“Volunteer accounting in an unregulated environment -
A critical examination of club-level accounting:
Considerations for Policy Makers”

Janine Muir

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requirements for the degree of
Doctor of Philosophy

Faculty of Business and Enterprise
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2013
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ABSTRACT

Regulation of the accounting profession and function in the corporate world has received considerable attention from academics, regulators and the wider business community over the past several decades. Widespread variations in reporting practices were found to be common in an environment devoid of accounting prescription, and formal accounting frameworks/standards emerged as solutions. A neglected area of both research and regulation however, is that of incorporated associations; an entity structure common for community, nonprofit organisations.

This study explores several themes within the literature including volunteerism, accounting functions and responsibilities in small organisations, and the extent of regulation for this sector. It examines the accounting practices of small incorporated associations (sport and recreation) to the extent to which the emergent themes are consistent with the literature. The broad objective of this study is to study the current practices underlying the accounting function, with a view to making an academic contribution to the knowledge pertaining to these types of entities, and to informing future policy debate.

This study involved scrutiny of a random sample of 994 annual financial statements of small incorporated associations (sport and recreation) as lodged with Consumer Affairs Victoria. From these, 994 administrative sections, 674 financial statements and 103 audit/assurance reports were scrutinised. Additional data were collected via an online questionnaire, with 233 completed and usable responses.

The overarching accounting requirement imposed on these entities is truth and fairness in financial reporting; a requirement the literature shows is associated with both application and enforcement difficulties. Consistent with anti-regulation/free-market theory the results indicate that on average the financial statements of associations are true and fair in accordance with generally accepted accounting norms and conventions. There were however very high levels of non-compliance across the different measures which, consistent with theories of regulatory non-compliance, were indicative of a lack of
understanding amongst Treasurers. Treasurers were unlikely to be professional accountants, but were likely to have been in their current role for multiple years and have undertaken the role in another incorporated association. The majority of associations subjected their accounts to audit in the absence of a statutory requirement, however the term ‘audit’ was often generically used to indicate someone had ‘looked over’ the accounts. This has the potential to deliver a false sense of assurance. Non-compliances in these associations are therefore indicative of a regulatory approach experiencing breakdowns, as errors and anomalies are either not known to the users of financial information (many of whom are external to the association) and/or are not required to be corrected by key players (such as Consumer Affairs Victoria and assurance providers). Consequently the minimalistic approach intended to spare associations of regulatory burden has instead created a void where the Regulator’s expectations are unclear, and results in poor quality accounting and assurance output. This has generated a clear financial reporting gap in these associations.

In many ways the enabling legislation of small incorporated associations mirrors the Corporations Act 2001, and this potentially creates isomorphic pressure. Multiple regression analysis is often used to investigate such pressure, but this research instead developed a composite Indicator of Complexity to measure complexity (and resulting isomorphism). The results indicate a wide range in complexity in the Treasurer’s role, despite all associations being classified as ‘small’. Although mimetic isomorphism was found to be low overall, a number of Treasurers were found to be undertaking functions that would be undertaken by professional accountants in the corporate world. Complexity and uncertainty inherent in the Treasurer’s role were cited as barriers to entry by questionnaire respondents, and there was a noted difficulty in attracting volunteer Treasurers. Filling of the Treasurer’s post tended to be characterised by someone willing to do the role as opposed to someone wanting to do the role. Hence, contrary to the broader literature on volunteerism, barriers rather than motivators were dominant. Ultimately poor quality financial and assurance practices permeate the accounting function of small incorporated associations because there is little choice other than to accept the quality that the only willing Treasurer can deliver.
ACKNOWLEDGEMENT

In an undertaking of this magnitude, there are several people without whom this thesis could not have been completed. In many ways it has been a labour of love; a way to make a contribution to the future of an entity structure that increasingly occupies my life through my children’s and my own interests. My first and obvious thanks must go to my supervisors, Associate Professor Irene Tempone, Dr. Julie Foreman and Dr. Meropy Barut who have unwaveringly guided, encouraged and supported me on this journey.

Thanks must also go to Consumer Affairs Victoria for supporting this research, and the respondents from the clubs whose generosity and enthusiasm in giving their time and insights was invaluable. I hope this study provides meaningful insights into grassroots accounting practices that will be useful in informing future policy debates in this area.

Last but not least, thanks must go to my family for the support and encouragement they have given me to pursue this journey.
DECLARATION

I declare that this thesis:

- Contains no material which has been accepted for an award of any other degree or diploma.
- To the best of my knowledge, contains no material previously published or written by another person except where due reference is made in the text of the thesis.
- Is not the work of a joint research.

…………………………………………………

Janine Muir

30th July 2013
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<td>AASB</td>
<td>Australian Accounting Standards Board</td>
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>ABN</td>
<td>Australian Business Number</td>
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<tr>
<td>ACNC</td>
<td>Australian Charities and Not-for-profits Commission</td>
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<td>AGM</td>
<td>Annual General Meeting</td>
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<td>APESB</td>
<td>Accounting professional and Ethical Standards Board</td>
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<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
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<td>AS/NZS</td>
<td>Australian Standard / New Zealand Standard</td>
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<td>Australian Securities Exchange</td>
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<td>Auditing and Assurance Standards Board</td>
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<td>BAS</td>
<td>Business Activity Statement</td>
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<td>CAV</td>
<td>Consumer Affairs Victoria</td>
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<td>COAG</td>
<td>Council of Australian Governments</td>
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<tr>
<td>EUC</td>
<td>End User Computing</td>
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<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
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<tr>
<td>NFP</td>
<td>Not-for-Profit</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PAT</td>
<td>Positive Accounting Theory</td>
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<tr>
<td>PUMA</td>
<td>Public Management Committee</td>
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<td>SCOA</td>
<td>Standard Chart of Accounts</td>
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Definitions

Audit
An audit is taken to be a service provided by an assurance provider whereby they gather sufficient appropriate evidence on which to form (and express) and opinion as to the reliability of the information being presented.

Enabling Legislation
This research focuses on the requirements contained in the enabling legislation, which at the date of data collection was comprised of the Victorian:

- "Associations Incorporation Act 1981, Vic." 1981) – the Act (1981); and

A major overhaul of the legislation was undertaken and new legislation proclaimed as active from 26th November 2012 (after data collection). The new legislation is comprised of the Victorian:

- "Associations Incorporation Reform Act, Vic." 2012) – the Reform Act (2012); and

There are two changes of relevance to this study:

i. The introduction of a three-tiered structure (tier-1/small, tier-2/medium, tier-3/large) to replace the previous two-tiered structure (non-prescribed/small, prescribed/large). This study focuses on small incorporated associations, and the accounting requirements for this category remain consistent between the two pieces of legislation. That is, no new accounting requirements have been introduced, and the accounting function is still based on the generation of an annual statement that is ‘true and fair’. (This is discussed more fully under ‘small incorporated associations’);

ii. There is still no legal requirement for small incorporated associations to have an annual audit done, however the new legislation includes a requirement for any reviews to be undertaken by a member of one of the Joint Accounting Bodies who holds a current practicing certificate (the Reform Act 2012, s.96). It is specified the review must be
conducted in accordance with the Auditing Standards on Review Engagement (ASRE) issued by the Australian Auditing and Assurance Standards Board (the Reform Act 2012, s.3). There is no reference or provision for an audit (rather than a review) to be undertaken in tier-1 associations. Based on the findings of this research, the impact of this on tier-1 associations will be significant. This was discussed with the Key Policy Advisor at Consumer Affairs Victoria/Department of Justice, who indicated a relaxing of the new requirements (to include audits as an assurance option, and to allow Joint Accounting Body members without practicing certificates to undertake the assurance engagement) will be effected via a Commissioner’s ruling. Nothing to this effect has been released at the point of thesis submission.

Note: Where necessary the two Acts are distinguished as either the ‘original’ legislation or the ‘reform’ legislation.

**Professional Accountants**

Refers to members of any of the Joint Accounting Bodies including:

- CPA Australia
- Institute of Chartered Accountants in Australia;
- Institute of Public Accountants.

**Small Incorporated Associations (Non-prescribed = Tier-1)**

Small incorporated associations are separate legal entities that through incorporation enjoy the benefits of limited liability and perpetual succession (Pilchconnect, 2012a). The incorporated associations of interest in this research are small (non-prescribed) sporting and fitness associations that have incorporated under Victorian state legislation. Such entities have a non-profit motive as a condition of incorporation, and are defined in section 3 of the Act as having:

- gross receipts in the previous financial year of less than A$200,000 (or such other amount as is prescribed by regulation), or
- gross assets of less than A$500,000 (or such other amount as is prescribed by regulation).
**Note:** New associations’ legislation became active on 26th November 2012, with reforms including a move from the two-tiered annual reporting structure (small/non-prescribed and large/prescribed) to a three-tiered structure (tier-1/small, tier-2/medium, tier-3/large) (Pilchconnect, 2012b). As illustrated in Table 0-1 below, under the new legislation a tier-1 association becomes the ‘small’ category, and captures associations with annual revenue not exceeding $250,000 (the reference to gross assets has been dropped). Also illustrated in Table 0-1, under the changes the accounting function of tier-1 associations is still founded on the requirement to produce an annual financial statement that truthfully and fairly reflects the financial performance and position of the association. There is still no audit requirement imposed on these smallest of associations.

These reforms do not change the essence of this research. Associations that were previously classified as ‘small’ are still classified as ‘small’ (tier-1) – but under the new legislation those associations that were just over the income threshold for ‘non-prescribed/small’ associations will now be classified as ‘tier-1/small’. Hence, the reforms serve to increase the significance of this research, by increasing the number of tier-1/small incorporated associations on the Victorian register.

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<td>Gross Assets less than $500,000; or Gross Receipts less than $200,000</td>
<td>Total Revenue of less than $250,000</td>
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<td>True and Fair annual financial report to be presented at AGM and lodged with Registrar; No mandated requirement to subject accounts to audit/review</td>
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**Table 0-1 Definition of a ‘small’ incorporated association pre- and post-2012 reforms**

**Note:** Non-accounting related legislative changes include: Codification of duties for office holders; Defences for office holders; Indemnity for office holders; Tiered reporting procedures; Merger of Public Officer/Secretary; Removal of the prohibition on trading; Use of technology at committee and general meetings; New matters that must be provided for in an association's rules; Removal of committee members; Conflicts of interest and committee members; Clarification of the rights of members; Disciplinary action against a member; Grievance procedures.
1. Chapter One: Introduction

1.1 Background

In the corporate world the financial accounting function is typically undertaken by professional accountants, and usually operates within a highly regulated environment. This is not the case for a large number of community-level organisations, whose financial accounting function is undertaken by volunteers, and operates in a largely unregulated environment. In Australia “small, voluntary, non-trading membership based organisations” (Hadden, 2005, p.01) such as sporting, arts, cultural, community, charitable and educational clubs can incorporate under relevant state legislation. As with their corporate counterparts, the resulting “maze of regulatory demands imposes an enormous burden on [membership based organisations]” (Silverman, 2008, p.31) – demands that are generally met by volunteers. In Victoria the original enabling legislation for incorporated associations came into force in 1981, and like many areas of law has undergone numerous changes since first being proclaimed.

The legislation applicable to incorporated associations is not confined to incorporation matters, and there are many other Acts relevant to small incorporated associations that have undergone change in recent times. For example, there have been multiple amendments to the gambling legislation and fundraising legislation, and “major changes to the Food Act [were] phased in over three distinct phases between July 2010 and July 2011” (Department of Health: Victoria, 2010). The Liquor Control Act 1987 (Vic) which regulates the supply and service of alcohol has undergone numerous updates, some being repealed and some replaced by the Liquor Control Reform Act 1998 (Vic). The Working With Children Act 2005 (Vic) is a comparatively new piece of legislation which requires certain persons who work with children (whether in a paid or voluntary capacity) to obtain a Working With Children Check. There has been, and continues to be, much refinement of this Act.
An incorporated association has a legal obligation to run safe events, and a safe organisation more generally. Victoria “has a very broad definition of ‘workplace’ which may include the event location” (Pilchconnect, 2010c) and consequently the OH&S Act (Occupational Health and Safety Act 2004 (Vic)) is specifically applicable to small incorporated associations. The original OH&S Act (Occupational Health and Safety Act 1985 (Vic)) also had a number of updates before being replaced by the current OH&S Act, which itself has more than sixteen version updates as at the time of writing this thesis.

Sport at various levels is becoming increasingly professional and corporatised (Cuskelly et al., 1998; Foreman, 2006; Hoye et al., 2009). As a specific subset of incorporated associations, community sporting and recreational clubs are also becoming much more professional and corporatised in their operations, and like their European counterparts, Victorian clubs are part of a “plethora of associations and federations” (Commission of the European Communities, 2007, p.3). This brings a new tier of obligations and rules (handed down by the sport’s governing body/bodies) to be followed by clubs – rules that also evolve as new best-practice findings are made. That these clubs are community-based entities also brings into play a myriad of council by-laws. A club that operates a standalone or signature event in a different municipality from the club’s main activity will have a number of different council requirements to comply with – all of which are likely to change over time. The dynamic legislative framework poses unique challenges for some, if not all, incorporated associations.

Community clubs such as sporting clubs are duly recognised as a mechanism for personal development and the building of social capital (Cordery & Narraway, 2010; Department for Victorian Communities, 2006, 2008; Eley & Kirk, 2002; Victorian Government, 2008), thereby making their existence significant on both the personal and community levels. Incorporated associations are usually managed by a committee of management, including a President, Vice President, Treasurer and Secretary, which due to the non-profit membership-based nature of the entity tend to be volunteer positions (Woodward &
Marshall, 2004). Farmer and Fedor (2001) point out we all play many roles in our increasingly busy lives, and these volunteer activities are additional roles competing for our finite available time. They point out that in the paid work environment, management can implement a system of rewards and punishments to ensure compliance with various requirements, however in the volunteer environment “volunteer behaviour is less easily mandated” (Farmer & Fedor, 2001, p.193).

A committee brings together a number of different people, with different values, interests, experiences, educational qualifications, commitment to the task at hand and available time. In the absence of choices, the prevailing consensus for having someone fill any particular role may be that the said person “will at least contribute something…and that some effort is better than none at all” (Farmer & Fedor, 2001, p.192). Unfortunately the result can be “organisations relying on volunteer labour [may] tolerate poor performance” (Farmer & Fedor, 2001, p.192), and inadvertently increase the risk of non-compliance with laws and regulations. Such poor performance is not necessarily due to a deliberate avoidance of the finer legislative print, it may simply be caused by a lack of understanding of what it is they (the individual and the entity) must comply with (Hutter & Power in Pickford, 2001). It would be incorrect to assume all human resources are the same (Doherty, 2006), and it would be similarly incorrect to assume the same quality resource is applied to equivalent volunteer positions. One’s level of education directly impacts on one’s thought processes, and ultimately the standard of contribution they are capable of providing (Lee, 2008).

A VicSport independent taskforce report confirmed that attracting volunteers to executive and administrative roles is exceedingly difficult because of the “need to operate in what is increasingly a complex legal environment” (VicSport, 2001, p.4). The obvious implications are, those who best understand the legalities involved in such a position may not nominate, and those who do nominate may be doing so without being fully cognisant of what they have put their hand up for. Consequently it is not uncommon for members of an incorporated sporting association to feel “they [don’t] have the expertise to properly handle
legal matters” (VicSport, 2001, p.4). Hence, a balance between the need for legislation and the need to attract volunteers is necessary.

There are a number of legal philosophies from natural law to positivists theories that attempt to explain the purpose of law and other legally enforceable regulations (Latimer, 2006). Compliance for the sake of compliance is ludicrous, and unless there is a clear link between the rules and their intended purpose, they may well be disregarded (Braithwaite, 1993; Parker, 2000; Silverman, 2008). In the non-profit sector “regulation is used to facilitate the establishment and operation of non-profit organisations” (State Services Authority, 2007, p.xii), but serves much more than as a mechanism to create entities that can go about their business under a limited liability regime. Regulation of incorporated associations is aimed at limiting “undesirable outcomes, such as lack of transparency”, and subsequently encouraging “trust and confidence” in the running of these entities (State Services Authority, 2007, p.xii) in much the same way the ASX Corporate Governance Council (2010) is focused on “preserving stakeholder confidence” (p.2) (ASX Corporate Governance Council, 2007 p.2). Regulation is also a mechanism to ensure “standards of service delivery and public safety are maintained” (State Services Authority, 2007, p.xii).

So given the underlying purpose of laws and regulations, it is not surprising there have been so many legislative changes required to ensure associations are ‘moving with the times’. As stated, there are now legal requirements pertaining to who can serve alcohol, handle food, administer first aid, work with children and so on. In contrast, the legal requirements pertaining to the accounting function in small incorporated associations have not undergone much change at all in more than thirty years. This is despite significant changes in generally accepted accounting practices (Hopwood, 2007), and the increasingly businesslike nature of many of these associations.

Unlike first aiders, canteen managers, bar staff and other persons providing volunteer labour to small incorporated associations, there are no minimum qualifications required for someone assuming the role of Treasurer. Furthermore small Victorian incorporated
associations are not required (under the enabling legislation) to follow accounting standards, have the accounts audited/reviewed or produce general purpose financial reports. In addition to there being no prescription as to what the accounting information system of a small incorporated association should include, there is, for all intents and purposes, no guidance either. The legislation provides qualitative guidance such as the maintenance of ‘correct accounts and books’ (sch.4, s.32(1), the Regulations 2009) that result in ‘adequate and accurate accounting records’ (s.30A, the Act 1981) and the generation of ‘true and fair’ reporting (s.30(3A)). The problem with such an approach is that even amongst professional accountants the term ‘true and fair’ has caused much debate, because it is not a legally defined term (Deegan, 2011). Given the potential variability in the qualifications and background of those charged with financial management and reporting in small incorporated associations, compliance with this term is also potentially variable – it is a concept “closely identified with judgment” (Kirk, 2006, p.206).

According to the OECD (Parker, 2000) “a key determinant of government effectiveness is how well regulatory systems achieve their policy objectives” (p.7). The policy objective of interest in this research is the achievement of ‘true and fair’ financial reporting. This research uses institutional theory, and theories of accounting regulation and voluntary audits as a back drop for investigating the accounting function applicable to small incorporated associations. Empirical research pertaining to sources of regulatory non-compliance is used as a framework to analyse compliance failures (actual and potential) in the accounting function. Furthermore, empirical research pertaining to volunteerism is used to analyse factors influencing the decision to (or not to) nominate for the role of volunteer Treasurer.
1.2 The Problem Faced

In Victoria, Australia “there are more than 35,000 incorporated associations” (Consumer Affairs Victoria, 2012d) operating to provide various benefits for their respective communities. These include associations pertaining to community sport (for example football, cricket and basketball clubs), social clubs (for example beefsteak and burgundy clubs and senior citizens clubs), children’s educational groups (for example kindergartens and playgroups), community support groups (for example Lions Clubs, Rotary Clubs and surf lifesaving clubs) charitable associations (for example disability support and aged care) and many other categories. Despite the vast diversity in their missions, such associations are typically dependent on volunteers to make them operational (Doherty & Carron, 2003; Doherty et al., 2004), and consequently volunteers fill roles from first aid officer and canteen manager, right through to management roles such as Treasurer. Whilst there are laws and regulations pertaining to roles with specific skill requirements (for example first aid officer and food handlers), there are no such regulations pertaining to the accounting function of small incorporated associations – including the knowledge-base of the person who assumes the role of Treasurer.

The need for regulatory reform, accountability, transparency, and better guidance on operating as an incorporated association has now been recognised (Australian Charities and Not-for-Profit Commission [ACNC], 2012), and significant legislative changes occurred in 2012. In this legislative overhaul the existing two-tiered financial reporting structure was abandoned in favour of a three-tiered system. Under the changes large and medium associations were (still) required to follow specific accounting protocols, and small association were (still) spared such obligations. Prior to the reforms approximately 95% of all incorporated associations were classified as small, meaning they had less than $500,000 in assets or revenue less than $200,000 in revenue (Parkinson 2004, p.91). After the changes, associations with less than $250,000 in revenue were classified as ‘small’. This change is significant because it meant even more entities (approximately 34,000 of the
35,000 registered associations) were classified as ‘small’. Consequently the comprehensive regulatory overhaul related to approximately 1,000 existing Victorian incorporated associations, and therefore had a negligible impact on the financial reporting practices of nearly all previously registered Victorian incorporated associations. However, the changes meant charities previously incorporated as companies limited by guarantee under the Corporations Act (2001), would now have good reasons (less administrative requirements) to change their structure to an incorporated association. Hence, the number of small incorporated associations increased as a result of the threshold change.

The intention of the 2012 regulatory reforms was to not overburden small incorporated associations (Consumer Affairs Victoria, 2012b), however Flack and Ryan (2003) noted the accountability distinctions between the non-profit, for profit and government sectors were already becoming blurred a decade ago. In their findings they concluded “the non-profit sector [was] being subjected to pressures to conform to the accountability practices of the other two sectors” (Flack and Ryan 2003, p.75). More recently McGregor-Lowndes (2011, p.1) again suggested further “attention [will be] paid to accounting and reporting protocols” in the not too distant future. In addition, “the Council of Australian Governments (COAG) is currently reviewing financial reforms that may impact small incorporated associations (Australian Charities and Not-for-Profit Commission [ACNC], 2012). Hence, reform of the accounting function in small incorporated associations is expected to be on the policy agenda in the not too distant future - but without a grassroots understanding of how the function is being operationalised, such discussions are somewhat moot.

The overarching accounting requirement for small incorporated associations is the production of an annual financial statement reflecting the ‘true and fair’ position and performance of the association for the financial year just ended. The problem addressed by this research pertains to nature of the financial requirements and the reliance on the term ‘true and fair’. The term ‘true and fair’ is undefined, but after significant debate in academic spheres is taken to imply compliance with generally accepted accounting norms
and conventions (Deegan et al., 1994; Kirk, 2006). This means although the legislation endeavours to spare these associations of regulatory burden, what it is really doing is ‘pointing’ to external requirements found in the professional accounting environment. The problem is Treasurers of small incorporated associations may or may not have a level of accounting knowledge commensurate with that necessary to meet the implied requirements – and that has the capacity to impact how associations meet the requirement of ‘true and fair’. Such volunteers were described by Harris (1996) as “lay leaders” (p.57), and this research investigates the ramifications of this anomaly.

Small sporting and fitness bodies are not only the largest concentration of incorporated associations in Victoria (Huntly, 2005), but they are also “the most common type [of entity] that people volunteer for” (Volunteering Australia, 2011). Because of their ubiquitous presence and concentration, and because they are not captured by the current reforms, small Victorian-registered sporting and fitness incorporated associations are the focus of this research.

The Importance of this Research

It has been stated:

“All organizations…need to confront the reality of money and accounting if they are to achieve success. If they are unable to obtain or account for the resources they need for their mission, their ability to fulfil that mission is likely to be compromised” (Irvine, 2005, p.211).

“Accounting in not-for-profit organizations is an under-researched area” (Irvine, 2011, p.824) – and this is especially so for small incorporated associations (Parkinson 2004). Small incorporated associations, in their capacity as not-for-profit organisations, “receive a range of support from Commonwealth, state, territory and local governments, including tax
concessions and grants, and support from the public in terms of donations and volunteering” (Australian Government (The Treasury), 2011b, p.2). Because of this “there is…an inherent ‘public interest’ in the activities of…incorporated associations” (Parkinson 2004, p.91), resulting in “high community expectations, making a base level of reporting and accountability important” (Australian Government (The Treasury), 2011b, p.2). Unconventional accounting practices raise questions about the financial management practices of small incorporated associations, and the adequate discharge of accountability of the committee to members. Consequently, in time more focus will extend to the accounting function of these not-for-profit entities (McGregor-Lowndes, 2011). This research provides, for the first time, an in-depth analysis of the accounting function in small incorporated associations, and issues to be considered if and when embarking on regulatory solutions.

1.3 The contribution to be made by this study

In the years preceding the implementation of the International Accounting Standards Board’s (AASB’s) conceptual framework, and the introduction of legally enforceable accounting standards, there was a great deal of accounting research being conducted. The accounting profession and its purpose were evolving and times were dynamic. Theories of accounting and accounting regulation were hotly debated, and covered various perspectives including normative, positive, systems-based, cultural and more. This early research was important in the evolution of the accounting profession and contributed significantly to the current regulatory environment.

Currently the discipline of professional financial accounting is heavily regulated, but there are a growing number of entities (Australian Charities and Not-for-Profit Commission [ACNC], 2012) whose accounting function remains largely unregulated. Despite being the largest stratum on the register of incorporated associations, small sporting and recreational
associations operate with almost no mandated accounting requirements. An important role of academic research is to tackle policy issues, and a failure or unwillingness to do so “is arguably an abrogation of academics’ duty to serve the community which supports them (Howieson, 1996, p.31). To date there has been a dearth of research into the accounting and related governance function in small incorporated associations with only a few academics focusing on this aspect of these entities. For instance: Abraham (1999b) and Hay and Davis (2004) examined auditor choices; Parkinson (2004) and Passey and Lyons (2009) considered accounting requirements as part of broader studies with a legal and regulatory focus; Hunty (2005) examined governance practices; and Flack and Ryan (2003) and Ryan et al. (2008) examined financial accountability and compliance costs. Furthermore, recent research into accounting in an unregulated environment has tended to focus on religious organisations (Irvine 2005; Kluvers 2001) or charities more broadly (Flack, 2007). Just as Irvine (2005) said about religion and religious organisations, small incorporated associations “occupy a greater importance in society than academic accounting research would indicate, and this [research] represents a response to that blind spot” (p.211). Consequently this research investigates the accounting function of small incorporated associations (sport and recreation).

An important criterion against which this research will be assessed is its contribution to existing literature and knowledge. According to Murray (2011, p.71) a thesis will either “stand or fall on the strength” of its ability to make an original contribution to the relevant field. Parkinson (2004) noted there is a “lack of data on small associations” (p.79), and this research therefore adds to an emerging area of academic research – that of small incorporated associations. Although this research has its foundations in volunteerism, this research is not about volunteerism - it is about the accounting function in a volunteer environment. Consequently, although the results will provide an original contribution to the literature on volunteerism, the primary contribution is in the domain of accounting in an unregulated environment. There has already been a significant amount of research into the accounting function in an unregulated environment – but this research differs because of the environment. Previous research considers the accounting function undertaken by
professional accountants, whereas this research considers the accounting function undertaken by volunteers (who may or may not have an accounting qualification).

In terms of contribution to knowledge, this research first establishes poor quality accounting is being generated by small incorporated associations, and then considers why the market forces of supply and demand are not rectifying this situation (as posited by anti-regulatory theorists). In doing so this research also makes a methodological contribution. Numeric indicators have been described as a “the surest way to compel high-level government attention (Hammond et al. 1995, p.vii) by providing an indication as to how well policies are working – whilst at the same time “pointing the way toward better approaches” (p.vii). Commonly used to communicate economic, social and environmental information, this research develops a composite Indicator of Complexity (comprised of the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity) to communicate the level of complexity faced by volunteer Treasurers. The Indicators provide insights into the role of Treasurer, including the propensity of small incorporated associations to emulate corporate practices. This is the first time such an approach has been used in conjunction with volunteerism (particularly in quantifying barriers to volunteerism) and isomorphic institutional theory.

1.4 Objectives of this Research

Whilst complexity in the community sector has been noted previously (Rawsthorne & Shaver, 2008), in the overall scheme of academic research there is little research in the field of incorporated associations – and a complete lack of research on the accounting function within such entities. There has been much debate about the appropriate level of accounting regulation, and as a result recent regulatory reform deliberately continued to spare small incorporated associations of mandatory accounting regulations. Hence, despite significant regulatory reforms relating to medium, large and charitable associations, the accounting-
related status quo has remained for most small incorporated associations. Consequently small incorporated associations continue to operate in a largely unregulated accounting environment, with volunteers (who may or may not have accounting knowledge) assuming responsibility for the accounting function. Furthermore they do so under a regime necessitating the application of an undefined term (‘true and fair’). There have been significant changes in accounting since the inception of the Victorian incorporations legislation three decades ago, but no significant change in the accounting requirements imposed on small incorporated associations. This has the potential to change in the not too distant future, and the primary objective of this research is to assess the current approach to regulating the accounting function of small incorporated associations. To achieve this end and Indicator of Complexity is developed to provide context to the Treasurer’s role.

Howieson (1996) noted the tackling of policy issues is an important role of academic research, and Hopwood (2007) added the “role of accounting research is…to move forward our understanding of accounting” (p.1367). Deegan (2011) also emphasises the importance of questioning the theory on which practice is based, and not blindly accepting it (Deegan 2011, p.18). Consequently this research will provide an in-depth understanding of accounting in small incorporated associations, and provide an informed starting point for future policy debates.

“How volunteer committees…are the backbone of community-based sporting organisations” (Cuskelley & Boag, 2001, p.65), and this research asks: ‘what are the current practices underlying the accounting function in small incorporated associations?’ Consequently the current approach to regulating the accounting function is critiqued, with a view to informing future regulatory debate.

As illustrated in Table 1-1 below, this research will specifically address the following research questions:
RQ1. What are the characteristics of Treasurers operationalizing the current regulations?

RQ2. What drives the decision to take on the role of volunteer Treasurer?

RQ3. Are people hesitant to take on the role of volunteer Treasurer?

RQ4. If so, why?

RQ5. Can the explanation be generalised?

RQ6. How effective is the market in delivering quality accounting information?

RQ7. How can instances of poor quality be explained?

RQ8. Who provides assurance services to small incorporated associations?

RQ9. Do proxies for auditor quality deliver quality?
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<tr>
<th>Research Theme</th>
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<td>WHO (Treasurer) 1</td>
<td>What are the characteristics of Treasurers operationalizing the current laws/regulations?</td>
<td>To describe the characteristics of volunteer Treasurers</td>
<td>Descriptive Statistics</td>
<td>Questionnaire</td>
<td>Will add to the literature on Volunteerism³</td>
</tr>
<tr>
<td>WHY Treasurer) 2</td>
<td>What drives the decision to volunteer for the role of Treasurer?</td>
<td>To identify what drives/motivates the decision to volunteer for the Treasurer's role</td>
<td>Qualitative data analysis</td>
<td>Questionnaire</td>
<td>Will add to the literature on Volunteerism³</td>
</tr>
<tr>
<td>BARRIERS (Treasurer) 3</td>
<td>Are people hesitant to take on the role of volunteer Treasurer?</td>
<td>To determine if people are hesitant to take on the role of Treasurer</td>
<td>Quantitative Description</td>
<td>Questionnaire</td>
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</tr>
<tr>
<td>WHY NOT (Treasurer) 4</td>
<td>if so, why?</td>
<td>To identify barriers to volunteering for the Treasurer's role</td>
<td>Qualitative data analysis</td>
<td>Questionnaire</td>
<td>Will add to the literature on Volunteerism³</td>
</tr>
<tr>
<td>WHY NOT (Treasurer) 5</td>
<td>Can the explanation be generalised?</td>
<td>To develop indicators that communicate the complexities underlying the Treasurer's role</td>
<td>Development of Complexity Indicators: (Corp/Inst'l Complexity, Transaction Complexity)</td>
<td>Questionnaire</td>
<td>Will add to the literature on Volunteerism³, Institutional Isomorphism⁴⁵</td>
</tr>
<tr>
<td>QUALITY (Accounting) 6</td>
<td>How effective is the market in delivering quality accounting information?</td>
<td>To determine common departures from accounting norms</td>
<td>Content Analysis</td>
<td>Annual Statements</td>
<td>Will add to the literature on Anti-Regulatory Theory⁶</td>
</tr>
<tr>
<td>NON-COMPLIANCE (Accounting) 7</td>
<td>How can instances of poor quality be explained?</td>
<td>To identify the source of potential compliance failures</td>
<td>Content Analysis</td>
<td>Annual Statements</td>
<td>Will add to the literature on Sources of Non-Compliance⁷</td>
</tr>
<tr>
<td>WHO (Audits) 8</td>
<td>Who provides assurance services to small incorporated associations?</td>
<td>To describe the characteristics of those providing assurance in small incorporated associations</td>
<td>Descriptive Statistics</td>
<td>Annual Statements</td>
<td>Will add to the literature on Voluntary Audits²⁷¹</td>
</tr>
<tr>
<td>QUALITY (Audits) 9</td>
<td>Do proxies for auditor quality deliver quality?</td>
<td>To examine the nature of assurance being provided</td>
<td>Content Analysis</td>
<td>Annual Statements</td>
<td></td>
</tr>
</tbody>
</table>

Table 1-1 Table Research Plan
a. Profiles that include the Treasurer are usually done at the committee level
   (This will be the first time this specific volunteer role has been profiled)
b. Motivations for volunteering in various contexts is a well researched area
   (This will be the first time motivations affecting this specific volunteer role have been examined)
c. Documentation of volunteer tasks is sparse
   (This will provide insight into the nature of the work done by volunteer Treasurers)
d. It is said that institutional isomorphism pressures are prevalent when there is uncertainty
   (This will provide insight into the corporatization of small incorporated associations)
e. Multiple regression analysis is commonly used when analysing institutional isomorphism
   (This will be the first time an isomorphic indicator has been developed)
f. Anti-regulatory theorists believe the forces of supply and demand will work to ensure the required information is generated, and at an
   appropriate quality - This theory has previously been applied in the professional accounting arena
   (This is the first time the theory is applied in an environment where the person generating the financial information is a volunteer - who may or
   may not have accounting expertise)
g. It is said that the most common source of non-compliance is lack of knowledge/understanding
   (This will add to the literature by analysing the nature of non-compliance with generally accepted accounting norms)
h. Previous research has been done on who audits New Zealand Incorporated Societies (qualified or unqualified individual, small firm or large
   firm) - with a focus on large incorporated societies
   (This is the first time the qualifications/characteristics of auditors has been examined in the Victorian context - small incorporated associations)
i. In the literature auditor quality is commonly gauged by reference to proxy measures such as qualifications (and departures from mandated
   practices are examined separately in the corporate arena)
   (This is the first time the qualifications & quality of the assurance provided by auditors of small incorporated associations is examined)
1.5 Conceptual Framework

This research is focused on the volunteer accounting function in an unregulated environment. Small incorporated associations are managed by volunteer committees, and the characteristics of the officer bearers play an important role in the ability of the committee to discharge its accountability. With the focus being on the accounting function, it is the role of Treasurer that is of specific importance in this research. Of significance is that a Treasurer may have variable level of accounting knowledge when assuming the role, from having no prior accounting knowledge or experience right through to being a practising qualified professional accountant. As illustrated in Figure 1-1 below, this research critiques the largely unregulated accounting function of small incorporated associations by examining actual practices in light of theoretical knowledge.
Volunteerism theory is applied to the role of volunteer Treasurer in order to examine who is likely to volunteer for the role. Institutional isomorphism theory is applied to examine the accounting system practices, and gauge the level of complexity/corporatisation associated with the accounting function. Propensity for non-compliance with generally accepted accounting norms and conventions is examined by reference to the literature on sources of regulatory non-compliance. Finally, the quality of the accounting output and the audit function is examined in order to determine whether (as suggested by free-market theorists) the forces of supply and demand will determine the appropriate level/quality of financial information.
2. Chapter TWO: Literature Review

This research encompasses the disciplines of volunteerism, accounting tasks and regulation, and regulatory compliance. Section 2.1 considers the characteristics of who is likely to assume the role of Treasurer in small incorporated associations, including skills and the impact rules and regulations have on the decision to volunteer. Section 2.2 considers the accounting tasks one assumes responsibility for as Treasurer of such associations, including how they recognise, measure and report transactions, and what accounting system and other operational choices are being made. Consideration is also given to the role institutional isomorphic pressure can play in shaping these choices. Section 2.3 considers matters pertaining to regulatory compliance, including the meaning of ‘true and fair’ and recognised sources of regulatory non-compliance. Section 2.4 considers the decision to voluntarily undertake an audit, including proxies used by entities to pre-assess the quality they are appointing. Section 2.5 considers the goals of not-for-profit regulation and the role of regulation in the accounting function. In doing so, consideration is given to historical lessons learned from regulating/non-regulating the accounting profession.

2.1 Volunteerism – Nomination Considerations (Who)

“What is a committee? A group of the unwilling, picked from the unfit, to do the unnecessary” (Richard Harkness in Tripp, 1983, 146.3).

The role of the committee of management in an incorporated association is similar to a board of directors in the corporate world, in that they hold office to help manage and/or supervise the management of the association. More specifically the role of Treasurer in an
incorporated association is similar in function to that of an accountant (or perhaps a bookkeeper) in the corporate world (Figure 2-1 below). It is a unique role in that unlike the role of President, Vice President and Secretary (whose duties are operationally very specific to the entity being served), the duties of Treasurers in small incorporated associations are similar irrespective of the association’s nature or purpose. The Treasurer’s role is one where specific skills are required, and while the day-to-day transactional requirements are more general in nature, the requirement to disclose relevant and reliable financial reports to members and other parties requires the application of specific accounting knowledge. Hence the alignment of one’s skillset with the requirements of the position impact on one’s ability to adequately fulfil the role.

Figure 2-1 Broad duties of Executive Office Bearers in a Victorian Incorporated Association ("Model Rules for an Incorporated Association, VIC, Part 3 Associations Incorporation Reform Regulations 2012," 2012)

Although it is entirely possible for someone with no accounting background to adequately discharge the responsibilities of this role, it can be difficult to pre-assess the quality of the service likely to be rendered by such persons – this is indeed true for anyone who assumes committee roles. The reality is, the actual ability or inability of the Treasurer to adequately discharge their accountability will only become apparent after they assume the role. An important reason for selecting professionally qualified persons to fill certain knowledge-
specific roles is to reduce the risk of poor quality being delivered (Beach, 1984). It is important boards not only possess relevant skills, but they must also be “able to combine their knowledge of various functional areas and apply that knowledge to firm specific issues” (Forbes & Milliken, 1999, p.496). Whilst skills commensurate with one’s responsibilities is an important component in the governance of any entity, in reality it is not uncommon for there to be a disparity between the skills actually represented on a board, and the skills considered desirable on a board (Foreman, 2006). In small incorporated associations the role of Treasurer is typically undertaken on a voluntary basis (Doherty et al., 2004; Woodward & Marshall, 2004), and availability of willing and capable volunteers is variable.

Although this research has its foundations in volunteerism, it is important to reiterate this research is not about volunteerism – this research is about the accounting function in a volunteer environment. The literature review on volunteerism is therefore approached with a very specific focus:

- Motivational forces affecting volunteerism (the Volunteer Functions Inventory);
- Barriers to volunteering;
- Demographic factors affecting volunteerism;
- Cost-efficiency considerations;
- Games volunteers play;
- Profile of a committee member (membership-based organisations);
- The impact of rules and regulations on the volunteer role;
- Volunteer quality; and
- Additional obligations for professionals.
Motivational forces affecting volunteerism (the VFI)

There has been a vast amount of research into what motivates someone to volunteer their time, expertise and energy for charitable causes (Harrison, 1995; Hibbert et al., 2003; Holmes, 2003), with results indicating people can, and do, volunteer for the same role for very different reasons (Bruyere & Rappe, 2007; Clary et al., 1998; Stukas et al., 2009). A common approach to analyzing volunteer motivations is the functional approach, where motives are said to be a function of one’s underlying psychological needs (Musick & Wilson, 2008). From a functional perspective, volunteering is simply one mechanism to meet those needs. The reasons for volunteering are said to emanate from something of importance being gained by the volunteer (Allison et al., 2002), which could be tangible or intangible, extrinsic or intrinsic in nature. The functional approach was first introduced by Katz (1960), and nearly thirty years later was used by Clary et al. (1998) in their development of the Volunteer Functions Inventory (VFI).

The Volunteer Functions Inventory (VFI)

The VFI was originally developed to provide a template by which to analyze motivations to volunteer (Clary et al., 1998), but has subsequently become the most widely used mechanism for assessing volunteer motivations (Allison et al., 2002; Bruyere & Rappe, 2007; Musick & Wilson, 2008; Okun & Barr, 1998). The VFI constructed by Clary et al. (1998) uses a Likert-scale format and includes thirty themed questions (Appendix 6-1) representing “six personal and social functions potentially served by volunteering” (Clary & Snyder, 1999, p.156).

The protective function suggests people volunteer in order to make themselves feel better about being more fortunate than others - volunteering enables people to escape from their own inner feelings of conflict and uncertainty (Musick & Wilson, 2008).
The *value* function suggests volunteerism is a vehicle to express one’s solicitude for others’ well-being and circumstances. People therefore volunteer because of their personal goals and values, such as doing something for a cause that is important to them (Lipford & Yandle, 2009; Musick & Wilson, 2008). This was expressed as ‘collectivism’ by Batson et al. (2002) who also indicated people can be motivated to volunteer by the desire to “benefit a group” that is important to them (p.437).

The *career* function holds people volunteer in order to prepare themselves for a new career or to maintain career skills they are not currently in a position to use. Musick and Wilson (2008) found career reasons for volunteering included doing voluntary accounting work to 'keep a foot in the door' until returning to the labour force (Abrahams, 1996, p.784).

The *social* function suggests people volunteer because of shared ideals and the "need to fit in and get along with members of groups important to us" (Musick & Wilson, 2008).

The *understanding* function suggests people volunteer in order to learn new knowledge or skills, or in order to utilise existing capabilities that are currently not being utilised. Respondents who cite this motivation typically gives reasons such as volunteering "makes me feel important" (Snyder et al., 2000, p.371) or enables me to [gain] personal esteem” (Daniels, 1988, p.56).

The *enhancement* function suggests the decision to volunteer is a function of the personal growth, development and self-esteem benefits the volunteer expects to derive from the position. Consequently it is said people volunteer in order to expand their outlook through new learning experiences such as helping "others cope with the pain of arthritis...to learn more about the pain and how to manage it" (Barlow & Hainsworth, 2001).
In Allison et al.’s research (2002), the motives of project volunteers in the Make a Difference organisation were assessed using both the VFI and open-ended probes so as to highlight any variances based on instrument type. The Allison et al. (2002) VFI results proved to be consistent with those of Clary et al. (1998), however small variations emerged when the respondents were permitted to construct their own motivations via open-ended responses. Despite variations in the esteem and understanding functions, both testing instruments indicated the most dominant motive for volunteering was the value motive, and the least important motive was related to the career function. This is consistent with the findings of Musick and Wilson (2008) who also state career is not typically cited as a motivation for volunteering.

Note: Although the VFI is the most widely recognised tool for assessing volunteer motives, sociologists tend to refute the psychological aspects underlying the functional approach. They argue that reasons provided by volunteers are often unenlightening, and there is not necessarily a strong nexus with what ultimately motivated the individual to volunteer (Musick & Wilson, 2008).

**Barriers to volunteering**

Petriwskyj and Warburton (2007) noted the importance of understanding both what motivates and deters people from volunteering. In undertaking a review of the literature they concluded that although there was much research on motivations, there was little research on the barriers to volunteering (Table 2-1 below).
In a report detailing issues faced by Australian volunteer-based emergency organisations between 2008 and 2010, McLennan (2008) again noted “there is little published Australian research into why people do not volunteer” (p.10). After consolidating the literature, McLennan (2008) suggested the following six broad factors are the primary barriers to people volunteering:

- Time/Priorities;
- Reluctance to commit to roles with formal procedures, and an ‘on-call’ obligation;

<table>
<thead>
<tr>
<th>Health Problems</th>
<th>Li &amp; Ferraro, 2005</th>
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<tr>
<td></td>
<td>Peter D. Hart Research Associates &amp; Civic Ventures, 2002</td>
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<tr>
<td></td>
<td>Silberman et al., 2004</td>
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<td></td>
<td>Sauer et al., 2002</td>
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<tr>
<td></td>
<td>Dinger &amp; AARP Knowledge Management, 2003</td>
</tr>
<tr>
<td></td>
<td>Sauer et al., 2001</td>
</tr>
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</table>

| Age                                                   | Li & Ferraro, 2005 |
|                                                      | Warburton et al., 2001 |

| Perceived lack of ability/ lack of confidence/ feelings of vulnerability | Barlow & Hainsworth, 2001 |

| Communication difficulties                          | Barlow & Hainsworth, 2001 |

| Unwillingness to be tied down                       | Warburton et al., 2001 |

| Prefer other activities                              | Warburton et al., 2001 |

| Lack of time                                         | Mjelde-Mossey et al., 2002 |

|                                                      | Peter D. Hart Research Associates & Civic Ventures, 2002 |
|                                                      | Barlow & Hainsworth, 2001 |

| Family obligations                                   | Mjelde-Mossey et al., 2002 |

| Full schedule                                        | Sauer et al., 2001 |

|                                                      | Silberman et al., 2004 |
|                                                      | Sauer et al., 2002  |
|                                                      | Dinger & AARP Knowledge Management, 2003 |

| Work commitments/ preference for paid work/ commitment to ‘more important’ work | Mjelde-Mossey et al., 2002 |

|                                                      | Chou et al., 2003 |
|                                                      | Silberman et al., 2004 |
|                                                      | Dinger & AARP Knowledge Management, 2003 |
|                                                      | Sauer et al., 2001  |

Table 2-1 Authors who have focused on barriers to volunteering (Petriwskyj & Warburton, 2007)
• Self-perceived unsuitability for the role;

• Fear of adverse consequences emanating from the volunteer post – legal liability for example;

• Opposition from one’s employer;

• Restrictions due to child care needs.

These factors will be discussed in more detail in the following sections.

Whilst there is a dearth of research into factors thought to deter people from volunteering (McLennan, 2008; Sundeen et al., 2007), there is evidence to suggest the potential for legal liability serves as a deterrent (McLennan 2008). For instance, in a study of retired US nurses and physicians, Wilson (2000) asked participants what they thought might deter other retired nurses and physicians from volunteering their specialist services. With 58% of physicians citing malpractice and licensing factors (Wilson 2000, p.36), legal liability was clearly found to be deterring volunteer activity. In a study involving emergency services volunteers, McLennan (2008) similarly found concerns about possible risks emanating from the volunteer role deterred people from volunteering.

Demographic factors affecting volunteerism

Demographics refer to common characteristics shared by a section of the population, and can be broken down into socio-economic resources (such as education and occupation) and personal characteristics (such as gender and age). Just like in the paid labour force, these characteristics play an important role in who volunteers, and for what.
**Education**

A person's educational qualifications are often the main determinant of who will, or who will not, provide volunteer labour (Musick & Wilson, 2008). Much research has been done on the use of education as a predictor for volunteering, and empirical results have found those with higher educational qualifications are more likely to provide volunteer labour than those with lower levels of education (Brady et al., 1995; Cohn et al., 1993; Eisenberg 1992, Herzog and Morgan 1993, Nie et al. 1996, Downton and Wehr 1997, Rosenthal 1998 - in Musick & Wilson, 2008). It is suggested education enhances personal characteristics as well as cognitive function, thereby increasing self-belief in one's capability. For instance, those with higher education tend to exhibit inclusive attitudes, empathy and self-confidence, as well as exhibiting a higher level of social awareness, analytical and critiquing prowess. Perceptions of capability commensurate with educational qualifications extend beyond the individual as well. Educational qualifications are seen as a proxy for the quality of volunteer labour likely to be provided, and therefore those with tertiary and professional qualifications are more likely to be asked to volunteer than those without such qualifications (Musick & Wilson, 2008). As will be discussed later, those with higher educational qualifications are also more likely to be targeted to volunteer.

According to Musick and Wilson (2008) "few findings are as robust as that which shows a positive association between years of schooling and adult volunteering" (p.122). Interestingly, this nexus does not manifest until the adult "reaches 'middle age', when the social pressure to volunteer is stronger and educational credentials begin to signify volunteer potential" (p.125).

**Occupation**

One's income is a function of one's occupation, and those with higher incomes are likely to be paid a fixed (salaried) income and enjoy flexibility in relation to their paid employment (Penner, 2004). Time is often cited as a barrier to volunteering (Lasby 2004 in Musick &
Wilson, 2008), but Penner (2004) found that as people rise on the 'occupational ladder' they become freer to manage their own time - and therefore have the ability to include volunteer labour within their paid labour hours. The result is a positive correlation between 'occupational status' and those who volunteer.

The literature clearly indicates professionals are more likely to provide volunteer labour than non-professionals (Musick & Wilson, 2008). One reason is many volunteer activities are similar to activities performed in the workplace, and those without the required skills either cannot do the work required or have no interest in doing the type of work required. In addition, persons with higher occupational prestige and social status are more likely to be targeted and asked to volunteer.

**Gender**

Gender-related role preferences and whether men or women are more prolific volunteers have been addressed many times. Various studies conducted throughout Europe have revealed men tend to volunteer for activities connected with sports more than women (Gaskin and Smith 1997, Hofer 1999, Hooghe 2001, in Musick & Wilson, 2008, p.183). This was confirmed by Rotolo and Wilson (2006) who added that women were more likely to volunteer for children's educational, cultural, health and religious organisations. The results of the 2010 Australian General Social Survey similarly revealed more men volunteered for work related to sport than women (Volunteering Australia, 2011). However, despite these findings women have slightly higher volunteer rates than men overall.

**Age**

The likelihood of one volunteering varies over the course of their life, as interests, needs, relationships and the acquisition of applicable knowledge/resources change (Musick &
Wilson, 2008). There are three distinct life cycle stages (early, middle and later), each bringing different propensities to volunteer.

Adolescents and young adults are not generally prolific volunteers, largely because they have limited skills with application in the volunteer labour force (Musick & Wilson, 2008). De Hart and Dekker (1999) further suggest that as people move into their early twenties, their social lives tend to become quite active and not conducive to volunteering. This is consistent with the results of the 2010 Australian General Social Survey, where “young people represented 9.4% of all people who had volunteered in the previous 12 months” (Volunteering Australia, 2011). The middle stage is characterised by having an established career, a house, raising a family and engagement in community activities. According to Musick and Wilson (2008) this is the stage where volunteerism peaks (often due to children's sporting endeavours), then slowly declines as children outgrow their childhood clubs (and the parents have less inclination to maintain the association with the club). Once again this was confirmed by the 2010 Australian General Social Survey (Volunteering Australia, 2011) where ‘people aged 45-54 reported the highest rate of volunteering”. The later stage begins with children leaving home and encompasses retirement and finishes with death. Musick and Wilson (2008) indicate many people in this stage are still active volunteers, and their participation in the volunteer labour market does not decline significantly "until [they] reach old age, when infirmaries, shortage of money, lack of transportation, and social isolation combine to make it more difficult to volunteer” (p.222).

Despite the influence age has on one's propensity to volunteer, Goss (1999) found a normal distribution curve with respect to the rate of volunteering, with middle age representing the high point. Education and occupation accumulate throughout one’s life, and therefore affect the efficiency with which one can undertake a volunteer role.
Cost efficiency considerations

"Volunteering is more attractive to the resource-rich than the resource poor" (Musick & Wilson, 2008, p.113). According to Bliss and Nalebuff (1984) it can be rationally inferred that the person who supplies a public good/service will therefore be the one with the lowest cost – and conversely “a person with the highest cost will never supply the good” (p.4). This was reiterated by Bilodeau and Slivinski (1996b) who developed a model which “predicts that nonprofit entrepreneurs will be those who incur relatively low private costs, or get a relatively high private payoff” (p.117).

The existence of different cost curves indicates some individuals can provide volunteer labour more efficiently than others. This suggests innocent entry barriers may exist, and cost advantages impact on who will enter the volunteer market as a resource provider (Begg et al., 1994). Myatt and Wallace (2008) add that volunteers will constantly revise their decision to volunteer, based on other’s decisions and assumed cost functions. The person who can most efficiently provide the volunteer good/service, is likely to volunteer if there are higher values and lower costs associated with their decision (Myatt & Wallace, 2008).

Bilodeau and Slivinski (1996a) found the decision to volunteer was about more than cost curves and cost functions. They found three categories of people likely to volunteer for an unsalacious position:

a. those who believe they can supply the public good/service at the lowest cost;

b. those who are most impatient by other’s unwillingness to volunteer; or

c. those who stand to benefit the most from taking on the role.

They suggest that in a position assumed to require a base level of skills and aptitude, those with experience and qualifications are most likely to be able to fulfil the requirements of
the position with relatively less cost than someone without the same characteristics – and this will impact on their willingness to volunteer. They further suggest those who care how a service will be provided will, in the absence of another nominee deemed suitable by them, be motivated to volunteer themselves so their expectations of how the position is to be conducted will be fulfilled. Finally, the one who volunteers will be the one who believes they stand to benefit the most from assuming the role - which is consistent with traditional economic theories which hold rational people will not supply their time or expertise unless they get something in return (Katz & Rosenberg, 2005).

Sometimes however, the volunteer is not the most cost-effective provider of the labour, and it may actually make more economic sense to donate money so the volunteer activity could be outsourced to an appropriately qualified person (Knox, 1999). In such situations the supply mechanism is not efficient, and therefore is not rational in the economic sense of the word. Knox (1999) questioned why someone without specific skills, and with a capacity to pay for the task to be outsourced to someone with the specific skills, would opt to undertake the task themselves rather than for the more efficient outsourcing solution. It was concluded outsourcing alienates the giver from the receiver and essentially “turns people and things into instruments” (Knox, 1999, p.484). Consequently volunteers are more likely to donate in-kind contributions than they are to donate cash to achieve the same output.

Murnighan et al. (1993) added the element of time to the volunteer decision, and concluded volunteers are more forthcoming when associated financial rewards were good and/or the volunteer position did not require too much of the individual’s time. This was confirmed by Otsubo and Rapoport (2008) who also found financially motivated persons are more likely to volunteer when their cost of volunteering is relatively low. On the other hand, Myatt and Wallace (2008) found enthusiasm comes into the decision to volunteer and that relatively high cost volunteers can still be very reliable providers of public goods.
Games volunteers play

Innocent barriers work against one’s motivation to volunteer, and there is really only an incentive to volunteer if no-one else does (Diekmann, 1985; Myatt & Wallace, 2008). Bliss and Nalebuff (1984) draw on the bluffing equilibrium to explain one’s timing in the process of nominating to volunteer. The bluffing equilibrium is an almost defeatist ultimatum suggesting to those wanting the volunteer activity to be filled (but not willing to fill it themselves), that if no-one volunteers then the broader activity they want to be a part of cannot continue. In examining “who will do a job that nobody wants but that someone has to do?”, Bilodeau and Slivinski (1996a, p.299) found a nash equilibrium often determined the placement. A nash equilibrium is the best outcome at a point in time given the range of competing alternatives (Begg et al., 1994). In a study of voluntary associations (clubs), Barham et al. (1997) found club size inversely affects the decision to volunteer, and therefore the pool of willing volunteers. Hence, a nash equilibrium does not necessarily produce the overall best outcome (Bliss & Nalebuff, 1984). The eventual placement may instead follow either the weakest link rule (where the available nominees are willing, but not specifically qualified/capable) or the best-shot rule (where the available nominees are both willing and specifically qualified) (Hirshleifer, 1983).

The propensity to volunteer can therefore be examined using game theory where potential volunteers are “interdependent players involved in some sort of competition or game” (Rohlf Jr, 2005, p.232). In the private provision of public goods/services if one person has already volunteered there is far less, if indeed any, great incentive to volunteer (Bilodeau & Slivinski, 1996a). This can give rise to a ‘wait and see who else volunteers’ strategy.

Volunteer’s dilemma game is a social dilemma used to examine why one particular person chooses to volunteer and another person chooses not to volunteer at the same point in time, even though they will both benefit from someone volunteering. Fundamental to this game is the theory that individual costs from privately providing the good/service will be borne
by the individual who volunteers, and yet the benefits will accrue to the greater membership-base (Weesie & Franzen, 1998). Social dilemmas such as this typically exhibit two characteristics (a dominant strategy and a situation where it is not possible for someone to gain without someone having to lose), but in the volunteer’s dilemma a dominant strategy does not exist, and it is possible for someone to gain without someone having to lose (Diekmann, 1985). Given there is only an incentive to volunteer if no one else does (Diekmann, 1985; Myatt & Wallace, 2008), the dilemma is: As the pool of volunteers increases, reluctance to volunteer will also increase because there is an increased expectation someone else will volunteer. However, the increased reluctance to volunteer will decrease the likelihood that a volunteer will actually come forward (Rapoport, 1985) and result in no one volunteering. This relationship was confirmed by Weesie and Franzen (1998) who similarly concluded the probability of a volunteer coming forward decreases as the number of available volunteers increases, group size increases and costs associated with the volunteer activity increases.

**Membership-based organisations**

In addition to academic theories on who will volunteer and when, Volunteering Australia collated volunteer characteristics based on data from the 2010 Australian General Social Survey. A profile of volunteers based on this data is presented in Table 2-2 below.

<table>
<thead>
<tr>
<th>Profile of an Australian Volunteer (Sport):</th>
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<tbody>
<tr>
<td>Male (44%)</td>
</tr>
<tr>
<td>Born in Australia</td>
</tr>
<tr>
<td>Aged 45 - 54 years</td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>Couples with dependent children aged 5-17 years</td>
</tr>
</tbody>
</table>

Table 2-2 Profile of an Australian Volunteer (Sport)  (Volunteering Australia, 2011)
Volunteering Australia (2011, p.2) also found 26% of volunteers undertook administrative roles, and “sport and physical recreation organisations were the most common type that people volunteered for”.

Musick and Wilson (2008) considered the role of Treasurer in membership-based associations, and suggested "for many members, volunteering is a matter of 'taking your turn' in doing the chores necessary to keep the organization going" (p.270). In voluntary membership-based associations there is high visibility of the volunteer work done - members are typically aware of who is, and who is not, volunteering. This makes it difficult to 'free-load' without being noticed, increasing the likelihood of members taking 'their turn'. Passy and Giugni (2001) also found volunteers in membership-based organisations were likely to feel their work was valued, thereby providing another reason why memberships lead to volunteering. Despite this, Torcal and Montero ((1999) in Musick & Wilson, 2008. p.13)) estimate the volunteer rate within membership based associations to about 50%, while Andreoni (1988) suggests “the fraction contributing to the public good diminishes to zero” (p.57), as the size of the population [association] grows.

Whilst membership increase the likelihood of one providing volunteer labour, membership also increases the likelihood of one being asked to provide volunteer labour (Musick & Wilson, 2008).

**Volunteer Recruitment - A Targeted Approach**

As previously discussed, people with higher socio-economic resources (such as education and occupational prestige) have more extensive social networks, are better able to utilise their resources, and are more likely to be volunteers. It would be incorrect however to assume that such individuals drive their own decision to volunteer, and that organisations are indifferent when it comes to who assumes a role. Instead, academic research indicates people possessing skills considered desirable for a particular role, are often deliberately and
purposefully targeted by the hopeful organisation (Bryant et al., 2003; Ostrower, 2002). Additionally, volunteer organisations typically have a good understanding as to who can and who cannot perform a role, and also who will and who will not perform a role. This knowledge is then applied in the recruitment process, resulting in organisations refining their target to approach those with a high 'participation potential' (Brady et al., 1999). According to Musick and Wilson (2008) personal invitations are a highly successful recruitment strategy because they efficiently facilitate the targeting of specific skills, while at the same time enabling any anxieties a potential volunteer may have about not being able to do the role quelled. Yörük (2008) also found “that the effect of personal solicitations on the propensity to volunteer [was] considerable” (p.79).

Even though members of voluntary associations are more likely to be asked to volunteer simply because they are a member, there is evidence to suggest many who are willing and prepared to volunteer, will not actually volunteer until and unless someone specifically asks them to (Musick & Wilson, 2008). Furthermore, the importance of being personally asked to assume a volunteer role is greatest when the volunteer work is perceived as arduous and incurring an element of risk.

The vast body of literature on volunteer recruitment clearly indicates placement of volunteers in a volunteer organisation is often a deliberate and targeted process - people with skills considered desirable for a given position (and likely to be amenable to the idea of volunteering) will be approached and personally asked to take on that role. Consequently those guiding the volunteering recruitment process are openly recommending the adoption of a targeted strategy when sourcing volunteers (Flick et al., 2002).

**Committees of Management**

As previously discussed, there is a link between education and the role someone is likely to volunteer for. This relationship is especially true for governance-related roles, where the
white-collar volunteer tasks referred to by Musick and Wilson (2008) are more likely to be done by more highly educated persons (Johnson et al., 2004; McClintock, 2000; Rotolo & Wilson, 2007). More specifically, it has been concluded that professionals and managers are more likely than non-professionals and non-managers to serve on a committee of management/non-profit board (Moore & Whitt, 2000; Steinberg, 1999).

In addition to one's education and occupation, gender is another common point of focus when analyzing who is most likely to assume particular volunteer roles. As is the case in the business world, it is common to have a gender bias in volunteer organisations, and such bias tends to permeate the assignment of people to volunteer tasks (Musick & Wilson, 2008). Some volunteer tasks on the other hand have been shown to have their own gender bias, irrespective of the underlying gender composition of the organisation. According to the research undertaken on gender and volunteer tasks, men are more likely than women to serve on a volunteer committee of management (Mailloux et al., 2002; Odendahl & Youmans, 1994; Rotolo & Wilson, 2007).

Based on existing research it is possible to build a profile of a committee member in a volunteer membership-based sporting organisation as illustrated in Table 2-3 below. Committee members are more likely to be male (Mailloux et al., 2002; Odendahl & Youmans, 1994; Rotolo & Wilson, 2007); well educated (Johnson et al., 2004; McClintock, 2000; Rotolo & Wilson, 2007); professionals or managers in their paid work (Moore & Whitt, 2000; Steinberg, 1999); able to apply their paid employment skills to the volunteer role (Musick & Wilson, 2008); self-employed (Thompson, 1993) and/or working part-time (Volunteering Australia, 2011); and targeted for the role (Bryant et al., 2003; Ostrower, 2002).
However, as posited by Handy et al. (2000) “volunteering is not a monolithic activity, and the study of volunteers needs to delineate different types of volunteers” (p.46). Up to this point factors impacting who will volunteer have been examined, and various profiles have been shown to exist within the volunteerism literature. The broad objective of this research is to study the volunteer accounting function in small incorporated associations, and consequently the specific volunteer role of relevance is that of Treasurer. The law requires small incorporated associations to generate an annual financial statement which gives a ‘true and fair’ view of the association’s performance and position over the previous financial year. It is a deliberately “minimalist regulatory regime” (Parkinson 2004, p.86) intended to spare these resource poor entities from regulatory burden and encourage participation (Lenders, 2008; State Services Authority, 2007). Consideration is now therefore turned to the role of rules and regulations on the volunteer role.

### The impact of rules and regulations on the volunteer role

Given that volunteer tasks are demarcated and filled in a similar way to paid work (Musick & Wilson, 2008), it holds that compliance issues need to be addressed in volunteer organisations just as they need to be addressed in the corporate world. There is however one major difference in the volunteer domain - matters of compliance are often the

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<table>
<thead>
<tr>
<th>Profile of a Committee Member (in a Sporting Context):</th>
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<tbody>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Well-educated</td>
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<tr>
<td>Professional or Manager in their paid occupation</td>
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<tr>
<td>whose paid employment skills can be applied to the volunteer role</td>
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<tr>
<td>Self Employed (or working part-time)</td>
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<tr>
<td>Targeted for the role</td>
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Table 2-3 Profile of a Committee Member in a membership-based sporting organisation
responsibility of volunteers, and the volunteer role typically takes a backseat to paid work and family commitments (Farmer and Fedor 2001). Mansbridge (2001) suggests people are less inclined to volunteer if they expect the role to be demanding and associated with significant personal cost, but there are mixed messages as to whether rules and regulations help or hinder one’s propensity to volunteer.

Volunteers are often unsure how authorities will respond to the work they do, and are particularly cautious in situations where when there is the potential to inadvertently break a law (Musick & Wilson, 2008). Due to the low priority of volunteer work volunteers are prone to quit their volunteer post if they become disenchanted (Farmer & Fedor, 2001; Flick et al., 2002; Tacticos & Gardner, 2005). Musick and Wilson (2008) suggest the following key causes of disenchantment amongst volunteers:

i. The feeling of being 'put upon' and 'used';

ii. Lack of support from paid staff;

iii. Lack of recognition and appreciation for the work being done;

iv. Too much bureaucracy (too many rules and regulations);

v. Too little bureaucracy (unclear rules and regulations).

Of critical importance to this research are the last two items (iv and v). As volunteer organisations become more corporatised, their accountability to resource providers and financial reporting obligations typically increase (Flick et al., 2002). Often this is formalised in rules and regulations that ensure the level of transparency and accountability that has come to be expected of these organisations (Musick and Wilson, 2008). Whilst such bureaucracy controls, it can also inhibit. With bureaucracy and transparency come accountability - and ultimately the need to discharge this accountability. Typically bureaucracy facilitates the discharge of accountability by requiring the completion of paperwork and reports – and this places a further requirement on the volunteer. Phillips et
al. (2002) found the additional paperwork emanating from rules and regulations was a particular deterrent for volunteers. Many academics have considered the impact of bureaucracy on volunteerism, and a common message is that bureaucracy has the tendency to deter people from taking on (or continuing in) a volunteer role because it makes it just like ordinary (but unpaid) work (Bender, 2003; Harris, 1996; Horne & Maddrell, 2002; Phillips et al., 2002). This situation was found to be particularly applicable to older volunteers, who are likely to be deterred by increased formality (in Lie & Baines, 2007; Smith & Gay, 2005). In examining the accountability of Australian nonprofit organisation Flack and Ryan (2003) similarly concluded that increased accountability obligations were likely to have “deleterious effects on the preparedness of members, supporters, volunteers and donors to participate in institutional environments that are perceived to be professionalised and increasingly technocratic” (p.75). VicSport also cautioned that the impact of statutory and other requirements on a club “ranges from significant to devastating” (VicSport, 2001, p.5).

On the other hand, some volunteers view rules and regulations as providing clarification of what is expected in a particular role, and guiding preferred practices (Horne & Maddrell, 2002). From this perspective rules and regulations (including laws) are viewed as helpful, and the absence of such help can be just as alienating for some potential volunteers as the proliferation is alienating for other volunteers (Musick and Wilson 2008). Musick and Wilson (2008) highlight that "all too often there is ambiguity in the definition of the volunteer role" (p.434), and failure to adequately define the parameters can make the role an unattractive and untenable. When considering the propensity to volunteer for social service organisations, Phillips et al. (2002) found the main initiative that could improve volunteer rates was clearer explanation of what exactly was expected of volunteers (including their boundaries). In an Australian study, Flick et al. (2002) had a similar finding with one respondent claiming people were frightened of volunteering because they lacked an understanding of some of the legal aspects (p.73).
The literature has shown rules and regulations have the propensity to deter some potential volunteers, while for others the resulting clarity is attractive.

Volunteer Quality and Training

In order to follow rules and regulations one must first be aware of them (Braithwaite, 1993), and Musick and Wilson (2008) indicate that rules, regulations, training programs and even job descriptions are important mechanisms to help guide volunteers. In a study involving volunteers working closely with children, Phillips et al. (2002) found that in certain volunteer roles where there were idiosyncratic requirements and risks, training was especially necessary. Hence, many volunteer organisations value training as a mechanism to achieve better volunteer outcomes. This is evidenced by Flick et al. (2002) who found “most volunteers had received a formal induction and regular training from their organisation” (p.64). As many volunteer positions do not require a specific set of pre-existing skills, training usually relates to undertaking core philanthropic activities and understanding organisational mission statements (Balvin et al., 2007; Leader-Elliott et al., 2008; Maynard, 2007; Nisbet & Wallace, 2007).

When using the targeted recruitment approach for knowledge-specific roles, the targeted volunteer is assumed to have the required skills to fulfil their role. Volunteer targeting is, first and foremost, a recruitment strategy aimed at filling volunteer vacancies, but also serves to match individual skills with skills required in the volunteer role. However, the matching process is not always effective (Foreman 2006), and training is a mechanism that can smooth out differences in skill levels of volunteers.

In a study to consider the value of training volunteers, Maynard (2007) concluded training is such an “integral part of [volunteer management]” (p.47), it should include all volunteers,
irrespective of their backgrounds. As illustrated in Table 2-4 below, benefits of training volunteers accrue to both the organisation and the volunteer.

<table>
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<tr>
<th>Benefits of Training Volunteers</th>
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<tbody>
<tr>
<td>Benefits to the <em>organisation</em>:</td>
</tr>
<tr>
<td>The ability of volunteers to contribute at a higher level</td>
</tr>
<tr>
<td>Increased commitment and engagement from volunteers</td>
</tr>
<tr>
<td>Increased ability to succession plan for key volunteer roles</td>
</tr>
<tr>
<td>Competent and knowledgeable ambassadors for the organisation</td>
</tr>
</tbody>
</table>

Table 2-4 Benefits of training volunteers  (Maynard 2007, p.47; Patterson et al. 2007)

From the broader volunteer development perspective Table 2-4 above shows training can improve the status of the role, increase one’s confidence that they can do the role, and increase the commitment and engagement from volunteers. These are significant benefits that can help address barriers to volunteering, and enable the organisation to plan for the future by increasing the volunteer pool. The literature shows training is important not only from a volunteer development perspective, but also from a technical perspective as training is a key mechanism to address knowledge issues. Further discussion on the compliance benefits associated with training volunteers is discussed separately under the compliance section of this thesis.
Additional obligations for professionals

As discussed, committees of management bring together a range of backgrounds, and are equivalent to a Board of Directors in the corporate world. Therefore having well-educated, well-informed and dedicated persons overseeing an incorporated association can be as critical to its success as the opposite characteristics can be to its detriment. It is considered best practice to structure a board in such a way that its composition, size and commitment will enable it to adequately discharge its accountability (ASX Corporate Governance Council, 2010, Principle 2). In practice this means having appropriately qualified people responsible for knowledge-specific roles, and experience that complements such placements. The literature on volunteerism indicates professionals are more likely to be targeted and/or assume volunteer roles than non-professionals – especially the ‘white collar’ volunteer positions. The conundrum for professional accountants assuming the role of volunteer Treasurer is that undertaking this role can bring additional obligations which impact on the private career of the individual volunteer (Abbott, 1983). Mulgan (2001, p.91) noted the “personal accountability of individuals” was a particularly problematic aspect of accountability in the third sector. Like all professionals, professional accountants are bound by their Code of Professional Conduct - APES 110 of the Accounting Professional and Ethical Standards Board (APESB, 2010). This Code makes no distinction between members who undertake accounting work for payment/remuneration and members who undertake accounting work in a voluntary capacity (such as being a volunteer Treasurer). Paragraph 1.2 states: “All Members in Australia shall comply with APES 110 including when providing Professional Services in an honorary capacity”. To reinforce the intention of the Code to apply to members providing volunteer labour, paragraph 300.3 adds “a member in business may be a… volunteer…The legal form of the relationship with the…organisation…has no bearing on the ethical responsibilities incumbent on the member” (APESB, 2010, para.300.3).

In a study of US professional social workers, Gibelman and Sweifach (2008) found an aversion to volunteering amongst this group of professionals. It was concluded that despite
being the very group who could provide a much needed skillset, they were unlikely to do so. With a notable cluster indicating they already did enough through their paid employment, a professional commitment to serve the community was the second lowest motivational force cited by respondents (p.57). Hence, despite an identified need for professionals such as accountants and social workers to provide specialist skills (Gibelman and Sweifach 2008, p.55), this research indicates such a provision is not necessarily forthcoming.

**Professional Accountants**

APES 110 *Code of Ethics for Professional Accountants (Revised)* applies to all members of the Professional Accounting Bodies (CPA Australia; the Institute of Chartered Accountants in Australia; and the Institute of Public Accountants), irrespective of whether they are paid for their accounting services or provide them pro bono. Hence, this generates additional obligations for professional accountants assuming the role of volunteer Treasurer. The Code has three sections, and the role of volunteer Treasurer is captured by two of them. Under the general provisions of Section A, volunteer Treasurers are required to act with:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behavior

(APESB, 2010, reproduced in Appendix 6-2).
Section C is specific to Members in Business, and requires volunteer Treasurers to “act with sufficient expertise” (Section 330) and deal with potential conflicts, financial reporting, financial interests and inducements in accordance with the guidance set down in Sections 300 – 350.

If a professional accountant providing volunteer labour behaves contrary to any of the requirements of the Code (or the professional requirement to have indemnity insurance), they could face any one or more of the penalties set out in their professional body’s constitution. For members of CPA Australia penalties include:

- Forfeiture of membership;
- Suspension from membership;
- A fine;
- Admonishment;
- A severe reprimand;
- Cancellation or suspension of member rights, benefits and privileges;
- Lowering of Membership status;
- Additional Continued Professional Development requirements;
- Additional Quality Assurance procedures.

(CPA Australia, 2012a, Article 39 - reproduced in Appendix 6-3)

The result of professional status is the group of people arguably most capable of fulfilling the role of Treasurer have more obligations imposed on them than those without any accounting qualifications – and potentially have much more to ‘lose’ if they are not vigilant in discharging their accountability. To date no research has been conducted on the impact
of professional Codes on volunteerism. They are, however, important considerations that result in the same position being a significantly different undertaking for different members of the public. Such matters have as the potential to impact the volunteer choice, and the quality of volunteer assuming the role of Treasurer, and are therefore explored in this study.

**Synopsis of Volunteerism – Nomination Considerations (Who)**

The literature pertaining to volunteerism is too vast, and therefore this section has reviewed the content applicable to the study of volunteer accounting in a largely unregulated environment. Based on rational economic theory, volunteers are self-interested people who can be expected to refrain from volunteering until such point as a bluff equilibrium generates a placement. Cost efficiency considerations come into the decision to volunteer with the eventual volunteer likely to be able to fill the role relatively more efficiently than others. Application of the Volunteer Functions Inventory (VFI) shows the value motive tends to be the strongest motivational driver for volunteers, while career benefits are not typically cited as a reason for volunteering. When vying for volunteer committee members in membership-based organisations, the literature shows a targeted approach is often used. In terms of sporting organisations the resulting committee members are likely to be self-employed, well-educated males, whose paid employment skills can be applied to their volunteer role. The impact of rules and regulations has been shown to deter volunteers in many instances, however some volunteers indicated that the clarity provided was attractive. Because volunteers potentially come from a variety of backgrounds, and because complexity underlying the volunteer role can vary quite markedly, volunteer quality can also vary significantly. Consequently the importance of induction and training programs for volunteers have been noted, and recognised as integral to effectively managing volunteers. In conclusion it was shown that through volunteering some professionals (including but not limited to accountants) bear additional responsibility that can impact their paid working life/career, by virtue of their profession’s Code of Conduct.
Having examined aspects pertaining to volunteering for the role of Treasurer, consideration now turns to the mechanics underlying the role – what the role entails, how the legal requirement of ‘true and fair’ can be operationalised, and why the particular choices are being made by associations.
2.2 Accounting Function Choices (What, How, Why)

“Any piece of knowledge I acquire today has a value at this moment exactly proportioned to my skill to deal with it” (Mark van Doren in Tripp, 1983, 520.67).

Handel (1982) philosophised that ‘things’ exist independently of the accounting system, and it is not until a human puts some situational significance on these ‘things’ that they become the subject of accountability. The fundamental role of the accountant is to create a reality; to “establish what is accountable in the setting in which they occur” (Handel, 1982, p.50), and therefore the provider of accounting information is in a powerful position (Deegan, 2011). Irrespective of who assumes the role, the accounting function itself involves receiving and making payments on behalf of an entity, recording those transactions, and communicating the underlying substance so as to convey a true and fair representation of the entity’s financial performance and position. The accounting function therefore facilitates both decision-making and the discharge of accountability of those charged with governance (Tooley & Hooks, 2010). A key aspect underlying the discharge of accountability is ensuring compliance with the requirements of the law, and therefore some background must be provided before examining the accounting function choices.

