

An Exploration of Scottish Charities' Governance and Accountability

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Published by

The Institute of Chartered Accountants of Scotland
CA House, 21 Haymarket Yards
Edinburgh EH12 5BH

First Published 2009
The Institute of Chartered Accountants of Scotland

© 2009
ISBN 978-1 904574-50-7
EAN 9781904574507

This book is published for the Research Committee of
The Institute of Chartered Accountants of Scotland.
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Printed and bound in Great Britain
by T. J. International Ltd.

C ONTENTS

<i>Foreword</i>	<i>i</i>
<i>Acknowledgements</i>	<i>iii</i>
<i>Executive Summary</i>	<i>v</i>
1. INTRODUCTION	1
Introduction	1
Research objectives	1
Motivation for the research	3
Structure of the report	6
2. BACKGROUND TO THE STUDY	9
Introduction	9
The charity sector in Scotland	9
The legal framework	10
The accounting framework	14
Governance, accountability and financial reporting	16
Defining governance and accountability in charities: applicability of the corporate model?	17
Accountable to whom?	23
Financial accountability	25
Performance accountability	27
Summary	29
3. RESEARCH APPROACH	31
Introduction	31
Content analysis	33
Interviews	35
Case studies	36
Summary	37

CONTENTS

4. A CONTENT ANALYSIS OF CHARITY ANNUAL REPORTS AND ACCOUNTS	39
Introduction	39
Sample selection	39
Content analysis	43
Results	48
Summary	58
5. INTERVIEWS WITH CHARITY MANAGEMENT AND TRUSTEES	61
Introduction	61
Sample and method	61
Governance	67
Accountability	74
Regulatory and legislative reforms	81
Extent of compliance with the regulatory regime	86
Summary	90
6. INTERVIEWS WITH REGULATORS, AUDITORS AND INDEPENDENT EXAMINERS	93
Introduction	93
Sample and method	93
Experiences of recent regulatory changes	96
Internal business arrangements	102
Perspectives on recent regulatory reforms	104
Governance and accountability	117
Summary	127

CONTENTS

7. CASE STUDIES OF FOUR SCOTTISH CHARITIES	131
Introduction	131
Sample selection and method	131
Case study one	133
Case study two	148
Case study three	159
Case study four	174
Summary	184
8. CONCLUSIONS	189
Introduction	189
Findings from the contents analysis of charities’ annual reports and accounts	190
Findings from the interviews conducted with managers and trustees of Scottish charities	191
Findings from the interviews conducted with regulators, auditors and independent examiners of Scottish charities	194
Findings from the case studies conducted in four Scottish charities	196
Recommendations	197
Summary	199
REFERENCES	201
APPENDIX 1: Basic information for content analysis	
sample charities	211
APPENDIX 2: Summary of requirements for audit and independent examination	215
ABOUT THE AUTHORS	217

F OREWORD

Significant regulatory change has taken place in the Scottish charity sector in recent years, following on from a number of high profile scandals in the late 1990s and early 2000s. This report examines whether these changes have been effective and whether they are considered worthwhile by those who are stakeholders in the charity sector.

This research analyses charities' annual reports and accounts, examines their processes for governance and accountability, conducts interviews and undertakes a number of case studies to evaluate the awareness and perceptions of governance and accountability in the charity sector. The research is based on developments following the establishment of the new Scottish Charity Regulator (OSCR) and implementation of SORP 2005. The findings and recommendations are relevant to charities seeking to identify best practice and improve their own governance procedures and the charity sector as a whole when planning for the introduction of revised SORPs and other regulatory change.

Although governance and accountability issues varied in relation to the size and complexity of the charity, certain matters were recurring, including the challenge of recruiting suitable trustees and the issue of reliance on unpaid volunteers to deliver strategic direction to charities. The report makes twelve recommendations ranging from policy issues, funding considerations, improving communications, to obtaining suitable trustees and advisers.

This project was funded by the Scottish Accountancy Trust for Education and Research (SATER). The Research Committee of The Institute of Chartered Accountants of Scotland (ICAS) has also been happy to support this project. The Committee recognises that the views

expressed do not necessarily represent those of ICAS itself, but hopes that the project will add to the debate on governance and accountability issues in the charitable sector, which plays such an important role in the provision of services.

David Spence
Convener, Research Committee
June 2009

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CKNOWLEDGEMENTS

The research for this report was facilitated by an award from The Scottish Accountancy Trust for Education and Research (SATER). Thanks in particular are due to Professor Christine Helliar (Director of Research), Michelle Crickett, Isobel Webber and Angie Wilkie at ICAS for all of their help during the project.

The authors wish to thank the charity management staff, stakeholders, trustees and regulators who agreed to participate in this research.

This report has benefited from helpful comments and observations from participants at a number of seminars and conferences. These include the British Accounting Association Scottish Area conference at the University of Abertay Dundee in September 2005, the Institute of Public Sector Accounting Research Seminar at the University of Edinburgh Management School in October 2005 and seminars at the University of Dundee (February 2005; May 2006) and the University of Glasgow (November 2006).

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EXECUTIVE SUMMARY

This report examines governance and accountability processes and perceptions in Scottish charities at a time of unprecedented legislative and regulatory reform. Such reforms include the Charities and Trustee Investment (Scotland) Act that gained Royal assent in 2005 and established a new Scottish Charity Regulator (OSCR). The reform of the charity sector was prompted by high profile scandals that had rocked public confidence in the sector. Also in 2005, a revision of the Statement of Recommended Practice (SORP) governing charity reporting that prescribed updated accounting practices was issued by the Charity Commission for England and Wales and approved by the Accounting Standards Board (ASB).

This monograph reports the findings of a research project that involved:

- a content analysis of charities' annual reports and accounts in the year of the implementation of the most recent SORP;
- interviews with trustees and/or senior management in a sample of Scottish charities exploring their formal and informal processes for governance and accountability;
- interviews with auditors, independent examiners and others involved in the sector's accountability processes; and
- case studies of charities' stakeholders' awareness and perceptions of organisations' governance and accountability relationships and mechanisms.

Findings from the interviews and content analysis

The interviews and content analysis of charities' annual reports and accounts identified a number of key findings for the charity sector to consider.

The exercise to obtain the necessary documentation highlighted the widespread ignorance within charities of the legal obligation that they must provide their annual report and accounts to any interested member of the public. Requests for these documents were made to five hundred and forty five different charities; this resulted in the receipt of useful documents from only 75 charities. Interviewees agreed that the availability of charities' accounts online would be a welcome development. It would improve accessibility to this information and relieve charity staff from dealing with individual requests.

The content analysis exercise shows that Scottish charities in the sample are now complying with the most recent recommended practice in terms of increased disclosure of governance-related information.

Auditors and professional advisers have played a key role in helping charities, in advance of the introduction of the SORP, to put in place the processes necessary to comply timeously with the new requirements. The volume and content of information disclosed in a charity's annual report and accounts correlates to a large extent with a charity's size; however, this is not solely explained by larger charities producing longer annual reports and accounts. The majority of the SORP-compliant information is presented in a narrative, as opposed to a quantitative or financial form; this allows the reporting body to convey to the reader of the accounts the key components of its governance and accountability processes. These processes include mechanisms to provide details of activities undertaken by charities in pursuit of their charitable aims and to allow the effective presentation of performance measurement indicators to permit accounts' users to gauge the efficiency and effectiveness of a charity.

Trustee and senior management interviewees understood 'governance' in terms of the alignment of structures, procedures and codes with charitable objectives. Typically, boards of smaller charities, often referred to as 'management committees', met monthly to discuss the pursuit of their charitable objectives, although the focus tended to remain on operational rather than strategic matters; these organisations had few, if any, employees. A much greater distinction was apparent between operational tasks and strategic vision at larger charities where boards tended to meet quarterly to consider reports that had been received from management and staff.

A big challenge faced by charities relates to the task of recruiting suitable trustees with the necessary skills, while containing the demands made on their time at a level that they are able to continue to serve. In particular, small charities can suffer when individuals do not fully appreciate the demands of the role that they accept and, as a result, fail to be effective volunteers. Although practice varies, most charities' induction arrangements include packs for newly recruited trustees and involve these individuals in at least one day's training to learn about the organisation and their new role within it.

The main drivers of change, and particularly change associated with governance/accountability processes in the charity sector, appear to be regulation and legislation; stakeholder interviewees' impressions were that charitable organisations adopt evolutionary changes in response to their dynamic environment and to new requirements.

Interviewees identified a wide range of accountability relationships with a variety of stakeholders including funders, service users, the general public and regulators; different mechanisms were used to maintain a charity's relationships with these diverse groups and included AGMs, EGMs, information disclosure, stakeholder meetings and wider feedback. There was a widespread perception that no-one, except perhaps funders, was particularly interested in accounting information; funding bodies, however, did make specific information demands of their beneficiaries.

Nonetheless, interviewees largely found the account preparation process valuable. The extent of the use of information to measure performance reflected the size and complexity of the charities, with the largest organisations disclosing this information externally as well as using it internally to inform decision-making.

The establishment of OSCR was universally welcomed. While the trustees of larger charities rely heavily on professional accounting advisers to ensure that they can address new legislative and regulatory requirements, at the smallest charities, levels of ignorance of, for example the SORP or the difference between 'audit' and 'independent examination', remain high. At the smaller end there is evidence of some resistance to what is perceived as an increase in bureaucracy to the detriment of the pursuit of charitable objectives. Therefore, there is a role for the accounting profession to be more proactive in promoting the value of professional advice for charities. Similarly accountants could advise on systematic risk management which, in smaller charities, is often only addressed in the wake of a crisis.

Similar themes emerged in discussions with professional accounting advisers of their clients' awareness of recent reforms. Big 4 advisers, who principally deal with the largest charities, found that these organisations demonstrated good awareness of recent changes, while smaller accounting firms experienced varying levels of trustees' knowledge of the latest developments. The changes in legislation have led accounting firms to review their charity audit client base and, while many have only retained the largest charities on their books, in one instance a decision was made to withdraw from the charity audit market and to solely undertake independent examination work.

Many advisers had urged their clients, in advance of SORP 2005, to set up performance measurement systems in order that they could comply with the reporting requirements for their 2006 annual report and accounts. The interviewee from the charity representative body explained that the requirement of SORP 2005 to present a narrative review of the

reported year meant that charities found it less easy to use the annual report and accounts as promotional material. Consequently, many charities are experiencing higher costs through their need to develop and produce separate marketing literature. Increased expenditure is also experienced by charities when a new SORP is introduced, as organisations typically need to seek extra professional advice from accountants to implement it.

Audit staff in Big 4 firms prepare to give advice by undertaking ‘in-house’ training that allows them to maintain their status as advisers to charities. Smaller accounting firms are more reliant on charity courses and conferences offered and delivered by professional bodies, such as ICAS; often through attendance at such an event a key individual may become the expert adviser in charity matters in their firm.

Auditors and professional advisers to charities welcomed the recent reforms to the Scottish charity sector. They thought that the establishment of OSCR would improve standards in the sector and were happy that the establishment of the Office had resulted in the winding up of many inactive charities. They were also satisfied that SORP 2005 reflected the complexity of financial reporting for charitable organisations. However, some interviewees called for an equivalent of a FRSSE to be introduced to simplify the reporting requirements of smaller charities. The relaxation in audit requirements was widely welcomed, although interviewees were keen to highlight funders’ lack of understanding of legislative requirements in this respect.

Auditors and professional advisers thought the most likely users of charities’ accounts would be OSCR and funding bodies or individuals. However, they also indicated that, although the accounting process was often of more value than the accounts it produced, they would welcome online provision of these documents to allow fast and easy access to them.

Where the roles of trustees and managers are not clearly distinguished, as can happen in smaller charities, problems often arise when these organisations are faced with difficult decision-making. Training should

therefore be made available to minimise misunderstanding of the differing duties of these posts. As charitable organisations grow in size, a more explicit distinction of roles is required in the exercise of governance procedures. The appointment of a chief executive is important in larger charities where typical governance arrangements focus upon quarterly board meetings; these often consider the reports of sub-committees which are set up to consider specific issues and thus reduce the length of full-board meetings.

The auditors and professional advisers interviewed during the course of this project paid tribute to the calibre and commitment of the trustees they encountered. They believe that very large charities have good governance and accountability arrangements in place that operate in a similar fashion to those found in the corporate sector. However, interviewees stated that, in light of this, it may be that there is some naivety in the expectation that boards will continue to function effectively where charities are forced to rely on volunteers. To this end, the time may be right to begin an open debate on the appropriateness of trustee remuneration.

Findings from the case studies

Case studies were undertaken that involved interviews with stakeholders of four differently-sized charities to explore individuals' awareness and perceptions of specific charities' governance and accountability relationships and mechanisms. Interviewees included: employees; service users; volunteers; funders; and wider community representatives. In the smallest case organisation which provided out of school care for children, the parent and child service users and the employee had less understanding of how the charity governed itself and its performance than they would have liked. In contrast, a local council employee who worked closely with this case charity highlighted its governance practices as exemplary. However, she pointed to the

significant challenge presented by the provision and management by a voluntary group of key social services such as childcare without ring-fenced statutory funding.

The second case organisation provided training and inclusion opportunities to adults. Interviews with an employee, a trustee and a community representative identified a wide range of accountability relationships sustained by the charity, the maintenance of which were seen as essential for its functioning. These interviewees wholeheartedly welcomed the establishment of OSCR. Although the service user and volunteer interviewees were unaware of either the detailed governance structures in the organisation, or wider changes in the sector such as the establishment of OSCR, both individuals were confident that the charity was well and appropriately managed.

In the third case organisation, which offered free counselling services, a significant internal restructuring exercise had preceded the changes in legislative and regulatory requirements. Possibly as a result of this internal change the chief executive, funder, employee and volunteer interviewees were all well aware of governance issues and procedures in the charity; significantly more performance information was now gathered and reported and the establishment of OSCR was welcomed. Several interviewees identified a wide network of accountability relationships within and outwith the organisation; however, the issue of providing essential services without sustained funding or government recognition was again highlighted as a significant difficulty.

