**= Recognition and evidence of tax break benefits; **RP (PR)**= Segregation of partnership resources. **ADERÊNCIA** = COMPLIANCE; **NÃO ADERÊNCIA** = NON-COMPLIANCE.

Taking as reference the requirements **DF (SS)** and **RF (TB)**, from the eight discussed in this article, *non-compliance* as a negation or a complement of *compliance* is a strong evidence of the fragility of accounting practices in foundations. Compliance with the requirement **DF (SS)** varies in frequency from 1 to 30 and the requirement **RF (TB)** varies from zero *compliance* to 31 *non-compliance* cases. The



requirement **SG (FS)** is almost median with 17 *compliance* and 14 *non-compliance* instances, considering that the median estimator, which divides the series in half, is 16.

These results are relevant for the assessment of the third sector accounting regulation efficacy that, as an instrument, demands good governance and accountability management, which are important for disclosing information that standardized financial reports, because of their nature, do not reveal. In this context, the results are robust in signaling that private foundations overseen by the MPDFT do not fully comply with the requirements from ITG 2002/12, do not present complete horizontal accountability status and, therefore, do not give proper account to society about the resources entrusted to them.

## 6. CONCLUSIONS

This article analyzed compliance to the requirements from ITG 2002/12 by private foundations overseen by the Public Prosecutor's Office for the Federal District and Territories (MPDFT) in Brazil, based on data from accounting reports for 2016 of a sample of 31 private foundations. The degree of compliance with each of the eight basic requirements that are applicable to any third sector organization was assessed, by foundation, as well as each foundation compliance with each of the eight requirements in order to measure horizontal accountability. A summary of the results is presented below:

- (a) none of the eight basic requirements from ITG 2002/12, applicable to all third sector organizations, was fully complied with by all foundations, and none of the foundations complied with all of these requirements. These findings convey partial compliance and incomplete accountability status.
- (b) the basic requirement of recognizing and disclosing tax break benefits (**TB**) was not complied with by any foundation. This is an evidence that foundations are not socially committed to a transparent use of resources from society, provided by taxpayers to strengthen their objectives. Regarding this requirement, results show nonexistent accountability status.
- (c) standardized financial statements, as the most basic of the requirements, were not presented by one of the 31 foundations in the sample, as one of the parts of the process of giving account. This omission goes against accounting practices and harms the professional credibility of the responsible accounting professional.
- (d) signs of incomplete and nonexistent accountability status show that there is a need to promote clarification and awareness among foundation managers and accounting professionals, by both the Federal Council of Accounting (CFC), as the Brazilian accounting system regulator, and the MPDFT, as the entity responsible for overseeing foundations.
- (e) answering the research problem, private foundations overseen by the MPDFT, in their annual statements, do not fully comply with the accounting regulation for nonprofit organizations as a minimum accountability requirement.

The findings of the research are relevant to the literature of the field because private foundations, as they benefit from tax exemption and fiscal immunity, are indebted to society. It is, therefore, imperative that these organizations comply with accountability requirements in order to keep society informed about the resources entrusted to them.

As a suggestion to continue this line of research, all the requirements from ITG 2002/12 could be analyzed and other third sector organizations, besides foundations, could be investigated in longer periods with the objective of obtaining evidences of compliance and of complete accountability status.

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