In 1994 the Australian Accounting Research Foundation (AARF) considered “the appropriate financial reporting requirements that should be imposed on [incorporated associations]” (Sadhu & Australian Accounting Research Foundation [AARF], 1994, p.ix). One significant outcome of this project was the decision that small incorporated associations were not reporting entities because their “members and other users can obtain the financial information they require or are provided with information that satisfies their needs” (Sadhu & AARF, 1994, p.x). Consequently these associations have not been “required to prepare any specific financial report”, and instead have been required to
“continue to lodge an annual return” to assert their small/non-reporting entity status and assure interested parties “adequate accounting records have been kept” (p.x). Two decades later, despite notable changes in the level of professionalism of small incorporated associations (and almost exponential growth in requirements imposed on professional accountants), these foundations remain largely unchanged. This is not to say the topic has been ignored - in fact there has been much discussion about incorporated associations of different sizes, and the appropriate point to mandate accounting standards and the audit function (see for example Australian Government (The Treasury), 2011a). Such complex issues must balance the level of accounting required to discharge accountability, with the reliance on volunteers who have limited time and potentially limited accounting knowledge. Nonprofit entities generally, and small incorporated associations specifically, have limited resources necessitating a reduction in regulatory burden (Department of Treasury and Finance, 2011; McGregor-Lowndes & Ryan, 2009; Ryan et al., 2008). The accounting function in small incorporated associations is built on a fair presentation framework (discussed later) – and terms such as “true and fair” (the Act s.30(3A)) and “adequate and accurate accounting records” (the Act s.30A) act as the guiding beacon for all Treasurers, irrespective of their accounting background or knowledge. The term ‘true and fair’ however is not defined, and this is considered in more detail in the Regulatory Requirements and Compliance section.

The purpose of this section is to consider the various component choices on which an accounting function may be based – single entry or double entry, cash or accrual accounting, historical cost or fair value, manual or computerised systems, and financial reporting. Empirical research suggests a number of complexities associated with these choices, even when undertaken by ‘experts’. Therefore, whilst analyzing these components it is essential to bear in mind that in small incorporated associations these decisions are undertaken by volunteers who may or may not have an accounting background. In environments characterised by uncertainty, organisations can look to the practices of other organisation for guidance (DiMaggio & Powell, 1983), and therefore this section concludes with consideration of institutional isomorphic theory.
Method of Accounting - Single or Double Entry

The concept of single entry or double entry is inextricably linked with the choice of accounting system (manual/computerised) and the basis of recognition (cash/accrual). Whilst not being a standalone feature, the method of accounting chosen represents the platform on which any system of accounting is based and is therefore worthy of focused attention. According to Filios (1983) there are two fundamental methods of accounting – a non-balancing method (single entry) and a balancing method (double entry).

Historically single entry accounting describes a rudimentary bookkeeping system where the records consist of little more than a cash book detailing amounts owed to and by an entity – it is quick and simple, and is capable of serving its purpose more than adequately (Edwards, 1989). Even when double entry accounting became popular, single entry was slow to be abandoned – and those choosing to adopt double entry accounting often used a hybrid adaptation that combined the features of single entry and double entry accounting (Edwards, 1989). Edwards (1989) questioned whether resistance to adopt pure double entry accounting was based on “ignorance, lack of expertise, [or] the complexity of the new system” (p.57) and concluded most businesses simply were not large enough in terms of the number of transactions to warrant the shift. Consequently it is recognised that up to a certain point a single entry system can successfully deliver all the critical information needs of stakeholders.

Double entry was first described by Luca Pacioli in 1494, and fundamentally requires debits entries to equal credit entries. This remains the basis upon which modern day accounting packages are developed (Sangster & ScatagliniBelghitar, 2010). In an environment where a relatively small firm that is relatively private in nature provides a non-essential service, Capelo Bernal et al. (2005) found “society in general had no interest in controlling the business” (p.162). In such settings accounting methods are unlikely to be prescribed, and structural equivalence is more likely to result in the decision to adopt a
double entry accounting system than regulatory pressure/guidance. The suggestion is that entities will use double entry accounting methods, even when a single entry system will suffice, in order to imitate corporate entities of a particular standing (Bernal et al., 2005). Isomorphic pressure will be discussed at the end of this section.

The adoption of double entry accounting is now widely assumed in the business world, despite there being no general consensus as to whether this has delivered the often cited improvements in accounting (Bernal et al., 2005; Miller & Napier, 1993). An anecdotal review of the target market for single entry software suggests single entry accounting is still in use by the self-employed, sole proprietors, home and other small businesses, and for family finances (WinSite, 2010).

**Basis of Recognition – Cash or Accrual Accounting**

How an entity recognises and measures income and expense items is of fundamental importance in any accounting system, as different choices can generate quite different results. In application an entity can use either cash accounting or accrual accounting as the basis of recognising financial information (Hoggett et al., 2009). Under cash accounting income is only recorded in the period in which the cash is received, and expenses are only recorded in the period in which cash is outlaid. By contrast, under accrual accounting income and expenses are recognised in the accounting period when they were earned or incurred (Hoggett et al., 2009). In reality there are many variations in between these positions (Anessi-Pessina et al., 2008), and hence we see the emergence of entities applying ‘modified cash accounting’ or ‘modified accruals accounting’ (Christiaens & Rommel, 2008; Jones, 1985; Perrin, 1998).
Irvine (2011) examined “the process of change in an Australian not-for-profit organization [Hearts and Hands], from a cash-based to an accrual-based accounting system” (p.824), and whilst the intention was to achieve the latter, the result was “an accounting system half way between cash and accrual (p.824). The practical application of these approaches can therefore vary from one entity to another (Anessi-Pessina et al., 2008) making it impossible to provide an absolute definition. Nonetheless, under a modified cash-basis of accounting, some income/expense items are recognised when there is a cash inflow/outflow, while other income/expense items will be spread out over a number of months (or perhaps years). Under a modified accruals basis receipts are continuously accrued and payments are either continuously accrued or converted to expenditure at the end of the year (Jones, 1985).

Whilst it is commonly suggested accrual accounting (full or modified) can result in a better quality of financial information (Christiaens & Rommel, 2008; Clark-Lewis, 1996; Hepworth, 2003; Tickell, 2010), there is a vast body of literature suggesting this is only true in certain environments. That is, “placement” is central to the applicability of accrual accounting (Jones, 1985).

Accrual accounting has its origins in the for-profit, private sector (Anessi-Pessina et al., 2008; Carnegie & West, 2003), and attempts by government non-profit entities to make the transition from cash to accrual accounting has received a great deal of critical focus (for example Carnegie & West, 2003; Clark-Lewis, 1996; Hepworth, 2003; Irvine, 2011; Jones, 1985). Underpinning the argument is a belief that the roles the two types of entities (for-profit and nonprofit) play in society are fundamentally different, making the rationale for accrual accounting inappropriate for nonprofit entities (Christiaens & Rommel, 2008).

According to Christiaens and Rommel (2008) accrual accounting is about calculating profit to measure economic activity, whereas nonprofit government organisations exist to provide a service for the community (like small incorporated associations). It is further believed that when profit is not the driving force, and when “organisations…have no businesslike activities, [they] should not adopt accrual accounting” (Christiaens & Rommel, 2008, p.71). Fundamentally, the concept of accrual accounting is said to be consistent with commercial activity but inconsistent with non-commercial activity – making accrual accounting an
aberration intended to assist in the calculation of profit (Carnegie & West, 2003; Conn, 1996; Jones, 1985). Despite resistance and controversy surrounding its appropriateness and adoption success, there is a worldwide trend for government organisations to adopt accrual accounting – and this trend is expected to continue (Luder & Jones, 2003, in Christiaens & Rommel 2008). The reason is many academics and bureaucrats can see advantages from adopting the private sector viewpoint (Table 2-5 below) - although some academics, such as Conn (1996), believe the expected advantages are wildly exaggerated.

<table>
<thead>
<tr>
<th>Benefits of Accrual Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full picture of entity's financial position (eg. future expenditures required)</td>
</tr>
</tbody>
</table>

| |
| Introduces discipline into financial reporting |
| (Mellor 1996) |

| |
| Ensures the integrity/transparency of the reported information |

| |
| Full costs, including non-cash costs, are disclosed |
| (Conn 1996, Mellor 1996) |

| |
| Assists in the better management of controlled resources |
| (Conn 1996, Mellor 1996) |

| |
| Greater focus on outputs rather than inputs |
| (Christiaens & Rommel 2008, Conn 1996) |

| |
| Data is not distorted by timing - Greater comparability |
| (Clark-Lewis 1996, Conn 1996) |

| |
| Increased accountability |

Table 2-5 Benefits of Accrual Accounting  Source: Various

There are other academics, such as Mellor (1996), who believe accrual accounting is appropriate in both the for profit enterprise and the nonprofit public sector environments. Amongst other reasons, Mellor (1996) suggests that doing so facilitates full communication of the full financial position, and introduces a level of discipline into the financial reporting
process that increases its underlying integrity (p.79). In the process both cash and non-cash costs are included which enables better management of controlled assets. Christiaens and Rommel (2008) reiterate the benefits associated with accrual accounting include better accountability, transparency and financial management.

The fundamental difference between cash accounting and accrual accounting is timing, and Clark-Lewis (1996) state this is one of the major benefits of accrual accounting over cash accounting. Under an accrual system income and expenses are aligned with the time when they are earned or incurred, irrespective of when cash changes hands, and therefore data are not distorted by the timing of transactions. For instance, a large purchase of stock is expensed immediately in a cash-based system, resulting in an immediate reduction in calculated surplus (for nonprofit entities) and profit (for profit entities). In an accrual system, the purchase would have resulted in the recognition of an asset that is not expensed until it is actually sold. Hence, a related benefit of an accrual system is that reports generated are able to “provide information on both financial flows…and accumulated assets and liabilities at the end of the reporting period” (Clark-Lewis, 1996, p.1). Another benefit cited by Clark-Lewis (1996) is that accrual reports are more informative. For instance, costs requiring future expenditure are included (accrued) and future outlays provided for (provisions), thereby enabling decisions to be made with due consideration of these future outflows.

For all the potential benefits of transitioning to an accruals basis of accounting, there are many who suggest accrual accounting is not necessarily ‘the answer’. Conn (1996) for instance acknowledges there are problems associated with cash accounting, but believes applying the commercial version of accrual accounting to the nonprofit domain may add “unproductive complexity and significant costs” (p.82) without any associated benefit. This view is supported by Hepworth (2003) who, when examining the preconditions for the successful implementation of accrual accounting in central government, concluded that the biggest issue was the scope for judgment that exists in an accruals based system. In response to the criticism that results generated under a cash-based accounting system can be easily manipulated by carefully selecting the timing of cash payments (and receipts),
Hepworth (2003) states that accrual accounting offers even more opportunities to manipulate the accounts. Conn (1996) for instance, used depreciation to illustrate how human judgments pertaining to useful life and scrap value are fundamental to accrual accounting. Both Conn (1996) and Hepworth (2003) agree the only way accrual accounting will be an improvement over cash accounting, is if the cash accounting system was solid and effective before any attempted transition.

According to Hoggett et al. (2009), being able to reliably measure income and expenses under an accruals based accounting system is not a simple matter, and can pose some important challenges even for a professional accountant. Accrual accounting is more complex than cash accounting, and unless those charged with the responsibility of maintaining an accrual-based accounting system have the required ability and expertise, the results are likely to be meaningless (Hepworth, 2003). After conducting research on the adoption of accrual accounting in Fiji, Tickell (2010) found key factors affecting Fiji’s ability to successfully adopt accrual accounting included:

- Low skilled workers;
- High labour turnover; and
- Insufficient investment in capital expenditure.

This illustrates the difficulties in implementing an accrual-based accounting system. Anessi-Pessina et al. (2008) examined factors affecting the adoption of accrual accounting in 168 local governments in Italy, and Cudia (2008) more generally examined factors affecting the choice between accrual and cash accounting in 17 SMEs in metropolitan Manilla (Table 2-6 below).
### Table 2-6 Factors affecting the choice of recognition base

<table>
<thead>
<tr>
<th>Factors affecting the adoption of Accrual Accounting</th>
<th>Factors affecting the choice between Accrual &amp; Cash Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location of the entity</td>
<td>Nature of the business</td>
</tr>
<tr>
<td>Preparers perceptions of the value of accrual accounting</td>
<td>Convenience in record-keeping</td>
</tr>
<tr>
<td></td>
<td>Usefulness in decision-making</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors not affecting the adoption of Accrual Accounting</th>
<th>Factors not affecting the choice between Accrual &amp; Cash Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity size</td>
<td>Complexity in reporting and disclosure</td>
</tr>
<tr>
<td>Social capital</td>
<td>Tax compliance</td>
</tr>
<tr>
<td>Access to external resources</td>
<td>Cost</td>
</tr>
<tr>
<td>Presence of slack</td>
<td></td>
</tr>
<tr>
<td>Activities performed by the entity</td>
<td></td>
</tr>
</tbody>
</table>

(Subject: 168 Local governments in Italy)  
(Anessi-Pessina et al. 2008)  
(Subject: 17 SMEs in Metro Manilla)  
(Cudia 2008)

In the Italian context only two factors were found to significantly influence the likelihood of an entity to adopt accrual accounting: the geographic location of the entity and the perceptions of the CFO about the usefulness of accrual accounting. The reason the authors believe the geographical location was such a key determinant was its capacity to act as a “proxy for cultural, social, political, and economic configuration of community environment” (Anessi-Pessina et al., 2008, p.327). This is consistent with the findings of Tickell (2010) in the Fiji study where the geographic location was deficient in skilled labour. The Cudia (2008) findings offer a slightly different perspective, in considering factors that influence the cash or accrual decision – rather than factors likely to lead to the adoption of accrual accounting, which was the focus of Anessi-Pessina et al. (2008). Cudia (2008) found the nature of the business was a key factor impacting on the cash or accrual decision. In support of this finding it is generalised that governments typically use cash accounting and private businesses use accrual accounting. Churchill (1992, in Cudia 2008) suggests associations and clubs can be expected to use accrual accounting because of the superior information rendered. Hoggett et al. (2009) however, suggest cash accounting is
not appropriate in most business or government entities – and really the only benefit of cash over accrual accounting is its simplicity.

The nonprofit motive and provision of services for community benefit is applicable to both government agencies and small incorporated associations, making many of the arguments in the government accounting literature relevant to these community-based associations. As Conn (1996) reminds us, the whole debate surrounding the two bases for recognising income and expense has its foundation in timing, and the ability for so many benefits and problems to stem “from a simple change in the timing of recording transactions” (Conn, 1996, p.82) is presented as somewhat remarkable. There has been significant debate over whether accrual accounting is better than cash accounting, and what circumstances give rise to the ideal environment for each option. Ultimately however, “the advantage of one system over the other depends on how crucial the timing of recording of financial transactions is” in the decision-making process (Conn, 1996, p.83). By virtue of section 3 of the original enabling Act, the Victorian incorporations legislation permits the use of either the cash method of accounting or the accrual method of accounting (discussed further under Financial Reporting). The decision as to which method to adopt is left to volunteer committees of management.

**Basis of Measurement – Historical Cost or Fair Value**

In addition to the cash or accrual decision, a decision regarding the appropriate measurement base to use when recording financial report elements also needs to be made. Measurement is a fundamental aspect of an accounting system, and at the simplest level can be defined as “the assignment of numbers to the attributes or properties of objects being measured” (Wolk & Dodd, 2008, p.6). Measurement is not a simple process though, as each object potentially has numerous different attributes or properties capable of affecting the number recorded (Wolk & Dodd, 2008), and this can be an aspect of accounting
requiring a high level of professional judgment even for professional accountants. The most common measurement bases are historical cost and fair value, and a review of the literature reveals the option to use different measurements brings a unique set of issues. For instance, it is difficult to say what a total assets figure represents when some assets are measured at historic cost, others at fair value, some net of accumulated depreciation and impairment, and others not.

Nearly thirty years ago Staubus (1985) noted most (albeit corporate) balance sheets were not measuring their assets at historical cost. Instead it was common for assets to be revalued to a figure which approximated current market value (Brown et al., 1992; Whittred & Yoke Kai, 1992). Variously justified by reference to contracting and political costs (Brown et al., 1992), efficiency reasons (Whittred and Yoke Kai 1992), performance (Aboody et al., 1999), and share prices (Barth & Clinch, 1998), the common element in the decision to revalue is the effect on the organisation. Hence, while the option to revalue assets enables managers to highlight information they believe is important when representing the organisation (Jaggi & Tsui, 2001, p.160), the option to revalue assets also provides a mechanism to facilitate fraudulent misrepresentations (Wagner & Garner, 2010).

Much of the research on revaluations has taken place in a corporate setting with accounting rules guiding the revaluation process. In an unregulated environment there is no such guidance, and in the case of small incorporated associations wanting to highlight realistic asset values, the overarching requirement is to revalue truthfully and fairly. However, as will be discussed later, the term ‘true and fair’ is not defined and may itself be open to interpretation.
Accounting Systems - Manual or Computerised

According to Alexander (1996, p.113), “one of the greatest challenges facing any business is creating information and accounting systems that work.” Although an accounting information system may be manual, “we live in an era of ever-changing means of collecting, archiving and transmitting information” (Silverman, 2008, p.199) which has resulted in a natural marriage of information technology and compliance obligations. A critical aspect of any information system is its compatibility with the entity it serves, and therefore an accounting information system should “be appropriate to the size and nature of the business operations”; including those who are expected to use it (Hoggett et al., 2009, p.288). In this section consideration is given to system options, as well as anecdotal evidence relating to ease of use and susceptibility to error – which are of particular significance when being used by a variety of volunteers.

The overarching requirement for small incorporated associations is that, irrespective of the system adopted, it must facilitate the maintenance of “adequate and accurate accounting records” (the Act s.30A). This includes the requirement for the Treasurer to “keep correct accounts and books showing the financial affairs of the Association with full details of all receipts and expenditure” (the Regulations, Sch.4 s.32). Furthermore, resulting reports are required to present a “true and fair view” (the Act s.30 (3A)). How exactly associations are to achieve these requirements is left up to the individual entity because there is wide variation in both the size/nature of associations and the characteristics of the volunteers who are volunteering as Treasurers.

Broadly, accounting system options include manual paper-based systems, electronic spreadsheets, and off-the-shelf accounting-specific packages. The results of a 2005 CPA Australia Small Business Survey (CPA Australia, 2005) indicated 5% of responding small to medium sized entities (SMEs) reported using a solely paper-based system, 65% used only computerised systems, and 23% used a hybrid of both manual and computerised
systems (6%) (Table 2-7 below). Having recognised “a dearth of empirical evidence linking small and micro businesses and accounting systems and financial reports” (p.1), Dyt and Halabi (2007) examined the accounting function in 121 small and micro businesses in Gippsland, Victoria, Australia. The businesses were classified in accordance with the Australian Bureau of Statistics (ABS) – micro businesses (n=86) had five or less employees, and small businesses (n=35) had between six and nineteen employees (Dyt & Halabi 2007, p.1, n2). As illustrated in Table 2-7 below, the smaller (micro) businesses were more inclined to use only manual recording and processing methods than larger (small) businesses. The larger (small) businesses on the other hand were more inclined to use accounting software than the smaller (micro) businesses. This is consistent with Thong (1999) who also found as entities increase in size they are more likely to embrace technological solutions. The findings of Dyt and Halabi (2007) are consistent with CPA Australia for SMEs, but suggest smaller entities are more likely to exhibit variation in their processing methods.

<table>
<thead>
<tr>
<th></th>
<th>Paper-Based /Manual</th>
<th>Manual &amp; Computerised</th>
<th>Computerised Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small to Medium Enterprises -</td>
<td>5%</td>
<td>23%</td>
<td>65%</td>
</tr>
<tr>
<td>Less than 20 employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(CPA Australia 2005, p.39)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Businesses -</td>
<td>11%</td>
<td>18%</td>
<td>71%</td>
</tr>
<tr>
<td>16-19 employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Dyt and Halabi 2007, p.5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro-Businesses -</td>
<td>32.5%</td>
<td>20.5%</td>
<td>47%</td>
</tr>
<tr>
<td>5 or less employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Dyt and Halabi 2007, p.5)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2-7 Processing methods used by micro, small and medium sized entities

These findings, along with a review of blogs undertaken by the researcher, confirms there is still much validation for the use of manual accounting methods, particularly in small and simple club environments (eg. Zucker, 2009, May 31). Academic research in the field of small business has similarly indicated a correlation between an entity’s size and the
accounting information system it will choose (Ilias et al., 2010). Further research has been conducted into the factors influencing the decision to adopt or reject a computerised accounting system in the small business environment. In developing his model which gauges the likelihood of information system (IS) adoption in small businesses, Thong (1999) consolidated the preceding literature. Thong (1999) confirmed that the likelihood of a small business adopting technology generally will depend on characteristics of the organisational decision-makers, the proposed information system, the organisation itself, and the operating environment (Table 2-8 below).

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Organisational Characteristics - Business size</td>
<td>Users are more likely to be larger than non-users, and have employees</td>
</tr>
<tr>
<td>2a. IS Innovation Characteristics - Relative advantage</td>
<td>Users considered the software made the business more efficient</td>
</tr>
<tr>
<td>2b. IS Innovation Characteristics - Compatibility</td>
<td>Software considered not difficult or time consuming to set up</td>
</tr>
<tr>
<td>2c. IS Innovation Characteristics - Complexity</td>
<td>Decision-maker more likely to:</td>
</tr>
<tr>
<td>3a. Decision-maker Characteristics - Innovativeness</td>
<td>- demonstrate computer self-efficacy;</td>
</tr>
<tr>
<td>3b. Decision-maker Characteristics - IS Knowledge</td>
<td>- be older than non-users;</td>
</tr>
<tr>
<td>3c. Organisational Characteristics - Employee IS knowledge</td>
<td>- possess higher educational qualifications</td>
</tr>
<tr>
<td>4. Environmental Characteristics - Competition</td>
<td>GST and the recommendation of an accountant influenced adoption</td>
</tr>
<tr>
<td>5. Organisation Characteristics - Information intensity</td>
<td>Users are more likely to be information-intensive</td>
</tr>
</tbody>
</table>

Table 2-8 Factors influencing adoption of IT and Computerised Accounting Systems

Essentially Thong (1999) found the size of a business was “the most significant discriminator between adopters and nonadopters of technology among small businesses” (p.206). In order to adopt technological solutions a business must have sufficient organisational and financial resources to be able to manage the transition, and Thong (1999) posits this is less likely in small businesses. The next biggest influence on the decision of a small business to adopt technological solutions was the characteristics of the innovation. If the computerised option is perceived by the decision-makers as better than their existing manual system, and the proposed new system is compatible and easy to use, there is a higher likelihood of transitioning to the technological option. The characteristics of the decision-maker(s) were also found to have a bearing on the likelihood of a small
business to adopt technology. In this category Thong (1999) found decision-makers with higher risk tolerances and technology knowledge (personally and within their employ), are more likely to adopt technology-based solutions. Despite hypothesizing to the contrary, the findings suggested that neither the level of information intensity within a small business nor the level of competition it encountered had a significant effect on the decision to adopt technology-based solutions.

Breen et al. (2003) extended the existing literature by considering factors influencing small businesses’ use of computerised accounting systems as distinct from information technology generally. In their research a telephone-based questionnaire was administered to 122 Victorian small businesses that used computerised accounting systems and 99 who did not, in order to explore factors influencing and inhibiting the migration from manual to computerised methods. As illustrated in Table 2-8 above, Breen et al. (2003) found many of the factors previously cited by Thong (1999) (and earlier researchers) as positively influencing the adoption of IS by small businesses, were similar to factors positively influencing the adoption of computerised accounting systems by small businesses. Breen et al. (2003) found there is not one single factor leading to the decision to implement a computerised accounting system, but rather the decision is the culmination of several factors – characteristics of the decision-makers, characteristics of the potential accounting system, organisational characteristics and environmental characteristics. One of the key findings of Breen et al. (2003) was that although non-computerised accounting system users did not doubt the relative advantage that would accrue from conversion, they did not perceive the benefits as being strong enough to warrant the change. Other factors found to influence the decision to retain a manual accounting system over a computerised one included the age and size of the business. Young businesses (less than three years old) and small businesses (in terms of turnover) tended to be non-employers with relatively little paperwork, whose accounting needs could be effectively managed with a simple record-keeping system. This category of small business was also found to exhibit time and resource constraints that acted as a further hindrance to the adoption of a computerised accounting system.
A computerised accounting information system (CAS) should follow the same principles and procedures as required under a manual system – data to be input are obtained from the same sources, and authorisation and other processing controls should be in place in both systems (Hoggett et al., 2009). A computerised accounting system can offer many advantages over the manual alternative (Table 2-9 below); however in making an informed choice one must be cognisant of disadvantages associated with such automation.

<table>
<thead>
<tr>
<th>Advantages of CAS</th>
<th>Disadvantages of CAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in processing costs</td>
<td>System failures - hardware, software, personnel</td>
</tr>
<tr>
<td>Increased speed of processing</td>
<td>Power failure</td>
</tr>
<tr>
<td>Less prone to error than manual systems</td>
<td>Viruses</td>
</tr>
<tr>
<td>Automatic posting</td>
<td>Hackers</td>
</tr>
<tr>
<td>Automatic production of documents and reports</td>
<td>Increased exposure to fraud</td>
</tr>
<tr>
<td>Improved reporting and decision-making</td>
<td></td>
</tr>
<tr>
<td>Faster response time to queries</td>
<td></td>
</tr>
</tbody>
</table>

Table 2-9 Advantages and Disadvantages associated with Computerised Accounting Systems (CAS)  
Source: Hoggett et al. 2009 (pp.324-325)

Advances in technology have resulted in the proliferation of reasonably priced hardware and software options, delivering powerful and varied means for handling accounting obligations (Breen et al., 2003; Kreie et al., 2000). Consequently accounting support products now abound, giving small incorporated associations many ways to manage their accounting function. Computer software used in the financial accounting and reporting function falls primarily into two categories – electronic spreadsheets and off-the-shelf accounting/bookkeeping packages (Hoggett et al., 2009). However, each of these options has inherent limitations and a track record of error propensity.
**Electronic Spreadsheets - End-User Computing (EUC)**

Whilst the term ‘end-user computing’ has evidence of both wide and narrow interpretation in the literature, this research adopts the more common narrow interpretation. Consequently ‘end-user computing’ describes the situation where people who are not trained in management information systems develop applications, models, and other constructs to support them in their particular job (Doll & Torkzadeh, 1988; Kreie et al., 2000).

Spreadsheets are the main EUC application of choice for accounting functions, offering a user-friendly interface with powerful processing capabilities that deliver professional output, whilst giving the user a significant amount of independence (Caulkins et al., 2007; Galletta, 1993; Kreie et al., 2000). One of the appealing aspects of spreadsheets is they are very easy to create, and often users learn what they need to know as they work without feeling the need for any formal training (Morochove, 2006). Spreadsheets are powerful tools with a ubiquitous presence within the accounting domain, but despite their appeal there are concerns about the accuracy of the information they deliver. An understanding of the risks associated with these types of EUC applications is critical because of their ability to “impact both internal and external financial reporting” (Janvrin, 2008, p.445).

Research into end user computing and spreadsheet misgivings is abundant, and has been well-documented for in excess of thirty years. As early as 1982 Davis (in Panko, 1988, revised 2008) raised a cautionary red flag about the hazards associated with reliance on EUC output, and in 2008, Dr. Raymond Panko (leading researcher of errors in spreadsheets), commented:

> In every study so far conducted into errors in spreadsheets, error rates have been found at levels “that would be unacceptable in any organization”


Although one could reasonably expect end-user characteristics such as such as educational background, work experience and spreadsheet knowledge to affect error rates (Kreie et al.,
2000), the prevalence of such errors is consistent with the findings of research conducted into human error more generally (Panko, 2000). Hence, non-trivial errors can be expected in anywhere from 20% to 80% of all worksheets created by end-users (Janvrin, 2008, p.437). As spreadsheet users typically learn their trade slowly by experience (Grossman, 2002), an understanding of characteristics embodied in a ‘typical’ spreadsheet is necessary in order to consider the types of errors jeopardizing the integrity of financial information.

Even though it has been shown end-user developed spreadsheets contain errors, developers tend to be overconfident about their ability to create worksheets free from error (Panko, 2000). Caulkins (2007) presents the ‘keep it simple’ method of spreadsheet development, and although many spreadsheets are simple, small and used for non-critical decisions (Panko, 2000), many are not. Hall (1996) developed a ‘spreadsheet profile’ based on spreadsheets of 106 respondents across four sectors (mining, finance, education and computing), and found that although the spreadsheets varied considerably in size, their construction had many similarities: macro use; links to other spreadsheets (&/or databases); use of the @IF and =LOOKUP functions; and use of absolute referencing.

According to Teo and Tan (1999) errors in end-user created spreadsheets can be either qualitative or quantitative. As illustrated in Table 2-10 below, qualitative errors are those causing an immediate error within the spreadsheet, and can be further classified as mechanical errors, logic errors and omission errors. Qualitative errors on the other hand are created when there is a change in one or more of the foundation variables upon which the spreadsheet is built – time has created a change the worksheet was not designed to accommodate.
Despite the limitations associated with the use of spreadsheets by end-users, Grossman (2002) explains “tolerance of spreadsheet errors is not necessarily foolish or even irrational; it is a matter of degree and perceived risk” (p.11). Due to their ease of use, availability and pervasiveness, spreadsheets can be well suited as a platform for accounting in some circumstances. To increase data integrity and minimise the error rate entities should be proactive about quality control in the spreadsheet’s design. Kreie et al. (2000) advocate a modular layout where documentation, input and calculations are clearly separated within the worksheet/workbook. Morochove (2006) adds the importance of incorporating self-checking mechanisms such as cross-totals and crossfooting. The most common control for assessing the accuracy of a spreadsheet is examining the reasonableness of results (Caulkins et al., 2007; Panko, 2000), however people are not typically good at using bottom lines and other key figures as a gauge for assessing the presence of errors (innocent and fraudulent) (Klein et al., 1997; Rickets, 1990).

**Commercial Accounting/Bookkeeping Packages**

In addition to EUC options, there are now many accounting/bookkeeping software packages available to purchase straight off-the-shelf specifically marketed towards small businesses – for example MYOB®, Quicken (Reckon)®, Sage®, Xero-online®, Saas-
online®, Cashflow Manager® and Nominal® (Business Victoria, 2012). Tailor-made systems may also be developed. The common claim of the vendors is they provide simple accounting software “that anyone can use, even if you know nothing about accounting” (Cashflow Manager, 2010). Bressler and Bressler (2006) researched how entrepreneurs chose and used accounting systems, and found the choice was not simply a matter of cost – ease of use was also a key determinant. This is consistent with the findings of Thong (1999) and Breen et al. (2003) who concluded that complexity of the proposed accounting system is a major factor in moving beyond a manual system to a computerised system. The research of Bressler and Bressler (2006) was conducted on micro businesses in the United States, and the findings suggest the sample was weighted towards “more sophisticated businesses” (p.58) – ones that had been in business for more than five years and hired up to nine employees. These characteristics, along with the country of origin, could explain the findings that QuickBooks® was the first choice of accounting software, with Excel® coming in second amongst the United States respondents (Table 2-11 below). By contrast, the research conducted by Breen et al. (2003) found that 54.9% of Australian respondents used MYOB®, with QuickBooks® coming in second. The results indicate the spread of usage was similar in the two studies (Table 2-11 below).

<table>
<thead>
<tr>
<th>Study 1 - Victoria, Australia</th>
<th>Study 2 - USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>34.2% had more than 5 employees</td>
<td>Approx. 66% had 9 or less employees</td>
</tr>
<tr>
<td>53% had been in business for more than 10 years</td>
<td>Approx. 50% had been in business more than 5 years</td>
</tr>
<tr>
<td>MYOB</td>
<td>QuickBooks</td>
</tr>
<tr>
<td>54.9%</td>
<td>57.0%</td>
</tr>
<tr>
<td>QuickBooks</td>
<td>Excel</td>
</tr>
<tr>
<td>24.6%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Cashflow Manager</td>
<td>One-Write</td>
</tr>
<tr>
<td>2.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Attache</td>
<td>Access</td>
</tr>
<tr>
<td>2.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Tailor-made system</td>
<td>DacEasy and Simply Accounting</td>
</tr>
<tr>
<td>4.1%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Breen et al. (2003)  
Bressler and Bressler (2006)

Table 2-11 Software Choices

Although 81% of respondents in the Bressler and Bressler (2006, p.59) findings were either ‘very satisfied’ or ‘somewhat satisfied’ with their current software, 25% of all respondents felt the need to run more than one accounting software package (eg. QuickBooks® and
Quicken®, QuickBooks® and Excel®). The reasons were varied but suggested lack of confidence and flexibility in their chosen system. Consequently, when questioned about suggested improvements in their current accounting packages, responses included: “Needs to be easier to make updates or changes” and “Make it easier to use and more foolproof” (Bressler & Bressler, 2006, p.59). Similar perceptions exist for MYOB® software which, according to various blogs and news articles, “is complex to learn and often requires users undertake specialist courses or pay to have records set up by a professional bookkeeper” (Timson, 2010, March 10).

Anecdotally the learning curve associated with accounting software for small business such as MYOB® and QuickBooks® is very steep, and common criticisms blogged online suggest: an accountancy degree is required to navigate them (Deka, 2010, May 31); they are not user-friendly as the software marketers claim, and very often small business users are not satisfied with the option they have chosen and have to transition to another option(s) before finding the best fit for their organisation (Jones, 2006, 7th September). Telberg (2004) on the other hand believes those who are happy with their system may have been “lulled into a false sense of security” (p.68). This is significant for small incorporated associations who are dependent on volunteers (not necessarily trained in accounting) for their accounting function, as the ability to generate adequate and accurate records that present a true and fair view of the club may become inadvertently compromised by such complexity. According to Grossman (2002) all accounting software has errors, making reliance on the information generated in both environments problematic.

Financial Reporting Choices – Names and Content

Financial reporting serves as a key mechanism by which those charged with governance discharge their accountability, as well as providing information for internal and external decision-making (Tooley & Hooks, 2010). In their publication Guidelines for Managing
Risk in Sport and Recreation, Standards Australia (2004, Appendix A) listed eight categories of potential stakeholders applicable for sporting bodies (reproduced here in Appendix 6-4). Whilst not all will be applicable to all small incorporated associations (sport and recreation), the list illustrates those who may have an interest in the financial reporting function could extend well beyond the immediate membership base and Registrar. It is for this reason the name and content of financial reports is particularly important – as they could be indicative of “general purpose external financial reporting by nonbusiness organizations” (FASB, 2008, CON4-1).

Names and Content

Financial reports can be classified as either general purpose financial reports (GPFRs) or special purpose financial reports (SPFRs), with the distinction determined by the dependency of users on the entity for financial information. GPFRs are intended to meet “common information needs of a wide range of users” (AASB, 2009, para.6) who are unable to request reports tailored to meet their specific needs specifically and who must therefore rely on the financial report as their major source of financial information. By contrast a SPFR is typically prepared “in accordance with a special purpose framework” (Auditing and Assurance Standards Board [AUASB], 2011a, ASA 800, Aus 6.1) and importantly “may be used for purposes other than that for which it was intended” (AUASB, 2011a, ASA 800.A14). Reports prepared for and on behalf of small incorporated associations are therefore said to exhibit characteristics of special purpose financial reports (Sadhu & AARF, 1994). However, financial statements to which the Australian Accounting Standards apply include balance sheets, income statements, cashflow statements, statements of changes in equity and explanatory notes (AASB, 2011, para 10). Consequently the presentation format and name of special purpose financial reports is important – it may be on these characteristics their ultimate classification hinges.

In the corporate world the primary reports of an organisation comprise the profit and loss statement, balance sheet and cashflow statement (Mellor, 1996). By virtue of significant
regulatory requirements, other information required to be reported includes changes in equity, notes to the accounts, and a directors’ declaration. Small incorporated associations do not operate in the corporate world, and must look to their enabling legislation for guidance on the financial reports they are required to generate. On first ‘glance’ one might (incorrectly) assume the legislation to be silent on the specific financial reports to be generated, but a more thorough inspection reveals the requirements are there – although they are somewhat dispersed throughout the Act (1981).

Part IV of the Act (1981) is entitled *General Meetings and Accounts*, and section 30 *Annual General Meeting*. It is here, in section 30, the following requirements pertaining to financial information to be distributed to members at the annual general meeting is specified:

- income and expenditure of the association (the Act, s.30 (3)(a));
- assets and liabilities of the association (the Act, s.30 (3)(b));
- details of mortgages, charges and securities of any description relating to the association (the Act, s.30 (3)(c));
- details relating to any trusts held by the association. Specifically details relating to income, expenditure, assets, liabilities, mortgages, charges and securities of any description (the Act, s.30 (3)(d));
- details relating to any trusts held on behalf of the association (the Act, s.30 (3)(e)).

Section 30A of the Act (1981) is entitled *Accounting Records*, and details qualitative requirements such as ‘adequacy’ and ‘accuracy’ required of accounting records rather than specifying any report format requirements. In fact matters pertaining to the actual reports to be generated by small incorporated associations are dealt with in the definitions section of the Act (1981) – specifically under the *definition for ‘accounts’*. As illustrated in Figure 2-2
below, specific reports to be generated are based on the method of accounting used (ie. basis of recognition – cash accounting or accrual accounting).

<table>
<thead>
<tr>
<th>Reports required of small incorporated associations (sport and recreation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>If <strong>Cash Method of Accounting</strong> is being used</td>
</tr>
<tr>
<td>An account of receipts and payments</td>
</tr>
<tr>
<td>A statement of assets and liabilities</td>
</tr>
<tr>
<td>If <strong>Accruals Method of Accounting</strong> is being used</td>
</tr>
<tr>
<td>An account of income and expenditure</td>
</tr>
<tr>
<td>A balance sheet</td>
</tr>
<tr>
<td>Statement, reports and notes intended to be read in conjunction with the Account</td>
</tr>
<tr>
<td>Statement, reports and notes intended to be read in conjunction with the Balance Sheet</td>
</tr>
</tbody>
</table>

**Figure 2-2 Reports specified in the original enabling legislation**

Hence, if a small incorporated association is using the cash method of accounting a combination of the following reports are required to be generated:

- An account of receipts and payments; and
- A statement of assets and liabilities

(the Act 1981, s.3 definition of ‘accounts’ (a)).

If, on the other hand, the accrual method of accounting is being, then a combination of the following reports should instead be generated:

- An account of income and expenditure “together with any statements, reports and notes… intended to be read with the account”; and
- A balance sheet, “together with any statements, reports and notes… intended to be read with the…balance sheet”

(the Act 1981, s.3 definition of ‘accounts’ (b)).
Note: In simplifying the legal requirements of incorporated associations, this level of specificity has been removed in the 2012 reforms, and no mention of financial reporting options has been included.

**Financial reporting in Small Businesses**

Like small incorporated associations, small private companies are not required to generate general purpose financial reports and are largely free to determine their own financial reporting requirements. In their study of accounting systems and financial reporting, Dyt and Halabi (2007) examined the financial reporting practices of 121 small and micro businesses and found a combination of internal financial reports and statutory reports were being prepared. Not all businesses produced accounting reports, but those that did mimicked reports legally required in the regulated corporate financial accounting environment. Excluding compliance reports, the profit and loss statement was the most commonly produced report and the cash flow statement was the least produced report. The balance sheet however, was more likely to be produced by the larger (small) businesses than the smaller (micro) businesses (Table 2-12 below).

<table>
<thead>
<tr>
<th>Type of accounting and compliance reports</th>
<th>Reports Produced by Business Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro (5 or less employees)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>Profit &amp; Loss Report</td>
<td>56</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>38</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>31</td>
</tr>
<tr>
<td>Business Activity Statement</td>
<td>82</td>
</tr>
<tr>
<td>Taxation Return</td>
<td>86</td>
</tr>
</tbody>
</table>

Table 2-12 Accounting and compliance reports produced by small- and micro-businesses (Dyt & Halabi, 2007, Table 3, p.6)
As illustrated in Table 2-13 below, not all reports produced were deemed useful. Whilst the profit and loss statement was considered to be the most useful report, the balance sheet was deemed the least useful (excluding the compliance reports). Despite this, nearly 75% of the small businesses and nearly 50% of micro businesses produced a balance sheet. An interesting result was that the compliance reports (the mandated reports) were considered the least useful reports.

<table>
<thead>
<tr>
<th>Type of accounting and compliance reports</th>
<th>Business Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro (5 or less employees)</td>
</tr>
<tr>
<td>N</td>
<td>Mean</td>
</tr>
<tr>
<td>----------------</td>
<td>------</td>
</tr>
<tr>
<td>Profit &amp; Loss Report</td>
<td>55</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>38</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>31</td>
</tr>
<tr>
<td>Business Activity Statement</td>
<td>80</td>
</tr>
<tr>
<td>Taxation Return</td>
<td>80</td>
</tr>
</tbody>
</table>

Table 2-13 Usefulness of financial statements and compliance reports in small- and micro-businesses (Dyt & Halabi, 2007, Table 3, p.6)

Whilst there are a number of similarities between the accounting environment of small and micro Australian businesses, and small Victorian incorporated associations, there are also differences. For instance, the businesses in the Dyt and Halabi (2007) study are significantly bigger than the small incorporated associations featured in this research – and businesses are typically operated for profit making purposes. These factors impact the applicability of corporate world findings to an incorporated association context – but can provide some insight into choices made, when those choices are ‘open’.

Having considered the nature of accounting and the various choices available, attention is now turned to a consideration of how these choices may be influenced. Institutional theory is used as the framework to examine pressures that may come to bear on these accounting-related decisions, and in the concluding section the focus will be narrowed to membership-based organisations.
Institutional Theory and Isomorphic Pressure

There has been a steady change in the culture of nonprofit organisations such that many are now embracing competitive and corporate practices (Dolnicar et al., 2008). In their research on reporting dilemmas and accountability of Australian nonprofit organisations Flack and Ryan (2003) found evidence “some nonprofit organisations [were] responding to the pressure to be more accountable by adopting the for-profit/competitive market approach whilst others were adopting the public accountability practices of the government sector” (p.75). Institutional theory holds that organisations will endeavour to conform to the practices of ‘benchmark’ institutions in order to project an image of a similar standing. The result is isomorphism, where different entities evolve in such a manner they eventually “adopt the same structures and practices” (Carpenter & Feroz, 2001), such as accounting systems and reporting practices. This adaptation of institutional accounting and reporting practices by an organisation (Dillard et al., 2004) may come about due to coercion (coercive isomorphism), a desire to emulate another entity’s approach (mimetic isomorphism), and/or to conform with expected norms (normative isomorphism) (DiMaggio & Powell, 1983).

Under the banner of coercive isomorphism, DiMaggio and Powell (1983) explain that the choice of accounting and reporting practices is influenced by pressure exerted by stakeholders. As indicated by Carpenter and Feroz (2001), such pressure is most likely to be applied by financial and other resource providers (such as sponsors for small incorporated associations), but technically includes anyone who is in a position to exert power. Consequently the government is another recognised applier of coercive isomorphism (Zucker, 1987). For example, adopting a similar structure for associations’ legislation as is used for corporations may inadvertently cause associations to take on similar characteristics as corporations. As illustrated in Table 2-14 below, coercive isomorphism is likely to occur in situations where there is a relationship based on dependency.
In noting the lack of enforcement of the Associations Incorporations Acts, Parkinson (2004) suggested greater enforcement had the potential to generate institutional isomorphism pressure in incorporated associations – shifting their focus to corporate practices such as governance.

Under the banner of mimetic isomorphism, DiMaggio and Powell (1983) explain that “when organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations” (p.151). Hence, mimetic isomorphism relates to mimicking, and is most likely to occur in environments with inherent uncertainty (Table 2-14 above). In examining the transition from cash accounting to accrual accounting in an Australian nonprofit organisation, Irvine (2011) found mimetic isomorphic pressures were the motivating force for change – the organisation wanted to project/mimic a more “corporate image” (p.824) and believed accrual accounting would help achieve this, thereby making them more attractive to resource providers. This branch of isomorphism is particularly relevant in the study of the accounting function of small incorporated associations, where accounting and reporting practices are not prescribed. Consequently, in applying this theory, the accounting and reporting practices of small incorporated associations could be expected (to varying degrees) to emulate practices from a professional/corporate accounting environment. In so doing, the small incorporated association projects a professional image that projects increased survival capabilities and is therefore more attractive to resource providers.
providers (Scott (1987) in Carpenter & Feroz 2001). However, a distinguishing feature of the environment being mimicked is the generation of general purpose financial statements which are subject to the provisions contained in the Australian Accounting Standards. It is for this reason the title given to a financial report is important.

If a small incorporated association decides to mimic a more corporatised accounting function they may name their reports in a corporate manner such as:

- Statement of Financial Position (or Balance Sheet);
- Statement of Profit or Loss; Statement of Comprehensive Income (or Income Statement; or Profit & Loss Statement);
- Statement of Changes in Equity;
- Statement of Cash Flows (or Cash Flow Statement)

(Leo et al., 2012)

The likelihood small incorporated associations will adopt such formal accounting and reporting practices may be determined by reference to DiMaggio and Powell (1983), who predict:

- “The more uncertain the relationship between means and ends, the greater the extent to which an organization will model itself after organisations it perceives to be successful” (Hypothesis A-3, p.154); and
- “The more ambiguous the goals of an organization, the greater the extent to which the organization will model itself after organisations that it perceives to be successful” (Hypothesis A-4, p.155).

Any decision to adopt the corporatised report names must be considered with caution. On the one hand these titles are inconsistent with the titles contained in the enabling legislation,
and on the other hand reports so named may start to mimic “the financial statements of commercial, business and reporting entities (AASB, 2009, para.8). Hence, how a financial report is named is important because it may be prima facie evidence the reports are general purpose financial statements – thereby requiring consideration of Australian Accounting Standards.

Under the banner of normative isomorphism DiMaggio and Powell (1983) explain that group norms will result in the adoption of similar practices by members of the same group. In terms of voluntary reporting practices, Deegan (2011) adds that normative isomorphic pressures could emanate from formal or informal groups to which the report preparer belongs. The literature on volunteerism suggests managers and professionals more likely than non-managers and non-professionals to assume white collar volunteer tasks such as the office of Treasurer (Moore & Whitt, 2000; Musick & Wilson, 2008; Steinberg, 1999). Consequently the professional and other memberships of one assuming the role of volunteer Treasurer in a small incorporated association can be expected to influence the accounting decisions being made.

The likelihood small incorporated associations will adopt formal accounting and reporting practices by virtue of the Treasurer’s professional affiliations may be determined by reference to DiMaggio and Powell (1983), who predict:

- “The greater the reliance on academic credentials in choosing managerial and staff personal, the greater the extent to which an organization will become like other organisations in its field” (Hypothesis A-5, p.155); and

- “The greater the participation or organizational managers in trade and professional associations, the more likely the organization will be, or will become, like other organisations in its field” (Hypothesis A-6, p.155).
What is significant in the context of normative isomorphism is “accountants are more likely to view the [accounting function] through accounting frameworks and conventions” (Gray et al., 1987, in Deegan 2011, p.16). Given this propensity for accountants to behave like accountants, normative isomorphism suggests the accounting practices of small incorporated associations are more likely to morph to become like entities in the corporate world if the Treasurer (or other significant committee member) is a professional accountant. As illustrated in Table 2-14 above, groupthink underlies the transformation. Hence the result may be the application of professional practices resulting in a general purpose approach to accounting and financial reporting.

Institutional isomorphic pressure has been well researched, and the literature suggests often all three forces are present. Frumkin and Gelaskiewicz (2004) found institutional pressures are not the same across different types of organisations; and although nonprofit organisations are susceptible to isomorphic pressure, governmental organisations are more susceptible. In their study of competitive grant funding in public sector nonprofit volunteer organisations, Dolnicar et al. (2008) examined isomorphic pressures. Using Bushcare New South Wales (NSW) as the case study, their results indicated coercive, normative and mimetic pressures were all present in the nonprofit environmental organisation.

**Accounting function choices in membership-based organisations**

Nonprofit membership-based organisations are “melting pots combining mission, members and money” (Abraham, 2006, p.212) and according to the Financial Accounting Standards Board possess “predominantly nonbusiness characteristics” (FASB 2008). Abraham (2006) explains that the combined effects of culture and the nonprofit motive can result in these organisations neglecting to make optimal use of available accounting information. We are told that despite an acknowledged need for accountability, “it appears that an accounting system can operate in an organisation and yet not function as a control mechanism to provide accountability” (p.213). Specifically, in organisations built on “informal
relationships, voluntary participation and ‘niceness’” (Abraham 2006, p.213), the likelihood is that accountability is an “alien” (p.213) concept. Further examination of the literature reveals accounting choices made in nonbusiness organisations commonly arise as the result of a crisis (Abraham, 1999a). This is because, according to Meyer (1994), formal accounting is unnecessary (and even intrusive) in organisations that are complete or self-contained.

Hence, the literature suggests accounting choices vary in line with the available resources and culture of a membership-based organisation. Importantly, formal accounting is viewed as unnecessary – until a crisis point is reached. These findings are particularly relevant to small incorporated associations where accounting choices are being made by volunteer members who may or may not have accounting knowledge.

**Synopsis of Accounting Function Choices (What, How, Why)**

The accounting function in small incorporated associations is required to generate an annual financial statement that truthfully and fairly reflects the performance and position of the association in the financial year just ended. Despite this presupposing the application of generally accepted accounting norms and conventions (discussed later), there are no mandated or prescribed treatments. This means many important choices (from the method of accounting through to the bases of recognition and measurement and beyond) are decisions to be made at the association level.

The literature suggests that although double entry is widely assumed in the business world, single entry systems are still in use by those with comparatively small accounting requirements. The same can also be said for accrual and cash accounting; although it is recognised accrual accounting is sometimes used when it is not necessary, and sometimes
an undefined modified cash/accrual method is adopted as a variation. The decision as to which is most appropriate is said to depend on “how crucial the timing of recording of transactions is” in the decision-making process (Conn 1996, p.83). Amounts included in financial reports can be based on historical cost or fair value (or some variation); they can be net of accumulated depreciation or ignore accumulated depreciation; and they can be adjusted for impairment or not. These decisions have a major impact on figures reported, and it has been said most balance sheets do not measure their assets at historical cost. The choice of accounting system has been found to vary in line with the size of an entity (in terms of employees). Smaller micro-businesses (5 or less employees) are most likely to exhibit high variation in their choices, with strong support for both paper-based/manual processes and computerised options. The decision to embrace technological solutions is strongly influenced by the characteristics and preferences of the organisational decision-makers. Technological solutions include electronic spreadsheets and commercial accounting packages, and the literature reveals both have their weaknesses. Financial reports can be general purpose or special purpose, and their classification is critical because it determines whether Australian Accounting Standards must be applied. Like small incorporated associations, the accounting function of small private companies is free to determine what financial reports to produce – although their operational choices will necessitate the production of some statutory reports. The limited research undertaken in this area suggests the profit and loss report is the dominant report to be voluntarily produced, and this is because it is deemed to be the most useful report for decision-making. Balance sheets are generated less routinely because they are not considered as useful. Finally, institutional theory and isomorphic pressure was shown to be a possible factor shaping the accounting decisions made. For instance, in situations where the regulatory and/or operating environment is characterised by uncertainty, the literature suggests entities will look towards other entities they view as legitimate, and ‘mimic’ their practices.

This section has examined the literature pertaining to accounting choices, and how these might be influenced. As the focus of this research is accounting by volunteers who may or
may not have accounting expertise, it is now necessary to consider factors that may hinder compliance with the overarching regulatory requirement of truth and fairness.
2.3 Regulatory Requirements and Compliance

“Bad regulation...can do terrible damage to people. Good regulation can control problems...Mediocre, unimaginative regulation that occupies the space between good and bad regulation leads to results that are correspondingly between the extremes of good and bad” (Braithwaite et al., 2007, p.4).

“If there are obstacles, the shortest line between two points may be the crooked line”

(Bertolt Brecht in Tripp, 1983, 579.3).

Small incorporated associations are not-for-profit entities reliant on volunteers to make them operational. In such associations the committee of management bears ultimate responsibility for the accounting function, although operational responsibility typically rests on the individual Treasurer. As discussed throughout this thesis, Treasurers who assume such responsibility may be fully qualified professional accountants or well-meaning individuals with absolutely no accounting or business aptitude – and any number of alternatives in between. This places small incorporated associations in a particularly vicarious position when it comes to matters of accounting compliance.

Ascertaining exactly what is meant by compliance involves a certain level of interpretation. Laws and regulations are the obvious starting point when establishing the scope of what an entity must comply with, but even laws and regulations are “typically designed to be adaptable and flexible to changing technology, knowledge, and...[an entity’s] circumstances” (Hutter & Power in Pickford, 2001, p.166). This is especially the case for
Sources of Regulatory Non-Compliance

Small incorporated associations face compliance obligations from just about every aspect of their operational endeavors – from working with children considerations and taxation considerations to “health and safety issues, environmental issues, wage and hour regulations, equal opportunity, …competition, data privacy, fund-raising, and even personal hygiene” (Silverman, 2008, p.31). However, the accounting function in small incorporated associations is different because the legal requirements are comparatively less prescribed. The focus of this study is specifically confined to matters of financial compliance/non-compliance: Small incorporated associations are required to:

- maintain what are generally accepted as being correct accounts that facilitate the generation of ‘true and fair’ financial reports;
- present such a report to the members at the AGM; and
lodge a ‘true and fair’ financial statement with the Registrar annually. Note that associations have the choice of completing a paper-based template mailed to them, or submitting an alternative set of accounts.

It is within these parameters the potential for non-compliance exists.

Australian regulatory theorist John Braithwaite is a notable leader in in the field of regulatory compliance (Silverman, 2008). Twenty years ago, as part of the Regulatory Management and Reform Series, Braithwaite (1993) compiled a report for the OECD in which he reported the following threats to regulatory compliance:

- Failure of business to understand the law;
- Lack of commitment of business to the objectives that lie behind the law or to the rules chosen to secure those objectives, or both;
- Perception by business that regulatory procedures are unjust (procedural injustice);
- High costs of regulation;
- Enforcement failure, including failure of deterrence, incapacitation and persuasion;
- Failure of civil society.”

(Braithwaite, 1993, p.7)

These factors were based on the perspective of those targeted in the research, and further studies undertaken by the Public Management Committee (PUMA) on behalf of the OECD revealed the sources of non-compliance usually fell into three categories:

- "The degree to which the target group knows of and comprehends the rules (comprehension).
- The degree to which the target group is willing to comply – either because of economic incentives, positive attitudes arising from a sense of good citizenship,"
acceptance of the policy goals, or pressure from enforcement activities (willingness).

- The degree to which the target group is able to comply with the rules (ability)”
  (Parker, 2000, p.7).

The work of PUMA drew heavily on the work of Braithwaite (1993), and the originally cited sources of compliance failures were incorporated into the three categories discussed in the final report prepared by Parker (2000). As recognised authorities in the field of regulatory compliance, these three categories and sources will be used as the foundation for the consideration of accounting-related compliance in small incorporated associations, and have been summarised in Table 2-15 below.
1. **Non-Compliance related to comprehension**

   *Failure to understand the law (or know of)*
   - quantity of obligations
   - complexity of the mandated requirements

2. **Non-compliance related to willingness**

   *Cost of Regulatory Compliance*
   - dollars
   - time

   *Collapse in Belief in the Law*
   - belief that the law is ‘right’ collapses, this automatic response to comply comes into question

   *Procedural Injustice*
   - stems from a collapse in belief that the regulation is necessary

   *Deterrence Failure*
   - the likelihood the offense is discovered and the size of the penalty

   *Failure of Persuasion*
   - the Regulator is unable to adequately convey the reasons why compliance matters

3. **Non-compliance related to ability**

   *Failure of administrative capacity*
   - administrative support mechanisms are not in place by the Regulator

   *Failure of regulatory requirements*
   - failure caused by the structure of the regulation
   - failure caused by lack of communication of the requirements

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**Table 2-15 Sources of regulatory non-compliance** (Braithwaite 1993; Parker 2000)

1. **Non-Compliance related to comprehension.**

   **Failure to understand the law**

   Failure to understand the law is one of the primary causes of compliance failures (Braithwaite 1993). The first issue when considering a failure to understand the law is the quantity of obligations an entity must be aware of. Small incorporated associations have obligations imposed on them from (potentially) as many as five sources (statute, common law, affiliation rules, club-level rules, and council by-laws), and many of these include varying levels of reporting obligations. According to Silverman (2008), the range of
compliance obligations in the broader business community has expanded to such an extent they risk becoming overwhelming. This sentiment was widely expressed in the review of regulation applicable to the not-for-profit sector where it was recommended regulations should not overburden the smallest entities - instead regulation should be “proportional to the size and complexity of NFP entities” (Australian Government (The Treasury), 2011a, p.15). Consequently, there are few prescribed accounting requirements imposed on small incorporated associations, and failure to understand the law due to regulatory overload is therefore deliberately minimised using this approach.

The second issue to be addressed when considering a failure to understand the law is the complexity of the mandated requirements. In an early study by Bowles and Gintis (1975) it was suggested that because education contributes to one’s thought processes, different levels of education can have a significant effect on one’s capacity to comply with mandated requirements (in Lee, 2008, p.746). Haniffa and Cooke (2002) similarly found the background of those responsible for the accounting function affected their interpretation of the requirements in application. There are two components to be considered when discussing compliance failures due to complexity – the complexity related to the qualitative requirement of ‘true and fair’; and the complexity related to completing the required annual financial statement (which is lodged with the Registrar).

Despite there being significant debate in the legal and accounting domains since the 1950s (Deegan et al., 1994; Kirk, 2006), the term ‘true and fair’ remains undefined (Deegan, 2011). This is significant given it is the overarching requirement of the accounting function of small incorporated associations. Failure to understand the requirements underpinning this term is a recognised problem (as is discussed more thoroughly later in this chapter), although it has emerged that ‘true and fair’ seems to imply compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk, 2006). Hence failure to understand the law in this instance may be driven by a complexity brought about by basing the accounting obligations on an undefined term, whose interpretation ‘points’
elsewhere for clarification. This ‘pointing to’ accounting norms and conventions has the capacity to impact the achievement of the mandated truth and fairness requirement. Because of the importance of these accounting norms and conventions, they are also discussed more thoroughly later in this chapter.

Compliance failures related to the completion and lodgment (with the Registrar) of the required annual financial statement stem from structural complexity. As noted by McGregor-Lowndes and Ryan (2009), “there is scant literature on general government paperwork for [nonprofit organisations]” (p.23). In researching the completion of government generated paperwork by Queensland nonprofit organisations (not incorporated associations), Ryan et al. (2008) and McGregor-Lowndes and Ryan (2009) specifically investigated the issue of complexity from the users’ perspectives. Nearly three quarters of the fourteen respondents indicated they did not find the required paperwork difficult to complete (McGregor-Lowndes & Ryan, 2009, p.33). Furthermore, they found the potential for complexity was often addressed up front, with nearly half the forms including ‘how to complete’ instructions, and just over one third providing contact details for further information (p.33). It was, however, beyond the scope of their research to analyse whether the participants’ confidence in completing the forms accurately was well founded or not. Panko (2000) however, found people make errors even when they are confident they have not. When considering the findings of Ryan (2008) and McGregor-Lowndes (2009) in light of the findings of Panko (2000), a response suggesting forms are straightforward to fill in does not necessarily mean the forms have been filled in correctly.

Failure to know of the existence of a particular regulation/treatment, or comprehend it, makes it impossible to consciously follow (Braithwaite, 1993), irrespective of any professional expertise. Furthermore, failure to understand one’s legal requirements is recognised as one of the most “deeply underestimated sources of non-compliance” (Braithwaite, 1993, p.8) – and this is particularly significant in light of the volunteer-led accounting function in small incorporated associations.
2. **Non-compliance related to willingness**

*Cost of Regulatory Compliance:*

The cost of regulatory compliance must be affordable, both in terms of dollars and time (Braithwaite, 1993). The decision to comply with laws and regulations involves a cost-benefit analysis, where the costs associated with non-compliance are analyzed before resources are applied to achieving compliance (Hutter and Power in Pickford, 2001). According to Silverman (2008, p.143) there are three categories of cost elements associated with the compliance function: headcount; administrative; and program expenses. In small organisations where there are limited resources (such as time, staff and potentially expertise) there is less of an opportunity to realise the economies of scale that can exist in larger operations – pushing their cost of compliance to prohibitive levels.

As part of the study into completion of government paperwork by Queensland nonprofit organisations, McGregor-Lowndes and Ryan (2009) and Ryan et al. (2008) considered the cost of regulatory compliance in the context of government grants. The findings confirmed the commonly held assumption “that compliance costs fall disproportionately on smaller organisations” (p.25). Specifically;

> *the average cost of compliance for small organisations was 2.76% of revenue, compared with the large organisations at 0.36% of revenue – that is, 7.6 times greater for small organisations*” (Ryan et al., 2008, p.i).

In other papers McGregor-Lowndes and Ryan (2009), Parker (2000) and the Australian Government (2011a) concluded that due to their underlying cost structures “small nonprofits bear a significantly higher burden” than larger nonprofit organisations (McGregor-Lowndes & Ryan, 2009, p.21). Cost is difficult to quantify, however Rawsthorne and Shaver ((2003) in McGregor-Lowndes & Ryan, 2009) found 18% (p.23)
of community service organisations spent more than eight days per month on financial reporting related government forms. Whether this was excessive was not discussed, but highlights cost pressures. Overall the cost of regulatory burden must be kept to a minimum; otherwise compliance failures can be expected.

**Collapse in Belief in the Law**

Traditionally there have been two schools of thought as to why some people or businesses comply with their regulatory requirements whereas others do not – deterrence theory and the theory of norms (Lee, 2008). Deterrence theory underpins the ‘deterrence failure’ source of non-compliance, and is therefore discussed below under that heading. The theory of norms suggests group norms (where society is the group, and the laws represent normalised behavior) will lead to widespread compliance with laws, simply because it is the ‘right’ thing to do. That is, the law represents morally right behavior, and therefore invokes an automatic response to abide due to a “sense of moral obligation” (Lee, 2008, p.742). However strong this moral obligation may be though, the compliance decision is a complex process resulting from “the combination of multiple attitudes” (Gunningham et al., 2003 in ; Lee, 2008, p.748). When one’s belief that the law is ‘right’ collapses, this automatic response to comply comes into question – and non-compliances can result (Braithwaite, 1993; Parker, 2000).

The legal compliance requirements applicable to the accounting function in small incorporated associations are minimalistic (Parkinson 2004). With one financial statement to be lodged and presented to members annually with the Registrar, the reporting obligations are not particularly onerous. However, in an environment dependent on volunteers to donate their time to complete and lodge the paperwork, belief in the value of mandated tasks is an important component affecting compliance. McGregor-Lowndes and Ryan (2009) asked participants about the organisational usefulness of the data they were being asked to capture for government purposes: just over one quarter of the participants “perceived little value for their organisation in collecting [the] information” (p.33).
Furthermore, the main/only organisational benefit was to satisfy the mandated requirement. The impact of this finding on the quality of compliance was not explored.

Procedural Injustice

The concept of procedural injustice as a source of regulatory non-compliance descends from a collapse in belief that the regulation is necessary. Whereas “procedural justice generally enhances an authority’s legitimacy and encourages people to comply with an authority’s decisions and rules” (Murphy et al., 2009), the opposite is true when people perceive a requirement as unjust. In almost a silent protest, if someone feels as though the requirements being imposed on them are excessive or simply unfair, there is a higher likelihood they will choose to not comply (Braithwaite, 1993; Murphy et al., 2009; Parker, 2000).

Braithwaite (1999) adds that this situation can be further exacerbated by the actions of front-line regulatory personnel. That is, the perception of administrative staff providing compliance directives without being required to defend their decisions can be viewed as a wall in front of those being regulated – rather than as a support mechanism. Such an adversarial relationship can negatively impact on one’s propensity to comply.

Deterrence Failure

As previously stated, deterrence theory and the theory of norms are the two traditional paths by which to explain compliance decisions (Lee, 2008). Deterrence theory has as its foundation that people will act rationally - that people will comply with their statutory requirements, but “only to the extent that it is in their self-interest to do so” (Silverman, 2008, p.57). In his 1968 article “Crime and Punishment: An Economic Approach”, Becker (1968) suggests one’s propensity to comply with rules is a function of “the probability that an offense is discovered and the offender apprehended and convicted, and the form of the
punishment” (Becker, 1968, p.207). Consequently, if non-compliance with a financial reporting requirement is unlikely to be discovered or pursued, or if the punishment is viewed as insignificant, the propensity to comply is severely diminished. In a self-regulating environment, the impact on non-compliance is even greater as the punishment component of Becker’s model is potentially lacking (Braithwaite, 1993).

Deterrence failure is a type of enforcement failure (Braithwaite 1993), and in a study of the duties of committee members of incorporated associations Parkinson (2004) declared “it would appear that the provisions of the Acts are not being enforced” (p.85). It was noted that Victoria takes a “different approach to enforcement” (p.85) than the other states, and “uses complaint data to identify the areas of highest need and takes a campaign approach to tackling the problem” (p.85). For example, in the year 2000 a letter campaign was undertaken to address “the traditionally low rate of submissions of annual returns” (p.86), resulting in a compliance increase from 38% to 53% for small associations. Ultimately Parkinson (2004) determined that because “the Associations Incorporations Acts are not enforced…they provide minimal basis for committee member accountability” (p.86).

Failure of Persuasion

Failure of persuasion is similar to deterrence failure, but viewed from a different perspective. Compliance relationships encompass the regulator, the regulated body and the regulations – and managing relationships amongst stakeholders are a key strategy in gaining compliance with mandated requirements. Both Braithwaite (1993) and Parker (2000) conclude that having a physical presence and utilizing powers of persuasion are much more significant determinants of compliance than the threat of punishment. Conversely, if these relationships fail, or if the regulator is unable to adequately convey the reasons why compliance matters, the likely result will be indifference to the requirements resulting in considered non-compliance. Hence, there is also a strong link with a collapse in belief in the law, as previously discussed. Parkinson (2004) found evidence of such attitudes in his study of incorporated associations.
3. **Non-compliance related to ability**

*Failure of administrative capacity*

In an environment where there is little prescription, great scope for interpretation, and high variability in the background of the person managing the compliance function, it is desirable to have support systems in place (Braithwaite, 1993). If these administrative support mechanisms are not in place by the regulator, or are not easily accessible, then the likelihood of non-compliance increases. Hence, failure of administrative capacity is caused by the failure of the regulator to provide adequate support mechanisms to assist the regulated in being *able* to meet their compliance obligations.

*Failure of regulatory requirements*

The final source of non-compliance is caused by the structure of the regulation and/or the failure of the regulator to effectively communicate the requirements contained therein. There are two broad structural approaches available to regulate the accounting function – specify the desired outcome and leaves it to the entity to decide how best to achieve it; prescribe detailed actions required for compliance. According to Braithwaite (1993) both have their problems: A performance-based regulatory approach risks being impractical to achieve (for reasons of cost and resourcing), whereas a prescribed approach risks smothering the regulated entity – both of which are undesirable outcomes (Braithwaite, 1993). A balanced approach is preferable, but it must be remembered it is impossible to comply with something you are unaware of (Braithwaite 1993, Parker 2000). Hence, failure of regulatory requirements results when the structure or communication of requirements is such that the *ability* of the regulated to comply with them is hindered. The structure of accounting regulation applicable to small incorporated associations requires application of the ‘true and fair’ view – an undefined term that ‘points’ to the accounting discipline for clarification.
The preceding discussion illustrates the many factors impacting an incorporated association’s compliance with accounting and reporting requirements. The primary cause of non-compliance is said to be related to lack of knowledge and comprehension, and having the ‘right’ people can not only lead to greater consistency, but minimises the need for detailed regulation (Braithwaite 1993). Given the primary cause of non-compliance relates to a lack of understanding, it is significant the accounting function of small incorporated associations is founded on an undefined term whose meaning has conjured up significant debate over the past several decades. Consideration is now turned to the meaning of ‘true and fair’.

**The meaning of ‘True and Fair’**

Whilst the literature abounds with discussions, debates and the relative merit and differences between terms such as ‘true and fair’, ‘true’, ‘fair’, ‘true and correct’, ‘presents fairly’, ‘fair presentation’, ‘faithfully represents’, ‘fair presentation’, ‘fairly reflects’ and so on, such considerations are outside the scope of this study. Given the propensity for alternative terms to be used with regard to the accounts of small incorporated associations, it is however relevant these alternative terms are not seen as an equivalent to ‘true and fair’. The accounting function of small incorporated associations is based on the ‘true and fair’ view concept, and therefore it is the meaning of this term that commands the focus of this section.

The term ‘true and fair’ has a long history, and was first introduced into Victorian company law in 1955 (Deegan et al., 1994). Since then there has been much debate around the meaning of the term, but to date nothing definitive has emerged (Deegan 2011). In a relatively recent study of auditors, financial directors and shareholders of New Zealand listed companies, Kirk (2006) examined perceptions of the true and fair view concept but declined to provide a definition. Instead it was concluded the “‘true and fair view’ does not
appear to be associated with compliance with GAAP and the law...[or the terms] ‘relevant and useful’, ‘correspondence with economic substance’, [or] ‘understandable and comprehensible’” (Kirk 2006, p.223). According to Evans (2003) many have “argued that a definition would neither be possible nor desirable, as the principle is dynamic” (p.312). Nonetheless there have been numerous attempts, with an oft-cited three-pronged interpretation developed by Walton (1993, p.50):

(1) A legal residual clause;

(2) An independent concept;

(3) Generally accepted accounting principles.

The most common of these approaches is by reference to generally accepted accounting principles, as evidenced by the many articles discussing the merit and intricacies of various accounting standards and pronouncements (Alexander & Jermakowicz, 2006; Allen, 1991; Evans, 2003; Hoffman & Arden, 1983; Kirk, 2006; Walton, 1993). Consequently, even though the term ‘true and fair’ remains undefined (Deegan 2011), Kirk’s (2006) findings supported “a literal rather than a technical interpretation of ‘true and fair’” (p.205). When combined with other research the term ‘true and fair’ can be taken to imply compliance with generally accepted accounting norms and conventions – this is not the same as GAAP (Generally Accepted Accounting Principles) or IFRS (International Financial Reporting Standards) or any individual country’s accounting standards. Instead, this interpretation of ‘true and fair’ implies compliance with the “sort of information accounts ought to show, and technically how this is to be achieved” (Walton 1993, p.52). Hence, irrespective of whether there are accounting rules to prescribe specific treatments, a legal requirement to produce ‘true and fair’ reports brings with it a broader expectation that generally accepted accounting norms and conventions have been applied. This is of critical importance when complying with the term ‘true and fair’ requirement because a financial reporting gap may otherwise develop (Allen, 1991). If a financial reporting gap does develop, significant variations “between what financial statements mean and what many non-accountants think they mean” (Kirk 2006, p.207), can occur. The result is users of the financial information
“risk being misled because they are accustomed to financial information being prepared in accordance with accounting standards and may not understand that the information disclosed does not conform with these standards” (Australian Securities and Investments Commission, 2011 [ASIC], p.5).

In an entry level accounting textbook it is stated “accounting poses ethical challenges” (Horngren et al. 2010, p.118). For example one might believe accrual accounting provides the best reflection of reality, whereas others may believe cash accounting does. There is no question both are acceptable bases of recognition; however they result in markedly different abstractions of ‘true and fair’. Similar issues surround the selection of measurement bases, as historical cost accounting (in the absence of a mandated impairment test) will generate a markedly different abstraction of ‘true and fair’ than will the adoption of fair value accounting. These matters were highlighted by Alexander and Jermakowicz (2006), who subsequently stated “the nature of ‘reality’ in the context of financial reporting is, at best, a generally agreed, inter-subjective human construction” (p.132).

Values are a function of our education, and “accountants are more likely to view the [accounting function] through accounting frameworks and conventions” (Gray et al., 1987 in Deegan 2011, p.16) than non-accountants. The literature on volunteerism suggests accountants are more likely to assume responsibility for the accounting function in small incorporated associations than those without such experience (Bliss and Nalebuff 1984). However, there is also evidence people assume volunteer roles because no-one else would (Bilodeau and Slivinski 1996), and specifically the role of Treasurer simply because it is their turn (Musick and Wilson 2008). The potential variability in the knowledge-base of the person assuming the role of Treasurer in a small incorporated association may therefore widen the potential interpretation of the term ‘true and fair’.
‘Understandability’ is the term used in the professional accounting domain to express the level of complexity that is acceptable when presenting financial information. The ultimate requirement when presenting financial information is the content must be delivered in such a manner as to make it “readily understandable by users” (AASB, 2009, para.25). The Framework provides some guidance by adding “users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence” (para 25). Despite this, at the highest level “many users of financial statements [still] have a very poor working knowledge of accounting” (Deegan 2011, p.35). Even those with formal accounting qualifications can be caught by complexities in accounting information, as evidence by the multitude of high profile corporate collapses such as ABC Learning Group, One.Tel and Harris Scarf.

Hence, in an attempt to reduce complexities, a ‘watered-down’ version of truth and fairness may be presented to potential users.

In the professional accounting arena, the balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to the accounts are akin to individual pieces in a jigsaw puzzle – it is when they are read in conjunction with each other one gets the ‘true and fair’ picture intended (Jackling et al. 2007, p.338). In an unregulated environment where the nature of financial statements to be produced is not mandated, there can be additional difficulties in requiring financial reports to present a ‘true and fair’ view. In such settings financial reports produced may be labeled; ‘Balance Sheet’, ‘Income Statement’, Statement of Income and Expenditure’, ‘Treasurer’s Report’ or other such names. In situations where there is a reliance on one financial report for decision-making (e.g. Statement of Income and Expenditure, Treasurer’s Report etc.), vital parts of the jigsaw puzzle are missing. For instance, if there is a particularly healthy bank balance (as disclosed in the Treasurer’s Report), disclosure of provisions in the balance sheet would enable readers to understand the future plans of the entity. Whilst it is not practical to perfectly assess what financial information is needed by users (Deegan 2011), it is evident truth and fairness is impacted by the choices of financial reports generated.
With regard to the interpretive aspects of truth and fairness, time can also cause variability in application. It is often said ‘we don’t know what we don’t know’, and when this is combined with the notion that we learn through trial and error (Popper, 1968 in Deegan 2011, p.17), the variability in what is ‘true and fair’ becomes apparent. Hence, what one might consider ‘true and fair’ at one point in time may vary in line with knowledge gained through experience and over time. Walton (1993) highlighted this time concept in gauging truth and fairness.

A number of academics (Alexander & Jermakowicz, 2006; Deegan et al., 1994; Evans, 2003; Kirk, 2006), have noted enforcement difficulties associated with the use of the term ‘true and fair’. As a result of there being “no legal definition of ‘true and fair’” (Deegan 2011, p.20) it is exceedingly difficult to take action on the basis the financial information failed to meet this requirement. F.J.O. Ryan for instance, in NCSC (1984, p.25, in Deegan et al., 1994, p.5), stated: “I would not for one moment contemplate a prosecution based on so slippery a concept as truth and fairness”. Interestingly however, although there have been no prosecutions for breach of ‘true and fair’ requirements, “there have been numerous prosecutions for failure to keep proper ‘books’ or ‘accounts’ (1984, p.25, in Deegan et al., 1994, p.5). Overall, if required to assess compliance with truth and fairness courts are likely to “treat compliance with accepted accounting principles as prima facie evidence the accounts are true and fair” (Hoffman & Arden, 1983 in Kirk 2006, p.209). Typically this will be done by reference to accounting standards (Kirk 2006), but the application of accounting standards is not required in small incorporated associations so it is the broader generally accepted accounting principles that become relevant.