The final, and largest, case organisation provided advanced education; stakeholder interviewees welcomed OSCR's role and activities and recent reforms, and also identified a range of accountability relationships that the charity was involved in maintaining. It was noted that the board had recently begun to focus more on strategic rather than operational issues and this was viewed as a very positive development.

Recommendations

Largely through the observation of good practice during this study, twelve policy recommendations are made and detailed as follows:

1. Given the contribution of charities to life in Scotland, a debate should be undertaken to consider the feasibility and fairness of expecting key social services to be provided by charitable organisations which must rely on, and compete for, relatively short-term funding streams.
2. The charity sector and its regulators should consider the feasibility of continuing to rely upon unpaid volunteers to oversee the strategic direction of charities.
3. Funders and regulators should improve their dialogue with charities, and with one another; they should move to having the same documentation meet both sets of information needs.
4. Charities should develop mechanisms to obtain better feedback from their stakeholders and share their experiences of building feedback models. This would help to inform performance indicators reported in their annual report and accounts.
5. OSCR should make charities aware of their legal obligation to provide a copy of their accounts in response to a request from any member of the public.
6. Regulators should consider introducing the equivalent of a SORP FRRSE to simplify the reporting requirements of smaller charities.
7. Charities should make available information online relating to charity governance arrangements, funding, complaints, staff qualifications and accounts.

8. The percentage of a charity's income that is used directly in funding its aims should be shown explicitly at the beginning of a charity's annual report and accounts.
9. Charities should recruit trustees with an appropriate mix of skills. Board members' skills should be regularly reviewed to ensure they have the expertise required to advance the aims of the organisation. Any skills gaps should be filled by appointing suitably experienced individuals.
10. Induction and training arrangements for trustees should be developed and undertaken by charities to ensure that these individuals have a broad understanding of the duties their roles entail.
11. Charities should seek to separate strategic control from management operations as a matter of best practice in effective governance.
12. A charity should employ an accountant or engage an auditor or independent examiner with particular expertise in charity reporting, as interviewees believed this to be advantageous, in terms of risk management and coping with regulatory change.

1 INTRODUCTION

Introduction

Scottish charities have attracted considerable attention in recent times due to two very high profile scandals which involved the misappropriation of funds. In May 2003, legal action was mounted against the directors of Breast Cancer Research (Scotland) following allegations of misconduct and mismanagement of the organisation, while in October 2003 all five directors of the Scottish children's charity Moonbeams were suspended after evidence of financial mismanagement emerged. Donations to Scottish charities fell by 33 per cent following these scandals (Edinburgh Evening News, 2005) and prompted the announcement by the Scottish Executive of a major overhaul of the Scottish charity regulatory environment (Harris, 2003). These legislative and regulatory reforms have promoted the activities of charities in the minds of the public. Much of the recent criticism has focused on the governance and accountability of individual charities as well as on the sector as a whole and, therefore, this research explores how these mechanisms currently operate within Scottish charities. An exploration of the reforms on accounting disclosure via the impact of recent regulatory reforms on the content of charity annual report and accounts is also presented.

Research objectives

There are two principal strands to this research; the first strand explores the impact of recent reforms upon charity reporting and disclosure practices and procedures. The annual report and accounts of Scottish charities are analysed in order to assess the extent to which recent

legislative reforms have been incorporated within these publications. In addition, an attempt is made to assess the extent to which governance and accountability issues are disclosed in these documents. In a sub-strand of the accounting theme, the use and disclosure of performance indicators by charities are explored by means of interview and content analysis of such disclosures.

The second related strand explores the governance and accountability mechanisms currently in place in Scottish charities. The objectives of this strand of the research are twofold. First, the analysis attempts to explore the policies and procedures in place within different charities in order to examine variations in governance practice, as well as to uncover examples of best practice in the sector. Second, the work aims to identify the accountability mechanisms and relationships which currently exist within Scottish charities. In order to achieve these objectives, the study tries to ascertain charity management and trustees' understandings of the governance notion and seeks to explore the variations in the practices that have been adopted by various Scottish charities. Several interviews have been conducted with individual charity executives and their associated stakeholders in order to gauge their perceptions of charity governance and accountability in Scotland and four case studies were carried out to explore the understanding of these concepts amongst wider stakeholder groups.

Given the extensive change currently taking place within the charity sector, this research addresses several themes relating to governance and accountability issues for charities that report in Scotland. This is particularly pertinent in the light of Connolly and Hyndman's (2004) claim that almost all previous empirical research in the sector has dealt with large British charities. In 2005, more than 25,000 charities were listed on the Scottish Council of Voluntary Organisation's (SCVO) Work With Us website; 300 of these organisations have turnover in excess of £1 million. With the recent establishment of the Office of the Scottish Charity Regulator (OSCR), plus new, specifically Scottish, charities' legislation in place, a Scottish focus seems timely.

Motivation for the research

The governance of charities is attracting considerable media and political attention, due in part to two recent scandals involving the misappropriation of funds at two high profile charitable concerns, as well as the spate of new laws regulating their activities (Barker, 2000; Blyth, 2003; Harris, 2003; Johnston, 2003; Swanson, 2004). In addition to the specific Scottish reforms, the European Commission released a document titled *Promoting the Role of Voluntary Organisations and Foundations in Europe* in June 1997. This was followed by HM Treasury *Review of Charity Taxation* in March 1999. The Charity Law Research Unit based at the University of Dundee published a major evaluation of extant charity legislation in June 2000.

In addition to the legislative reforms, the procedures in place at the Scottish charities associated with the scandals referred to above have been investigated in recent years (Harris, 2003; Johnston, 2003; Shifrin, 2003; Swanson, 2004). Moonbeams – an Edinburgh-based children’s charity was wound up in 2003 when it was discovered that only £71,000 of the £3m raised for charitable purposes had been spent appropriately. Breast Cancer Research (Scotland) had its assets frozen following an investigation which discovered that only £1.5m of £13m funds raised had been donated to charity. In 2006, Tony Freeman, a fundraising consultant for the charity, was sentenced to 18 months imprisonment after admitting to fraud. As a result, the governance and accountability of charitable boards have been openly questioned, with an Accountancy Age survey suggesting that more than half of UK financial directors believe charity finances are at risk from poor controls (Schlesinger, 2003).

The focus on the governance of charities and their expanding role in the provision of public services means that they are also included in the remit of the Independent Commission on Good Governance of Public Services (2004). A flurry of reports, recommendations and

consultations in recent years, focusing on the role and responsibilities of trustees in charitable organisations is further evidence of the increased interest in the accountability of charities and their trustees. Further, a series of conferences and reports on the functioning of charities has also contributed to the ongoing debate about their governance and performance measurement. A One World Report (Kovach *et al.*, 2003) examines the extent and quality of web information available from, amongst others, UK charities. It concludes that, compared with international companies and intergovernmental organisations, such as the World Trade Organisation, the transparency of information made available via UK charities' web disclosures is abysmally low (Kovach *et al.*, 2003). Charitable organisations face a dilemma when making information available online in this manner; they may wish to make organisational and fundraising information available to their stakeholders, however, they typically face financial constraints and often lack the technical expertise necessary to undertake such an endeavour (Waters, 2007). A number of worldwide websites have emerged which facilitate online donation (for example, www.NetworkForGood.org in the US and www.justgiving.com in the UK), while other sites have focused on providing information relating to charities. For example, Guidestar UK provide free information relating to 168,000 charities in England and Wales; at present, they do not provide information relating to Scottish or Northern Irish charities. The aim of such websites is to provide information relating to a large number of charities in one place.

The accounting profession has also recognised the need for action and has been involved with the Charity Commission of England and Wales in the issue of a revised *Statement of Recommended Practice* (SORP) on charity reporting in March 2005. Later the same year, the Accounting Standards Board (ASB) issued an Exposure Draft entitled *Statement of Principles: Proposed Interpretation for Public Benefit Entities* which provided guidance on the application of the ASB's 1999 *Statement*

of Principles to the not-for-profit sector, the latest version of which was published in June 2007. In addition, the Charities and Trustee Investment (Scotland) Act 2005 was passed by the Scottish Parliament; this Act contained a number of provisions aimed at improving the governance and accountability of Scottish charities. One notable effect of the new legislation related to the confirmation of the role of OSCR who assumed responsibility for regulating the operation of charities in Scotland.

Such reform had long been called for by larger charities and the professional accountancy bodies. A 2003 Institute of Chartered Accountants of Scotland (ICAS) report (Connolly and Hyndman, 2003) on performance reporting by UK charities highlighted a number of issues that needed to be addressed. First, it recognised that, although providers of charity information were largely aware of users' information needs, this information was not typically disclosed within charities' financial documents. Second, although larger charities were believed to produce higher quality financial reporting than smaller charities, it was unclear whether this relationship held for performance reporting disclosures. Third, the extent of charities' compliance with the specific risk management requirements of the SORPs was also noted. Fourth, there was a lack of understanding surrounding the reasons for the level of performance reporting by charities found by the authors. This research attempts to address some of the concerns raised by Connolly and Hyndman (2003), in addition to investigating the impact of the recent Scottish legal reforms and UK-wide accounting changes described above.

Structure of the report

This exploration of charities' governance and accountability uses three related methods, each of which is presented in this report. Chapter two provides some context and background to the research and presents an overview of the charity sector in Scotland. In particular, the key legislative and regulatory accounting requirements applicable to Scottish charitable organisations are outlined. The chapter also reviews the extant academic and practitioner-oriented research relating to the accountability and governance of charitable bodies. This background is designed to provide some context and background to the empirical work described later in the report.

Chapter three outlines the research approach employed in the study. The three research methods are outlined: (i) a content analysis of the annual report and accounts issued by charities; (ii) a series of thirty semi-structured interviews with charity senior management or trustees and sector regulators; and (iii) four case studies of charities of varying sizes. All three methods are aimed at exploring the accountability and governance frameworks that currently exist in Scottish charities.

Chapter four is the first of four empirical chapters included in this report. Each empirical chapter follows a similar format: a brief introduction is followed by an analysis of the work undertaken and a summary of the findings. Chapter four outlines the results of a content analysis survey of the statutory financial reporting documents produced by a sample of charities. The content analysis focuses on the prominence of governance and accountability-based information provided within these documents. The charities selected for examination represent a cross-section of organisations across income levels above £100,000.

Chapters five and six explore the experiences and views of interested parties regarding the governance and accountability of charities. Chapter five focuses on presenting the perspectives of key charity management personnel and trustees, while chapter six explores the viewpoints offered

by a range of external participants such as regulators and auditors/independent examiners. Interviewing both internal and external parties that have a role to play in determining how charities are governed and viewed facilitates a more holistic understanding of developments in the sector. Chapter seven builds on this holistic approach by using case studies to examine the procedures in place within, and stakeholders' perceptions of, governance and accountability in four Scottish charities of differing size and complexity. Chapter eight draws on the evidence presented in the empirical chapters to highlight key findings and provide recommendations for practice.

2 BACKGROUND TO THE STUDY

Introduction

This chapter provides some context and background to the present study in two ways. First, an overview of the charity sector in Scotland is presented. Second, a brief review of previous academic and professional research in the area is provided; two themes which reflect the specific research questions addressed by the present study are discussed, namely: (i) governance and accountability; and (ii) accounting and disclosure.

The charity sector in Scotland

The charity sector in Scotland is characterised by its diversity. It represents a substantial component of the economy with the voluntary sector as a whole achieving an annual turnover of £2.6 billion in 2004 (SCVO, 2007). The SCVO define voluntary organisations to include:

... 'general charities' and [other] organisations that may be charities but that fall under the following definition: non-profit distributing; non-statutory; autonomous; may be charitable. (SCVO as cited in Payne and Berry, 2003)

The SCVO report distinguishes this from the charitable sector which includes those organisations deemed to have a charitable purpose and included in the OSCR register. The charity sector comprises a large number of organisations, operating across a range of different areas. As

of 1st July 2007, OSCR listed 23,473 charities on its Register; it also includes a list of 14,834 'former' or 'ceased' charities (OSCR, 2008). Although not necessarily certain, this is the most accurate measure of the charitable sector available to date and is based on the monitoring of charity annual returns made to OSCR and subsequent investigations into the status of individual charities. The charitable organisations (on occasions instead of, or in partnership with, their public sector counterparts) assume responsibility for providing a large number of services across Scotland. The Scottish Executive recognises the contribution of these organisations in 2003 when it states that charities:

...are playing an effective part in delivering on key Executive agendas in terms of service delivery and in contributing to the regeneration of disadvantaged communities. (Scottish Executive, 2003, p.5)

Thus, an exploration of the ways these organisations are governed and the impact of their structure, reporting practices and other mechanisms is timely and permits an assessment of the processes these bodies undertake to discharge their accountability.

The legal framework

In May 2001, the Scottish Charity Law Review Commission published the *McFadden Report* that detailed 114 recommendations aimed at the reform of charity law and regulation in Scotland. In December 2003, following an intense period of review and policy formulation, Jane Ryder was charged with responsibility for establishing OSCR by the Scottish Executive. This body was established as an Executive Agency of the Scottish Executive and subsumed certain roles previously executed by the former Scottish Charities Office and Her Majesty's Revenue & Customs (HMRC). In the first instance, the

newly established body aimed to: (i) increase public confidence in the sector via the imposition of regulation; (ii) enhance the transparency and accountability of charities; (iii) forge a greater understanding of charity trustees' roles; and (iv) establish itself as an effective regulator for the sector in Scotland. The establishment of OSCR was a major step forward in terms of regulating the sector in Scotland as Scottish charities had not previously had a major oversight body. For the sake of completeness it is worth noting that the Charity Commission is the registrar and regulator for charities in England and Wales while Northern Irish charities are regulated under the auspices of the newly established Charity Commission for Northern Ireland.

In tandem with the establishment of OSCR, the Scottish Executive passed the Charities and Trustee Investment (Scotland) Act 2005 replacing the Law Reform (Miscellaneous Provisions) (Scotland) Act 1990. The 1990 Act contained a number of provisions relating to the definition and operation of charities within Scotland; however, some gaps had been identified. As a result, the 2005 Act concentrates on a number of key areas relating to the governance and accountability of Scottish charities including: (i) detailing the role of OSCR in the regulation of charities; (ii) outlining the duty to keep proper accounting records and prepare a statement of account; and (iii) describing the responsibilities, duties and remuneration of charity trustees. Each charity must prepare a statement of account, including a trustees' report which is independently examined or audited and submitted to OSCR. The detailed content of the statement of account is provided in the Charities Accounts (Scotland) Regulations 2006.

In addition to the governance and accounting provisions contained in the 2005 Act, OSCR is required to maintain an up-to-date register of charities. The Act also outlines the criteria for granting charitable status. The charity test comprises two elements that must be satisfied by all bodies seeking charitable status. First, all registrants are required to demonstrate that the purposes of their body are exclusively charitable

and second, organisations must provide a public benefit in Scotland, or elsewhere (Charities and Trustee Investment (Scotland) Act 2005, sections 7-8). This is a tightening of the previous definition of a charity under which the notion of public benefit could be assumed with the acceptance of the stated charitable purpose. The Act also states that any charitable body must not distribute or utilise any of its property for a non-charitable purpose; further, the organisation must be free from the control of Scottish Ministers or Ministers of the Crown, and it must be non-political in stance (Charities and Trustee Investment (Scotland) Act 2005, section 7).

The Act recognises sixteen charitable purposes:

- (i) the prevention or relief of poverty;
- (ii) the advancement of education;
- (iii) the advancement of religion;
- (iv) the advancement of health;
- (v) the saving of lives;
- (vi) the advancement of citizenship or community development;
- (vii) the advancement of the arts, heritage, culture or science;
- (viii) the advancement of public participation in sport;
- (ix) the provision of recreational facilities or the organisation of recreational activities, with the object of improving the conditions of life for the persons for whom the facilities are primarily intended;
- (x) the advancement of human rights, conflict resolution or reconciliation;

- (xi) the promotion of religious or racial harmony;
- (xii) the promotion of equality and diversity;
- (xiii) the advancement of environmental protection or improvement;
- (xiv) the relief of those in need by reason of age, ill-health disability, financial hardship or other disadvantage;
- (xv) the advancement of animal welfare; or
- (xvi) any other purpose that may reasonably be regarded as analogous to any of the preceding purposes (Charities and Trustee Investment (Scotland) Act 2005, section 7(2)).

It is worth noting that achievement of charitable status under the terms of the Charities and Trustee Investment (Scotland) Act 2005 does not automatically confer tax relief status on recognised organisations; charities must also request this designation from HMRC.

The Act also details certain criteria that must be satisfied when determining whether a particular body provides public benefit as part of the charity test (Charities and Trustee Investment (Scotland) Act 2005, section 8). The first criterion deals with the notion of potential disparity in benefits gained by members of the organisation versus the public at large, as a result of the body's functions. The second criterion relates to the extent to which any condition, including any charge or fee levied, restricts members of the public from obtaining the benefits from an organisation's functions.

The results of OSCR's pilot review of the application of the charity test were announced on 18th July 2007. OSCR confirmed that the 16 piloted organisations all demonstrated that they provided charitable benefits. Fourteen were confirmed as meeting the requirements of the charity test, while the remaining two organisations were issued with directions on technical matters regarding their constitutions.

The accounting framework

The Charities and Trustee Investment (Scotland) Act 2005 also contains a number of provisions relating to accounting; the Act requires each charity to maintain proper accounts and to deposit an annual statement of account and report of its activities with OSCR (section 44). Charities with a gross income greater than £25,000 are also required to complete a Monitoring Return for OSCR. Under the terms of the Act, Scottish Ministers may, by regulation, make provisions regarding charity accounts (section 44, para 4). The Charities Accounts (Scotland) Regulations 2006 details the annual thresholds as follows: charities with a gross income greater than £500,000 or gross assets of more than £2.8million are obliged to prepare SORP-compliant accounts which require a full, professional audit. Charities with income levels between £100,000 and £500,000 must also prepare SORP-compliant accounts, however, in this case it is sufficient for prepared accounts to be independently examined by a qualified examiner. Those charities with income of less than £100,000 are obliged to prepare receipts and payments accounts which are subject to independent examination although not necessarily by a qualified examiner; however, these smaller organisations may choose to prepare SORP-compliant accounts or may be obliged to do so within the terms of their constitution. Similarly, their constitutions may require more onerous auditing or examination of the charity's accounts.

In addition to the role played by legislation, Scottish (and other UK) charities are also subject to the requirements of the SORP. The current SORP was issued in 2005 and is the latest in a series of statements issued over the past 20 years (SORP 1988, SORP 1995 and SORP 2000). The first SORP, issued in 1988, did not contain recommended principles but provided general guidelines aimed at achieving greater consistency and comparability in charity accounting and reporting practices. In 1995 a revised SORP was issued. This document was more prescriptive

and detailed specific recommendations relating to the layout of charity accounts. In particular, a trustees' report and a statement of financial activities (SOFA) replaced the income and expenditure account that had been required previously. The SOFA details all movements in capital and income resources throughout the accounting period and categorises them by type, depending on any restrictions placed on the use of the funds by donors.

In October 2000, a revised SORP was issued for application in accounting periods commencing on or after 1st January 2001. This document was to be reviewed annually in accordance with the ASB code of practice. The first annual review of the 2000 Charities' SORP was completed in February 2002. This review considered the impact of new accounting standards introduced subsequent to its original publication.

The most recent revision resulted in the release of SORP 2005 in March of that year. The focus on this occasion was on the provision of qualitative narrative reporting, by means of an expanded trustees' report, in addition to quantitative financial information. The emphasis is placed on the need to link a discussion of a charity's objectives, activities and performance with its financial statements. Charities are required to provide details about their: (i) administration, trustees and advisors; (ii) structure, governance and management; (iii) objectives and activities; (iv) achievements and performance; (v) financial review; and (vi) plans for future periods (SORP 2005, para. 41-57). The emphasis of the reform is very much on activities-based reporting and expanding on the disclosure of information on performance and governance issues; the new disclosures are aimed at providing a clearer and more comprehensive view of a charity's activities in addition to highlighting the steps undertaken to meet its objectives and in fulfilment of its charitable aims. The extra information is designed to link to, and expand upon, the quantitative information provided in the SOFA and the associated notes to the accounts.

In May 2003, the ASB published a Discussion Paper *Statement of Principles: Proposed Interpretation for Public Benefit Entities* aimed at making its 1999 corporate-oriented statement more applicable to public benefit entities. The document was well received and an Exposure Draft was issued in August 2005 and a final statement in June 2007. This statement identifies funders and financial supporters of non-profit entities as the primary class of user of financial information in general. However, there is an acknowledgement that, for charities in particular, the beneficiaries of the charity's services may constitute an alternative primary user group. Meanwhile, in January 2006, the Chartered Institute of Public Finance and Accountancy, in association with the chartered accountancy firm RSM Robson Rhodes, reviewed issues relating to the potential publication of an Operating and Financial Review (OFR) by public benefit entities. They concluded that production of this information afforded public benefit entities the opportunity to enhance the quality of their reporting, and thereby improve their accountability.

Governance, accountability and financial reporting

Significant overlap exists between the notions of corporate governance and accountability; indeed, accountability is frequently considered to be 'the crux of good governance' (Ritchie and Richardson, 2000, p.451). Transparency is considered to be a key ingredient in a well-functioning system of governance (Mallin, 2007; Solomon, 2007). Financial reporting has a vital role to play in this regard in terms of ensuring that transparency regarding an organisation's operations and use of resources is communicated to interested parties. Lawry (1995) points to the role played by the release of accounting information in demonstrating charities' discharge of accountability, arguing that a charitable organisation:

...must issue a full report of its activities and a full justification for the way it has conducted its facilities and managed its money.
(p.177)

While the concepts of governance and accountability are well-understood in the corporate sector, difficulties arise when attempting to operationalise them in the non-profit world. This section focuses on discussing the concepts of governance and accountability in existence in the charity sector, highlighting the differences that make wholesale adoption of the corporate model problematic. In addition, the extant literature examining the implications for the reporting and disclosure practices of charities is explored.

Defining governance and accountability in charities: applicability of the corporate model?

The related notions of governance and accountability that are applied in the non-profit world in general, and the charity sector in particular, are typically based on those in existence in the corporate sector (Ostrower and Stone, 2006). However, a number of crucial differences exist in the non-profit sector that make wholesale application of the corporate model inappropriate. Goodin (2003) argued that governance and accountability suffered in the non-profit sector because of the absence of any 'residual owners' akin to shareholders' to whom officers of the organisation could be held to account (p.7). This lack of an ultimate accountee to whom reporting on governance and accountability-related matters is directed results in difficulties in defining these concepts in the non-profit world. Most attempts to articulate non-profit definitions of governance and accountability are rooted in those applicable to the corporate sector and the relevance of the developed corporate governance framework to the non-profit sector has been questioned.

Berle and Means (1932) articulated the central premise of corporate governance when they identified the difficulties associated with the separation of ownership and control within corporations. The protection of investors from agency risks associated with this separation has been the central preserve of corporate governance recommendations throughout the world (Bushman and Smith, 2001; 2003; Vinten, 2001). In the UK, a series of major reports and reforms aimed at improving governance within listed companies have been issued in the past fifteen years and have focused on the oversight role played by the board of directors (Cadbury, 1992; Greenbury, 1995; Hampel, 1998; Institute of Chartered Accountants in England and Wales (ICAEW) (The Turnbull Report), 1999; Higgs, 2002; Smith, 2003; Financial Reporting Council (FRC), 2003; 2006). However, this emphasis on governance in the private sector has not been matched within the non-profit world where the term is used in a much more fluid manner (Alexander and Weiner, 1998; Dyl *et al.*; Ostrower and Stone, 2006; Speckbacher, 2008). In the non-profit world, different notions of governance and accountability exist and attempts to define the term tend to be relativistic focusing on the differing demands of particular constituents at varying times. Indeed, Ebrahim (2003) argues that accountability is a 'relational concept' (p.207) which cannot be separated from its organisational relationships, as these are inherent in determining the manner in which both governance and accountability is constructed. However, as is the case amongst studies in the corporate sector, most examinations of non-profit governance practices focus on the actions and procedures followed by the board (Fama and Jensen, 1983; Dyl *et al.*, 2000).

Alexander and Weiner (1998) cite an earlier work by Alexander *et al.*, (1988) which highlighted differentiating characteristics between the corporate and philanthropic mechanisms of governance (see Table 2.1).

Table 2.1 Differentiating characteristics of philanthropic and corporate governance models

Philanthropic model	Corporate model
Large board size	Small board size
Wide range of perspectives/backgrounds	Narrow, more focused perspectives/backgrounds
Small number of inside directors	Large number of inside directors
Separation of management and governance	Active management participation on board
Informal management accountability to board	Formal management accountability to board
No limit to consecutive terms for board members	Limit on consecutive terms for board members
No compensation for board service	Compensation for board service
Emphasis on asset and mission protection	Emphasis on strategic and entrepreneurial activity

Source: Alexander, Morlock and Gifford (1988) as cited in Alexander and Weiner (1998).

Note: The table provides details of the differentiating characteristics associated with the application of the extant governance models in the philanthropic and corporate sectors respectively.

This differentiation is primarily focused on the functions and actions of the board. Alexander *et al.* argued that adopting the corporate model of governance within the philanthropic sector was not a simple matter of:

...adding a new board member or making minor adjustments to the organization's (sic.) bylaws. (1988, p.225)

However, Bart and Deal (2006) reported a lack of significant difference in terms of governance between the two sectors in their study which examined the operations and strategic practices of a sample of for-profit and not-for-profit organisations in Canada. Further, Andrew Hind, chairman of the Charity Finance Directors' Group, has argued that the Cadbury recommendations could be applied in the charity sector (Vinten, 1997).

The monitoring role of governance and accountability was highlighted by Harrow *et al.*, (1999) who described what they termed a 'triumvirate' (p.156) of governance relationships between trustees, directors and chairs of charities:

Trustees perform a largely reactive monitoring role and use the management information they receive to scrutinise operational decisions, influencing strategy on a periodic basis. Directors manage the day-to-day running of the charity and apply their knowledge of the trustees to ensure that the management information supplied to them is relevant and not over-burdening. Chairs act as 'watchdogs' for the trustees, ensuring through more regular monitoring that the charity is being run properly by the Director, thus acting as the key intermediary. (p.169)

Harrow *et al.* (1999) add that such an approach might result in the delegation of technical responsibility to paid staff, but they suggest that accountability cannot be devolved in this way.

Despite the lack of research emphasis on governance and accountability within the charitable sector, particularly in Scotland, these notions are central to the running of charitable organisations because they constitute the foundation for the continuing legitimacy and public support necessary for such organisations to pursue their charitable objectives. However, the demonstration of non-profit accountability is more complex than the discharge of corporate financial accountability

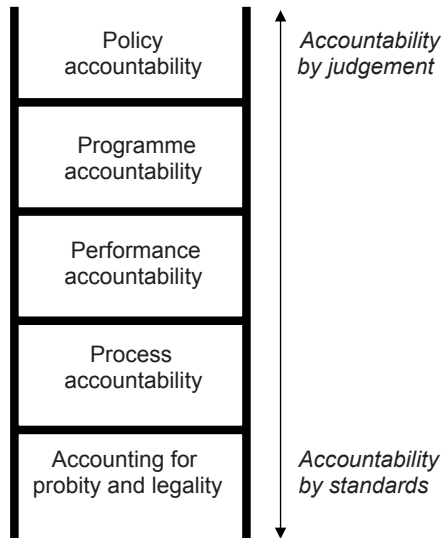
(Stewart, 1984). While corporations are charged with ensuring suitable stewardship of the funds entrusted to them in pursuit of financial gain, charitable organisations place less emphasis on the bottom-line and more on the particular causes espoused. The outcome of the accountability process for charitable entities is often measured less in terms of financially tangible results and more in terms of non-financial indicators such as improved animal welfare or better arts provision. Goodin (2003, p.14) argued that the non-profit sector focused on ‘intentions’ as the subject of its accountability and ‘upon mutual monitoring and reputational sanctioning within a cooperative network of like-minded others’, as a suitable mechanism in order to ensure delivery of accountability. Goodin (2003) acknowledged that good intentions were not the only things that mattered in terms of accountability; results and actions (for example, illegalities) are also important. However, he argued that ‘intentions’ are given substantially greater weight in non-profit organisations. Goodin also argued that networks of accountability, such as those he suggested, operate ‘on the basis of trust and reputation’ because of their shared commitment to some particular common purpose (p.29).