**Generally accepted accounting norms and conventions**

How the compliance function is addressed offers “a window into the soul of the organization” (Rick Wolf in Silverman 2008, p.62). In the past decade there has been an explosion of “private voluntary organizations” or “civil society organizations”, and in an
expanding regulatory environment there has been an equally significant increase in the need to focus on compliance activities (Silverman, 2008, p.25). As with other corporate structures, key challenges facing small incorporated associations includes being aware of applicable laws in the first instance, and then keeping abreast of any changes that may be relevant to the organisation (Silverman 2008). As with other nonprofit organisations, matching required skills with available (volunteer) skills to achieve these ends can be particularly challenging (Maynard, 2007).

**Enabling Legislation - A Fair Presentation Framework**

In the legislation applicable to small incorporated associations there are few prescriptive requirements relating to the accounting function. The key financial reporting requirements are to:

- maintain what are generally accepted as being correct accounts that facilitate the generation of ‘true and fair’ financial reports;
- present such a report to the members at the AGM; and
- lodge a ‘true and fair’ financial statement with the Registrar annually.

There is no requirement for small incorporated associations to comply with the Australian Accounting Standards, and there is equally no prohibition on complying with these if associations choose. The accounting requirements contained in the enabling legislation are deliberately minimalist, making them adaptable commensurate with the requirements of the association’s stakeholders and the capabilities of the Treasurer. Furthermore, Australian Auditing Standards ASA 800 (AUASB, 2011a [Aus] Illustration 5) and ASA 805 (AUASB, 2009b Illustration 2) clearly indicate accounting compliance obligations pertaining to small incorporated associations are founded on a ‘fair presentation framework’ and are designed to meet the information needs of specific users. By definition a ‘fair presentation framework’ is:
“…a financial reporting framework that requires compliance with the requirements of the framework [ie. enabling legislation] and:

i. Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

ii. Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report” (AUASB, 2009a, para. 13(a)).

The basis for classifying associations’ enabling legislation as a fair presentation framework is that “it may [/will] be necessary for management to provide disclosures beyond those specifically required” (para. 13(a)(i)). That is, the enabling legislation does not specify treatments or disclosures. There is much literature on the distinction and relative superiority of the two terms: ‘true and fair’ and ‘presents fairly’, and whilst a discussion on the current scholarly standing is not relevant to this research, what is of relevance is the reference to generally accepted accounting principles (Evans, 2003). As stated, these terms suggest the accounting treatments adopted are consistent with generally accepted accounting norms and conventions.

**Generally Accepted Accounting Norms and Conventions**

The accounting process is ultimately a process of communication, and requires a common language to facilitate the transfer of information. For this reason accounting is often described as “the language of business” (Belkaoui, 1978; Lavoie, 1987), and it is critically important those involved in the communication of financial information have a common understanding of the terms being used. Without this, a financial report gap can develop (Allen 1991).
According to Benston (1985, p.42) “the usefulness of financial statements is related to the extent to which users can believe the accounting numbers...are prepared in accordance with known rules”. In this section generally accepted accounting norms and conventions refer to the common interpretation placed on accounting elements and financial reports. They are not the same as Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS) or accounting standards. Each of these have a specific meaning in law, whereas the norms/conventions discussed here focus on the ‘common’ interpretation of financial content being presented. This section therefore considers the common meanings associated with the following accounting concepts:

- The accounting entity concept;
- The accounting period concept;
- The accounting period concept – Income and Expenses;
- The accounting period concept – Surplus/Profit or Deficit/Loss;
- Going concern assumption;
- Balance sheet; and
- Income statement.

*The accounting entity concept*

The accounting entity concept is one of the most fundamental concepts applicable in accounting, because it defines the boundaries of the entity for which financial data are collected, and reports are prepared (Horngren et al., 2010). An accounting entity is a “separate economic unit” (p.12), and in the case of small incorporated associations relates to the body incorporated under the Victorian enabling legislation. Consequently, when reporting on the financial position/performance of the association (to the members, sponsors, councils, Registrar, and other interested parties), there is an underlying assumption the balances:
The accounting period concept

The accounting period concept “defines the unit of time for which accounting data are collected” (Horngren et al. 2010, p.12). In the case of small incorporated associations the legally recognised accounting period is the financial year, which is typically twelve months in duration commencing on the date of incorporation. In application this means annual reports/statements should always reflect the same twelve months; from one year to the next. For example, if an association’s financial year ends on January 31st, then each year the annual financial reports/statement should include all transactions and events from February 1st through to (and including) January 31st, and all balances as at January 31st. This is irrespective of whether January 31st falls mid-week, or on the weekend, and even if the last transaction the association recorded was on January 26th (for example). The existence of, and adherence to, discrete accounting periods is a fundamental assumption underlying the communication of financial information – facilitating comparability across the dimensions of both time and entity (Horngren et al. 2010).

The accounting period concept – Income and Expenses

In application income includes revenue from ordinary operations (such as sales of goods and services), and gains (such as the profit upon the sale of an asset) (Horngren et al. 2010). By virtue of the accounting period concept, income is a flow measured for a discrete period (12 months). Consequently, although income may give rise to an increase in assets (such as cash at bank) or a decrease in liabilities (such as when debts are forgiven), there is a
common understanding reported income will only include reference to the current year. For instance, it would be contrary to the common understanding of income to include an opening cash balance, plus the current year’s income when reporting an income figure. The opposite is true for expenses.

The specific terminology used has other potential implications as well. For instance, whilst ‘income’ is commonly used in both accrual and cash accounting systems, the term ‘expenses’ tend to suggest the application of accrual accounting, and use of the term ‘expenditure’ tends to suggest the application of cash accounting (Guthrie, 1998).

The accounting period concept - Surplus/Profit or Deficit/Loss

‘Profit’ commonly refers to an excess of income over expenses for a discrete period, under accrual accounting. ‘Surplus’ is more commonly used to refer to an excess of income over expenditure for a discrete period, under cash accounting.

‘Loss’ commonly refers to an excess of expenses over income for a discrete period, under accrual accounting. ‘Deficit’ is more commonly used to refer to an excess of expenditure over income for a discrete period, under cash accounting.

Going Concern assumption

Under the going concern assumption, an entity that presents financial information without a statement to the contrary, is advising readers they are able to pay their debts as and when they fall due, and that the entity will continue to operate for the foreseeable future (Horngren et al. 2010). The same is true for the annual financial reports/statement prepared by small incorporated associations.
**Balance Sheet**

The common understanding of a balance sheet is that it is a financial statement listing all “assets and liabilities…with the difference between assets and liabilities being the equity of the ‘owners’, or net worth” (Mellor, 1996, p.79). The statement is presented ‘as at’ one date; the balance date (also referred to as the end of financial year). Equity/net worth communicates how much would be left for distribution to the owners (or other like associations in the case of incorporated associations) if all assets were realised and all liabilities extinguished.

**Income Statement**

The common understanding of an income statement is that it is a financial report showing the financial performance of an organisation for a discrete period (often July 1 through to June 30). Irrespective of whether cash or accrual accounting is used, an income statement shows the level of revenue/income for that period of time and the level of expenditure/expenses for the same period. The difference between these two figures will result in a gain (profit/surplus) or a shortfall (loss/deficit). Any gain or loss will result in a change in overall net worth (Mellor, 1996).

Having a common understanding of key terms used within the accounting function facilitates the communication of financial information. Attaching alternative meanings to terms with a common meaning can therefore not only negatively impact such communications, but also impair truth and fairness. A failure in understanding is one of the most significant causes of non-compliance (Braithwaite 1993), and can be addressed with appropriate training and guidance – or even via a more formal conceptual framework.
The importance of Guidance and Training

Guidance and training have been widely recognised as a means to achieve better volunteer outcomes (Balvin et al., 2007; Eley & Kirk, 2002; Leader-Elliott et al., 2008; Patterson et al., 2007), and are also considered to be of critical importance in matters of regulatory compliance (Braithwaite, 1993; Irvine, 2011; Ryan et al., 2008). The provision of training and guidance is not the sole responsibility of the organisation though; nor is the organisation/individual the sole beneficiary of such training and guidance. During a panel discussion at the Defining, Taxing and Regulating Not-for-Profits in the 21st Century conference, the Commissioner of the Australian Charities and Not-for-Profits Commission stated “education is a very important function of a regulator” (Pascoe, 2012). This is also the view of Braithwaite (1993) and Parker (2000), who list failure of the regulator to provide administrative support mechanisms, as a key driver of regulatory non-compliance. From an application perspective, McGregor-Lowndes and Ryan (2009) noted the benefit of including instructions and a specific contact point in government forms. For the accounting function in small incorporated associations this could involve training individuals in how to complete the annual financial statement lodged with the Registrar, and the meaning of ‘true and fair’. However, from a broader perspective, a conceptual framework may be an appropriate mechanism to provide guidance on generally accepted accounting norms and conventions.

Conceptual Frameworks

Just like any framework, a conceptual framework provides a structure or foundation to support whatever is dependent upon it (Llewelyn 2003 – in Deegan 2011, p.4). The role of a conceptual framework is to “provide a set of consistent principles to guide regulation and reporting of financial information as part of the political decision process” (Christensen, 2010, p.287). In the heavily regulated private sector accounting there are many transactions and events whose accounting treatment is not specifically prescribed. In such instances the
Conceptual Framework released by the Australian Accounting Standards Board (Australian Accounting Standards Board, 2009) is to be referred in determining the most appropriate treatment (para 1(d)). This framework is structured to “provide guidance on key issues such as objectives, qualitative characteristics, definition and recognition criteria” (Deegan 2010, p.47).

**Development of a Conceptual Framework**

In the professional accounting arena, accountants have become accustomed to having a conceptual framework to guide uncertainty. As a foundation on which financial accounting is based, there are a number of ‘building blocks’ that necessarily comprise the finished product (Deegan 2010, p.52). Firstly, the reporting entity must be defined by reference to whether there are external users of financial information who are able to demand the preparation of reports tailored to meet their specific needs. Next consideration must be given to the perceived users of financial statements – including their expected proficiency in accounting:

- Resource providers (eg. sponsors);
- Recipients of Goods and Services (eg. Sporting participants from other clubs);
- Parties performing a review or oversight function (eg. Consumer Affairs Victoria; Special Interest Groups – annual statements of small incorporated associations are required to be publicly available).

The objectives of financial reporting then need to be ascertained to enable users to make informed decisions regarding potential contributions to an organisation. In this vein the qualitative characteristics of financial statements also need to be decided upon:

- Understandability – including an expectation accounting norms have been followed;
- Relevance – impacts on decision-making;
Finally, possible approaches to recognition and measurement of the elements in the financial statements need to be considered in order to agree acceptable practice.

This framework aims to complement regulation by guiding preferred practices, and could conceptually be used as a reference to extend the generally accepted norms and conventions in the context of this study. However, despite being embodied in the professional accounting environment, there are differing perspectives on the worth and merit of the AASB’s Conceptual Framework which must be considered.

**Differing perspectives**

In examining whether the Financial Accounting Standards Board’s (FASB’s) Conceptual Framework “helped solve real accounting issues” Nussbaumer (1992) found that after a significant investment of time, effort and money there was still no consensus as to the worth of the framework. Some practitioners were critical of its theoretical approach, while others felt there was a disconnect with practice. In contrast some practitioners felt it had successfully delivered a number of its cited benefits. Some of the more common benefits and criticisms are presented below.

**Benefits of a Conceptual Framework**

Based on paragraph 7 of Policy Statement 5 ‘The Nature and Purpose of Statements of Accounting Concepts’ (AASB 2001) the following benefits are said to accrue from the development of a conceptual framework:
i. Consistent and logical development of accounting standards;

ii. Compatibility of financial reports outside their immediate jurisdiction;

iii. Greater accountability of the regulator due to a clear base level understanding of what is expected;

iv. Enhanced communication between the regulator and its constituents;

v. Future decision-making becomes more economical, as they are based on a clear and concise foundation.

vi. The need to develop mandated requirements is decreased because there are clear and concise foundations which can be used to guide decision-making.

These benefits are said to relate to conceptual frameworks per se, and should therefore "flow to any jurisdiction that utilises a soundly developed conceptual framework" (Deegan 2010, p.48). By contrast, given the potential range of external users depending on financial reports generated by an organisation, and the potential range of organisations, Walker and Jones (2003) argue it is not practical for a conceptual framework adequately form the foundation of all accounting functions. Walker and Jones (2003) represent a number of accounting academics who have highlighted the shortcomings of having a conceptual framework underpinning the accounting function.

**Criticisms of Conceptual Frameworks**

Other specific criticisms of a conceptual framework approach to regulating the accounting function include that:

i. In focusing on economic performance it is inconsistent with current views on what an entity should be held accountable for. For instance, an entity’s social and environmental performance is ignored (Deegan 2010, p.70);
ii. In focusing on market-based transactions where an exchange of property rights is a precursor to entry into the accounting system, important non-market based transactions and events are ignored (Deegan 2010, p.71);

iii. Conceptual frameworks simply document and codify dominant existing practices (Hines 1989 – in Deegan 2010, p.72);

iv. Conceptual frameworks serve to legitimise the accounting profession (Deegan 2010, p.72)

With so many arguments for and against, it is clear the notion of a conceptual framework is controversial. The decision to develop a conceptual framework takes a great deal of time - more than ten years if it is truly to stand the test of time (Nussbaumer, 1992) – and therefore a full overview of the merits of a conceptual framework should also include the drawbacks of not having a conceptual framework.

*Drawbacks of not having a Conceptual Framework*

According to McGregor (1990, p.48 - in Deegan 2010), the drawbacks of not having fundamental notions clearly defined are as follows:

- Problems for responsible practitioners;
- Opportunities for creative accountants in the preparation and audit of financial reports;
- Difficulties for regulators in seeking to enforce compliance with financial reporting requirements.

(Deegan 2010, p.48)
This section has shown that the role of a conceptual framework is to provide guidance, and “not...be the final solution to all accounting problems” (Nussbaumer 1992, p.241). Essentially it is one recognised way to approach inconsistencies and “inherent limitations in financial reporting” (p.235).

**Synopsis of Regulatory Requirements and Compliance**

This section has combined an examination of empirical data pertaining to regulatory non-compliance with theoretical accounting principles. The law requires small incorporated associations to prepare an annual report that gives a ‘true and fair’ view of the association’s performance and position for the most recent financial year just ended. Although the term ‘true and fair’ has not been defined, it is taken to imply compliance with generally accepted accounting norms and conventions. This means for example, the reports should pertain to the association as registered with Consumer Affairs Victoria; the financial year should be consistent; the balance sheet shows assets, liabilities and equity; the income statement shows income/receipts and expenses/expenditure; and the association expects to be operational for at least the next twelve months. Meeting the ‘true and fair’ requirement therefore requires compliance with these very broad principles. In small incorporated associations however, Treasurers are not necessarily professionally trained accountants, and may not have an understanding of these accounting intricacies. The literature on regulatory compliance indicates there are three sources of regulatory non-compliance: non-compliance related to comprehension; non-compliance related to ability; and non-compliance related to willingness. Within these categories non-compliance can be caused by the quantity and/or complexity of the regulation, the structure of the regulation or support mechanisms put in place by the Regulator, or a number of failures related to willingness of the regulated. Within this last category non-compliance can be caused by failure of the Regulator to adequately convey the reasons why compliance matters, a collapse in belief in the law (including procedural injustice and deterrence failure), and/or costs related to compliance. Amongst all of these threats to compliance, a simple failure to understand what the law
requires is one of the most significant causes of compliance failures. It is for this reason it is said training and guidance are the most effective ways to address regulatory non-compliance. The importance of guidance is evidenced in the professional accounting arena where a formal conceptual framework exists to guide preparers of financial statements in appropriately dealing with matters not prescribed elsewhere.

In the corporate world the role of the auditor is to provide assurance about the reliability of financial information being presented. Having considered the requirements of truth and fairness and the propensity for non-compliance with generally accepted accounting norms and conventions, attention is now turned to voluntary audits and auditor quality.
2.4 Voluntary Audits and Auditor Quality

“I’m not suggesting there are any errors at all. I’m saying that without a proper audit, there’s no way to be sure” – Pete Williams (2012).

A financial report audit is a type of assurance engagement where an assurance practitioner expresses an opinion on the reliability of the content presented in the financial report. Unlike large (prescribed) incorporated associations, there is no statutory requirement in the pre-2012 enabling legislation compelling small incorporated associations to have an audit/review conducted on their accounts. The result is these smaller associations have been allowed to choose whether or not to have their accounting records audited/reviewed and who will conduct the audit. The decision to subject the accounts to scrutiny is still voluntary under the 2012 reforms (Consumer Affairs Victoria, 2012c), however there are only legislated provisions for a review to be undertaken by a member of the Joint Accounting Bodies who holds a current practicing certificate (s.93 Reform Act 2012). There are no legislated provisions for audits in the 2012 Reform Act (Consumer Affairs Victoria, 2012c). In a meeting related to the consultancy to develop educational materials to assist small incorporated associations in meeting their accounting obligations, the Key Policy Advisor at Consumer Affairs Victoria/Department of Justice indicated a change that will made to include audits as an assurance option, and to allow Joint Accounting Body members without practicing certificates to undertake the assurance engagement. This is yet to be reflected in the legislation, but at the time of submitting this thesis the online CAV help pages advise small (tier-1) associations that they are not required to undertake an audit/review – and is silent on who may undertake the engagement (Consumer Affairs Victoria, 2012c). Consequently, the audit requirements related to small incorporated associations are equivalent pre- and post-2012 reforms. That is, there is no legislated requirement to undertake an audit/review, and there is freedom to engage an assurance provider with or without formal accounting/auditing qualifications.
This section explores issues relevant to the voluntary assurance (audit/review) function in small incorporated associations. Consideration is first focused on the purpose and nature of an audit/review, and then examines the voluntary decision to engage an assurance practitioner and the associated quality. Subsequent consideration is then given to audits/reviews undertaken by professional accountants/auditors. Whilst the auditing and assurance framework developed by the AUASB will not necessarily apply to audits of small incorporated associations (determined by reference to professional memberships), it is a well-established framework and is therefore used as a reference for audit related concepts.

**Nature and Purpose of an Audit**

According to the Macquarie Dictionary (Macquarie University, 1985) an audit is “an official examination and verification of accounts and records, especially of financial accounts”, while an auditor is “a person appointed and authorised to examine accounts and accounting records, compare the charges with vouchers, verify balance sheet and income items, and state the result” (p.148). This is a general description designed to enhance a layperson’s understanding, and is hereafter referred to as the ‘layperson’s approach’ to auditing. In the professional accounting arena however, the meaning attached to the terms ‘audit’ and ‘auditor’ are much more defined, and will therefore be referred to hereafter as the ‘formal (or professional) approach’ to auditing. Both interpretations are valid, however those with professional membership with the Joint Accounting Bodies are bound to follow the formal approach, while those operating outside this sphere are not.

**Purpose of an audit**

Despite there being important differences between an audit and a review, hereafter the term ‘audit’ will be used to refer to both. Irrespective of whether one’s perspective of auditing is the layperson’s or the professional’s, the purpose of a financial report audit is to increase the users’ confidence in the information being presented to them (Gay & Simnett, 2010).
This is achieved by a duly knowledgeable person making a statement to this effect, and attaching their statement (opinion) to the financial report. Consequently the objective of an auditor is to form an opinion as to whether the financial report as a whole is free from material misstatement.

According to the Macquarie Dictionary (Macquarie University, 1985) something is misstated when it is wrong or misleading, and this is material when the misstatement is of substantial importance or consequence. This is largely consistent with the formal Australian assurance framework (AUASB, 2010b), with the main difference being that context is added in the formal approach. That is, under the formal approach to conducting an audit, a misstatement refers to the situation where the report(s) presented is/are not in accordance with the requirements of the framework under which the report(s) was/were prepared (the enabling legislation for small incorporated associations). Hence, when deciding if a misstatement is material under the formal approach, consideration must be given to whether the “omission, misstatement or non-disclosure has the potential to adversely affect”:

- The decision-making of those who are using the financial report(s); and
- The ability of those charged with governance of the entity to discharge their accountability

(AASB, 2010, para 9).

There is no such requirement for a layperson’s audit. Furthermore, misstatements may be caused by error and/or by intentional/fraudulent activity, and an auditor (irrespective of whether they are adopting the layman’s approach or the formal approach) needs to consider both possibilities when deciding whether the report is misstated.

An audit is a mechanism by which those charged with governance can communicate to the users of their financial report how they have used the resources entrusted to them as
stewards. It is a means for the committee to discharge their accountability, and the approach used by the auditor is directly related to whether or not the auditor has (or had) professional membership with the Joint Accounting Bodies.

**Components of an assurance engagement**

When undertaking an audit using the layperson’s approach, there is no framework to guide the audit process. By contrast, the formal approach is guided by an assurance framework identifying key components to be considered in undertaking the audit. The five components are as follows:

i. Three party relationship:

ii. Subject matter:

iii. Suitable criteria:

iv. Sufficient appropriate evidence:

v. A written assurance report.

The framework recognises three separate parties in the assurance function: The preparer who is responsible for the financial report content (*responsible party*); the intended user of the financial report (*intended user*); and the assurance practitioner (*auditor*). This clearly sets out the expectation that the auditor is to not have any part in preparing the financial report. Furthermore, this also establishes the expectation that in conducting the audit the auditor is to specifically consider who the intended users are likely to be.

The ‘subject matter’ refers to what is being audited. In the case of small incorporated associations the law requires the submission of an annual statement with the Registrar, and
this can be the Consumer Affairs Victoria formatted statement or an associated-formatted statement/report. This component requires the auditor to specifically consider what reports they are forming and opinion on, and clearly state this in a scoping statement.

‘Suitable criteria’ refers to the benchmark against which the report(s) will be judged. In the case of small incorporated associations the criteria is found in section 30(3A) of the original Act 1981 (S.92 of the reform Act 2012) which requires truth and fairness. As previously discussed, the term ‘true and fair’ is undefined but suggests compliance with generally accepted accounting norms and conventions. Hence, in order to assess this, the practitioner must have an understanding of accounting principles and concepts.

In forming an opinion using the formal approach to auditing, the practitioner is required to gather sufficient appropriate evidence on which they can base an opinion. This involves consideration of assertions embodied in the financial report elements such as completeness, existence/occurrence, valuation and allocation/accuracy, rights and obligations, cut-off, and classification. It also necessitates consideration of the overall presentations and disclosures made in the financial report.

The final component in the assurance framework is the issuing of a written assurance report. Practitioners adopting the formal approach to auditing are required to comply with the Australian Auditing Standards when forming their opinion. This means there is a further framework specifying the types of opinions available and the circumstances giving rise to the various opinions, as well as the required presentation format for the audit opinion.

Those who are not members of the Joint Accounting Bodies are under no obligation to follow this framework (or any of the Australian Auditing Standards), but may do so. The
end result of an audit is the provision of an opinion about the reliability of what is being presented, but may be arrived at using significantly different approaches. This is significant because differences between the layperson’s approach and the formal approach have the propensity to provide assurance of varying levels, and can further exacerbate the expectation gap.

**The expectation gap**

The expectation gap refers to the situation where there is a mismatch between what society expects from auditors, and what society perceives they get from auditors (Porter, 1993), and is usually discussed in relation to audits undertaken by audit professionals. However, as one of the primary causes of the expectation gap is said to be “the ignorance, naivety, misunderstanding and unreasonable expectations of non-auditors about the audit function” (Gay & Simnett, 2012), the issues are relevant to audits undertaken by non-audit professionals as well.

A key issue underlying the expectation gap relates to “the nature and meaning of auditor’s report messages” (Gay and Simnett 2012, p.25). Up until the early 1990s audit report messages (opinions) were presented as a single paragraph, without reference to the different parties’ responsibilities or the nature of the work done. This caused a great deal of confusion, and diminished the level of assurance embodied in the opinion. To address this, an expanded format audit report was developed for use by professional auditors which included responsibilities, procedures and level of assurance. The extended report was credited with reducing many (but not all) of the expectation gap problems. Hence, the theoretical literature suggests increased credibility is associated with increased communication surrounding the audit process.
Voluntary Audits

A clear, unqualified audit opinion is generally seen as a positive thing, though not always considered so attractive as to commit resources to securing it. In an environment where there are limited resources and no statutory requirement to have an audit done, the decision to subject the accounts to audit will ultimately depend on whether the entity sees any “economic reasons for doing so” (Hay & Davis, 2004, p.51). Jensen and Meckling (1976) argue that an audit will be undertaken even in the absence of prescription because it leads to an image of the organisation that will make it attractive to fund providers – and therefore reduce agency costs. Chow (1982) indicated entities will voluntarily undertake an audit because it provides an insurance mechanism for resource providers, and that the decision is a function of “leverage, firm size, and a number of accounting-based debt covenants” (p.287). These findings were replicated when applied to charitable incorporated associations in New South Wales (Abraham, 1999b) and incorporated sporting societies in New Zealand (Hay and Davis 2004).

In examining 258 incorporated associations in New South Wales, Abraham (1999b) considered factors which influenced “non-regulated external audit requests by nonprofit organisations” (p.25). The findings of a survey completed by the Treasurers suggested the following factors can be used to predict the decision to voluntarily subject the accounts to external audit (p.38):

- The size of the entity in terms of total receipts;
- The size of the entity in terms of total assets;
- The presence of a non-member professional administrator;
- The presence of a governing body;
- The presence of paid workers;
- The existence of a financial officer with professional accounting qualifications.
The number of members an association had did not tend to impact on the external audit decision. Instead it was concluded committees would voluntarily subject the accounts to external audit in order “to demonstrate financial accountability” (Abraham, 1999b, p.38). This was the first time consideration had been given to the instance of voluntary audits in nonprofits generally – and “charitable or benevolent/welfare” (p.32) associations specifically.

Hay and Davis (2004) later conducted research into the audit function in equivalent entities in New Zealand – incorporated societies. Having examined audit choices in 380 incorporated societies in New Zealand, they found the smallest of incorporated societies were unlikely to choose to be audited, but as the societies expanded, the decision to have the accounts audited usually followed. Hay and Davis (2004) found the ‘economic reasons’ for choosing to be audited, and the quality of auditor likely to be chosen were a function of:

- The size of an incorporated society measured in terms of assets;
- The sources of income (especially grants and donations);
- The level of debt, proportional with assets; and
- The level of salaries, proportional with income.

As each of these elements increased, so too did the propensity to choose to be audited, and so too did choice of an auditor of increasing quality. The Hay and Davis (2004) research focused on auditor quality and the type of auditor (qualified, unqualified, individual or firm) likely to be chosen by different incorporated societies. This is subtly different from the decision to be audited or not to be audited - nonetheless their findings suggest the decision not to be audited will equally be based on ‘economic reasons’.
An audit serves an important monitoring function, and there is a recognised positive correlation between monitoring and one’s propensity to meet obligations (Braithwaite, 1993; Parker, 2000). Non-statutory or voluntary audits conducted at the request of the entity are a significant driver of the compliance culture within an entity, as they send a clear message management “realizes its moral and legal responsibilities and intends to make certain” these obligations are met in the discharge of their accountability (Silverman, 2008, p.237).

The theory behind monitoring is twofold: firstly, if people know they are being watched then the opportunity for them to intentionally do the wrong thing is reduced because they know there is a high chance they will be caught (Albrecht et al., 2009). Secondly, if people make mistakes, monitoring ensures the opportunity to detect and correct these, and prevent them entering the information system (Gay & Simnett, 2010); so executive’s values will also impact on the decision whether or not to have an audit done.

The decision whether or not to have an audit conducted may rest with the committee of management, or there may be a requirement in the individual association’s constitution requiring an annual audit to be undertaken. However, even if there is a constitutional requirement for an audit, Huntly (2005) suggests (because of the nature of the entity) there are unlikely to be breaches of contract type repercussions if the constitutional requirements are not followed; the decision therefore to subject the accounts to audit rests on the committee – the committee who is potentially made up of persons who may not be aware of the finer points of distinction between an audit conducted by a professional accountant and an audit conducted by someone other than a Professional Accountant. Critically, as stated by Sadhu and AARF (1994) and reiterated by Abraham (1999b), “an audit must be undertaken by a suitably qualified person if it is to add credibility to the financial report” (p.33).
Auditor Quality

It has long been recognised “auditors are sometimes chosen for arbitrary reasons” (The Derieux Committee Report in DeAngelo 1981, p.184), and that auditor quality can vary significantly from one auditor to the next. Benston (1985) noted that often it is not until significant losses have been sustained that the defective nature of the assurance provided is realised. As detailed by DeAngelo (1981) and confirmed by Watts and Zimmerman (1986), the quality of audit services can be assessed by reference to the “joint probability that a given auditor will both:

- Discover a breach in the client’s accounting system; and
- Report the breach” (DeAngelo, 1981, p.186).

Furthermore, “the probability that a given auditor will discover a breach depends on [their] technological capabilities” (DeAngelo 1981, p.186), which in turn influences the procedures they employ (such as the reliance on sampling). Auditor quality is inherently difficult to observe, and for this reason DeAngelo (1981) and Watts and Zimmerman (1986) developed the following surrogate measures to assess the quality of an audit service provided:

- Membership with a professional auditing institute;
- Size of the audit firm; and
- Auditor’s ‘brand’ name.

These measures were more recently considered by Hay and Davis (2004) in assessing the quality of auditors selected to undertake voluntary audits in New Zealand nonprofit incorporated societies. As illustrated in Figure 2-3 below, auditor quality was gauged against levels representing “a progressive increase in observable auditor quality” (p.40).
The results indicated an increase in assets, debt, salaries and revenue were all “associated with choosing to be audited, choosing a qualified auditor, and choosing a larger firm” (Hay and Davis 2004, p.51). This confirmed the earlier work of DeAngelo (1981) and Watts and Zimmerman (1986), and concluded that surrogates for auditor quality in incorporated societies included:

- Relevant qualifications (Qualified or unqualified accountant/auditor);
- Structure of the service provider (Individual or a firm);
- Size of the firm (small or large-2\textsuperscript{nd} tier or large-Big 5).
Audits by Professional Accountants/Auditors

DeAngelo (1981), Watts and Zimmerman (1986) and Hay and Davis (2004) all found professional qualifications and memberships are used to pre-assess the quality of the assurance service an assurance provider is likely to deliver. Professionals are distinguished from non-professionals by virtue of certain characteristics, and because of these characteristics professionals “occupy a position of great importance” (Greenwood, 1957, p.45). In asking ‘what common attributes do…professional occupations possess which distinguish them from non-professional ones?’, Greenwood (1957, p.45) established the following five elements of a profession:

- Systematic body of theory;
- Professional authority;
- Sanction of the community;
- Regulative code of ethics; and
- Professional culture.

Consequently, a professional accountant/auditor can be expected to deliver a higher quality of assurance because: their work is founded on a body of theoretical knowledge; knowledge of that theory is achieved through “extensive education” (Greenwood 1957, p.47); the accounting/auditing professional has powers and privileges sanctioned by the broader community, including the power to police members; there is a “regulative code which compels ethical behavior on the part of its members” (p.50); and because a common set of “basic and fundamental beliefs” (p.52), with guides to control behavior, govern the professional accounting/auditing culture (Greenwood 1957).

The knowledge and attributes of a professional accountant/auditor are so distinct, it has been said that by contrast the layperson exists in “comparative ignorance” (Greenwood 1957, p.47). This is a significant comment in light of the assurance function of small
incorporated associations where both a professional accountant/auditor and a layperson are equally allowed to undertake an audit/review. While the professional accountant/auditor has a multitude of professional requirements that must be adhere and complied with, the layperson does not.

For instance, when auditing/reviewing the accounts of a small incorporated association professional accountant/auditors must comply with the *Code of Ethics for Professional Accountants* (APESB 2010, APES 110), they must have professional indemnity insurance, and as illustrated in Figure 2-4 below they must follow the Australian Auditing Standards as issued by AUASB (CPA Australia, 2012b).

![Figure 2-4 Overview of the "Reporting Standards" - Audit](image-url)

Figure 2-4 Overview of the reporting standards for auditing Incorporated Associations

Source: (AUASB, 2010a, Appendix p.34)
Hence, members of the Joint Accounting Bodies who undertake audits/reviews are thought to deliver a higher quality of assurance because of all that comes with such a professional membership. However, as evidenced by results of an annual review of quality in the professional auditing arena (ASIC, 2012a; CPA Australia, 2012d), there can still be issues of poor quality even when a professional auditor is undertaking the assurance engagement. For instance, in 2011 a total of 2,932 quality assurance breaches were reported to CPA Australia, with “57% of these [being] non-audit related breaches and 43% [being] audit related breaches” (CPA Australia, 2012d, p.1).

**Top ten non-audit and audit breaches by Professional Auditors**

As illustrated in Table 2-16 below, the top non-audit breach reported to and by CPA Australia in 2011 related to the Compilation of Financial Information (APES 315).

<table>
<thead>
<tr>
<th>Top ten non-audit breaches in 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 APES 315  Compilation of Financial Information</td>
</tr>
<tr>
<td>- Not having all the required elements in the compilation report</td>
</tr>
<tr>
<td>- Not having footnote reference such as &quot;unaudited&quot;, &quot;Compiled without audit or review&quot;, or &quot;Refer to Compilation Report&quot; on every page</td>
</tr>
<tr>
<td>2 APES 220  Taxation Services</td>
</tr>
<tr>
<td>3 APES 305  Terms of Engagement</td>
</tr>
<tr>
<td>4 APES 320  Quality Control for Firms</td>
</tr>
<tr>
<td>5 APES 110  Code of Ethics for Professional Accountants</td>
</tr>
<tr>
<td>- Not being independent</td>
</tr>
<tr>
<td>6 RMS 1  Risk Management Statement</td>
</tr>
<tr>
<td>7 APES 205  Conformity with Accounting Standards</td>
</tr>
<tr>
<td>- Not having identified the specific purpose for which the special purpose statements have been prepared</td>
</tr>
<tr>
<td>- Not having identified the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements</td>
</tr>
<tr>
<td>8 Corporations Act 2001 (CA) section 251A Minutes</td>
</tr>
<tr>
<td>9 CA section 271 Company to keep documents relating to charges and register of charges</td>
</tr>
<tr>
<td>10 CA section 201D Consent to act as director</td>
</tr>
</tbody>
</table>

Table 2-16 Top ten non-audit breaches of Professional Auditors (CPA Australia, 2012e)
In a compilation engagement accounting rather than auditing expertise is used “to collect, classify and summarise financial information” (APESB, 2009, para. 4.1). These can be undertaken on behalf many different entity-types, including small incorporated associations. As highlighted in Table 2-16 above, the breaches cited related to mechanical compilation issues rather than issues of accounting expertise.

Two other breaches of relevance to audits of small incorporated associations include a lack of independence on the part of the assurance provider (APES 110), and not having identified the significant accounting policies adopted in the preparation and presentation of the special purpose financial statements (APES 205). The other breaches are more specific to audits of firms conducted under the Corporations Act 2001 (CA) where general purpose (rather than special purpose) financial reports were being prepared.

As illustrated in Table 2-17 below, there were also a number of audit-related breaches noted by CPA Australia.
While all of these are potentially relevant to audits of small incorporated associations by professional accountants/auditors, the community rather than corporate attributes of these entities make some of these breaches potentially more relevant. For instance; gaining an understanding of controls will be more/less difficult depending on the existence of controls; the consideration of fraud may be considered contrary to the community spirit embodied in these associations; representations of compliance with Auditing Standards may be partial; and gathering sufficient appropriate evidence may be impeded by different volunteer responsibilities.

These data suggests that although audits/reviews undertaken by professional accountants/auditors can be expected to deliver a higher level of assurance, there are still some issues that may come to bear on the quality of the work being done.
Synopsis of Voluntary Audits and Auditor Quality

While large/prescribed incorporated associations (and subsequently medium/tier-2 and large/tier-3 associations) have a statutory requirement to have their accounts audited/reviewed and further requirements specifying the qualifications necessary to be legally appointed as an auditor, small/non-prescribed incorporated associations do not. A review of the literature has shown that in an environment where audits are voluntary, the decision to do so will be associated with the size of the entity (determined by reference to assets, income, debt and salaries) – but may also be influenced by the image of the organisation (actual and desired). Furthermore, the literature has shown proxies have evolved, and are being used to pre-assess the quality a prospective assurance provider is likely to deliver. These proxies include: professional qualifications and memberships; structure of the provider (individual/firm); and the size of the firm. However, from a practical standpoint it has been shown that even when professional auditors are compelled to follow rules and standards by their professional body, errors still can and do occur.
2.5 Unregulated Accounting Function – An Historical Perspective

“There is always a best way of doing everything” (Emerson in Tripp, 1983, 579.6)

“He that knows the least commonly presumes most” (Thomas Fuller in Tripp, 1983, 445.12)

Accounting is “the language [used by] business” (Belkaoui, 1978; Lavoie, 1987) to communicate the transactions and events that have taken place over a period of time, the nature of commitments and rights held by the organisation, and various related information. Within the accounting profession the level of regulation imposed on the preparers is dependent on the purpose of financial information being prepared, which is determined by reference to the users of that financial information. Financial accounting involves “the collection and processing of financial information to meet the decision-making needs of parties external to an organisation” and is well regulated in the corporate world, whereas management accounting provides for decision-making by parties within the organisation and is largely unregulated” (Deegan 2011, p.34).

Consistent with Sadhu and AARF (1994), Deegan (2011) explains the need for regulation stems from users’ accessibility to financial information. In the case of users who are internal to the organisation, it is assumed “they can relatively easily access the information they require” (Deegan 2011 p.5). These were described by Tooley and Hooks (2010) as “non-dependent users” of financial information (p.45). By contrast, external users (described by Tooley and Hooks (2010, p.45) as “dependent users”) are more reliant on the organisation to provide the financial information they need. Because external/dependent users’ interest in financial information usually comes about because they are contemplating
a contribution to the organisation, it can be argued that rules should be in place to govern
the compilation and nature of the financial information provided (Deegan 2010). Hence, the
need for accounting regulation is said to be a function of the existence of users of financial
information who are dependent on the organisation for that information. However, despite
having eight recognised categories of stakeholders (Standards Australia 2004, Appendix A,
reproduced here in Appendix 6-4), all representing potential eternal/dependent users of
financial information, the accounting function of small incorporated associations remains
largely unregulated.

This section considers the goals of not-for-profit regulation, before considering the anti-
regulation/free-market and pro-regulation perspectives on regulating the accounting
function and consequences of regulation. Lessons learned from framing the accounting
profession in an unregulated environment are then presented, after which consideration
turns harmonisation – and whether it really matters if different associations use different
accounting methods.

Goals of Not-for-Profit Regulation

The specific goal of the accounting regulation applicable to small incorporated associations
is the attainment of truth and fairness in their financial reporting (S.30(3A) of the original
Act 1981; S.92 of the Reform Act 2012). More broadly, it has been stated the “ultimate
goal of regulating the [not-for-profit] sector is to provide a foundation for a strong and
sustainable NFP sector to achieve [their] altruistic goals and deliver important benefits to
the community” (Australian Government 2011, p.14). Other benefits of NFP regulation are
said to include:

- The promotion of public trust and confidence in NFPs (p.14);
- Ensuring appropriate transparency and accountability to donors, beneficiaries, other stakeholders, and the public (p.15);

- Preventing abuse, self-dealing or other misuse of NFPs (p.15);

- Promoting capacity building within the sector (p.15);

- Streamlining requirements, including reporting, so as to provide consistency and minimising compliance costs (p.15); and

- Providing NFP entities with certainty as to their rights and responsibilities (p.15).

(see Appendix 6-5 for a complete list of cited goals and benefits)

These benefits were reported as part of the recent scoping study for a national NFP regulator, where it was clearly stated regulation needs to “be proportional to the size and complexity of NFP entities, and to the public monies and risks associated with NFP entities” (p.15). Hence a balancing of the risks and benefits is involved, and this is a common theme throughout the literature (Braithwaite, 1993; Parker, 2000; Parkinson, 2004; Passey & Lyons, 2009). The lack of mandated accounting requirements for small incorporated associations suggests the Regulator considers these entities to be too small and simple, and with minimal risk to public monies to warrant accounting regulation. However, as Parkinson (2004) noted, there is a vulnerability inherent in small incorporated associations which brings the “possibility of graft and dishonesty by committee members” (p.93). A review of online content confirms fraudulent activity in community clubs (and therefore involving public monies) is a worldwide reality (Appendix 6-6). Hence, sparing these associations of accounting regulation potentially leaves them vulnerable to abuse which can erode public trust and deplete capacity building. In examining why the regulator has seemingly acted contra to the broad goals of NFP regulation, consideration must be given to the anti- and pro-regulation perspectives of regulating the accounting function.
The Anti-Regulation/Free-Market Perspective

Anti-regulation/free-market theorists present economic- and market-based views to assert regulation is unnecessary because the market for financial information is efficient on average - and will usually generate the ‘correct’ financial information.

Economic-based views

At the most fundamental level a ‘market’ is where parties engage in exchange transactions; where a demand is satisfied by a supply. The basic premise of the anti-regulation/free-market view of accounting regulation is “accounting information should be treated like other goods” (Deegan, 2011, p.59) where the forces of supply and demand are left to interact to determine an optimal supply. Proponents of this perspective believe the market for information is better placed than a regulatory authority to achieve the optimal supply of such information, and cite a number of reasons in support of this position.

The first argument in support of the anti-regulation/free-market perspective is that even in the absence of regulation, economic-based incentives make it ‘good business’ to provide credible financial information about the organisation. Credible financial information provides comfort to resource providers who, if not satisfied, may take their contributions elsewhere. Furthermore, those who are doing the ‘right’ thing will want to report openly to appease owners and other resource providers, while those who are not will be less inclined to be open and transparent. Such a position is based on the works of Jensen and Meckling (1976), Watts and Zimmerman (1978), Smith and Warner (1979, in Deegan 2011), and Smith Jr and Watts (1982), and is driven by the assumption that an absence of information suggests something is amiss.

Another argument cited by those opposed to regulating the accounting function relates to the assumption all people are self-interested. Not everyone has complementary interests and
conflicts will naturally occur as individuals endeavor to pursue their own interests. It is said the generation of information will become the natural response to address the various viewpoints Deegan (2011).

In addition to generating financial information, it is said that in the absence of prescription managers will voluntarily subject their accounts to audit (Francis & Wilson, 1988; Morris, 1984; Watts, 1977; Watts & Zimmerman, 1983, in Deegan 2010). This is because it leads to an image of the organisation which makes it attractive to fund providers (Jensen and Meckling 976). The findings of Hay and Davis (2004) support this position in the context of New Zealand incorporated societies.

A further argument posited by Horngren (1973) is the absence of regulation leaves financial reporting decisions to those who are “best placed to determine what information should be produced to increase the confidence of the external stakeholders” (Deegan, 2011, p.61). Proponents of this perspective believe mandated requirements can prove inequitably costly, and regulating financial information can have unintended negative consequences for the ongoing success of some organisations (Hakansson, 1977). This argument suggests regulation restricts and constricts the accounting function and results primarily in inefficiencies amongst different organisations.

A final argument cited by those opposed to regulating the accounting function is based on the difficulty of getting a system of regulation ‘up and running’ in the first instance (Deegan, 2011). Because regulation focuses on meeting the information needs of users, regulators must first ascertain what level of financial information is considered necessary by potential users. It is suggested human nature is more likely to overstate information needs than understate them, and therefore any resulting regulatory reform will tend towards an over-supply of information. Hence, a false equilibrium will eventuate when supply is
mandated rather being left to equalise naturally – making the market the best decider of what information to produce.

**Market-based views**

In addition to the economic-based arguments that are based on private contracting arrangements, there are market-based arguments refuting the need to regulate the accounting function. Whilst there is some similarity with the economic-based views, market-based views are not founded on contractual relationships. Market-based views may be relevant to some small incorporated associations, but are not relevant per se. They are included for completeness of discussion.

The ‘market for managers’ adopts a self-interest approach, and is set in a context where managers are rewarded for good performance. The rationale is that regulation is simply unnecessary, because managers are being remunerated based on organisational performance. Hence, they will freely want to communicate their performance to receive their ‘bonus’ (Fama, 1980).

The ‘market for corporate takeovers’ view posits regulation is unnecessary, because if an organisation is underperforming it may become subject to takeover interest. The best way to guard against such vulnerability is to manage the organisation well by choosing the most appropriate accounting practices, and communicate this via the distribution of financial information.

Finally, the ‘market for lemons’ perspective (Akerlof, 1970) suggests market forces will require the generation of financial information because an absence of information tends to suggest poor performance. While “non-lemon owners have an incentive to communicate” (Skinner, 1994, p.93), those with poor news have no equivalent incentive to communicate, and “no information is viewed in the same light as bad information” (Deegan, 2010, p.39).
The rationale is that financial information will be generated even in the absence of regulation because failure to disclose information could generate other problems.

In summary, proponents of the anti-regulation/free-market perspective argue that if financial information is really necessary it will be generated, otherwise the organisation and/or those charged with its governance will suffer negative consequences. Although a market for financial information is said to develop when “output can be easily evaluated” (Meyer & Rowan, 1977, p.354), Barton and Waymire (2004) explain it is “economic forces in advanced markets [that] provide managers with incentives for beneficial financial reporting…in the absence of regulatory mandate” (p.69). Hence, as Scott (2003) concluded, although the arguments supporting an anti-regulatory/free-market approach to accounting regulation may be valid, they do “not always [apply] in practice” (p.416). They apply primarily to advanced markets (Barton & Waymire, 2004), and even then the arguments are said to be increasingly refutable as the number on the distribution list for financial information increases (Scott, 2003). Financial information is however, commonly presented as a public good and as such “no ‘market solution’ exists” (Tiebout, 1956, p.416). It is for this reason pro-regulation theorists believe regulatory solutions are necessary.

The Pro-Regulation Perspective

Proponents of the pro-regulation perspective believe it is inappropriate to treat financial information like a marketable good, and the forces of supply and demand will not adequately deliver a fair and equitable equilibrium. Consequently proponents of this perspective believe a regulatory authority is better placed than a market to achieve the optimal supply of financial information, and cite a number of reasons in support of this position.
The most fundamental premise on which the pro-regulation perspective is based is that “accounting information is a public good, [meaning] once available, people/[free-loaders] can use it without paying and can pass it on to others” (Deegan, 2011, p.65). Cooper and Keim (1983) argue the existence of ‘free-loaders’ means the true demand for financial information is unknown, diminishing the arguments that forces of supply and demand will adequately regulate accounting information. Bilodeau and Slivinski (1996) suggest the supply of a public good can also be problematic when it involves doing “a job that nobody wants but that someone has to do” (p.299). Hence, the market for information is said to be inefficient, and “without regulation a sub-optimal amount of information will be produced” (Deegan 2011, p.41).

The supply and demand forces underlying the anti-regulation/free-market perspective rely on an efficient market to regulate the provision of accounting information. Proponents citing this perspective argue the market for financial information is efficient on average, and will usually generate the ‘correct’ financial information. However, accounting information is not a typical marketable good – it is an idiosyncratic public good. For this reason Cooper and Keim (1983) argue the market for information is not efficient, and market forces will fail “to produce a socially ‘right’ amount of information” (Scott, 1997, p.329). The on average argument ignores the consequences of a failed market, and it is therefore argued the absence of regulation serves to further marginalise those with already weakened access to financial information.

Another argument put forward by pro-regulation theorists is that regulation ‘levels the playing field’ (Deegan, 2011). It is considered fair and just that everyone has access to the same financial information, and regulation ensures relative power does not impact on the level and/or quality of financial information an interested party gets. That is, information asymmetry naturally exists with the provision of accounting information, and whilst the preparer has access to all the relevant information, other users of financial information are dependent on the information provided to them (Gray, 1992). With information imbalance
comes the added potential for fraudulent misrepresentation, which regulation can help mitigate (Deegan, 2011).

Finally, in reviewing the work of Adam Smith, Lehman (1991, in Deegan 2011) considered the capability of those using financial information generated under a free-market regime. Pro-regulation theorists argue accounting regulation affords protection to those who are incapable of judging the disclosures that will be used to make economic decisions. Furthermore, fundamental to the provision of accounting information is the ability to use it to make comparisons over time and across different entities. Those in favor of regulating the accounting function assert that mandated requirements lead to greater consistency, thereby enhancing the degree of comparability.

**Consequences of regulating the accounting function**

The arguments for and against regulating the accounting function adopt an economic/market focus on the impact of accounting regulation. Consideration of the literature outside the financial accounting theory domain provides further perspectives on potential consequences that can be brought to the debate:

i. Increased costs of compliance (Deegan, 2011; Ryan et al., 2008) which increases the likelihood of non-compliance (Braithwaite, 1993; Parker, 2000);

ii. It may make it harder to attract volunteer Treasurers because the role becomes just like an ordinary job (Bender, 2003; Harris, 1996; Horne & Maddrell, 2002; Phillips et al., 2002);

iii. Parkinson (2004) noted opposition to government regulation of incorporated associations “on the ground that it would threaten the viability of small organisations and undermine community involvement at the grass-roots level” (p.77);
iv. It may make it easier to attract volunteer Treasurers because what is expected is much clearer (Flick et al., 2002; Horne & Maddrell, 2002; Phillips et al., 2002; Tacticos & Gardner, 2005);

v. If the affected parties do not believe in the regulation, there is an increased likelihood of non-compliance (Braithwaite, 1993; Parker, 2000). Difficulties in policing widespread non-compliance may reduce the likelihood of being ‘caught’, and due to the political nature of accounting regulation (Deegan, 2011) any subsequent penalty may be relaxed – further exacerbating the likelihood of non-compliance (Becker, 1968);

vi. If the affected parties do not believe in the regulation, accounting practices could go ‘underground’ (Braithwaite, 1993; Parker, 2000). For example, if the law stipulates (as it does) that the accounts of small incorporated associations are not required to be reviewed/audited, but if the association chooses to have such an assurance engagement undertaken, it must be undertaken by a member of one of the professional accounting bodies who currently holds a practicing certificate, then the clubs may continue with their current practices, but not present the accounts as audited/reviewed to the regulator.

It is not enough to simply present the arguments for and against regulation. Instead, if it is to succeed, the regulatory debate needs to be taken to those who will be affected. For example, in February 2005 the Australian federal government conducted an inquiry to determine whether Australian companies should be required to engage in socially and environmentally business practices. After considering many submissions the inquiry ultimately decided against mandating regulations because (as penned in the Western Australian Chamber of Commerce submission) “regulation…is indicative of a lack of faith” (Deegan 2011, p.69) the market and those operating in it are capable of determining what disclosures are necessary.
Hence, it is not possible to decisively determine appropriate levels of accounting regulation – instead “we will always be left with the issue of what is the socially right level of regulation” (Deegan 2010, p.641). This view is supported by Parkinson (2004). What is clear however, is the introduction of accounting regulation (in the form of standards) is not neutral, and results in economic and/or social consequences (Zeff, 1978). The preceding discussion considers regulation of the accounting profession and therefore is based on an environment where people have formal accounting qualifications. Whilst the arguments are applicable to the largely unregulated environment of small incorporated associations, it is relevant that in such an environment accounting knowledge is not a prerequisite for assuming responsibility for the accounting function.

As illustrated, there has been a great deal of research and discussion about accounting in an unregulated environment. There are many academics and arguments both for and against regulating the accounting function, and a review of the literature shows debate on both sides with no clear ‘winner’. In order to gauge the practical aspects of accounting regulation, consideration is now turned to the professional accounting environment prior to the introduction of formal regulatory requirements (accounting standards).

**Pre-Regulation - Lessons from the accounting profession**

Early research has shown that when accounting as a discipline lacks a theoretical framework upon which to base recording and reporting decisions, dissimilarities in practice tend to evolve resulting in ‘meaningless’ numbers (Ball & Brown, 1968). The accounting function underlying this research is framed in a largely unregulated environment, and whilst there are significant differences between an incorporated company and a small incorporated association, there are also similarities. For instance, a major difference is that corporations operate within capital markets, while small incorporated associations do not. On the other hand, a similarity is that both types of entity have equity and other (external)
resource providers whose contribution is managed by those charged with governance. Hence, whilst small incorporated associations may produce special purpose financial reports, these reports may be applied to a more general purpose (FASB, 2008). Consequently the current professional accounting framework for general purpose financial reporting can be used as a starting point for analysing the role special purpose accounting and the role of regulation in small incorporated associations.

Variability in practices – historical evidence

In the 1970s, 1980s and 1990s (prior to the development of the current accounting conceptual framework applicable for general purpose financial reporting), a lack of agreement on fundamental accounting parameters drew much criticism. It was argued the piecemeal approach (where single accounting issues were handled at a time), did not facilitate enough “tidy rationality [being] used in the process of accounting policymaking” (Horngren, 1981, p.94 in Deegan 2010 p.47).

Variability in accounting practices in the absence of prescription has long been recognised as a problem requiring attention. In 1930 the New York Stock Exchange was so concerned about the wide ranging accounting methods being used in the absence of prescription, they “developed a list of broadly used accounting principles” (Deegan, 2011, p.38) that later became the foundation on which reform was based. In 1934 the Securities Exchange Act was enacted in the United States, mandating the disclosure requirements of all entities wanting to trade their securities. In the following years the accounting profession took a dominant role in establishing acceptable accounting treatments, resulting in the release (in the United States) of a series of recommended practices – Bulletins (late 1930s) and Opinions (late 1950s) (Deegan 2011, p.39). As these were not mandatory, non-compliance soon became commonplace and a variety accounting practices were again being used. Consistent with earlier opinion, variability in accounting practices due to lack of prescription was deemed unacceptable and in need of correction. The result was an ‘if not, why not’ policy where organisations had to disclose if (and why) they had departed from
recommended treatments (Deegan 2011, p.39). The United Kingdom similarly saw the need for consistency in accounting practices, with their accounting profession mandating accounting standards in the 1970s (Deegan 2011, p.39).

Australia followed a similar path with the Joint Accounting Bodies releasing recommended accounting practices in 1946 and 1956, before the role of accounting regulation passed to the government (Deegan 2011). Morris (1984) considered financial reporting practices and disclosures in New South Wales in a time when there were minimal disclosure rules. The findings revealed, once again, that in the absence of prescription there was considerable variation in the financial reporting practices (despite voluntary disclosures being very common). Note: The causes of such variation are outside the scope of this research.

**Recognising the existence of a problem**

Historically, accounting regulation has been the solution of choice to address the issue of inconsistency in accounting practices. However, the decision to embark on a course of standard setting (accounting) is primarily a social one, and “a prerequisite to the solution of a problem is the recognition of the existence of a problem” (Robert R Sterling in Horngren 1973, p.61). However “the mere discovery of a problem is not sufficient to assure that [someone] will undertake a solution…There must be a suitably high likelihood that [the issues can be resolved] in a manner that will be acceptable to the constituency” (Miller & Reading, 1986, p.64 in Deegan 2011, p.9). As rules restrict behaviour, it is imperative to gain acceptance of them prior to implementation, if they are to be complied with. Parker (2000) for instance has shown that key drivers of non-compliance with rules and regulations include “collapse in belief in [the] law” and “failure of persuasion” (p.13). Hence, unless the constituents are convinced of the need for regulation, widespread non-compliance can be expected. Gaining acceptance can be difficult when few are truly cognisant of a problem existing (Horngren 1973), and in such situations the regulator is faced with not only convincing their constituents change is necessary, but also validating their role in the process.
**Validation of the Regulator**

As laws underlie regulation, there are significant political problems to be addressed in regulating the accounting profession. In order for codification of accounting practices to work (whether it be in the form of mandated standards or a guiding framework), the role of the regulator must be accepted by those to be impacted by the changes. One mechanism to obtain acceptance of standards is to start with an area representing ‘common ground’ and is unlikely to meet with much objection, and move out incrementally. This incremental approach was described by Gerboth (1972), and essentially holds that rather than considering everything at once, the policy-maker should “limit his choice to a few that represent relatively small changes from the present state” (p.45). History has shown radical changes are less likely to be embraced than incremental changes, and this is evidenced by the resistance to adopt various forms of current-value accounting in place of the more traditional and widely used historical-cost accounting (Moonitz 1961, Sprouse and Moonitz 1962 – in Deegan 2010 p.103).

**Harmonisation (Does it really matter if different associations use different accounting methods?)**

History has also shown that an accounting environment devoid of accounting prescriptions leads to “widespread variations in reporting practices” (Thomas, 1991, p.40). Whether variations matter has been asked before – but in the context of whether it matters if different counties use different accounting methods. In addressing this question Nobes and Parker (2004) considered the terms ‘harmonisation’ and ‘standardisation’. In terms of this research the distinction is important, as harmonisation is the “process of increasing the compatibility of accounting practices by setting bounds to their degree of variation”, whereas standardisation is more in line with the “imposition of a more rigid and narrow set of rules” (Nobes & Parker, 2004, p.77) Hence harmonisation allows for an element of flexibility not allowable under a system of standardisation. Despite these differences, Deegan (2011) advises the terms have come to be synonymous with each other in matters
relating to international accounting, and will therefore be used as such in the subsequent discussion.

In researching government paperwork compliance obligations in Queensland nonprofit organisations, McGregor-Lowndes and Ryan (2009) found a significant amount of the “reporting impost was attributable to the use of separate reporting systems” (p.23). They subsequently found “a rationalised standard…for financial and other reporting” (p.34) was needed. Further studies again revealed widespread differences in accounting treatment for similar transaction types, difficulties in comparing different nonprofit organisations, and overall inefficiencies (Flack & Ryan, 2005; McGregor-Lowndes, 2010). Consequently, through The Australian Centre for Philanthropy and Nonprofit Studies, the ‘QUT Standard Chart of Accounts (SCOA)’ and various state equivalents including the ‘Victorian Standard Chart of Accounts (VSCOA)’ were developed (McGregor-Lowndes, 2010). The Victorian SCOA is primarily “for small to medium NFP community organisations that typically do not have an accounting department or a sophisticated accounting system. It consists of a set of standardised accounting terms and definitions that aims to simplify activities related to reporting financial activities” (Department of Planning and Community Development [DPCD], 2011). Although the SCOA has its origins in NFP government grant recipients, its application is encouraged across community organisations more generally. Whilst it is not mandatory for NFP organisations to use the standard chart of accounts, it is anticipated that 1,889 (5%) of NFP community organisations that do not receive government funding will voluntarily opt to implement it in the ten years to 2021 (DPCD 2011, p.23).

A post-implementation review of the Victorian Standard Chart of Accounts (SCOA) lists the following as non-quantifiable benefits from its implementation:

- “The quality of financial information available from the NFP community sector is expected to increase”;
• “It should become easier to benchmark NFP community organisations against their peers”; and

• “There will be a greater understanding of the NFP community sector over time” (DPCD 2011, p.25).

These comments confirm that some very poor financial reporting practices are currently being utilised by not-for-profit entities, and it is time to focus on quality financial reporting in these entities. The following advantages of a standardised approach to accounting practices more generally have also been posed, which suggests consistency has benefits.

Standardised/harmonised practices...:

• …help users of financial statements because they can rely on a common interpretation of the content being presented (Nobes and Parker 2004);

• …can reduce barriers that may prevent people taking on an accounting role (Nobes & Parker, 2004). This was also an argument specifically presented for regulating volunteer roles (Horne & Maddrell, 2002);

• …facilitate the comparability of information and organisations (Ball 2006);

• …may result in the generation of information that may not have otherwise have been communicated (Ball, 2006);

• …may improve the quality of financial reporting practices – including accuracy, comprehensiveness and timeliness (Ball, 2006);

• …reduce the costs associated with completing government paperwork (McGregor-Lowndes & Ryan, 2009).
As compelling as these arguments may or may not be, Ball (2006) states there is really very little evidence to enable a conclusive “assessment of the advantages or disadvantages of uniform accounting rules” (p.5). Hence, no one can truly say whether it really matters if different accounting methods are used. However, given that more than 100 countries have made the decision to adopt a harmonised/standardised (international) approach to their accounting practices (even when it has meant significant changes from current practices) (Deegan, 2011), and given the expected widespread acceptance of the Victorian Standard Chart of Accounts (DPCD 2011), it seems it does matter if different accounting methods are used.

**Synopsis of Unregulated Accounting Function – An Historical Perspective**

There are two significant lessons to be learned from history regarding regulating the accounting profession. Firstly, the most important aspect when considering any regulation pertaining to the accounting function is that it must be premised with a clear understanding of the objective of financial reporting – including who are the likely/intended users. Secondly, it must be remembered that although a conceptual framework must be developed before proceeding down the path of standard setting (Deegan 2010, p.47), a guiding conceptual framework can be an end in itself. Despite all the theories of accounting, and the formal adoption by the accounting profession of a normative conceptual framework, there is no single theoretical approach that has successfully outperformed all of the other alternatives (Deegan 2011, p.15). This is largely because all theories are value-laden, and people’s own value pool naturally determines their perspective.

The discussion and literature to date has been largely set in the context of the accounting profession, but there are two significant points of difference between regulatory reform of
the accounting profession and regulatory reform of the accounting function in a small
incorporated association:

- The accounting function in small incorporated associations is undertaken by
  volunteers who may or may not have formal accounting knowledge; and

- The financial statements generated by small incorporated associations are widely
  considered to be special-purpose financial statements rather than general-purpose
  financial statements because they are prepared primarily for internal decision-
  making only. However, if (for practical reasons) the same set of accounts is used for
  both internal and external users, they start to exhibit characteristics of general
  purpose financial statements. Furthermore, it is a legal requirement the annual
  statement be placed on the public register, and they are therefore associations are
  potentially providing financial information to a wide range of interested parties
  (who cannot command individualised reports).

This section has examined the incidence of an accounting function framed in an
unregulated environment. The broad objectives of NFP regulation are said to include public
confidence, trust and capacity building in a strong and sustainable sector. This includes
having an appropriate level of regulation that facilitates transparency and accountability
while protecting the regulated entity from abuse and misuse. Consistency and providing
certainty are other stated objectives. With this in mind, the accounting profession (pre-
regulation) was used as a backdrop for further consideration of the role of regulation in the
accounting function.

Before regulation there was widespread variability in the practices of professional
accountants that led to meaningless numbers being included in financial reports. Regulation
was used to address issues of inconsistency. The intention was to increase the resource
providers’ confidence in the information being presented to them, so that in turn the
recipient entities could flourish. Before embarking on a regulatory solution however,
history has shown the existence of a problem needs to be recognised, and the role of the Regulator needs to be accepted by the to-be-regulated bodies.

Anti-regulation/free-market theorists believe the forces of supply and demand are capable of determining what accounting information needs to be generated. They believe the market forces will reject sub-standard accounting information, forcing the generation of quality information. Pro-regulation theorists on the other hand believe the market for financial information is inefficient, and the existence of ‘free-loaders’ means that supply and demand are not free to interact as they are with other good/services. Consequently they conclude a regulatory authority is better placed to regulate the supply of financial information.

This section concluded with a consideration of harmonisation strategies. Whilst a number of benefits were cited (such as consistency and comparability), there are still some critics who believe there is no conclusive evidence to prove the benefits. However, with more than 100 countries adopting harmonised international accounting standards and strong support for the Victorian Standard Chart of Accounts, there seems to be great support for common accounting practices.

**Synopsis of Literature Review**

This chapter has reviewed the literature relevant to an examination of volunteer accounting in an unregulated environment, including: volunteerism; accounting choices; regulatory compliance and voluntary audits. The need for accounting regulation was also considered, using the accounting profession pre- and post-standards as a backdrop.
The literature on volunteerism is too vast, and therefore the scope of the review in this area was limited. Rational economic theory suggests the decision to volunteer will have self-interest undertones, while the Volunteer Functions Inventory holds that the most dominant motive for volunteering is typically the value motive. Career benefits were cited as the least important motive driving volunteerism. There is a link between who volunteers and the role they volunteer for, with white collar workers most likely to volunteer for a role related to their paid employment. Individuals in membership-based organisations were more likely to be asked to volunteer (based on their employment and social connections within the organisation), and were more likely to feel as though they had to ‘step up’ because it was ‘their turn’. Rules and regulations were shown to affect volunteers in different ways, with some being deterred by them and others liking the clarity they provide.

The accounting function is the culmination of a number of choices including: the method of accounting (single/double entry); basis of recognition (cash/accrual accounting); basis of measurement (historical cost or fair value); accounting system (manual/computerised); and financial reporting practices. While double entry is common in the corporate world and accrual accounting common in the for-profit corporate world, the literature shows they are not simple to apply and may not be appropriate for very small entities. There is a proliferation of accounting software available for small businesses, and once again the literature shows they are not simple and may not necessarily be necessary for very small entities. In an environment characterised by choices and uncertainty, institutional theory suggests isomorphic pressure may impact on these (and other) accounting choices. For example, in order to project a particular image an entity may mimic the financial reporting practices of a ‘benchmark’ organisation.

There are three recognised sources of regulatory non-compliance: failures related to comprehension, willingness and ability. Of these, the biggest threat to compliance is said to be a failure to understand what is required.

The literature suggests that in the absence of prescription, audits will voluntarily be undertaken because of the intrinsic benefits thought to accrue to the organisation.
Furthermore, proxies such as qualifications, professional memberships, and firm status will be used to pre-assess the quality of the service to be provided.

There are a number of perspectives on whether the accounting function needs regulating. Goals of not-for-profit regulation include protection and sustainability, but there is a clear need to balance regulations with the size and complexity of the entity. Without regulation, inconsistencies in practices have been shown to exist, and whether this is problematic remains unclear. However, widespread adoption of IFRS and SCOA suggests consistency is important in the accounting function.
3. Chapter THREE: Methodology

Chapter 2 provided an overview of the literature relevant to an analysis of an accounting function in an unregulated environment, where the proponents are volunteers who may or may not have accounting expertise. The purpose of this chapter is to describe and justify the manner in which this current research was designed, including methodological assumptions and methods used. In recognition that both quantitative and qualitative methods can complement one’s understanding of certain phenomena, both methods have been utilised and will therefore also be discussed, along with a discussion of the descriptive, exploratory and explanatory aspects of the research’s purpose.

Research Philosophy - Methodological Assumptions

All research is conducted in a manner reflective of the beliefs and ideals of the researcher. An individual’s assumptions underlie the choice of research paradigm, upon which the research methodology is based, which in turn determines what research methods will ultimately be adopted. Hussey and Hussey (1997) state that a research paradigm:

“…refers to the process of scientific practice based on people’s philosophies and assumptions about the world and the nature of knowledge. [Paradigms] offer a framework comprising an accepted set of theories, methods and ways of defining data … Your basic beliefs about the world will be reflected in the way you design your research, how you collect and analyse your data, and even the way in which you write your thesis” (p.47).

“Wolk and Tearney (1997) add that a research paradigm represents a shared problem-solving view among members of a science or discipline (p.47). Hence, one’s research paradigm is their approach to advancing knowledge within a particular discipline that adopts certain assumptions in setting the research goals and methods (Kuhn, 1962).
At the most fundamental level, research paradigms can be classified as either ‘hard’ or ‘soft’, but within these categories there are several sub-classifications. A study of the various paradigmatic dichotomies is complicated by the use of different terms by different authors, but essentially the ‘hard’ paradigm is typically associated with positivism and quantitative data, whereas the ‘soft’ paradigm is typically associated with interpretivism and qualitative data. As illustrated in Figure 3-1 below, these two paradigms represent diametrically opposed perspectives of the world, and the choice a researcher makes reflects their beliefs as to what constitutes ‘reality’ (ontological assumptions) and what constitutes valid knowledge (epistemological assumptions).

![Figure 3-1 Research paradigms and their underlying assumptions](Hussey & Hussey, 1997; Morgan & Smircich, 1980, Table 1, p.492)

The choice of paradigms is therefore made based on one’s position on this continuum (Ryan et al., 2002). The main purpose of this research is to understand the accounting function in small incorporated associations, including inputs such as skills, resources, and choices made, and outputs such as reporting and accountability mechanisms. The research is conducted in an unregulated environment, but will have implications for future regulation. Therefore, the subject underlying the perception of ‘reality’ in this case includes the accounting practices being used, wider generally accepted accounting practices, and the requirements of the regulator.
Core ontological assumptions are “concerned with the nature of reality”, and include the researcher’s assumptions “about how the world operates and the commitment held to particular views” (Saunders et al., 2007, p.108). As illustrated by the bold print in Figure 3-1 above, the ontological view adopted in this research tends towards an objectivist approach. This view primarily acknowledges the element of objectivity in the accounting function (objectivists view) - that by virtue of generally accepted accounting norms and existing professional accounting frameworks, there is a generally accepted (and objective) way in which to fulfil the role of volunteer treasurer in a small incorporated association. It is however, acknowledged that because the overarching accounting requirement relates to truth and fairness in reporting (and because a number of Treasurers will not have a professional accounting background), there will be an element of variability in the practical application (subjectivists view). Consequently, as indicated in Figure 3.1 above, the ontological perspective adopted in this research views ‘reality’ in the spheres of a ‘contextual field of information’ and a ‘concrete process’.

One’s basic epistemological stance on the other hand concerns what the researcher considers “acceptable knowledge in [their] field of study” (Saunders et al., 2007, p.102). Data that are considered not susceptible to bias represents an objectivist’s view, whereas data that require a high level of interpretation represents a subjectivist’s view. As illustrated by the bold print in Figure 3-1 above, the epistemological perspective adopted in this research falls between an objectivist’s view and a subjectivist’s view - tending again towards an objectivist approach. The data collected have “a separate existence to that of the researcher, and for that reason…the data collected are far less open to bias and therefore more objective” (Saunders et al., 2007, p.103). Given the lack of prescription in regulating the accounting function in small incorporated associations, one could argue that the data represent a “social phenomenon which [has] no external reality” (p.103). Hence, as illustrated in Figure 3.1 above, the epistemological stance adopted in this research falls in the spheres of ‘mapping contexts’ and the ‘study of systems, process, change’.
According to Hussey and Hussey (1997, p.51), “your choice of paradigm has implications for your choice of methodology (the overall approach to the research process) and to a lesser extent, your research methods (the way in which you collect data)”. Having considered the research paradigm, ontological assumptions and basic epistemological stance upon which this research is founded, consideration can therefore now be turned to the purpose of the research and the selection of appropriate approach to data collection.

The most common classifications used to describe the purpose of research are ‘exploratory’, ‘descriptive’ and ‘explanatory’ (Saunders et al., 2007), although ‘predictive’ is also sometimes added to the mix (Hussey & Hussey, 1997). The purpose one undertakes research may fall neatly into one of these categories, or it may have more than one purpose (Saunders et al., 2007) – such is the case with this research. Exploratory research can be used “to investigate little-understood phenomena…[and]..to identify or discover important categories of meaning” (Marshall & Rossman, 2006, p.69). There is currently sparse knowledge on how small incorporated associations conduct their accounting (and auditing) function, and this research serves to address this. Consequently this research explores the little understood phenomenon of how not prescribing accounting treatments impacts the accounting function of small incorporated associations. Explanatory research is useful for “explaining the patterns related to the phenomenon in question…[and identifying] “plausible relationships shaping the phenomenon” (p.69). The role of Treasurer may be undertaken by anyone from professional accountants right through to persons with no accounting knowledge. In capturing characteristics of the individual, the association and their financial practices, it will be possible to identify patterns and relationships. In doing so, this research will explain the manifestation of the current approach to regulating the accounting function in small incorporated associations. Descriptive research enables the researcher “to document and describe the phenomenon of interest” (p.60). As previously stated, there is currently very little understanding of the accounting (and auditing) practices of small incorporated associations – this research will be the first time such practices have been
documented and described. Hence this research will describe characteristics pertaining to the Treasurer, accounting system and auditing practices. By contrast, predictive research seeks to explain the phenomenon of interest and then forecast the likelihood of it being replicated under certain circumstances. This research does not incorporate a predictive purpose.

**Research Approach – Inductive, Deductive**

Academic research is founded on existing theory, and this theoretical base gives rise to the distinction between a deductive or inductive approach. As illustrated in Table 3-1 below, deductive research takes a different approach to a research agenda than an inductive approach does - however the two are not mutually exclusive. According to Saunders et al. (2007) it is not only possible to “combine deduction and induction within the same piece of research…it is often advantageous to do so” (p.119).
Nonetheless, the deductive approach “is the dominant research approach in the natural sciences” (Saunders et al. 2007, p.117), where there are laws and rules against which phenomena can be measured and predictions made. That is, under a deductive approach there are initial propositions or hypotheses which are clinically tested by collecting data and applying the appropriate laws or rules to that data. By contrast, an inductive approach looks for meaning in the raw data collected, and uses this to develop propositions or hypotheses.

This research considers the manifestation of the current approach to regulating the accounting function of small incorporated associations, with a view to informing future regulatory reform in this area. The accounting environment is largely unregulated, with no specified legal requirement to follow accounting standards. Consequently there are no rules or laws on which to soundly base deductive research. However, by virtue of the

<table>
<thead>
<tr>
<th>Deduction emphasis</th>
<th>Induction emphasis</th>
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</thead>
<tbody>
<tr>
<td>▪ scientific principles</td>
<td>▪ gaining an understanding of the meanings humans attach to events</td>
</tr>
<tr>
<td>▪ moving from theory to data</td>
<td>▪ a close understanding of the research context</td>
</tr>
<tr>
<td>▪ the need to explain causal relationships between variables</td>
<td>▪ the collection of qualitative data</td>
</tr>
<tr>
<td>▪ the collection of quantitative data</td>
<td>▪ a more flexible structure to permit changes of research emphasis as the research progresses</td>
</tr>
<tr>
<td>▪ the application of controls to ensure validity of data</td>
<td>▪ a realisation that the researcher is part of the research process</td>
</tr>
<tr>
<td>▪ the operationalisation of concepts to ensure clarity of definition</td>
<td>▪ less concern with the need to generalise</td>
</tr>
<tr>
<td>▪ a highly structured approach</td>
<td>▪ the collection of quantitative data</td>
</tr>
<tr>
<td>▪ researcher independence of what is being researched</td>
<td>▪ a realisation that the researcher is part of the research process</td>
</tr>
<tr>
<td>▪ the necessity to select samples of sufficient size in order to generalise conclusions</td>
<td>▪ less concern with the need to generalise</td>
</tr>
</tbody>
</table>
legal interpretation that ‘true and fair’ seems to imply compliance with generally accepted principles of accounting (Deegan et al., 1994), it is possible to test accounting practices in light of the generally accepted norms. Similarly, this research considers the various regulatory reform submissions, and looks for meaning in light of theories on accounting regulation. This research is therefore primarily inductive in nature because it looks for meaning (inferences) in the raw data collected, then works ‘back’ to the theory. The process of inference is discussed further under ‘content/document analysis’.