The discharge of accountability in the non-profit context has been the subject of vigorous debate in both the academic and professional literature (Lawry, 1995; Harrow *et al.*, 1999). The 1995 SORP recommended that charity financial affairs needed to be standardised; this standardisation would, the Charity Commission argued, lead to increased accountability. This approach reflects a view that charity accounts are ‘facilitating tools’ which can aid communication with stakeholders, in addition to improving managerial decision-making (Harrow *et al.*, 1999, p.159). It is more difficult to demonstrate transparency in the decision-making processes of stewards within organisations that act in the interest of the public compared to their private sector profit-oriented counterparts. However, Lawry (1995) argues that non-profit organisations need to demonstrate their discharge of accountability,

which he defines to include responsibility 'for all actions and inactions regarding [its] mission' in an open and transparent fashion (p.177).

Stewart (1984) argued that there were a number of dimensions to the accountability of public officials. Stewart set these dimensions out in the form of a ladder of accountability, which led from 'accountability by standards' to 'accountability by judgement' (Stewart, 1984, pp.17-18) (See Figure 2.1).

Figure 2.1 Stewart's ladder of accountability (1984)



Note: Figure 2.1 reproduces the ladder of accountability discussed by Stewart (1984).

In order to progress through the first three rungs of the accountability ladder, public bodies would be required to demonstrate their compliance with statute while observing recognised prudent practices. Stewart argued that an accountability information system should report on all levels of the ladder. Such a system would result in the availability of traditional financial information, in addition to the output and outcome-based information favoured by non-profit organisations.

Accountable to whom?

The nature of both observed and theoretical ideal accountability relationships has been the focus of much of the extant literature; the search for the ultimate accountee has been particularly pronounced in non-profit research (Lawry, 1995; Holland, 2002; Steccolini, 2004). Unlike the corporate sector, where the accountee is arguably more easily identifiable, a number of potential recipients of accountability-related information can be identified in the charity arena. Table 2.2 summarises three of the most widely-cited categorisations of stakeholder grouping available in the professional and academic literature.

Table 2.2 *Charity stakeholders*

Secretary of State for Wales (1998)	Keating and Frumkin (2003)	Ebrahim (2003)
<ul style="list-style-type: none"> members of the organisation 	<ul style="list-style-type: none"> the board of directors 	<ul style="list-style-type: none"> funders (including donors, sponsors etc.)
<ul style="list-style-type: none"> the people who use their services 	<ul style="list-style-type: none"> the non-profit staff members 	<ul style="list-style-type: none"> sector regulators (including government agencies and self-regulatory groups)
<ul style="list-style-type: none"> the communities in which they work 	<ul style="list-style-type: none"> the clients who avail of non-profit services 	<ul style="list-style-type: none"> clients and communities
<ul style="list-style-type: none"> the general public and funding bodies that support their work 	<ul style="list-style-type: none"> the donors who provide charitable support 	
<ul style="list-style-type: none"> the regulatory bodies that oversee their activities 	<ul style="list-style-type: none"> the community that benefits indirectly from services 	

Note: Table 2.2 provides an overview of three of the categorisations of charity stakeholders provided in the extant literature.

Table 2.2 reveals a significant degree of overlap between the categorisation of charitable stakeholders provided in the three studies. All three are focused on the relationships that exist between: (i) the charity and those who provide the resources to ensure that the organisation can carry out its functions adequately; and (ii) the charity and those who ultimately benefit from, or avail of, the services provided by the organisation. Overarching all three is the notion of outside influences that oversee or regulate this process. Ebrahim (2003) argues that management of these key relationships is critical for judging the ultimate success of the discharge of accountability. These stakeholder categorisations closely conform with the two most prominent notions of accountability articulated in the accounting literature, namely, financial accountability and performance accountability.

Financial accountability

Financial accountability ties in with the most basic level of accountability outlined by Stewart (1984) that requires accounting for probity and legality; this deals with compliance with expected standards and requires a low level of judgement to be exercised by those making the account. Much of the extant charity accountability literature has focused on exploring the discharge of financial accountability by means of the reporting and disclosures made by these organisations via their financial reports. Indeed, Connolly and Hyndman (2004) argued that the majority of charity disclosure research conducted previously had:

...concentrated on the form and content of the financial statements (income statement, balance sheet, cash flow and notes) with the major thrust of the findings being that external financial reporting by charities is characterised by a diversity of accounting practices and a lack of standardisation which has resulted in difficulties for users in understanding financial statements. (p.128)

Numerous earlier studies have examined the reporting practices of charities in the UK (Bird and Morgan-Jones, 1981; Gambling *et al.*, 1990; Jones, Kunz and Pendlebury, 1990; Hines and Jones, 1992; Gambling *et al.*, 1993; Williams and Palmer, 1998; Connolly and Hyndman, 2000; 2004; Palmer *et al.*, 2001). Most of these analyses have concentrated on the impact of various SORPs on charity reporting practices. The literature generally points to a lack of awareness of the disclosures required by charitable organisations; for example, Gambling *et al.* (1990) found that:

...the majority of those currently operating charities...are unaware of the existence of...the SORP. (p.1)

Hines and Jones (1992) claimed there was no evidence that the initial 1988 SORP had influenced charity accounting practices. Williams and Palmer (1998) examined the 1995/6 accounts of 83 large and medium sized charities before the provisions of the 1995 SORP and the Charities Act 1993 that applied to England and Wales were fully implemented; they reported that charity accounting practices were quite different from those required by the SORP, and they highlighted that the smaller charities in their study were least compliant and had little apparent regard for users' needs. The authors claimed that weak or no feedback from users had characterised much charity reporting practice and that the SORP was largely ignored. Williams and Palmer therefore concluded that there is some potential for audit firms to improve charity reporting by refusing to sign off non-compliant accounts and spreading good practice in the sector. Harrow *et al.* (1999) argued that the biggest change in charity accounting initiated by the 1995 SORP was with respect to the requirement to produce a SOFA. This statement was a move away from the single performance indicator found in the traditional income and expenditure account and required charities to provide details of both revenue and capital expenditures. The SOFA was expected to 'present a complete picture, giving a true and fair view of the charity's activities' (Harrow *et al.*, 1999, p.158).

Connolly and Hyndman (2000) also investigated the impact of the 1995 SORP on British and Irish charities' financial statements, reporting that, on the whole, Irish charities were less compliant with the SORP than their British counterparts. This theme of compliance was also pursued by Palmer *et al.* (2001) in their description of UK charities' adherence to the 1995 SORP. Their study found that more than a third of charities demonstrate major non-compliance with this SORP. Kaehler and Sargent (2002) cite Connolly and Hyndman's (2000) work noting the:

...significant degree of non-compliance with the SORP in the past, particularly in the period immediately following its introduction.
(p.239)

However, the literature (see for example, Williams and Palmer, 1998) generally supports the view that large charities provide more complete and compliant financial statements than smaller organisations.

In sum, the extant literature provides some evidence that large UK charitable organisations have improved their discharge of the most basic levels of accountability following the gradual imposition of the more regulated financial reporting environment provided by the series of SORPs. However, concern exists with regard to compliance levels amongst smaller organisations and the implications of this low or non-compliance for accountability.

Performance accountability

Kearns (1995) argued that non-profit performance accountability comprises two elements: (i) the use of performance measures; and (ii) the (positive and negative) consequences of achieving or missing those targets. Discharge of this level of accountability is consistent with ascending to higher levels on Stewart's ladder. These higher rungs require the exercise of judgement and are aimed at ensuring that all levels of the organisation are working towards achievement of accountability. Process accountability (rung two) is focused on procedural matters and efficiency, while performance accountability (rung three) and programme accountability (rung four) are focused on the achievement of required standards and goals and objectives respectively. At its core, SORP 2005 aims to provide information for interested parties regarding all of these levels of accountabilities. The headings required by the SORP are very much focused on ensuring that charities explore their performance in all of these arenas and report on the results of this exercise in their

annual report and accounts. The requirements of SORP 2005 are much more prescriptive in this regard than those outlined in previous recommendations.

Previous research has highlighted the importance of charities providing performance-related information for interested parties. Indeed, Hyndman (1990) demonstrated that users of charity annual reports value this type of performance information more than traditional financial information. Connolly and Hyndman (2003) focused on the provision of this information by exploring performance reporting within a sample of large UK fundraising charities over two accounting periods (1996/97 and 2001/02). They concluded that although some limited improvements had occurred over the period regarding the magnitude of performance reporting, an inadequate discharge of performance accountability remained. Such a state of affairs may be partly explained by the claim that:

...the concentration on specific guidance has been on financial accounting matters. (Connolly and Hyndman, 2004, p.143)

However, Hyndman (1990) also claimed that the producers of charity reports:

...are very aware of the dominant information needs of users of charity reports and are conscious of the relevance of performance information to such parties. (Connolly and Hyndman, 2004, p.145)

Thus, exploring the potential reasons for the lack of performance measurement information included within charity annual reports might provide useful insights into the reporting practices of Scottish charities. Where efforts have been made to introduce performance

measures within a charity, the suitability of those measures might be assessed using the recently published, specific recommendations of the Working Party on Performance Monitoring in the Public Services (Bird *et al.*, 2005). Public services comprise a range of governmental and non-governmental organisations (including charities); a number of these other bodies suffer from many of the same difficulties as charities in establishing rigorous systems of accountability. The recommendations of the Working Party focused on the importance of establishing clear and detailed protocols with well-specified objectives that are implemented with methodological rigour. The need for the independent scrutiny of performance monitoring procedures was highlighted, to inform the establishment and reporting of well-defined key performance indicators (KPIs). The Working Party also pointed to the importance of educating the general public in interpreting any performance monitoring data provided by organisations.

In sum, the demand for performance-related information by charitable organisations has increased over the past twenty years. SORP 2005 explicitly requires considerable information in this regard and is quite prescriptive in terms of the nature of the information required. Provision of performance-related information by charities should force organisations to evaluate what they do and to articulate their achievement, or non-achievement, of defined goals in a transparent manner; this introspection should result in the achievement of a higher level of charity accountability.

Summary

Based on pre-SORP 2005 reporting, Hayden (2006) concluded that the non-profit environment is 'far less transparent than that of the typical for-profit' (p.117); Herzlinger (1996) also bemoaned the lack of transparency in the sector when he argued that the non-profit world is 'shrouded in a veil of secrecy that is lifted only when blatant

disasters occur' (p.98). The focus on particular scandals, in tandem with the recent plethora of regulatory and legislative reforms, has made exploration of charitable organisations' accountability and governance mechanisms relevant and timely. As a first step in this process, this chapter has provided an overview of the charity sector in Scotland. In particular, key legislative and accounting requirements applicable to Scottish charitable organisations were discussed, and previous research relating to the accountability and governance of charitable entities was reviewed. This provides some context and background to highlight the need for empirical work in this area. The Scottish context appears to have been largely overlooked in previous accountability-oriented charity research. This gap in prior research, together with the recent reforms underway in Scotland, makes an exploration of these issues timely and relevant. Chapter three outlines the research approach employed in the present study.

3 RESEARCH APPROACH

Introduction

Chapter two provided some context and background information on the principal issues driving this research study and outlined the theoretical framework underpinning the analysis. This chapter considers the approach adopted in conducting the research and discusses the methods employed during the analysis. Three principal methods are used in order to explore the accountability and governance framework implicit in the operations of Scottish charities: (i) a content analysis of the annual report and accounts issued by these organisations; (ii) a series of semi-structured interviews with charity senior management or trustees and sector regulators; and (iii) four case studies of charities of varying sizes. This chapter will outline these approaches and explain the use of techniques in light of the research objectives.

Hyndman and McKillop (1999) and Connolly and Hyndman (2000) suggested that previous research into the impact of charity reporting reform might be complemented by studies of a more qualitative nature. This particular study is interpretive in terms of the methodology and methods employed to investigate the governance and accountability of Scottish charities. Because of the focus on governance and accountability underpinning this study, an extensive review of the literature surrounding these topics was undertaken prior to the empirical research. It was considered that an examination of charitable mechanisms and procedures at the micro-level was most appropriate to achieve the research aims of the project. Therefore, this study concentrates on the information conveyed to stakeholders via charities' annual report and accounts by conducting a content analysis of these documents. A series

of in-depth interviews with a variety of key executives and regulators of various charities of differing sizes was also undertaken. As well as revealing important issues, these interviews provided some background for the four case studies that were conducted in order to provide an understanding of the topics being explored.

Due to the interpretive and qualitative nature of the research, the approach is subject to the usual limitations typical of this type of analysis; these issues primarily relate to reliability and generalisability. Subjective elements were reduced where possible, but the results should be interpreted subject to this caveat. Where permissible, all interviews were taped and full documentation kept for all site visits. The content analysis was conducted using well-rehearsed conventions (for example, using the methodologies utilised in Dunne *et al.*, 2003; 2008) with strict and externally-determined classification systems where possible, thus minimising the problems associated with reliability. Previous research including Hyndman and McKillop (1999) and Connolly and Hyndman (2000), highlighted the need for qualitative research to determine the state of charity governance and accounting at a micro-level. This study is exploratory in nature and no attempt is made to focus on detailed hypotheses for subsequent testing. The aim is to provide a descriptive account of the governance and accountability mechanisms in place within the charities under review rather than an umbrella view of the sector.

The core objective of this study is to examine the governance and accountability mechanisms in place within the Scottish charitable sector. This objective is achieved by exploring discussion of these issues within charity annual report and accounts. Perspectives regarding governance and accountability are also sought in order to achieve a better understanding of the mechanisms in place within the charities under review.

Content analysis

The first research method employed in this study is a form of content analysis. This method is used in order to collect data on the magnitude and nature of disclosures relating to governance and accountability provided in a sample of Scottish charity annual report and accounts. More details on the specific application of the technique in the present study are provided in chapter four. However, this section provides a brief outline of the content analysis method and its appropriateness in the present study.

Krippendorff (1980) defined content analysis as:

...a research technique for making replicable and valid inferences from data according to their context. (p.21)

Thus, content analysis is a method of codifying the text, or content, of a piece of writing into various groups, or categories, depending on selected criteria (Weber, 1985). The implication is that a larger volume of disclosure for a particular category suggests that this category is important to readers or preparers of the text or document.

To act as an effective research tool, content analysis must encompass certain key characteristics; in particular, the process must be reliable and valid (Krippendorff, 1980; 2003). Reliability is one of the distinguishing characteristics of content analysis, in contrast to other techniques that are often used when describing the content of communication (Kassarjian, 1977; Krippendorff, 2003). Krippendorff (1980) identified three types of reliability associated with content analysis: stability, reproducibility and accuracy. Stability refers to the ability of a judge to code data in the same manner over time (Krippendorff, 1980; Milne and Adler, 1999). The aim of reproducibility is to measure the extent to which coding is the same when multiple coders are involved (Krippendorff, 2003); in this context, intercoder reliability is the percentage of agreement between

several judges processing the same communications material (Milne and Adler, 1999; Krippendorff, 2003). The accuracy measure of reliability involves assessing coding performance against a pre-determined standard, or against previous studies. There is a need for explicitly formulated rules and procedures to minimise the possibility that findings reflect the coder's subjective predispositions rather than the content of the documents under analysis (Krippendorff, 2003). Validity relates to how well the results of a study mirror reality (Jones and Shoemaker, 1994); in order to improve validity one needs to develop a coding scheme that guides coders in the analysis of content (Krippendorff, 2003). The coding scheme is an effort to make the coding process uniform across all coders so that the coding can be regarded as systematic (Krippendorff, 2003).

Within the present study, content analysis is viewed primarily as a qualitative research method, although, the quantitative nature of the data collected in the process is recognised. It should be noted that, despite the technique's claims regarding objectivity, some subjectivity is inevitably involved in the choice of disclosure classification. However, the level of subjectivity is minimised through the development and pre-analysis of a rigorous set of decision rules, and this subjectivity is in line with the philosophical assumptions of interpretive research.

The present content analysis initially requires the selection of organisations to be included in the investigation, while the second stage involves the development of an appropriate coding structure. The central part of the research can then take place, involving analysis of the annual report and accounts, and derivation of thematic variables; statistical analysis is used where appropriate to enable some explanation of the dataset. More details on the specific application of the technique in the present study are provided in chapter four.

Interviews

The second research method employed in this study involves the use of semi-structured interviews. This method is used in order to collect data relating to the perspectives of trustees, senior management, staff and regulators regarding the governance and accountability mechanisms in place within Scottish charities. More details concerning the specific application of the technique in the present study are provided in chapters five and six. However, this section provides a broad overview of the interview method and its appropriateness in this study.

The interview technique was deemed appropriate for use in this study due to the nature of the investigation and to ensure that all relevant issues were most likely to be covered. Interviews are particularly good at producing data that deals with topics in an in-depth manner; subjects can be probed, issues pursued and lines of investigation followed-up over a relatively lengthy period (Easterby-Smith *et al.*, 1991). Furthermore, valuable insights can be gained into the topic under investigation based on the different perspectives offered by various interviewees (Easterby-Smith *et al.*, 1991). Interviews are helpful for producing data based on informants' priorities, opinions and ideas (Taylor and Bogdan, 1984; Easterby-Smith *et al.*, 1991). During semi-structured interviews, interviewees have the opportunity and flexibility to expand on their ideas, explain their views and identify what they regard as crucial factors; adjustments to the lines of enquiry can also be made during the interview itself (Denscombe, 1998). The interview data should provide a useful accompaniment to the data obtained via the content analysis and case studies (Yin, 2003).

The use of interviews in order to obtain subjective accounts and experiences in relation to the governance and accountability of Scottish charities is in line with the underlying objectives underpinning this study. In particular, the method facilitates the collation of various individuals' perspectives on the effects of the reporting and governance

mechanisms in place in the Scottish charity sector. Therefore, interviews with preparers and regulators of annual reports and accounts facilitate a flexible and wide-ranging exploration of the issues associated with the operation of charitable organisations, which in turn provides a useful and informative accompaniment to the analysis of the disclosures the new reporting regime has visited on the documents themselves. Further details of the interview method used in the current study are outlined in chapters five and six; many of the specific limitations and their avoidance will be illustrated in those discussions.

Case studies

Case study research is becoming increasingly popular as a method of investigating social practices (Creswell, 1997; Hammersley and Gomm, 2000; Yin, 2003). A case study is an in-depth enquiry into a bounded system and involves the gathering of extensive data from many different information sources. These information sources include researcher observation, interviews and the examination of written records (Creswell, 1997), allowing a holistic approach to the research site to be undertaken. Any system under investigation is bound by the time and place in which it is undertaken. Case study research aims to provide a detailed snapshot of a social situation and to provide some insight into the interactions of individuals as well as the manner in which these are influenced by the particular processes being scrutinised.

The case study method is ideally suited to the aims of the present research, which is focused on exploring the governance and accountability relationships present in Scottish charitable organisations. The extant literature (for example, Hyndman and McKillop, 1999 and Connolly and Hyndman, 2000) bemoans the dearth of research focusing on the individual practices of charities; the present study should go some way to filling that gap by examining the mechanisms in place within a sample

of bodies of differing size. The findings from the four case studies are reported in chapter seven.

While the case studies provide an overview of the governance and accountability structures in place within the sample charities, a description of the practices of four charities does not provide a comprehensive picture of the entire Scottish charity sector. However, the findings are not meant to be generalisable to the entire sector; furthermore, the scope of the analysis undertaken was bound by time and resource constraints. Nonetheless, the emerging discussion should provide a cohesive picture of the prominence of governance and accountability issues within the participant organisations.

Summary

This chapter has considered the research approach and methods underpinning the present research. The study's research objectives were identified and the content analysis, interview and case-study research techniques were briefly outlined. Chapters four, five, six and seven will further outline the empirical strands of the research; limitations of the individual techniques employed will also be explored more deeply in these later chapters.

4 A CONTENT ANALYSIS OF CHARITY ANNUAL REPORTS AND ACCOUNTS

Introduction

Chapter two outlined the background and context to the study, while chapter three provided an overview of the research approach adopted in the project. This chapter examines the impact that recent regulatory and legislative reforms visited on the annual report and accounts of a sample of Scottish charities. In particular, a content analysis survey is used to investigate the information provided by Scottish charities regarding the organisational governance and accountability mechanisms they have in existence. The study conducts this analysis for the total level of governance-related disclosure, as well as for different categories of information. In addition, the analysis is performed for a wide variety of organisations, such that the findings should not be specific to any one size or charitable sector.

The chapter commences with a discussion of the sample selection process and the steps taken to secure the necessary documentation. The specific application of the content analysis technique outlined in chapter three is then described. The empirical results are presented in aggregate, as well as being broken down by income level and by the nature of the information provided. The chapter concludes with a summary of the principal findings.

Sample selection

OSCR categorise charities on the basis of their annual income and place them into one of five income bands: (i) £0-£24,999; (ii) £25,000-

£99,999; (iii) £100,000-£249,999; (iv) £250,000-£499,999; and (v) £500,000+. However, unincorporated charities with income levels of less than £100,000 (i.e. the first two of OSCR's income bands) are not required to prepare SORP-compliant accounts (Charities and Trustee Investment (Scotland) Act, 2005), subject to a charity's constitution. As one of the aims of the research project was to note the impact of recent regulatory reforms on the disclosure of governance and accountability-related information contained in these documents, the study focused on the documents prepared by organisations from the three larger income levels. The OSCR register, which may be accessed online, is searchable by income level. Such a search was undertaken and all charities listed within these three income bands were identified; their registered details were then transferred to an Excel spreadsheet. This process resulted in:

- (i) 1,408 organisations listed in the £100,000-£249,999 income band;
- (ii) 501 organisations listed in the £250,000-£499,999 income band; and
- (iii) 912 organisations listed in the £500,000+ income band.

A random number sequence was run using the computer software programme Excel in order to generate a sample population. The plan was to email a request for a copy of the most recent annual report and accounts from the randomly-generated organisations. However, this process proved to be more laborious and time consuming than originally envisaged because of the reluctance of charities to supply the requested documents on request. Table 4.1 reports on the results of the process.

Table 4.1 Trustees' annual report and accounts requests

Income levels	£100,000- £249,000	£250,000- £499,999	£500,000+
Original population (from OSCR Register)	1,408	501	912
Stage 1 requests	50	50	50
Stage 2 requests	50	50	50
Stage 3 requests	35	35	0
Stage 4 requests	55	55	0
Stage 5 requests	0	65	0
Total requests made	190	255	100
Total usable reports received	27	20	28

Note: This table displays details regarding the number of requests made to charities with the aim of obtaining their annual reports and accounts.

In stage one of the process, 150 charities (50 from each income band) were selected by means of the random-sample method outlined above. Contact details were identified for these organisations. In the majority of instances, the first contact was made by email; however, for 84 of the charities where it was not possible to ascertain an email address or where error messages were received following transmission of the email, letters were also sent to the charities' registered addresses. This process resulted in the receipt of a small number of usable documents. Other charities sent the incorrect material, typically a short 'glossy' annual report, rather than the full annual report and accounts requested. However, the vast majority of charities contacted did not respond at all and some simply declined the request.

Stage two of the process adopted a similar approach to stage one. A further one hundred and fifty charitable organisations were randomly selected and identical requests were made by email and letter. In

this instance, 70 emails and 80 letters were sent. Again, a few usable documents emerged, mainly from charities in the largest income band. Indeed, following stage two, sufficient documents had been obtained from the largest group to facilitate a meaningful analysis of the annual reports and accounts.

Stages three and four concentrated on obtaining the documents required from charities categorised into the two smaller income bands. The process followed was similar to that conducted in the first two stages and this resulted in sufficient documents to satisfy the target for organisations in the £100,000-£249,000 income band.

Stage five focused on the documents pertaining to the charities in the £250,000-£499,999 income band which were proving to be extremely difficult to obtain. A number of these organisations were quite large, with some reporting income levels close to those included in the largest of OSCR's income bands. However, while fewer problems were experienced in acquiring the requested documentation from the largest organisations, the necessary reports from the second-largest income band proved elusive. However, the final request generated sufficient reports to produce some meaningful analysis. As Table 4.1 shows, the final sample sizes were 27, 20 and 28 for the small, medium and large size groups, respectively.

The difficulties encountered in obtaining the annual reports and accounts required for the content analysis had not been anticipated by the research team. The Charities and Trustee Investment (Scotland) Act 2005 (section 23, para. 1 (a), (b)) states that the public have the right to request the following information from the charity directly: (i) its constitution; and (ii) its latest statement of account. This obligation to supply the requested information was made clear to charities in the communications with them. While the poor response to the requests for information is in itself interesting, it is acknowledged that it could have implications for the research and this is recognised as a limitation of the present analysis.

Content analysis

As discussed in chapter three, pre-samples are typically employed in content analysis studies in order to develop the set of categories to be used in the analysis of the main sample (Krippendorff, 2003). These samples should ideally come from the same population as the main sample, so spare annual reports and accounts that had been obtained were employed for this purpose. This pre-sample guided the development of the categorisation to be used in the content analysis.

The annual report and accounts was used as the principal focus of the content analysis, primarily because accounting regulations are aimed at the disclosures provided in this document. This document contained the full accounts and associated material. Charities also typically produce another document which they often refer to as the 'Annual Report'. However, this supplementary document is usually intended as a promotional tool and typically only includes summary financial information. Due to the lack of accountability and governance information included in these annual reports, they were excluded from the analysis and the focus was solely on the annual report and accounts. Documents of this nature are vital information sources in the discharge of accountability (Gray *et al.*, 1995a; 1995b; Adams and Harte, 1998; Taylor and Rosair, 2000; Coy *et al.*, 2001). Therefore, these documents may have a strong influence on perceptions of the organisation (Hines, 1991) and afford a high degree of credibility to the information reported within them (Tilt, 1994). The SORP 2005 (para. 10) highlights the vital role played by the annual report and accounts in terms of the discharge of a charity's accountability:

The purpose of preparing a Trustees' Annual Report and Accounts is to discharge the charity trustees' duty of public accountability and stewardship. This SORP sets out recommended accounting practice for this purpose but charity trustees should consider providing such

additional information as is needed to give donors, beneficiaries and the general public a greater insight into the charity's activities and achievements.

SORP 2005 applies to accounting periods commencing on or after 1st April 2005 (para 1), therefore, annual report and accounts with year ends between 1st April 2005 and 31st March 2006 were included in the analysis.

The proportion of a page devoted to discussion of governance and accountability related disclosures was used as the unit of analysis. However, as the total number of pages in the annual report and accounts was also noted, the percentage of the total report devoted to discussion of pertinent issues was also calculated. A clear standard A4 acetate grid, divided into one hundred boxes, was placed over the text being analysed and the number of boxes containing governance-related text was recorded manually on a record sheet.