**Data Collection and Analysis - Qualitative, Quantitative**

Having considered the broader research paradigm, methodological assumptions, purpose and approach adopted in this research, attention is now turned to data collection and analysis. Both data collection and data analysis may take on a qualitative or quantitative configuration (independently of each other), with neither being better or worse – just more or less appropriate in addressing the purpose of the research. According to Saunders et al. (2007) “quantitative is predominantly used as a synonym for any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data” (p.145). As illustrated in Table 3-2 below, quantitative data therefore refers to data with standardised characteristics and whose meaning is derived from numbers. By contrast, “qualitative is used predominantly as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorising data) that generates non-numerical data” (p.145). As illustrated in Table 3-2 below, qualitative data therefore refers to data with non-standardised characteristics and whose meaning is derived after codification of the data.
Table 3-2 Distinction between quantitative and qualitative data (Saunders et al. 2007)

<table>
<thead>
<tr>
<th>Quantitative data</th>
<th>Qualitative data</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Based on meanings derived from numbers</td>
<td>▪ Based on meanings expressed through words</td>
</tr>
<tr>
<td>▪ Collection results in numerical and standardised data (eg. Questionnaire)</td>
<td>▪ Collection results in non-standardised data requiring classification into categories (eg. Interview)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantitative analysis</th>
<th>Qualitative analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Analysis conducted through the use of diagrams and statistics (eg. Bar chart, Measures of central tendency)</td>
<td>▪ Analysis conducted through the use of conceptualisation (eg. Codifying interview responses)</td>
</tr>
</tbody>
</table>

It is entirely possible (and many academics argue that it is preferable) to combine quantitative and qualitative data collection and data analysis methods. As illustrated in Table 3-3 below, this research has collected both quantitative and qualitative data, and has undertaken both quantitative and qualitative analysis of that data.

Phase one of this research was exploratory, comprising of six semi-structured structured interviews focusing on the broad compliance issues faced by small incorporated associations. This approach is used “to get a feel for the key issues before using a questionnaire to collect descriptive or explanatory data” (Saunders et al. 2007, p.147). They explain that doing so enables the researcher to have confidence that the most important issues are being addressed.

Phase two of this research involved the collection of data from two different sources – an online questionnaire developed for the purpose of this research, and annual financial statements from Consumer Affairs Victoria (CAV). According to Saunders et al. (2007), “the use of two or more independent sources of data or data collection methods within one study…[helps to] ensure that the data are telling you what you think they are
telling you” (p.614). That is, the use of multiple different sources of data facilitated triangulation of the data. Additionally, both the quantitative and qualitative phase two data sets were analysed using quantitative methods. The practice of taking qualitative data and quantitising, is known as ‘mixed model research’, and can help the researcher ascertain “the extent to which…research findings can be trusted and inferences made from them” (Saunders et al. 2007, p.146).

<table>
<thead>
<tr>
<th>Phase 1:</th>
<th>Data Collection Method</th>
<th>Data Analysis Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-Structured interview:</td>
<td>Qualitative Data - non-standardised requiring classification:</td>
<td>Qualitative analysis - Emerging themes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Phase 2:</th>
<th>Data Collection Method</th>
<th>Data Analysis Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Questionnaire:</td>
<td>Quantitative Data - Nominal/Categorical Data:</td>
<td>Descriptive analysis</td>
</tr>
<tr>
<td></td>
<td>Qualitative Data - Open-ended questions:</td>
<td>Qualitative analysis - Emerging themes</td>
</tr>
<tr>
<td></td>
<td>Annual Financial Statements (from Consumer Affairs Victoria):</td>
<td>Quantitative Analysis - Descriptive statistics</td>
</tr>
</tbody>
</table>

Table 3-3 Quantitative/Qualitative Data Collection and Data Analysis adopted in this research

The specific quantitative and qualitative methods used in his research were based on their ability to meet the purpose of the research, the methods employed in other similar research projects, as well as my own philosophical underpinnings.

**Data Collection - Methods**

Data collection methods refer to the specific manner in which a researcher gathers facts, opinions and statistics for further analysis. There are a number of different methods that
may be employed (such as experiments, questionnaire, interviews, observation and document analysis), and they may be employed in isolation or in combination. Whilst all may be used for explanatory, exploratory, and descriptive research (Yin, 2003, in Saunders et al. 2007), some are more commonly associated with different research agendas:

<table>
<thead>
<tr>
<th></th>
<th>Explanatory</th>
<th>Exploratory</th>
<th>Descriptive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering 'how' and 'why' questions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questionnaire</td>
<td>✓*</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering questions such as 'who', 'what', 'where', 'how much', and 'how many' questions)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Case Study</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>(Useful in answering questions such as 'why', 'what', and 'how' questions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interviews (structured)</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering questions such as 'what is happening' questions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interviews (semi-structured)</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering questions such as 'what', 'how', and 'why' questions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interviews (unstructured)</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in presenting probing questions)</td>
<td></td>
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<tr>
<td>Observation (Field Study)</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering questions such as 'what is going on', 'how', and 'why' questions)</td>
<td></td>
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<tr>
<td>Document Analysis</td>
<td>✓**</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(Useful in answering questions such as 'why', 'how much', and 'how many' questions)</td>
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Table 3-4 Data Collection Methods for different Research Purposes

\(\checkmark = \text{Saunders et al. (2007)} \quad \checkmark^* = \text{Colton and Covert (2007)} \quad \checkmark^{**} = \text{Krippendorf (2004)}\)

As illustrated in Table 3-4 above, Saunders et al. (2007) recognise semi-structured interviews, questionnaires and content/document analysis as particularly useful means by which to collect data for exploratory, explanatory and descriptive research such as this. However, in order to meet explanatory purposes, questionnaires need to include open-ended questions (Colton & Covert, 2007), and the documents subject to content/document analysis must be aligned with an explanatory purpose (Krippendorf, 2004).
The data that are collected via the above means can be classified as either primary data or secondary data, depending on who initiated its collection and for what purpose. For instance, primary data are “data collected specifically for the research project being undertaken” (Saunders et al. 2007, p.607), whereas secondary data are “data used for a research project that were originally collected for some other purpose” (p.611). Saunders et al. (2007) state that “documentary secondary data are often used in research projects that also use primary data collection methods” (p.248). Such is the case in this research being presented, which makes use of both primary and secondary data (Table 3-5 below).

<table>
<thead>
<tr>
<th>Primary and Secondary Data used in this research</th>
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<tbody>
<tr>
<td><strong>Primary Data</strong></td>
</tr>
<tr>
<td><strong>Phase 1:</strong></td>
</tr>
<tr>
<td>▪ Semi-Structured interview</td>
</tr>
<tr>
<td><strong>Phase 2:</strong></td>
</tr>
<tr>
<td>▪ Online Questionnaire</td>
</tr>
</tbody>
</table>

Table 3-5 Primary and Secondary Data used in this research

As previously discussed, a significant advantage of incorporating various data collection methods in one’s research is that it helps the researcher to have greater confidence when drawing conclusions from the data (ie. it facilitates triangulation of the data). Having discussed the broader theoretical aspects underpinning this research, attention is now turned to the specific data collection choices that have been made in this research, including a justification of those choices.

**Data Collection – Specific Choices Made**

This research was undertaken in compliance with Swinburne’s Human Research Ethics Committee clearance, SUHREC Project 2010/238 (Appendix 6-7) and SUHREC
Project 2011/244 (Appendix 6-8). In this section there are a number of questions that need to be specifically addressed, such as the broad choice of entity forming the focus of this research, the choice of individual data collection methods, and the process by which participants were selected.

**Why small incorporated associations?**

There has been significant debate about change to the accounting function in incorporated associations in recent times. Despite small associations representing approximately 97% of all associations incorporated in Victoria (Consumer Affairs Victoria, 2008), reform to date has only affected the medium and large associations. The accounting function of small incorporated associations instead remains relatively unregulated. There have been suggestions there may be increased focus on these small associations in future (McGregor-Lowndes, 2011), hence the focus of this research. Broadly, this research investigates the issue of accounting in a largely unregulated environment where the proponents may or may not have accounting expertise – and small incorporated associations exhibit these characteristics.

**Why sporting and fitness associations?**

Consumer Affairs Victoria categorise all incorporated associations, and one such category is ‘sport and recreation’ (Consumer Affairs Victoria, 2011). Sporting and fitness associations represent the largest cluster of like entities on the current Victorian register (Consumer Affairs Victoria 2008). Additionally, more people volunteer for sporting bodies than any other type of body (Volunteering Australia, 2011). Finally, this research draws on the institutional isomorphism literature. Leiter (2005) suggested that when studying isomorphism in non-profits is best to focus on entities within the same industry because of the similarity in isomorphic factors. It is for these reasons that this research is focused on sporting and fitness incorporated associations.
**The purpose of phase 1 semi-structured interviews**

In a semi-structured interview the interviewer prepares “a list of questions [to ask the participants], but these can be asked in a flexible order and with wording that is contextually appropriate” (Gibson & Brown, 2009, p.86). Semi-structured interviews were conducted as part of the phase one exploratory stage, which was aimed at probing the various compliance obligations faced by small incorporated associations. Note that, consistent with the requirements contained in the Swinburne ethics clearance (SUHREC Project 2010/238 – Appendix 6-7), participants were able to withdraw from this study at any point without question. A number of questions were written down to facilitate the flow of the discussion, and although they were presented in a logical sequence on paper, the ‘natural flow of conversation’ ultimately dictated the order and appropriateness of exploring emerging themes (Gibson & Brown 2009). It is important to provide an interviewee with an understanding of what is going to be covered in a pending interview (Saunders et al. 2007), and with this in mind participants were given an indication of the types of questions that were going to be asked prior to conducting the interview.

As the purpose was to discover emerging compliance themes and other matters worthy of focus in the main phase of the study, it was decided to initially invite six participants to be involved, with the option to increase this if necessary (Irvine 2005, p.213 also conducted six semi-structured interviews to gain insights into perceptions in local church accounting). In selecting the six participants to be interviewed, a non-probability sampling approach was used. Saunders et al. (2007) suggest that such an approach “may be the most practical” (p.226) when a researcher is in the exploratory stage of their research, although the results will not be generalisable.

A purposive approach was used in selecting participants because it enables the researcher to use judgment in selecting cases that will meet the research objectives (Saunders et al. 2007). Consequently certain associations were chosen so as to ensure large clusters (such as Australian Rules football and basketball) were included, while others were selected to ensure smaller clusters with idiosyncratic compliance obligations (such as yachting and shooting) were included. Participants were also
purposively selected to ensure that metropolitan, regional and country associations were included, and this resulted in one interview being conducted over the phone. Gibson and Brown (2009) highlight the importance of the interviewer being able to “offer their own experiences [regarding what] is being discussed” (p.89), and thus a convenience approach to participant selection was also adopted. Convenience sampling involves “selecting cases that are easiest to obtain for your sample” (Saunders et al. 2007) and was also utilised in this initial phase. Consequently one participant was currently known to the researcher, two were contacts from previous association involvement, and three were unknown to the researcher prior to this study.

In recognising the importance of creating a full and accurate record of each interview as soon as possible after completion (Saunders et al. 2007), all interviews were digitally recorded (with the express approval of the participants) and later transcribed. Whilst such an approach ignores non-verbal cues and is therefore only a partial representation of the interaction (Gibson & Brown 2009), such an approach allows the interviewer to “concentrate on questioning and listening…and re-listen to the interview [later]” (Saunders et al. 2007).

Common themes began to emerge on conducting the third interview, and these were confirmed in the fourth and fifth interviews. One of the invitees who had originally agreed to be involved in the study was subsequently unable to be contacted, and therefore this stage was declared complete having conducted five semi-structured interviews.

**Annual Financial Statements**

Gaining access to organisations and their data are major hurdles faced when undertaking research, and failure can paralyse the research effort (Saunders et al. 2007). Due to the nature of the entity underlying this research, the support of Consumer Affairs Victoria (CAV) was imperative to the collection of both primary and secondary data. Without CAV support, contact details for small incorporated associations would be impossible to
ascertain and deployment of the questionnaire equally difficult to achieve. Without CAV support, access to financial statements and audit reports for further analysis would not be forthcoming. In short, it was recognised early on that without the support of CAV this research would struggle for credible data.

Saunders et al. (2007) provide a number of suggestions to overcome access problems, and each relates to addressing the underlying cause. They advise that physical access may be problematic simply because the organisation does not want to engage. When initial access difficulties with CAV were experienced, alternative approaches were subsequently tried. In all, the following steps were taken before access to data was gained:

- Met with the local Member of Parliament, who was also the Minister for Consumer Affairs, and introduced myself and my topic. The meeting resulted in a follow-up meeting with the Key Policy Advisor at Consumer Affairs Victoria, Head Office;

- Met with the Key Policy Advisor at CAV, but this did not prove to be a productive or fruitful meeting;

- Made an appointment to introduce myself to the regional representative of Consumer Affairs Victoria who subsequently but provided contact details for the Director of Consumer Affairs Victoria;

- Wrote to the Director of Consumer Affairs Victoria to introduce myself and my topic, and received a favourable reply, resulting in a subsequent meeting at Consumer Affairs Victoria Head Office;

- Met with the General Manager of Consumer Affairs Victoria and the Key Policy Advisor of Consumer Affairs Victoria (Head Office).
As indicated by Saunders et al. (2007), it was critical at this meeting to highlight the value of the research to CAV, address issues of confidentiality, and allay any credibility and competence concerns they may have had about me. In order to present a professional image, my alignment with the University research centre (Centre for Enterprise Performance) was highlighted, and the Director of the Centre accompanied me to the meeting. This ultimately resulted in access being granted, and proved to be a pivotal point in this research.

Following this meeting, CAV generated a number of reports from the register of incorporated associations (including the most recent register of small incorporated sport and recreation associations) and provided (in PDF format) 1,000 annual financial statements as lodged. These annual statements included all the contact details that would subsequently be used to construct a mailing list for the questionnaire, and content that would be analysed for common themes (e.g. compliance with commonly accepted accounting norms).

**Questionnaire:**

Questionnaires are recognised as an effective data collection method when undertaking explanatory, exploratory and descriptive research (Colton & Covert, 2007; Krippendorff, 2004; Saunders et al., 2007) such as this. Sometimes the term ‘survey’ is used as a synonym for a questionnaire, but this research adopts the view of McMurray et al. (2004) that a survey includes both interviews and/or questionnaires. Consequently the term ‘questionnaire’ (rather than ‘survey’) is used to describe the data collection instrument in this research.

**Questionnaire design**

The ‘golden rules’ of questionnaire design according to McMurray et al. (2004) are to keep the language simple (pitched at a twelve year old), and only ask questions you need to know. With this in mind, the questionnaire was developed in the following sections:
• Eligibility (only current Treasurers were eligible);
• About the Treasurer;
• About the club;
• About the accounting system;
• About the financial reporting practices;
• About financial controls and audits;
• Confirmation as a small incorporated association.

The order of questions is important and therefore, as guided by research methods principles espoused by McMurray et al. (2004) and Saunders et al. (2007), simple questions that could be considered engaging were presented first, and the more difficult (or sensitive) questions were presented later. Although “there is no definite benchmark for the acceptable length of a questionnaire” (McMurray et al. 2004, p.106), this questionnaire could reasonably be thought as being quite long (with 51 questions). Based on the understanding that responses/non-responses tend to be “more dependent on the amount of time available for responding…than [the questionnaire length] (McMurray et al. 2004, p.106), and indications from phase one of this study and the results of Huntly (2005) that Victorians were likely to give their time, the 51 questions remained. Questions were however nested, and participants were moved through the questions based on previous answers, so no participant would answer all 51 questions.

In developing a questionnaire it is essential to conduct pilot testing in order to:
• Determine whether the questions are uniformly interpreted;
• Determine how long it is likely to take to complete the questions; and
• Identify any sensitive issues that may reduce response rate

The questionnaire was therefore extensively pilot tested on various people including professional accountants, and numerous non-accountants from a range of professional/non-professional academic backgrounds and a twelve year old child – and was proofread by a representative at Consumer Affairs Victoria (CAV). Many areas for improvement emerged, and after incorporating them into the draft questionnaire, the questionnaire underwent further pilot testing. In all, there were approximately ten pilot tests conducted on the survey instrument, before it was considered ready to go ‘live’. Having considered the merits of both online and hardcopy questionnaires, it was decided to adopt an online approach, whilst using both electronic and land mail methods of communication (these will be separately discussed in more detail later). Figure 3-2 below provides an overview of the process of selecting the participants and deploying the necessary research instruments.

**Figure 3-2 Selection of participants and Deployment of Questionnaire**
Selection of participants

It was recognised that the success of the questionnaire could be significantly enhanced by having the regulator support the data collection (Porter 2004), and given the timely and unique nature of this research, CAV was amenable to providing such support. Consequently, as illustrated in Figure 3-2 above, CAV provided a current copy of the Victorian register of small incorporated associations (sport and recreation), from which a random sample of 1,000 was extracted by the researcher using Excel®. The 1,000 association numbers were given to CAV, who provided a copy of the most recent annual statement for each association in the sample. Contact details were extracted from the annual statements, and a mailing database (with e-mail and traditional mailing addresses) was created. Personalising invitations to be involved in research can increase the response rate (Kanuk and Berenson 1975 in McMurray et al., 2004), so all communications were addressed to the Public Officer by name and included reference to the association by name. As contact details were not readily available online, such an approach also reiterated to potential participants that CAV valued this research being done.

Deployment of the questionnaire

Consistent with university ethics requirements (SUHREC Project 2011/244 – Appendix 6-8), all participants were to be presented with detailed information about the research prior to being involved in the data collection. To facilitate the communication of required information, a research website was established (Figure 3-2 above) – and included the Swinburne University of Technology logo and reference to CAV’s interest in the research, to increase the legitimacy of the study (Kanuk and Berenson 1975 in McMurray et al., 2004; Porter, 2004). On this website potential participants had access to:

- Information about the study including their rights and obligations (Appendix 6-9);
- Informed consent instruments (Appendix 6-10); and
- A link to access the questionnaire.
All participants were required to access this website in order to be involved in the study.

Follow up reminders

As is customary when conducting surveys, a reminder was sent to reignite interest in participating in the study. Single reminders have been shown to increase the response rate by as much as 50% (Kanuk and Berenson 1975 in McMurray et al. 2004, p.109), and therefore once the response rate plateaued, a reminder e-mail was sent. Given the strong response rate, and availability of various sources of additional data, a second reminder was not sent.

Others to use questionnaire/survey instrument:


- Anne Abraham (Abraham, 1999): Article on incentives for nonprofit organisations to voluntarily engage external auditors. Mail survey sent to 258 incorporated associations. Like this research, the correspondence was addressed to public officer with a request to have the survey completed by the Treasurer.

- Mook et al. (2007) used an online survey of 661 nonprofits from around Canada to examine to what extent nonprofit organisations estimate a financial value for these contributions and include this in their financial statements.

- Tooley and Hooks (2010) used a survey/questionnaire to collect data on perceptions related to usefulness of school annual reports.
Justification for the primary use of e-mail communication:

- Phase 1 data collection suggested e-mail was a primary communication mechanism amongst small incorporated associations.
- Of the 999 annual statements representing associations in the survey frame, 769 (77%) provided e-mail addresses for future communications with CAV. Despite 31 of the e-mail addresses being deemed ‘illegible’, this suggested e-mail to be a viable communication option.
- In order to minimise bias, associations in the sample frame without an e-mail address (or without a legible e-mail address) were sent traditional snail-mail correspondence instead.

Justification for the use of an online survey instrument:

Although this strategy excludes those without access to the internet, according to the Australian Bureau of Statistics (ABS) (2011, 8146.0 Household use of Information Technology) the vast majority (79%) of Victorian households have home internet access. Furthermore, most households (77%) with the internet were using it every day, and a further 20% of households were using the internet at least weekly. The results also showed a steady increase in the number of persons aged over 60 who were using the internet.

The ABS data are based on household internet access, and therefore ignores other means by which people can access online material (for instance through an employer or at the local library). Phase one data collected suggested that small incorporated associations had a preference to completing their CAV obligations (such as the annual statement) online, and an aversion to paper-based obligations. This suggested that an online survey instrument would be preferred over a paper-based survey that required the participant to go to a mailbox to return-post their responses. This preference for electronic/online submission was confirmed in the current data collection, with many participants citing the ability to lodge statements and pay the annual fee online, as a significant area where CAV could improve the process of compliance in small
incorporated associations. In addition, there were only two respondents who indicated they preferred a paper-based mode of delivery for the survey instrument – and a number of snail-mail recipients e-mailed me, asking for the link to be e-mailed to them.

This research critiques the accounting function in small incorporated associations (sport and recreation) – an environment that is largely unregulated, and made operational by volunteers who may or may not have accounting expertise. In undertaking this critical examination of club-level accounting, two distinct sources of data were captured:

- Online questionnaire;
- Annual financial statements as lodged with CAV (including audit reports as applicable)

**Data Analysis – Specific Methods Adopted**

Specific data analysis methods adopted are determined by reference to the research questions being addressed (Saunders et al. (2007). Consequently it is appropriate to now revisit the objectives of this research and map the chosen analysis methods with the research questions and objectives.
Table 3-6 Mapping of data analysis methods to the research questions

As illustrated in Table 3-6 above, a mixed methods approach has been undertaken, encompassing descriptive statistics, qualitative analysis, indicator development and content analysis.

**Descriptive Statistics**

Descriptive statistics are a way to describe the characteristics of a sample so that inferences about the population can be made (Saunders et al., 2007; Zikmund et al., 2010). The use of descriptive statistics facilitates the communications of data characteristics including central tendency, dispersion and variability – typically through the calculation of means, medians, modes, variance, range, interquartile range and standard deviation. Descriptive statistics also typically use pictorial/graphical representations such as histograms, tabulation, cross-tabulation and so on in presenting data and findings. Hence, despite being a relatively simple data analysis method, descriptive statistics are described by Zikmund et al. (2010, p.486) as a “simple but powerful” methodology to use when answering various research.
The Treasurer and accounting system profiles were developed from (largely) categorical data collected via the questionnaire, and therefore the analysis was most suited to non-parametric analysis of descriptive statistics such as the number of observations, proportions and percentages (Selvanathan et al., 2003).

*Others to use descriptive statistics:*

- Anne Abraham (1999): Article on incentives for nonprofit organisations to voluntarily engage external auditors. Statistical analysis undertaken:
  - Descriptive statistics – mean, std. dev., median, min, max
  - Frequency of occurrence of the categorical variables
  - Bivariate tests were used to assess the statistical significance between the two groups (audit and non-audit):
    - 2-sample T-Test was used with the ratio level variables;
    - Chi-square test was used for the nominal data
    - The nonparametric Wilcoxon Rank Sum Test was used to compare each independent variable between the two groups - audit and non-audit. This was considered appropriate as the author felt there was no reason to expect the variables to be normally distributed.

- Hay and Davis (2004) analysed 380 sets of financial statements when researching the voluntary choice of auditors in New Zealand incorporated societies (equivalent entities to Victorian incorporated associations). Statistical analysis undertaken:
  - Observations (eg. no financial statements on file; incomplete financial statements);
  - Descriptive statistics and univariate tests;
• Mann-Whitney U-Statistics for the Differences in Mean Rank for Each Choice of Auditor or Higher-Quality Auditor

• Pearson correlations above the diagonal; Spearman correlations below the diagonal;

• OLS Regressions

• Ordinal Logit Regression

Qualitative Analysis

Qualitative data pertaining to what drives, and what deters, someone from nominating for the role of volunteer Treasurer was collected by means of open-ended questions in the online questionnaire. As standalone responses with no standard format, the individual responses needed to be arranged in such a way that they conveyed meaning. Consequently qualitative analysis was undertaken. According to Saunders et al. (2007, p.479), qualitative analysis involves the following activities:

• categorisation;

• ‘unitising’ the data;

• recognising relationships and developing the categories to facilitate this;

• developing and testing theories to reach conclusions.

The qualitative approach adopted was aligned with latent text analysis. Latent text analysis focuses on “underlying implicit meaning” (Flack & Ryan 2003, p.81), and therefore by its very nature involves interpretation. Such interpretation is impacted by the coder’s knowledge, and it is for this reason this methodology has been criticised (Neuman 2000, p.296). In order to mitigate interpretational risk, the approach espoused by Strauss (1987) has been adopted, whereby coding is achieved by multiple passes of the data. ‘Open coding’ was used to get a broad feel for the themes, ‘axial coding’ then
identified groups of themes, and finally ‘selective coding’ consolidated groups of themes where appropriate.

Hence, the first step was to categorise the dominant response – for example ‘no one else would do it’ was established as a category for factors driving the decision to volunteer, and included various wordings pointing to this intent. Whilst recognising that people can, and do, volunteer for various reasons, each questionnaire represented a ‘unit’ and was subsequently allocated to one of the themed dominant categories. After categorising a number of responses, more defined themes and relationships emerged and the categories were further refined – for example ‘no one else would do it’ became ‘forced choice - no one else would do it’ and ‘free choice - no one else would do it’. Finally, the Indicator of Complexity (discussed next) was developed to further examine the phenomena and reach more meaningful conclusions.

**Indicator Development**

According to the Department of Education, Employment and Workplace Relations (Department for Education Employment and Workplace Relations, 2012), those seeking a career as an accountant can expect to perform tasks related to: budgeting; financial statement preparation; auditing; taxation matters; sales and purchases; examination of income and expenditure; compliance with statutory requirements; and use computer-based accounting systems. To be suitable for such a career, it is also stated that persons must possess a range of personal skills including communication, presentation, and organisational skills, and be able to work as part of a team. Finally, and critically, to be eligible to apply for accounting positions one must undertake university level study. Hence, the role of accountant is inherently complex in that not just anyone can undertake the role. The role of Treasurer in small incorporated associations has similarities with that of an accountant, and the Indicator of Complexity communicates the work-like complexity of the role. The unpaid nature of volunteer [accounting] work makes it no less work, as it still "involves the provision of a service to others..." (Taylor, 2004, p.38). This is implicit in the thoughts of many respondents who indicated they
believed people were hesitant to take on the role due to ‘responsibility’, ‘liability’ and ‘lack of skills’.

Why develop an Indicator?

The use of indicators to highlight accounting related matters is a methodology that has been used widely since the 1960s (Flack and Ryan 2003, p.79). An indicator is “something that provides a clue to a matter of larger significance” (Hammond et al., 1995) - a numeric means of assessing a present phenomenon (Frønes, 2007). As well as their application in accounting research, indicators are particularly prevalent in the field of economics because they represent a simple mechanism for communicating how well policy is (or is not) working, and can “point…towards better approaches” (Hammond et al. 1995, p.vii). According to Frønes (2007), policymakers have come to rely on indicators “to guide their decisions” (p.5), making them very powerful instruments in the development of government policy. The nexus between indicators and policy development is well noted in the literature (Frønes, 2007; Giovannini et al., 2008; Hammond et al., 1995; Zhou et al., 2010), and it is for this reason that a Composite Indicator of Complexity was developed in this research.

The Composite Indicator of Complexity generates a single figure to communicate the degree of complexity in association’s accounting function. This figure signals the potential for difficulty faced by specific Treasurers in undertaking knowledge-specific accounting practices; the existence of external/dependent users of financial information; and the existence of other stakeholders whose existence increases the level of responsibility and liability of the Treasurer. Hence, the Indicator can help explain the innocent barriers to people entering the volunteer Treasurer market. This in turn can be used to target associations for assistance programs, and to highlight associations that may be better classified as a higher tier association (or, conversely, associations that may be better classified as a lower tier association).
Methodological contribution to be made by this study

It has been stated that numeric indicators are the “the surest way to compel high-level government attention (Hammond et al. 1995, p.vii) by providing an indication as to how well policies are working – whilst at the same time “pointing the way toward better approaches” (p.vii). In undertaking a review of academic research projects, Marston and Shrives (1991) commented on the proliferation of indices as a research tool and the value of the methodology, as evidenced by its continued use. Similarly, Flack and Ryan(2003) noted that the development of indices to measure disclosures in financial reports was a widely used methodological approach. More recently Verbruggen, Christiaens and Milis (2011) developed a compliance index to measure the compliance of non-profit organisations with accounting and financial reporting requirements.

Indicators are commonly used to communicate economic, social and environmental information, and this research develops a composite Indicator of Complexity (comprised of the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity) to communicate the level of complexity faced by volunteer Treasurers. The Indicator provides insights into the role of Treasurer, including the propensity of small incorporated associations to emulate corporate practices. This is achieved by generating a single number measure to represent complexity. This is the first time that such an approach has been used in conjunction with volunteerism and isomorphic institutional theory, and therefore this research makes a methodological contribution to the existing literature.

Development of the Indicator of Complexity

In examining the reasons why respondents may have suggested that ‘responsibility’, ‘liability’ and ‘lack of skills’ caused people to be hesitant to take on the role of Treasurer, a multidimensional composite indicator with multimeasurement sub-indicators was developed to communicate the level of complexity faced by volunteer Treasurers (the Indicator of Complexity). A multidimensional indicator “covers a
variety of dimensions” (Frønes 2007, p.15), which in this instance included two separate but related indicators – the Indicator of Corporate/Institutional Complexity and the Indicators of Transaction Complexity. A multimeasurement indicator includes “a variety of measurements [that] all concentrate on the same area or perspective” (p.15). Hence, as illustrated in Table 3-7 below, the Indicator of Corporate/Institutional Complexity is comprised of a number of individual measures, as is the Indicator of Transaction Complexity.

Complexity is a difficult concept to define, because by its very nature it can incorporate a multitude of dimensions. Nonetheless, by reference to the Macquarie Dictionary, something is complex when it is “composed of interconnected parts…or many parts [that are] not easily separable”. This is consistent with Antoniadis et al. (2011) who note that complexity encompasses both technical complexity and socio-organo complexity - complexity related to technical knowledge and complexity related to the nature and number of human interconnections. Furthermore, when researching whether ‘NFP organisations fit the company mould’ Woodward and Marshall (2004, p.53) found that small organisations experienced significantly more difficulties when adopting a corporate format. Hence, complexity can be driven by discipline-specific accounting knowledge or by the sheer volume of work to be undertaken. The concept of complexity adopted in this research therefore incorporates technical complexity and corporate complexity (related to accounting knowledge), and processing complexity and socio-organo complexity (related to volume).

Selection of the Indicator components

Phase one of this study involved semi-structured interviews aimed at discovering emerging compliance themes in small incorporated associations. Across the five participant associations a range of compliance obligations were noted and explored, providing compelling evidence that the responsibilities undertaken by Treasurers varied markedly and sometimes mimicked professional accountants. In some instances the complexity was related to the operational structures/registrations (corporatised practices), while further complexity was a function of the nature of the operations
(transactions to be processed). Based on the phase one findings, factors thought to increase the complexity of the accounting function in small incorporated associations were factored into the questionnaire (discussed later) and allocated to an indicator (Table 3-7). This is a similar approach as that used by Leiter (2005). Complexities related to emulating corporate practices through registrations and statutory obligations are included in the Indicator of Corporate/Institutional Complexity, which also includes technical and social-organo complexities. Complexities related to the functional aspects of an association are included in the Indicator of Transaction Complexity, which includes technical and social-organo complexities. The main ‘exception’ to this is the placement of ‘use of accounting software’ in the corporatisation indicator rather than the complexity indicator. This was done because of the nexus with the other items in this indicator (payroll, GST, BAS, external financial reporting, and audits).

<table>
<thead>
<tr>
<th>Indicator of Corporate/Institutional Complexity</th>
<th>Indicator of Transaction Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>i Existence of paid staff</td>
<td>i Number of members</td>
</tr>
<tr>
<td>ii ABN registration</td>
<td>ii Number of sponsors</td>
</tr>
<tr>
<td>iii BAS reporting obligations</td>
<td>iii Number of income streams</td>
</tr>
<tr>
<td>iv GST registration</td>
<td>iv Existence of a bar</td>
</tr>
<tr>
<td>v Use of accounting software package</td>
<td>v Existence of a canteen/kitchen</td>
</tr>
<tr>
<td>vi External financial reporting</td>
<td>vi Fundraising activity</td>
</tr>
<tr>
<td>vii Audit undertaken</td>
<td>vii Merchandise for sale</td>
</tr>
<tr>
<td></td>
<td>viii Reporting of budget figures</td>
</tr>
</tbody>
</table>

Table 3-7 Components of the Indicator of Complexity

Methodological framework adopted

In constructing the composite indicator of complexity, the methodological approach adopted was that of Giovannini et al. (2008) - preparers of the *Handbook on Constructing Composite Indicators: Methodology and User Guide*. ‘The Handbook’ is a joint publication of the OECD and Joint Research Centre of the European Commission, and was developed as a response to the noted proliferation of indicators being constructed using a wide range of methodologies. It is stated that “composite indicator
developers…face a justifiable degree of skepticism from statisticians, economists and other groups of users” (p.19) and therefore recommends ten steps be followed to minimise scepticism and improve the credibility of an indicator. This study adopted the OECD model because it was developed by a credible source with much experience in indicator development. Consequently this research followed the methodological framework and steps presented in Table 3-8 below.

<table>
<thead>
<tr>
<th>Ten Steps to constructing an Indicator</th>
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<tbody>
<tr>
<td>Step 1: Theoretical framework</td>
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<td>Step 2: Data selection</td>
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<td>Step 3: Imputation of missing data</td>
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<td>Step 4: Multivariate analysis</td>
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<td>Step 5: Normalisation</td>
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<td>Step 6: Weighting and aggregation</td>
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<td>Step 7: Uncertainty and sensitivity analysis</td>
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<tr>
<td>Step 8: Component drivers/justification</td>
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<tr>
<td>Step 9: Links to other indicators</td>
</tr>
<tr>
<td>Step 10: Visualisation of the results</td>
</tr>
</tbody>
</table>

Table 3-8 Ten steps to constructing an Indicator (Giovannini et al. 2008)

Krippendorff (2004) also advises that measures need to be convincing amongst “scientific peers” (p.60) in order to be considered valid. Consequently the individual measures within each Indicator will now be specifically validated, and the methodological steps referred to by Giovannini et al. (2008) discussed in detail.

Validation of the components of the Indicator of Corporate/Institutional Complexity

The Indicator of Corporate/Institutional complexity measures complexity associated with businesslike practices, and therefore encompasses technical complexity, socio-organo complexity and corporate complexity. In terms of the theoretical framework
(step 1) underpinning this indicator, it is necessary to provide “a clear understanding…of the phenomena to be measured, [as well as the] selection criteria for the underlying variables” (Giovannini et al., 2008, p.20). In the context of this research corporate/businesslike behaviour is interpreted very widely to include small, medium and large businesses with a profit motive. Component measures are taken from the operating environment of an incorporated association and assessed against corporate/business practices, rather than being taken from the corporate/business environment. This approach enabled the practices of associations to be specifically targeted, and corporate/business practices that were not relevant to associations were not included. For example, although taxation is a corporate/business reality, small incorporated associations are typically tax exempt. To include such a measure would have meant including a component that was highly unlikely to gain even one mark – and would therefore have introduced ‘empty noise’ into the index. Small incorporated associations can however employ staff, and therefore be subject to payroll-related taxes - so the existence of paid staff was included as a measure rather than tax per se.

This approach also enabled the Indicator of Corporate/Institutional Complexity to be a surrogate measure for corporate institutional isomorphism. Step two of the composite indicator construction requires justification of the data selection process. The following discussion will explain why the measure included was considered to constitute businesslike behaviour, and why the measure increases complexity in the role of volunteer Treasurer. Hence step 8 (component drivers/justification) is included here as well.

i. Existence of paid staff

The ABS (2001) define micro, small, medium and large businesses by reference to the number of paid employees. Hence, the existence of paid staff in small incorporated associations is considered to constitute corporate/businesslike behaviour.
Employment of paid staff also brings with it additional taxation implications such as PAYG withholding, Superannuation, State payroll tax, Fringe Benefits Tax and so on. It is for these reasons that the existence of paid staff is considered to increase the technical complexity associated with the role of volunteer Treasurer.

**ii. ABN registration**

According to the Australian Government “the Australian Business Number (ABN) was introduced 1 July 2000 to enable businesses (my emphasis) to deal with a range of government departments and agencies using a single identification number” (Australian Government (Business), 2012). Hence, ABN registration in small incorporated associations is considered to constitute corporate/businesslike behaviour.

The Australian Taxation Office states that “a non-profit organisation can use its ABN to:

- Register for Goods and Services Tax (GST) and claim GST credits;
- Register for Pay As You Go (PAYG) withholding;
- Apply to the Tax Office for endorsement as a deductible gift recipient, tax concession charity or income tax exempt fund;
- Interact with government departments, agencies and authorities; and
- Interact with the Tax Office on other taxes, such as fringe benefits tax (FBT)”

(Australian Taxation Office, 2012b).

Hence, the registration for an ABN exposes the volunteer Treasurer to a number of tax-related concepts, and for this reason is considered to increase the knowledge-related technical complexity associated with the role of volunteer Treasurer.
iii. **BAS reporting obligations**

According to the Australian Taxation Office “businesses use an activity statement to report and pay a number of tax obligations including GST, pay as you go (PAYG) instalments, PAYG withholding and fringe benefits tax” (Australian Taxation Office, 2012a). Activity statements are also used by individuals with quarterly PAYG instalments but, as the name suggests, there is a primary emphasis on businesses. Hence, the existence of BAS reporting obligations in small incorporated associations is considered to constitute corporate/businesslike behaviour.

As indicated, a BAS statement is used for reporting various taxation-type obligations with the Australian Taxation Office. The existence of BAS reporting obligations exposes the volunteer Treasurer to a number of tax-related concepts, and for this reason is considered to increase the knowledge-related technical complexity associated with the role of volunteer Treasurer.

iv. **GST (Goods and Services Tax) registration**

According to the Australian Taxation Office, the mandatory obligation to register for GST is determined by reference to the turnover of a business (Australian Taxation Office, 2012c). Even though non-profits are not required to register for GST until their GST turnover exceeds $150,000, this is determine by reference to their “gross business income” (Australian Taxation Office, 2012c). It is the reference to businesses that suggests that such registration (voluntary or otherwise) constitutes corporate/businesslike behaviour.

Being registered for GST means:

- GST may be required to be included in the price of some of the goods and services being sold;
- A compliant Tax Invoice may need to be generated;
• The association will need to complete a periodic Business Activity Statement where they report the amount of GST included in their sales and the value of the tax credits they are entitled to claim.

Registration for GST again exposes the volunteer Treasurer to a number of additional tax-related concepts, and for this reason is considered to increase the knowledge-related technical complexity associated with the role of volunteer Treasurer.

v. Use of accounting software

There are a number of off-the-shelf accounting software packages available including MYOB®, Quicken (Reckon)®, Sage®, Xero-online®, Saas-online®, Cashflow Manager® and Nominal® (Business Victoria, 2012). A common feature of these systems is that they are marketed towards small businesses. For example “MYOB is a leading provider of business management solutions” (MYOB, 2012), “Cashflow Manager’s goal is to provide small business owners and their partners with an easy accounting program” (Cashflow Manager, 2012) and “Nominal accounting software [is] created for small business” (Nominal Accounting Software, 2011). Whilst Reckon specifically target the non-business ‘young adult/family’, the product they recommend is described as “great financial management…from personal finance to serious business use” (Reckon, 2012). When examining the accounting information systems of small and micro businesses in Australia Dyt and Halabi (2007) found that “micro businesses rely more heavily on manual methods, while small businesses are more likely to use computerized systems” (p.1). Hence, the use of accounting software packages in small incorporated associations is considered to constitute corporate/businesslike behaviour.

A review of blog threads suggests that accounting packages such as MYOB and Quickbooks (Quicken/Reckon) are not simple to use, and do in fact require a certain level of base knowledge. For instance MYOB is described as “hard-to-use software” (Jones, 2006, 7th September); Quickbooks is said to be “actually harder to use [than MYOB]” (Jones 2006); one user said he runs a simple business with one person, but
needs to employ a bookkeeper one day a week “to help isolate [him] from the horrors of MYOB” (Steve please, 2011, March 10). It is for these reasons that the existence of an accounting software package is considered to increase knowledge-relate technical complexity associated with the role of volunteer Treasurer – there are specific complexities associated with coding transactions, as well as potential system-related complexities of using an accounting package.

**vi. External financial reporting**

The existence of parties who are external to an entity, and who rely on financial information prepared to assist them (and others) in resource-allocation decisions, are key features in determining whether an entity is a reporting entity or not (Hoggett et al., 2009). Companies and SMEs (Small to Medium Enterprises) that are incorporated under the Corporations Act (2001) are considered reporting entities by virtue of their external financial reporting obligations, whereas the same is not true for most small and micro businesses (Dyt & Halabi 2007). The larger a business becomes, the more likely it is to report externally, and therefore external financial reporting by small incorporated associations is considered to constitute corporate/businesslike behaviour.

As the sphere of reporting widens, more people become involved in the financial reporting process (as users), and assessments need to be made as to the nature of financial information being distributed – for instance, does it meet the specific needs of the intended user, or is it more general in purpose? Additionally, as more users of financial information are added to the distribution list, the propensity for scrutiny also increases. It is for these reasons that reporting beyond the immediate association and Registrar is considered to increase the socio-organo complexity associated with the role of volunteer Treasurer.

**vii. Audit undertaken by an audit firm**

Whilst acknowledging some exceptions, ASIC advises that “a company (other than a small proprietary company), registered scheme (managed investment scheme) or
disclosing entity (a body that holds enhanced disclosure securities) must have its annual financial report audited [by a registered company auditor]” (ASIC, 2012a). The undertaking of an audit is therefore considered to reflect corporate/businesslike behaviour, but as discussed by Hay and Davis (2004) there are different levels of auditor (as determined by reference to their qualifications). Hence the appointment of an individual professional accountant is partially considered to reflect corporate/businesslike behaviour, whereas the appointment of an audit/accounting firm constitutes full corporate/businesslike behaviour in small incorporated associations.

An assurance engagement such as an audit is said to be founded on a three-party relationship – the preparer of the financial information; the user(s) of the financial information; and the assurance provider (Gay & Simnett, 2010). Consequently, by virtue of the number of parties involved, the undertaking of an audit is considered to increase the socio-organo complexity associated with the role of volunteer Treasurer.

Validation of the components of the Indicator of Transaction Complexity

The Indicator of Transaction Complexity includes a number of elements commonly associated with the Treasurer’s role, and whose individual (and collective) presence is considered to increase the complexity in the Treasurer’s role in small incorporated associations. In terms of the theoretical framework underpinning this indicator, it is again necessary to provide clarity as to the phenomena under investigation. Unlike the Indicator of Corporate/Institutional Complexity, measures in this indicator are not necessarily related to business practices. Instead, the framework is more broadly centred on complexity – namely technical complexity and socio-organo complexity. Step two of the composite indicator construction requires justification of the data selection process. The following discussion will explain why each measure is considered to increase complexity in the role of volunteer Treasurer.
i. **Number of members**

In Australia small and large proprietary companies must have between 1 – 50 members, and public companies a minimum of 1 member with an unlimited maximum (ASIC, 2012b). A member can be a person, a body corporate or a body politic (ASIC, 2012b). In Victoria small incorporated associations must have a minimum of 5 members, and like public companies there is no restriction on the maximum number of members (Consumer Affairs Victoria, 2012). The Victorian Associations Incorporation Regulations (2009, 2012) describes a member as being a “person” (Sch4.s.4; s.51), but is silent as to whether this only includes a natural person (although that seems to be the intention). In accordance with the Regulations many associations charge an annual membership/subscription fee (2009 Sch.4.s.4; 2012 Sch1.s.3), and all associations are required to maintain a register of members and make documents (including financials) available to members. It is therefore assumed that there is a positive correlation between the number of members an association has, and the number/type of transactions/events an association has. This is consistent with the findings of Barham et al. (1997) who found that club size inversely affects the decision to volunteer. Furthermore, Andreoni (1988) found that “as the size of the economy [association] grows, the fraction contributing to the public good diminishes to zero” (p.57). Research suggesting there is an optimal club size have also been presented by Buchanan (1965), Ng (1974) and Zaleski and Zech (1995). Consequently the number of members is used as a proxy for socio-organo complexity within the Treasurer’s role, and the preceding discussion is used to determine a point where complexity increases to corporate-type levels. The number of members also impacts processing complexity, as associations with more members are likely to have more transactions to process.

ii. **Number of sponsors**

According to the Australian Taxation Office a sponsor is someone (typically a business) who provides “support in the form of money…in return [for] such things as advertising, signage, naming rights or some other type of benefit of value” (Australian Taxation Office, 2012d). Furthermore, because “the sponsor receives something of value in return for the sponsorship…the sponsorship is not a gift” and therefore has possible GST
implications for both the sponsor and the incorporated association. In addition to the resulting accounting transactions, it is recommended that community sporting clubs look after their sponsors to ensure their continued support (AFL Development, 2012) – for example by offering free advertising in club magazines and encouraging members to support the sponsor’s product or service. Hence the existence of sponsors brings with it certain additional responsibilities, and is therefore used as a proxy for both technical and socio-organo complexity within the Treasurer’s role.

Although having just one sponsor adds a degree of complexity to the role, the index has been developed to recognise that there is more complexity associated with multiple sponsors than just one sponsor. In order to establish an appropriate level at which to assign varying complexity, a review of professional sporting club sponsors was undertaken revealing a wide range in sponsor numbers – for example Melbourne Tigers Basketball Club has 3 sponsors listed on their website (Melbourne Tigers, 2012) whereas Gold Coast Suns AFL Football Club have 21 sponsors listed (Gold Coast Suns, 2012). A review of sponsors in my sample (233 questionnaire respondents) revealed that the interquartile range was 5 (amongst those associations who had sponsors). This information was used to assign complexity marks.

### Number of income streams

Antoniadis et al. (2011) found that interconnections affect performance, with increased interconnections having the propensity to reduce performance. A review of income streams listed by the 233 questionnaire respondents indicated a range from 1 income source to 10 income sources for small incorporated associations – such as membership fees, bar and canteen takings, sale of merchandise and raffles. Each subsequent income stream results in more transactions to be processed by the Treasurer, and more interconnections generally. It is for this reason that the number of income streams is used as a proxy for socio-organo complexity and processing complexity. The nature of various income streams (knowledge-specific technical complexity) was dealt with separately.
iv. **Existence of a bar**

A key characteristic of small incorporated associations is their reliance on volunteers to make them operational, and this can result in numerous people being involved in ancillary activities such as the serving/supply of alcohol. To add to the resourcing dilemma, it is a legal requirement to have a liquor licence in order to sell or supply alcohol (ie. including for free) in Victoria (Pilchconnect, 2010a), and various training obligations accompany such a licence. Licencing, training and refresher courses all result in additional transactions to be processed, and failure to keep up can result in significant penalties being imposed on the association – for instance “the maximum fine exceeds $28,000 or 24 months imprisonment” (Victorian Commission for Gambling and Liquor Regulation [VCGLR], 2010). The existence of a bar also increases the propensity for high volume cash transactions, as patrons pay by cash. Cash transactions can be problematic from a control perspective as there is no record of the transaction until it is entered into the accounting system. This makes completeness of the accounting records (particularly income and stock) potential issues that rest with the Treasurer. Hence, the operation of a bar not only creates more work for the Treasurer, it also introduces control issues into their area of responsibility, and has significant penalties associated with compliance failures. It is for these reasons the existence of a bar is used as a proxy for knowledge-related technical complexity, and processing and socio-organo complexity.

v. **Existence of a canteen**

The Australian Food Safety Standards place a number of responsibilities on the proprietor of food businesses relating to handling, storage transport and the display of food for sale (Food Standards Australia New Zealand, 2012). The definition of a ‘food business’ includes community organisations, irrespective of whether the supply of food is a ‘once off’ or on-going occurrence, and captures the preparation of food before it is sold (for example home preparation). The giving away of food for a ‘gold coin donation’ is also captured by the legislation. Hence, the existence of a canteen/kitchen raises similar issues to the existence of a bar. There are very specific licencing and training requirements, numerous volunteers involved in handling predominantly cash
transactions, and significant penalties if compliance obligations are not met. It is for these reasons the existence of a canteen/kitchen is used as a proxy for knowledge-related technical complexity, and processing and socio-organo complexity.

vi. *Fundraising activities*

Fundraising activities are essentially any activity where the association “is asking for or receiving funds to use for its ‘not-for-profit’ purposes” (Pilchconnect, 2010b), and can include anything from fetes, chocolate drives, dinners, doorknocks, tin collections and so on. Depending on an association’s response to a number of questions, the activity may or may not have to formally registered as a ‘fundraiser’ under Victoria’s fundraising laws – but establishing this requires certain knowledge. Hence, the occurrence of fundraising activities raises similar issues to the existence of a bar and canteen. There are very specific licencing and potentially training requirements, numerous volunteers involved in handling significant cash transactions, and serious penalties if compliance obligations are not met. It is for these reasons the occurrence of fundraising activities is used as a proxy for knowledge-related technical complexity, and processing and socio-organo complexity.

vii. *Merchandise for sale*

The law requires that financial reporting by small incorporated associations be ‘true and fair’, and this is taken to imply compliance with generally accepted accounting norms (Deegan et al. 1994). Under cash accounting, purchases of merchandise for sale give rise to an expense rather than an asset, whereas under accrual accounting such purchases are recorded as an asset and expensed when sold. However this distinction is based on a theoretical accounting conceptual framework, and whilst well known amongst qualified accountants, is not necessarily quite so well known to non-accountants. Aside from this, holding merchandise for sale gives rise to a number of other complex matters – such as writing off old stock; the value to be reported for current supplies of stock; and the physical existence of stock represented by the accounting numbers. Whilst the Treasurer’s role accounts for the merchandise, the Treasurer is not necessarily the
person responsible for its custody and safekeeping. Hence, not only are there specific accounting issues relevant to the recording and reporting of merchandise for sale, there can be more than one person involved in the process. It is for these reasons the existence of merchandise for sale is used as a proxy for knowledge-related technical complexity and socio-organo complexity.

viii. Reporting of budget figures

A budget is a plan that documents where money is going to come into the organisation and how it will be spent to achieve predetermined organisational objectives (Hoggett et al., 2009). It is a tool developed and used by management, against which actual performance is monitored – and (importantly) when significant variances arise, they need to be fully investigated. In an exploratory study of local church parishes Kluvers (2001) examined budgeting “rather than the accounting system as it was believed that of the support activities, budgeting…[had] the greatest opportunity for parishioner involvement” (p.57). Irvine (2005) similarly found that the budget reporting process (in a local church setting) involved the Treasurer plus a number of other persons. Hence, the reporting of budget figures can be expected to expose the volunteer Treasurer to financial discussions that could well involve a number of people. It is for this reason that the reporting of budget figures is considered to increase the socio-organo complexity associated with the Treasurer’s role.

Step three in the development of a composite indicator involves deciding the Imputation of Missing Data, including data cleaning (Giovannini et al. 2008). After reviewing the data file it emerged that a number of anomalies needed to be addressed as follows:

- If respondents failed to indicate the number of members in their association (ie. the field was left blank) or indicated zero members, the number of committee members was used as a proxy measure. There were two instances where this happened.
• If respondents failed to indicate the number of sponsors or paid staff in their association (ie. the field was left blank), the number was imputed as zero. There were eighteen and seventeen instances respectively where this happened.

• If respondents indicated they were ‘unsure’ whether they had an ABN, BAS reporting obligations, or GST registration, they were coded as not having the relevant item. There were eight, six and eight instances respectively where the ‘unsure’ response was imputed as ‘no’.

While the treatment of missing data can have a significant impact on the data analysis, it was felt that the approach adopted was conservative and unlikely to have a significant impact on the results.

The purpose of the multivariate analysis stage (step 4) is “to check the underlying structure of the data” (Giovannini et al. 2008, p.20), and therefore the approach may vary depending on the nature of the data. Principal components analysis (PCA) is useful in revealing how the “variables change in relation to each other and how they are associated” (p.26), and the Cronbach coefficient alpha and cluster analysis can be similarly useful in analysing correlations. However in this research it was the dependent variable that was being calculated by reference to the indicator variables, and preliminary PCA confirmed that the items comprising the indicators were not naturally associated. In such circumstances Giovannini et al. (2008) recommends “revision of the individual indicators” (p.26). The fifteen indicator elements included dichotomous, categorical and metric data, and therefore descriptive statistics were used to analyse the data structure. As indicated in Table 3-9 below, consideration was centred on the range, mean, top and bottom 25% (Q1 and Q3) and the interquartile range (Q2).
Table 3-9 Structure of data used for the Composite Indicator

Normalisation (step 5) is the process where the presence of outliers is addressed, and any necessary adjustments to scales are flagged (Giovannini et al. 2008 p.20). As indicated in Table 3-9 above, the number of members was positively skewed, the number of sponsors was negatively skewed, but the number of income streams proved more symmetrical. Specifically there were four outliers in terms of the number of members: 2000, 2500, 4000 and 5000. The number of sponsors ranged from 0 – 53 with a mean average of 4.5 and a mode average of 0. When undertaking this normalisation phase data pertaining to those with sponsors were isolated, resulting in a mean average of 9 and mode average of 1. This information was used to develop the indicator measures.

Referring to the works of Freudenberg (2003) and Jacobs et al. (2004), Giovannini et al. (2008) advise that “a number of normalisation methods exist” (p.27). This study utilised categorical scales as the normalisation method, the details of which will be discussed separately in greater detail under Calculating the Indicator of Complexity Score.
The next step in the development of a composite indicator is a discussion of weighting and aggregation (step 6). As illustrated above the Indicator of Corporate/Institutional Complexity had seven components, each worth one mark, leading to a score out of seven. The Indicator of Transaction Complexity had eight components, each worth one mark, leading to a score out of eight. Whilst the weighting of the component represent a valid point to argue, Giovannini et al. (2008) state that “most composite indicators rely on equal weighting” (p.31). The scores from both indicators were then summed to determine the aggregate level of complexity faced by Treasurers of small incorporated associations – as represented by a score out of fifteen. As previously discussed, this figure signals the potential for difficulty faced by specific Treasurers in undertaking knowledge-specific accounting practices; the existence of external/dependent users of financial information; and the existence of other stakeholders whose existence increases the level of responsibility and liability of the Treasurer. It can help explain the innocent barriers to entering the volunteer Treasurer market, such that solutions can be sought.

Robustness and sensitivity of the indicator are addressed by undertaking uncertainty and sensitivity analysis (step 7). Once again this step can be addressed in a number of ways, but multi-criteria ordering was used in this research where partial points were allocated to some items. As previously discussed:

- When an audit was undertaken by an individual member of one of the joint accounting bodies, half a mark was awarded; when an audit was undertaken by an accounting/auditing firm, a full mark was awarded.

- When associations had between 1 and 4 sponsors, half a mark was awarded; when associations had 5 or more sponsors, a full mark was awarded.

- When associations had between 2 and 5 income streams, half a mark was awarded; when associations had 6 or more income streams, a full mark was awarded.

The final steps in developing a composite indicator are links to other indicators (step 9) and presentation and dissemination (step 10). Whilst there are no equivalent complexity
indicators to draw on, previous discussion regarding ‘complexity’ serves to address step ix (links to other indicators). According to Giovannini et al. (2008, p.40) “the way composite indicators are presented is not a trivial issue [and the chosen format] “must be able to communicate a story to decision-makers and other end users quickly and accurately”. Consequently graphical presentation options were used to disseminate the results of the composite indicator(s).

Up until this point the data had been downloaded from Survey Monkey into Microsoft Excel®, where the model was built and the calculations performed. However, Excel® has statistical analysis limitations and performs poorly as a high level graphical presentation tool (Su, 2008), and for this reason the indicator model was exported to IBM® SPSS Statistics for further analysis. The graphs (pie and bar) were done using Excel®, but all other graphical presentations (such as the descriptive statistics and distributions) were conducted in SPSS®.

**Calculating the Indicator of Complexity Score**

The score an association achieves on the Indicator of Complexity is a combined function of the scores achieved on the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity. Based on this, associations may be ranked to highlight those that may be better suited to a different financial reporting threshold tier.

**Indicator of Corporate/Institutional Complexity**

The Indicator of Corporate/Institutional Complexity is a seven point sub-indicator with scores awarded as follows:

- Existence of paid staff (no) = 0 mark; Existence of paid staff (yes) = 1 mark.
- ABN registration (no/unsure) = 0 mark; ABN registration (yes) = 1 mark.
- BAS reporting obligations (no/unsure) = 0 mark; BAS reporting obligations (yes) = 1 mark.

- GST registration (no/unsure) = 0 mark; GST registration (yes) = 1 mark.

- Using accounting software package (no) = 0 mark; Using accounting software package (yes) = 1 mark.

- Reporting only to Members, Committee and Consumer Affairs Victoria = 0 mark; Reporting beyond Members, Committee and Consumer Affairs Victoria = 1 mark.

- Audit not undertaken = 0 mark; Audit undertaken by an individual member of one of the Joint Accounting Bodies = 0.5 mark; Audit undertaken by an accounting/auditing firm = 1 mark.

The formulaic representation of these scales is presented in Equation 3-1 below.
Categorical scales for the Indicator of Corporate (Institution) Complexity

\[
I_{pe}^t = \begin{cases} 
0 & \text{if } X_{pe}^t = \text{No} \\
1 & \text{if } X_{pe}^t = \text{Yes} 
\end{cases}
\]

where \( X_{pe}^t \) is the value of indicator \( p \) (Paid Staff) for entity \( e \) at time \( t \)

\[
I_{ae}^t = \begin{cases} 
0 & \text{if } X_{ae}^t = \text{No} \\
1 & \text{if } X_{ae}^t = \text{Yes} 
\end{cases}
\]

where \( X_{ae}^t \) is the value of indicator \( a \) (ABN registration) for entity \( e \) at time \( t \)

\[
I_{be}^t = \begin{cases} 
0 & \text{if } X_{be}^t = \text{No} \\
1 & \text{if } X_{be}^t = \text{Yes} 
\end{cases}
\]

where \( X_{be}^t \) is the value of indicator \( b \) (BAS reporting obligations) for entity \( e \) at time \( t \)

\[
I_{ge}^t = \begin{cases} 
0 & \text{if } X_{ge}^t = \text{No} \\
1 & \text{if } X_{ge}^t = \text{Yes} 
\end{cases}
\]

where \( X_{ge}^t \) is the value of indicator \( g \) (GST registration) for entity \( e \) at time \( t \)

\[
I_{se}^t = \begin{cases} 
0 & \text{if } X_{se}^t = \text{No} \\
1 & \text{if } X_{se}^t = \text{Yes} 
\end{cases}
\]

where \( X_{se}^t \) is the value of indicator \( s \) (Accounting system/package) for entity \( e \) at time \( t \)

\[
I_{ue}^t = \begin{cases} 
0 & \text{if } X_{ue}^t = \text{CAV, Committee & Members} \\
1 & \text{if } X_{ue}^t > \text{CAV, Committee & Members} 
\end{cases}
\]

where \( X_{ue}^t \) is the value of indicator \( u \) (Users of financial reports) for entity \( e \) at time \( t \)

\[
I_{Ae}^t = \begin{cases} 
0 & \text{if } X_{Ae}^t = \text{Not an accounting professional} \\
0.5 & \text{if } X_{Ae}^t = \text{Prof. Acctg. Indiv.} \\
1 & \text{if } X_{Ae}^t = \text{Firm} 
\end{cases}
\]

where \( X_{Ae}^t \) is the value of indicator \( A \) (Auditor) for entity \( e \) at time \( t \)

Equation 3-1 Categorical scales for the Indicator of Corporate/Institutional Complexity
From these categorical scales the overall Indicator of Corporate/Institutional Complexity is calculated using the following equation (Equation 3-2 below).

**Indicator of Corporate/Institutional Complexity**

\[
I_{Ce}^t = \sum (I_{pe}^t, I_{ae}^t, I_{be}^t, I_{ge}^t, I_{se}^t, I_{ue}^t, I_{Ae}^t)
\]

**where**

- \(I_{Ce}^t\) is the value of indicator \(C\) (Corporate/Institutional Complexity) for entity \(e\) at time \(t\)
- \(I_{pe}^t\) is the value of indicator \(p\) (Paid Staff) for entity \(e\) at time \(t\)
- \(I_{ae}^t\) is the value of indicator \(a\) (ABN registration) for entity \(e\) at time \(t\)
- \(I_{be}^t\) is the value of indicator \(b\) (BAS reporting obligations) for entity \(e\) at time \(t\)
- \(I_{ge}^t\) is the value of indicator \(g\) (GST registration) for entity \(e\) at time \(t\)
- \(I_{se}^t\) is the value of indicator \(s\) (Accounting system/package) for entity \(e\) at time \(t\)
- \(I_{ue}^t\) is the value of indicator \(u\) (Users of financial reports) for entity \(e\) at time \(t\)
- \(I_{Ae}^t\) is the value of indicator \(A\) (Auditor) for entity \(e\) at time \(t\)
Indicator of Transaction Complexity

The Indicator of Transaction Complexity is an eight point sub-indicator with scores awarded as follows:

- Number of Members between Up to 49 = 0 mark; Number of Members equal to or greater than 50 = 1 mark.

- No sponsors = 0 mark; Number of Sponsors 1 – 4 = 0.5 mark; Numbers of sponsors greater than or equal to 5 = 1 mark.

- Number of income streams (1) = 0 mark; Number of income streams (2 – 5) = 0.5 mark; Number of income streams (6 or more) = 1 mark.

- Bar (no) = 0 mark; Bar (yes) = 1 mark.

- Canteen (no) = 0 mark; Canteen (yes) = 1 mark.

- Fundraising activity (no) = 0 mark; Fundraising activity (yes) = 1 mark.

- Merchandise for sale (no) = 0 mark; Merchandise for sale (yes) = 1 mark.

- Reporting of budget figures (no or less than always) = 0 mark; Reporting of budget figures (yes/always) = 1 mark.

The formulaic representation of these scales is presented in Equation 3-3 below.
### Categorical scales for the Indicator of Transaction Complexity

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Expression</th>
<th>Condition</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$I_{me}^t$</td>
<td>$0$ if $x_{me}^t &lt; 50$; $1$ if $x_{me}^t &gt; 49$</td>
<td>$x_{me}^t$ is the value of indicator $m$ (Members) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{se}^t$</td>
<td>$0$ if $x_{se}^t = 0$; $0.5$ if $x_{se}^t &gt; 0, &lt; 5$; $1$ if $x_{se}^t &gt; 4$</td>
<td>$x_{se}^t$ is the value of indicator $s$ (Sponsors) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{ie}^t$</td>
<td>$0$ if $x_{ie}^t = 1$; $0.5$ if $x_{ie}^t &gt; 1, &lt; 6$; $1$ if $x_{ie}^t &gt; 5$</td>
<td>$x_{ie}^t$ is the value of indicator $i$ (Income streams) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{be}^t$</td>
<td>$0$ if $x_{be}^t = \text{No}$; $1$ if $x_{be}^t = \text{Yes}$</td>
<td>$x_{be}^t$ is the value of indicator $b$ (Bar) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{ce}^t$</td>
<td>$0$ if $x_{ce}^t = \text{No}$; $1$ if $x_{ce}^t = \text{Yes}$</td>
<td>$x_{ce}^t$ is the value of indicator $c$ (Canteen) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{fe}^t$</td>
<td>$0$ if $x_{fe}^t = \text{No}$; $1$ if $x_{fe}^t = \text{Yes}$</td>
<td>$x_{fe}^t$ is the value of indicator $f$ (Fundraising activity) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{Me}^t$</td>
<td>$0$ if $x_{Me}^t = \text{No}$; $1$ if $x_{Me}^t = \text{Yes}$</td>
<td>$x_{Me}^t$ is the value of indicator $M$ (Merchandise for sale) for entity $e$ at time $t$</td>
<td></td>
</tr>
<tr>
<td>$I_{Be}^t$</td>
<td>$0$ if $x_{Be}^t = \text{Not always}$; $1$ if $x_{Be}^t = \text{Always}$</td>
<td>$x_{Be}^t$ is the value of indicator $B$ (Budget figure reporting) for entity $e$ at time $t$</td>
<td></td>
</tr>
</tbody>
</table>

Equation 3-3 Categorical scales for the Indicator of Transaction Complexity
From these categorical scales the overall Indicator of Transaction Complexity is calculated using the following equation (Equation 3-4).

**Indicator of Transaction Complexity**

\[
I^t_{Te} = \sum \left( I^t_{me}, I^t_{se}, I^t_{ie}, I^t_{be}, I^t_{ce}, I^t_{fe}, I^t_{Me}, I^t_{Be} \right)
\]

where

- \(I^t_{Te}\) is the value of indicator \(T\) (Transaction Complexity) for entity \(e\) at time \(t\)
- \(I^t_{me}\) is the value of indicator \(m\) (Members) for entity \(e\) at time \(t\)
- \(I^t_{se}\) is the value of indicator \(s\) (Sponsors) for entity \(e\) at time \(t\)
- \(I^t_{ie}\) is the value of indicator \(i\) (Income streams) for entity \(e\) at time \(t\)
- \(I^t_{be}\) is the value of indicator \(b\) (Bar) for entity \(e\) at time \(t\)
- \(I^t_{ce}\) is the value of indicator \(c\) (Canteen) for entity \(e\) at time \(t\)
- \(I^t_{fe}\) is the value of indicator \(f\) (Fundraising activity) for entity \(e\) at time \(t\)
- \(I^t_{Me}\) is the value of indicator \(M\) (Merchandise for sale) for entity \(e\) at time \(t\)
- \(I^t_{Be}\) is the value of indicator \(B\) (Budget figure reporting) for entity \(e\) at time \(t\)
The Composite Indicator of Complexity

As a multidimensional composite indicator with multi-measurement sub-indicators, scores attributed to the overall Indicator of Complexity are a function of the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity. The formulaic representation of this is presented in Equation 3-5 below.

\[
I_{\text{t}Xe} = \sum (I_{\text{tCe}}, I_{\text{tTe}})
\]

where:
- \(I_{\text{tXe}}\) is the value of indicator \(X\) (Combined Complexity) for entity \(e\) at time \(t\)
- \(I_{\text{tCe}}\) is the value of the Indicator of Corporate/Institutional Complexity for entity \(e\) at time \(t\)
- \(I_{\text{tTe}}\) is the value of the Indicator of Transaction Complexity for entity \(e\) at time \(t\)

Equation 3-5 Composite Indicator of Complexity

Content/Document Analysis:

Flack and Ryan (2003) indicate that content analysis is a key approach to use when analysing financial reporting information. Content (or document) analysis involves “codifying the content of text or a piece of writing into categories based on chosen criteria” (Flack and Ryan 2003, p.79). Such an approach therefore requires the researcher to analyse (in this case) documentary content and recognise meanings in the material, such that inferences can be drawn in addressing the research questions.

According to Krippendorf (2004) there are three levels of inference applicable to document analysis:

- Deductive inference: where research findings “proceed from generalization to particulars” (p.36). For instance, one might deduce that because no
Treasurers in the sample are professionally qualified accountants (for example only), that no Treasurers in small incorporated associations are professionally qualified accountants;

- Inductive inference: where research findings “proceed from particulars to generalizations” (p.36). For instance, one might infer that because no Treasurers in the sample are professionally qualified accountants (for example only), that professional accountants are not volunteering for the role of Treasurers in small incorporated associations;

- Abductive inference: where “inferences proceed across logically distinct domains, from particulars of one kind to particulars of another kind” (p.36). For instance, if research results indicate that no Treasurers are professional accountants (for example only), this alone does not necessary infer that professional accountants are averse to volunteering for the role. The probability is however, strengthened “if one is able to take other variables (contributing conditions) into account” (p.36).

Flack and Ryan (2003) explain that content analysis may be undertaken using ‘latent text analysis’ where themes and clusters of themes are developed, or ‘manifest text analysis’ where allocation of space is used to derive meaning. Latent content analysis was undertaken on the annual financial statements lodged with Consumer Affairs Victoria to examine departures from accounting norms, and the quality of assurance being provided in the form of audits, reviews, compilation reports and so on. The focus was on analysing the “underlying themes, moods, attitudes and philosophies” (Flack & Ryan, 2003, p.80), and coding was developed accordingly.

An initial elementary level of document analysis was undertaken on all of the 1,000 annual financial statements provided by Consumer Affairs Victoria (CAV) to determine the nature of the data within and the eligibility of the associations to be included in the study. Subsequently, each financial statement was categorised as follows:

- No accounts attached to CAV cover sheet (9 associations);
• CAV statement only (337 associations)
• Alternate Accts only - no CAV statement (574 associations)
• Alternate accts provided - and (most or all) of the CAV statement (50 associations)
• Alternate accts provided - and some of the CAV statement (24 associations);
• Prescribed Associations - exempt from study (6 associations).

This resulted in two distinct categories for analysis - those who lodged a completed CAV format annual statement (337 associations), and those who lodged an alternative set of financial statements (648 associations). As discussed later under ‘central limit theorem’, analysis of those who lodged an alternate set of financial statements was capped at 337 associations, resulting in a total of 674 financial statements being subject to content/document analysis.

As previously discussed, latent text analysis focuses on “underlying implicit meaning” (Flack & Ryan 2003, p.81), and therefore has an inherent level of interpretation that needs addressing (Neuman, 2000, p.296). In order to mitigate interpretational risk, the approach espoused by Strauss (1987) has again been adopted, whereby coding is achieved by multiple passes of the data. As with the quantitative analysis undertaken on the Treasurer’s characteristics, ‘open coding’ was used to get a broad feel for the themes that drove the decision to volunteer, ‘axial coding’ then identified groups of themes, and finally ‘selective coding’ consolidated the groups where appropriate.

Having started out keying the statements into an Excel® worksheet, it soon became apparent that there was a theme of omissions and inconsistencies with generally accepted accounting norms. Consequently various error types were noted and coded (see results section), and aligned with each association as applicable.
Others to use content analysis:

- Flack and Ryan (2003) used content analysis in examining the disclosures contained in the annual reports of four non-profit organisations.

- Flack (2007) used content analysis in stage 3 data collection in his PhD thesis on the role of annual reports in public fundraising charities. Content analysis was undertaken on 65 annual reports (p.277).

- Hay and Davis (2004) analysed 380 sets of financial statements when researching the voluntary choice of auditors in New Zealand incorporated societies (equivalent entities to Victorian incorporated associations).

Sample Sizes, Response Rates and Statistical Inferences

According to principles of Central Limit Theorem, “if a random sample is drawn from any population, the sampling distribution of the sample mean is approximately normal for a sufficiently large sample size” (Selvanahan et al. 2003, p.275). Whilst the larger the sample size the more likely the sample will resemble the population, it is generally accepted that a sample size of ≥ 30 will often be large enough to be an approximate representation of the population (Anderson et al., 1992, p.212). Such inferences are dependent on the characteristics of the population being normal – that is neither bimodal nor highly skewed.

Content/Document Analysis – Annual Financial Statements

According to Consumer Affairs Victoria (CAV), there were 10,648 small incorporated associations (sport and recreation) on the Victorian register as at 27th July 2011 (Consumer Affairs Victoria, 2011). Of these 7,403 lodged an annual financial return for the 2010/2011 financial year, making this the population of relevance to this research (Consumer Affairs Victoria, 2011). A random sample of 1,000 small incorporated associations (sport and recreation) was drawn from the list of associations who had an
Section 1 was used to gauge compliance with administrative requirements (see results section 4.4). Because the same information is required of all associations, 994 statements (1,000 received – 6 exempt prescribed/large association = 994) were examined, representing 13.4% of the population of small incorporated associations (sport and recreation). Based on the principles of central limit theorem, a random sample of his size can be reasonably expected to represent the characteristics of the population.

Section 2 was used to help ascertain financial reporting practices/names (results section 4.3), and gauge compliance with generally accepted accounting norms (results sections 4.4 and 4.5). Because associations can either fill out the template statement or attach their own format report, there was a high propensity for variability within the sample data. As previously discussed, the sample was stratified into those associations who those who lodged a completed CAV format annual statement (337 associations), and those who lodged an alternative set of financial statements (648 associations). The analysis of the association formatted statements was particularly time consuming because there was no consistency in the format, accounting treatment, terminology, mathematical accuracy and many other areas. Consequently each statement had to be almost ‘forensically audited’ by recalculating sub-totals, consolidating unconsolidated submissions and so on in order to make sense of what was being reported. Due to the time consuming nature of this process it was decided to cap the number of association formatted statements subject to analysis. For reasons of consistency, analysis of the
association formatted annual financial statements was arbitrarily capped at 337, then later assessed to determine if this was an appropriate cap. The results suggested that within the 337 association formatted statements no new error types were emerging – and therefore could be confidently relied upon as being an appropriate representation of the errors likely to be present in the remaining association formatted statements. This resulted in the following sample characteristics:

- CAV format Annual Financial Statement ONLY (n = 337);  
- Association-formatted Annual Financial Reports (n = 337):
  - Association-formatted Annual Financial Report ONLY (n = 305);

A total sample of 674 (n = 674) was therefore examined, representing 9.1% of the population. Each stratum was analysed separately as appropriate to ensure that the ‘normality’ requirements for central limit theorem held true. Consequently, valid inferences can be made about the population of small incorporated associations based on these samples. In addition, data pertaining to report names was captured in the questionnaire as well, facilitating triangulation of the data.

**Content/Document Analysis – Audit and Assurance Statements**

From the 337 annual financial statements 102 statements of assurance (n = 102) such as an audit report, auditor certification statement, reviews and so on were extracted for further analysis (there were no assurance statements attached to the CAV format returns). It is not possible to determine the relevant population in this instance, as CAV capture data at the financial report lodged level rather than the component level. To correctly determine the population would require manually extracting this information from the 7,416 documents on file with CAV. However, it may be able to approximate the population as follows:
• 648 out of the 994 (65.2%) annual statements provided by CAV were association-formatted;

• 65% of 7,416 = 4,835 (approximate number of association-formatted reports);

• 102 out of 337 (30.267%) association-formatted returns had an assurance statement attached (no CAV format statements had an assurance statement);

• 30.267% of 4,835 = 1,464 (approximate number of assurance statements contained in the annual returns lodged for the 2010/2011 financial year).

Based on these calculations the population could be in the vicinity of 1,464 small incorporated associations (sport and recreation) attaching an assurance statement to their lodged annual financial statement. This would make the 102 audit reports examined approximately 7.1% of the population. Based on numbers alone, the principles of central limit theorem suggest that valid inferences can be reasonably drawn from the sample of assurance statements examined. To facilitate triangulation of the data, questions about the audit function were included in the questionnaire.

Analysis of auditor quality was based on assurance reports attached to the association-formatted annual financial reports lodged with CAV. Qualifications and firm status were determined by reference to the information communicated on the assurance report. Hence, if there was reference to a firm name, it was categorised as such, otherwise it was categorised as being undertaken by an individual. If the individual indicated they were a member of one of the Joint Accounting Bodies, the report was considered to be done by a qualified individual, otherwise it was considered to have been undertaken by an unqualified individual.

**Online Questionnaire**

Section 1 of the annual statements lodged with Consumer Affairs Victoria was used to develop a mailing list. An invitation to complete an online questionnaire was sent to the
1,000 associations, and after adjusting for undeliverable e-mails, returned letters, and prescribed associations 916 active invitations were in circulation (n = 916) as follows:

- Traditional mail invitations sent (n = 260);
- E-mail invitations sent (n = 656).

With 281 Treasurers (n = 281) responding to the questionnaire invitation, this study achieved a response rate of 30.7%. Note that, consistent with the requirements contained in the Swinburne ethics clearance (SUHREC Project 2011/244 – Appendix 6-8), participants were able to withdraw from this study at any point without question. For reason(s) unknown some participants elected to exercise this option, and the end result was 233 completed questionnaires (Appendix 6-11). Six of these respondents indicated they were large incorporated associations – making them exempt from this study. As a result, 233 fully completed questionnaires (n = 233) were received from the target participants – a response rate of 25.4% (Table 3-10 below). The rules of central limit theorem suggest that valid inferences can be made about the population of small incorporated associations (sport and recreation) based on the responses secured.