Gray *et al.* (1995) and Milne and Adler (1999) have summarised the debate concerning the most suitable coding unit for content analysis; they concluded that the proportion of a page devoted to a particular topic was the preferred coding unit, as this measurement reflected the amount of space given to the issue and, by inference, the importance of that issue to the preparer of the document. This coding unit was therefore employed in the current study. It is recognised that there are difficulties associated with the use of proportion of a page as the coding unit: for example, font size, margins, the use of graphics and partially blank pages (Tilt, 1997). However, the use of this measure takes into account information presented in tabular and graphic formats, which accounts for some of the SORP information; it would be difficult to take account of such information if one chose to adopt words or sentences as potential coding units. Further, if the volume of disclosures is deemed to be an indication of the importance of a particular subject (Gray *et al.*, 1995; Unerman, 2000; Krippendorff, 2003), then it would seem

inappropriate to exclude information presented in a form other than words and numbers.

The SORP 2005 provided the basis for the analysis. According to this Statement charities are required to provide details about their:

- (i) administration, trustees and advisers;
- (ii) structure, governance and management;
- (iii) objectives and activities;
- (iv) achievements and performance;
- (v) financial review;
- (vi) plans for future periods; and
- (vii) funds held on behalf of others (SORP 2005, para. 41-57).

An additional eighth category was added in order to capture any other accountability or governance-related information provided by the sampled organisations. The content analysis is not intended to be used to measure the extent of compliance with SORP 2005; an examination of the degree of compliance with regulatory demands is encompassed within the role of audit/independent examination. Instead, the content analysis is focused on exploring the extent to which the SORP impacted on the governance and accountability-related information supplied in the documents. The SORP 2005 categories were chosen as the basic structure for the content analysis, as it was thought that charities would be most likely to use this structure for their reporting practice; it would thus provide an objective basis for the analysis. Governance and accountability-related disclosures that fell outside the specific requirements of the SORP were also included under the closest matching headings as again charities were assumed to have used the basic structure provided by the SORP to structure their reporting and

disclosures (this assumption was discussed and confirmed by charities during the interviews).

Further classifications were undertaken based on the type of disclosure provided by the charities. The first additional classification concerned the nature of such disclosures – narrative, quantitative or monetary quantitative. The second considered whether the disclosures were ‘auditable’; if given access to the organisation, would it be possible to confirm the statements¹. These classifications have been used in previous content analysis studies (Gray *et al.*, 1995; Dunne *et al.*, 2003; 2004). Third, a ‘news’ categorisation was initially used to denote whether the reported information was ‘good’, ‘bad’ or ‘neutral’ in outlook for the organisation concerned. However, as the majority of the information reported turned out to be in compliance with the SORP, the ‘auditable’ and ‘news’ categorisations were considered less relevant and were thus excluded from the subsequent analysis. Fourth, the location and page number of the disclosure within the annual report and accounts was noted. A memo field was included to note any additional information.

During the pre-analysis stage one researcher who was well-experienced in the technique coded the pre-analysis sample documents. This process showed that some refinement of the decision rules was necessary. Adjustments were needed in order to categorise disclosures where an overlap of categories was found, or where a clarification of the coder’s decisions was required.

Following the pre-analysis, all of the 75 annual report and accounts were coded according to the detailed decision rules devised in the earlier stage. The contents of the resulting record sheets were then transferred to an Excel spreadsheet in order to permit subsequent analysis and to facilitate statistical manipulation of the data. This statistical analysis was conducted using Minitab and SPSS software. Summary details for the sampled documents are provided in Table 4.2.

Table 4.2 Content analysis sample details

Sample details	Total	£100,000- £249,999	£250,000- £499,999	£500,000+
Total sample	75	27	20	28
Audited	64	19	17	28
Independently examined	9	6	3	0
Not audited or independently examined	2	2	0	0
SOFA	60	21	19	20
TR	24	8	6	10

Note: This table provides numerical details about the sample including the total count and numbers in each size category as well as the reports that were audited and/or independently examined. In addition, the reports containing a statement of financial activities ('SOFA') and a trustees' report ('TR') are noted.

Table 4.2 shows that 75 charities 2005 annual reports and accounts were included in the analysis, with broadly similar numbers appearing across all three income levels (see appendix one for a list of these charities). The table also shows that 64 of the reports were audited, while another 9 were independently examined. In one of the two remaining cases, the charity accounts had been approved by the Parish Priest. Finally, the table also reveals that, by and large, the charities are adopting the terminology of the SORP, with 60 providing a SOFA and 24 discussing their operational details in a section entitled 'Trustees' Report'. However, this latter figure may understate the level of compliance with the spirit of the regulation, as many organisations use alternative, but arguably equivalent, terms to refer to this disclosure. For example, some charities provided detailed information regarding the source of their funds and differentiated between restricted and unrestricted funds; however, they frequently provided this information by means of the notes to the accounts rather than via the SOFA. In a similar vein, the vast majority

of charities discussed SORP-relevant issues in their documents, but chose to include these disclosures in their annual report and accounts under the banner of a 'Directors' Report' or 'Management Report', rather than titling them a 'Trustees' Report'.

Results

The discussion of results is divided into three sections: (i) disclosure patterns evident in the total sample; (ii) disclosure across the three income levels; and (iii) analysis by nature of disclosure.

Disclosure patterns in the total sample

Table 4.3 details the absolute number of pages of governance and accountability-related disclosure made by the 75 charities in the sample, broken down across the eight categories used in the content analysis.

Table 4.3 Total sample - number of pages of disclosure

Type of disclosure	Mean	Median	Standard deviation	Min	Max
Reference & administrative details	1.11	1.00	0.74	0.00	4.00
Structure, governance & management	0.91	0.56	1.29	0.00	6.76
Objectives & activities	0.29	0.16	0.34	0.00	1.80
Achievements & performance	0.74	0.40	1.65	0.00	13.92
Financial review	0.61	0.32	1.62	0.00	14.04
Plans for future periods	0.16	0.00	0.26	0.00	1.12
Funds held as custodian trustee on behalf of others	0.00	0.00	0.00	0.00	0.00
General other	0.05	0.00	0.17	0.00	1.00
Total	3.89	3.00	3.27	0.00	18.80

Note: This table shows the mean and median number of pages of governance and accountability-related information reported by charities across the eight disclosure categories. Details pertaining to the standard deviation, as well as the minimum and the maximum number of pages devoted to discussion of these issues are also provided.

A number of points emerge from a visual inspection of this table. First, overall, the mean number of pages of accountability and governance-related disclosure is 3.89, with the median equalling 3.00. These averages mask a substantial amount of variation across the sample. For example, the means range from 1.11 (for reference and administrative details) to 0.00 (for funds held as custodian trustee on behalf of others). The latter zero figure reflects the fact that no examples of disclosure relating to trusteeship holdings were found anywhere in the sampled reports; this may simply reflect the fact that none of the sampled charities

hold funds in trust in this capacity. Second, it should be noted that high mean disclosure levels were also registered for structure, governance and management (0.91), achievements and performance (0.74) and financial review (0.61). These findings are not surprising given the focus placed on the provision of governance-related variables by the 2005 SORP. Furthermore, the emphasis on the provision of performance-oriented information might reflect the prominence given to such disclosures by Connolly and Hyndman (2003) and the subsequent SORP. Finally, it is also evident from Table 4.3 that there was considerable variation in the amounts of information disclosed by the sample charities. In particular, in several cases the median figures were well below the calculated means; for example, for structure, governance and management the mean of almost 0.91 reported above is associated with a median of only 0.56. In addition, several of the standard deviation figures are above the means, with coefficient of variation statistics ranging from 0.66 (for reference and administrative details) to 3.41 (for general other). Furthermore, in two disclosure categories (achievements and performance and financial review) the maximum disclosures recorded were almost ten standard deviations greater than the mean. The maximum value for the achievements and performance category of 13.92 related to the Robertson Trust; in this case the charity supplied extensive detail regarding the recipients of trust monies. Bellahouston Bequest Fund recorded the maximum value of 14.04 in the financial review category; this information related primarily to a review of the performance of the investments held by the charity.

Table 4.4 re-analyses the disclosure data on a percentage basis, in other words, by taking the data from Table 4.3 and dividing by the total number of pages in each annual report and accounts.

Table 4.4 Total sample – number of pages of disclosure as a percentage of total pages

Type of disclosure	Mean (%)	Median (%)	Standard deviation (%)	Min (%)	Max (%)
Reference & administrative details	6.16	6.15	3.78	0.00	18.22
Structure, governance & management	3.97	3.52	3.54	0.00	18.06
Objectives & activities	1.64	1.20	1.71	0.00	8.18
Achievements & performance	3.53	2.44	5.23	0.00	39.77
Financial review	3.14	2.00	6.46	0.00	46.80
Plans for future periods	0.77	0.00	1.19	0.00	6.15
Funds held as custodian trustee on behalf of others	0.00	0.00	0.00	0.00	0.00
General other	0.16	0.00	0.54	0.00	3.03
Total	19.49	20.00	9.68	0.00	55.33

Note: This table shows the mean and median percentage of the annual report and accounts devoted to discussion of governance and accountability-related information across the eight disclosure categories. Details pertaining to the standard deviation, as well as the minimum and the maximum number of pages devoted to discussion of these issues are also provided.

An inspection of Table 4.4 reveals a number of patterns in the data. First, the mean (median) percentage of the annual report and accounts is 19.49% (20.00%) indicating that around a fifth of the total disclosure relates to the governance/accountability requirements imposed by SORP 2005. In terms of the disclosure categories documented in the table, the evidence is broadly similar to that advanced in Table 4.3, with reference and administrative details, structure, governance and management, achievements and performance and financial review having the highest

means and medians. However, one noticeable difference between the two tables relates to the fact that the medians are generally closer to the means in Table 4.4, as are the standard deviations; this evidence suggests that the variability in absolute page numbers illustrated in Table 4.3 partly reflects the fact that longer reports will, inevitably, be associated with greater absolute disclosure levels; for this reason, all of the analysis in this chapter reports both the absolute and relative disclosure data.

Disclosure across different income levels

Table 4.5 details the mean and median disclosure levels, both in absolute terms and as a percentage of the annual report and accounts disaggregated across the three size categories studied.

Table 4.5 Analysis by size of charity - number of pages of disclosure and percentage of total pages

Type of disclosure	No. of pages		% of total pages	
	Mean	Median	Mean	Median
Reference & administrative details				
- Small	0.80	1.00	4.65	5.07
- Medium	1.11	1.06	7.32	8.00
- Large	1.42	1.00	6.81	6.07
Structure, governance & management				
- Small	0.36	0.28	2.05	2.22
- Medium	0.53	0.60	3.11	3.65
- Large	1.73	1.06	6.43	5.40
Objectives & activities				
- Small	0.27	0.12	1.44	0.86
- Medium	0.36	0.28	2.24	1.71
- Large	0.28	0.16	1.41	0.92
Achievements & performance				
- Small	0.45	0.16	2.68	1.00
- Medium	0.66	0.56	3.90	3.40
- Large	1.07	0.46	4.10	1.97
Financial review				
- Small	0.82	0.16	4.20	1.07
- Medium	0.33	0.33	2.13	2.13
- Large	0.63	0.60	2.84	2.29
Plans for future periods				
- Small	0.10	0.00	0.46	0.00
- Medium	0.21	0.06	1.18	0.41
- Large	0.16	0.14	0.77	0.57
Funds held as custodian trustee on behalf of others				
- Small	0.00	0.00	0.00	0.00
- Medium	0.00	0.00	0.00	0.00
- Large	0.00	0.00	0.00	0.00
General other				
- Small	0.00	0.00	0.00	0.00
- Medium	0.00	0.00	0.00	0.00
- Large	0.13	0.00	0.42	0.00
Total				
- Small	2.83	1.92	16.03	15.47
- Medium	3.20	2.90	19.91	19.90
- Large	5.40	4.28	22.51	21.04

Note: This table shows the mean and median results for both the absolute number of pages of disclosure and the relative measure regarding the percentage of the annual report and accounts containing governance and accountability-related information reported by charities across the eight disclosure categories classified by size of charity. The 'large' size band relates to charities with income levels in excess of £500,000, while 'medium' and 'small' relate to charities with income levels of £250,000-£499,999 and £100,000-£249,999 respectively.

Inspection of the table reveals several potentially interesting findings. The total mean disclosure levels range from 2.83 (for the smallest group) to 5.40 (for the largest) in terms of page numbers and from 16.03% (smallest) to 22.51% (largest) in terms of percentage of total pages in the annual report and accounts. These results indicate that while some of the increase in absolute disclosure levels as charity size grows reflects the fact that the annual report and accounts tend to be longer for the largest charities (15.63 pages for the smallest charities; 15.65 for the middle group and 23.21 for the largest), the relative propensity to disclose also increases with charity size; both the means and medians rise in step across each of the three categories.

In terms of the categories with the most disclosure, the results revealed in Table 4.5 also suggest that the tendencies for the whole sample identified in Table 4.3 persist across each size category. In particular, the four categories with the most disclosure in the whole sample, in other words, reference and administrative details, structure, governance and management, achievements and performance and financial review tend to have the highest figures in Table 4.5². The first of these categories again recorded most of the highest figures, although for the biggest charities the largest numbers of pages (in terms of both means and medians) were documented for structure, governance and management.

In terms of page numbers, most of the highest means and medians are recorded for the largest charities, but the percentages of total pages reveal some variation; for example, the highest means and medians are recorded by the middle size group for reference and administrative details

suggesting that there may be a 'fixed' element to these disclosures with relative levels tending to be higher than the absolute ones. This finding might also reflect the fact that, irrespective of size, most charities devoted one page (typically entitled 'Legal & Administrative Details' or similar) to disclosure of these details at the beginning of their annual report and accounts. Many of these disclosures were boiler-plate in nature and focused on providing the basic information required by the SORP without providing contextual detail. In the case of the financial review category, the highest mean percentage of total pages (4.20) was recorded by the smallest charities. However, on closer inspection it emerged that the result reflects a number of outliers, as evidenced by the fact that the median for the small charities of 1.07% was the lowest in the sample. In particular, these findings reflect the untypically large disclosure level found in the annual report and accounts of the Bellahouston Bequest Fund, as alluded to earlier.