<table>
<thead>
<tr>
<th>Results section</th>
<th>Data Source</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2 Characteristics of Treasurers</td>
<td>Questionnaire</td>
<td>n = 233</td>
</tr>
<tr>
<td>4.3 Operational - Accounting System Choices</td>
<td>Questionnaire</td>
<td>n = 233</td>
</tr>
<tr>
<td>4.3 Operational - Financial Reporting: Report Names</td>
<td>Questionnaire</td>
<td>n = 233</td>
</tr>
<tr>
<td></td>
<td>Document Analysis - Annual Financial Statements</td>
<td>n = 337</td>
</tr>
<tr>
<td>4.3 Operational - Financial Reporting: Users/Recipients</td>
<td>Questionnaire</td>
<td>n = 233</td>
</tr>
<tr>
<td>4.4 Compliance - Administrative Information</td>
<td>Document Analysis - Annual Financial Statements</td>
<td>n = 994</td>
</tr>
<tr>
<td>4.4 Compliance - CAV format annual financial statement</td>
<td>Document Analysis - Annual Financial Statements</td>
<td>n = 337</td>
</tr>
<tr>
<td>4.4 Compliance - Association-formatted financial report</td>
<td>Document Analysis - Annual Financial Statements</td>
<td>n = 337</td>
</tr>
<tr>
<td>4.5 The Audit Function</td>
<td>Document Analysis - Audit &amp; Assurance Statements</td>
<td>n = 102</td>
</tr>
<tr>
<td></td>
<td>Questionnaire</td>
<td>n = 233</td>
</tr>
<tr>
<td>4.6 Regulatory Reform</td>
<td>Online Submissions</td>
<td>TBA</td>
</tr>
</tbody>
</table>

Table 3-10 Summary of samples and sample sizes
Hence, whilst not being able to apply the findings to the population with calculated statistical accuracy, the sample sizes are large enough to be able to draw valid inferences from the findings in accordance with central limit theorem.

According to Selvanathan et al. (2003), data can be quantitative, qualitative or ordinal; where “qualitative data are numerical observations” (p.19), “qualitative data are categorical observations” (p.19) and “ordinal data are categories for non-quantitative data that can be ordered or ranked” (p.19). It is important to understand the nature of the data being collected because its characteristics directly impact on the data analysis options available to the researcher. For example, “all we can do with qualitative data is count the number observations in each category and then calculate the portion or percentage that fall into each category” (p.19). With ordinal data one is similarly limited because the numbers assigned to the categories are arbitrary. The questionnaire instrument in this research captures quantitative and qualitative data only.

**Synopsis of Methodological Approach**

Having discussed theoretical matters pertaining to academic research generally, and in the context of this research, an overview of the methodology can now be presented.

The research philosophy adopted in this study is that of a positivist’s view with a tendency towards an interpretive approach. That is, by virtue of generally accepted accounting norms and principles there is an objective way to view the accounting process - however, in a volunteer environment where Treasurers may or may not have an understanding of the meaning underlying ‘true and fair’, a level of interpretation is necessary. In order to achieve the research objective an inductive approach has been adopted, whereby meaning is found in the raw data then applied back to the theory.
This research has a combined explanatory, exploratory and descriptive purpose. It investigates a little-understood phenomena (volunteer accounting in a largely unregulated environment), explains patterns and relationships that shape the phenomena, and describes/documents the phenomenon of interest.

The process of data collection incorporates a mixed modal configuration, with both quantitative and qualitative data and quantitative and qualitative analysis being applied. Furthermore both primary data and secondary data have been collected and used in this study. Primary data were collected by means of semi-structured interviews and an online questionnaire, while secondary data included annual financial statements provided by the Registrar for incorporated associations.

Data analysis methods adopted included descriptive statistics, qualitative analysis, and content/document analysis. Given the potential policy implications of this study an Indicator of Complexity was developed to analyse the level of complexity faced by Treasurers. This single figure signals the potential for difficulty faced by specific Treasurers in undertaking knowledge-specific accounting practices; the existence of external/dependent users of financial information; and the existence of other stakeholders whose existence increases the level of responsibility and liability of the Treasurer. This single number can help explain the innocent barriers to people entering the volunteer Treasurer market. Incorporating an Indicator of Corporate/Institutional Complexity and Indicator of Transaction Complexity, the Indicator of Complexity was developed as a numeric means of assessing the complexity of accounting function undertaken by volunteer treasurers. Whilst indicators have been widely used to highlight accounting, economic, social and environmental matters, this study represents the first time that an Indicator has been developed to provide insights into volunteer accounting and isomorphic institutional theory. Hence the development of the Indicator of Complexity (and its sub-indicators) is a key deliverable from this study, and represents a methodological contribution to the existing literature.
4. Chapter Four: Results

The broad research question being addressed by this research is: ‘what are the current practices underlying the accounting function in small incorporated associations?’ This study is therefore a multifaceted examination of the accounting function in small incorporated associations, encompassing a number of literature bases.

The first component of this research examines the human aspect of the accounting function, and focuses on the volunteer Treasurer. Factors driving the decision to volunteer are examined, as are the deterrents to volunteering. The interaction of motivational factors and deterrents culminate in an eventual Treasurer placement, and therefore impacts the characteristics of those who ultimately assume the Treasurer’s position. For this reason a profile of Treasurer characteristics is developed.

The second component of this research further examines the barriers to volunteering, using an Indicator of Complexity to illuminate some of the complexities associated with the role. Incorporating the literature on institutional isomorphism, complexities associated with the association’s operational environment (Indicator of Corporate/Institutional Complexity) are considered separately from complexities associated with functional aspects of the role (Indicator of Transaction Complexity). Together these two indicators comprise the Indicator of Complexity.

In light of the various characteristics and motivational forces underlying the Treasurer’s placement, the third component examines the quality of the accounting being generated by small incorporated associations. The overall propensity for compliance with generally accepted accounting norms and conventions is first ascertained, after which further analysis is undertaken to investigate the types and sources of non-compliance.
The final component of this research examines the characteristics of those undertaking the audit/assurance function, and the nature of assurance being provided to the associations.

(Note: A Table of Key Findings is presented in Appendix 6-13, while a copy of the questionnaire is presented in Appendix 6-11).

4.1 Volunteer Treasurers (RO 1-4)

In response to the question “Do you believe that people are generally hesitant to take on the role of club/association Treasurer?” 90.6% of respondents (211/233) answered “yes”, 7.3% of respondents (17/233) were “unsure”, while only 2.1% of respondents (5/233) said “no”. Having established that a clear aversion to assuming the role of volunteer Treasurer prevails (research objective 3), this aversion is further examined in light of the characteristics of those who are assuming the role, reasons for assuming the role, and factors thought to deter people from nominating for the role.

Characteristics of volunteer Treasurers (RO 1)

The following data presentation and analysis is directed at addressing Research Objective 1:

*To describe the characteristics of volunteer Treasurers.*

The online questionnaire was used to collect data relating to Treasurer characteristics, including demographic and socio-economic characteristics.
As illustrated in Table 4-1 above the ‘typical’ volunteer Treasurer in a small incorporated association (sport and recreation) is male, aged over 60 years, employed full-time in a general business or numeric discipline, and possessing a non-business qualification. Based on the data, Treasurers are also unlikely to be professional accountants. Whilst providing a good ‘snapshot’ of Treasurer characteristics, this profile warrants further discussion in order to adequately address other notable clusters and characteristics.

Based on the questionnaire data, those volunteering for the role of Treasurer are most likely to be greater than 60 years of age. However, those in the 40-49 and 50-49 year age brackets were almost equally represented with 26.2% and 28.3% respectively (see Appendix 6.11). Hence, 86.3% of volunteer Treasurers were aged 40 and above. These findings are consistent with that of Musick and Wilson (2008) who note that volunteerism usually peaks when families become involved in their children’s sport, and remains relatively constant until old age physically impedes their ability to volunteer. The lack of representation of younger adults assuming the role of volunteer treasurer is also consistent with that of Musick and Wilson (2008) who note that adolescents and young adults are not typically prolific volunteers, largely because they have limited skills to apply in the volunteer workforce.
Further analysis of the time respondents had been in their *current role* as Treasurer revealed longevity in those filling the post. For instance, although the single largest response indicated that 18.5% had been in the role for just one year, 32.7% had been in their current role for more than five years, and 67.5% had been in the role for between 1 – 5 years. In addition 7.3% had been in their current role for 10 years and 4.7% for in excess of 20 years. *Prior experience* as Treasurer was more evenly split, with 51.1% having filled the role previously – although once again they had spent a number of years in the post (12.6% had 10 years prior experience, 13.4% had more than 20 years prior experience, and 16.0% had 2 years prior experience).

The *employment status* was also relatively even split over three categories. For instance, whilst those employed (full-time) made up most respondents (31.8%), retired persons and self-employed persons accounted for 22.3% and 21.9% of respondents respectively. Those in part-time or casual employment made up 16.7% of respondents. There are many different opinions as to the link between employment status and propensity to volunteer - and these results are largely consistent with the findings of the 2010 Australian General Social Survey (Volunteering Australia, 2011) and Musick and Wilson (2008) in so far as employed people were more inclined to volunteer than those not employed. Importantly, this confirms previous suggestions that although time may be cited as a barrier to volunteering, those taking on the role of volunteer Treasurer are not necessarily those with less work-time commitments. Instead, as suggested by Musick and Wilson (2008), more significant determinants are education and the nature of the work one does outside their volunteer work.

As noted by Musick and Wilson (2008), "few findings are as robust as that which shows a positive association between years of schooling and adult volunteering" (p.122). Academics have typically found that those with higher *education* are most likely to volunteer (Brady et al., 1995; Cohn et al., 1993; Eisenberg 1992, Herzog & Morgan 1993, Nie et al., 1996, Downton & Wehr 1997, Rosenthal 1998 - in Musick & Wilson 2008), and this is supported in the volunteer Treasurer domain where 46.2% had post graduate qualifications (business and/or non-business). The nexus is said to relate to
one’s cognitive function, development of self-belief and analytical skills that stem from further education. However, the majority of all qualifications cited were non-business related (54.6%), and the two largest clusters within that category were ‘non-business – other’ (including trades and work-related qualifications 13.5%) and secondary school (including year 12 and below 12%). The results therefore indicate a very large range in educational qualifications.

There was a notable variety in the work experience and skills possessed by the participating Treasurers, including: Power Station Operators, Engineers, Dairy Farmers, Fire Fighters, Librarians right through to Professional Accountants and Auditors. Nonetheless, with 28.2% of Treasurers being professional accountants, auditors or bookkeepers, and a further 53.6% having general business/numbers experience, there is a clear correlation between work experience and those most likely to be Treasurer. This confirms previous studies that indicate that people possessing skills considered desirable for a particular role, are often deliberately and purposefully targeted by the hopeful organisation (Bryant et al., 2003; Ostrower, 2002).

Professional memberships are typically aligned with one’s education and work, and include continued professional development requirements, codes of acceptable conduct, and sanctions for not following the ‘rules’ (Gay and Simnett, 2010). However, despite the various qualifications and work experience, only 16.3% of Treasurers were members of professional associations - 13.3% were members of one of the Joint Accounting Bodies. The lack of professional accountants assuming the role of Treasurer was a surprising result that rendered planned accountant/non-accountant comparisons pointless.

Due to the significance of the additional information, an extended profile of Treasurers including further detail was therefore constructed and is presented in Table 4-2 below:
Volunteer Treasurer – Motivational Drivers (RO 2)

The following data presentation and analysis is directed at addressing Research Objective 2:

*To identify what drives/motivates the decision to volunteer for the Treasurer’s role.*

The online questionnaire was used to collect data relating to this research objective. Questionnaire respondents were asked why they took on the role of Treasurer rather than another committee role. Although the question was structured as an open-ended question that could be skipped at the respondent’s discretion, this question returned a response rate of 98.3% (n=229/233).

As indicated in the methodology chapter, latent text analysis was undertaken to analyse what drives someone to volunteer for the role of Treasurer. This initially involved ‘open coding’ where each of the responses were read, unusual responses flagged, and general themes noted. Although no attempt was made to categorise the data at this stage, it became apparent that certain words and combinations of words were being commonly used. Consequently in a second run through of the data, ‘axial coding’ was undertaken, starting with keyword counts as illustrated in Table 4-3 below.
This suggested that the dominant reasons included past experience (including work experience) and lack of other nominees, and highlighted the importance of being asked. At this stage there was a lot of overlap in the reasons being communicated, which is consistent with the work of Clary et al. (1998) and Clary and Snyder (1999) who found that multiple motivators usually drive the decision to volunteer. For example, one respondent stated ‘previous work experience and there were no other applicants’, suggesting the decision was driven by both ‘work experience’ and ‘no other applicants’. As the research objective was to identify what drives the decision to volunteer for the role of Treasurer, ‘selective coding’ was approached in such a way that a dominant reason was isolated for each response. Hence, those who indicated they were in the role because there were no other nominees was first coded as ‘no one else would do it’ before being further broken down in to ‘forced choice - no one else would do it’ and ‘free choice - no one else would do it’. Table 4-4 below shows the spread of final themed categories.
As illustrated in Table 4-4 above, the dominant factor driving the decision to volunteer for the role of Treasurer is that ‘no one else would do it’ (37.6%) – with the largest concentration suggesting it was a ‘forced choice’ (22.7%) rather than a ‘free choice’ (14.8%). The distinction between these two categories was determined by reference to additional information provided (e.g., ‘however I enjoy working with figures’ indicates free choice). Typical responses in the ‘forced choice category’ are represented by the respondent who stated ‘no one else wanted the job – someone had to’, but also included stronger responses such as ‘couldn’t find another sucker to do it’ and ‘I was the last person left standing – we drew straws’. Other notable responses included:

’Some one had to’ [do it]; and

‘It was more a case of both treasurer roles effectively being dumped on me’.

Having such a high percentage of respondents stating they were only on the role because no one else would do it (22.7%) and the tone of the reasons provided, clearly illustrates not only an aversion to assuming the role, but a level of resentment amongst those assuming the role. This was illustrated by one respondent who stated ‘everyone hates the treasurer’. There were however a number (14.8%) who were in the position because

Table 4-4 Results of ‘Selective Coding’ - Drivers

<table>
<thead>
<tr>
<th>Selective coding’ categories</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined with other committee role</td>
<td>5</td>
<td>2.2%</td>
</tr>
<tr>
<td>Fill a mid-year vacancy</td>
<td>9</td>
<td>3.9%</td>
</tr>
<tr>
<td>Forced choice - No one else would do it</td>
<td>52</td>
<td>22.7%</td>
</tr>
<tr>
<td>Free choice - No one else would do it</td>
<td>34</td>
<td>14.8%</td>
</tr>
<tr>
<td>Give something back to the club</td>
<td>18</td>
<td>7.9%</td>
</tr>
<tr>
<td>I was asked</td>
<td>19</td>
<td>8.3%</td>
</tr>
<tr>
<td>I’m good with money</td>
<td>19</td>
<td>8.3%</td>
</tr>
<tr>
<td>Misc - It was the position I was assigned</td>
<td>7</td>
<td>3.1%</td>
</tr>
<tr>
<td>Professional/personal development</td>
<td>9</td>
<td>3.9%</td>
</tr>
<tr>
<td>related to my work experience/qualification</td>
<td>51</td>
<td>22.3%</td>
</tr>
<tr>
<td>To improve the accounting function</td>
<td>6</td>
<td>2.6%</td>
</tr>
<tr>
<td></td>
<td>229</td>
<td>100%</td>
</tr>
</tbody>
</table>
‘no one else would do it’, but whose responses indicated they were content with their placement:

‘No one else was volunteering to do so. I was quite happy to take on the role’;

and

‘no one else wanted to and i [sic] wanted to give the outgoing treasurer a break’.

The next largest reason provided for volunteering for the role of Treasurer was ‘related to my work experience/qualifications’ (22.3%). The types of experience cited in these responses include running a dairy farming business, owning a small business (nature unspecified), running a family business, banking, finance, administration and accounting. Having ‘done accounting subjects in [a] degree’ or as part of a correspondence course on basic bookkeeping was also the basis of some respondents’ motivations. There were a number of respondents who echoed the belief that ‘The accountant in the group ALWAYS gets asked to be the treasurer’. It is worth noting that (as illustrated previously in Tables 4-3 and 4-4), they may well always be asked to take on the role – but many do not. It was also noted that bank officers are routinely targeted for the role of Treasurer, as confirmed by the following comments:

‘Bank officers wind up with treasurer roles in all sorts of organisations because many people are not game to do it. Bankers are familiar with figures and balancing book’;

‘Oh, you work in a bank so you would be a good person to do the job’;

‘There was no one else and with a background in banking, I was nominated’;

‘Because I work in a bank’;

‘Banking background, no one else volunteered’;

‘I thought I had enough experience in banking, bookkeeping etc.’
The employment responses previously analysed do not indicate that bankers are particularly represented as Treasurers; nonetheless the results do illustrate that a number of proxies are used to gauge someone’s ability to undertake the role of Treasurer. Ultimately it appears that if someone has had any (?) exposure to a numbers-based position they are considered qualified for the role of Treasurer. This was exemplified by the respondent who wrote: ‘although I have no bookkeeping experience, I work in process management and with quantitative analysis so it wasn’t such a big jump’. Such an attempt to align work experience and skills with volunteer work is consistent with Musick and Wilson (2008) who found that this link is typical.

In endeavouring to isolate the main factor driving the decision to volunteer for the Treasurer’s role, much overlap still remains. For instance: ‘I’m good with money’, ‘I was asked’, ‘To fill a mid-year vacancy’, ‘Professional development’ and ‘To improve the accounting function’ could all be related to previous work experience. Similarly ‘I was asked’ may mask a ‘forced choice’ – or even a ‘free choice’ for that matter. This is not important. The most important aspect of these results is that nearly one quarter of Treasurers expressed that their decision to volunteer for the role was a ‘forced choice’ - and that similar numbers are so placed because of a proxy measure that suggests they would be capable in the role.

When Allison et al. (2002) used open-ended questions to assess the motivations for volunteering for the Make a Difference organisation, the results proved very similar to that of the Volunteer Functions Inventory (VFI) of Clary et al. (1998). Both approaches revealed that the value motive was the most dominant motive for volunteering, and the career motive the least dominant – with most variation across the enhancement and understanding functions. Like Allison et al. (2002), the open-ended answers of respondent Treasurers were reframed into the VFI scale. Responses such as ‘no one else would do it’ without any additional clue as to frame of mind did not adequately fit into any of the VFI categories, and therefore a new category based on the bluffing equilibrium (Bliss & Nalebluff, 1984) was created instead. In addition, the VFI
protective function was more widely interpreted in this research to include a desire to protect the club/association.

Table 4-5 Application of VFI categories to the Treasurer's role - Drivers

<table>
<thead>
<tr>
<th>VFI coding categories</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>94</td>
<td>41%</td>
</tr>
<tr>
<td>Bluffing Equilibrium</td>
<td>52</td>
<td>23%</td>
</tr>
<tr>
<td>Social</td>
<td>44</td>
<td>19%</td>
</tr>
<tr>
<td>Enhancement</td>
<td>26</td>
<td>11%</td>
</tr>
<tr>
<td>Career</td>
<td>7</td>
<td>3%</td>
</tr>
<tr>
<td>Protective</td>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td>Understanding</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>229</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4-5 above shows the motivational forces underlying the decision to volunteer for the role of Treasurer, framed in a VFI context (Clary et al., 1998) where:

- Value: suggests that people volunteer because they want to do something for a cause that is important to them;

- Bluffing Equilibrium: suggests that people volunteer simply because there were no other alternatives (and the association would be unable to operate);

- Social: suggests that people volunteer because of underlying social interactions (eg. being asked by a friend already on the committee);

- Enhancement: suggests that people volunteer because of the personal growth, development and self-esteem benefits they expect to gain;

- Career: suggest that people volunteer because of potential career benefits;

- Protective: suggest that people volunteer because of a desire to protect the association;
• Understanding: suggests that people volunteer as a means to improve their skills/knowledge or to utilise existing capabilities that are not presently being used. This excludes skills/knowledge aligned with career potential.

Consistent with previous research (Clary et al., 1998; Batson et al., 2002) the value function was the most dominant driver of the decision to volunteer for the role of Treasurer. This is perhaps not surprising in light of small incorporated associations being community-level membership-based organisations. There was a very strong sense of community amongst the responses, with typical responses echoing the sentiment of the following:

‘To help the club out, my children play there, I have an extremely good head for business which ties in with financially running a club’; and

‘I am particularly good with numbers and computers so find it a fulfilling role to support the club’.

Another substantial driver for volunteering related to the social function. Consistent with earlier research (Musick & Wilson, 2008), the existence of social networks proved to be a significant determinant in who assumes the role of Treasurer, with a number of respondents indicating they were asked by: ‘the retiring Treasurer’, ‘a former President’, ‘the club’, ‘the president’ and so on. There was clear evidence to support past research that (in this instance) the respondent Treasurers were often deliberately and purposefully targeted by the hopeful organisation (Bryant et al., 2003; Ostrower, 2002).

When Musick and Wilson (2008) considered the role of volunteer Treasurer, they indicated that “for many members, volunteering is a matter of ‘taking your turn’ in doing the chores necessary to keep the organization going” (p.270). They also noted the highly visible nature of volunteering in these sorts of organisations, and there was evidence to suggest that assuming the role of Treasurer was a function on ‘everyone’ knowing who
was and who was not ‘stepping up’. Hence, despite being motivated by the desire to support a cause that is important to them, many responses were unable to be classified according to the VFI. Instead the motivation of 23% respondents was best explained by reference to the bluffing equilibrium (Bliss & Nalebuff, 1984). That is, they were driven by the notion that if no-one volunteers then the broader activity they want to be a part of cannot continue.

In conclusion, the sum of these findings suggests that (very broad) proxies are being used to gauge one’s capability in assuming the role of Treasurer, and that potential Treasurers are often targeted to take on the role. Furthermore, because of the community nature of these sorts of organisations it is difficult to inconspicuously decline a request to ‘step up’, leading to a significant number (22.7%) filling the role of Treasurer as the result of a ‘forced choice – no one else would do it’.

Volunteer Treasurer – Barriers (RO 3-4)

Research Objective 3 was:

To determine if people are hesitant to take on the role of Treasurer.

The online questionnaire was used to collect data relating to this research objective. Ideally those who were not volunteering for the role would have provided their reasons, but in this study the perceptions of those actually in the role was used as a proxy for the mindset of those not volunteering. Hence the wording of this question was as follows:

What do you believe makes people hesitant to take on the role of club/association Treasurer?

It was felt that this approach would be the most efficient and yield similar results - and the high level of Treasurers indicating they would probably prefer to not be in the role supports this assumption. As indicated previously, 90.6% of respondent Treasurers
believe that people are generally hesitant to assume the role of Treasurer. With 233 individual responses (90.6% = 211), this is a sufficiently large enough sample to be indicative of broader perceptions – and is consistent with the findings on why people are volunteering for the role of Treasurer in small incorporated associations.

The following data presentation and analysis is directed at addressing Research Objective 4:

To identify barriers to volunteering for the Treasurer’s role.

After posing the initial perception-based question, a follow up question was presented to explore perceived reasons for such hesitation. The follow up question was framed as an open-ended question that could be skipped at the respondent’s discretion, with 173 choosing to provide their thoughts on the matter.

Latent text analysis was again undertaken to analyse what deters people from volunteering for the role of Treasurer. An ‘open coding’ approach was initially undertaken where each of the responses was read, unusual responses flagged, and general themes noted. As with the analysis on Treasurer motivations, no attempt was made to categorise the data at this stage, but it soon became apparent that certain words and combinations of words were being commonly used. Consequently in a second run through of the data, ‘axial coding’ was undertaken, starting with keyword counts as illustrated in Table 4-6 below.
Table 4-6 Key results of Axial Coding - Deterrents

<table>
<thead>
<tr>
<th>Word Count</th>
<th>%</th>
<th>Search criteria:</th>
<th>Combinations covered:</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>24.9%</td>
<td>&quot;Time&quot;</td>
<td>Time</td>
</tr>
<tr>
<td>6</td>
<td>3.5%</td>
<td>&quot;Accountab&quot;</td>
<td>Accountable, Accountability</td>
</tr>
<tr>
<td>48</td>
<td>27.7%</td>
<td>&quot;Respon&quot;</td>
<td>Responsibility, Responsible</td>
</tr>
<tr>
<td>38</td>
<td>22.0%</td>
<td>&quot;Mone&quot;</td>
<td>Money, Monetary</td>
</tr>
<tr>
<td>5</td>
<td>2.9%</td>
<td>&quot;Liab&quot;</td>
<td>Liable, Liability</td>
</tr>
<tr>
<td><strong>56.1%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>2.9%</td>
<td>&quot;Fear&quot;</td>
<td>Fear, Fearful</td>
</tr>
<tr>
<td>1</td>
<td>0.6%</td>
<td>&quot;Frightened&quot;</td>
<td>Frightened</td>
</tr>
<tr>
<td>4</td>
<td>2.3%</td>
<td>&quot;Afraid&quot;</td>
<td>Afraid</td>
</tr>
<tr>
<td>4</td>
<td>2.3%</td>
<td>&quot;Mistake&quot;</td>
<td>Mistake</td>
</tr>
<tr>
<td>9</td>
<td>5.2%</td>
<td>&quot;Skill&quot;</td>
<td>Skill</td>
</tr>
<tr>
<td>13</td>
<td>7.5%</td>
<td>&quot;Ability&quot;</td>
<td>Ability</td>
</tr>
<tr>
<td>13</td>
<td>7.5%</td>
<td>&quot;Able&quot;</td>
<td>Able</td>
</tr>
<tr>
<td>5</td>
<td>2.9%</td>
<td>&quot;Computer&quot;</td>
<td>Computer</td>
</tr>
<tr>
<td>15</td>
<td>8.7%</td>
<td>&quot;Accounting&quot;</td>
<td>Accounting</td>
</tr>
<tr>
<td>8</td>
<td>4.6%</td>
<td>&quot;Bookkeeping&quot;</td>
<td>Bookkeeping</td>
</tr>
<tr>
<td>1</td>
<td>0.6%</td>
<td>&quot;Book-keeping&quot;</td>
<td>Book-keeping</td>
</tr>
<tr>
<td>4</td>
<td>2.3%</td>
<td>&quot;Uncertain&quot;</td>
<td>Uncertain</td>
</tr>
<tr>
<td>3</td>
<td>1.7%</td>
<td>&quot;Unknown&quot;</td>
<td>Unknown</td>
</tr>
<tr>
<td>16</td>
<td>9.2%</td>
<td>&quot;Know&quot;</td>
<td>Knowledge, Know how</td>
</tr>
<tr>
<td>11</td>
<td>6.4%</td>
<td>&quot;Compl&quot;</td>
<td>Complex, Complicated</td>
</tr>
<tr>
<td><strong>64.7%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>2.9%</td>
<td>&quot;Hard&quot;</td>
<td>Hard</td>
</tr>
<tr>
<td>3</td>
<td>1.7%</td>
<td>&quot;Difficult&quot;</td>
<td>Difficult</td>
</tr>
<tr>
<td><strong>4.6%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>3.5%</td>
<td>&quot;Paid&quot;</td>
<td>Paid</td>
</tr>
<tr>
<td>3</td>
<td>1.7%</td>
<td>&quot;Thankless&quot;</td>
<td>Thankless</td>
</tr>
<tr>
<td>2</td>
<td>1.2%</td>
<td>&quot;Recognition&quot;</td>
<td>Recognition</td>
</tr>
<tr>
<td><strong>6.4%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of axial coding suggested that there were three dominant themes (time, responsibility and lack of applicable skills), however there was a great deal of overlap as expressed by the following response:

‘Worried of being responsible for all the money and also worried about making mistakes. Also I think they realise how much work it can be’.

As the research objective was to more specifically identify what deters people from volunteering for the role of Treasurer, ‘selective coding’ was approached in such a way that a dominant reason was isolated for each response. Hence, the above comment was
recoded to ‘frightened of making a mistake’. Table 4-7 below shows the spread of final themed categories.

According to Musick and Wilson (2008), people are less inclined to volunteer if they expect the role to be demanding and associated with significant personal cost. Consistent with the work of Musick and Wilson (2008) and Volunteering Australia (2011), lack of available time can be a deterrent to volunteering, but it is by no means the most significant deterrent. As illustrated in Table 4-7 above significantly more people believed that the responsibility and liability associated with the role (33.5%) and lack of skills (32.4%) were deterrents to volunteering for the Treasurer’s role. Consequently many respondents echoed the following sentiments:

‘The role of treasurer is now beyond the capabilities of many people. I struggle as things become more computerised. I learn as I go’; and

‘It can be difficult if you haven't got a background in reconciling or preparing accounting statements’.
One respondent very succinctly responded ‘Threat of litigation’, and this seems to sum up comments relating to responsibility and liability. The issue is that Treasurers ‘feel they will cop a heavy penalty when they aren’t even getting paid so they have nothing to gain and everything to lose’.

Lack of skills was not just isolated to matters of accounting compliance though, with a number of respondents echoing that the ‘the requirements of computer equipment and appropriate software’ were also barriers to someone (especially older people) assuming the role of Treasurer.

Just over one third of respondents indicated they believed the level of responsibility and liability associated with the Treasurer’s role was a deterrent. This is significant, given that these associations are classified by the Registrar as ‘small’ - and on this basis alone have no mandated accounting requirements. Furthermore, there was evidence that the broader operational environment of an association could be acting as a barrier to someone assuming the role of Treasurer. For instance, it was suggested that potential Treasurers could be wary ‘that other people, especially club members but also outside bodies e.g. State government and/or Taxation authorities may find errors of omission or commission’. This illustrates that Treasurer can be perceived as having financial reporting obligations akin to small corporate businesses.

Analysis of the data revealed that the dominant barriers to assuming the role of Treasurer included lack of required skills, responsibility and liability. Time was often cited as an issue, but consistent with the literature on volunteerism, was not a key barrier. Aside from these findings, the data provided little insight as to the underlying causes. Consequently an Indicator of Complexity (comprised of the Indicator of Corporate/Operational Complexity and the Indicator of Transaction Complexity) was developed to further probe operational factors associated with required skills, responsibility and liability.
4.2 Complexities associated with the role of volunteer Treasurer (RO 5)

The following data presentation and analysis is directed at addressing Research Objective 5:

*To develop indicators that communicate the complexities underlying the Treasurer’s role.*

The data previously presented showed that 22.7% of Treasurers surveyed were primarily in the role because no one else would do it – that is, it was a forced choice. Furthermore 65.9% of respondent Treasurers believe that lack of required skills, and the responsibilities and liability emanating from assuming the role of Treasurer, act as barriers to people nominating for the role. This led to the question, *can the explanations be generalised?* The underlying research objective is therefore to develop an indicator that communicates the complexities underlying the Treasurer’s role, and provide a better understanding of the sources of the barriers cited. In so doing the composite Indicator of Complexity was developed, and is comprised of the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity (Figure 4-1 below).

![Figure 4-1 Composition of the Indicator of Complexity](image-url)
Indicator of Complexity

The Indicator of Complexity was applied to the 233 small incorporated associations whose Treasurer completed the online questionnaire. As illustrated in Table 4-8 below, scores out of fifteen (n/15) ranged from zero (0) to fourteen (14), with a mean average of 5.3026, a median average of 5.0000, and a 95% confidence interval of between 4.9336 and 5.6715. Extreme scores were calculated as 0, 0.5 and 12, 13 and 14 (Table 4-9 below), with 12 associations (5.1%) scoring 0 and 0.5, and 5 associations (2.1%) scoring 12, 13 or 14.

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>5.3026</td>
<td>.18725</td>
</tr>
<tr>
<td>95% Confidence Interval for mean</td>
<td>4.9336</td>
<td></td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
<td>5.2258</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>5.0000</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>8.170</td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>2.85830</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>.00</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>14.00</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>14.00</td>
<td></td>
</tr>
<tr>
<td>Interquartile Range</td>
<td>3.75</td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>.416</td>
<td>.159</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-.210</td>
<td>.318</td>
</tr>
</tbody>
</table>

Table 4-8 Descriptive Statistics for the Indicator of Complexity
Table 4-9 Extreme Values for the Indicator of Complexity

Tests of Normality were undertaken to assess the nature of the distribution of scores. With a significance score of .000 in the Kolmogorov-Smirnov statistic (Table 4-10 below) and .001 in the Shapiro-Wilk statistic (Table 4-10 below), the Indicator of Complexity scores are not considered normally distributed. Consequently further analysis was undertaken to get a better understanding of the distribution’s characteristics.

A review of the histogram distribution curve in Figure 4-2 below shows that, despite being multimodal, the distribution is *approximately* symmetric, as confirmed by the skewness score of .416 (Table 4-8 above). As this number is close to .5, it can be interpreted that there is slight positive skewing of the distribution (Bulmer, 1979). Further consideration of the kurtosis statistic of -.210 (Table 4-8 above) also reveals a slightly flatter than normal distribution than would be considered normal (ie. this is a distribution with platykurtic characteristics).
Tests of Normality

<table>
<thead>
<tr>
<th>Statistic</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ComplexityInd</td>
<td>.096</td>
<td>233</td>
</tr>
<tr>
<td>Shapiro-Wilk</td>
<td>.979</td>
<td>233</td>
</tr>
</tbody>
</table>

a. Lilliefors Significance Correction

Table 4-10 Tests of Normality for the Indicator of Complexity

Figure 4-2 Distribution of scores for the Indicator of Complexity
The analysis of scores on the Indicator of Complexity suggest there is a great deal of difference between the complexity associated with Treasurer’s role in some associations – despite them all being equally classified as ‘small’ incorporated associations. For instance, 20 responding associations (8.6%) had a score of 10 or higher, suggesting a very high level of complexity in the Treasurer’s role. In those associations the volunteer Treasurer is undertaking many responsibilities professional accountants are undertaking in paid employment. More generally, with a mean of 5.3026, and a 95% confidence interval of between 4.9336 and 5.6715, it can be said that almost all Treasurers are confronted with complex operations, transactions or processes that require the application of specific knowledge – and in many instances there are legal repercussions if errors are made. With very few exceptions, Treasurers are dealing with complex accounting concepts that would explain why lack of skills, responsibility and liability are cited as barriers to people volunteering for this post. This also provides insight as to why (as one respondent stated, and many echoed) potential Treasurers are deterred by ‘fear of prosecution if they make an error’. Figure 4-3 above shows there is no correlation between the elements of each of the sub-indicators comprising the Indicator of Complexity, which means that each measure individually adds to complexity. The specific measures driving this complexity will now be further analysed by reference to
the measures underlying the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity.

**Indicator of Corporate/Institutional Complexity**

The Indicator of Corporate/Institutional Complexity measures the complexity associated with businesslike practices, and has been constructed in a way that it can be broadly used as a proxy for institutional isomorphism in small incorporated associations. It is a multimeasurement indicator comprised of seven components that are not mandatory for small incorporated associations but can be commonly found in a business setting:

- Existence of paid staff;
- ABN registration;
- BAS reporting obligations;
- GST registration;
- Use of specialist accounting software;
- External users of financial information;
- The undertaking of an audit.

As illustrated in Table 4-11 below, scores out of seven (n/7) ranged from zero (0) to six (6), with a mean average of 1.7124, a median average of 1.0000, and 95% confidence interval of between 1.5143 and 1.9106. Extreme scores were calculated as 0 and 5.5 and 6.0 (Table 4-12 below) with 50 associations (21.5%) scoring 0, and 7 associations (3%) scoring 5.5 and 6.0.
Table 4-11 Descriptive Statistics for the Indicator of Corporate/Institutional Complexity

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.7124</td>
<td>.10057</td>
</tr>
<tr>
<td>Lower Bound</td>
<td>1.5143</td>
<td></td>
</tr>
<tr>
<td>Upper Bound</td>
<td>1.9106</td>
<td></td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
<td>1.5987</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>2.357</td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>1.53513</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>.00</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>6.00</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>6.00</td>
<td></td>
</tr>
<tr>
<td>Interquartile Range</td>
<td>1.75</td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>.966</td>
<td>.159</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>.309</td>
<td>.318</td>
</tr>
</tbody>
</table>

Table 4-11 Descriptive Statistics for the Indicator of Corporate/Institutional Complexity
Tests of Normality were undertaken, and with a significance score of .000 in both the Kolmogorov-Smirnov statistic and the Shapiro-Wilk statistic, the scores relating to Corporate/Institutional Complexity are once again not considered to be normally distributed. This time a review of the histogram distribution curve (Figure 4-4 below) shows a multimodal distribution that is moderately positively skewed, as confirmed by the skewness score of .966 (Table 4-11 above). However, with this number being so close to 1, the skewness is tending towards being highly skewed (Bulmer, 1979). Further consideration of the kurtosis statistic of .309 (Table 4-11 above) reveals a more peaked distribution than would be considered normal (i.e. this is a distribution with leptokurtic characteristics). This suggests that the variability in Corporate/Institutional Complexity scores is caused more by a few extreme scores rather than lots of less extreme scores.

<table>
<thead>
<tr>
<th>Case Number</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>42</td>
<td>6.00</td>
</tr>
<tr>
<td>2</td>
<td>53</td>
<td>6.00</td>
</tr>
<tr>
<td>Highest</td>
<td>3</td>
<td>132</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>209</td>
</tr>
<tr>
<td>Lowest</td>
<td>2</td>
<td>202</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>195</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>188</td>
</tr>
</tbody>
</table>

a. Only a partial list of cases with the value 5.50 are shown in the table of upper extremes
b. Only a partial list of cases with the value .00 are shown in the table of lower extremes

Table 4-12 Extreme Values for the Indicator of Corporate/Institutional Complexity
Based on this analysis it is evident that many small incorporated associations have scored low to moderately on the Indicator of Corporate/Institutional Complexity, and this reflects the nature of the organisations as community level sporting associations. However the results also indicate that there are a number of small incorporated associations that have complexities akin to small businesses (and even SMEs). This was confirmed by some of the responses to the open-ended questions, such as the recommendation that Treasurer training include ‘a small number of hours with the SBMS [Small Business Mentoring Service] or similar group who can answer questions’. Importantly, in almost all associations represented (n=183/233) there were corporate intricacies in the operations that increased the complexity of the Treasurer’s role, and therefore have the potential to act as a barrier to people volunteering for that post. The specific measures driving the Indicator of Corporate/Institutional Complexity will now be further analysed.
Existence of paid staff

The following analysis of paid staff in small incorporated associations is conducted on actual observed values as communicated via the questionnaire presented to participants. As illustrated in Table 4-13 below the number of paid staff ranges from 0 to 13, with the 95% confidence interval for the mean falling between .109 and .474.

<table>
<thead>
<tr>
<th>Descriptives</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>.292</td>
<td>.0927</td>
</tr>
<tr>
<td>95% Confidence Interval for mean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower Bound</td>
<td>.109</td>
<td></td>
</tr>
<tr>
<td>Upper Bound</td>
<td>.474</td>
<td></td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
<td>.037</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>2.001</td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>1.4144</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>.0</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>13.0</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>13.0</td>
<td></td>
</tr>
<tr>
<td>Interquartile Range</td>
<td>.0</td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>6.781</td>
<td>.159</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>51.729</td>
<td>.318</td>
</tr>
</tbody>
</table>

Table 4-13 Descriptive Statistics for the Number of Paid Staff – all associations
The positively skewed distribution presented in Figure 4-5 above, combined with a kurtosis score of 51.729 (Table 4-13 above) illustrates that it is the exception rather than the norm for small incorporated associations to employ staff. Further analysis of the data revealed that whilst only 7.7% of respondent associations employ staff, these associations employed between 1 and 13 staff members (Table 4-14 below). Figure 4-6 (below) again reveals a non-normal platykurtic distribution, but illustrates the spread of paid staff amongst employing associations.
### Table 4-14 Descriptive Statistics for the Number of Paid Staff – associations with paid staff

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.78</td>
<td>.862</td>
</tr>
<tr>
<td>95% Confidence Interval for mean</td>
<td>Lower Bound 1.96</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Upper Bound 5.60</td>
<td></td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
<td>3.42</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>2.00</td>
<td></td>
</tr>
<tr>
<td>Variance</td>
<td>13.359</td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>3.655</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Range</td>
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<td></td>
</tr>
<tr>
<td>Interquartile Range</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Skewness</td>
<td>1.737</td>
<td>.536</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.245</td>
<td>1.038</td>
</tr>
</tbody>
</table>

Table 4-14 Descriptive Statistics for the Number of Paid Staff – associations with paid staff
Figure 4-6 Distribution of the Number of Paid Staff – associations with paid staff

Hence, by reference to the ABS definitions, 6% of all associations represented had staffing levels equivalent to micro-businesses, and 1.7% had staffing levels equivalent to small businesses. As discussed under the methodology section, this gives rise to some complex taxation-related issues that increase the knowledge and processing skills required of a Treasurer. This in turn delivers significant responsibility to the volunteer because of the implications associated with making an error. In this instance liability may or may not be borne by the volunteer Treasurer (as determined by reference to professional affiliations), but has the possibility of creating liability for someone else (ie. the paid staff member and/or the incorporated association as a separate legal entity). For these reasons the existence of paid staff has the potential to act as a barrier for attracting volunteer Treasurers. The nature of these matters will be discussed further in chapter 5 (Discussion and Implications).

**ABN registration, BAS reporting obligations and GST registration**

As illustrated in Figure 4-7 below, when asked about ABN registration, 57.5% indicated that their association did have such a registration, 39.1% indicated their association did not have this registration, while 3.4% were unsure. When asked about BAS reporting
obligations 12% indicated the existence of such obligations, 85.8% indicated they did not have these obligations, while 2.6% were unsure (Figure 4-8 below). And, finally, when asked about GST registration, 10% indicated they were registered for GST, 86.7% were not registered for GST, and 3.4% were unsure (Figure 4-9 below).

Whilst many associations are free of ABN and GST registrations and BAS reporting obligations, just under half of Treasurers do have these issues to contend with. Figure 4-10 below illustrates that in addition to the 45.9% of Treasurers having one of these elements to contend with, 12% have 2, or all 3, to contend with.
As discussed under the methodology section, these registrations give rise to some complex taxation issues and reporting obligations that increase the knowledge and processing skills required of a Treasurer. By their very nature they increase the level of responsibility assumed by the Treasurer, and expose the association to liability in the event of errors. The confusion applicable to ABN registrations was evident when undertaking the analysis of annual statements lodged with Consumer Affairs Victoria. As will be discussed further under section 4.3 (Anomalies in Administrative Information provided to/held by CAV), 4.4% of all associations demonstrated an inability to accurately record their association’s ABN position (see section 4.3 later). For these reasons the existence of ABN and GST registrations and BAS reporting obligations have the potential to act as a barrier for attracting volunteer Treasurers. These matters will be discussed further in chapter 5 (Discussion and Implications).

**Use of specialist accounting software**

Data pertaining to the nature of accounting records and processing methods were also collected in the questionnaire. The results revealed that small incorporated associations use a range of processing options including formal accounting packages (such as...
MYOB® and Quickbooks®, electronic spreadsheets (such as Microsoft Excel®), non-accounting packages (such as Microsoft Word®) and handwritten ledgers/books.

As illustrated in Figure 4-11 above 35.2% of small incorporated associations are using formal accounting software, and as previously discussed these packages require certain skills to navigate them, thereby adding to the complexity associated with the Treasurer’s role. Despite not directly asking about accounting packages, eight respondents (3.4%) referred to accounting packages in the open-ended questions, with all responses confirming complexity and/or a professional/businesslike image emanated from their adoption. When asked why they volunteered for the Treasurer’s role rather than another role, respondents stated:

- ‘I was Secretary and our Treasurer resigned so I agreed to take over the role on the basis that I could set up the club account on a professional accounting system ‘Quick Books’’;

- ‘They needed someone with Book Keeping experience that could use MYOB and from what I have learnt as Treasurer has helped me take on additional roles/training at work’.
When asked what they thought deterred others from volunteering for the role of Treasurer, respondents stated:

- ‘The time involved, the requirements of computer equipment and appropriate software’;

- ‘We use a computer based bookkeeping system which older members do not wish to learn’.

When asked about the need for Treasurer training, respondents stated:

- ‘Easily configurable set of accounts - preferably using MS Excell (sic) rather than say MYOB or similar as they are too complicated’;

- ‘support in "quick books" to upgrade clubs from basic paper based reporting’;

- ‘A course in the software used would be very useful also’.

These responses confirm the complexity and perceived professionalism associated with using commercial accounting packages. Throughout all of the responses there was just one who spoke of the benefits accruing from the use of these packages. When asked about internal controls, the following comment was offered:

- ‘In the past - lack of knowledge and time availability have been a limiting factor. As an experienced Bookkeeper and with the use of commercial accounting software managing the clubs finances is an easy task’.

(This respondent is a professional bookkeeper who evidently has many years’ experience with these systems).

A further level of complexity was revealed by the existence of multiple processing methods.
Figure 4-12 above reveals that 19.5% of the associations using accounting software also make use of supplementary processing and recording methods. Whilst handwritten records are most likely to represent the records of original entry, 7.3% of associations used an electronic spreadsheet package to supplement the data in the accounting software package.

**External users of financial information**

This question was aimed at ascertaining the extent of external financial reporting being undertaken by small incorporated associations, and was framed as follows (Appendix 6-11):

Who out of the following receive financial reports/information relating to this club/association?

- Consumer Affairs Victoria (Department of Justice)
- Committee members
- General club members
- Regional/district association
As it is a legal requirement to report on financial performance and position to association members (committee and general) and to Consumer Affairs Victoria (CAV), it was unexpected that less than 100% of respondent associations indicated reporting to these groups. As illustrated in Figure 4-13 below, 97% of respondent associations indicated they reported to committee members, and 94.4% indicated they reported to CAV. However only 65.7% indicated they reported to general members. The results may reflect the additional comment by one respondent who stated ‘The accounts are available for general club members to view but is not specifically "given" to them’.

Significantly however, the results revealed that 22.7% of respondent associations communicated financial information to users beyond what was legally required – to external parties (Figure 4-13 below).
External financial reporting was most commonly directed at regional/district associations (12.4%), and based on additional information provided, included reporting to other individual associations within a group (not just the ‘parent’). Financial information was also communicated to sponsors and banks (7.3%), and 3% of respondent associations had reporting obligations to their local council.

The existence of external users of financial information is the basis on which the reporting entity concept is founded. Hence, having such obligations in this context is a relatively businesslike function that serves to increase the responsibility of the Treasurer and calls for particular skills.
The undertaking of an audit

Despite the decision to undertake an audit, review etc. being voluntary under the enabling legislation, 53.2% of respondent associations indicated they did just this.

As illustrated in Figure 4-14 above 22.7% of all respondent associations had their accounts audited by an accounting/auditing firm, and 17.2% had their accounts audited by a member of one of the Joint Accounting Bodies. This shows a clear preference to engage someone with appropriate qualifications, with the result being that 39.9% of all associations voluntarily had audits undertaken by persons legally required to apply the Australian Auditing Standards. This is consistent with the work of DeAngelo (1981), Chow (1982) and Hay and Davis (2004) who all found that qualifications and structure were used as a proxy for auditor quality.

The 109 respondents who indicated their association had not been audited in the past two years were subsequently asked reasons. Comments provided in the open-ended section indicate that 14.7% of small incorporated associations did not undertake an audit because of the difficulty in coordinating it. The responses can be summed up by one
respondent who stated, ‘Getting all the documentation together for previous years (and treasurers) that have not been audited and putting it into an organised way that will not be time consuming for the auditor and costly for the club’. The challenge associated with someone unaccustomed to organising an audit was also inherent in the following comment: ‘No mention was made of an audit in the handover from the previous treasurer. I have no experience of such things and no one else has ever mentioned an audit, so I haven't thought about it’.

The undertaking of an audit requires the Treasurer to provide financial records to the auditor, and to answer all inquiries necessary for the auditor to form an opinion as to the truth and fairness of the financial representations being made. The undertaking of an audit has been shown to subject the Treasurer to more than the ‘normal’ processing and reporting, and adds to their responsibility. The skills utilised in carrying out the role of Treasurer are subject to scrutiny when an audit is undertaken – making them accountable (liable?) for the representations they have made.

**Summary of results of the Indicator of Corporate/Institutional Complexity**

The results of the Indicator of Corporate/Institutional Complexity illustrate that there are some instances where the operational choices of small incorporated association mirror those of small businesses. Whilst the majority of associations achieved low scores on this Indicator, 12% had scores of 4 and above out of 7, while 7.7% had scores of 5 and above out of 7. This shows that there are some very complex roles being filled by volunteer Treasurers (as well as some relatively simple ones), despite all of the associations being equally classified as ‘small’. This Indicator also shows that there is evidence of isomorphic pressure in some of these associations.
Indicator of Transaction Complexity

The Indicator of Transaction Complexity measures the complexity associated with the transactions and processes underlying the Treasurer’s role. It is a multimeasurement indicator comprised of eight components that are either technically complex, or are complex by virtue of the nature and number of human interconnections involved (socio-organogenic complexity);

- Number of members;
- Number of sponsors;
- Number of income streams;
- Existence of a bar;
- Existence of a canteen;
- Existence of fundraising activity;
- Merchandise for sale;
- Reporting of budget figures.

As illustrated in Table 4-15 below, scores out of eight (n/8) ranged from zero (0) to eight (8), with a mean average of 3.5901, a median average of 3.5000, and 95% confidence interval of between 3.3263 and 3.8540. Extreme scores were calculated as 0 and 7.50 and 8 (Table 4-16 below), with 7 associations (3%) scoring 0, and 5 associations (2.1%) scoring 7.5 or 8.
### Table 4-15 Descriptive statistics for the Indicator of Transaction Complexity

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
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<tbody>
<tr>
<td>Mean</td>
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<tr>
<td>Upper Bound</td>
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<tr>
<td>5% Trimmed Mean</td>
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<tr>
<td>Median</td>
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<td>Variance</td>
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<tr>
<td>Std. Deviation</td>
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<tr>
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<tr>
<td>Maximum</td>
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<tr>
<td>Range</td>
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<tr>
<td>Kurtosis</td>
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<td>.318</td>
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<tr>
<td>95% Confidence Interval for mean</td>
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<td></td>
</tr>
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</table>

### Table 4-16 Extreme Values for the Indicator of Transaction Complexity

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<th>Case Number</th>
<th>Reference</th>
<th>Value</th>
</tr>
</thead>
<tbody>
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<td>132</td>
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<tr>
<td>2</td>
<td>177</td>
<td>177</td>
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<tr>
<td>Highest</td>
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<td>5</td>
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<td>226</td>
</tr>
<tr>
<td>2</td>
<td>196</td>
<td>196</td>
</tr>
<tr>
<td>Lowest</td>
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<tr>
<td>4</td>
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<td>155</td>
</tr>
<tr>
<td>5</td>
<td>75</td>
<td>75</td>
</tr>
</tbody>
</table>

a. Only a partial list of cases with the value .00 are shown in the table of lower extremes
Tests of Normality were undertaken, and with a significance score of .000 in both the Kolmogorov-Smirnov statistic and the Shapiro-Wilk statistic, the scores relating to Transaction Complexity are once again not considered to be normally distributed. This time a review of the histogram distribution curve (Figure 4-15 below) shows that the distribution is much more normally distributed than it was with the Indicator of Corporate/Institution Complexity - although it is again multimodal. With a skewness score of .306 (Table 4-15 above), the distribution is approximately symmetric (Bulmer, 1979), however the kurtosis statistic of -.798 (Table 4-15 above) reveals a flatter and broader distribution than would be considered normal (ie. this is a distribution with platykurtic characteristics). This suggests that the variability in Transaction Complexity scores is caused by a higher number of large scores rather than a few extreme scores.

Figure 4-15 Distribution of scores for the Indicator of Transaction Complexity
Whilst there were some very lows scores achieved using the Indicator of Transaction Complexity, there were also many moderate to high scores. There were 28 associations (12%) who scored 7, 7.5 or 8 out of 8 – and in total 40.3% of all associations scored 4 or greater out of 8. This illustrates that the nature of the work Treasurers are being asked to do, often requires the application of specific (as well as general) knowledge and skills. Importantly, in almost all associations represented (n=226/233) there were intricacies in the transactions and processes that increased the complexity of the Treasurer’s role, and therefore have the potential to act as a barrier to people volunteering for that post. The specific measures driving the Indicator of Transaction Complexity will now be further analysed.

Members

The findings relating to membership numbers in small incorporated associations are based on actual observed values as communicated via the questionnaire presented to participants. As illustrated in Table 4-17 below there is a huge range in the observed number of members aligned with the different small incorporated associations – from as few as 4 to as many as 5000. As it is a legal requirement for small incorporated associations to have at least 5 members, it was notable that one association indicated they only had 4 members (although, as will be discussed under section 4.3 Quality – Accounting Function, there is evidence of confusion as to what constitutes a member, and therefore it is possible that this figure may represent 4 families). Nonetheless, the 95% confidence interval reveals that most associations have between 123 and 248 members, suggesting that some ‘small’ association can be as many as 40 times larger (in terms of member numbers) than other ‘small’ associations. The magnitude of this variance is obvious when presented as a distribution histogram (Figure 4-16 below), but is even more pronounced when presented as a box-and-whisker diagram (Figure 4-17 below).
<table>
<thead>
<tr>
<th></th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
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<tr>
<td>95% Confidence Interval</td>
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</tr>
<tr>
<td>for mean</td>
<td>Lower Bound 123.481</td>
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<tr>
<td></td>
<td>Upper Bound 248.236</td>
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<td>5% Trimmed Mean</td>
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<tr>
<td>Median</td>
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<td>Variance</td>
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<td>Std. Deviation</td>
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<td>Minimum</td>
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<tr>
<td>Maximum</td>
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</tr>
<tr>
<td>Range</td>
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<tr>
<td>Interquartile Range</td>
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</tr>
<tr>
<td>Skewness</td>
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<td>.159</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>61.045</td>
<td>.318</td>
</tr>
</tbody>
</table>

Table 4-17 Descriptive statistics for the Number of Members

Figure 4-16 Distribution of Member Numbers
Figure 4-17 Box-and-whisker diagram for Member Numbers

The number of association members drives the very existence of an association, as illustrated by the legal requirement that associations must have a minimum of five (5) members to qualify for incorporation. As membership-based entities, the number of members a small incorporated association has not only determines the number of transactions required to be processed by the Treasurer, but also the nature of these transactions. Hence, the more members, the more transactions, and the more people the Treasurer necessarily has to interact with thereby adding complexity to the role.

**Sponsors**

The following analysis of sponsorship numbers in small incorporated associations is conducted on actual observed values as communicated via the questionnaire presented to participants. When asked about sources of income, a number of respondents echoed the sentiment that ‘Sponsorship income is an important part of this club's budget’. Of the 233 participating associations, 112 individual associations (48.1%) indicated they had at least 1 sponsor, making the existence of sponsors in small incorporated associations extensive. Although the descriptive statistics presented in Table 4-18 below
show a mean number of 4.524 sponsors per association, with a 95% confidence interval of between 3.352 and 5.695, these numbers are highly skewed by those associations with no sponsors. Consequently these statistics do not reflect the significance of the association-sponsor relationship in almost half of all associations represented, and therefore associations that indicated they had no sponsors are not further considered. Instead the following statistics and discussion are based on associations with sponsors.

### Descriptives

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>4.524</td>
<td>.5946</td>
</tr>
<tr>
<td>95% Confidence Interval for mean</td>
<td>3.352</td>
<td>5.695</td>
</tr>
<tr>
<td>5% Trimmed Mean</td>
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<tr>
<td>Median</td>
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<tr>
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<td>Minimum</td>
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<tr>
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<td>Range</td>
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<td>Interquartile Range</td>
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<tr>
<td>Skewness</td>
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<td>.159</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>11.177</td>
<td>.318</td>
</tr>
</tbody>
</table>

**Table 4-18 Descriptive statistics for the Number of Sponsors – all associations**

As illustrated in Table 4-19 below, the number of sponsors the respondent associations had ranged between 1 and 53, with the 95% confidence interval revealing levels from 7.31 to 11.51. Figure 4-18 below reveals a non-normal platykurtic distribution, but illustrates the spread of sponsors amongst those associations with such relationships. Sponsors provide something of value to the association, and the value must be formally accounted for in the financial records. Every additional sponsor increases the work of
the Treasurer – whether it is simply because of the number of transactions, or the complexity involved in processing a transaction where seemingly no sale/purchase occurred, or the resulting GST implications and so on. Furthermore, 7.3% of respondents indicated that they provide financial reports to external parties such as sponsors (and banks), which adds another element of complexity resulting from the existence of sponsors. It is for these reasons that data revealing that 48.1% of small incorporated associations have an average of 9.41 sponsors is significant. These results provide an insight into the far reaching responsibility associated with being Treasurer in an association with sponsors, and quantifies just how pervasive sponsors are. The culmination of this increases the responsibility borne by a Treasurer by requiring the application of some very specific accounting knowledge during processing.

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
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<td>95% Confidence Interval for mean</td>
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<tr>
<td>Lower Bound</td>
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</tr>
<tr>
<td>Upper Bound</td>
<td>11.51</td>
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<td>5% Trimmed Mean</td>
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<tr>
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<td>Range</td>
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<td></td>
</tr>
<tr>
<td>Interquartile Range</td>
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<tr>
<td>Skewness</td>
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<td>.228</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>4.771</td>
<td>.453</td>
</tr>
</tbody>
</table>

Table 4-19 Descriptive statistics for the Number of Sponsors – associations with sponsors
The following analysis of income streams in small incorporated associations is conducted on actual observed values as communicated via the questionnaire presented to participants. Under the enabling legislation an association is permitted to “raise or borrow money upon such terms and in such manner as it thinks fit” and is further permitted to “invest and deal with the money of the association….in any manner as it thinks fit” (the Act 1981, s.16 and the Act 2012, s.30). There are no significant restrictions on how a small incorporated association generates its income, and as a result respondent associations revealed income streams ranging from 1 through to 10 (Table 4-20 below). The 95% confidence interval for the mean was between 4.127 and 4.645 (Table 4-20 below), indicating that most Treasurers have multiple types of transactions to process.

Figure 4-18 Distribution of the Number of Sponsors – associations with sponsors

Income Streams

The following analysis of income streams in small incorporated associations is conducted on actual observed values as communicated via the questionnaire presented to participants. Under the enabling legislation an association is permitted to “raise or borrow money upon such terms and in such manner as it thinks fit” and is further permitted to “invest and deal with the money of the association….in any manner as it thinks fit” (the Act 1981, s.16 and the Act 2012, s.30). There are no significant restrictions on how a small incorporated association generates its income, and as a result respondent associations revealed income streams ranging from 1 through to 10 (Table 4-20 below). The 95% confidence interval for the mean was between 4.127 and 4.645 (Table 4-20 below), indicating that most Treasurers have multiple types of transactions to process.
Figure 4-19 below reveals an approximately symmetrical distribution, as confirmed by the skewness score of .355 (Table 4-20 above). This indicates there are many associations on the upper side of 4.000 sources of income.
Based on open-ended responses, the full gamut of income sources cited included:

- Membership subscriptions;
- Payments for specific activities/programs/events;
- Sales of club-labelled merchandise (uniforms, clothing, caps etc.);
- Sales – other (balls, training equipment, CDs etc.);
- Canteen sales;
- Bar sales;
- Fundraising activities;
- Donations;
- Grants;
- Loans;
- Sponsorships;
- Raffles;
- Sub-lease of the property;
- Catering;
- Gifts;
- Investments.

Whilst the number of income streams increases complexity generally by increasing the number of transactions to be processed; the potential for specific accounting treatments; and the level of input from other persons, certain income streams exacerbate these issues. Whilst by no means prolific, the review of annual statements provided by Consumer Affairs Victoria revealed that 2 associations also:

- raised funds through the issue of debentures;
- had mortgages, charges & securities affecting property; and/or
- held trust interests.

Further consideration is now given to the more common of the income stream (the existence of a bar, canteen, fundraising activities and merchandise for sale).

As illustrated in Figures 4-20 to 4-23 below, approximately one third of associations run a canteen (thereby incurring food handling regulations), over one quarter run a bar (thereby incurring liquor licensing laws), nearly two thirds undertake fundraising activities (necessitating an understanding of when fundraising legislation applies), and just under two thirds sell merchandise (necessitating an understanding of stock accounting options). In addition, the structure of incorporated associations often sees a designated person or sub-committee overseeing these functions – which requires the
Treasurer to seek input data from additional people (or alternatively have others process their own transactions into the broader accounting system).

**Figure 4-20 Existence of a Canteen**

**Figure 4-21 Existence of a Bar**
These results show that there are some significant accounting complexities related to income generation that are required to be addressed by volunteer Treasurers in small incorporated associations. All income streams specifically considered require the application of specific (as well as general) knowledge and skills. This increases the complexity associated with the treasurers role, and can therefore be a barrier to attracting nominees.

**Reporting of Budget Figures**

The final measure in the Indicator of Transaction Complexity is the reporting of budget figures. As illustrated in Figure 4-24 below, 12% of respondent Treasurer always
reported on budget figures, while 57.5% never reported on budget figures (mainly because they did not produce budgets), with the remaining 30.5% reporting at varying levels. By its very nature, the reporting of budget figures facilitates comparisons of actual figures with budgeted figures, and highlights variances for discussion. As the person responsible for the accounting records, all such queries are likely to be addressed to the volunteer Treasurer.

![Pie chart showing distribution of budget figure reporting]

**Figure 4-24 Reporting of budget figures**

The responsibility and skills required of a Treasurer to adequately respond to questions about budget figures was succinctly confirmed by the respondent who stated: “*It can be daunting for some to present the reports at the committee meeting especially if there are questions. Public speaking is one of the most hated things according to many surveys*”.

In at least 12% of small incorporated associations the Treasurer can expect to be questioned over budget variances (based on a budget they may or may not have had input to), thereby creating an innocent barrier to future Treasurer nominees.
Summary of results of the Indicator of Transaction Complexity

The results of the Indicator of Transaction Complexity illustrate there are number of
instances where the nature of the work required to be undertaken by the Treasurer
requires the application of specific knowledge and processing skills. However,
complexity also emanates from structures necessitating input from other people, and
consequently Treasurers are also encountering socio-organo and processing complexity
based on the sheer volume of inputs into the accounting function. There was evidence
that many associations had stakeholders beyond the association that were the recipients
of financial information generated by the Treasurer, thereby adding to the responsibility
being undertaken. The symmetric distribution of scores reveals that complexity caused
by the nature of transactions is not only prevalent, but common. Whilst the average
score on this Indicator was 3.5901, it is significant that 13 associations (5.6%) scored
the maximum of 8 out of 8, and 8 associations (3.4%) scored 7.5 out of 8. This shows
that there are some significant complexities in the responsibilities assumed by volunteer
Treasurers, despite all of the associations being equally classified as ‘small’.

Indicator of Complexity – Relative contributions of the sub-
Indicators

The Indicator of Complexity is a 15 point indicator comprising the Indicator of
Corporate/Institutional Complexity (7 points) and the Indicator of Transaction
Complexity (8 points). All measures on the composite Indicator of Complexity were
equally weighted, with each contributing 1 mark out of 15 marks reflecting complexity.
Table 4-21 below shows that scores on the composite Indicator of Complexity are
approximately symmetric, although there is a slight positive skewing. This is the result
of the Indicator of Corporate/Institution Complexity being moderately to highly
positively skewed.
As depicted in Figure 4-25 below the Indicator of Transaction Complexity generated (on average) 70% of the Indicator of Complexity score. Given that the Indicator of Transaction Complexity accounted for 53% of the Indicator of Complexity, this result clearly shows that the nature of transactions create more complexity than an association’s operational structure. There was evidence of isomorphic pressure in small incorporated associations, however this was not widespread.

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**Table 4-21 Overview of the distribution of scores per Indicator**

<table>
<thead>
<tr>
<th>Indicator of:</th>
<th>Normality of Distribution</th>
<th>Modality</th>
<th>Symmetry</th>
<th>Height Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity</td>
<td>Not normally distributed</td>
<td>Multimodal</td>
<td>Approximately symmetric (slightly positive)</td>
<td>Flatter than normal (Platykurtic)</td>
</tr>
<tr>
<td>Corporate / Institutional</td>
<td>Not normally distributed</td>
<td>Multimodal</td>
<td>Moderately (to highly) positively skewed</td>
<td>More peaked than normal (Leptokurtic)</td>
</tr>
<tr>
<td>Transaction</td>
<td>Not normally distributed</td>
<td>Multimodal</td>
<td>Approximately symmetric</td>
<td>Flatter than normal (Platykurtic)</td>
</tr>
</tbody>
</table>

---

**Figure 4-25 Contribution of Sub-Indicators to overall Complexity**

Figure 4-26 below illustrates that (on average) fundraising, the number of members, merchandise for sale, the number of income streams and ABN registration were the most significant contributors of complexity. The existence of paid staff is shown as contributing
least to the Indicator of Complexity, but this is when considered across all small incorporated associations.

![Areas that contributed most/least to the Complexity score](image)

**Figure 4-26 Areas that contributed most/least to the Indicator of Complexity score**

Overall the Indicator of Complexity shows that most Treasurers in small incorporated associations are faced with *some* complex accounting concepts, and *some* significant legal responsibilities that can generate liability for the individual, the association or a third party (eg. an employee). In many more instances complexity arose from sheer volume rather than accounting-related complexity. In many instances the elements on the Indicator represent an external stakeholder. Furthermore each element on the Indicators requires the application of special, rather than general, knowledge and skills. There are large variations in responsibility levels assumed by different Treasurers, with some associations exhibiting highly corporatised practices (Refer to Appendix 6-12 for a profile of the top 20 scoring associations on the Indicator of Complexity) with others being comparatively elementary. Despite these variations, it must be remembered that all of the respondent associations are equally classified as ‘small’.
The following data presentation and analysis is directed at addressing Research Objectives 6 and 7:

To determine common departures from accounting norms; and

To identify the source of potential compliance failures.

The level at which someone will/can discharge their accountability as volunteer Treasurer is a function of their individual characteristics, motivations, as well as the inherent complexities associated with the role. The law requires associations to prepare an annual financial statement that gives a ‘true and fair view’ of the financial performance and position of the association, which essentially requires compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk, 2006). The law additionally requires the association to report annually to the Registrar on financial and related administrative matters. This section first examines the overall theoretical propensity for non-compliance with these regulatory obligations, in light of the framework developed by Braithwaite (1993) and Parker (2000). The second part analyses actual compliance failures discovered in the annual statements lodged with Consumer Affairs Victoria, again in light of the framework developed by Braithwaite (1993) and Parker (2000).

Sources of compliance failures

According to Braithwaite (1993) and Parker (2000), there are typically three sources of compliance failures: Failures related to comprehension; Failures related to willingness; and Failures related to ability. In order to gain an understanding of financial compliance pressures faced by small incorporated associations, the questionnaire asked one very specific question about meeting CAV compliance obligations:
To what extent do you agree with the following statements about MEETING your COMPLIANCE OBLIGATIONS with CONSUMER AFFAIRS VICTORIA?

To what extent do you agree with the following statements about MEETING your COMPLIANCE OBLIGATIONS with CONSUMER AFFAIRS VICTORIA?

Table 4-22 Question 42 in questionnaire

<table>
<thead>
<tr>
<th>Answer Options</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Response Count</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our incorporated association has had difficulty in complying with its annual reporting obligations</td>
<td>6</td>
<td>8</td>
<td>41</td>
<td>101</td>
<td>77</td>
<td>233</td>
<td>7.3%</td>
<td>92.7%</td>
</tr>
<tr>
<td>The Annual Statement format is complex or otherwise difficult to understand</td>
<td>3</td>
<td>8</td>
<td>63</td>
<td>103</td>
<td>56</td>
<td>233</td>
<td>6.5%</td>
<td>93.5%</td>
</tr>
<tr>
<td>The requirements in the Act are complex or otherwise difficult to understand</td>
<td>3</td>
<td>16</td>
<td>92</td>
<td>85</td>
<td>37</td>
<td>233</td>
<td>13.5%</td>
<td>86.5%</td>
</tr>
<tr>
<td>Meeting our compliance obligations is time consuming</td>
<td>9</td>
<td>31</td>
<td>58</td>
<td>105</td>
<td>30</td>
<td>233</td>
<td>22.9%</td>
<td>77.1%</td>
</tr>
<tr>
<td>The cost of compliance (e.g. cost of engaging an accountant or qualified auditor) is high for us</td>
<td>15</td>
<td>25</td>
<td>67</td>
<td>82</td>
<td>44</td>
<td>233</td>
<td>24.1%</td>
<td>75.9%</td>
</tr>
<tr>
<td>Our administration/management practices (e.g. record keeping, handover processes etc.) can hinder compliance</td>
<td>4</td>
<td>23</td>
<td>53</td>
<td>109</td>
<td>44</td>
<td>233</td>
<td>15.0%</td>
<td>85.0%</td>
</tr>
<tr>
<td>Lack of appropriate knowledge and skills within our association can hinder compliance</td>
<td>11</td>
<td>44</td>
<td>55</td>
<td>85</td>
<td>38</td>
<td>233</td>
<td>30.9%</td>
<td>69.1%</td>
</tr>
</tbody>
</table>

Please specify any other factors affecting compliance in your association

<table>
<thead>
<tr>
<th>Answered Question</th>
<th>Skipped Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>233</td>
<td>0</td>
</tr>
</tbody>
</table>

The results presented in Table 4-22 above suggest that, overall associations do not feel as though they are encountering difficulties in complying with the annual reporting obligations. There were 8 comments throughout the open-ended responses that echoed the sentiment that ‘Consumer Affairs Victoria has a job to do’ and ‘have made it as easy as possible’ for small associations. However there are notable spikes in the responses that indicate that any compliance pressures likely to be experienced are likely to be associated with comprehension (lack of knowledge and skills, inherent complexities), and willingness (time and other costs of compliance).

In order to further explore the matter, a number of open-ended questions were also embedded in the questionnaire that enabled respondents to provide further insights. None of the open-ended questions were compulsory, and participants had the option of passing them without response. As illustrated in Table 4-23 below, the questions were positioned at questions 14, 16, 42 and 43. In what was a relatively lengthy questionnaire (52 questions in total), it is significant that there were so many comments provided to
the latter questions (42 and 43) - perhaps suggesting participants saw this questionnaire as a mechanism to have their voices heard.

Table 4-23 Open-ended questions and Compliance-related responses

<table>
<thead>
<tr>
<th>Question</th>
<th>Total responses</th>
<th>Compliance-related responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 What do you believe makes people hesitant to take on the role of club/association Treasurer?</td>
<td>173</td>
<td>12</td>
</tr>
<tr>
<td>16 To what extent do you agree that Treasurer training should include the following: Other (please specify)</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>42 To what extent do you agree with the following statements about MEETING your COMPLIANCE OBLIGATIONS with CONSUMER AFFAIRS VICTORIA?: Other (please specify)</td>
<td>31</td>
<td>13</td>
</tr>
<tr>
<td>43 How could Consumer Affairs Victoria better assist you in meeting your compliance obligations?</td>
<td>54</td>
<td>23</td>
</tr>
</tbody>
</table>

Table 4-23 Open-ended questions and Compliance-related responses

Qualitative analysis was undertaken on the comments in order to ascertain what forces were present that could lead to compliance failures. The combined results, presented in Table 4-23 above, show that there were 57 comments that could be linked to matters of compliance. These were subsequently categorised according to the works of Braithwaite (1993) and Parker (2000), and are summarised in Table 4-24 below.

Table 4-24 Sources of non-compliance with regulatory requirements

The results to the open-ended responses indicate that non-compliance associated with the accounting function in small incorporated associations is most likely to relate to the practical ability and willingness of the regulated, rather than any particular comprehension problems contained in the requirements. This is inconsistent with the initial results of question 43 (Table 4-22), where associations indicated their ability to comply was not threatened. Two reasons may have impacted this anomaly: the respondents may simply be unaware of instances where their actions are non-compliant; or alternatively a positive response may have been viewed as admitting they were not adequately filling their post. Based on the results of the examination of annual statement anomalies (discussed later), the former reason has a great deal of evidence to support it. The results emanating from examination of the comments will now be presented.

**Compliance failures related to ability**

Compliance failures related to ability are driven by barriers that prevent well-intended persons fulfilling their compliance obligations. This category is focused on the Regulator and the regulation, and has two interrelated dimensions: Failure of administrative capacity; and Failure of regulatory requirements (Braithwaite, 1993; Parker, 2000).

**Failure of administrative capacity**

Failure of administrative capacity occurs when administrative support mechanisms are not in place by the regulator, and there is no one to assist people in understanding what their obligations are. Consequently non-compliant behaviour results because there is nothing in place to prevent it. There were 7 comments by respondents that suggested officers in small incorporated associations felt a lack of support from the Regulator. For instance, in response to the question ‘What do you believe makes people hesitant to take on the role of club/association Treasurer?’ a number echoed the response: ‘uncertainty where to seek help’. Frustration resulting from failure of administrative capacity was revealed by one respondent who stated ‘Expected to deal with paid, trained, and unhelpful beauracracies (sic)’. In response to question 16 regarding Treasurer training,
there was a clear message that an information pack would be widely welcomed. In addition to this overall theme that accounting help is needed, there was also a comment suggesting ‘access to professional advice in the event that…the Club is in financial trouble’.

**Failure of regulatory requirements**

Failure of regulatory requirements is best represented by the adage, ‘you can’t comply with what you don’t know exists’, and encompasses failures caused by the structure of the regulation and failures related to communication of the regulation. As illustrated in Table 4-24 above, this category represents the most likely source of financial non-compliance in small incorporated associations, and had 4 underlying themes:

- Uncertainty as to what is required under the current legislation (14 comments);
- Misapplication of what is required under the current legislation (5 comments);
- Failure to understand CAV annual statement requirements (3 comments);
- Failure to know of the existence of reporting obligations to CAV (3 comments).

Amongst the responses there was clear evidence of frustration with there being no ‘process that clearly defined all of the requirements’. There were a number of comments in this vein such as:

- ‘Have a step by step process on line as to what information is required’;
- ‘Explaining what needs to be done and how you go about it’;
- ‘Unsure of accounting requirements’;
- ‘There are no clear outlines’;
- ‘How they would like the report calculated and presented’.
The most poignant comment however, stated: ‘If the Department of Justice provides a better explanation of what type of accounting they require, it may assist us (as a small association) to comply without major accounting effort’.

There was also evidence of a communication breakdown in what the current legislation currently required of small incorporated associations. These comments were difficult to categorise because, on the one hand they suggest a lack of comprehension in what accounting prescriptions have been actually mandated, but on the other hand it could be argued they were caused by the a failure to understand what requirements actually exist. For instance, in response to questions 14 and 43, two respondents commented about removing the current auditing requirements – even though small incorporated associations are not required (under the enabling legislation) to have their accounts audited. In response to question 43 someone else suggested it would be helpful to ‘allow our annual printed reports to be lodged rather than your own form’ – even though small incorporated associations are already permitted to lodge their own formatted reports. Another respondent to this question commented that: ‘compliance appears to be aimed at larger associations’ before suggesting ‘perhaps having different levels based on turnover or some factor’ would be a good idea. There are already thresholds in the legislation that form the very foundation of the financial and reporting obligations of incorporated associations. There was also evidence of people presuming what is required, with comments such as ‘you almost need to be an accountant to fulfill (sic) this role!’ and ‘non-tertiary qualified people…would not have the necessary experience to set up the proper accounting books’.