In order to formally test the extent to which disclosure practices differed across the three income categories, Kruskal-Wallis tests were conducted on the median number of pages and percentage of total pages for each of the eight disclosure types as well as for the total. For most of the sub-categories (reference and administrative details; structure, governance and management; financial review; plans for future; and general other) and for total disclosure, the Kruskal-Wallis H-statistics were significant at the 5% level for both the number of pages and the proportion of the annual report³. This evidence suggests that most of the charity size-based differences discussed above are substantive rather than reflecting sampling error.

Analysis by nature of disclosure

Table 4.6 disaggregates the disclosure information on the basis of whether it was 'narrative', 'quantitative' or 'monetary quantitative' in nature. Panel A provides the figures regarding mean numbers of pages

and Panel B documents the data for mean percentage of the total pages in the annual report and accounts. With regard to the total sample, it is clear from the table that narrative information dominates; for example, Panel A reports the mean number of pages of narrative disclosure as being 3.03, compared with 0.08 and 0.80 for quantitative and monetary quantitative disclosures respectively. In terms of percentages of total pages, the differences are even more striking, with the equivalent figures being 16.01%, 0.38% and 3.33%. These patterns were repeated for each of the three size categories; in each case the mean and median was highest (lowest) for narrative (quantitative) disclosures.

Table 4.6 Nature of disclosure

Panel A - Mean number of pages of disclosure				
Type of disclosure	Total sample	£500,000+	£250,000- £499,999	£100,000- £249,999
Narrative	3.03	4.10	2.87	2.04
Quantitative	0.08	0.09	0.08	0.08
Monetary quantitative	0.80	1.21	0.30	0.75

Panel B - Mean percentage of total pages				
Type of disclosure	Total sample	£500,000+	£250,000- £499,999	£100,000- £249,999
Narrative (%)	16.01	17.84	17.67	12.89
Quantitative (%)	0.38	0.25	0.60	0.34
Monetary quantitative (%)	3.33	4.41	1.97	2.95

Note: This table shows a breakdown in the mean disclosure by charities split by the nature of information across the three size categories. Panel A displays this information on the basis of the number of pages of information produced, while Panel B relays this information based on the relative measure of the percentage of the annual report and accounts containing the information.

The dominance of narrative information is consistent with the aim of the 2005 SORP which focused, in particular, on the inclusion of performance-related narrative information. Again the average figures disguise a considerable amount of variability in disclosure practices across charities. For example, The Royal Scottish Academy of Music and Drama provided more than 12 pages of narrative (performance-related and governance-related) information, nearly twice as much as the next highest discloser (Utheo Ltd, with 6.8 pages).

An examination of the results in Table 4.6 documenting the differences across charity income levels reveals that narrative information is the highest for all three groups; the figures for page numbers fall from 4.10 (for the largest charities), to 2.87 (for the middle group) to 2.04 (for the smallest). The pattern is slightly different for annual report and accounts percentages; the equivalent figures are 17.84%, 17.67% and 12.89% indicating that, although the figures drop as charity size falls, the means for the two largest groups remain very close. Examination of the other two sub-categories of disclosure across the size disaggregation is hampered by the fact that the groups were relatively small. Nonetheless, it is noticeable in Table 4.6 that only for monetary quantitative disclosure does the 'large' group of charities provide more disclosure, both in terms of the mean number of pages (1.21 versus 0.30 and 0.75 for the other two size groups) and annual report and accounts percentages (4.41% versus 1.97% and 2.95%). By contrast, for quantitative disclosure, the mean page numbers are similar (0.09, 0.08 and 0.08 for large, medium and small charities respectively), but the percentage of annual report and accounts is greatest for the medium group (0.60% versus 0.25% and 0.34% for large and small respectively). These latter results are hard to reconcile with existing theory or prior analyses, but they provide further evidence that disaggregation across disclosure type is an important empirical step because the distribution of disclosure across this dimension varies according to an organisation's (in this case a charity's) characteristics.

Summary

This chapter has outlined and discussed the results of a content analysis survey of the governance and accountability-related disclosures made by 75 Scottish charities of various sizes. The results suggest that:

- (i) the amount of disclosure is non-trivial, with charities generally appearing to take their disclosure responsibilities seriously;
- (ii) notwithstanding the previous point, the amount of disclosure varies by SORP category, with the most (more than 6% of each annual report and accounts on average) being found in the reference and administrative details category and the least, with no disclosure whatsoever in the entire sample, being found in the funds held as custodian trustee on behalf of others category;
- (iii) the amount of disclosure varies significantly across size, with the result only partly being explained by the propensity for larger charities to produce longer annual reports and accounts; and
- (iv) irrespective of charity size, the vast majority of disclosure is narrative in form, with far less space being devoted to quantitative or monetary quantitative information.

The requirements of SORP 2005 are much more prescriptive with regard to the disclosure of governance and performance-related information than those outlined in previous recommendations. The headings required by the SORP focus very much on ensuring that charities explore their performance in all of these arenas and report on the results of this exercise in their annual reports and accounts. From the content analysis it is evident that charities are adhering to the basic structure detailed in SORP 2005. Provision of information in this

manner suggests that charities are discharging the most basic level of accountability (rung one on Stewart's ladder of accountability) (Figure 2.1). The charities whose disclosures have been reviewed in this research have, for the most part, complied with the spirit (as well as the letter) of the SORP by supplying performance-oriented information. The annual report and accounts have focused on discussions of governance-related procedural matters and provided detail regarding operational efficiency in many instances. This level of disclosure is in line with process accountability (rung two), while the expanded discussion of charitable goals and objectives provided in the annual report and accounts suggests that charities are achieving the higher levels of performance accountability (rung three) and programme accountability (rung four) suggested by Stewart (1984). The provision of this additional information should go some way towards alleviating the concerns of Herzlinger (1996) and Hayden (2006) who bemoaned the lack of transparency in the reporting practices of organisations in the charity sector. Therefore, the SORP 2005 appears to have achieved its aim with respect to increasing disclosure of governance-related information.

It should be noted that the use of content analysis does have some disadvantages. Difficulties associated with content analysis are frequently based on the questions asked and source materials available (Carney, 1971). However, the choice of the annual report and accounts as the medium of analysis adds a degree of comparability across charities, because of the similar layout, design and content of these documents. Choice of categories can arguably introduce a degree of subjectivity into the content analysis process (Carney, 1971). However, in the present case this was not a great problem, because the SORP was explicit in terms of the categories of disclosure required, and this structure was adopted for the content analysis. Content analysis is frequently accused of being quite susceptible to the effects of researcher bias, which in turn, can affect decisions made in the collection, analysis and interpretation of data (Kolbe and Burnett, 1991). The presence of an appropriate,

reliable, valid and accurate coding scheme that guided the coder through the analysis of content helped to reduce this bias. In addition, the use of external categories, as identified in SORP 2005, reduced the impact of this limitation.

The next three empirical chapters develop the interpretive approach adopted in this study by moving from a detailed content analysis of a large sample of charities to explore disclosure and accountability issues in greater depth with a smaller sample of charities and charity sector regulators by means of interviews and case studies.

ENDNOTES

- 1 This assessment of auditability differs from the professional notion of audit. The assessment of audit employed here has been used in previous content analysis studies, for example, Gray *et al.* (1995) and Dunne *et al.* (2003; 2004).
- 2 This was true in all cases in terms of the medians, although for the middle-income level group of charities, objectives and activities had a higher mean than financial review both in terms of page numbers and annual report and accounts percentage.
- 3 Full details of the test statistics are available upon request.

5 INTERVIEWS WITH CHARITY MANAGEMENT AND TRUSTEES

Introduction

This chapter presents the findings from interviews conducted with representatives of differing sized charities. The interviews investigate the formal and informal mechanisms that exist within charitable organisations which help them to demonstrate sound governance and to discharge their accountability to their stakeholder groups. The chapter begins by outlining the manner in which interviewees were selected and by describing the process that was undertaken during and following each meeting with a charity's representative. It continues by presenting the interview findings under four separate headings: (i) governance; (ii) accountability; (iii) regulatory and legislative reforms; and (iv) extent of compliance with the regulatory regime. The chapter ends with a summary of the key points that are drawn upon in the conclusions contained in chapter eight.

Sample and method

Between October 2005, when a pilot interview was conducted, and February 2007 a total of 20 charity representatives were interviewed. The interviewees, all of whom were employed in either finance-related positions, as chief executives or board members, were chosen because of their seniority, assumed detailed technical knowledge and awareness of the broader issues surrounding governance and accountability issues in charities. Further, all of the participants had extensive charity knowledge and significant experience in their present roles. Given their familiarity with changes taking place in relation to charity governance

and accountability this group was well situated to comment on the issues relating to this study. The interviewees comprised five from each of the income bands: (i) less than £100,000; (ii) between £100,000 and £249,999; (iii) between £250,000 and £499,999; (iv) and over £500,000. Further details on the interviewees are provided in Table 5.1.

Table 5.1 Charity interviewees by income band

Panel A - Income less than £100,000			
Interviewee	Job title	Charitable purpose(s)	Constitutional form
C1	Manager	<ul style="list-style-type: none"> • Advancement of education • Advancement of health • Advancement of citizenship or community development • Advancement of the arts, heritage, culture or science • Advancement of human rights relief of those in need through age, ill health, disability, financial hardship or other disability 	Unincorporated association
C2	Treasurer	<ul style="list-style-type: none"> • Advancement of education • Advancement of environmental protection or improvement 	Trust/Company limited by guarantee
C3	President/ treasurer	<ul style="list-style-type: none"> • Relief of those in need through age, ill health, disability, financial hardship or other disadvantage 	Unincorporated association
C4	Treasurer	<ul style="list-style-type: none"> • Not declared 	Unincorporated association
C5	Treasurer	<ul style="list-style-type: none"> • Advancement of religion 	Unincorporated association

Table 5.1 *Charity interviewees by income band (Cont.)*

Panel B - Income between £100,000 and £249,999			
Interviewee	Job title	Charitable purpose(s)	Constitutional form
C6	Chief executive	<ul style="list-style-type: none"> • Advancement of education • Advancement of citizenship or community development 	Company
C7	Treasurer	<ul style="list-style-type: none"> • Advancement of education • Advancement of citizenship or community development • Advancement of the arts, heritage, culture or science 	Unincorporated association
C8	Finance officer/ administrator	<ul style="list-style-type: none"> • Advancement of citizenship or community development • Advancement of environmental protection or improvement 	Company
C9	Chief officer & administrative officer	<ul style="list-style-type: none"> • Advancement of education • Advancement of citizenship or community development • Advancement of environmental protection or improvement 	Company
C10	Trustee	<ul style="list-style-type: none"> • Advancement of health • Advancement of human rights relief of those in need through age, ill health, disability, financial hardship or other disability 	Company

Table 5.1 *Charity interviewees by income band (Cont.)*

Panel C - Income between £250,000 and £499,999			
Interviewee	Job title	Charitable purpose(s)	Constitutional form
C11	Financial director	<ul style="list-style-type: none"> • Relief of poverty • Advancement of education • Advancement of health • Advancement of citizenship or community development • Relief of those in need through age, ill health, disability 	Company
C12	Trustee	<ul style="list-style-type: none"> • Advancement of religion 	Trust
C13	Chief executive	<ul style="list-style-type: none"> • Relief of those in need through age, ill health, disability, financial hardship or other disadvantage 	Company
C14	Chief executive	<ul style="list-style-type: none"> • Advancement of education • Advancement of health • Advancement of citizenship or community development • Advancement of the arts, heritage, culture or science • Advancement of environmental protection or improvement • Advancement of animal welfare 	Company
C15	Trustee	<ul style="list-style-type: none"> • Advancement of the arts, heritage, culture or science 	Company

Table 5.1 *Charity interviewees by income band (Cont.)*

Panel D - Income greater than £500,000			
Interviewee	Job title	Charitable purpose(s)	Constitutional form
C16	Head of resources	<ul style="list-style-type: none"> • Advancement of education • Advancement of the arts, heritage, culture or science • Advancement of environmental protection or improvement 	Company
C17	Chief executive	<ul style="list-style-type: none"> • Advancement of education 	Statutory corporation
C18	Chief executive	<ul style="list-style-type: none"> • Advancement of health 	Company
C19	Financial director	<ul style="list-style-type: none"> • Advancement of education • Advancement of health • Advancement of the arts, heritage, culture or science • Advancement of human rights relief of those in need through age, ill health, disability, financial hardship or other disability 	Company
C20	Treasurer	<ul style="list-style-type: none"> • Advancement of education 	Educational endowment

Notes: Table 5.1 provides summary details of interviewees' charities; columns 3-4 were sourced from the OSCR website in 2005. All charities with the exception of C12, C17 and C19 conduct their activities in Scotland; these three charities have UK-wide and overseas operations. All of the charities are engaged in carrying out activities/services themselves, while C7 and C20 also make grants/donations/loans/gifts/pensions available to organisations or individuals respectively.

Charities were selected from the network within which the research team operates, or by direct contact. In each case an outline of the project objectives was provided and the charity itself was invited to identify the person(s) most suitable to be interviewed. Table 5.1 demonstrates

that the constitutional form and charitable purposes of the interviewed organisations vary. Nonetheless, all of the charities, with one exception, carry out activities or provide services themselves in pursuit of their objectives; the exceptional charity is a grant-making body. The named position held by each interviewee also varied from organisation to organisation, although this individual was typically either the chief executive and/or the person in the charity charged with monitoring financial records; on five occasions the interviewee identified themselves as a trustee¹. Each interview was attended by two researchers who began the discussion by providing an overview of the project's aims; a list of semi-structured interview questions was then presented and used to give some guidance to the conversation. The interview questions were derived from the previous research work reported in chapter two. As most prior work has looked at large UK and/or Irish charities, the findings from these studies were used to guide the discussions with these representatives of Scottish charities of various sizes. This approach enabled comparisons to be drawn and to facilitate the present work's contribution to a wider body of research. Interviewees were also encouraged to elaborate on, or introduce, any matters they considered to be relevant or of interest to the discussion. Permission to record the interview was obtained from all interviewees except one and detailed notes were also taken. Each interview lasted between 40 minutes and two hours, and was conducted on a strictly non-attributable basis. While no claims are being made regarding the generalisability of the data obtained, these conversations provided an insight into a range of charities' impressions and experiences. Given the exploratory nature of the investigation:

...the intention then is not to generate empirically generalisable statistical outcomes, but rather to generate the beginnings of holistic understandings of the area under investigation. (Parker et al., 1998, p. 375)

The remainder of this chapter will focus on a discussion of the interview findings.