The final two themes in this category related to the association’s legal obligations to Consumer Affairs Victoria. Three respondents unequivocally indicated they either ‘knew nothing about [their] Consumer Affairs obligations’ or were ‘unaware there was specific requirements about the report’. Three more respondents indicated they wanted to be told ‘the correct way to fill out the forms’. Hence, like the first part of this category, there is evidence that the lack of a clear direction regarding accounting treatments has the propensity to cause compliance failures.
Compliance failures related to willingness

Compliance failures related to willingness are driven by a lack of motivation in the regulated to comply with mandated requirements. This may be caused by: Cost; Collapse in the belief in the law; Procedural injustice; Deterrence failure; and Failure of persuasion (Braithwaite, 1993; Parker, 2000). As previously presented, this category represents a significant threat to compliance in small incorporated associations, with 21 respondents making comments that suggest there could be a threat to their compliance efforts.

Cost of regulatory compliance

The cost of complying with regulatory requirements includes “time, money [and] effort (p.16), and one’s propensity to comply typically decreases as these elements increase (Parker, 2000). Across the four open-ended questions, there were 9 comments that could be linked to the cost of regulatory compliance, making this the second most prevalent theme of non-compliance over all categories. Time was mentioned as a difficulty associated with compliance by two respondents, and consistent with the literature on volunteerism, this was due to participants working ‘in our various jobs full time’. In a similar vein, a further 2 respondents flagged time/effort associated with ‘keeping abreast of changes in the field of accounting, etc.’ as an issue related to the accounting function.

Most significantly in this section, five respondents indicated that the costs associated with incorporation were ‘onerous’ and ‘a considerable cost to our small club’. Within these comments three associations highlighted key costs as the need to ‘engage an accountant to carry out these requirements’. Whilst the cost of engaging an auditor was also highlighted, two respondents indicated that they ‘are very lucky that our local accounting practice has a philanthropic attitude to us’. These associations also indicated the accountant both ‘audits our books annually and produces the annual financial report’. Due to the self-review threat inherent in this arrangement, this is a significant breach in commonly accepted accounting norms – illustrating a failure to
understand what is appropriate, and the role of an auditor (further evidence of this was found when examining the assurance reports, and more examples will be presented later).

Across the various questions the cost of lodging the annual return was flagged as being ‘onerous on not for profit organizations’ by a total of 8 associations. Whilst posing a threat to compliance due to willingness, these were separated into instances where cost was a financial burden and instances where cost was viewed as an unnecessary imposition (in which case it was categorised as a ‘failure of persuasion’). Cost as a financial burden was the least prevalent, with two such responses – with one of these coming from an inactive association.

Failure of persuasion

Failure of persuasion occurs when the regulator has been unable to adequately convey the reasons why compliance with mandated requirements matter (Braithwaite, 1993; Parker, 2000). This was the second largest source of non-compliance found to affect association’s willingness to comply, and the third largest source likely to generate non-compliance overall.

The 8 comments fell into two themes. The lesser of these saw 2 respondents’ comments indicate a level of indifference about the need for regulatory requirements. One suggested a change in legislation such that small incorporated associations ‘only need to produce the annual statement once every two or three years rather than annually provided income is <8xK or change in finances is <x% since the previous financial year’. Not only does this comment indicate the Regulator has failed to persuade the association of the importance of annual reporting, but it also illustrates that the respondent is unfamiliar with the potential for manipulation in a variance-based reporting system. Another association illustrated their indifference for the CAV annual reporting requirements by stating that the report is filled out by the Public Officer (not
the Treasurer) even though this person ‘doesn’t attend meetings and is not always aware of all aspects of the club’.

Six out of the eight comments in this category related to cost, with a very clear message that the Regulator had failed to convey to its subjects why a fee was charged. This was evidenced by the following comments:

- ‘We resent paying a Government Department a fee so we can continue to run a small Club operated by volunteers’;
- ‘Consumer Affairs Victoria requires us to pay a fee for which they provide absolutely no value. It is greedy Government revenue raising’;
- ‘The cost should be reduced or free for NFP’s’;
- ‘Just drop your fee’;
- ‘Waive lodgement fee’; and
- ‘Free lodgement of annual return for not for profit groups’.

This may in part be explained by the next most prevalent theme: Collapse in belief in the law.

**Collapse in belief in the law and Deterrence failure**

A collapse in belief in the law stems from a personal belief that the law is ‘wrong’. When this belief is held, the automatic response to follow it diminishes and non-compliance often results (Braithwaite, 1993; Parker, 2000). Hence, this tends to be the result of a failure by the regulator to persuade the regulated that compliance matters, and it is very difficult to distinguish the cause from the effect. Nonetheless there were 3 comments that were considered to reflect such a breakdown in people’s belief that regulation and the Regulator was ‘right’. In response to question 14 (which was a non-compulsory open-ended question that asked why the respondent thought people were
hesitant to volunteer for the role of Treasurer), one respondent simply wrote: ‘government, at all levels, interference’. In response to question 43 regarding what CAV could do to help associations, another respondent showed their collapse in belief in small incorporated association regulations by stating: ‘Reduce requirements for smaller clubs - ie set a lower limit of required info - minimum that needs to be prepared - there is less info needed for ASIC companies PTY LTD’. The third respondent was less critical, but still indicated that the Regulator did not seem to exist for the association’s benefit – and was just as a watchdog.

Deterrence failure occurs when the regulated party perceives the likelihood of a breach of compliance being discovered is low, and/or the size of the likely penalty is perceived as being insignificant. There was evidence in the annual returns that some associations were late with the lodgement of their annual statement, and further insight was provided by two comments in the questionnaire. When asked what CAV could do to help associations with their compliance obligations (question 42), 1 respondent confessed: ‘I’m always late getting our figures together for the annual statement’. Whilst this comment may serve as evidence that deterrence strategies are not a key approach of the Regulator, in contrast another respondent stated that a ‘reminder notice came in October, with the treat of a fine’. Hence, there was evidence of both a deterrence failure and a deterrence achievement.

**Compliance failures related to comprehension**

Compliance failures relating to comprehension are driven by the ability to understand what is required, and therefore encompasses the dimensions of quantity and complexity of mandated requirements (Braithwaite, 1993; Parker, 2000). The comprehension category excludes situations where compliance failures are driven by lack of knowledge of the existence of requirements, as these are included under ‘compliance failures related to ability’ (ie. one is unable to consciously comply with a requirement they are unaware of).
Given the effort the regulator has gone to reduce the regulatory burden for small incorporated associations, and the resulting minimalist approach currently adopted, it is not surprising that there were no comments suggesting there were too many financial requirements imposed on small incorporated associations. In light of earlier data analysis, there was however a great deal of evidence suggesting that the role of Treasurer was perceived as complex. The Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity showed that much of this is caused by the association’s choices rather than any legally mandated requirements. Hence, in categorising comments to this category the focus was on isolating comments that related to complexity inherent in the regulatory requirements (such as wording) rather than complexity issues addressed earlier.

In response to the question ‘How could Consumer Affairs Victoria better assist you in meeting your compliance obligations?’ there were 3 comments suggesting that comprehension of the legal requirements was an issue. In each instance the respondents indicated the wording of the requirements was problematic, and that ‘simple, basic instructions’, in a language that is easy to understand’ (‘plain English’) would help in matters of compliance. These comments are evidence that there are some who find the wording difficult to comprehend – and the results of errors suggests many more experience failures related to comprehension, even though they are not necessarily aware of it.

Errors/Anomalies in Administrative Information provided to/held by CAV

The administrative information printed on the annual statements of 994 incorporated associations was keyed into a worksheet, with the initial purpose of building a contact list for distribution of the online questionnaire. Consequently the following details were captured:

- Postal address;
- Registered address and registered postcode;
- ABN;
- Public officer’s name;
- Financial year end;
- Number of members; and
- E-mail contact.

While building the data file, it soon became apparent that there were a number of errors/anomalies in the information either pre-printed on the form (i.e. on record with CAV) or being provided by the associations. In total 161 administrative errors/anomalies (16.2%) were found in the sample of 994 associations, with 12.3% of all individual associations lodging their accounts with at least one such error/anomaly (Figure 4-27 below).

![Errors in the Administrative section of the CAV Annual Statement](image)

Figure 4-27 Errors in the administrative section of the CAV annual statement
As illustrated in Table 4-25 below, the most prevalent errors/anomalies related to when the financial year ended and ABNs, but also included a knowledge-based error relating to the definition of members.

<table>
<thead>
<tr>
<th>Administrative errors/anomalies in lodged returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconsistent year end date between what CAV had on file and the date on the reports</td>
</tr>
<tr>
<td>being lodged</td>
</tr>
<tr>
<td>- Crossed out financial year pre-printed on the form &amp; wrote in the correct month</td>
</tr>
<tr>
<td>Said &quot;yes&quot; to ABN - but didn't provide details as required (confusion with ABN and</td>
</tr>
<tr>
<td>Association Number)</td>
</tr>
<tr>
<td>Illegible e-mail address provided</td>
</tr>
<tr>
<td>Uncertainty with Number of Members</td>
</tr>
<tr>
<td>Failure to answer some questions</td>
</tr>
<tr>
<td>- Ignored qu's 1-4</td>
</tr>
<tr>
<td>- Crossed a line through question 3-4</td>
</tr>
<tr>
<td>- Didn’t provide No. of Members</td>
</tr>
<tr>
<td>- No signature or contact details</td>
</tr>
<tr>
<td>Obvious spelling error that was not corrected by the person completing the form</td>
</tr>
<tr>
<td>Indicated that previous corrections communicated had not been updated by CAV</td>
</tr>
<tr>
<td><strong>Total errors/anomalies</strong></td>
</tr>
</tbody>
</table>

Table 4-25 Administrative errors/anomalies in lodged returns

It is remarkable that of the 52 instances where there were differences between the year-end date that CAV had on file and the date on the reports being lodged, only nine respondents (17.3%) highlighted this on the CAV form (although it must also be noted that this is not the correct procedure for advising CAV of these sorts of changes). As will be discussed later, there were further errors related to the financial year when it came to the actual association-formatted financial statements being lodged with CAV. These can be categorised as failures related to comprehension (due to a lack of understanding of the financial year concept), failures related to willingness (cost/time; deterrence failure), or failures related to ability (structure of the regulation; failure of administrative capacity).

The CAV annual statement is pre-populated with the association’s association number and the association’s ABN if CAV has one on file as shown in Figure 4-28 below.
The person completing the form is then asked if the pre-populated information is correct – if not a space is provided to advise CAV of any required changes as per Figure 4-29 below:

As indicated in Table 4-25 above, a number of respondents completing the form (44/994 or 4.4%) failed to adequately respond to this question, with anomalies including:

- Pre-populated ABN; Answered ‘no’ to the follow up question;
- No pre-populated ABN, Answered ‘yes’ to the follow up question – but failed to write the ABN the space provided;
- No pre-populated ABN; Answered ‘yes’ and ‘no’ to the follow up question – but failed to write the ABN the space provided;
- No pre-populated ABN; Left the follow up question blank – hand wrote the pre-populated association number next to the question instead.
Hence, based on the nature of the errors/anomalies, there is evidence of confusion when it comes to distinguishing an ABN from an Association Number. These may best be categorised as a failure to understand the law due to complexity (i.e. failure related to comprehension).

Members are admitted to an association “in accordance with its rules” (Reform Act 2012, s.51), and associations are permitted to have various classes of membership (Reform Act 2012, s.56) - for example family membership. Correctly identifying members is important, as it is a legal requirement to maintain a register of individual members (Reform Act 2012, s.56) - and insurance is likely to be linked to capitation. There were 15 instances where membership uncertainty was evidenced. In 4 instances the person completing the annual statement simply did not complete the ‘number of members’ question. In the other 11 instances the person completing the annual statement indicated their uncertainty by answering as follows:

- ‘Unsure’ (then crossing this out and writing in a number);
- ‘###’;
- ‘Approx. ###’;
- ‘About ### players; About ### families’;
- ‘x families’.

Hence, there was evidence of failure to understand the legislative member requirements, and the most likely explanation is failure in ability (failure to know of the regulatory requirement) – although the use of terms such as ‘about’ and ‘approx.’ may also suggest a failure in willingness (collapse in belief in the law).

Whilst not considered ‘errors’, 31 associations provided e-mail addresses that were in no way legible. A great deal of effort was made to ascertain the true meaning of what could be best described as ‘scribble’; including Google searches of the person and
Inconsistencies with Accounting Norms and Conventions - CAV Format Annual Financial Statement

The Consumer Affairs Victoria annual financial statement has three sections to it; the pre-printed administrative information about the association; an area to confirm or correct the pre-printed administrative information; and the financial statement section where financial information can be filled out. Associations must complete the first two administrative sections, but can choose to fill in the CAV financial statement or lodge their own association-formatted financial report. Three hundred and thirty seven (337) associations completed the Consumer Affairs Victoria formatted annual financial statement (with no additional financial information submitted). The annual financial statement is a controlled government document, but a summary of the format is reproduced in Table 4-26 below.
Each CAV formatted statement was individually scrutinised, revealing that 53.1% of associations completing the form did so without error. However, of the 337 CAV formatted financial statements lodged, 158 individual associations (46.9%) had at least 1 error in the information being lodged (Figure 4-30 below).
The emergent error types and/or anomalies were subsequently coded and allocated to the associations as applicable. These were completely separate from the administrative errors previously discussed, and were broadly categorised as follows:

- Missing information;
- Imbalances;
- Association equity errors and anomalies; and
- Miscellaneous accounting concepts/terms.

**Missing information**

Across all lodgements, the omission of data required to be filled in was the most prevalent type of error found. As illustrated in Table 4-27 below there were 157 instances of missing data, coded into 8 categories:
With 16.6% of the sample associations not completing the required documentation to advise Consumer Affairs Victoria of their surplus, this was the most prevalent type of omission. This, combined with 3.3% of associations writing their expenditure total in the surplus field, and 1.8% indicating they did not have any assets (despite their income being greater than their expenditure), suggests there is a level of confusion surrounding the ‘surplus’ term/concept. Hence, there was evidence of a failure in comprehension (due to complexity). This may, in part, be caused by an understanding of what the non-profit status actually means (discussed further in the next chapter).

In addition to not filling in the surplus, another notable finding when examining the statements was that on many occasions the other required totals (income, expenditure, assets, liabilities, association’s equity) were also not filled out. Completion of totals not only facilitates clarification of component figures, but can also be indicative of a broader level of understanding within the association. As illustrated in Table 4-27 above, 0.3% of associations did not fill out the liability total (although in most cases this was because they did not have any liabilities listed), 3.9% of associations did not fill out the income total, 6.2% failed to complete the expenditure total, whereas 15.1% left the assets total blank – even though there were either assets listed on their statement or a surplus had been generated. In contrast there were also instances where it was only the totals being filled in, with no indication of the items comprising these totals. There are a
number of reasons this may have occurred, and therefore such occurrences may be indicative of a: Failure of *willingness* (time pressures; failure by the Regulator to persuade the associations why annual reporting is important; or deterrence failure); or Failure of *ability* (in particular support mechanisms to help fill out the form).

**Imbalances**

Imbalances included instances where information provided did not add up to the totals filled in (see Table 4-27 above), and excluded instances where the totals simply were not filled in (these were classified as ‘financial information missing’). Those completing the CAV formatted financial statement are required to fill in six totals: income; expenditure; surplus; assets; liabilities; and association’s equity. Completion of such information facilitates clarification of component figures, and can be indicative of how well understood (or structured/worded) the regulatory requirements are. Because of the uniqueness of the errors applicable to association’s equity, these will be handled separately. As illustrated in Table 4-28 below, there were 73 separate imbalances (excluding those related to association’s equity) found in the 337 CAV formatted statements comprising the sample – 55 associations had one imbalance, while 8 had multiple imbalances.

<table>
<thead>
<tr>
<th>Nature of error - Imbalance</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL - CAV Report Imbalance</strong></td>
<td></td>
</tr>
<tr>
<td>Income doesn't add up</td>
<td>19</td>
</tr>
<tr>
<td>Expenditure doesn't add up</td>
<td>21</td>
</tr>
<tr>
<td>Surplus doesn't add up</td>
<td>15</td>
</tr>
<tr>
<td><strong>Assets don’t add up</strong></td>
<td>18</td>
</tr>
<tr>
<td><em>Debtors subtracted from cash to calc Total Assets</em></td>
<td>4</td>
</tr>
<tr>
<td><em>Added cash + surplus = Total Assets</em></td>
<td>4</td>
</tr>
</tbody>
</table>

Table 4-28 Errors relating to Imbalances
There was no particular propensity to error, with the number of instances found being fairly even across income, expenditure, surplus and assets. The mode figure presented in Table 4-29 below indicates that in many instances the imbalances were small (with 18 being $1 or less). However 39 imbalances were greater than $100. Of these 15 were greater than $1,000, four were greater than $10,000, and a two were greater than $100,000. Table 4-29 below highlights the range in imbalances.

<table>
<thead>
<tr>
<th>Nature of Imbalance</th>
<th>Income</th>
<th>Expenditure</th>
<th>Surplus</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>0.35</td>
<td>0.10</td>
<td>0.51</td>
<td>0.70</td>
</tr>
<tr>
<td>Maximum</td>
<td>110,098.00</td>
<td>12,745.00</td>
<td>54,226.00</td>
<td>181,577.97</td>
</tr>
<tr>
<td>Range</td>
<td>110,097.65</td>
<td>12,744.90</td>
<td>54,225.49</td>
<td>181,577.27</td>
</tr>
<tr>
<td>Mean</td>
<td>6,282.26</td>
<td>900.61</td>
<td>3,967.13</td>
<td>10,807.68</td>
</tr>
<tr>
<td>Mode</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>n/a</td>
</tr>
<tr>
<td>Median</td>
<td>10.00</td>
<td>41.00</td>
<td>100.00</td>
<td>475.46</td>
</tr>
</tbody>
</table>

Table 4-29 Dispersion of Imbalances found

In four instances the imbalance was driven by the subtraction of amounts owed to the association (debtors) from cash in order to calculated total assets. In 4 other instances the imbalance was driven by the surplus figure being added to the cash figure in order to calculate total assets. Other imbalances were driven as follows:

- The association liquid papered out a 7, but then failed to write in the 4 that should have replaced the 7;
- The recording of surplus as a positive number when it should have been negative (and vice versa);
- Writing in "no surplus" because a deficit was generated rather than a surplus (but then failing to report the amount of the deficit);
- Including figures twice in a calculation;
- Adding income and expenditure together in the calculation of surplus;
- Transposing numbers (eg. writing $122,331 in the details area, but adding the number up as $12,233);
- Miscellaneous adding errors with no apparent reason.

Irrespective of whether these imbalances are material in dollar terms, they are material in terms of their nature because they are indicative of compliance failures. Throughout the various imbalances there is evidence of failure due to comprehension (complexity), failure due to willingness (failure of persuasion as to the importance of accurate financial reporting to CAV), and failure due to ability (misunderstanding common accounting terms).

**Association equity errors and anomalies**

Association equity is a pure accounting concept emanating from a double entry system whereby the balance sheet generated must ‘balance’, and is achieved through the recognition of a balancing (residual) item called ‘association equity’. This is presented to those completing the CAV formatted financial statement as per Table 4-26 previously presented. That is:

- Total income (A);
- Total expenditure (B);
- Surplus (A – B);
- Total assets (C);
- Total liabilities (D);
- Association’s equity (C – D).
Hence the association equity amount is to be calculated by subtracting the total value of amounts owed by the association (liabilities - D) from the association’s total assets (C). The amount is required to be written in the space provided. As illustrated in Table 4-30 below, there was evidence of difficulty surrounding the concept of association equity, with 54 out of 337 associations (16.0%) failing to adequately report this item.

<table>
<thead>
<tr>
<th>Nature of error - Association Equity Anomaly</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assoc. Equity Anomaly</td>
<td>54</td>
</tr>
<tr>
<td>Assoc. Equity Total not filled in</td>
<td>46</td>
</tr>
<tr>
<td>Assoc. Equity recorded as n/a</td>
<td>1</td>
</tr>
<tr>
<td>Assoc. Equity doesn’t balance</td>
<td>7</td>
</tr>
<tr>
<td>Miscalc’n or Typo</td>
<td>4</td>
</tr>
<tr>
<td>Subtracted deficit from cash</td>
<td>1</td>
</tr>
<tr>
<td>Added cash + surplus = Assoc. Equity</td>
<td>2</td>
</tr>
<tr>
<td>Negative Assoc. Equity</td>
<td>3</td>
</tr>
<tr>
<td>Zero Assoc. Equity</td>
<td>1</td>
</tr>
<tr>
<td>Not considered errors</td>
<td></td>
</tr>
</tbody>
</table>

Table 4-30 Errors relating to Association Equity

In most instances the person completing the financial statement simply left the association’s equity box blank. However, in 7 associations the financial statement contained imbalances relating to the calculation of the item – with 3 using an alternative (and incorrect) basis of calculation.

Whilst not considered errors, it is worth noting that 3 associations reported a negative association equity. Two (2) of these were insignificant amounts of $3.65 and $465, but one was excess of $10,000, suggesting possible insolvent trading.

The nature of these errors are again symptomatic of broader compliance failures. There is evidence of failures related to comprehension (complexity), failures related to willingness (time pressures/rushing, failure to persuade associations of the importance
of accurate financial reporting), and failures related to *ability* (administrative capacity, and regulatory requirements).

**Miscellaneous accounting concepts/terms**

In addition to the omissions, imbalances and association equity anomalies already presented, there were some that annual returns submitted that clearly indicated a failure to understand the application of commonly accepted accounting terms (Table 4-31 below). The CAV formatted statement has a line item in assets called ‘amount owed to association’, which from an accounting perspective is analogous to ‘debtors’ and ‘accounts receivable’. Therefore, when 8 associations entered an amount in ‘other assets’ (rather than entering the amount in the space just described) and indicated this referred to ‘debtors’ and/or ‘accounts receivable’, they were demonstrating a failure in *comprehension* (complexity – wording).

Goodwill “is often thought of as the favourable reputation enjoyed by an entity” (Hoggett et al. 2009, p.625), however from an accounting perspective it has specific rules surrounding its recognition. Goodwill represents future benefits that are expected to accrue to an entity, but which are not capable of being individually identified. Whilst an entity may accumulate internally generated goodwill, it is not acceptable to bring such an asset to account on the books – it is only acceptable to bring goodwill generated in a purchase transaction (eg. purchase of another entity) onto the books. That said, 1 association had goodwill of $12,000 recognised in their accounts as an asset – and from the description of their ‘other expenditure’ it seems that $3,000 of the $12,000 stems from ‘branding’ and ‘social functions’, with the balance being irreconcilable. This is a clear example of failure in *comprehension*.

Liabilities are present obligations to pay someone in the future, in respect of a past transaction or other past event. Once a cheque is drawn, from the perspective of the accounting system the liability has been paid, and the obligation extinguished. An unpresented has not yet been presented to the bank for payment and so the recipient has
not yet received the funds. However, because there is no longer an obligation for the association to make a payment in respect of the payee, there is no longer a liability – just a reconciling item caused by timing differences. It is therefore technically incorrect to classify unpresented cheques as liabilities. There were 4 associations who listed unpresented cheques as ‘other liabilities’. Usually when a balance sheet is presented, the cash at bank figure is reported as per the accounting system (which is subsequently reconciled to the bank’s figure). The CAV format statement asks for ‘cash in hand or in the bank’, and this is taken literally in the 4 instances cited, where the bank’s cash figure is reported as at reporting date. The unpresented cheques are then listed as ‘other liabilities’ to give the true reflection of closing cash.

<table>
<thead>
<tr>
<th>Nature of error - Miscellaneous</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL - Miscellaneous</strong></td>
<td></td>
</tr>
<tr>
<td>Debtors classed as other assets</td>
<td>8</td>
</tr>
<tr>
<td>Goodwill Asset Recognised</td>
<td>1</td>
</tr>
<tr>
<td>Unpresented cheques in Other Liabilities</td>
<td>4</td>
</tr>
</tbody>
</table>

Table 4-31 Errors relating to Miscellaneous accounting terms/concepts

This anomaly is the direct result of a failure in ability (caused by a failure in the structure of the regulatory requirements – namely CAV formatted statement; and failure of administrative capacity – communication of, and support for, the required treatment for unpresented cheques).

Inconsistencies with Accounting Norms and Conventions – CAV alternative Financial Reporting

As outlined previously, associations may complete the CAV format financial statement, or alternatively they may lodge their own association formatted financial reports. In some associations the recording/reporting function is spread across a number of
different systems, and therefore the report information has multiple sources. For instance, 21.5% of associations completing the questionnaire indicated they used 2 or 3 different accounting systems (e.g. manual, electronic worksheet, commercial accounting package, non-accounting package). The format of association generated financial reports was typically very different from that of the CAV formatted financial statement lodged. Some associations produced a full set of financial reports accompanied by audit reports (similar to those required by the Corporations Act 2001), whilst others’ reporting practices were much less sophisticated. All had account names and formats that were very specific to the individual association, and there was very little commonality even amongst similar types of associations. There was evidence of cash accounting, accrual accounting and a combination of both. Some reports were clearly generated from commercial accounting software, whilst others were significantly less formal – with some even being handwritten. Out of 337 associations who submitted their own formatted financial report, 32 associations opted to complete either all or some of the CAV formatted statement as well. As illustrated in Figure 4-31 below, a total of 66.2% of associations lodged financial reports without error, while 33.8% had at least 1 error.

Figure 4-31 Errors in CAV alternative Financial Reporting
As with the CAV formatted statements, whilst scrutinising each individual association formatted financial report, themes of error and omission steadily emerged. The nature of errors and omissions was different from those who only lodged the CAV format statement (previously analysed), necessitating a new coding regime. Consequently the following broad categories were developed:

- Discrepancies between the CAV formatted statement being lodged and the association formatted statements being lodged (where applicable);
- The Reporting Entity, the Reporting Period and the Financial Report;
- Terminology;
- Imbalances;
- Accounting Treatment; and
- System generated errors.

Aside from any errors discovered, it is telling that in many instances the reports being presented took a lot of time to work through in order to determine what was ‘going on’ in the association.

**Discrepancies between CAV formatted statement lodged and the association formatted statements being lodged**

The majority (24) of the 32 CAV formatted statements that were lodged along with the association formatted statements were lodged without discrepancy. The remaining 8 associations had inconsistencies between their two sets of financial information. As illustrated in Table 4-32 below the discrepancies ranged from $0.10 to $9,788 and included both obvious and less obvious errors – rendering the CAV formatted statement an unreliable representation of the association formatted report.
Whilst not technically constituting errors, it was relatively common (13/32) for associations submitting both set of financials to pick and choose what information on the CAV statement they would complete. For instance 7 associations just filled in the top half of the CAV statement (income, expenditure and surplus) and left the bottom half (assets, liabilities and association’s equity) blank. There were 5 instances where the CAV statement was completed – minus the association’s equity figure. And one association only filled in the totals on the CAV statement.

Despite the errors and anomalies, the sometimes partial attempt to provide two sets of financials indicates a genuine attempt to meet regulatory requirements. The nature of these compliance failures are therefore unique, and do not appear to be related to comprehension, willingness or ability.

**Table 4-32 Discrepancies between CAV statement information and Association formatted financial information**

<table>
<thead>
<tr>
<th>Area</th>
<th>Discrepancy ($)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income &amp; Surplus</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>331.85</td>
<td></td>
</tr>
<tr>
<td>Surplus</td>
<td>372.13</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>421.16</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>1,000.00</td>
<td>Missed a zero when completing the CAV statement</td>
</tr>
<tr>
<td>Expenditure</td>
<td>1,000.00</td>
<td></td>
</tr>
<tr>
<td>Surplus</td>
<td>5,194.00</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>9,788.13</td>
<td>They have listed cash on the CAV statement, but have written ‘nil’ for Total Assets</td>
</tr>
</tbody>
</table>

**The Reporting Entity, the Reporting Period and the Financial Report**

The reporting entity and associated reporting period concepts are the fundamental building blocks upon which financial reporting is founded. It is therefore significant that these two categories had a combined total of 50 errors. As illustrated in Table 4-33 below, the problems found included non-consolidation of financial information,
incomplete financial years, and confusion and inconsistencies with end of financial year dates.

<table>
<thead>
<tr>
<th>Nature of error - Reporting Entity Concept</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Reports - Not Consolidated</td>
<td>17</td>
</tr>
<tr>
<td>Indiv. Bank Accts - Not adequately Consol.</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nature of error - Reporting Period</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balance date</td>
<td>9</td>
</tr>
<tr>
<td>Incomplete financial year</td>
<td>8</td>
</tr>
<tr>
<td>First date/last date confusion</td>
<td>4</td>
</tr>
<tr>
<td>Group dates</td>
<td>2</td>
</tr>
<tr>
<td>Report date</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

Table 4-33 Reporting Entity and Financial Period type errors

An incorporated association is a separate legal entity, and the requirements contained in the enabling legislation relate to this specific entity. Hence, whilst an association may be segmented for operational ease (eg. junior/senior; football/netball etc.), the requirement to produce an annual financial statement that truthfully and fairly represents the financial performance and position of the association relates to the body as registered with Consumer Affairs Victoria (Department of Justice). It is therefore significant that 25 out of 337 associations (7.4%) failed to report on behalf of the actual registered entity. Instead they submitted separate reports for the different parts of the association, without any level of consolidation (17 instances). A further 8 associations reported on behalf of the registered entity, but provided separate reports for each individual bank account. So, in order to get an overall ‘picture’ of the financial performance and position of the registered association, it is necessary for the recipient to add up the different income and expenditure items (and so on) themselves. These issues were further complicated in 2 associations where different segments of the registered incorporated association reported as at different end of financial year dates.
The nature of these errors is serious in terms of financial reporting, and together they represent a compliance failure related to ability. This is because the associations have been allowed to perpetuate these failed reporting practices by the Regulator’s administration (these were not newly incorporated associations). That is, associations are unable to correct their failings because they are unaware their practices are inadequate.

As illustrated in Table 4-33 above, there was also evidence of misunderstandings and confusion surrounding the period for which the financial report was being produced. It is a legal requirement for incorporated associations to produce a financial report for the financial year just ended, and the financial year (once established) thereafter remains constant. There were 8 instances where the financial reporting year requirement was breached, and some examples of failings in this area include reports for:

- 30th Apr 2010 - 22nd April 2011 (8 days short);
- 1st Sept - 30th Aug (1 day short);
- 11th Aug 2010 - 1st Aug 2011 (10 days short); and
- 1st Aug - 30th Jun (1 month short).

The most common error in this category (9) related to inconsistencies between the date of bank statement balances and the date being reported on (or reconciled to). This was sometimes tied up in part with confusion about which date is technically the first and last of the financial year. For instance, a further 4 associations used 30th June/1st July, 30th November/1st December, or 31st December/1st January interchangeably. Other issues noted with respect to reporting dates included listing the wrong financial year on the report (header not changed from previous year), and including expenditure items from the past three years in the current report.
These nature of these errors relate to an underlying failure to understand generally accepted accounting concepts, and are therefore indicative of compliance failures related to ability (caused by the non-prescribed structure of the legislation).

The CAV formatted financial statement requires associations to report the surplus (or deficit) generated in the last financial year. It is therefore notable that 97/337 associations submitting their alternative format financial reports (28.8%) did not include such a calculation (Table 4-34 below). Their accounts instead showed a definite focus on cash, and were typically structured in such a way that the closing cash balance was ‘the result’ of key importance. The CAV formatted financial statement also requires associations to report any assets and/or liabilities. It is again notable therefore that 21/337 associations submitting their alternative format financial reports (6.2%) did not include such information in their submission (Table 4-34 below).

<table>
<thead>
<tr>
<th>Nature of error - Financial Report</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus / Deficit not calculated</td>
<td>97</td>
</tr>
<tr>
<td>No asset info provided</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>118</td>
</tr>
</tbody>
</table>

Table 4-34 Financial Report type errors

The nature of these errors represents a compliance failure related to ability. The CAV annual statement states that associations may “use [their] own format financial statement as set out in section 30 of the Association Incorporation Act 1981”. This is because the associations have been allowed to perpetuate these failed reporting practices by the Regulator’s administration (once again these were not all in their first year of incorporation). That is, associations are unable to correct their failings because they are unaware their practices are inadequate. Hence there is also clear evidence of failure related to ability (administrative capacity) and willingness (deterrence failure).
**Terminology**

Practices within the association formatted reports that indicated an inconsistency between the terminology adopted and its common accounting usage were coded as ‘terminology’ errors. With 57 instances, terminology-type errors represented the largest of all errors found in the association formatted financial reports. As illustrated in Table 4-35 below, nearly half of these related to the nature/name of the financial report being presented.

<table>
<thead>
<tr>
<th>Nature of error - Terminology</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Report</td>
<td>25</td>
</tr>
<tr>
<td>Association Equity</td>
<td>14</td>
</tr>
<tr>
<td>Income</td>
<td>11</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>4</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1</td>
</tr>
<tr>
<td>Closing balance</td>
<td>1</td>
</tr>
<tr>
<td>'In the red'</td>
<td>1</td>
</tr>
<tr>
<td><strong>57</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 4-35 Terminology type errors

By far the most common occurrence was related to the construction of a balance sheet. The common accounting understanding of this report is to present assets, liabilities and the associated equity. However, 21 associations listed income (or receipts) and then subtracted expenses (or expenditure) in arriving at the closing balance for cash – and named this report the ‘balance sheet’. In contrast 2 associations did essentially the reverse of this, in that they included assets in their ‘statement of receipts (or income) and payments (expenditure)’.

A bank reconciliation usually highlights and explains differences between the bank balance as advised by the bank on a given date, and the balance as per the accounting system (general ledger) on that same date. There was evidence of bank reconciliations
being done in a number of associations. However, in one instance the document that was clearly labelled ‘bank reconciliation’ was simply a written statement declaring:

To the best of my knowledge and belief the particulars contained in the above Financial Report for the year ended 30 June 2011 are a true statement of the club’s financial transactions and is a comprehensive summary of the club’s affairs at 30 June 2011.

Signed: name (Treasurer)

This is not a bank reconciliation.

On a more technical note, a profit and loss statement (howsoever named) is for a discrete period of time starting on a particular date and ending on another date – usually twelve months later. Whilst not a significant error, it was noticed that one association presented their profit and loss report ‘as at’ one date rather than ‘for the financial year ending’. Other errors noted in the construction of a profit and loss statement included referring to the deficit as; ‘A – B’; ‘Total’; ‘Expenditure – Income’ (and then incorrectly presently this as a positive number); or a ‘Surplus’.

The next biggest terminology error related to association equity, where there were 14 such instances noted. The most common of these related to the name/title given to this item such as:

- ‘Members’ Funds’;
- ‘Assets/Liabilities’;
- ‘Excess of assets over liabilities’;
- ‘Balance of assets over liabilities’;
- ‘Overall total’;
- ‘Funds available’;
- ‘Members Accumulation Account’; and
Calculation of association equity was a problem in 2 instances. Rather than being determined by subtracting total liabilities from total assets, 1 association added these two items together instead, while another one adjusted the calculation for unpresented cheques. In terms of classification, association equity is a residual financial report element distinct from assets and liabilities - however 2 associations confused its classification with assets and liabilities.

There were 11 errors when reporting income, with 10 of these including the period’s opening balance of cash in the total income figure being reported. Other less prominent errors included using the terms ‘accounts payable’ and ‘expenses’ interchangeably, and a Treasurer’s Report that described the club as ‘being in the red’ despite having a positive bank balance.

These nature of these errors relate to an underlying failure to understand generally accepted accounting definitions, and are therefore indicative of compliance failures related to ability (structure of the regulation; administrative capacity). However there is also clear evidence of failure related to willingness (deterrence failure).

**Imbalances**

With 37 individual imbalances noted in the financial reports, this was the second most prevalent error amongst associations lodging their own format reports with CAV. As illustrated in Table 4-36 below, 11 associations had errors in their calculation of profit/loss, 9 had errors in their calculation of closing cash, 9 had inconsistent figures in their different reports, 6 had imbalances in their transfer of funds between investment accounts, and 1 had stock figures that were not calculated correctly.
Unlike when reporting previous imbalances, it was not possible to quantify many of the above imbalances: There were a number of reports that were particularly difficult to make sense of; there were reconciliations that did not reconcile; there were reports with so many different numbers and typographical errors (sometimes subsequently corrected, other times not) that it was impossible to determine which figures were correct; and there was one report where receipts for member payments were doubled up. Table 4-37 below gives an indication of some of the more specific imbalances noted.

<table>
<thead>
<tr>
<th>Nature of error - Imbalances</th>
<th>Number of Instances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/Loss</td>
<td>11</td>
</tr>
<tr>
<td>Closing cash</td>
<td>9</td>
</tr>
<tr>
<td>Between reports</td>
<td>9</td>
</tr>
<tr>
<td>Transfers between investment accounts</td>
<td>6</td>
</tr>
<tr>
<td>Membership receipts</td>
<td>1</td>
</tr>
<tr>
<td>Stock</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td><strong>37</strong></td>
</tr>
</tbody>
</table>

Table 4-36 Imbalance type errors
In addition to imbalances determined, there were 11 sets of financial statements where it simply was not possible to determine the actual closing cash balance. These were not treated as imbalances.

These nature of these errors relate to an underlying failure to understand generally accepted accounting practices, and are therefore indicative of compliance failures related to ability (structure of the regulation; administrative capacity). However there is also clear evidence of failure related to willingness (deterrence failure).

### Accounting Treatment

Errors relating to accounting treatment encompassed classification, recognition, double entry, corrections, calculations, audit trails and formatting. With 29 such errors this was the third biggest source of non-compliance with the ‘true and fair’ requirement contained in the legislation.
As illustrated in Table 4-38 above, unconventional transaction entry practices and recognition matters made up 72.4% of the accounting treatment type errors. Under the category of ‘entry’, the most common problem (7/9) was recognising only one side of a transfer of funds. Other issues included not recognising a cash asset (or howsoever applied) despite recognising a bank loan, and recording two amounts for GST each called 'Deduct allow for GST' (one a negative number in income and the other a negative number in expenditure).

Within the recognition category handwritten notes were used to record and report:

- loans from members;
- provisions; and
- previous year income/expense items the Treasurer wanted considered as part of the current year.

In the first two instances the content of the handwritten notes bypassed the formal accounting system. Recognition of term deposit and other investment income was not adequately handled in 6 associations, where they failed to recognise interest earned as an income item. Instead it was reported only when documenting the breakdown of end
of year bank account balances. The final recognition relates to an association that excluded unpresented cheques when reporting its payments list.

In terms of classification, one association reclassified their bank account as a creditor when it went into overdraft, rather than leaving it as a negative bank balance. Another association recorded income received in advance as an expense and a liability, rather than as cash and a liability (which will later systematically be recognised as income when earned). There was also evidence of confusion with the calculation of profit/loss, and receipts being removed from the receipt book. However, perhaps the most disturbing of all accounting treatment breaches was the association who crossed out the $1,500 that was printed on their statement as the opening and closing balance of an investment account, and changed this by hand writing in $15,000 instead.

These nature of these errors relate to an underlying failure to understand generally accepted accounting practices, and are therefore indicative of compliance failures related to ability (structure of the regulation; administrative capacity). However there is also clear evidence of failure related to willingness (deterrence failure).

**System generated errors**

Whilst not constituting compliance errors, there were a couple of accounting system anomalies also discovered. For instance, commercial accounting packages such as MYOB® and Quickbooks® generate errors to indicate system/processing errors. There were 5 such errors in the 337 accounts scrutinised:

- 4 x ‘Historical Balancing’ errors - Used in MYOB® to indicate that beginning balances do not balance; and

- 1 x ‘Uncategorised Income’ error - Used in Quickbooks® to indicate when no details have been provided/entered for a debtor/sale.

These system generated errors do not necessarily mean there is a problem with the truth and fairness in the reports being generated, but they do indicate that at some point in
time the person responsible for data entry made a mistake that has been unable to be rectified.

The vulnerability of accounting systems was also exhibited in the sample reports. In 1 instance the association was unable to lodge their annual accounts because the accounting records had been destroyed. In another instance it was reported that ‘other revenues’ were unable to be classified due to lost data caused by a corrupt computer operating system. Whilst not errors, it does illustrate the lack of safeguards in place to protect the integrity of the accounting systems.
4.4 Quality - Audit and Assurance Function (RO 8-9)

The following data presentation and analysis is directed at addressing Research Objectives 8 and 9:

To describe the characteristics of those providing assurance to small incorporated associations; and

To examine the nature of the assurance being provided.

Unlike large/prescribed incorporated associations (now medium-tier-2, large/tier-3 associations), the enabling legislation does not require small incorporated associations to subject their accounts to audit - the decision is left at the discretion of the members. As illustrated in Figure 4-32 below 53.2% of small incorporated associations indicated in the questionnaire that an audit had been done in the past two years, and a further 3 associations (1.3%) indicated that whilst an audit had not been undertaken in the past two years, it should have been.

![Figure 4-32 Questionnaire - Question 44](image)

Figure 4-32 Questionnaire - Question 44
In submitting their own association formatted financial reports, many associations who had an audit report (or other various statements of assurance) lodged a copy as required. This resulted in 30% of all reports being accompanied by an assurance statement. It is not certain whether this reflects all audits associated with the lodged accounts, but confirms that a significant number of small incorporated associations are voluntarily undertaking audits.

The enabling legislation is silent on who can conduct such an audit, what qualifications they must have, and the matters pertaining to the statement of assurance being provided. This section examines the characteristics of those undertaking audits in small incorporated associations, and the nature of assurance being provided.

**Characteristics of those providing assurance to small incorporated associations (RO 8)**

The characteristics of those auditing the accounts of small incorporated associations was determined by reference to questions in the questionnaire and through analysis of the association formatted annual financial statements lodged with Consumer Affairs Victoria. As advised by questionnaire respondents and illustrated in Figure 4-33 below, 57.3% of all audits conducted on the accounts of small incorporated associations are undertaken by individuals. This is consistent with an analysis of audit reports lodged with CAV where 60.8% were done by individuals and 39.2% were done by firms (38 accounting/auditing firms and 2 banks).

According to the questionnaire respondents, 32.3% of individuals conducting audits are members of (at least) one of the Joint Accounting Bodies, 16.2% have no formal accounting or auditing qualifications, while 8.9% were unsure as to the qualifications of the person undertaking the audit (Figure 4-33 below). This is largely consistent with the analysis of the audit reports lodged with CAV where 29.4% of assurance providers were
individuals with specified qualifications, and 31.4% of all assurance engagements provided by individuals were undertaken by persons with no specified qualifications (Figure 4-34).

![Characteristics of Auditors - Questionnaire](image1)

![Characteristics of Auditors - Audit Reports](image2)
Hence triangulation of the data confirms that roughly two third of all audits are undertaken by either firms or individuals citing qualifications. Further analysis of the qualifications of individual auditors is presented in Figures 4-35 and 4-36 below.

Figure 4-35 Qualifications of individuals conducting audits - Questionnaire

Figure 4-36 Qualifications cited by individuals conducting audits – Audit Reports
Triangulation of the data indicates that roughly two thirds of individuals conducting audits are professionally bound to follow the Australian Auditing Standards (ie. by virtue of their membership with one of the Joint Accounting Bodies). This suggests, consistent with the findings of Hay and Davis (2004), firm status and individual qualifications do appear to be being used as a proxy for auditor quality in audits of small incorporated associations.

The nature of assurance being provided (RO 9)

As alluded to earlier, in the sphere of small incorporated associations the term ‘audit’ has been used almost as a generic term for any statement intended to signal that someone has looked over the accounts. The terms ‘audit’ and ‘review’ however have very specific meanings in the broader accounting and corporate worlds by virtue of the Australian Auditing and Assurance Framework. Essentially audits and reviews are mechanisms to provide an opinion about how reliable a financial report is. They are a means to add credibility to financial information and therefore have the power to both relieve doubt and provide confidence. As previously indicated there are no mandated auditing requirements in the enabling legislation, and although members of the professional accounting bodies are required to follow the formal framework, there is no such obligation on others. In analysing the 102 assurance opinions lodged with the association formatted financial reports, it was particularly notable just how much variety there was in virtually all aspects of such opinions. The following analysis will first provide insights into the various names being used to provide assurance, and thereafter the term ‘assurance report’ will be used to refer to all types of assurance statements. The specific nature of assurance being provided to small incorporated associations will then be further examined, including composition and wording, and concluding with consideration of independence issues.

Name/Title of Assurance Reports

This section begins the examination of the various ways in which small incorporated associations communicate that its financial reports prepared can (or perhaps cannot) be
relied upon. Typically assurance is provided via an audit report or a review report, however the use of compilation reports was also noted as a mechanism for achieving this. As illustrated in Figure 4-37 below, 5.9% of incorporated associations included a compilation report with their accounts, to signal that the accounts had been put together by a professional accountant with high level accounting expertise. Whilst not technically providing any assurance, this does convey to the reader that a professional accountant who knows how to classify and summarise financial information has collected and processed the transactions on behalf of the association. Hence, there is every reason to trust, and no reason to distrust, the contents presented in the financial report. It is for this reason that compilations reports have been included as a statement of assurance in the context of small incorporated associations.

![Title of Assurance Statement](image)

**Figure 4-37 Title of Assurance Reports/Statements**

As illustrated in Figure 4-36 above, 38.2% of assurance (39/102) was issued without any subject heading or title. However, the most common title/term used when providing assurance was ‘audit’, with 50% of all statements of assurance using this word (in some capacity). Variations included:

- Auditor’s Report;
- Audit Report;
- Independent Auditor’s Report;
- Independent Audit Report;
- Auditor’s Certificate;
- Audit Certification; and
- Auditor’s Statement.

There was also one review report that was described as an Independent Auditor’s Report.

In addition to the assurance titles (and non-titles) already discussed, other names assigned to statements of assurance included:

- Accountant’s Report (1);
- Certification of Accounts (1); and
- Examiner’s Report (1).

Throughout the 102 sets of financial reports with assurance attached, most opinions were described as being an ‘audit’, when they were much more akin to a due diligence engagement. Despite this similarity however, there was significant variation in the assurance being provided.

**The components of assurance**

There are five fundamental components of an assurance engagement:

- Three-party relationship (responsible party, assurance provider, intended user);
- Subject matter;
• Suitable criteria;
• Sufficient appropriate evidence;
• The opinion.

These are provided by the Australian Auditing and Assurance Standards Board (AUASB) as the essential features of assurance engagements, and will therefore be used as the framework for analysing assurance in small incorporated associations.

Three-party relationship

There are three separate parties in an assurance engagement: the responsible party (the Treasurer), the intended user (the members etc.), and the assurance provider (the auditor). In the setting of small incorporated associations the accounts/reports are prepared by the Treasurer to communicate truthfully and fairly to the members (and others as applicable) the financial performance and position of the association for the financial year just ended. The role of the assurance provider (auditor) is to form (and communicate) an opinion on the financial information being presented.

<table>
<thead>
<tr>
<th>Addressee:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>none</td>
<td>54</td>
<td>7 (1)</td>
<td>16</td>
<td>30</td>
</tr>
<tr>
<td>to the members</td>
<td>25</td>
<td>19</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>club name as title</td>
<td>18</td>
<td>11</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>to the members and committee</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>to the President</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>to the Treasurer</td>
<td>1</td>
<td>(1)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>to the Board Chairperson</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>to the committee of management</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>40</strong></td>
<td><strong>25</strong></td>
<td><strong>37</strong></td>
</tr>
</tbody>
</table>

Table 4-39 Addressees listed on assurance statements

Typically an assurance report will be addressed to the intended user (ie. members), and as illustrated in Table 4-39 above, 24.5% of assurance statements issued in respect of small incorporated associations were so addressed. The data also reveal that opinions
issued by an accounting or auditing firm are most likely to be addressed ‘to the members’, while individuals (both with and without professional accounting qualifications) are unlikely to indicate who the opinion has been prepared for. Of the 18 reports that had the club name as the title, 4 of these were compilation reports prepared by an accounting or auditing firm and were therefore appropriately addressed. More than half of all assurance opinions (52.9%) were not addressed to anyone - however, this is a direct result of the nature/format of opinion being provided (ie. formal audit report; audit certification sentence; auditor initialled without comment and so on) and is therefore more appropriately considered under the heading ‘the opinion’.

Subject matter and Suitable criteria

When undertaking an analysis of accounts/reports the assurance practitioner is charged with the responsibility of forming an opinion on those specific accounts/reports. It is therefore fundamental to the delivery of assurance that the scope is clearly designated, and significant that only 36.3% of all practitioners (37/102) named the actual reports their opinion related to (Table 4-40 below).

<table>
<thead>
<tr>
<th>Reports named:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports named</td>
<td>37</td>
<td>36.3%</td>
<td>18 (1)</td>
<td>8</td>
</tr>
<tr>
<td>Reports not named</td>
<td>65</td>
<td>63.7%</td>
<td>19 (1)</td>
<td>17</td>
</tr>
<tr>
<td>102</td>
<td>100%</td>
<td>39</td>
<td>25</td>
<td>38</td>
</tr>
</tbody>
</table>

Table 4-40 Reports covered by opinion named by assurance provider

As illustrated in Table 4-40 above, the failure to establish a scope that the opinion applies to was relatively common across all categories of assurance providers, although accounting/auditing firms are more likely to do so – and individuals who are non-professional accountants are least likely to do so. Analysis of report names was undertaken as a separate exercise related to isomorphic pressure, and as illustrated in
Table 4-41 below the findings encompassed the full gamut of reports prepared under the Corporations Act (2001):

<table>
<thead>
<tr>
<th>Financial Report Packages</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet</td>
<td>39</td>
</tr>
<tr>
<td>Profit &amp; Loss/Income Statement</td>
<td>26</td>
</tr>
<tr>
<td>Cash Flow Statement</td>
<td>4</td>
</tr>
<tr>
<td>Balance Sheet &amp; Cash Flow Statement</td>
<td>4</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement</td>
<td>46</td>
</tr>
<tr>
<td>Balance Sheet &amp; Notes to the accounts</td>
<td>12</td>
</tr>
<tr>
<td>Profit &amp; Loss/Income Statement &amp; Cash Flow Statement</td>
<td>1</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement &amp; Notes to the accounts</td>
<td>8</td>
</tr>
<tr>
<td>Balance Sheet &amp; Cash Flow Statement &amp; Notes to the accounts</td>
<td>1</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement &amp; Cash Flow Statement</td>
<td>0</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement &amp; Statement of changes in equity &amp; Notes to the accounts</td>
<td>3</td>
</tr>
<tr>
<td>Balance Sheet &amp; Statement of changes in equity &amp; Cash Flow Statement &amp; Notes to the accounts</td>
<td>1</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement &amp; Statement of changes in equity &amp; Notes to the accounts</td>
<td>2</td>
</tr>
<tr>
<td>Balance Sheet &amp; Profit &amp; Loss/Income Statement &amp; Cash Flow Statement &amp; Statement of changes in equity &amp; Notes to the accounts</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>148</td>
</tr>
</tbody>
</table>

Table 4-41 Name and Composition of financial reports being prepared

Forming an opinion as to whether something is ‘true and fair’ is a contextual concept, determined by reference to the framework under which the accounts were prepared. In the case of small incorporated associations, the accounts are required to be true and fair in accordance with the Associations Incorporation legislation. In delivering their opinions only 15.7% (16/102) made any reference to the associations’ legislation, and 72.5% (74/102) made no reference to any criteria against which they were assessing the accounts (Table 4-42 below):
The data presented in Table 4-42 suggest widespread lack of understanding of the requirements (and possibly even the existence) of the enabling legislation that forms the basis of the accounting function in small incorporated associations.

There are a number of choices that need to be made when establishing a system of accounting. Two very fundamental issues that impact on the truth and fairness of financial reporting are the basis of recognition (cash or accrual) and the basis of measurement (historical cost or fair value). It is therefore important to consider these concepts when deciding if the accounts are indeed ‘true and fair’. Out of the 102 assurance statements examined, 62.5% were undertaken by persons who are professionally obliged to follow the Australian Auditing Standards, yet just 15.7% made any reference to the basis of recognition and 22.5% made reference to the basis of measurement.

**Table 4-42 Suitable Criteria listed by assurance providers**

<table>
<thead>
<tr>
<th>Suitable Criteria:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>74</td>
<td>14 (2)</td>
<td>22</td>
<td>36</td>
</tr>
<tr>
<td>Associations Incorporation Act</td>
<td>15</td>
<td>14.7%</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Accounting Standards</td>
<td>6</td>
<td>5.9%</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Cash-basis of accounting</td>
<td>2</td>
<td>2.0%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Association constitution</td>
<td>2</td>
<td>2.0%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Accounting Standards &amp; Association Constitution</td>
<td>1</td>
<td>1.0%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Accounting Standards, Australian Accounting Interpretations, IFRS</td>
<td>1</td>
<td>1.0%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Associations Incorporation Act &amp; Accounting Standards</td>
<td>1</td>
<td>1.0%</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>40</strong></td>
<td><strong>24</strong></td>
<td><strong>38</strong></td>
</tr>
</tbody>
</table>

Sufficient appropriate evidence

To add value to their opinion, the practitioner independently gathers sufficient appropriate evidence on which to form an opinion. As illustrated in Table 4-43 below,
out of the 102 assurance statements analysed, 30 (29.4%) made reference to the procedures undertaken in arriving at their opinion but, significantly, 70.6% made no such reference.

<table>
<thead>
<tr>
<th>Reference to Procedures:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference to procedures</td>
<td>30</td>
<td>29.4%</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>No reference to procedures</td>
<td>72</td>
<td>70.6%</td>
<td>15 (2)</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>102</td>
<td>100%</td>
<td>40</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>38</td>
</tr>
</tbody>
</table>

Table 4-43 Reference to procedures used in forming the opinion

The data show that reference to the procedures used in forming an opinion are unlikely to be included in an assurance report relating to small incorporated associations, but accounting/auditing firms are the group most likely to do so. At the other end, individuals who are non-professional accountants are least likely to do so.

The opinion - format

Examination of the assurance statements revealed a great deal of variation in the delivery format, with a strong theme of extremely brief opinions. As illustrated in Table 4-44 below, 56.9% of all assurance was communicated either by initialling the accounts or providing a few very short, sharp sentences. With 36.3% of all assurance opinions communicated through a single sentence, this was the most common format of assurance provided, and was typically by an individual not citing any professional accounting qualifications. However, it is significant that a single sentence assurance statement was also the most prevalent format provided by individual professional accountants (ie. those with membership of one of the Joint Accounting Bodies.)
In contrast, accounting/auditing firms were more inclined to deliver formal assurance reports such as Independent Audit (Auditor’s) Reports, Audit (Auditor’s) Reports, Mini Audit (Auditor’s) Reports, and Compilation Reports than single sentence opinions. As expected, these reports had a high level of consistency in their wording and structure.

These results suggest that overall there is a great deal of variety in the format of assurance statements, especially in those provided by individuals. As individuals undertook 60.8% of all assurance engagements, this is significant – and is further exacerbated by some accounting/auditing firms who are also providing single and dual sentence opinions. In addition to inconsistencies discovered in the assurance format, inconsistencies were also evident when analysing the wording being used to communicate the assurance opinion.

*The opinion - wording*

The law requires small incorporated associations to prepare an annual report that truthfully and fairly communicates the financial performance and position of the

<table>
<thead>
<tr>
<th>Format:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One sentence</td>
<td>37</td>
<td>36.3%</td>
<td>3 (1)</td>
<td>11</td>
</tr>
<tr>
<td>Independent Audit (Auditor’s) Report</td>
<td>17</td>
<td>16.7%</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Mini report (scope &amp; opinion)</td>
<td>10</td>
<td>9.8%</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>One paragraph (3-5 short sentences)</td>
<td>8</td>
<td>7.8%</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Two sentences</td>
<td>7</td>
<td>6.9%</td>
<td>2 (1)</td>
<td>1</td>
</tr>
<tr>
<td>Auditor Initialled (no comments)</td>
<td>6</td>
<td>5.9%</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Compilation Report</td>
<td>6</td>
<td>5.9%</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Letter</td>
<td>6</td>
<td>5.9%</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Audit (Auditor’s) Report</td>
<td>3</td>
<td>2.9%</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Template</td>
<td>2</td>
<td>2.0%</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102</strong></td>
<td><strong>100%</strong></td>
<td><strong>40</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

Table 4-44 Format of assurance statements
association for the financial year just ended. Therefore in ‘auditing’ the accounts an assurance practitioner ought reasonably to form an opinion on this basis – whether the accounts/reports are true and fair. It is widely recognised that the term ‘presents fairly’ is equivalent to ‘true and fair’ (Gay and Simnett 2010), and therefore it can be concluded that 52.9% of all assurance providers used appropriate words in their opinions. As illustrated in Table 4-45 below the terms ‘true and fair’ and ‘presents fairly’ were the top 2 choice of words used – and were used primarily by accounting/auditing firms. There was an equal propensity for individuals to use these words.

Table 4-45 also indicates the use of variations to the terms ‘true and fair’ and ‘presents fairly’, such as ‘true and correct’, ‘true and accurate’, and ‘presents accurately’ – although there were a number of less aligned variations noted as well.
However, despite being the most widely used words, use of other surrounding words suggests that one must exercise caution in viewing this result too favourably. Amongst the reports analysed, there were a number of additional comments that indicated the ‘true and fair’ opinion was conditional upon the expertise of the assurance provider. For instance, some comments by assurance providers included:

- ‘correct to the best of my ability’;
- ‘to the best of my knowledge and belief…are correct’;

Table 4-45 Wording used in opinions

<table>
<thead>
<tr>
<th>Wording:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>True and fair</td>
<td>31</td>
<td>11</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Presents fairly</td>
<td>23</td>
<td>17 (1)</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Correct</td>
<td>10</td>
<td>0</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>No opinion - just initialed</td>
<td>6</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Compilation Report</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Accurate</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Fair view</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>True and correct</td>
<td>3</td>
<td>0 (1)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Fair and Accurate</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>In good order / in order</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>True and accurate</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Fairly reflects</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>In accord with the books and vouchers presented to me</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>No actual opinion given (general comments)</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Presents accurately</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Properly disclosed</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Properly summarised</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Reasonable view</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Supports expenditure</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>True indication</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>True record</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

102 100% 39 25 38

Table 4-45 Wording used in opinions
- ‘found nothing to indicate that the report does not present fairly’;
- ‘true and correct to the best of my ability’; and
- ‘appear to be true & fair’.

There were other comments included in various opinions that suggested caution in interpreting the ‘true and fair’ opinion. For example, one accounting firm indicated in an opening (and standalone) sentence in a letter addressed to the club that the ‘records represent a fair and true statement of the affairs of the club’. However, they subsequently stated that they found the records and books ‘to be kept in good order with one exception’ - there were problems with the accounting system that prevented the auditor from being able ‘to extract a total of monies received’. Consequently the auditor ‘could not reconcile the amount received with the amount banked’.

The actual opinion

As illustrated in Table 4-46 below, an important finding when examining the audit reports was that 72.5% (74/102) of assurance providers issued clear, unqualified opinions, while 27.5% (28/102) included reference to a qualification. However, as detailed below, communication of the implication was very poor in 11 of these cases.

<table>
<thead>
<tr>
<th>Opinion:</th>
<th>Total</th>
<th>Accounting Firm (Bank)</th>
<th>Individual (Prof. Accountant)</th>
<th>Individual (Not Prof. Accountant)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear Unqualified opinion</td>
<td>74</td>
<td>28</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Cash Receipts Qualification</td>
<td>24</td>
<td>16</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>System Qualification</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash Qualification</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>48</td>
<td>22</td>
<td>32</td>
</tr>
</tbody>
</table>

Table 4-46 Opinions expressed
- **Cash Qualification** (2 cases - firms): In these instances the auditor was unable to verify income, and was therefore unable to express an opinion on income. Additional comments in the opinion section:
  - "We have no reason to doubt the accuracy of the records and information supplied";
  - "Subject to the above, in my opinion, the financial report presents fairly".

- **Cash Qualification** (1 case - firm): In this instance the auditor was unable to verify income, and therefore unable to express an opinion on income. However, no mention was made of this when communicating the overall opinion as ‘presents fairly’.

As income is a significant part of the accounts of an incorporated association, the above three opinions do not truly reflect that pervasiveness of the scope exclusion, and may be misleading to readers. A disclaimer of opinion may have been more appropriate.

- **System Qualification** (1 case – firm): In one instance a "serious flaw in the system" which prevented the amount banked being verified was noted. However, no mention was made of this when communicating the overall opinion as ‘fair and true’.

In this example the Treasurer wrote a letter of reply to the auditor, disagreeing vehemently with the comment. The auditor subsequently responded with another letter that reflected a level of closeness with the club.

- **Cash Receipts Qualification** (3 cases – 1 firm; 2 professional accountants): In these instances the auditor indicated they were unable verify cash prior to its entry into the accounting system. This is a common qualification to cite when auditing non-profits and is recommended under Auditing Guidance Statement 19 (GA 019). However, of note in these three instances was that rather than qualifying their opinion, the auditor instead indicated: "I am unable and do not express an opinion as to whether the income statement amounts are presented fairly". This opinion is inconsistent with the qualification cited, and does not reflect the pervasiveness of the issue.
- **Cash Receipts Qualification** (4 cases – 3 firms; 1 non-accountant): In these instances the auditor again cited the GS 019 qualification indicating they were unable verify cash prior to its entry into the accounting system. However, in these instances no mention was made of this when communicating the overall opinion as ‘presents fairly’ (2), ‘true and fair’ (1) and ‘properly disclosed’ (1).

- **Cash Receipts Qualification** (17 cases – 12 firms; 2 professional accountants; 3 non-accountants): In these instances the auditor first explained the basis for modification, then went on to issue an opinion that correctly reflected the qualification.

The questionnaire responses indicated potential threats to auditor independence, and this was evident in some of the opinions being provided as well. For instance, the following comments within the audit opinions suggest the auditor may have a level of familiarity that could represent an actual or perceived threat to independence:

- ‘checked the books...found correct from the information supplied’;

- ‘presents fairly - but unable to verify income (no reason to doubt its truth & fairness)’;

- ‘true & fair...based on the information and explanations provided to me’.

The analysis conducted as part of this research indicates there were errors, and in some cases very material errors. Overall 62.5% of all assurance engagements were undertaken by persons who are professionally obliged to follow the Australian Auditing Standards (accounting/auditing firms and members of the Joint Accounting Bodies). With this in mind, analysis was undertaken to specifically scrutinise these statements of assurance.

**Auditor choice and Auditor quality**

DeAngelo (1981) and Watts and Zimmerman (1986) suggested that proxies are used by firms undertaking audits to help pre-assess quality. Hay and Davis (2004) applied this
theory to New Zealand incorporated societies and found it held true in this setting. The format of the analysis undertaken by Hay and Davis (2004) was recreated in this study (Table 4-47 below). As illustrated in Table 4-47 below, proxies of professional qualifications and firm status were used to assess the choice of auditor in Victoria’s small incorporated associations. The results first show that over all of the financial report elements, that higher mean values were associated with assurance being sought. The results also indicate that as an association’s income, expenditure, assets and liabilities increase, the decision to engage an increasingly qualified auditor is made. For instance, Table 4-7 below shows that the mean average income for associations not engaging an auditor was $38,435.94 whereas those engaging an assurance provider was $45,793.06. Furthermore, those opting for an unqualified individual had a mean income of $24,928.38, as compared with $63,525.27 for those engaging an accounting/auditing firm and $77,497.39 for those opting for a formal firm-generated compilation report. The existence and size of liabilities also appears to be related to the audit (and auditor) with the mean value of associations engaging an unqualified individual being $2,065.00 as compared with $8,178.09 for those engaging an accounting/auditing firm and $11,668.50 for those opting for a formal firm-generated compilation report.
Table 4-47 Descriptive Statistics by Auditor Quality (Recreation of Hay and Davis 2004 study)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unaudited (n = 235)</th>
<th>Assured (n = 102)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>24,370.33</td>
<td>33,695.29</td>
</tr>
<tr>
<td>Mean</td>
<td>38,435.94</td>
<td>45,793.06</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>40,049.03</td>
<td>43,819.56</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.00</td>
<td>1,369.47</td>
</tr>
<tr>
<td>Maximum</td>
<td>181,176.16</td>
<td>207,296.00</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>22,539.30</td>
<td>32,030.15</td>
</tr>
<tr>
<td>Mean</td>
<td>35,897.67</td>
<td>41,666.27</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>39,145.35</td>
<td>38,439.60</td>
</tr>
<tr>
<td>Minimum</td>
<td>-11,911.18</td>
<td>1,428.69</td>
</tr>
<tr>
<td>Maximum</td>
<td>166,813.05</td>
<td>213,479.00</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>572.68</td>
<td>1,120.11</td>
</tr>
<tr>
<td>Mean</td>
<td>2,624.76</td>
<td>6,896.96</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>10,306.19</td>
<td>32,647.12</td>
</tr>
<tr>
<td>Minimum</td>
<td>-45,693.64</td>
<td>-46,084.59</td>
</tr>
<tr>
<td>Maximum</td>
<td>86,798.27</td>
<td>281,445.00</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>14,628.85</td>
<td>26,757.23</td>
</tr>
<tr>
<td>Mean</td>
<td>34,365.94</td>
<td>70,004.30</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>10,306.19</td>
<td>32,647.12</td>
</tr>
<tr>
<td>Minimum</td>
<td>-45,693.64</td>
<td>-46,084.59</td>
</tr>
<tr>
<td>Maximum</td>
<td>352,835.19</td>
<td>491,148.00</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>1,920.50</td>
<td>5,342.24</td>
</tr>
<tr>
<td>Mean</td>
<td>10,640.63</td>
<td>9,416.41</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>21,906.94</td>
<td>10,572.58</td>
</tr>
<tr>
<td>Minimum</td>
<td>-5,102.52</td>
<td>0.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>109,170.00</td>
<td>37,000.26</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>13,762.68</td>
<td>27,547.00</td>
</tr>
<tr>
<td>Mean</td>
<td>32,818.51</td>
<td>70,751.72</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>51,743.85</td>
<td>101,131.53</td>
</tr>
<tr>
<td>Minimum</td>
<td>-2,170.78</td>
<td>0.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>357,937.71</td>
<td>489,368.00</td>
</tr>
<tr>
<td><strong>Debt to Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Mean</td>
<td>0.07</td>
<td>0.03</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.37</td>
<td>0.09</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Maximum</td>
<td>3.70</td>
<td>0.48</td>
</tr>
<tr>
<td><strong>Surplus to Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Mean</td>
<td>-3.77</td>
<td>0.02</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>56.30</td>
<td>0.31</td>
</tr>
<tr>
<td>Minimum</td>
<td>-835.00</td>
<td>-1.44</td>
</tr>
<tr>
<td>Maximum</td>
<td>2.06</td>
<td>0.77</td>
</tr>
<tr>
<td><strong>Surplus to Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>0.06</td>
<td>0.03</td>
</tr>
<tr>
<td>Mean</td>
<td>0.03</td>
<td>-0.10</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.53</td>
<td>0.85</td>
</tr>
<tr>
<td>Minimum</td>
<td>-2.80</td>
<td>-6.82</td>
</tr>
<tr>
<td>Maximum</td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Table 4-47 Descriptive Statistics by Auditor Quality (Recreation of Hay and Davis 2004 study)
Specific requirements for audits of small incorporated associations by professional accountants and auditors

There are specific assurance standards applicable to incorporated associations, and these are to be followed by members of the Joint Accounting Bodies. Whilst no review engagements were undertaken by such members, various audit engagements were, making ASA 800 (AUASB, 2011a) applicable. The report format presented in ASA 800 [Aus] Illustration 5 is very similar to mainstream audit reports, but additionally states the requirement to make reference to the ‘Applicable State Act (Year)’. Financial reports prepared under state legislation are described as being prepared under a ‘special purpose framework’ and paragraph 14 of ASA 800 further requires practitioners to alert readers to this situation. This is to be done via the inclusion of an ‘emphasis of matter’. In addition, Guidance Statement GS 019 recommends that when auditing fundraising revenue of non-profits, a qualification should be included indicating that cash can only be verified once it has been entered into the books (i.e. a pre-entry completeness qualification). Hence, analysis was undertaken on the statements of assurance issued by professional accountants (including firms), with particular focus on references to:

- Associations Incorporation Act;
- Special purpose financial report;
- Emphasis of Matter; and
- Cash completeness qualification.

### Table 4-48 Reference to ASA 800 and GS 019

<table>
<thead>
<tr>
<th>AS 800</th>
<th>Accounting Firm Reference</th>
<th>Individual (Prof. Accountant) Reference</th>
<th>No reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assoc. Incorporation Act</td>
<td>22.6%</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Special Purpose Financial Report</td>
<td>27.4%</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Emphasis of Matter</td>
<td>0.0%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cash Qualification</td>
<td>24.2%</td>
<td>19</td>
<td>4</td>
</tr>
</tbody>
</table>
Table 4-48 above indicates that roughly one quarter of the accounting/auditing firms in the sample applied the requirements of ASA 800 and GS 019, while individual professional accountants were far less inclined to do so. Overall there is strong evidence that these and other requirements are being overlooked, but as illustrated in Tables 4-49 and 4-50 below, these are consistent with breaches found in the audits of larger corporate organisations.

<table>
<thead>
<tr>
<th>Top ten non-audit breaches in 2011</th>
<th>Evidence in sample assoc.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> APES 315 Compilation of Financial Information</td>
<td>yes</td>
</tr>
<tr>
<td>- Not having all the required elements in the compilation report</td>
<td>yes</td>
</tr>
<tr>
<td>- Not having footnote reference such as &quot;unaudited&quot;, &quot;Compiled without audit or review&quot;, or &quot;Refer to Compilation Report&quot; on every page</td>
<td>yes</td>
</tr>
<tr>
<td><strong>2</strong> APES 220 Taxation Services</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>3</strong> APES 305 Terms of Engagement</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>4</strong> APES 320 Quality Control for Firms</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>5</strong> APES 110 Code of Ethics for Professional Accountants</td>
<td>yes</td>
</tr>
<tr>
<td>- Not being independent</td>
<td>yes</td>
</tr>
<tr>
<td><strong>6</strong> RMS 1 Risk Management Statement</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>7</strong> APES 205 Conformity with Accounting Standards</td>
<td>yes</td>
</tr>
<tr>
<td>- Not having identified the specific purpose for which the special purpose statements have been prepared</td>
<td>yes</td>
</tr>
<tr>
<td>- Not having identified the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements</td>
<td>yes</td>
</tr>
<tr>
<td><strong>8</strong> Corporations Act 2001 (CA) section 251A Minutes</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>9</strong> CA section 271 Company to keep documents relating to charges and register of charges</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>10</strong> CA section 201D Consent to act as director</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Table 4-49 Application of CPA Australia non-audit breaches to small incorporated associations (CPA Australia 2012e)
Table 4-50 Application of CPA Australia audit breaches to small incorporated associations (CPA Australia 2012c)

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Evidence in sample assoc</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ASA 300 Planning an Audit of a Financial Report</td>
<td>n/a</td>
</tr>
<tr>
<td>2</td>
<td>ASA 315 Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment</td>
<td>yes</td>
</tr>
<tr>
<td>3</td>
<td>ASA 230 Audit Documentation</td>
<td>n/a</td>
</tr>
<tr>
<td>4</td>
<td>ASA 240 The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report</td>
<td>yes</td>
</tr>
<tr>
<td>5</td>
<td>ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australia Auditing Standards</td>
<td>yes</td>
</tr>
<tr>
<td>6</td>
<td>ASA 580 Written Representations</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>ASA 330 The Auditor’s Responses to Assessed risks</td>
<td>n/a</td>
</tr>
<tr>
<td>8</td>
<td>ASA 210 Agreeing the Terms of Audit Engagements</td>
<td>n/a</td>
</tr>
<tr>
<td>9</td>
<td>ASA 320 Materiality in Planning and Performing an Audit</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>ASA 500 Audit Evidence</td>
<td>yes</td>
</tr>
</tbody>
</table>

Synopsis of Results

This chapter has presented the findings of the examination into the accounting function in small incorporated associations – a function undertaken by the Treasurer. The results indicate that Treasurers are most likely to be males aged over 60, who have filled the post multiple times in the past. Treasurers were also found to be predominantly employed full-time in a non-accounting role involving numbers, such as general business and administration. The majority of Treasurers were found to possess a non-business qualification, with a many citing secondary school as their highest level of education attained.

The results indicate that many of those in the Treasurer’s role are in it because ‘no one else would do it’, but also indicated the value of the association to the volunteer was a dominant factor in their placement. Lack of skills, responsibility and liability emerged as barriers to potential volunteers nominating for the role. The Indicator of Complexity
explored these barriers further, and found great variability in the responsibilities attributed to the Treasurer’s role. In some associations the Treasurer was found to be undertaking work that would be undertaken by a professional accountant in the corporate world.

The quality of the accounting output was examined, revealing high levels of non-compliance with generally accepted accounting norms and conventions. Further analysis revealed that failures related to compliance, ability and willingness of the Treasurers. Compliance failures were also noted in the assurance function, with the results indicating a wide range in understanding of the term ‘audit’.

The following chapter discusses the findings further, including consideration of the implications of the results.
Prior to, and during, the development of the current professional accounting conceptual framework and legally enforceable accounting standards, there was much debate about appropriate accounting practices (Deegan, 2010). At the foundation of these discussions sat the reality “there is a great deal of disagreement on the role of accounting” (Deegan, 2010, p.81) - some accounting researchers believe preferred practices should be prescribed (normative accounting theorists) while others believe preferred practices should be directed or guided (positive accounting theorists). Governments and other regulators have an important responsibility when developing regulatory frameworks to ensure that such frameworks provide sufficient flexibility to enable the individuals and entities to function effectively, as well as being able to respond to evolving circumstances and stakeholder expectations. This flexible approach is particularly evident in the accounting requirements of small incorporated associations, where the primary requirement is for ‘true and fair’ annual reporting. As an undefined concept necessitating an understanding of generally accepted accounting norms or conventions (Deegan et al., 1994), it is a curious approach in an environment where those responsible for the accounting function are volunteers who may or may not have any particular accounting expertise. As will be concluded, this is essentially because small incorporated associations represent a ‘pocket’ of entities wherein the role of accounting has not been addressed.

As Deegan (2011) points out, “without…a theoretically informed understanding, it is difficult to evaluate the suitability of current accounting practices [or] to develop improved accounting practices where current practices are unsuitable for changed business situations” (p.6). Consequently the gathered results of this study will now be discussed from a theoretical perspective, with a view to critiquing the accounting function in small incorporated associations.
5.1 Summary of key findings

In undertaking a critical examination of club-level accounting, this research necessarily bridges a number of academic disciplines including volunteerism, institutional theory, accounting regulation theory, regulatory non-compliance theory and voluntary audits.

The profile of a volunteer Treasurer was largely consistent with the broader research on volunteerism. For instance, Treasurers were marginally more likely to be male than female as prior research on volunteer committees of management found (Mailloux et al.; Odendahl & Youmans, 1994; Rotolo & Wilson, 2007). With few exceptions, Treasurers were typically aged 40 years of age and above, with the greatest presence in the over 60 age group. This is largely consistent with the findings of Musick and Wilson (2008) and Volunteering Australia (2011). There was evidence many Treasurers had been in their current post for multiple years, and almost as many had filled the role of Treasurer previously (either in another entity, or in the past at the current association).

In terms of nominations there was strong evidence potential Treasurers were targeted for the role prior to assuming it. Consistent with the findings of Bryant et al. (2003) and Ostrower (2002), people possessing skills considered desirable for the Treasurer’s role were deliberately and purposefully targeted by the hopeful organisation. Consequently, having a numbers-based job in one’s paid work (for example banking, accounts, general/family business, accountant and bookkeeping) was used as a proxy for competency to assume the role as Treasurer. However, professional accountants and bookkeepers were less likely to be Treasurers than people in other number-based occupations. With over one half of Treasurers being either self-employed or in full-time employment, time was not found to be a critical deterrent to volunteering for the role of Treasurer. Hence these results confirm earlier research that people in paid employment (and therefore with less spare time) are more likely to volunteer than those not in paid employment (and with more spare time) (Volunteering Australia, 2011).
Contrary to the various findings of Clary et al. (1998), a common motivator for volunteering for the role of Treasurer was simply that ‘no one else would do it’ – with many of these representative of a ‘forced choice’ where the Treasurer indicated displeasure at their placement. This represents an important departure from previous findings focused on analysing the motivational forces of volunteers, and suggests the role of Treasurer is a unique volunteer position and should be examined in its own right rather than being combined with the broader category called ‘committee’ (Moore & Whitt, 2000; Steinberg, 1999). This confirms the work of Handy et al. (2000) who indicated “volunteering is not a monolithic activity, and the study of volunteers needs to delineate different types of volunteers” (p.46). Nearly all respondent Treasurers indicated they believed people were hesitant to assume the role, with key reasons being cited as lack of required skills, responsibility and liability.

The Indicator of Complexity showed there were great differences in the complexities in the tasks assumed by Treasurers in different associations, despite all of the associations being classified under the legislation as ‘small’ – and therefore having the same minimalist accounting requirements. With very few exceptions, it was further revealed that Treasurers were typically confronted with complexities requiring specialist accounting knowledge – some at levels equivalent to what a professional accountant would be expected to deal with. The most prevalent sources of complexity related to fundraising, number of members, sale of merchandise, number of income streams and ABN registration. Hence, most of the complexity was related to the nature of transactions required to be processed rather than matters pertaining to corporate/institutional behaviours/registrations. This suggests that whilst there was evidence of isomorphic pressures within small incorporated associations, across the board the pressure was not strong.

The manifestation of such complexity became particularly evident when analysing the annual financial statements as lodged with Consumer Affairs Victoria. Whilst the majority of statements were lodged without error, there were error levels and comments that were indicative of a system experiencing failures. Consequently 12.3% of
associations had errors in the administrative section of their annual statement being lodged, 46.9% had errors in the CAV formatted financial statement being lodged, and 33.8% of associations lodging their own set of accounts did so with at least one error. Comments provided suggested significant failure in the structure of the regulatory requirements (particularly a failure to communicate what the legislation specifically required) and failure by the Regulator to provide administrative support for associations with queries. The nature of the errors signalled a lack of understanding in generally accepted accounting norms and conventions.

Like Hay and Davis (2004) found when researching New Zealand incorporated societies, audits were found to be voluntarily undertaken in the absence of a mandated requirement. However, it must be clarified that despite very specific meaning within the corporate world, there was clear evidence the term ‘audit’ was being used as a generic term for any statement intended to signal someone has ‘looked over’ the accounts. In the sample associations, 53.2% indicated their accounts had undertaken an audit within the past 2 years. With 41.17% of audits being conducted by accounting/auditing firms and a further 19.4% being members of the Professional Accounting Bodies, there was evidence qualifications and firm status were being used as proxies for auditor quality. However, analysis of the assurance statements being provided to the associations suggested the quality of the assurance services was lacking in many respects. Most notably 36.3% of assurance was provided by a short single sentence, while a further 5.9% of auditors simply initialled the accounts. In accordance with the legislation, 52.9% of assurance providers used the words ‘true and fair’ or ‘presents fairly’ in their opinion, however a number added disclaimers such as ‘to the best of my ability’. Overall the results suggest a failure to understand the formal assurance function, and the criteria against which to assess the accounts (for instance very few assurance providers made any reference to the associations’ legislation). Firms auditing small incorporated associations provided a notably higher level of assurance than individual professional accountants, however there was strong evidence to suggest neither group was using ASA 800 [Aus] Illustration 5 (AUASB, 2011a) to drive the audit process. This is a mandated requirement for professional accountants and auditors.
5.2 Discussion of results

It is often stated that ‘ignorance of the law is no excuse’, however the results of this study suggest this is not true when it comes to the accounting function in small incorporated associations. The quandary is that the accounting function is founded on an undefined accounting term (‘true and fair’), left to be made operational by volunteers who are unlikely to have formal accounting education. This results in output that often does not comply with generally accepted accounting norms and conventions – which is the commonly held interpretation of ‘true and fair’ (Deegan et al., 1994; Kirk, 2006). Furthermore, users of financial information ought reasonably to be able to expect it to meet common understandings of ‘true and fair’, but under the present conditions the anti-regulation/free-market theory that supply and demand will deliver the appropriate quality is not evident. In the corporate world audits/reviews are a mechanism to convey credibility in financial information. Audits are being voluntarily undertaken in many instances by small incorporated associations, but these also are characterised by a lack of knowledge as to what is involved, resulting in a widespread false sense of assurance. Rather than being the fault of the Regulator (or the Treasurer), these findings are symptomatic of a pocket of legislation that has not decided on the role of accounting in the bodies it is regulating.

It is recognised that small incorporated associations are a critical aspect of the community, providing a mechanism for personal growth and the building of social capital (Department for Victorian Communities, 2006, 2008; Eley & Kirk, 2002; Victorian Government, 2008). It is equally recognised that due to significant resource constraints a reduction in their regulatory burden is appropriate (McGregor-Lowndes & Ryan, 2009; Department of Treasury and Finance, 2011). This has resulted in an absence of specific accounting requirements which, as will be concluded later, actually further complicates the accounting in these types of associations. A Table of Key Findings is presented in Appendix 6-13.
Volunteerism

The accounting requirements imposed on small incorporated associations can be described as either a normative or a positive. The parameters of ‘true and fair’ are set, and it is up to the Treasurer to ensure the accounting function embodies such qualitative characteristics (positive approach). There is general consensus in the accounting and legal arenas that this necessitates the application of generally accepted accounting norms and conventions (normative approach), however the vast majority of those assuming the role of Treasurer are not professionally trained as accountants nor do they have any formal accounting education. Hence, they are guided by their own knowledge and beliefs in delivering the qualitative characteristic of truth and fairness. Furthermore, the results show that whilst many Treasurers undertook the role because ‘no one else would do it’, nearly two thirds were in the role for more positive reasons. This is indicative of the value of these associations amongst the community.

Cost Curves

There was strong evidence to suggest people deemed to have the appropriate skillset were targeted by their association, and consistent with Musick and Wilson (2008) "for many members, volunteering [was] a matter of 'taking [their] turn' in doing the chores necessary to keep the organization going" (p.270). However, with 37.6% of all participant Treasurers assuming the role primarily because ‘no one else would do it’, there was evidence that not everyone who could do the role was doing the role. The result was that Treasurers were likely to be those in non-accounting roles in their paid work (53.6%), and not possessing a business qualification (54.2%).

According to Bliss and Nalebuff (1984) it can be rationally inferred that the person who assumes the role of Treasurer will be the one with the lowest cost, and conversely “a person with the highest cost will never” (p.4) assume the role. In the strictest sense, if this were true more accountants would be assuming the role of Treasurer than are presently. This suggests that, as concluded by Bilodeau and Slivinski (1996a), the
decision to volunteer for the role of Treasurer was about more than cost curves and cost functions. Based on qualitative analysis of open-ended responses, their findings held true in so far as those most likely to volunteer for this ‘unattractive’ position (90.6% of respondents believed people were hesitant to assume the role of Treasurer) were those who:

- are most impatient by other’s unwillingness to volunteer;
- stand to benefit the most from taking on the role; and
- believe they can supply the public good/service at the lowest cost.

Hence, it is highly likely Treasurers will exhibit impatience and self-interest characteristics – with impatience resulting from others lack of willingness to volunteer being a dominant force in many decisions to volunteer.

**Gaming-type theories and the Bluffing Equilibrium**

The Treasurer’s role is critical, and unless someone volunteers for the role the association will be unable to operate. The supply and demand forces under these conditions are said to deliver a ‘bluff equilibrium’, and there was strong evidence that bluff equilibriums generated the eventual appointment. There was also evidence that gaming-type factors come into the eventual placement, more so than altruistic motivations – as evidenced by comments such as ‘I was the last person left standing – we drew straws’. This has a significant impact on the quality of the Treasurer, as any initial preferences may be abandoned in order to find someone to fill the role (Farmer & Fedor, 2001).

**Volunteer Functions Inventory (VFI)**

As with studies in other disciplines, the results confirmed people volunteered for the role of Treasurer for many different reasons (Bruyere & Rappe, 2007; Clary et al., 1998). In terms of the Volunteer Functions Inventory (Clary et al., 1998), the ‘value’
function was the dominant driver in the decision to volunteer for this role. That is, Treasurers assume the role (even if eventually) because the association is meaningful to them – and commonly because of their children’s involvement in sport. This was evidenced by a number of comments in the vein of: ‘played cricket at the club all my life so I wanted to have an active role in helping keep the club afloat’, and ‘to help the club out, my children play there’. Comments that were categorised as ‘protective’ further complimented the ‘social’ function findings, such as: ‘to keep the club from folding as committee members were at its lowest’ and ‘to hopefully have the Club run smoother than previous office bearer and make it enjoyable for members of the club’. These are important findings and comments because they illustrate the importance these community level clubs have to members of the community.

This community significance is further emphasised by the VFI ‘social’ function being the second most dominant motivator for volunteering for the role of Treasurer. This holds that people volunteer to be Treasurer because of underlying social interactions – most commonly between the prospective Treasurer and either the President or current Treasurer. In this study there were a number of respondents indicating they agreed to be Treasurer because of underlying friendships or the like. This overlaps with another aspect of volunteer motivations theory – the importance of being personally asked to volunteer for roles by people who are important to you. This appears to be especially true for roles considered unattractive (Musick & Wilson. 2008).

The third VFI function evident was that of ‘enhancement’, where people volunteered to be Treasurer because of the personal growth, development and self-esteem benefits they expect to gain. Many people (even those who volunteered because ‘no one else would’) indicated they ‘enjoy doing it’ and ‘I like to handle money and ensure the club finances are properly done’. Given the nature of the Treasurer’s role and its similarity with paid work (Taylor, 2004), the ‘career’ function can be considered as an extension of the ‘enhancement’ function. Whilst only being cited by 3% of respondents as a motivating force, this is not uncommon (Musick and Wilson, 2008) and should not be interpreted as not being a motivator. Instead the literature suggests people feel uncomfortable citing
career benefits, and this is the reason the career function is not typically cited. Hence comments such as ‘I wanted to gain further hands on accounting experience’ and ‘I am currently completing a Bachelor of Commerce and thought it would be a great addition to my resume’ are noteworthy. Comments relating to both the ‘enhancement’ and ‘career’ functions again illustrate the important role small incorporated associations play in offering personal development opportunities for people whilst at the same time building social capital within the community.

**Error levels**

On average the financial statements of associations were true and fair in accordance with generally accepted accounting norms and conventions. However, as will be discussed later, instances of compliance were sometimes only marginally ahead of non-compliance. Irrespective of the instances of non-compliance, the nature of non-compliance was indicative of a lack of accounting-specific knowledge amongst Treasurers. Many Treasurers indicated they had been in their current role for multiple years, and had previously held the post of Treasurer. While 7.3% had been in office for 10 years and 4.7% for more than 20 years, 49% had been in office for between 2 – 5 years. With such longevity in the accounting function there simply should not be the error levels that were detected in the annual financial statements as lodged with Consumer Affairs Victoria. This is significant because it illustrates errors are not being picked up and corrected by the current system – be it by the Regulator or the assurance provider. It further indicates that if the problems detected in this study were addressed (through training, guidance, conceptual framework etc.), the cost incurred would result in a benefit expected to extend over a number of years and across a number of associations.

Aside from generating persistent errors, not vacating a position for extended periods of time could also be viewed as presenting a fraud risk. This vulnerability is exacerbated by the lack of alternative Treasurers, where desperation to have someone assume the role of Treasurer could lead to the tolerance of poor performance (Farmer & Fedor, 2001).
**Proxies for quality**

Although many aspects of an association’s operations are regulated (liquor licensing, food handling, first aid, working with children etc.), the accounting function is not. With no base level knowledge required of Treasurers anyone can assume the role, and work place proxies are being used to pre-gauge someone’s competency. People in numbers-based roles (but not necessarily accountants) are being targeted for the role, and therefore there is a belief that those with the required skills are filling the role. However the warning by McFarlan (1999) that one should not “assume the shoe fits” (p.65) should be heeded, as the analysis of error levels in the annual statements suggests the shoe often does not fit. This raises the question about the need for more prescriptive rules, and the impact of regulation on the decision to volunteer. Consistent with the work of Phillips et al. (2002), there were many comments suggesting additional rules and regulations imposed on Treasurers would deter future volunteers. Furthermore many respondents suggested that even with the current requirements the role of Treasurer was just like an ordinary (but unpaid) job (Bender 2003; Harris 1996; Horne & Maddrell 2002; Phillips et al., 2002). However, there were also a number of comments that echoed the sentiment; ‘*If the Department of Justice provides a better explanation of what type of accounting they require, it may assist us (as a small association) to comply without major accounting effort*’.

**Conclusion**

Small incorporated associations are primarily community level clubs run by volunteers for the community. They have been specifically recognised as a mechanism for personal development and the building of social capital (Department for Victorian Communities, 2006, 2008; Eley & Kirk, 2002; Victorian Government, 2008), and have the capacity to make meaningful contributions on both the personal and community levels. Consequently a myriad of people are assuming the role of Treasurer with highly variable backgrounds, qualifications and experiences. Many take on this role ultimately because the club is important to them and/or they have skills aligned with the role, although a significant number are in the role as a ‘forced choice’ because ‘no one else would do it’.
The unpaid nature of the work undertaken by Treasurers makes it no less work, as it still "involves the provision of a service to others..." (Taylor, 2004, p.38). This message was delivered loudly by the research participants. Nearly all of the questionnaire respondents indicated they believed people were hesitant to be Treasurer due to a lack of skills, responsibility and/or liability. Further analysis of the volunteer tasks revealed that, for a number of Treasurers, the role requires them to operate in relatively corporatised environment and undertake functions similar to that required of a career accountant.

**Institutional Isomorphism (Indicator of Corporate/Institutional Complexity)**

Institutional theory holds that organisations will endeavour to conform to the practices of benchmark institutions in order to project an image of a similar standing. Institutional *isomorphism* more specifically holds that different entities evolve in such a manner they eventually adopt equivalent structures and practices (Carpenter & Feroz, 2001). As conceived by DiMaggio and Powell (1983), isomorphic pressure may be coercive (stemming from regulators or powerful stakeholders), normative (stemming from group affiliations leading to ‘group think’), and/or mimetic (stemming from a need for organisational legitimacy). To varying degrees, all three forces were evident in the accounting function of small incorporated associations.

*Coercive and normative isomorphism*

The Associations Incorporation Act (1981) was originally introduced “to provide a simple and inexpensive means by which small voluntary organisations could obtain legal status” (Hadden, 2005, p.07). Over time the associations being incorporated under this legislation grew considerably both in terms of their size (annual turnover and assets) and trading activities, and in many cases this was “seen to be against the spirit of the Act” (Hadden, 2005, p.07). Consequently, in 1997 “a number of amendments were made to the Act in recognition of the increase in size and complexity of organisations.
incorporated under the Act” (p.07). This essentially saw the introduction of a two tiered structure, with accounting requirements being imposed on the large (prescribed associations). Large associations however, only accounted for 7% of all incorporated associations, meaning the accounting function of 93% of incorporated associations (those classified as ‘small’ by virtue of them not having gross receipts greater than $200,000 or gross assets in excess of $500,000) was left alone (Hadden, 2005, p.07).

Regulatory requirements - coercive pressure

The nature of the legislation applicable to small incorporated associations has further evolved since 1981 and 1997, with another major overhaul implemented on 26th November 2012. Under the newest legislative changes, there are now three tiers of association, with those classified as ‘small’ still spared accounting regulation. Importantly however, the threshold changed from $200,000 to $250,000 income and removed the reference to assets – meaning that even more associations now fall into the category without any mandated accounting requirements. Despite the accounting function remaining largely unchanged, the legislation per se has increasingly ‘morphed’ to mirror the Corporations Act 2001 (which governs companies). For instance, the Reform Act 2012 now includes (PilchConnect, 2012b):

- Codification of duties for office holders
- Defences for office holders
- Indemnity for office holders
- Tiered reporting procedures
- Merger of Public Officer / Secretary
- Removal of the prohibition on trading
- Use of technology at committee and general meetings
- New matters that must be provided for in an association's rules
- Removal of committee members
- Conflicts of interest and committee members
- Clarification of the rights of members
- Disciplinary action against a member
- Grievance procedures
Hence, like the Corporations Act (2001), the associations legislation now includes a ‘business judgement rule’, model rules (replaceable rules), director’s duties, civil penalties, guidance on use of technology at committee and general meetings, dealing with conflicts of interest and many other matters which are mirrored in the Corporations Act (2001). However, a major point of difference between the two pieces of legislation is that section 111J of the Corporations Act (2001) provides a ‘small business guide’ for small proprietary companies – with section 10 covering ‘Annual financial reports and audit’ matters. Whilst not prescribing treatments, there are a number of links and definitions that could be used to guide the accounting function, as well as a reference to ‘good business practices’.

**Financial reporting – coercive pressure**

There was also evidence of coercive isomorphic pressure in the financial reporting obligations of small incorporated associations. Associations are required to report annually to their members and the Registrar, but the results revealed 22.7% of respondent associations distributed financial reports to external parties as well. Mostly this was to an affiliated regional/district body, but also included sponsors, banks and local councils. Unless these external bodies are receiving individually tailored reports rather than the set of accounts tabled to the committee/Registrar, there is an argument these constitute general purpose financial reports (not special purpose). However, in many instances where an independent audit report accompanied the accounts, a caveat indicating *This financial report is a special purpose financial report prepared in order to satisfy the financial reporting requirements [of the Associations Incorporation Act]. The committee has determined the association is not a reporting entity*’ was included. Howsoever described by the association or the assurance provider, the results illustrate that the financial reporting practices of some small incorporated associations do extend beyond the mandated boundaries, and in doing so provide evidence of commercial isomorphic behaviour.
Commercial Accounting Packages – coercive pressure

The choice of accounting system is entirely voluntary, but adopting a commercial accounting package such as MYOB® or Quickbooks® brings a level of dependency that tends to ‘lock in’ institutionalised financial reporting practices. Commercial packages are designed to simplify the accounting function, and therefore typically have financial report templates already defined and ready to generate ‘with the click of a button’. However, with a small business focus, the template reports have a bias towards names best described as general purpose financial reports – Statement of Comprehensive Income, Statement of Cash Flows and so on. There is the option to change the report names, but no guidance as to when/why this may be appropriate. As there are also mimetic pressures at play in this scenario, it is discussed further under mimetic isomorphism.

Professional accountants - normative pressure

The point of the preceding discussion is to highlight how much regulatory coercive institutional isomorphism has shaped the operations of small incorporated associations. It also illustrates that despite such significant mirroring of the Corporations Act (2001), the role of accounting in nearly all incorporated associations (> 93%) has failed to be specifically addressed. Instead, the legislation requires ‘true and fair’ annual financial reporting which, from a positive accounting theorist’s perspective and an anti-regulation/free-market theorist’s perspective, should deliver the desired result. This is because, based on the literature on volunteerism, people with an accounting background can be expected to take on the role of Treasurer, in which case normative isomorphic pressure would see the adoption of more formalised accounting practices. However, the results of this study show that whilst someone may exhibit credentials viewed as relevant to being Treasurer, these are not necessarily (and more importantly, not likely) to be equated with formal professional accounting memberships. Nonetheless, there was some evidence Treasurers with an accounting background assumed the role so they could make changes they believed were necessary. This was evidenced by comments such as; ‘I agreed to take over the role on the basis that I could set up the club account on a professional accounting system 'Quick Books’” and “[I] want to put clubs figures
into electronic bookkeeping package’. Hence, normative isomorphism in this capacity was not a dominant force shaping the accounting function in small incorporated associations, although it existed on a very limited scale.

Mimetic isomorphism

DiMaggio and Powell (1983) suggested mimetic isomorphic pressure was a major source of isomorphism in environments with great uncertainty. As evidenced by many of the open-ended comments provided by questionnaire respondents, the undefined nature of the ‘true and fair’ requirement upon which the accounting function is based, gave rise to varying levels of uncertainty. The Index of Complexity was thus developed to explore the extent to which mimetic isomorphic pressure shaped the accounting function in small incorporated associations. The Indicator of Complexity is a composite indicator comprised of the Indicator of Corporate/Institutional Complexity and the Indicator of Transaction Complexity. The indicator was primarily intended to gauge the level of complexity embodied in the role of Treasurer (where complexity was a function of technical complexity, socio-organo complexity and corporate complexity), but was structured in such a way it could be determined whether complexity was driven by the association (institutional isomorphic pressure) or by the transactions (nature of the role being similar to that of a career accountant). In addition to the numeric score generated by the Indicator, the extent of isomorphic tendencies was also noted by reference to related comments made by respondents.

Indicator of Corporate/Institutional Complexity

The Indicator of Corporate/Institutional Complexity revealed the operational choices of some small incorporated associations mirrored those of small businesses. Hence, isomorphic pressure exists, but is not widespread. Further examination of the Indicator components reveal there is a pocket of associations that employ staff and have business-type registrations such as ABN, GST and BAS.
The use of commercial accounting packages was much more prevalent, with 35.2% of associations using formal accounting packages (such as MYOB® and Quickbooks®), and 41.2% using electronic spreadsheets (such as Microsoft Excel®) – not necessarily exclusively. The prevalence of accounting software is also bolstered by the proliferation of reasonably priced hardware and software options, but in resource poor associations the implementation of technological solutions suggests a consciously corporatised approach to the accounting function. With nearly a three-way split between manual processing, accounting packages and electronic spreadsheet usage there is an indication that small incorporated associations are endeavouring to make their accounting function look more ‘professional’.

The decision to adopt a commercial accounting package such as MYOB® and Quickbooks® is an important finding, because not only does it necessitate application knowledge, but it is also likely to invoke the application of double entry accounting. Bernal et al. (2005) and Miller and Napier (1993) noted that the adoption of double entry accounting is widely assumed in the business world, and in order to imitate corporate entities of a particular standing some entities will use double entry accounting methods even when a single entry system will suffice. Therefore the use of commercial accounting systems which are founded on double entry principles is further evidence some small incorporated associations are mimicking their corporate counterparts.

The concept of accrual accounting is also said to be consistent with commercial activity but inconsistent with non-commercial activity (Carnegie & West, 2003; Conn, 1996; Jones, 1985). The prevalence of accrual accounting was difficult to quantify in this study because many questionnaire respondents indicated they were ‘unsure’ when asked - or gave responses that indicated they were unsure (which is indicative of complexity in itself). The most telling result however came from asking participants: ‘Is depreciation charged on any of the club/association assets?’ (Question30). From the responses to this question it can be ascertained that at least 15.9% of respondent associations apply at least some level of accrual accounting – and consistent with the findings of Irvine (2011), many more have accounting systems half way between cash
and accrual. Reference to accrual accounting was intermittently included on the statements of assurance lodged with Consumer Affairs Victoria, and the numbers confirmed the questionnaire result. Out of 102 assurance reports, 16 (15.7%) included a statement indicating ‘The financial report has been prepared on an accrual basis’. Because accrual accounting has its origins in the for-profit, private sector (Anessi-Pessina et al., 2008; Carnegie & West, 2003), and because accrual accounting is about calculating profit to measure economic activity (Christiaens & Rommel, 2008), the fit with small incorporated associations is considered poor. Being able to reliably measure income and expenses under an accruals based accounting system is not a simple matter, and can pose challenges even for a professional accountant (Hoggett et al., 2009). Unless those maintaining such a system have the required knowledge, Hepworth (2003) cautions the results are likely to be meaningless. Consequently, the literature does not suggest accrual accounting is particularly relevant to small incorporated associations, and the existence of such practices suggests the existence of mimetic isomorphic pressure.

Financial reporting – report names

As previously discussed, financial reports of small incorporated associations are generally considered to be special purpose rather than general purpose financial reports (Sadhu & AARF, 1994). This classification is critical because it is on this basis the Australian Accounting Standards either will, or will not, apply. The existence of external/dependent users is the primary determining factor, but reports that purport to be general purpose financial reports are also captured by the standards. It is for this reason the name given to a report is important.

In the corporate world the primary reports of an organisation comprise the profit and loss statement, balance sheet, cashflow statement, statement of changes in equity, notes to the accounts, and a directors’ declaration (Mellor, 1996). Over time there have been naming variations such as the income statement, statement of comprehensive income, statement of financial performance and statement of financial position. The associations’ enabling legislation does not specify the name of financial reports to be
prepared, and therefore the extent to which corporate financial report naming practices were mimicked was examined. From the outset it was apparent the majority of associations named their reports in such a way as to not have them confused with general purpose financial report (eg. Statement of Receipts and Payments, Statement of Income and Expenditure etc.), or did not provide a title at all. However, out of the 337 association formatted financial reports examined, 148 (43.9%) had at least one report named in a similar vein to a general purpose financial report (Balance sheet, Income Statement, Cash Flow Statement etc.), and there were a number that presented most (and sometimes all) of the elements required of a financial report prepared under the Corporations Act (2001) (including Notes to the accounts, and Director’s/Committee Declarations).

While it would be easy to assume conscious mimetic isomorphic pressure based on these results, with more than one third of associations using commercial accounting packages this is not necessarily the case. In such packages the reporting templates are already set up, and although it is possible to change names or generate reports with alternative names, this is not always being done. Hence, the names being given to the financial reports of small incorporated associations are indicative of mimetic behaviour, however this is not necessarily driven by the association’s desire to imitate - to some extent the naming of financial reports is also indicative of coercive isomorphism (at the hands of the software developer).

The voluntary undertaking of audit

Jensen and Meckling (1976) assert that even in the absence of a mandated requirement an audit will be undertaken because it leads to an image of the organisation that will make it attractive to fund providers. In this study, voluntary audits were found to be undertaken by the majority of associations. On the basis of the Jensen and Meckling (1976) argument, this suggests most small incorporated associations are concerned about the image of their accounting function, and therefore saw economic value in pursuing an audit (Hay and Davis, 2004).
In researching New South Wales incorporated associations Abraham (1999b) found that as the size of the association increased, and as it started employing people and requiring qualifications of its financial officer, the likelihood that an audit would be undertaken also increased. Hay and Davis (2004) had similar findings. In the previous research however, there was a significant range in entity size – Hay and Davis (2004) included societies with income ranging from zero to $48 million, and the small category had income up to $1.8 million (p.45); Abraham (1999b) included associations with income ranging from $14 to $1.67 million, with the non-audited entities ranging from $1,200 to $152,000 (p.34). This research focused on much smaller entities (income up to $200,000) and still found an inclination to undertake voluntary audits. Hence, as previously suggested associations/businesses undertake audits as they become bigger, and there was evidence these smallest of associations were mimicking the bigger entities.

Hay and Davis (2004) researched the use of proxies for audit quality, and found qualifications and firm status were typically used to pre-assess the likely quality to be delivered. With 42.7% of assurance being provided by firms (2 of which were local banks) and 32.3% being individuals aligned with one of the Joint Accounting Bodies, there was evidence to confirm the use of proxies in this Victorian setting.

The preceding discussion considers the voluntary undertaking of an audit by small associations and concludes that decision and the choice of auditor is indicative of mimetic behaviour in small incorporated associations. However, it must be stressed that the assurance service delivered in many instances were not reflective of an audit undertaken by virtue of a legal requirement.

**Conclusion**

The Indicator of Corporate/Institutional Complexity was developed to gauge complexities associated with the operational environment face by Treasurers, and was structured in such a way as to provide insights into corporate institutional isomorphism. The results indicate that whilst many small incorporated associations are still
operationally very simple (single entry, limited financial reporting, no paid staff or audits etc.), there are some instances where the operational choices mirror those of small businesses. Triangulation of the data revealed a great amount of supplementary evidence to confirm the findings of this Indicator, suggesting small incorporated associations experience coercive and mimetic isomorphic pressure. There was little evidence to suggest normative isomorphic pressures impacted these associations.

**Treasurers as volunteer accountants (Indicator of Transaction Complexity)**

Complexity is related to the nature of something, and a task is no less complex simply because a duly qualified person is doing it. However, a complex task undertaken by someone without required knowledge is relatively more complex than for someone with applicable knowledge. The Indicator of Transaction Complexity was developed to gauge the accounting-type complexities inherent in Treasurer’s role, and the results suggest that in almost all instances Treasurers are dealing with some matters that (in a corporate setting) would be undertaken by an accountant with a vast amount of knowledge-specific education.

Treasurers in small incorporated associations are responsible for maintaining “adequate and accurate accounting records” (s.30A, the Act) and for generating “true and fair” annual reports (s.30(3A) the Act) and in many cases this means undertaking the roles specified above. In varying degrees this specifically means being responsible for processing and reporting on transactions relating to:

- Sponsorship contributions;
- Bar takings and liquor licensing;
- Canteen takings and food handling regulations;
- Fundraising takings and associated regulations;
• Purchase of sale of stock items; and
• Budgets.

There is a strong parallel between these tasks and the career information provided to school leavers contemplating a career as an accountant (Department for Education, Employment and Workplace Relations, 2012b). This is an important finding in terms of the volunteerism literature where there is scant data on the specific tasks undertaken by volunteers (Musick and Wilson, 2008).

The Indicator further revealed 48.1% of small incorporated associations (112/233) had at least 1 sponsor, with 16 associations (6.9%) having more than 20 sponsors. In those associations with sponsors, the number of sponsors ranged from 1 to 53. As sponsors typically provide “support in the form of money…in return [for] such things as advertising, signage, naming rights or some other type of benefit of value” (Australian Taxation Office, 2012d), sponsorship contributions are not gifts. Consequently the Treasurer must be very careful how these transactions are processed and reported because there are potential GST implications for the association.

The Indicator of Transaction Complexity also revealed 27% of associations served alcohol by providing a bar service, and 32.2% served food through either a canteen or kitchen. Typically these functions are handled by an appropriately licensed person, and as evidenced in the annual statements lodged with Consumer Affairs Victoria, the accounting is often kept separate from the main accounting function - cash flows from the bar and canteen were often handled by the bar/canteen ‘manager’, and subsequently handed over to the Treasurer for processing (consolidation) into the financial report of the registered entity. In a number of instances the annual financial statement produced by the Treasurer encompassed a segment they had had little input to, whilst at other times the segment reports remained separate, with no attempt to consolidate into one financial report representative of the registered entity. This suggests the role of
accounting, including the reporting entity concept, may be misunderstood at the
association level.

With 62.2% of small associations selling merchandise, many Treasurers are required to
process transactions with specific accounting treatments. For instance, stock may be
expensed upon purchase with no asset recognised (under cash accounting), capitalised
as an asset and expensed when sold (under accrual accounting), or perhaps a
combination of these depending on the line item. In some instances there was evidence
of merchandise only being bought in response to pre-paid orders. For those associations
that capitalise their purchases, the related issue of carrying amounts comes to the fore –
especially regarding slow moving and obsolete stock (for example when sponsors
change). Furthermore there are custody issues and stocktakes to consider. These are
complex accounting decisions requiring specific knowledge and have very real
implications for the truth and fairness of subsequent reporting (especially completeness
and existence).

**Conclusion**

The Indicator of Transaction Complexity revealed that in many instances complexity
associated with the Treasurer’s role emanated from the sheer volume of transactions to
be processed rather than the need for accounting-specific knowledge. However, the
results also indicated for a number of associations the functional requirements of the
Treasurer’s role were similar to that of a career accountant. This was evidenced in part
by the existence of a number of different income streams that required the application of
specific knowledge and skills. Furthermore, review of the annual financial statements
lodged with CAV also revealed that occasionally some Treasurers are faced with highly
specialised accounting issues such as:

- Raising funds through the issue of debentures;
- Mortgages, charges & securities affecting property; and/or
- Trust interests.
Across all elements of the Indicator of Complexity many functions gave rise to external financial stakeholders in both the government and private sectors. These include, but are not limited to:

- Australian Taxation Office;
- Workcover/WorkSafe Victoria;
- Consumer Affairs Victoria;
- Staff members;
- Recipients and Providers of Tax invoices;
- Sponsors;
- Liquor licensing and training organisations;
- Food handling licensing and training organisations; and
- Suppliers of merchandise;
- Councils;
- Banks and other financial institutions; and
- Regional/district associations.

Typically the complexity of the transactions and the presence of financially interested external stakeholders would signal the need for some regulation or guidance, but despite these significant financial relationships there are no base level accounting requirements to undertake the Treasurer’s role, nor are there prescribed or guiding practices.
Anti-regulation/free-market theory and the accounting function (true & fair)

The requirements of ‘true and fair’ financial reporting underpin the accounting function in small incorporated associations, and despite being an undefined term, this is taken to imply compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk, 2006). The ability to achieve truth and fairness is therefore a function of knowledge, and because Treasurers come from a range of experiential and educational backgrounds, individual knowledge bases vary quite markedly. Failure to understand what is required is a grossly underestimated source of non-compliance (Braithwaite, 1993), and in this research has been shown to result in a multitude of errors and omissions.

Anti-regulation/Free-market theory

The supply and demand forces underlying the anti-regulation/free-market perspective rely on an efficient market to regulate the provision of accounting information. Proponents in favour of this approach argue the market for financial information is efficient ‘on average’, and will usually generate the ‘correct’ financial information. The results of this study found this to be true, although the averages were only just marginally ahead in a number of areas where it was close to a 50/50 split. Consequently, this research found evidence of widespread error in the annual financial statements lodged with Consumer Affairs Victoria, which suggests the market forces underlying anti-regulation/free-market theory are not interacting in a way that delivers the mandated requirements. Anti-regulation/free-market theory holds that the forces of supply and demand will interact to determine an optimal supply of financial information (Deegan, 2011). This research indicates there is a clear mismatch between what the market delivers as optimal (in terms of compliance with generally accepted accounting norms and conventions) and what the law requires (in terms of compliance with truth and fairness which equates to generally accepted accounting norms and conventions). This is because the volunteer financial market is indeed inefficient (as posited by pro-regulation theorists), as characterised by the absence of supply choices with accounting-
specific knowledge. Unlike with paid accounting labour where poor performers can be replaced, the results indicate volunteer Treasurers are hard to secure in the first instance and equally hard to replace in the second instance. The result, like Farmer and Fedor (2001) suggested, is these associations (that legally need a Treasurer to operate) have little choice but to tolerate poor performance, because a poor Treasurer is better than no Treasurer. Begg et al. (1994) described this as a nash equilibrium - the outcome is the best one at a point in time given the range of competing alternatives. Hence, financial market inefficiencies are more likely to relate to quality issues than quantity issues.

Annual financial reports are legally required to be distributed to association members and the Registrar. In an efficient market these stakeholders would evaluate the information and reject it if it is unacceptable. As evidenced by numerous questionnaire comments, much non-compliance is related to failure to understand what is required, and a failure of the regulator to provide an adequate administrative support mechanism. The recurring submission of financial information that is non-compliant with accounting norms and conventions, suggests a further failure of the Regulator to reject non-compliant annual statements (failure in deterrence). Hence, players in the ‘market’ are not rejecting financial statements that are not true and fair in accordance with generally accepted accounting norms and conventions – either because the market participants are themselves unaware, or because of limited resources.

The results of the questionnaire revealed 22.7% of small incorporated associations report financial information to external parties such as affiliated bodies, banks, sponsors and local councils. Accounting is often described as “the language of business” (Belkaoui, 1978; Lavoie, 1987), and as such certain terms and presentations have a common meaning amongst those who ‘know the language’. When interpreting the financial reports of small incorporated associations, these external users can be reasonably expected to apply the common understanding of accounting terms. They are not in a position to gauge whether someone with a different understanding has applied their own alternative meaning. Hence, external financial report recipients have limited ability to apply market forces and reject poor quality reports – on the one hand they may
not know, and on the other hand they are also dependent on the association’s limited resources.

Typically the role of the assurance provider is to give users (both actual and prospective) an indication of the reliability of the financial information being presented. Gay and Simnett (2010) explain that a significant reason underlying the demand for an audit is the remoteness of users from the transactions embodied in the reports – which prevents users from assessing the quality of the information. It is clear small incorporated associations have evolved from those described by Sadhu and AARF (1994), and it is not necessarily the case “members and other users can obtain the financial information they require or are provided with information that satisfies their needs” (p.x). The numbers provided are the numbers, and that is that. Without the scrutiny of a credible assurance engagement, there is no way of telling if the numbers are ‘true and fair’ by reference to the language of business. For example, a report with equipment recorded at $10,000 is a number that must be taken at face value – there is no mechanism to query if the carrying amount is true and fair, or if the asset actually exists, or if there were other items of equipment that should have been included, or whether the associations legally holds the rights to the asset(s) listed (Gay & Simnett, 2010). Whilst roughly half of the participant associations voluntarily subjected their accounts to audit, the results of this study revealed significant credibility failures in the assurance being provided. For instance, 36.3% of assurance was provided in a single sentence such as; ‘I have audited these books and found them to be correct to the best of my ability’. This will be discussed in more detail later, but for now it represents another failure in the financial ‘market’ to capture and reject sub-standard financial information.

Source and nature of non-compliance

Braithwaite (1993) and Parker (2000) identified three main sources of non-compliance: those related to comprehension, those related to willingness, and those related to ability (refer Table 2-15, p.105).
This research found evidence of all three sources of non-compliance, although it was very difficult to distinguish between failures related to comprehension and failures related to ability (structure of the regulation). The difficulty surrounds the reliance on the term ‘true and fair’, and the need to apply generally accepted accounting norms and conventions to achieve this end result. The law is deliberately designed to be adaptable and flexible to changing knowledge and circumstances (Hutter & Power in Pickford, 2001), however this ‘pointer’ approach can only work when the Treasurer is:

1. cognisant that this term points to generally accepted accounting norms and conventions; and
2. aware of what the generally accepted accounting norms and conventions are.

Failure to understand the law could be categorised as a failure related to comprehension (complexity of the mandated requirements) or a failure related to ability (caused by the structure of the regulation). Ultimately the distinction was applied as follows: If the failure in understanding related to wording, it was classified as a comprehension failure. (This did however create a natural bias, because with regulations based significantly of three words [‘true and fair’], the annual statement was the main area to judge this); If the failure in understanding related to the application of accounting norms and conventions, it was classified as a failure in ability (structure of regulation). But even this was not without difficulties because some of the wording used on the CAV annual statement (eg. association’s equity) were very ‘accounting’ in nature.

This difficulty is analysing non-compliance failures is a significant finding in itself. It illustrates the current approach to regulating the accounting function of small incorporated associations not only creates a void for the regulated, but it creates difficulties in assessing the source of compliance failures – which then makes reform much more difficult.
Overall attitudes affecting compliance

The propensity for non-compliance was gauged by the open-ended comments provided by questionnaire participants, who were free to comment on any aspect of the accounting requirements (nature of the regulations, CAV annual statement etc.). Responses were focused on the annual financial statement required to be lodged with the Regulator, but as this should be a reflection of the reports prepared to meet the requirements of the legislation, the findings were interpreted more widely. The results indicate compliance failures are most likely to relate to the practical ability and willingness of the regulated, rather than any particular comprehension problems contained in the requirements. Failure of regulatory requirements (ability) caused by the structure of the legislation is a significant problem, as evidenced by the following comment: ‘If the Department of Justice provides a better explanation of what type of accounting they require, it may assist us (as a small association) to comply without major accounting effort’.

Compliance failures related to willingness were revealed as the second most significant threat to compliance in small incorporated associations. Within this category cost of compliance and failure of persuasion were the dominant themes. Consistent with the literature on volunteerism, time as a cost did not present as a major issue. However, there were a number of respondents who indicated the financial requirements of small incorporated associations were ‘onerous’ and required the engagement of an accountant at ‘considerable cost to our small club’. This is significant because it illustrates that despite every attempt to spare these associations of formal accounting requirements, many still see the need for qualified accountants to operationalise their accounting function.

In a related theme, failure of persuasion by the Regulator posed an equally significant threat of financial non-compliance. There were two sub-themes that emerged, one indicating a level of misinformation/indifference about the existing obligations, and one indicating the role of the Regulator was unclear. Comments such as “Consumer Affairs Victoria requires us to pay a fee for which they provide absolutely no value. It is
“greedy Government revenue raising” and “we resent paying a Government Department a fee so we can continue to run a small Club operated by volunteers” were particularly illuminating, indicating a clear failure by associations to understand the role of Consumer Affairs Victoria.

The State Services Authority (2007) stated “regulation is used to facilitate the establishment and operation of non-profit organisations” (p.xii), but the associations’ legislation and the Registrar offer much more than a mechanism to create entities that can go about their business. As Passey and Lyons (2009) explain, the act of incorporation creates a separate legal entity, so it is the association rather than individual members who enter into contracts. Incorporation provides limited liability protection for the people who are making decisions on behalf of the association, so individual members will not be held liable for the debts of the association. Incorporation facilitates perpetual succession, so the association can have continuity of operations even when members leave and new members sign up. In return for these benefits comes “certain responsibilities and associated costs” (Passey & Lyons, 2009, p.88), including but not limited to financial reporting. Based on comments relating to volunteer motivations, keeping these community associations operational over generations is very important. The Registrar administers the legislation, which is ultimately aimed at limiting “undesirable outcomes, such as lack of transparency”, and encouraging “trust and confidence” in the running of these entities (State Services Authority, 2007, p.xii). The Regulator is therefore responsible for preserving stakeholder confidence, in much the same was as ASIC is responsible for companies. Incorporation is a choice, and the results strongly and clearly indicate the Regulator has failed to adequately convey the reasons why compliance matters. Such a failure was similarly evident in Passey and Lyons’ (2009) study of New South Wales incorporated associations, where “simple justifications for the few rules that do apply” (p.98) was a noteworthy recommendation.

The results further suggested some associations felt abandoned by the Regulator rather than supported. Providing administrative support is recognised as a key to reducing compliance failures (Braithwaite 1993; Parker 2000), but a pocket of associations
‘expressed uncertainty where to seek help’ and frustration at being ‘expected to deal with paid, trained, and unhelpful [bureaucrats]’. This again illustrates a breakdown in the relationship between the Regulator and the regulated, caused by failure of administrative capacity.

Evidence of Non-compliance

These findings, indicating the risk of non-compliance primarily related to ability and willingness, were confirmed (and realised) when examining the annual financial statements lodged with Consumer Affairs. The annual statement is comprised of an administrative section (that all associations must complete), and the financial section (where associations have the option of completing the CAV template or attaching their own association-formatted financial report).

The administrative information provided to (and on file with) Consumer Affairs Victoria was examined in a sample of 994 small incorporated association’s annual returns. The results confirm the anti-regulation/free-market theorists’ perspective that financial information is correct ‘on average’ – 87.7% of small incorporated associations completed the administrative section of the annual return without error. However this also means 12.3% (122/994) of all individual associations lodged their accounts with at least one error/anomaly. Using AASB 1031 (AASB 2010) as a guide, this is a significant (ie. material) amount of error. The most prevalent errors/anomalies related to the financial year end and association/ABN numbers, but also included a knowledge-based errors relating to the definition of members. The error types suggested a lack of understanding of (and perhaps significance of) the annual reporting requirements, and therefore encompassed failures relating to comprehension, ability and willingness.

Analysis of 674 annual financial statements lodged with CAV also confirmed the anti-regulation/free market perspective that financial information is correct ‘on average’. In the 337 CAV formatted financial statements 53.1% were lodged without error, and in the 337 association-formatted financial reports 66.2% were lodged without error.
However, with error levels at 46.9% and 33.8% respectively, this also confirms the pro-regulation perspective that the market for financial information is ineffective at delivering consistent quality.

In both the CAV formatted financial statements and association-formatted statement omission of a surplus/deficit figure was common. This suggests either a focus on cash balances rather than performance, or a lack of understanding that not-for-profit entities are allowed to generate a profit.

**Conclusion**

The analysis of financial statements lodged with Consumer Affairs Victoria confirmed the financial information being generated and lodged on behalf of incorporated associations is correct *on average*. This confirms the anti-regulation/free-market ideals. However, by changing the focus to the opposite view, a significant amount of error in the financial information of small incorporated associations is revealed. If the forces of supply and demand were working as intended under the anti-regulation/free-market perspective, this would be addressed by the market system – poor quality financial information would be rejected, and the ‘players’ would have little choice other than to produce quality reports (otherwise their legitimacy would suffer, which would the impact on matters of going concern ability). Further analysis of the ‘market’ reveals the market is not efficient because it is not really a ‘market’. In an efficient market the forces of supply and demand interact to determine the point of exchange. Generally higher quality goods/services will be supplied at higher prices and poorer quality goods/services at lower prices – and demand for a good/service goes unsatisfied until someone is able to supply it at an acceptable quality for an acceptable price. Accounting information is different though. In the case of small incorporated associations, accounting information *must* be supplied to the Regulator and association members, and is most likely to be supplied by non-accountants. The ultimate exchange is not a function of an exchange transaction, it is the result of meeting a statutory requirement.
The results show errors not only exist in the financial reports, but corrections are not being demanded by the association, the Regulator, or external recipients where applicable. This may be due to a lack of awareness (or perhaps awareness accompanied by tolerance), but ultimately shows the market is not self-regulating adequately enough to meet the legal requirements. Arguably the market is supplying what is being demanded (otherwise the reports would be rejected), but this clearly not the same as what the law demands.

**The assurance function**

The role of an audit is to increase the users’ confidence in the financial report being presented (AUASB, 2010b). The law requires the financial reports of small incorporated associations to be ‘true and fair’, and the literature suggests this implies compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk 2006). The results of this study reveal those assuming the role of Treasurer have varied backgrounds and experiences, and are unlikely to have formal accounting qualifications or be accountants in their paid work. The results further reveal high error levels in the financial reports, resulting from failures related to comprehension, ability and willingness. The structure of the regulation and the format of the CAV annual statement have been found to cause confusion, the Regulator has failed to convey to associations why compliance matters, and obvious compliance failures are not being rejected or eradicated. There is uncertainty surrounding both the accounting function and the accounting requirements, and it is therefore telling that 54.5% of small incorporated associations voluntarily sought out formal assurance to attach to their reports.

The enabling legislation does not require assurance providers to follow the Australian Auditing and Assurance Standards Board (AUASB) framework when providing assurance services to small incorporated associations – such an obligation is a function of one’s individual professional membership. The results of this study indicate that
despite nearly two thirds of assurance providers being professionally obliged to follow
the AUASB framework, assurance services being provided to small incorporated
associations are largely inconsistent with the framework. More specifically, it has been
found the term ‘audit’ is being used as a generic term to signal someone has ‘looked
over’ the accounts. Consequently users of the associations’ reports are in many
instances being provided a false sense of assurance by the ‘auditor’.

Small incorporated associations are unique entities whose accounting function presents
some unique issues for auditors, and many of these are a result of the structure of the
enabling legislation. For instance, the AUASB assurance framework lists five
components of an assurance engagement, and the structure of the incorporations
regulation creates difficulties in four of these components:

1. **Three party relationship**

   Under the AUASB framework (AUASB, 2010b) the three parties in an assurance
   engagement are the responsible party (financial report preparer), intended user, and
   practitioner (auditor). The difficulty here is that the role of accounting in these
   associations is not clear, which makes it uncertain who the intended user is. As a
   minimum, the intended users are association members (and arguably the Registrar),
   although the results indicate 22.7% of small incorporated association report to external
   stakeholders. Furthermore, there are no guidelines as to who can be the practitioner,
   resulting in one third of assurance being undertaken by individuals with no accounting
   qualifications.

2. **Subject matter**

   Whilst the AUASB framework (AUASB, 2010b) recognises the subject matter of an
   assurance engagement “can take many forms” (para.31), the variability in small
   incorporated associations is particularly wide. This is because the enabling legislation is
   silent on reports to be prepared, and therefore the format and composition is left up to
   individual associations. There was evidence that when faced with this uncertainty (and
when commercial accounting software was used), reports were named consistently with those required under the Corporations Act (2001) – although the nature of these reports were often not accurately represented by the title.

### iii. Suitable criteria

According to the AUASB framework (AUASB, 2010b) “criteria are the benchmarks used to evaluate or measure the subject matter” (para.34), and the lack of a suitable criteria is the biggest hindrance to conducting an assurance engagement on the accounts of a small incorporated association. By virtue of the enabling legislation the accounting function of small incorporated associations is founded on the undefined term ‘true and fair’, with no mandated or preferred accounting treatments specified. Consequently, in achieving truth and fairness this research found associations using cash and/or accrual accounting (where and as deemed appropriate by the responsible party) as the basis of recognition, and using historical cost and/or fair value (where and as deemed appropriate by the responsible party) as the basis of measurement. Furthermore, in their pursuit of truth and fairness some associations were found to be adopting their own personal selection of current individual Australian Accounting Standards, while others were applying very old and superseded Australian Accounting Standards. Most chose to reject the Australian Accounting Standards. Hence, there is no actual framework against which to evaluate the accounting function in small incorporated associations. This is a significant problem when undertaking an assurance engagement because “without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding” (AUASB, 2010, para.35).

### iv. The assurance report

As there is no legal requirement for small incorporated associations to have an audit done, there are also no boundaries within the enabling legislation regulating audits voluntarily undertaken. Consequently who audits, how they audit, and the format of the opinion they provide is determined by what the committee is willing to accept (Note:
this is not the case for audits undertaken by members of the Joint Accounting Bodies, and has been addressed in the 2012 reforms).

In addition to difficulties related to the structure of the legislation, idiosyncrasies related to the entity type can cause difficulties with respect to the final component of assurance engagement when undertaking such an engagement.

v. **Sufficient appropriate evidence**

This research has shown Treasurers in small incorporated associations have varied backgrounds, and that committees change (sometimes regularly) over time. In addition, 21.5% of associations use 2 or 3 different accounting systems (eg. manual, electronic worksheet, commercial accounting package, non-accounting package) to record/report their association’s transactions, and operations such as bar/canteen are typically separate from the Treasurer’s responsibility. As a result of this, and other idiosyncrasies associated with the volunteer accounting function, substantiating paperwork is often not available (or not readily available). Time spent chasing this up may not be economically justifiable (especially for firms providing an honorary service) and can impact the evidence upon which a decision is based.

All of these factors deliver uncertainty to the audit process in small incorporated associations, which makes assessing truth and fairness very difficult (and somewhat subjective). This was evident in the assurance provided where: 52.9% of assurance was not addressed to anyone; 63.7% failed to list the reports their opinion related to; 84.3% failed to make any reference to the Associations Incorporation Act; and 70.6% made no comment about the procedures used in forming their opinion. The opinions being issued also indicated a high level of uncertainty, as evidence by the use of disclaimers such as ‘to the best of my ability’ and ‘appear to be true and fair’.
The reforms introduced in the Associations Incorporation Reform Act 2012 are an important development in the evolution of regulatory reform (although they appear to have been relaxed already). Small incorporations are still spared the regulatory burden of having to subject their accounts to audit, however, as this research illustrated, roughly half still voluntarily undertake an ‘audit’. The reforms as enacted strive to introduce a consistent and credible environment for performing an assurance engagement by adopting the AUASB framework – and if implemented can be expected to address some of the problems found in assurance being offered prior to the reforms. However, as two thirds of those undertaking these assurance engagements are already required to apply the AUASB framework, the reform represents a codification of an existing requirement rather than a reform as such. On the other hand, the requirement to have a Joint Accounting Member with a practising certificate perform the assurance is likely to represent a significant reform for many of these resource poor associations.

Based on attitudes inherent in the open-ended questionnaire comments, cost pressures, collapse in belief in the law, failure of persuasion, and deterrence failure are all probable outcomes leading to non-compliance related to willingness. It is likely this is the reason for relaxing the enacted requirements regarding audits.

**Conclusion**

Consistent with the findings of CPA Australia and ASIC, this research has found many shortfalls in the assurance being attached to the financial reports of small incorporated associations. Assurance defects were evident in the vast majority of assurance engagements, despite nearly two thirds being undertaken by members of the Joint Accounting Bodies who are bound to comply with the Australian Auditing Standards. The reforms introduced in the Associations Incorporation Reform Act (2012) codify the need to follow the AUASB framework, and although this serves to clarify the Regulator’s expectations, it does not ease the issues relating to the components of assurance (especially with regards to the lack of suitable criteria against which to assess the financial reports).
The minimalist nature of the legislated financial requirements has been shown to make the application of the AUASB framework difficult, which may in part explain the poor assurance being provided. Providing assurance is ultimately about risk minimisation, in that the assurance provider gathers sufficient appropriate evidence upon which to form an opinion - the more evidence gathered, the lower the risk of forming an inappropriate opinion (Gay and Simnett 2010). In the case of small incorporated associations the role of an audit seems less about assuring the truth and fairness of the accounts (as a legal requirement), as it is about providing confidence to the members nothing untoward has been done in the accounts – ie. there is no reason for them to suspect fraudulent activity has occurred. Hence, the assurance provider’s primary risk can be viewed as related to fraudulent activity going undetected, rather than being taken to court by an investor/sponsor who lost significant sums of money when the going concern assumption failed to be a reality. Assurance providers see little real risk associated with auditing a small incorporated association, and this is supported by the nonchalant nature of the assurance reports examined – where less than half had an addressee specified (47.1%), more than half (56.9%) provided their opinion in less than 5 sentences, and nearly two thirds (63.7%) failed to specify what reports their opinion related to.

Both these issues can be related back to the lack of ‘market’ players to reject sub-standard quality – a ‘self’-regulating mechanism is not present in these types of associations.

5.3 Overall conclusions from this study

This study identifies and discusses the current practices underlying the accounting function in small incorporated associations. In doing so efficiency of the market for financial information was examined in a unique setting, with the results confirming the pro-regulation theorists’ position that the market is inefficient - but delivers correct information ‘on average’. Deegan (2011) advises that “without regulation a sub-optimal
amount [and/or quality] of information will be produced” (p.41) in an inefficient market, but Cooper and Keim (1983) caution “it does not necessarily follow that the market must be regulated” (p.192). This research has illustrated many accounting discrepancies occur in a volunteer environment but according to Beach (1984), “any resolution will no doubt be left until the problem reaches crisis proportions” (p.312). Although Meyer (1994) argues that formal accounting is unnecessary (and even intrusive) in organisations that are complete/self-contained, Abraham (2006) adds that changes that put people outside their comfort zones are sometimes necessary for the continued viability of the organisation. Suffice to say, “whether… small clubs or associations need… guidance and protection is debatable” (Passey & Lyons, 2009, p.88).

Small incorporated associations represent a ‘pocket’ of entities that have been deliberately spared the burden of accounting regulation. This is appropriate because these associations are typically community-based clubs being run by volunteers for community benefit, rather than by professionals for profit. They draw their committee of management from their catchment of members, and are therefore limited at any point in time by the qualifications and backgrounds of members and other persons linked to members. However, this is not to suggest they are not professionally run – many small incorporated associations were found to exhibit characteristics of small businesses. It is for this reason that these associations are able to provide a vehicle for personal development while building of social capital within the community (Department for Victorian Communities, 2006, 2008; Eley & Kirk, 2002; Victorian Government, 2008). Being a committee member enables office holders to gain insights into the running of a corporation, but on an infinitely smaller and less intimidating scale – for example the President can be viewed as the Chief Executive Officer (CEO), the Secretary as the Company Secretary, and the Treasurer as the Accountant (or possibly Chief Financial Officer). Hence, small incorporated associations are important on both the personal and community levels.
Many operational aspects of associations have evolved dramatically since the original enabling legislation was proclaimed in 1981, and this has resulted in the introduction of various regulatory requirements such as (for example) first aid, food handling, liquor licensing, and fundraising. The enabling legislation has also evolved to mimic the Corporations Act 2001, as evidenced by the introduction of the ‘business judgement rule’, model rules (replaceable rules), director’s duties, civil penalties, guidance on use of technology at committee and general meetings, dealing with conflicts of interest and so on. Hence, coercive isomorphic pressure has helped shaped the current operating environment of small incorporated associations. Despite the widespread corporatisation of these types of associations, the accounting function in small incorporated associations (which represent 97% of the Victorian register) has lagged behind - remaining largely the same for the past thirty plus years. That is, there are no prescribed or preferred accounting treatments, but instead an overarching requirement that annual reports prepared and distributed to the members and Registrar are ‘true and fair’. For those not in the accounting profession (and indeed for many with an accounting qualification) this term may seem somewhat subjective – and measured by reference to their own values. Whilst it is true the term has not been defined, much academic discussion over many years has led to an understanding that it implies compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk, 2006). These are not the same as the Generally Accepted Accounting Principles (GAAP) and do not necessitate the application of Australian Accounting Standards – although it can, if the association so chooses. This research has shown a lack of understanding related to the ‘true and fair’ requirement, as evidenced by the use of various accounting methods by Treasurers and alternative assurance terms being used by assurance providers (for example ‘correct’ and ‘in good order’).

The application of the ‘true and fair’ requirement is a function of one’s knowledge, so it is significant this research found the majority of Treasurers were non-accountants with a non-business qualification. On the one hand this is positive because it demonstrates the personal development opportunities of committee tenure, but the extent of non-compliance with generally accepted accounting norms and conventions suggest the policy objective of truth and fairness is not being met by the current regulatory
approach. Compliance failures were found to relate to comprehension, willingness and ability (Braithwaite, 1993; Parker, 2000), with comprehension issues most likely pertaining to completing the CAV annual statement. Non-compliance related to willingness and ability were most prevalent, and while cost of compliance was a noted issue, perhaps the biggest theme related to failure of persuasion by the Regulator to adequately convey the reasons why compliance matters. Related to this theme there was also evidence suggesting a collapse in belief in the law by some associations, and a failure of administrative support mechanisms put in place by the Regulator. The void created by a regulatory approach designed to ease the burden of small incorporated associations has clearly created confusion amongst the regulated, leading to the comment:

‘If the Department of Justice provides a better explanation of what type of accounting they require, it may assist us (as a small association) to comply without major accounting effort’.

In addition to the specific policy objective of truth and fairness not being met by the current regulatory approach, many of the broader goals of NFP are similarly failing under the current approach:

- The promotion of public trust and confidence in NFPs (p.14);
- Ensuring appropriate transparency and accountability to donors, beneficiaries, other stakeholders, and the public (p.15);
- Preventing abuse, self-dealing or other misuse of NFPs (p.15);
- Promoting capacity building within the sector (p.15);
- Streamlining requirements, including reporting, so as to provide consistency and minimising compliance costs (p.15); and
- Providing NFP entities with certainty as to their rights and responsibilities (p.15).

(Australian Government (The Treasury), 2011a, pp.14-15)
As well as Treasurer characteristics, at the foundation of this situation is the lack of a self-correcting mechanism within this particular market for financial information. This is ultimately because an anti-regulation/free-market approach such as this requires the forces of supply and demand to interact in such a way that sub-standard performance is rejected. In the case of small incorporated associations there is no such mediator, and compliance failures are not detected and/or not corrected. Roughly half of the associations undertook voluntary audits, and although a number included a cash receipt qualification, not one of these questioned the truth and fairness of the reports – the closest any came to this was three disclaimer of opinion outcomes.

Just because there is evidence that the current anti-regulation/free-market approach to regulating the accounting function in small incorporated associations is not achieving the policy objective of truth and fairness, it does not necessarily follow that regulation is the answer (Cooper & Keim, 1983). Already 90.6% of Treasurers believe that people are generally hesitant to nominate for the role, and much of the reason was found to be due to lack of skills, responsibility and liability. Furthermore, a large portion of those currently filling the Treasurer’s role were found to be doing so because ‘no one else would’. Any regulatory solution should therefore be considered with due caution. The literature shows that sometimes the introduction of rules/regulations deters people from taking on (or continuing in) a volunteer role because it makes it just like ordinary (but unpaid) work (Bender, 2003; Harris, 1996; Horne & Maddrell, 2002; Phillips et al., 2002). By contrast, some volunteers view rules and regulations as providing clarification of what is expected in a particular role, and guiding preferred practices (Horne & Maddrell, 2002). Regulating the accounting function could address some, perhaps even many, of the failings uncovered in this study, however doing so is will require specific accounting skills and increase the level of responsibility and liability associated with being Treasurer - three factors this study found to be key deterrents to attracting Treasurers. A regulatory solution may therefore be expected to make it even harder to attract treasurers, which is contra to the personal development and social capital aspect of small incorporated associations.
This study has illustrated the current anti-regulation/free-market approach to regulating the accounting function in small incorporated associations is not achieving the policy objective of truth and fairness. This is not to say the anti-regulation/free-market approach is not delivering what the ‘market’ commands – just that what the ‘market’ commands is different from what the Regulator commands. Anti-regulation/free-market theorists argue the market for financial information is efficient ‘on average’, and will usually generate the ‘correct’ financial information. This research found this to be true, although in some significant areas the averages were only just in favour of the market forces. There were many errors and non-compliances in the reports examined, and this study illustrates they are not being detected and/or corrected, because there are no natural (or market) mechanisms that see sub-standard information rejected. This may be because users of the reports are unaware themselves of acceptable financial practices, or because they are aware of the resourcing problems faced by these associations. In either event there are very few options for users relying on the work of volunteers who are doing the best they can with the time and knowledge they have.

The results of the Indictor of Complexity (Corporate/Institutional and Transaction) showed some Treasurers are undertaking work that is typically undertaken by a paid accountant in a corporate setting. Some Treasurers are processing transactions involving paid staff, taxation (GST, BAS, PAYG etc.), ABNs, sponsors, food and alcohol sales, merchandising, and fundraising - and all of these represent external stakeholders for an association. This research found 22.7% of small incorporated associations provide financial information to external users such as affiliated bodies, banks, sponsors and local councils. The existence of external users of financial information in nearly one quarter of associations is a significant finding that indicates Sadhu and AARF’s (1994) perspective (that these associations are not reporting entities) may no longer hold completely true. Whilst it may be possible for tailor-made reports to be generated for specific stakeholders, this research found financial report recipients are likely to get what the committee/members get, rather than ‘purpose-built’ reports. Hence, there is an argument the reports could be classified as general purpose rather than special purpose. This ‘general’ classification is further supported by the requirement for a small incorporated association’s financial reports to be placed on the public register, and
therefore makes them available to the general public. To try and counter this, many (18.6%) of the audit reports specified ‘this special purpose financial report has been prepared for distribution to the members... ’. Stakeholder confidence is important if entities are to attract the support of resource providers, and for this reason the accounting function of companies is heavily regulated, and the ASX imposes further rules on listed companies. According to the State Services Authority (2007) regulation is aimed at limiting “undesirable outcomes, such as lack of transparency” (p.xii), and encouraging “trust and confidence” (p.xii) in how entities are run. Formally and deliberately addressing the accounting function in small incorporated associations could help associations by increasing stakeholder confidence.

In his analysis of regulatory non-compliance Braithwaite (1993) is very clear that the best approach to reduce regulatory non-compliance is education and guidance. This was reiterated in the volunteerism literature where training is shown to provide benefits to both the organisation and the individual (Maynard, 2007; Patterson et al., 2007). As illustrated in Table 2-4 (p.61), many of the benefits counter the barriers cited to volunteering for this role.

This research found great demand for Treasurer training, with 93.4% of all questionnaire respondents agreeing Treasurer training should be available. Various guidance options were presented, with the results showing strong and almost equal support for an online training program as for an information booklet. This suggests clear guidance is seen as lacking, but necessary, by the respondent Treasurers. The literature suggests a conceptual framework as a means to provide such guidance on matters that are not prescribed elsewhere. The AASB conceptual framework is an example of a mechanism to “provide guidance on key issues such as objectives, qualitative characteristics, definition and recognition criteria” (Deegan, 2010, p.47) that are not dealt with in the mandated accounting standards. This is not an accounting standard, and is therefore aimed at guidance rather than prescription.
**Final conclusion**

The literature has shown the term ‘true and fair’ is a value-laden term that is “closely identified with judgment” (Kirk, 2006, p.206). Although in the widest sense in can be taken to imply compliance with generally accepted accounting norms and conventions (as opposed to rules-based accounting standards), it is often thought of as a “bizarre notion…in financial reporting” (Walton, 1993, p.23). For instance, history has shown that even in times where a ‘true and fair’ override was inserted into the accounting framework to act as “a legal safety net to cover any unforeseen eventuality” (Kirk, 2006, p.210), there were numerous “breakdowns in financial reporting” (Alexander & Jermakowicz, 2006, p.133). Furthermore, when there are differences in the base understanding of what financial information can be taken to mean, a financial reporting gap can result (Allen, 1991). Consequently there is much opposition to the concept (Kirk, 2006) and the professional accounting domain in Australia is “moving away from ‘true and fair’ as a literal concept to a more technical meaning that also requires compliance with a set of rules” (Kirk, 2006, p.206).

The primary finding of this research is that the current approach to regulating the accounting function in small incorporated associations is not delivering the policy objective of truth and fairness. The minimalist approach that was supposed to spare associations of their regulatory burden has instead created a void where the Regulator’s expectations are unclear, and results in poor quality accounting and assurance output. The approach aimed at simplifying the accounting function has in fact complicated it, because there is no certainty. The current position mirrors the accounting profession of the 1970s-1990s (prior to the conceptual framework and accounting standards), when there were great inconsistencies in accounting practices that resulted in ‘meaningless’ numbers (Ball & Brown, 1968). The operations of small incorporated associations have evolved to the point where knowledge-specific complexities now underlie the Treasurer’s role and the existence of external stakeholders commonplace. The accounting regulations on the other hand have not evolved. Whilst there is a clear and obvious need to directly address the poor accounting and assurance functions in these associations; it must be remembered they are volunteer-driven and dependent associations. Time and resources are limited, and will always be so. From a volunteer
perspective, mandating requirements could intensify the current difficulties faced by associations in attracting Treasurers, or could alternatively provide the clarity needed to attract professional accountants. A middle ground could instead be to provide education and guidance. Either way (to paraphrase one questionnaire respondent) this research has shown the Regulator needs to provide ‘a better explanation of what type of accounting they require’. This will ultimately involve balancing the needs of stakeholders with the volunteer nature of the accounting function, and involves an intensely delicate balance. In the words of Charles Parkinson:

\[
\text{If committee members are discouraged from serving on committees because of a burdensome legal regime, the non-profit sector will suffer and the community will lose services due to a shortage of willing participants. However...this consideration must be balanced with the need for public accountability” (Parkinson, 2004, p.78).}
\]

In conclusion, the complexity and uncertainty inherent in the Treasurer’s role has the potential to act as a barrier to entry into this volunteer position. This results in a failure to attract volunteers, and instead, filling of the post is characterised by someone willing to do the role as opposed to someone wanting to do the role. Poor quality financial practices (including reporting) consequently permeate the accounting function, because there is little choice other than to accept the quality that the only willing Treasurer can deliver. Furthermore, audits are allowed to be undertaken by persons with unspecified qualifications, and therefore are not addressing poor quality financial practices. This is of particular concern because, as this research has shown, many small incorporated associations report externally to a range of resource providers, and/or process transactions that have a financial impact on third parties.

In undertaking and presenting this research, this thesis has contributed to the currently sparse knowledge relating to accounting by volunteers in small incorporated associations. The development of the Indicator of Complexity represents a methodological contribution; presenting an alternative way to measure complexity and isomorphic pressure.
5.4 Implications and Recommendations

This section draws together the relevant literature and research findings in order to present theoretical, policy and practical implications of volunteer accounting in an unregulated environment.

Volunteerism

Theoretical implications

Research to date has shown people tend to volunteer (or be recruited) for specific volunteer tasks, but despite the heavily researched domain of volunteerism, there is very little focus on what specific tasks are done by volunteers (Musick and Wilson, 2008). This research investigated the role of volunteer Treasurer in small incorporated associations, and found that in a number of instances volunteers were responsible for significant occupation-related knowledge-specific tasks including, but not limited to:

- Paying staff;
- Processing transactions, some with taxation-related considerations (ABN, BAS, GST, PAYG);
- Statutory, internal and external financial reporting;
- Audit liaison;
- Processing transactions with idiosyncratic accounting requirements (sponsor contributions; donations; sale and purchase transactions); and
- Budgeting.

The term ‘committee member’ or ‘administration’ is often used to group all committee positions from executive officers (such as President, Secretary and Treasurer) through to general committee members (such as general social committee and general fundraising
committee (Musick and Wilson, 2008; Volunteering Australia, 2011). This research highlights the complexities associated with the role that make it significantly different from other committee roles. Consequently the use of generic terms to group volunteer roles needs to be applied with caution because they do not convey the unique level of complexity underlying this particular role.

The body of research thus far indicates people can, and do, volunteer for the same role for very different reasons (Bruyere & Rappe, 2007; Clary et al., 1998). A common approach to analysing volunteer motivations is the functional approach, where motives are said to be a function of our underlying psychological needs (Musick & Wilson, 2008). This research highlights some volunteer roles are characterised more by the existence of barriers to entry than any inherent motivational pull-forces. The Treasurer’s role in small incorporated associations is one such example, and this is because the role is primarily viewed as being equivalent to a paid occupation (accountant). That is, the volunteer Treasurer requires much the same skills as an accountant, assumes similar responsibilities as an accountant, and like accountants potentially generates liability (for themselves and/or their organisation) because of their actions - but without the compensation or remuneration that an accountant gets. In these instances it is the importance of the organisation to the potential volunteer (ie. VFI ‘value’ function) that is the dominant motivational force driving their volunteer behaviour.

Like other volunteer roles, in occupation-related volunteer roles proxies are used by the hopeful organisation to pre-assess one’s capacity to fill a role, and then target them. Typically it is personal attributes (eg. organisation and leadership traits) rather than knowledge that is the focus of this pre-assessment, largely because volunteers can always be trained (and in many instance are trained as part of their induction). In volunteer roles that are considered similar to occupations, people working in that field are the first choice, but thereafter increasingly general proxies are used before the role is filled. This confirms the existing volunteer literature, but in a knowledge-based volunteer role with occupational characteristics.
Policy implications

Despite targeting potential volunteers based on various proxies, the role of Treasurer is unlikely to be undertaken by someone with formal accounting knowledge or a professional accounting qualification. Instead a Treasurer is more likely to have general business knowledge and work with numbers in an accounts or administration capacity rather than as a professional accountant. This has great significance in a regulatory environment structured in such a way that it ‘points’ to generally accepted accounting norms and conventions rather than specifying what is actually required or acceptable.

This research showed high levels of non-compliance with general accepted accounting norms and conventions caused by a general lack of understanding, and a failure by the Regulator to adequately convey reasons why compliance matters. With incorporated associations becoming more and more corporatised, there is a pressing need to address the problems being generated by the current regulatory approach. Treasurers are typically in the role for multiple years (not just one year), and have a high propensity to repeatedly volunteer for the role within their current association and across other associations. Hence, any reform programs can be expected to generate longer term benefits, because it embeds knowledge in the association.

Practical implications

Associations cannot operate without someone receiving and paying money on behalf of the organisation, and undertaking other related functions. The increasingly professional nature of small incorporated associations increases the complexity of the accounting function, bringing with it additional responsibility and the potential for liability. This is exacerbated for professional accountants whose professional status and paid employment may be negatively impacted by such volunteer work. Consequently, preferences for professional accountants are necessarily being abandoned, and the Treasurer placement is a function of willingness to undertake a job ‘no one else would do’ – usually by someone with some link to numbers in their paid employment.
Recommendations

Whilst there is a trend away from serving on committees generally (Parkinson, 2004), this research has revealed particular disdain for assuming the role of Treasurer. It is recommended the Registrar address this issue, and the following suggestions are put forward:

- Establish a voluntary formal training program for volunteer Treasurers, with certificate recognition of completion. This would ‘give something back’ to the volunteer, and would address the common theme that people are worried about not having the required skills. Community clubs such as sporting clubs are duly recognised as a mechanism for personal development and the building of social capital (Cordery & Narraway, 2010; Department for Victorian Communities, 2006, 2008; Eley & Kirk, 2002; Victorian Government, 2008), and this would be an opportunity to support these benefits. Treasurer training would develop skills that are transferrable to other associations and into one’s private life, while at the same time building additional capacity within associations;

- Delineate the Treasurer’s role, by having an Assistant Treasurer responsible for the non-accounting-related elements of the role (eg. banking, data entry), and a Treasurer responsible for the more technically complex aspects of the role (eg. coding of transactions, financial reporting, budgeting). Such a segregation of duties would also have an added internal control benefit. Encourage professional accountants to nominate for Treasurer’s role by highlighting the continued professional development recognition available through the Joint Accounting Bodies. Based on the theory of normative isomorphism, having more professional accountants taking on the role of Treasurer would serve to provide consistency to the accounting practices;

- Mandatory rotation of Treasurers after a certain number of years in office. This would address concerns people have about being ‘stuck in the role’ once nominated and encourage succession planning. This could also have complimentary benefits related to transparency and accessibility, reducing the fear of liability associated with inherited compliance breaches.
This research has shown great complexity exists within a number of small incorporated associations, and Treasurers are commonly assuming responsibilities on a par with professional accountants. Treasurers are often not professional accountants and there was almost universal support from questionnaire respondents for government training programs. In recognising the huge cost involved in such an undertaking, it is recommended he Registrar consider the following suggestion:

- Use the Indicator of Complexity to tailor content in an accounting-related training program, and to target ‘high-risk’ associations. This would enable high risk areas of non-compliance related to comprehension and ability to be specifically addressed.

**Institutional Isomorphism & the Indicator of Complexity**

*Theoretical implications*

The literature suggests that mimetic isomorphic pressure is most likely to be present in environments characterised by uncertainty, and normative isomorphic pressure in environments with group clusters (DiMaggio & Powell, 1983). This research has demonstrated there is much uncertainty surrounding the accounting requirements imposed on small incorporated associations, which should theoretically see these associations looking to their corporate counterparts for guidance. The results of the Indicator of Corporate/Institutional Complexity show there are some small incorporated associations whose operational choices do mirror those of small businesses, but with the majority of associations achieving low scores, corporatised practices were not found to be widespread. This research also found that just 13.3% of Treasurers were members of one of the Joint Accounting Bodies, and therefore normative pressure would not be expected to be high. The interaction of both of these forces suggests that in an uncertain environment where there is much angst about the responsibility and liability borne by the unqualified Treasurer, associations are not deliberately aligning themselves with organisations that have undeniable responsibility and liability.
Multiple regression analysis (MRA) is often used to investigate isomorphic pressure, but this research adopted an alternative approach to investigating these pressures. MRA is an approach where a resulting formula is aimed at predicting factors most likely to result in institutional isomorphism. By contrast this study adopted an Indicator approach aimed at measuring the incidence of institutional isomorphism. Hence, the focus of this study was to measure the extent to which small incorporated associations had already morphed into corporatised structures rather than predicting which associations would exhibit such tendencies. Although this approach is dependent upon the individual component measures, this is a unique approach that could be further developed and applied in other non-profit settings.

Policy implications

This research developed the Indicator of Complexity to examine overall complexity associated with the Treasurer’s role, and found substantial differences underlying this one role. The results show some Treasurers operate in associations with highly corporatised practices (as measured by the Indicator of Corporate/Institutional Complexity) and are responsible for processing some intricate transactions (as measured by the Indicator of Transaction Complexity). Consequently some Treasurers are faced with taxation issues associated with ABNs, GST and BAS reporting, issues related to paid staff, appropriately processing sponsorship/donation contributions, external financial reporting, budgeting, sales and purchase transactions and so on. This is significant because each category is representative of external stakeholders who are relying on the work of the Treasurer. At the other end of the spectrum many associations scored zero on both Indicators, portraying an accounting environment and function devoid of any complexity. The vast range in scores, highlights the vast difference in the accounting function of incorporated associations who are all equally classified as ‘small’ under the current regulation - and, by virtue of this classification, are not bound by any prescribed accounting practices. In highlighting the existence of such complexity and external stakeholders, the Indicators offer an alternative mechanism for assessing the thresholds where formal accounting regulation is deemed appropriate.
Practical implications

The role of Treasurer can be simple, entailing little more than processing a few annual membership fees. At the other end of the spectrum the role of Treasurer can be complex, entailing the vesting of property, processing of receipts raised through the issue of debentures, execution of grant contracts, handling of trust accounts, mortgages and so on. Hence, the reality revealed by the Indicator of Complexity is the role of Treasurer is not the same in all small incorporated associations – instead there is wide variation in the complexity of the role. The practical implication is that without mandating a base level of knowledge or providing appropriate training, the achievement of truth and fairness in financial reporting is likely to be compromised.

Recommendations

Whilst the recent regulatory reforms to introduce a three-tiered structure (small/tier-1, medium/tier-2, large/tier-3) to replace the previous two-tiered structure (small/non-prescribed, large/prescribed) recognised the need to better match accounting requirements with association size, small incorporated associations were overlooked. Changes in the thresholds instead meant even more associations were classified as ‘small’, and therefore governed primarily by the ‘true and fair’ requirement. This research has revealed significant variation in the size and practices of small incorporated associations, despite them all being equally classified as ‘small’. Classification is self-assessed by associations according to income, but given the level of errors found in the accounting information being generated, it is suggested this is not an ideal basis for classification. It is therefore recommended that:

- the Registrar adopt the Indicator of Complexity to classify associations as small/tier-1, medium/tier-2, and large/tier-3 associations. This would enable mandated accounting requirements to be related to the existence of external users of financial information, as is customary in the broader accounting discipline. Application of the Indicator would be a matter of associations answering fifteen multiple choice questions.
Note: New York has 15 separate categories for non-profit organisations, and is described by Parkinson (2004) as “having the most sophisticated legislation for non-profit organisations in the United States” (p.91).

**Regulatory Non-Compliance**

*Theoretical implications*

The literature widely recognises three sources of regulatory non-compliance: compliance failures related to comprehension; failures related to willingness; and failures related to ability (Braithwaite, 1993; Parker, 2000). This research applied these sources to instances of non-compliance in the accounting function of small incorporated associations and found overlap between the comprehension and ability categories. This was due to the structure of the regulatory requirements whereby they ‘point’ to generally accepted accounting norms and conventions rather than prescribing them. As a result it was difficult to distinguish between compliance failures related to the ‘pointed’ structure of the regulation (ability) and compliance failures related to inherent complexity of the accounting concepts (understanding/comprehension). This research therefore demonstrates that in application the sources of non-compliance require well-constructed regulations – and are less applicable as a means to analyse regulations that are structurally difficult for the regulated to understand.

*Policy implications*

Small incorporated associations are deliberately spared accounting regulation in recognition of their resourcing difficulties, with the overarching requirement being to produce true and fair annual reports. The term ‘true and fair’ is undefined, but is taken to imply compliance with generally accepted accounting norms and conventions (Deegan et al., 1994; Kirk, 2006). That is the regulations ‘point’ to somewhere else for their meaning. The results of this study revealed that in such a relatively unregulated
environment, non-compliance can still run at high levels. That is, in trying to simplify regulatory requirements by not prescribing (or recommending) any specific treatments, the Regulator has instead made it more difficult for those without accounting knowledge.

Practical implications

Without guidance or prescription, cash and/or accrual accounting may be applied, single entry or double entry, historical cost or fair value. This study showed a high propensity for these to be applied inconsistently over time and across different financial report elements. For example, one association might expense purchases of uniforms, yet record a subsequent purchase as a stock asset, or order on behalf of members (and bypass the association’s books). The practical implication of this is; it is very difficult to guide associations who want advice on how to account for a transaction or event, because a number of options are available – and the law does not provide a preference. Explaining this to non-accountant Treasurers further complicates matters, and makes the law look feeble and the Treasurer’s role complicated. That is, whilst not prescribing accounting requirements decreases the regulatory burden, it also makes it difficult for Treasurers of small incorporated associations to know what the Regulator expects (and the Regulator to offer guidance).

Recommendations

This research has discussed the problems associated with using the undefined term ‘true and fair’ as the overarching requirement of the accounting function of small incorporated associations. Evidence has been found which indicates there is confusion amongst Treasurers and support for providing ‘a better explanation of what type of accounting [is required]’. The literature has clearly shown that defining ‘true and fair’ is not the solution. It is recommended the Registrar address this issue, and the following suggestions are put forward:

- Communicate the existence and benefits of associations adopting the Victorian Standard Chart of Accounts (VSCOA) – and provide migration assistance.
Whilst application of the VSCOA was not a focus of this research, content analysis of financial statements revealed significant variability in the chart layout and account names of small incorporated associations. This is prima facie evidence the VSCOA is not being widely used by these associations. Encouraging the adoption of the VSCOA would be a good incremental approach (Gerboth, 1972) to gain consistency in the reporting function, and compliance with generally accepted accounting norms and conventions;

- Develop a non-mandatory conceptual framework to guide the accounting practices. At present there is a combination of cash accounting and/or accrual accounting with variations in treatment not only across associations, but also over time within the same association. There was evidence of both single entry and double entry accounting, with a number of associations combining the two methods – for instance, some associations reported payments (e.g. equipment purchases) as both an expense on their income statement and an asset on their balance sheet. Such practices are contra to generally accepted accounting norms and conventions, and therefore impacts truth and fairness. A conceptual framework could explain the appropriate combinations;

- Require associations to report on the accounting methods and significant accounting policies adopted in the preparation of the report. This would not only provide valuable information to users of the financial information, but would also assist the Treasurer in better understanding the mechanics of the role (which in turn would facilitate personal development and the building of social capital within the association);

Evidence has also been found which indicates there is much angst between the Regulator and the associations. There was an overall theme of resentment that suggested associations did not understand the role of the Regulator. It is recommended the Registrar address this issue, and the following suggestion is put forward:

- Develop a training program or letter campaign outlining the benefits of incorporation, as well as the responsibilities that come with those benefits. Special consideration should be given to the role of the Regulator, and
countering the sources of non-compliance due to willingness. Issues pertaining to cost of compliance and enforcement failures need to be urgently addressed with a view to installing/reinstalling belief that the law is ‘right’.

**Theory on Voluntary Audits**

_Theoretical implications_

Anti-regulation/free-market theorists posit that even in the absence of a mandated requirement, managers will voluntarily subject their accounts to audit (Francis & Wilson, 1988; Morris, 1984; Watts, 1977; Watts & Zimmerman, 1983. Furthermore DeAngelo (1981) and Watts and Zimmerman (1986) suggest proxies such as qualifications and firm status will be used to pre-assess auditor quality, and on this basis larger entities will choose increasingly qualified auditors (with an unqualified individual representing the lowest quality and the audit firm representing the highest quality). Hay and Davis (2004) tested this theory in New Zealand incorporated societies and found larger societies (measured in terms of assets, revenue, debt and salaries/wages) were more inclined to voluntarily undertake an audit. They also confirmed that greater entity size is associated with progressive auditor quality choices. This study examined the choice of auditor by Victorian small incorporated associations, and similarly found that associations with relatively higher income, expenditure and assets were (firstly) more likely to undertake a voluntary audit. This research also confirms that across each of these financial report elements, the choice of an increasingly qualified auditor is made, with firms undertaking audits in the largest of these associations (as measured by income, expenditure and assets).

In addition to examining the choice of auditor, this research tested the notion that proxies would deliver a quality assurance service. As detailed by DeAngelo (1981) and confirmed by Watts and Zimmerman (1986), the quality of audit services can be assessed by reference to the “joint probability that a given auditor will both:
• Discover a breach in the client’s accounting system; and
• Report the breach” (DeAngelo, 1981, p.186).

Given the high level of errors in the annual financial statements (none of which were mentioned in the assurance reports, this research did not find support for the idea that auditor quality proxies delivered the anticipated quality. Furthermore, this research found than a significant number of ‘quality’ assurance providers (as assessed by reference to professional qualifications/memberships) failed to adhere to applicable professional standards and delivered sub-standard opinions. Consequently the findings of this study suggest that when examining auditor quality in the volunteer setting, reference to adherence to an applicable framework should also be considered.

**Policy implications**

Members of the Joint Accounting Bodies are professionally bound to apply the assurance Framework and Australian Auditing Standards issued by the Australian Auditing and Assurance Standards Board (AUASB) when undertaking assurance engagements. The high level of professional accountants and auditing firms not following these mandated requirements was notable in this study, and suggests the AUASB needs to undertake urgent education of all of its members. In particular, the existence of illustrative examples specific to incorporated associations in ASA 800 (AUASB, 2011a) and ASRE 2410 (AUASB, 2011b) needs to be highlighted.

**Practical implications**

There is no statutory requirement for small incorporated associations to subject their accounts to audit, and the enabling legislation does not specify the qualifications of those who can undertake an audit if one is voluntarily undertaken. Furthermore there is no requirement for the Australian Auditing Standards to be applied in audits of small incorporated associations, *unless* the practitioner is a member of one of the Joint Accounting Bodies. The practical implication is, individuals without
accounting/auditing qualifications are undertaking audits in great numbers – potentially giving a false sense of assurance to the association.

**Recommendations**

This research has found evidence that even in the absence of a statutory requirement, the majority of small incorporated associations voluntarily subject their accounts to annual scrutiny. Typically this scrutiny is referred to as an ‘audit’ or ‘review’, even though in the majority of cases it did not conform with the established meaning in the auditing profession. This has the potential for misrepresentation when an incorporated association is asked whether or not their accounts have been audited (for example by a bank or sponsor). Furthermore, the various accounting requirements applicable to incorporated associations (the requirement to follow accounting standards and have a formal audit undertaken) are determined by reference to income as reported by the association to the Registrar. Given the propensity for error in the calculation of income (for example a number of associations included opening cash at bank in their income figure for the year), it is suggested the financial information lodged be verified prior to lodgement. However, as cost was flagged as an issue for a number of associations, a requirement to engage an accounting professional with a practicing certificate may serve to diminish belief that the law is ‘right’. It is therefore recommended the Registrar:

- Require annual scrutiny of the accounts of all small incorporated associations by an independent, knowledgeable person prior to lodgement with the Registrar;

- Allow the format of the scrutiny to be called an ‘audit’ or a ‘review’ only if conducted by a current member of the Joint Accounting Bodies (who are professionally bound to follow Australian Auditing Standards);

- Establish that scrutiny undertaken by anyone who is not a member of the Joint Accounting Bodies is to be referred to as a ‘due diligence report’ (not an ‘audit’ or a ‘review’). In order to guide the process a checklist should be developed for use by the person undertaking this engagement, and include details pertaining to
the person undertaking the due diligence (for instance, relevant qualifications and relationship to association).

This research has found evidence that in the absence of a mandated requirement specifying who can provide assurance services to small incorporated associations, assurance is being provided by individuals with an array of backgrounds – as well as a number of corporate accounting/auditing bodies. Examination of audit/review opinions has indicated poor quality assurance is being conveyed in the vast majority of instances, including evidence of repeated self-review and familiarity threats to independence. It is recommended the Registrar address this issue as a matter of urgency, and the following suggestions are put forward:

- Codify independence requirements to specify who can undertake assurance engagements on behalf of small incorporated associations to reduce the self-review and familiarity threats to independence;
- Join forces with the Joint Accounting Bodies to highlight to members what their obligations are when undertaking assurance engagements for small incorporated associations;
- As discussed above, develop a ‘due diligence’ option and checklist for use by those who are not members of the Joint Accounting Bodies who are providing an assurance service.

**Anti-Regulation/Free-Market Theory**

Theoretical implications

Anti-regulation/free-market theorists posit that “accounting information should be treated like other goods” (Deegan, 2011, p.59) where the forces of supply and demand are left to interact to determine an optimal supply. The idea is economic-based
incentives will make it ‘good business’ to provide credible information about the organisation’s financial performance and position. If financial information is not credible, resource providers will not be forthcoming with their support. In the context of small incorporated associations this could debilitate the support of sponsors, local councils, lending institutions, affiliated bodies, existing and potential members, and the Regulator. Hence, according to anti-regulation/free-market theory there is ample incentive for these associations to generate credible information without the imposition of regulatory requirements. Credible information however, is not being generated in many small incorporated associations, despite it making good economic sense to do so. This study found people are hesitant to assume the role of Treasurer, and many are in the role because ‘no one else would do it’. Consequently there is a supply of information that, if rejected, is not easily replaced. This research therefore confirms the inefficient financial information market proposition, by illustrating that the supply side of the market for financial information is problematic when the supply is voluntary. That is, there can be no interaction of the natural supply and demand forces where the equilibrium is determined by reference to price. Hence, there is little choice in the volunteer financial information market but to accept poor quality information, because it is better than no information.

Policy implications

Anti-regulation/free-market theorists believe the market for information is better placed than a regulatory authority to achieve the optimal supply of such information, and this research does not refute that argument. However, there is a clashing of wills when regulation is structured so as to give freedom to the market to accept/reject financial information, whilst at the same time requiring financial information to conform to the requirements of ‘true and fair’. This research has, above all, proven that what the market for information demands/accepts does not necessarily equate with what the Regulator demands/accepts.
Practical implications

The accounting function of small incorporated associations is dependent on volunteers who are fulfilling the requirements of the role in addition to their other daily routines. Treasurers may or may not be accountants, and this research shows people willing to take over the role are hard to secure. The practical implication is there is little choice, in many instances, other than to accept whatever work the Treasurer can manage.

Recommendations

The accounting requirements imposed on small incorporated associations are deliberately minimalist, intending to spare these entities undue regulatory burden. However, as discussed above, this research has found problems associated with using the undefined ‘pointer’ term ‘true and fair’ as the overarching requirement of the accounting function of small incorporated associations. History has shown the importance of having a clear understanding of the objective of financial reporting - including who are the likely/intended users, and their capacity to request reports tailored specifically to their needs. Many small incorporated associations were found to report externally (to councils, sponsors and so on), and given the time constraints cited by the questionnaire respondents it is unlikely tailor made reports would be generated. Furthermore, annual reports lodged with the Registrar are on the public register, and therefore available for members of the general public to view. These factors increase the general purpose nature of financial reports generated by small incorporated associations – a matter that has the propensity to invoke the application of Australian Accounting Standards. It is recommended the Registrar address this issue, and the following suggestion is put forward:

- The purpose, objective and role of accounting and financial reporting in small incorporated associations needs to be determined. This will help drive appropriate practices, and ultimately clarify whether or not there is a need for a more formal approach to regulating the accounting function in these associations.
5.5 Limitations of this study

- “The vast difference in size and resources of associations is a major limitation in any study of incorporated associations (Parkinson, 2004, p.91). Although this study was confined to small incorporated associations (sport and recreation), there were still enormous differences in size and resources noted. This limitation however stems from the legal structure, and represents the very essence of what is being examined in this study.

- The focus of this study was sport and recreational incorporated associations. Many additional types of associations are incorporated under the same legislation, including charities, kindergartens and Lions Clubs; all with their individual peculiarities and complexities. Charities may have DGR (deductible gift recipient) status; kindergartens have specific Department of Education requirements; whilst the Lions Clubs are part of an international network with a strong focus on donations and fundraising for the development of community projects. These all add to the potential complexity of the Treasurer’s role, but are not reflected in this research because they are not applicable to sport and recreation associations.

- This research was dependent on Consumer Affairs Victoria staff to copy the randomly selected annual financial statements requested. There were a number of statements with information blanked out prior to being copied. Whilst it is assumed this represented private information not relevant to this study, it is possible the blanked out content could have provided additional insights related to difficulties faced by these associations.

- The questionnaire was only available for online completion, which potentially biases the results by excluding those without internet access. However, the results indicate good representation across the dimensions of age (qu.3), employment (qu.8), qualifications (qu.10), and geographic location (qu.17). Hence, aside from excluding those with an aversion to online activity, it is not considered the online option biased the results.
Auditor qualifications were captured from information included on the audit reports. Those not citing any accounting qualifications were deemed to be non-professional accountants/auditors, and those listing business names were deemed to be undertaken by a firm. It is possible audits were done by Joint Accounting Body members who chose not to cite their qualifications. It is also possible firm names (in the form of stamps or letterhead) were not truly a firm undertaking.

The Indicator of Complexity was developed based on an in-depth understanding of the functions undertaken by Treasurers. Whilst initial indications suggest the Indicator is a fair representation of variable complexity in small incorporated associations, it is based on cross-sectional data – and excludes large/complex associations. The true value of this Indicator is better determined through a longitudinal study including small (tier-1), medium (tier-2) and large (tier-3) associations.

5.6 Further research

In addressing and considering several issues related to the accounting function in small incorporated associations, this research has uncovered a number of issues still to be addressed.

- After discussions with CAV it emerged that administration staff have noticed accounting difficulties in a number of prescribed associations (now tier-2/medium, and tier-3/large) as well as the small associations. This study could therefore be extended to critique the accounting function of all associations. This would provide insights into whether it is the legislative structure, or the use of volunteers, that causes the most difficulty.

- This study could be further extended to critique the accounting function of incorporated associations in other states, who operate under a different (but similar) regulatory regime.
The 2012 reforms to the Associations Incorporations Act have included the requirement for reviews to be undertaken by a Joint Accounting Body Member who holds a current practising certificate (with no option for an audit). The online help information published by CAV contradicts this requirement by indicating there are no changes to the original requirements, although the new CAV annual return statement ratifies it. The assurance function was just one component studied in this research. A further study could be undertaken to focus only on the assurance function in small incorporated associations.

The Indicator of Complexity has potential application value for CAV. A longitudinal study of the Indicator that includes tier-1 (small), tier-2 (medium) and tier-3 (large) incorporated associations would help gauge its consistency and accuracy. This would also provide an opportunity to assess whether adjustments need to be made to reflect idiosyncratic complexities (such as DGR status of charities).

A separate study to map complexity scores with actual errors/anomalies could provide insights into the correlation between these two variables. This would facilitate a focused educational/training program where the outcomes are measurable across associations and over time.

The Australian Government (The Treasury, 2011a) listed “preventing abuse, self-dealing or other misuse of NFPs” (p.15) as one of the goals of NFP regulation, while Parker (2004) noted the vulnerability of small incorporated associations. To more fully gauge the extent to which the legal requirements fail to protect these associations, an examination of the existence and nature of Treasurer frauds could be undertaken.
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Appendix 6-1

VOLUNTEER FUNCTIONS INVENTORY

Protective
7. No matter how bad I've been feeling, volunteering helps me to forget about it.
9. By volunteering I feel less lonely.
11. Doing volunteer work relieves me of some of the guilt over being more fortunate than others.
20. Volunteering helps me work through by own personal problems.
24. Volunteering is a good escape from my own troubles.

Values
3. I am concerned about those less fortunate than myself.
8. I am genuinely concerned about the particular group I am serving.
16. I feel compassion toward people in need.
19. I feel it is important to help others.
22. I can do something for a cause that is important to me.

Career
1. Volunteering can help me to get my foot in the door at a place where I would like to work.
10. I can make new contacts that might help my business or career.
15. Volunteering allows me to explore different career options.
21. Volunteering will help me to succeed in my chosen profession.
28. Volunteering experience will look good on my resume.

Social
4. People I'm close to want me to volunteer.
6. People I know share an interest in community service.
17. Others with whom I am close place a high value on community service.
23. Volunteering is an important activity to the people I know best.

Understanding
12. I can learn more about the cause for which I am working.
14. Volunteering allows me to gain a new perspective on things.
18. Volunteering lets me learn things through direct, hands on experience.
25. I can learn how to deal with a variety of people.
30. I can explore my own strengths.

Enhancement
5. Volunteering makes me feel important.
26. Volunteering makes me feel needed.
27. Volunteering makes me feel better about myself.
29. Volunteering is a way to make new friends.       (Clary et al. 1998)
Appendix 6-2

APES 110 Code of Ethics for Professional Accountants

**Integrity**
110.2 A Member shall not knowingly be associated with reports, returns, communications or other information where the Member believes that the information:
(a) Contains a materially false or misleading statement;
(b) Contains statements or information furnished recklessly; or
(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

**Objectivity**
120.1 The principle of objectivity imposes an obligation on all Members not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.

**Professional Competence and Due Care**
130.1 The principle of professional competence and due care imposes the following obligations on all Members:
(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent Professional Service; and
(b) To act diligently in accordance with applicable technical and professional standards when providing Professional Services.

**Confidentiality**
140.2 A Member shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate Family member.

**Professional Behaviour**
150.1 The principle of professional behaviour imposes an obligation on all Members to comply with relevant laws and regulations and avoid any action or omission that the Member knows or should know may discredit the profession.

(APESB, 2010)
Appendix 6-3
CPA Australia Constitution - Professional Conduct (Article 39)

(a) In regulating the conduct of a Member pursuant to Article 52(e), the Board may impose on a
person any one or more of the penalties set out in Article 39(b) if, in the opinion of the Board:

(i) A Member has:
   A. obtained admission as a Member, or obtained admission as a member of
      any other professional body, by improper means including, without
      limitation, making a false declaration on the application for membership; or
   B. renewed his/her membership of the Company by improper means
      including without limitation, making a false declaration on the renewal form
      for membership;

(ii) a person while a Member has:
   A. breached this Constitution (or the constitution of the Company in force
      immediately before the Amending Date), By-Laws, Code of Professional
      Conduct or the Applicable Regulations;
   B. been guilty of:
      1. dishonourable practice in any profession or undertaking; or
      2. conduct which is derogatory to, or not in the best interests of the
         Company or its Members;
   C. failed to observe a proper standard of professional care, skill or
      competence;
   D. ceased to hold the necessary qualifications to be a Member or to be a
      member of any other professional body recognised by the Company;
   E. become Insolvent;
   F. been the subject of an adverse finding that has not been overturned on
      appeal in relation to the Member’s conduct, competence or recognition by
      any Court, professional body, statutory or other regulatory authority in any
      jurisdiction;
   G. pleaded guilty to, or been found guilty of (with or without conviction), any
      offence (criminal or otherwise, but excluding any offence relating to traffic
      infringement) before any Court in any jurisdiction (which, in the case of a
      finding or conviction has not been overturned on appeal) which in the
      reasonable opinion of the Board is likely to materially adversely reflect upon
      or affect the standing or reputation of the Company;
   H. been found to have acted dishonestly in any civil proceedings before any
      Court in any jurisdiction and such finding has not been overturned on
      appeal; or
   I. failed to comply with any reasonable and lawful direction of the Board or its
      delegate which relates to a matter concerning the good order and
      administration of the Company including a failure to comply with a
      Determination including relating to costs; or

(iii) a Member was Closely Associated with a Practice Entity which has become Insolvent:
   A. at the time the Practice Entity became Insolvent; or
   B. at any time during the 2 years prior to the Practice Entity becoming
      Insolvent.

(b) The following penalties may be imposed by the Board in accordance with Article 39(a):

(i) forfeiture of membership on such terms and conditions as to Readmission (or
    non-Readmission) as may be prescribed;
(ii) suspension from membership for any period not exceeding 5 years on such
    terms and conditions as to Reinstatement as may be prescribed;
(iii) a fine not exceeding the Maximum Fine;
(i) admonishment;
(ii) a severe reprimand;
(iii) for such period and upon such terms as may be imposed:
   A. cancellation or suspension of any certificate, privilege, right or benefit issued or granted to the Member; and/or
   B. prohibition on the use of any designation permitted to be used by the Member;
(iv) restriction for such period and upon such terms and conditions as may be imposed on the permission or ability of the Member or any Practice Entity with which the Member is Closely Associated, to trade under, display or utilise any Intellectual Property of the Company including any status or designation;
(v) the lowering of Allocated Membership Status and/or removal of any specialist designation;
(vi) a direction to undertake such additional number of hours in such course of Continuing Professional Development as may be described;
(vii) a direction to undertake such Quality Assurance as may be prescribed; and/or
(viii) such other penalty as may be deemed appropriate in the circumstances.

(a) If in the reasonable opinion of the Board a Member has:
   (i) committed a breach referred to in Article 39(a)(ii)A which is serious;
   (ii) been guilty of a dishonourable practice or conduct referred to in Article 39(a)(ii)B which is serious; or
   (iii) done any of the acts, or been the subject of any of the circumstances or events referred to in Article 39(a)(i), 39(a)(ii)E, 39(a)(ii)F, 39(a)(ii)G, 39(a)(ii)H or 39(a)(iii),

   the Board may suspend the membership of that Member with immediate effect, pending a subsequent hearing at the discretion of the Board as to the merits upon which the Member will be given the opportunity of being heard.

(b) Board may require a Member to pay all or any of the costs and expenses

The Board may publish, in any manner it shall deem fit, the name of any Member whose conduct has been regulated under Article 52(e).

(CPA Australia, 2012a)
## Appendix 6-4

### Examples of typical stakeholders for sporting organizations

| Federal Government | Minister  
|--------------------|-----------|  
|                    | Australian Sports Commission  
|                    | Australian Sport and Drug Agency  
|                    | Standing Committee on Recreation and Sport (SCORS)  
| State Government | Minister  
|                   | Department of Sport and Recreation  
|                   | Sports Advisory Committee  
|                   | Sports Advisory Sub-Committee  
| Local Government | Councils/Shires  
|                   | Local Sports Councils  
| Sports Community | National sporting and recreational bodies  
|                   | State sports bodies  
|                   | Regional sports bodies  
|                   | Local clubs and sports bodies  
|                   | Umpires associations  
|                   | Supporters organisations  
|                   | Academies (national, State and regional)  
|                   | Schools, colleges and universities  
|                   | Spectators  
| Sports Organisations | Boards, Staff, Volunteers  
|                   | Athletes, Coaches, Officials  
|                   | Families  
| Industry | Sport and recreation equipment suppliers, retailers, sales, marketing  
|           | Equipment maintainers  
|           | Consultants (e.g. marking and insurance consultants)  
|           | Facilities/venue construction  
|           | Facilities/venue maintenance and infrastructure services  
|           | Facilities/venues management (including equipment management)  
|           | Security management  
|           | Catering management  
|           | Ticket sales  
|           | Venue cleaners  
|           | Owners and shareholders (facilities, teams)  
|           | Sponsors  
|           | Media  
| Medical | Australian Sports Medicine Federation  
|           | Sports medicine suppliers  
|           | Sports medical doctors, physiotherapists and advisers  
|           | Professional massage industry  
| Others | Tourism and associated stakeholders such as accommodation and tourist  
|         | transport and guides  

Appendix 6-5

Goals of NFP Regulation

Primary Goal:
- To provide a foundation for a strong and sustainable NFP sector to achieve altruistic goals and deliver important benefits to the community;

Additional Goals:
- The promotion of public trust and confidence in NFPs;
- Ensuring the commitment of NFPs to purposes for the public benefit;
- Ensuring appropriate transparency and accountability to donors, beneficiaries, other stakeholders, and the public;
- Promoting compliance with legal obligations;
- Ensuring efficient and effective allocation of resources;
- Preventing abuse, self-dealing or other misuse of NFPs;
- Improving the effectiveness of NFPs; and
- Ensuring the sustainability of community organisations.

Other long term goals:
- Promoting capacity building within the sector; and
- Promoting a strategic, enterprising approach to management.

Exhibit characteristics of good regulatory design:
- Place minimal costs on NFPs in order to allow better direction of NFP resources to philanthropic objectives;
- Remove current regulatory duplication;
- Streamline requirements, including reporting, so as to provide consistency and minimising compliance costs;
- Provide a ‘one-stop shop’ for NFP entities that will assist NFP entities to access information that helps them understand and comply with their regulatory obligations;
- Be simple, transparent, accessible and flexible;
- Provide NFP entities with certainty as to their rights and responsibilities; and
- Be proportional to the size and complexity of NFP entities, and to the public monies and risks associated with NFP entities;
- Be integrated and consistent with other laws; and
- Be enforceable.

(Australian Government, 2011)
Appendix 6-6

Fraudulent Activity in Community Clubs – a worldwide reality

1. In this New Zealand case more than $19,000 worth of stock at the New Plymouth Old Boys' Sports Club was unaccounted for. The accounting practices were bought into question as the accused claimed the discrepancies were “due to ‘bad management’ not theft” (p.4) (Taranaki Daily News, 1997, June 14).

2. In this US case the former treasurer of the Leo Elementary School Parent-Teacher Organization is accused of spending the group's money at a local Sam's Club for her own personal use. Jahna M. Roberts, 38, was formally charged with theft and fraud - investigators believe she opened an unauthorized account at Sam's Club using PTO money and shopped for herself there from August 2006 to August 2007, spending at least $8,570 in checks” (Wiehe, 2008, June 3).

3. In this UK case “a retired bank manager stole £25,000 from the Welsh football club where he was the trusted treasurer, spending the money on drinking and gambling. Swansea Crown Court heard James Eric Jones, 58, took the money over 14 years from Aberaeron Town FC. He produced falsified accounts, and even invented an auditor who “signed” them as being in order. The court heard that most of the money Jones stole was cash from sealed envelopes which supporters and committee members collected from fundraising games played at the club” (Turner, 2008, August 13).

4. In this Singaporean case “a community leader who cheated his neighbourhood sports club of $26,700 to pay off his own personal debt, was jailed for eight months. Evidence suggested the man forged 22 receipts for items, such as pens, bags and lamps, between Sept 2006 and April 2007, and submitted the claims to the club's treasurer (Singh, 2008, August 5).

5. In this Australian case a Country Women’s Authority (CWA) treasurer was jailed after stealing $30,000 over five years from her local branch. Notably the CWA President stated: “everything that comes into the association, at whatever level, be it a committee, branch or division, state, it is directed to the treasurer who banks it and reports on it”. She added that the role of Treasurer is “one of the most trusted positions in the CWA” and it was because of her role that she “was able to manipulate the books” (Guest, 2008, March 6).
6. In this Australian case the Treasurer of the Queensland Wine Industry Association was jailed for stealing more than $24,000 over 13 months when he was treasurer (“Former wine industry treasurer jailed over theft”, 2008, May 28).

7. In this Australian case UFO Research New South Wales Inc. was reportedly under investigation by Police and Navy officials for the alleged misappropriation of Navy funds said to have been deposited into its bank account by their former club treasurer. The Treasurer of UFO Research (NSW) Inc. was said to be charged with defrauding The Royal Australian Navy of $85,000 over a period of years (The Ferret, 2007, September 27).

8. In this Australian case the Silver City Race Club was left trying to recover money stolen by its former treasurer and assistant secretary. The accused man pleaded guilty to misappropriating the money from the club and was given a suspended sentence, but was not ordered to repay $37,000 to the club. The club President indicated that they were "trying to the bitter end to recover [their] money because this man [has] almost sent the club to the wall" (“Race club seeks to recover stolen funds”, 2006, June 15).

9. In this Australian case “the former vice-president and acting treasurer of Broken Hill's Silver City Racing Club [was] given a suspended jail sentence for stealing $30,000 from the club” (“Ex-race club official gets suspended jail term over club theft”, 2006, March 21).

10. In this Australian case an “84 year old retired accountant was convicted on 25 fraud offences. While the man was the voluntary treasurer of Corowa Bowls Club Inc. he produced false reports on a regular basis to cover his thefts for gambling on poker machines. Despite the club being in a sound financial position when the $90,168 was stolen (over a six year period), he left the club with just $23 in the account” (“No jail for club fraud”, 2006, November 30).
Appendix 6-7

SUHREC Project 2010/238 Ethics clearance  (Phase 1)

Monday, 18 October 2010 10:49 AM

To: A/Prof I Tempone 
Ms Janine Muir FBE
CC: Ms Anne Cain, Research Administration Co-ordinator FBE

Dear A/Prof Tempone and Ms Muir,

Re: SUHREC Project 2010/238 An investigation into the compliance obligations and associated management practices of nonprofit private sector entities governed by volunteer committees

A/Prof I Tempone  
Ms Janine Muir FBE  
Dr Julie Foreman  
Dr Meropy Barut

Approved duration 18/10/2010 To 18/05/2011 [Adjusted]

I refer to the ethical review of the above project protocol undertaken by a SUHREC Subcommittee (SHESC3). Your responses to the review, as e-mailed on 7/12/15 October 2010 with attachments, were approved in line with the guidelines set by a SUHREC delegate(s).

I am pleased to advise that, as submitted to date, the project may proceed in line with standard on-going ethics clearance conditions here outlined.

- All human research activity undertaken under Swinburne auspices must conform to Swinburne and external regulatory standards, including the current National Statement on Ethical Conduct in Research Involving Humans and with respect to secure data use, retention and disposal.

- The named Swinburne Chief Investigator/Supervisor remains responsible for any personnel appointed to or associated with the project being made aware of ethics clearance conditions, including research and consent procedures or instruments approved. Any change in chief investigator/supervisor requires timely notification and SUHREC endorsement.

- The above project has been approved as submitted for ethical review by or on behalf of SUHREC. Amendments to approved procedures or instruments ordinarily require prior ethical appraisal/clearance. SUHREC must be notified immediately or as soon as possible thereafter of (a) any serious or unexpected adverse effects on participants and any redress measures; (b) proposed changes in protocols; and (c) unforeseen events which might affect continued ethical acceptability of the project.

- At a minimum, an annual report on the progress of the project is required as well as at the conclusion (or abandonment) of the project.

- A duly authorised external or internal audit of the project may be undertaken at any time.
Please contact me if you have any queries about on-going ethics clearance. The SUHREC project number should be quoted in communication. Chief Investigators/Supervisors and Student Researchers should retain a copy of this email as part of project record-keeping.

Best wishes for project.
Yours sincerely,

Ann Gaeth

Secretary, SHESC3

Ann Gaeth, PhD
Administrative Officer (Research Ethics)
Swinburne Research (H68)
Swinburne University of Technology
P.O. Box 218
HAWTHORN VIC 3122
Tel: +61 3 9214 5935
Fax: +61 3 9214 5267
Appendix 6-8

**SUHREC Project 2011/244 Ethics Clearance**

(Phase 2)

Friday, 4 November 2011 4:39 PM

To: Assoc. Prof. Irene Tempone, FBE/ Ms Janine Muir
CC: Ms Anne Cain, Team Leader, Research Student Administration, FBE

Dear Prof. Tempone,

SUHREC Project 2011/244 A critical examination of the Accounting Information Systems in small membership based sporting organisations (MBSOs)

Assoc. Prof. Irene Tempone, FBE/ Ms Janine Muir
Approved Duration: 04/11/2011 To 31/07/2012 [Adjusted]

Ethical review of the above project protocol was undertaken on behalf of Swinburne's Human Research Ethics Committee (SUHREC) by a SUHREC Subcommittee (SHESC4) at a meeting held on 14 October 2011. Your response to the review as e-mailed on 25 October was reviewed by a SHESC4 delegate.

I am pleased to advise that, as submitted to date, the project has approval to proceed in line with standard on-going ethics clearance conditions here outlined.

- All human research activity undertaken under Swinburne auspices must conform to Swinburne and external regulatory standards, including the National Statement on Ethical Conduct in Human Research and with respect to secure data use, retention and disposal.

- The named Swinburne Chief Investigator/Supervisor remains responsible for any personnel appointed to or associated with the project being made aware of ethics clearance conditions, including research and consent procedures or instruments approved. Any change in chief investigator/ supervisor requires timely notification and SUHREC endorsement.

- The above project has been approved as submitted for ethical review by or on behalf of SUHREC. Amendments to approved procedures or instruments ordinarily require prior ethical appraisal/ clearance. SUHREC must be notified immediately or as soon as possible thereafter of (a) any serious or unexpected adverse effects on participants and any redress measures; (b) proposed changes in protocols; and (c) unforeseen events which might affect continued ethical acceptability of the project.

- At a minimum, an annual report on the progress of the project is required as well as at the conclusion (or abandonment) of the project.

- A duly authorised external or internal audit of the project may be undertaken at any time.
Please contact me if you have any queries about on-going ethics clearance. The new SUHREC project number should be quoted in communication.

Best wishes for the project.

Yours sincerely

Kaye Goldenberg
Secretary, SHESC4

------------------------------------------
Kaye Goldenberg
Administrative Officer (Research Ethics)
Swinburne Research (H68)
Swinburne University of Technology
P O Box 218
HAWTHORN VIC 3122
Tel +61 3 9214 8468
Fax +61 3 9214 5267
Appendix 6-9

INFORMATION TO PARTICIPANTS:

Project Title:
A critical examination of the Accounting Information Systems in small membership based sporting and recreational associations.

Investigators:
This research is being conducted at Swinburne University of Technology by:

    Associate Professor Irene Tempone; and
    Janine Muir (BBus, CPA, MCom).

Researcher Interests:
This research forms the basis of doctoral studies being undertaken by Janine Muir. The data collected and resultant analysis will be used in the thesis document that will be submitted for consideration for the qualification of Doctor of Philosophy (PhD).

Invitation to Participate:
We would like to invite you to be a part of a study into the Accounting Information Systems used by small incorporated associations (sporting and recreational) in Victoria, Australia. This project will document the accounting system choices in order to ascertain how, in reality, different associations conduct their accounting/bookkeeping function. It is envisaged that the findings of this research will inform future policy discussions and decisions by providing an insight into the current club/association-level accounting practices of small incorporated sporting associations.

It is hoped that this research will provide a basis for policy-makers to analyse the likely impact and operational significance of proposed changes to small incorporated associations’ accounting requirements.

This study constitutes the second phase of a two phase study. Phase one was undertaken to gain an understanding of the level of compliance obligations faced by associations such as this one, and to help focus phase two of the study. Consequently, whereas phase one had a broad compliance focus, the data collection to be undertaken in this phase (phase two) relates specifically to Accounting Information Systems. The data sought is factual data concerning how your association conducts its accounting/bookkeeping function, and is not therefore requesting any sensitive financial information.
Each association in the study will remain anonymous in accordance with Swinburne Ethics’ requirements. As the purpose of this study is to gain an understanding of the range of accounting system choices amongst small incorporated sporting associations, no names will be quoted in the results and your anonymity is assured. Aggregate data will be the focus of the research not individual responses, and all responses will remain both confidential and secure.

**What participation will involve:**

Participation will involve completion of an online survey that will take approximately 15-20 minutes to complete.

The survey is structured to collect data pertaining to:

i. The participant and the association;

ii. Accounting System Choices (eg. manual or computerised);

iii. Accounting Policy Choices (eg. cash or accrual accounting);

iv. Reporting Practices (eg. preparation of a Balance Sheet &/or Income Statement);

v. Financial Controls (eg. auditing);

The purpose of this study is to gather insights, and is in no way intended to provide an opinion or assurance on your system choices.

**Participant’s Rights and Interests – Risks and Benefits:**

This project is concerned with gaining insights into how the accounting/bookkeeping function is undertaken at a ‘grassroots’ level, in associations managed by people with varying backgrounds, qualifications and experiences. The researchers are not legal professionals and state categorically that compliance and/or non-compliance are not the focus of this study.

There have already been many changes to the legislation pertaining to incorporated associations, and many more are proposed. Your involvement in this research gives small community sporting associations a voice to be heard in relation to the accounting obligations they may face. Please note that there is no political motivation to this research.

Participants in the project will be provided aggregated results once the data has been collected.

**Participant’s Rights and Interests – Free Consent/Withdrawal from Participation:**

It is important to gain data from as many small (non-prescribed) associations as possible, and we very much appreciate your involvement. We understand that, for whatever reason, you might
change your mind about being involved in this study – that is fine. At all times you retain the right to withdraw this consent without question or explanation.

**Participant’s Rights and Interests – Privacy:**

The online survey has been developed using SurveyMonkey, and uses SSL encryption to protect the collected data from unauthorised access. The level of encryption is Verisign certificate Version 3, 128 bit encryption, which is commonly used for online banking sites. Furthermore, your anonymity is assured and at no time will individual responses be attributed to any particular association or person.

**Research Output:**

Primarily the data being collected is for the purposes of Janine Muir’s Doctor of Philosophy (PhD) thesis. In the interim it is proposed that these initial findings be written up for publication in professional and/or academic journals and offered for presentation at relevant academic conferences. Once again please be assured that nothing included in these articles/conference papers will enable the participants or individual clubs/associations to be individually identified.

**Further information about the project – who to contact:**

If you would like further information about the project, please don’t hesitate to contact:

Co-Ordinating Supervisor:  Associate Professor Irene Tempone
Contact Address:  PO Box 218 Hawthorn, Vic, 3122
Contact Phone:  9214-8424
Contact E-Mail:  itempone@swin.edu.au

**Concerns/Complaints about the project – who to contact:**

This project has been approved by or on behalf of Swinburne’s Human Research Ethics Committee (SUHREC) in line with the *National Statement on Ethical Conduct in Human Research*. If you have any concerns or complaints about the conduct of this project, you can contact:

Research Ethics Officer, Swinburne Research (H68), Swinburne University of Technology, P O Box 218, HAWTHORN VIC 3122. Tel (03) 9214 5218 or +61 3 9214 5218 or resethics@swin.edu.au
Appendix 6-10

INFORMED CONSENT:

Project Title:
A critical examination of the Accounting Information Systems in small membership based sporting and recreational associations.

Principal Investigators:
This research is being conducted at Swinburne University of Technology by:

   Associate Professor Irene Tempone; and

   Janine Muir (BBus, CPA, MCom).

1. I consent to participate in the project named above. I have been provided a copy of the project information document to which this consent form relates and any questions I have asked have been answered to my satisfaction.

2. I acknowledge that:
   
   (a) my participation is voluntary and that I am free to withdraw from the project at any time without explanation;
   
   (b) the Swinburne project is for the purpose of research and not for profit;
   
   (c) any identifiable information about me or my club which is gathered in the course of and as the result of my participating in this project will be (i) collected and retained for the purpose of this project and (ii) accessed and analysed by the researcher(s) for the purpose of conducting this project;

   (d) my anonymity and my club’s anonymity is preserved and neither will be identified in publications or otherwise without my express written consent.

By completing the online survey I am agreeing to participate in this project.
Survey on the Accounting Function in Small Victorian Incorporated

Introduction.

CONSUMER AFFAIRS VICTORIA SUPPORTED DOCTORAL RESEARCH

This survey is designed to collect data about the accounting/bookkeeping function in small Victorian incorporated associations (sport & recreation), and is the first time that a comprehensive review of this nature has been undertaken.

There are no right or wrong answers - just different accounting choices considered useful in different types of clubs/associations. This research intends to document these different practices.

Please be assured that all responses are ANONYMOUS and none of your responses/comments will be attributable to you or your club/association.

This study forms the basis of doctoral research and the aggregated data will therefore be presented in academic journals and at academic conferences. The research is supported by Consumer Affairs Victoria, who have specifically written a number of questions in the survey. Final aggregated data will be provided to Consumer Affairs Victoria, and it is envisaged that the findings will inform future policy decisions in the area of small club/association accounting.

This is a unique opportunity to provide feedback to Consumer Affairs Victoria, and impact future initiatives that will affect your club.

The survey will take approximately 10-20 minutes to complete, and needs to be completed by your current Treasurer - if you are not the current Treasurer for your association, we ask that you please forward the survey link and details to the appropriate person.

Instructions: Please use the "Prev" and "Next" buttons within the survey to navigate your way through the questions.

NOTE: By completing the survey you are consenting to be involved in this study. Further information relating to this study is available by following the links in the invitation e-mail.

Eligibility.

* Are you the current club/association Treasurer?
  - Yes
  - No

About the Treasurer.

TREASURER CHARACTERISTICS
Survey on the Accounting Function in Small Victorian Incorporated

* Are you male or female?
  - Male
  - Female

* Which category below includes your age?
  - 17 or younger
  - 18-20
  - 21-29
  - 30-30
  - 40-49
  - 50-59
  - 60 or older

* Are you paid for the work you do as Treasurer for this club?
  - Yes
  - No

* How many years have you been in your current role as club/association Treasurer?
  - [ ]

  PREVIOUS TREASURER EXPERIENCE

* Have you undertaken the role of club/association Treasurer on any other occasion (either previously at this club/association or in another incorporated association)?
  - Yes
  - No

* For approximately how many years have you previously/otherwise filled the position of club/association Treasurer?
  - [ ]
### Survey on the Accounting Function in Small Victorian Incorporated

**Which of the following categories best describes your employment status?**

- [ ] Self employed
- [ ] Employed (Part time or Casual)
- [ ] Employed (Full-time)
- [ ] Not employed, looking for work
- [ ] Not employed, NOT looking for work
- [ ] Retired
- [ ] Disabled, not able to work

**Approximately how many years of work experience do you have in/as the following?**

<table>
<thead>
<tr>
<th>Area of Experience</th>
<th>Number of Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts officer/manager (accounts payable/receivable)</td>
<td></td>
</tr>
<tr>
<td>Accountant</td>
<td></td>
</tr>
<tr>
<td>Auditor</td>
<td></td>
</tr>
<tr>
<td>Bookkeeper</td>
<td></td>
</tr>
<tr>
<td>Payroll officer/manager</td>
<td></td>
</tr>
<tr>
<td>General business</td>
<td></td>
</tr>
<tr>
<td>Trades (e.g. plumber, electrician, carpenter etc.)</td>
<td></td>
</tr>
<tr>
<td>Other - My work experience is not listed above</td>
<td></td>
</tr>
<tr>
<td>Please specify your &quot;other&quot; area (or areas) of work experience</td>
<td></td>
</tr>
</tbody>
</table>

**EDUCATION**

**What is your highest educational qualification - and in which discipline?**

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Dualisme</th>
<th>Non-Dualisme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bachelor degree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate Diploma or Graduate Certificate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Masters degree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PhD/Doctoral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (e.g. Matriculation, Secondary School, Professional Qualification etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Please specify the type of &quot;other&quot; qualification(s)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PROFESSIONAL MEMBERSHIPS**
Survey on the Accounting Function in Small Victorian Incorporated

* Are you currently a member of any of the following Professional Bodies?
  - [ ] No
  - [ ] Yes - CPA Australia
  - [ ] Yes - Institute of Chartered Accountants in Australia
  - [ ] Yes - National Institute of Accountants
  - [ ] Yes - Other (please specify - accounting &/or non-accounting)

** TAKING ON THE ROLE OF CLUB/ASSOCIATION TREASURER **

Why did you take on the role of club/association Treasurer (and not another committee role)?

* Do you believe that people are generally hesitant to take on the role of club/association Treasurer?
  - [ ] Yes
  - [ ] No
  - [ ] Unsure

What do you believe makes people hesitant to take on the role of club/association Treasurer?

** TREASURER TRAINING **

* Do you believe that free, voluntary Treasurer training (covering legal and accounting aspects of being a Treasurer) should be available?
  - [ ] Yes
  - [ ] No
  - [ ] Unsure
**Survey on the Accounting Function in Small Victorian Incorporated**

*To what extent do you agree that Treasurer training should include the following:*

<table>
<thead>
<tr>
<th>Option</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Treasurer Information Pack to be distributed to clubs annually</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online (web-based) training program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A face-to-face short-course</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**About the Club.**

**CLUB ASSOCIATION CHARACTERISTICS**

*Where is this club/association located? (Please select from the dropdown options)*

*Which one of the following best describes the nature of this club/association?*

- An individual sporting/recreation club (e.g., Soccer, Tennis, Rifle, Pony club etc.)
- An association representing a number of individual sporting/recreation clubs (e.g., District Association etc.)
- An association or management, referees, umpires etc.
- Other (please specify)

*To the best of your knowledge, approximately how many of the following does this club/association currently have?*

<table>
<thead>
<tr>
<th>Category</th>
<th>Members</th>
<th>Committee members</th>
<th>Sponsors</th>
<th>Paid staff members</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Does this club/association have any of the following?*

<table>
<thead>
<tr>
<th>Feature</th>
<th>Yes</th>
<th>No</th>
<th>Unsure</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABN (Australian Business Number)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BAS (Business Activity Statement) Reporting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GST (Goods and Services Tax) registration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facebook presence (account)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twitter presence (account)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Survey on the Accounting Function in Small Victorian Incorporated

*Which of the following best describes the website of this club/association?

- This club/association doesn't have its own website
- Our website includes basic information only (e.g., club/association location and contact details)
- Our website includes more detailed information (e.g., club/association activities, structure, membership etc.)
- Other (please specify)

**SOURCES OF INCOME**

* In the time you have been Treasurer, from which of the following sources has this club/association received money/funds? (select as many as appropriate)

- Subscriptions/membership fees
- Payments for specific activities/programs/events
- Sales of club-labelled merchandise (uniforms, clothing, caps etc.)
- Contingent sales
- Bar sales
- Poker machines
- Fundraising
- Donations
- Grants
- Loans
- Other (please specify)

**About the Accounting System.**

**RECORDING OF PAYMENTS & RECEIPTS**
Survey on the Accounting Function in Small Victorian Incorporated

* Which of the following does this club/association use to record transactions - payments and receipts? (select as many as appropriate)
  - A handwritten book/ledger
  - An electronic worksheet (eg. Excel etc.)
  - A non-accounting program (eg. Word, Access etc.)
  - An accounting package (eg. MYOB, QuickBooks etc.)
  - Other (please specify) [ ]

**MEMBERSHIP FEES**

* Are membership fees received from members recorded as income only in the month when received OR allocated over the period of membership? 
  - Recorded as income only in the month when received
  - Allocated over the period of membership
  - Unsure
  - Other (please specify) [ ]

* Why are membership fees received from members NOT allocated over the period of membership? (select as many as appropriate)
  - Historically this is not the way it is done at this club/association
  - We didn't know this was an option
  - It wouldn't add any benefit to our accounts
  - Other (please specify) [ ]

UNIFORMS & OTHER CLOTHING FOR SALE TO MEMBERS (including polo shirts, hoodies, caps etc.)
Survey on the Accounting Function in Small Victorian Incorporated

* Do you have any club/association uniforms or other clothing available for sale (e.g. uniform tops, uniform bottoms, uniform socks, hoodies, polo shirts, caps etc.)
  - Yes
  - No

* Are purchases of uniforms/clothing for sale to members recorded as a purchase expense (i.e. as an expense) OR as inventory/stock (i.e. as an asset)?
  - Purchase expense
  - Inventory/Stock asset
  - Unsure
  - Other (please specify)

* Why are purchases of club/association uniforms/clothing for sale NOT recorded as inventory/stock? (select as many as appropriate)
  - Historically this is not the way it is done at this club/association
  - We didn’t know this was an option
  - It wouldn’t add any benefit to our accounts
  - Other (please specify)

DEPRECIATION

* The next question is about depreciation - would you like a definition of “depreciation” before proceeding?
  - Yes
  - No

WHAT IS DEPRECIATION?
Survey on the Accounting Function in Small Victorian Incorporated

Depreciation is the process where you allocate the cost of an asset over its useful life.

For example: You purchased radio equipment worth $1,500 and expect it to be used for 4 years. If you recognise an expense of $250 per year for 4 years (ie. the asset has a $0 book value after 4 years) you are said to be depreciating the asset.

* Is depreciation charged on any of the club/association assets?
- Yes
- No
- Unsure

* Why is depreciation NOT charged on assets at this club/association? (select as many as appropriate):
- Historically this is not the way it is done at this club/association
- We didn't know this was an option
- It wouldn't add any benefit to our accounts
- Other (please specify)

About the Financial Reporting Practices.

Nature & Frequency of Financial Reporting

* How useful are the following financial reports to this club/association's decision-making (planning) process?

<table>
<thead>
<tr>
<th>Financial Report</th>
<th>Not Useful</th>
<th>Useful</th>
<th>Very Useful</th>
<th>Not Produced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Affairs Victoria Annual Statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Statement (showing details of receipts, payments &amp; current bank balance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>An Income Statement (showing income, expenses and profits)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A balance sheet (showing assets, liabilities and association equity)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasurer's report (summarising major transactions &amp; bank balance)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please describe in the box below - or select &quot;not produced&quot;)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of "other" reports prepared:

Last Year's Figures
Survey on the Accounting Function in Small Victorian Incorporated

* How often do financial reports include both this year's figures and last year's figures for comparison?
  - Always
  - Often
  - Occasionally
  - Infrequently
  - Never

* Why are last year's figures NOT (or not always) included in financial reports? (select as many as appropriate)
  - Historically this is not the way it is done at this club/association
  - We didn't know this was an option
  - It wouldn't add any benefit to our accounts
  - Other (please specify)

* The next question is about budgets - would you like further explanation of what a budget is before continuing?
  - Yes
  - No

A budget is an estimate of future receipts/income and payments/expenses - it is intended to reflect future financial conditions and goals.

** BUDGET FIGURES **

* How often do financial reports include both this year's figures and budget figures for comparison?
  - Always
  - Often
  - Occasionally
  - Infrequently
  - Never
Survey on the Accounting Function in Small Victorian Incorporated

* Why are budget figures NOT (or not always) included in financial reports? (select as many as appropriate)
  - Historically it hasn’t been the practice to include them
  - It wouldn’t add any benefit to our accounts to include them
  - We don’t prepare budgets
  - Other (please specify)

* The next question is about financial analysis - would you like further explanation before continuing?
  - Yes
  - No

Financial analysis involves looking at the accounts for trends and other indicators of performance. Examples could include:
- % of income from membership;
- Comparison of sponsorship contributions over a number of years;
- Growth/decline in membership;
- Profitability of particular events

FINANCIAL ANALYSIS (Key Performance Indicators, Ratio Analysis, Trend Analysis)

* How often is in-depth financial analysis of financial results (eg. Ratio/Trend analysis etc.) undertaken at this club/association?
  - Monthly
  - Quarterly
  - Half Yearly
  - Annually
  - Never
Survey on the Accounting Function in Small Victorian Incorporated

Why is financial analysis such as Ratio/Trend analysis NOT undertaken at this club/association? (select as many as appropriate)

- Historically they have not been done at this club/association
- We don't have the financial capability
- We don't have the time
- Other (please specify)

DISTRIBUTION OF FINANCIAL REPORTS

Who out of the following receive financial report/information relating to this club/association? (select as many as appropriate)

- Consumer Affairs Victoria (Department of Justice)
- Committee members
- General club members
- Regional/disbanded association
- External parties (eg, sponsors, banks etc.)
- Other (please specify)

CONSUMER AFFAIRS VICTORIA - Annual Statement
### Survey on the Accounting Function in Small Victorian Incorporated

**To what extent do you agree with the following statements about MEETING your COMPLIANCE OBLIGATIONS with CONSUMER AFFAIRS VICTORIA?**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our incorporated association has had difficulty in complying with its annual reporting obligations</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>The Annual Statement format is complex or otherwise difficult to understand</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>The requirements in the Act are complex or otherwise difficult to understand</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Meeting our compliance obligations is time consuming</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>The cost of compliance (e.g. cost of engaging an accountant or qualified auditor) is high for us</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Our administration/management practices (e.g. record keeping, handover processes etc.) can hinder compliance</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Lack of appropriate knowledge and skills within our association can hinder compliance</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

*Please specify any other factors affecting compliance in your association.*

**How could Consumer Affairs Victoria better assist you in meeting your compliance obligations?**

### About the Financial Controls

**AUDITS**

The next question is about Audits - an audit has someone checking the accounts to see whether they present an accurate picture of the financial affairs of the club/association.

There are a number of reasons why a small incorporated association may choose to be audited - or choose not to be audited. Such audits may be conducted by a club/association member, someone associated with a club/association member, or someone independent of the club/association. In small clubs/associations the audit may be done by a qualified accountant (CPA, Chartered Accountant etc.) or may be done by a non-accountant. We are interested in why small clubs/associations do (or don’t have an audit done, and who conducts the audit.)
### Survey on the Accounting Function in Small Victorian Incorporated

**Has an ANNUAL AUDIT been conducted on the club/association accounts in the past 2 years?**
- [ ] Yes
- [ ] No

**Who conducted the most recent annual audit?**
- [ ] Individual person
- [ ] Audit/Accounting business

**Which of the following best describes the individual who conducted the most recent annual audit?**
- [ ] Club/association member
- [ ] Spouse/relative/friend etc. of club/association member
- [ ] No prior link with the club/association

**Is the individual who conducts the annual audit a qualified accountant?**
- [ ] No
- [ ] Yes - CPA (Certified Practicing Accountant)
- [ ] Yes - CA (Chartered Accountant)
- [ ] Yes - NIA (National Institute of Accountants)
- [ ] Unsure
**Survey on the Accounting Function in Small Victorian Incorporated**

*What are some reasons why an annual audit of the accounts has not been undertaken in the past 2 years? (Please select as many as appropriate.)*

- [ ] It’s not a legal requirement, and this club/association chooses to not have an annual audit done
- [ ] It’s too expensive
- [ ] It’s difficult to coordinate (e.g., getting them an auditor and the required documentation)
- [ ] Other (please specify)

---

**The Need for Financial Controls**

Financial controls are procedures and policies put in place by the club/association to ensure activities are carried out as they should be - and to minimize the possibility that people could exploit the club/association.

---

**To what extent do you agree with the following statements?**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The likelihood of fraud in this club/association is minimal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generally there is a tolerance of errors in this club/association - it’s the “cost” of using volunteers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>People involved in this club/association are usually trustworthy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are aspects of this club/association that could be better protected from fraudulent activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are weaknesses in this club/association’s accounting systems that could be exploited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please use this space to type any further comments:

---

**Which (if any) of the following hinder the implementation of financial controls in this club/association? (select as many as appropriate)**

- [ ] Limited number of volunteers
- [ ] Lack of knowledge within the club/committee
- [ ] Time availability of volunteers
- [ ] Other (please specify)

---

**Incorporated Status**
Survey on the Accounting Function in Small Victorian Incorporated

*The final question asks you to confirm whether your club/association is classified as a small (non-prescribed) Victorian incorporated association - would you like to see a definition before proceeding?

- Yes
- No

Definition of a small (non-prescribed) Victorian incorporated association

To be classified as a small (non-prescribed) incorporated association you must be registered with Consumer Affairs Victoria (Department of Justice) and have:

- $200,000 or less in gross receipts per year, OR
- $500,000 or less in gross assets.

*Is this association a small (non-prescribed) Victorian incorporated association?

- Yes
- No
Appendix 6-12  Profile of Top 20 scoring associations on the Indicator of Complexity

<table>
<thead>
<tr>
<th>Members</th>
<th>Committee</th>
<th>Sponsors</th>
<th>Staff</th>
<th>ABN</th>
<th>BAS</th>
<th>GST</th>
<th>Income Streams</th>
<th>Commercial accounting package</th>
<th>Budget Reporting</th>
<th>Additional reporting to:</th>
<th>Audited by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>120</td>
<td>8</td>
<td>10</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>9 Commercial accounting package</td>
<td>Always</td>
<td>External parties (eg. sponsors, banks etc.)</td>
<td>Audit/Accounting business</td>
</tr>
<tr>
<td>2</td>
<td>350</td>
<td>20</td>
<td>40</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>7 Commercial accounting package</td>
<td>Always</td>
<td></td>
<td>Audit/Accounting business</td>
</tr>
<tr>
<td>3</td>
<td>150</td>
<td>25</td>
<td>53</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>9 Commercial accounting package</td>
<td>Never</td>
<td></td>
<td>Audit/Accounting business</td>
</tr>
<tr>
<td>4</td>
<td>350</td>
<td>10</td>
<td>25</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>6 Commercial accounting package</td>
<td>Infrequently</td>
<td>External parties (eg. sponsors, banks etc.)</td>
<td>Individual person - no qualifications</td>
</tr>
<tr>
<td>5</td>
<td>150</td>
<td>15</td>
<td>35</td>
<td>1</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8 Commercial accounting package</td>
<td>Occasionally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>140</td>
<td>17</td>
<td>20</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8 Commercial accounting package</td>
<td>Never</td>
<td>Individual person - CPA</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>250</td>
<td>12</td>
<td>20</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>9 Commercial accounting package</td>
<td>Often</td>
<td>Individual person - no qualifications</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>100</td>
<td>12</td>
<td>14</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>8 Commercial accounting package</td>
<td>Never</td>
<td>State controlling body</td>
<td>Audit/Accounting business</td>
</tr>
<tr>
<td>9</td>
<td>160</td>
<td>10</td>
<td>15</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>8 Commercial accounting package</td>
<td>Infrequently</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>150</td>
<td>12</td>
<td>14</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>7 Commercial accounting package</td>
<td>Always</td>
<td>Local Council</td>
<td>Individual person - CPA</td>
</tr>
<tr>
<td>11</td>
<td>250</td>
<td>16</td>
<td>8</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>4 Commercial accounting package</td>
<td>Never</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>120</td>
<td>10</td>
<td>10</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>6 Commercial accounting package</td>
<td>Never</td>
<td>Individual person - CPA</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>350</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>7 Commercial accounting package</td>
<td>Occasionally</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>150</td>
<td>15</td>
<td>10</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>8 Commercial accounting package</td>
<td>Occasionally</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>104</td>
<td>12</td>
<td>6</td>
<td>0</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>6 Commercial accounting package</td>
<td>Never</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>350</td>
<td>18</td>
<td>15</td>
<td>8</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>9 Commercial accounting package</td>
<td>Occasionally</td>
<td>Regional/district association</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>120</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>6 Commercial accounting package</td>
<td>Infrequently</td>
<td></td>
<td>Audit/Accounting business</td>
</tr>
<tr>
<td>18</td>
<td>60</td>
<td>7</td>
<td>5</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>6 Commercial accounting package</td>
<td>Never</td>
<td>Audit/Accounting business</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>85</td>
<td>12</td>
<td>0</td>
<td>12</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>5 Commercial accounting package</td>
<td>Never</td>
<td>Individual person - CPA</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>150</td>
<td>6</td>
<td>23</td>
<td>0</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>6 Commercial accounting package</td>
<td>Occasionally</td>
<td>Regional/district association</td>
<td></td>
</tr>
</tbody>
</table>
### Table of Key Findings

<table>
<thead>
<tr>
<th>Area</th>
<th>Result / Finding</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volunteer Treasurers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>More likely to be male than female (56% male : 44% female)</td>
<td>Consistent with literature on volunteer committees (Mailloux, Horack &amp; Godin 2002; Odendahl &amp; Youmans 1994; Rotolo &amp; Wilson 2007).</td>
</tr>
<tr>
<td>Age</td>
<td>Greater than 40 years of age (86.3%)</td>
<td>Consistent with literature on volunteer profiles (Musick and Wilson (2008) and Volunteering Australia (2011)).</td>
</tr>
<tr>
<td>Age</td>
<td>(notable cluster in the age bracket above 60 years - 31.8%)</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>Previously been Treasurer (current association or elsewhere) - 51.1%</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>Most likely to have been in their current role for 2-5 years (49%)</td>
<td></td>
</tr>
<tr>
<td>Employment Status</td>
<td>Treasurers are likely to be either employed full-time (31.8%) or self-employed (21.9%)</td>
<td>Consistent with literature on available time and the propensity to volunteer (Vaillancourt 1994; Volunteering Australia 2011).</td>
</tr>
<tr>
<td>Employment Status</td>
<td>(retired (22.3%); casual/part-time (16.7%))</td>
<td></td>
</tr>
<tr>
<td>Area of employment</td>
<td>General business/numbers-based role (53.6%)</td>
<td>Largely consistent with the literature that links education with volunteering (for example Brady, Verba &amp; Schlozman 1995; Cohn, Barkan &amp; Whitaker 1993; Eisenberg 1992, Herzog and Morgan 1993... )</td>
</tr>
<tr>
<td>Area of employment</td>
<td>(Accountant (16.1%); Bookkeeper (12.1%))</td>
<td>(BUT, 12% with secondary school only is an important finding).</td>
</tr>
<tr>
<td>Education</td>
<td>The majority of qualifications were non-business related (54.6%)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>(including 13.5% trade/work qualifications; 12% secondary school)</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>46.2% had post graduate qualifications (business &amp;/or non-business)</td>
<td></td>
</tr>
<tr>
<td>Professional Memberships</td>
<td>Treasurers are unlikely to belong to a professional body (83.7%)</td>
<td>Note: Some Treasurers (1.3%) had more than one membership.</td>
</tr>
<tr>
<td>Professional Memberships</td>
<td>(Joint Accounting Body Membership (13.3%); ’Other’ (4.3%))</td>
<td></td>
</tr>
</tbody>
</table>

Note: Some Treasurers (1.3%) had more than one membership.
<table>
<thead>
<tr>
<th>Recruitment</th>
<th>Potential Treasurers are targeted for the role using occupation-based proxies. Having a numbers-based job in one’s paid work was used as a proxy for competency to assume the role as Treasurer (However professional accountants and bookkeepers were less likely to be Treasurers than people in other number-based occupations).</th>
<th>Consistent with literature on volunteer recruitment (Bryant et al. (2003) and Ostrower (2002)).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation</td>
<td>Primary motivation for volunteering was 'no one else would do it' <em>(Forced choice (22.7%); Free choice (14.8%))</em>.</td>
<td>This represents an important departure from previous motivations and suggests the Treasurer’s role is a unique volunteer role.</td>
</tr>
<tr>
<td>Perception</td>
<td>There is an almost universal perception (90.6%) that people are hesitant to volunteer for the role of Treasurer.</td>
<td>This also suggests the Treasurer’s role is a unique volunteer role.</td>
</tr>
<tr>
<td>Barriers to Volunteer</td>
<td>Responsibility and Liability (33.5%); Lack of required skills (32.4%).</td>
<td>These were explored further using the Indicator of Complexity.</td>
</tr>
</tbody>
</table>
Complexity

**Composite Indicator of Complexity**

There is considerable difference in the complexity undertaken by Treasurers in associations that are equally classified as small *(Scores ranged from 0 - 14 out of 15) (Average score 5.3/15)*

Prevalent sources of complexity were fundraising, number of members, sale of merchandise, number of income streams and ABN registration

Most complexity related to transactions Treasurers had to process/report on rather than the association’s corporatised practices *(Isomorphic pressure existed, but was minimal overall)*

**Indicator of Corporate/Institutional Complexity**

<table>
<thead>
<tr>
<th>Indicator Score</th>
<th>The majority of associations achieved low scores (average 1.7/7), but 12% had scores of 4 and above, while 7.7% had scores of 5 and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid Staff</td>
<td>18 had paid staff (1-13 paid staff); 214 did not have paid staff</td>
</tr>
<tr>
<td>ABN</td>
<td>57.5% had an ABN; 39.1% did not; 3.4% were unsure</td>
</tr>
<tr>
<td>BAS Obligations</td>
<td>12% had BAS obligations; 85.8% did not; 2.6% were unsure</td>
</tr>
<tr>
<td>GST Registration</td>
<td>10% had GST registration; 86.7% did not; 3.4% were unsure</td>
</tr>
<tr>
<td>Accounting Software</td>
<td>35.2% of associations are using commercial accounting software <em>(19.5% used additional processes as well - eg. Excel ®)</em></td>
</tr>
</tbody>
</table>

This illustrates the wide range in corporate-like practices of incorporated associations equally classified as 'small'.

Existence of external stakeholders/users of financial information:
- Australian Government (Taxation Office; Work Cover etc.)
- Staff members
- Recipients and Providers of Tax Invoices.

Shows the level of formalisation voluntarily introduced in the accounting function.

continued...
### External Reporting

22.7% of respondents distributed their financial reports externally:
- 12.4% reported to district/regional bodies
- 7.3% reported to sponsors and banks
- 3% reported to banks and other financial institutions

*Note:* All financial reports lodged with CAV are available to the general public following a request to the registrar.

This suggests some financial reports may exhibit general purpose characteristics.

This has implications for the general/special purpose nature of the reports.

### Voluntary Audits

See below...

### Indicator of Transaction Complexity

<table>
<thead>
<tr>
<th>Indicator Score</th>
<th>The majority of associations achieved medium to high scores (average 3.6/8), with 3% scoring zero and 2.1% scoring 7.5 or 8</th>
<th>This illustrates the wide range of transaction complexity in incorporated associations equally classified as 'small'.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Members</td>
<td>Ranged from 4 (1 association) - 5,000 (1 association) members (4 associations (1.7%) had 2,000 or more members)</td>
<td>Note: It is a legal requirement to have at least 5 members.</td>
</tr>
<tr>
<td></td>
<td>95% confidence interval for the mean suggests that most associations have between 123 - 248 members</td>
<td></td>
</tr>
<tr>
<td>Sponsors</td>
<td>Almost half (48.5%) of associations have sponsors (Of those with sponsors, the number of sponsors ranged from 1 - 53)</td>
<td>Existence of external stakeholders with a financial interest in the association.</td>
</tr>
<tr>
<td></td>
<td>95% confidence interval for the mean suggests that with sponsors have between 7 - 11 sponsors</td>
<td>Contributions may be cash or 'in-kind' - Treasurers are required to account for sponsor contributions truthfully and fairly.</td>
</tr>
</tbody>
</table>

continued...
### Income Streams

Ranged from 1 - 10 income streams, with the 95% confidence interval for the mean suggesting most associations have between 4.1 - 4.6 income streams.

<table>
<thead>
<tr>
<th>Income Stream</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Canteen</td>
<td>32.2%</td>
<td>Food handling laws with licensing, training and related payments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>External stakeholders with financial relationship with association.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Increased responsibility due to the potential for legal liability.</strong></td>
</tr>
<tr>
<td>- Bar</td>
<td>27%</td>
<td>Liquor licensing laws with licensing, training and related payments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>External stakeholders with financial relationship with association.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Increased responsibility due to the potential for legal liability.</strong></td>
</tr>
<tr>
<td>- Fundraising</td>
<td>63.1%</td>
<td>Fundraising legislation (requirement to keep monies separate etc.).</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>External stakeholders with financial relationship with association.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Increased responsibility due to the potential for legal liability.</strong></td>
</tr>
<tr>
<td>- Merchandise</td>
<td>62.2%</td>
<td>Accounting for stock, including obsolete and slow moving items.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>External stakeholders with financial relationship with association.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Increased responsibility due to the potential for legal liability.</strong></td>
</tr>
<tr>
<td>- 'Other' income</td>
<td>Donations; Gifts; Grants; Loans; Sub-lease of property; Investments; Issue of Debentures; Trust Interests</td>
<td>Accounting knowledge required to report truthfully and fairly.</td>
</tr>
</tbody>
</table>

### Reporting Budget Figures

16.7% of associations did this 'always' (12%) or 'often' (4.7%).

### Coercive Isomorphic Pressure

**Legislation**

The Associations' legislation is evolving in such a way that many aspects now mimic the federal Corporations Act 2001.

**Accounting Packages**

Commercial accounting/bookkeeping packages have financial report templates already defined and ready to generate. This can result in reports that 'look and feel' like general purpose financial reports.
Sources of Compliance Failures

<table>
<thead>
<tr>
<th>Ability</th>
<th>Willingness</th>
<th>Comprehension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure of Administrative Capacity - 7 comments</td>
<td>Cost of Regulatory Compliance - 9 comments</td>
<td>Complexity of the Mandated Requirements - 3 comments</td>
</tr>
<tr>
<td>Failure of Regulatory Requirements - 26 comments</td>
<td>Failure of Persuasion - 8 comments</td>
<td></td>
</tr>
<tr>
<td>- Uncertainty as to what is required under the current legislation (14)</td>
<td>Collapse in Belief in the Law and Deterrence Failure - 4 comments</td>
<td></td>
</tr>
</tbody>
</table>

The most likely source of non-compliance.

Annual Financial Return / Statement

Errors

- The majority of statements were lodged without error, but the type and level of errors (along with comments made by respondents) were indicative of a system experiencing failures
  - (12.3% of associations had errors in the administrative section)
  - (46.9% had at least 1 error in the CAV formatted financial statement)
  - (33.8% had at least 1 error in their own set of financial reports)

- CAV format report - Missing information was the main type of error
  - (Not filling in the Surplus/Deficit for the year (16.6%) as required)
  - (A further 3.3% wrote their expenditure figure in the surplus field)

- Association-formatted report - Not calculating or reporting surplus/deficit was the main type of error (omitted by 28.8% of associations)

- There were some material imbalances - typically related to transfers
  - (Imbalance values: $1,528.86; $3,000; $83,000)

This confirms the anti-regulation/free-market perspective that financial information will be correct ‘on average’.

These combined findings confirm uncertainty as to what is required. They may further suggest misconceptions about whether or not the nonprofit status/classification precludes incorporated associations from generating a surplus.

May indicate lack of required skill.
## Voluntary Audits

<table>
<thead>
<tr>
<th>Generic Term</th>
<th>The term ‘audit’ is being used as a generic term for any statement intended to signal that someone has ‘looked over’ the accounts</th>
<th>Consistent with the work of Houghton et al. (2010).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undertaking</td>
<td>53.2% respondent associations undertook audits</td>
<td>This is consistent with the work of Jensen and Meckling (1976) and (1982), that audits will be undertaken even if not mandated.</td>
</tr>
<tr>
<td>Auditor</td>
<td>Approximately two thirds of audits are conducted by firms; Approximately one third of audits are conducted by individuals; - 52.3% CPA Australia; - 10.2% Chartered Accountants; - 5.7% Institute of Public Accountants (IPA/NIA); - 31.8% Unknown or Non-accounting qualification</td>
<td>Consistent with Hay and Davis (2004), firm status and qualifications are used as a proxy for auditor quality in incorporated associations. A large number of audits are being conducted by individuals with no apparent qualifications.</td>
</tr>
<tr>
<td>Title</td>
<td>38.2% of assurance statements/reports did not have a title; 50% of opinions were titled ‘audit’ (this was often a generically used term, rather than being representative of an audit as defined by the Australian Auditing and Assurance Standards Board (AUASB); 5.9% of associations used Compliance Reports to communicate the credibility and reliability of the financial reports</td>
<td>Compliance reports are not audits, and are not intended to provide assurance of the content.</td>
</tr>
<tr>
<td>Addressee</td>
<td>52.9% of auditors did not address their report to anyone; 24.5% reported ‘to the members’</td>
<td>This is consistent with AUASB requirements/recommendations.</td>
</tr>
<tr>
<td>Subject Matter</td>
<td>63.7% of auditors did not list the reports their opinion related to</td>
<td></td>
</tr>
<tr>
<td>Suitable Criteria</td>
<td>72.5% of auditors did not specify the criteria against which they were assessing the accounts</td>
<td>Only 15.7% of auditors made any reference to the Associations legislation.</td>
</tr>
<tr>
<td>Evidence</td>
<td>70.6% of auditors did not make any reference to the procedures they used in undertaking the audit</td>
<td>continued...</td>
</tr>
</tbody>
</table>
| Opinion - format | 36.3% of all opinions were communicated through a single sentence  
(A further 5.9% were communicated by the auditor initialling the accounts) |
| Opinion - wording | 52.9% of auditors used the wording 'true and fair' or 'presents fairly' in their opinion  
Disclaimers were sometimes added such as "appear to be true and fair" and "found nothing to indicate that the report does not present fairly"
|
| Opinion | 72.5% of associations received a clear, unqualified opinion  
23.5% of auditors included a cash receipts qualification in their opinion  
An AUASB requirement for not-for-profit entities under GS 019. |
| Auditor Choice | As an association’s income, expenditure, assets and liabilities increase, the decision to engage an increasingly qualified auditor is made  
Consistent with the work of Hay and Davis (2004) in New Zealand incorporated societies. |
| Professionals | Approximately three quarters of the accounting/auditing firms and professional accountants did not apply the requirements of ASA 800 and GS 019:  
- 22.6% made reference to the Associations legislation  
- 27.4% made reference to the report being 'special purpose'  
- None used an emphasis of matter to highlight the 'special purpose' nature of the financial report  
- 24.2% included a cash/cash receipts qualification  
This may indicate auditors are unsure where small incorporated associations 'fit' within the assurance framework. |
Publications and Consultancies from Thesis