Governance

As discussed in chapter two the term ‘governance’ is contested in both the corporate and particularly in the non-profit contexts. The term tends to be used in a relativistic manner focusing on the differing demands of particular constituents at various times (Ostrower and Stone, 2006). While the concept can focus on operational matters associated with regulating and controlling a charity (Alexander and Weiner, 1998) it can also encompass the manner by which various stakeholders within an organisation interact with one another in order to help the organisation achieve its objectives (Speckbacher, 2008). This wider notion of governance can highlight the importance of groups other than the board of trustees in delivering good governance in non-profit entities (Parker, 2007). Discussion of the understanding of governance within the individual charities examined will form a key component of this chapter. This discussion will be followed by an exploration of the operation of the charity’s board or management committee, followed by an assessment of the induction and training arrangements in place for trustees.

Understanding of governance

When asked to explain their understandings of the term governance it was apparent that a remarkably similar set of views of the concept emerged. For example, interviewee C4, the treasurer of an unincorporated charity, said in this regard that governance:

...is how the organisation is run, the procedures that are in place, codes of conduct and constitution.

Each of the other smaller charities with an income in 2005 of less than £100,000 seemed less sure of this 'technical' term but readily referred to aspects of the organisational and reporting structure in explaining what governance meant to them. In the larger charities, interviewees seemed more at ease with articulating their understandings; in this way, interviewee C6, the chief executive of a charitable company, stated that it was:

...the way the company is set up, with the board structure and management structure...but also making sure [that] we operate within the charitable objectives of the company.

Indeed all of the larger charity interviewees identified the policies, processes and protocols in place to enable their trustees to be able to manage the charity in accord with its objectives, and to be able to demonstrate effective management and control. Reflecting that recognition of the need for good governance in commercial organisations was a comparatively recent phenomenon, interviewee C11, the financial director of a charitable company, stated that governance was about:

...the need to have formal structures which ensure that the actions of the organisation are compliant with both the principle and letter of the law, and with good practice in the operational side.

In a similar vein, and in a manner reflective of other responses, the chief executive at charity C18, a charitable company, observed that:

...good governance comes from being very simple and clear about your objects, how you are going to go about [achieving them and] what indicators are going to tell [the board] that you are going to achieve [them].

The descriptions of governance offered by the interviewees were very much in line with the definitions articulated in the corporate sector (Bushman and Smith, 2001; 2003). These articulations focused in particular on operational matters and the effectiveness of the mechanisms and procedures in place with respect to the control and monitoring of the charities under their leadership (Alexander and Weiner, 1998).

Operation of the board/management committee

As discussed in chapter two, with a few notable exceptions (for example, Harrow *et al.*, 1999; Dyl *et al.*, 2000) there has been a dearth of academic literature focusing on the specific governance of UK charities. In particular, the mechanisms in place within small and medium-sized charities have remained unexplored in a systematic manner. This study focuses on charities of varying size and aims to explore the existing governance structures and procedures in place at the interviewee organisations; this process enabled interviewees to articulate the ways their charity was able to demonstrate sound governance.

The very small charities (where few, if any, staff were employed) typically had a management committee that managed the activities of the charity, as well as providing oversight and strategic direction. It was apparent that the same governance structure, in other words, the presence of a board at the top of the hierarchy in the organisation, was in place in each of the interviewed charities. This was usually referred to by smaller charities as a management committee and by larger charities as a board of directors or of trustees. In the larger charities there was a clear distinction in terms of operationalising the role between this board and the management function. These committees typically met monthly in order to fulfil these roles; they also maintained regular contact with one another and with charity staff by email and telephone. Of the five charities with income of less than £100,000, three described such a scenario. Of the remaining two organisations, one had a constitution

that prescribed a minimum of four and a maximum of ten meetings per year; however, in this organisation difficulties caused by the mental health of the beneficiary group from which committee members were largely drawn, plus their lack of commercial experience, caused regular participation problems. One of the charities in the £100,000 to £249,999 income bracket also described monthly meetings where largely operational matters were addressed. The remaining charity boards in this income bracket, and those operating with over £250,000 income in 2005, met every two or three months, with the management reporting cycle reflecting the same pattern. Interviewee C8, who acts as finance officer and administrator to a charitable company, described:

...a very active director/staff e-group for exchanging [largely operational] information and making decisions between meetings so that forward-looking matters could be discussed and strategic judgements made at the quarterly directors' meetings.

Interviewees C14 and C16, respectively chief executive and head of resources of charitable companies, both described an increase in the frequency of board meetings when their respective charities had been experiencing potentially fatal cash flow problems; in each case lessons had been learned and more robust governance procedures had been formulated and put in place as a result of the experience.

The interviewees indicated that their charities' constitutions often stated a minimum and maximum number of board members; in the smaller charities up to 10 people served on the board or management committee, while larger charities had over 20 and sometimes up to 30 members. Interviewee C16, head of a charitable company's resources, highlighted benefits associated with his organisation's board which comprised 25-30 members, such as the wide range of skills that were available to the charity; this custom of including board participants with differing perspectives is common practice in charities (Alexander

et al., 1988; Alexander and Weiner, 1998; Parker, 2007). However, a downside associated with having a dispersed board membership was also noted; interviewee C16 pointed to the difficulty in obtaining consensus among so many board members. Nonetheless, this organisation had no plans to change this structure.

Amongst the larger organisations that participated in the interviews, the majority chose either to remit all business to the board agenda – which often resulted in long board meetings – or to create standing or ad hoc committees to deal with subsets of business issues; these subsets typically encompassed areas such as finance, publicity or matters specific to the charity's field, such as care provision. Either choice of committee structure was seen as a less than perfect solution to increasing demands made on already pressed trustees or directors. In this context, frustration was voiced at OSCR's recently disclosed view indicating that trustee liability insurance was a trustee benefit that should not be paid for by charities (OSCR, 2006). Interviewee C19, the financial director of a large charitable company, stated:

It is not a benefit. [Trustees] are giving up their time, valuable time, to do this service...it is a difficult balance for our type of organisation and the type of people you want to be on the governing body...Not meaning that the...insurance is actually worth anything, but it is just the principle.

The interviewee at charity C11, a company, also stated that the 'law ought to clarify' whether directors of a charity that was constituted as a company were trustees or not; in his experience, some problems were caused by older trustees who have 'concepts of trusteeship which are... not entirely compatible with company law'.

Interviewees were asked what variables might cause their governance arrangements to change. Changes in regulations, legislation or stakeholders' requirements seemed to be the main drivers of change,

but all of the interviewees expressed reasonable satisfaction with the governance arrangements that their organisation currently had in place. It seemed that, for each organisation, the current structures had evolved and changes were made as necessary to reflect altered circumstances. Indeed interviewee C13, chief executive of a charitable company, stated that the external environment 'is becoming more and more relevant' as a driver of organisational change; however, this perception possibly reflected management's ideas more than those of the board, who were more comfortable with change by 'evolution rather than revolution'. Only in organisations C12, a trust, C10 and C19, charitable companies, were management represented on the board in a voting capacity; in every other interviewed charity members of the management team reported to, and attended, the board but not in a voting capacity. In charities C10 and C12 some measure of dissatisfaction with this situation was voiced, and a desire to change this arrangement was expressed.

Induction and training for trustees

Previous work (Bird and Morgan-Jones, 1981; Gambling *et al.*, 1990; Hines and Jones, 1992; Gambling *et al.*, 1993; Williams and Palmer, 1998; Connolly and Hyndman 2000; 2004; Palmer *et al.*, 2001) focused on charities' compliance with accounting and reporting requirements; it is a specific requirement of SORP 2005 that charities report on induction and training arrangements that they have in place for trustees. Thus this research explored the extent to which interviewee charities formally equipped their trustees to deal with their role. The provision of induction and training appeared to be an area of practice where great diversity existed. For example, at one end of the spectrum was organisation C1, a small unincorporated charity, who provided 'absolutely nothing' in the way of training for new, or existing, management committee members; this charity had one employee and struggled constantly for resources. Only one other charity in this smallest

income category, and one organisation in the second income band offered no induction or training provision at all. All other organisations offered varying degrees of formal induction for new trustees; at the larger and better resourced end of the spectrum was the example of charity C14, a company, where the range of induction documents provided for trustees included: memorandum and articles of association; annual report and accounts; trustee and internal policy documents; staff and external adviser contact details; organisational structure; and OSCR website details. The charity had also developed a matrix of desirable trustee and organisational skill attributes which they attempted to use when filling trustee vacancies; indeed two incorporated charities, C11 and C16, also used such a similar document when recruiting new trustees. Interviewee C13, the chief executive of a charitable company, highlighted comprehensive training arrangements when he revealed that:

New directors have to go through more or less the same induction process as a member of staff...[and] they get an induction pack which details the[ir] roles and responsibilities.

However, a different perspective was revealed by interviewee C2, the treasurer of a trust, when she stated that her organisation provided 'no induction and not really any training; there's nothing to be trained for...it's just common sense'. This lack of training also reflected practice in charity C10, a company, but the trustee acknowledged that it was not fair to assume that trustees did not need induction or training to perform effectively. Seven interviewees' charities provided an induction pack for new trustees and initiation according to the needs of each; eight of the remaining organisations organised formal induction days in addition to providing a set of induction papers. With the introduction of five new trustees each year, incorporated charity C16 held a regular induction day involving senior and new board members and senior management; this induction focused primarily on matters relating to strategy and finance.

Trustees also received a pack containing accounts, strategy, budgets and staff lists. At charity C7, an unincorporated association, the treasurer noted that they did not 'get people elected [on to the board] who are not [competent and informed]' as 'it is more difficult to sack a volunteer than it is to sack an employee'.

To summarise, governance arrangements at the interviewed charities typically reflected their resources, history and strategic objectives; the interviewees maintained that their governance arrangements were robust and appropriate and provided detail to substantiate this belief. Nonetheless, some trustees might benefit from induction and training arrangements being clarified and implemented, not least to meet the annual report and accounts requirements in place since SORP 2000. Several helpful sources of information for governance issues were mentioned by interviewees; these included the OSCR and Charities Commission websites, SCVO, The Institute of Directors Diploma Training for Voluntary Sector CEOs and the Institute of Chartered Secretaries. Interviewee C6 summed up the feelings of many interviewees on matters of governance well when she stated:

...on a day to day basis, governance [and accountability] isn't up front on my agenda because the underpinning systems are in place, so I don't have a concern about it.

Accountability

Accountability mechanisms are often inextricably linked with governance processes and so the concept of accountability was explored with interviewees. Definitions of the term 'accountability' and mechanisms for its delivery will be discussed in this section. As discussed in chapter two, the notion of accountability in a non-profit context has been the subject of extensive debate in the literature (Lawry, 1995; Harrow *et al.*, 1999). In the non-profit sector, Goodin (2003)

argued that accountability suffered due to the absence of a shareholder equivalent to whom charity trustees could be held to account. Thus, interviewees were asked what they understood by the term accountability. In describing their charities' wide ranging accountability relationships, all interviewees offered definitions of the concept that were in keeping with the literature (Stewart, 1984; Gray *et al.*, 1996). Discussions largely focussed on the recipient of accountability; this focus on the accountee is common in non-profit sector research (Lawry, 1995; Holland, 2002; Steccoloni, 2004). For example, at charity C4, an unincorporated association, accountability was defined as 'how we report to our stakeholders, what information they need from us'; at C6, a charitable company, the organisation was seen as 'accountable to its members and its board and to the charity regulator', and at C9 the charity was 'accountable to the public on whose behalf we believe we advocate'. Viewing accountability as being vested in himself, interviewee C17, the chief executive of a statutory corporation, stated that:

Accountability is really my responsibility as the chief executive to ensure that what I do and what my colleagues...do meets the objectives set for us.

A similar reflection on the concept was noted by interviewee C18, the chief executive of a charitable company, when she said:

...people who use our service...people who give us money... achieving our objects...I carry that accountability as chief executive.

As a recipient of public funds, charity C19, a company, considered itself to be 'accountable to the public'; and as the *raison d'être* of another incorporated charity, C15, was to manage a community resource, the

interviewed representative saw its accountability relationships solely with the public and the community.

Financial accountability

A wide range of mechanisms which ensured the discharge of, especially financial, accountability to the various identified parties were described by interviewees; the AGM, any EGMs which may have been required, and the disclosure of information were all cited as appropriate mechanisms in this regard. For example, at charity C16, a company, documents prepared by management were disseminated as follows: all monthly management accounts, rolling budget performance, cash flow information and covering graphs and reports were given to trustees; this information was also posted in an internal electronic folder that all staff members could access; in addition, monthly management accounts were sent to key organisational funders. The interviewee stated:

We don't hide anything from anybody...[we] do all the accountability in terms of supporting documentation.

The chief executive at charity C18, an incorporated body, received monthly management accounts and budget variances as well as a monthly report detailing performance regarding achievement of the main charitable activities and fundraising; she also held a monthly meeting with her senior management team. In addition, organisation C18 undertook an external review of practice every three years, and paid close attention to complaints, staff retention and anonymous audit comments; however, the chief executive revealed that the charity 'hasn't got a formal mechanism for getting feedback from our donors' although this was something that they were working towards changing. Every three years charity C9, a company, conducted an external review of its strategy achievement, and the outcome of this review was communicated to trustees, staff and members to assist them in future planning.

In terms of accounting information, all of the interviewed charities indicated that they produced annual accounts, although the content, presentation and style of these documents varied considerably from a simple income and expenditure spreadsheet (in, for example, C3, an unincorporated association) to the full annual report and accounts (in, for example, C19, a charitable company). Chapter four highlighted the difficulties in trying to obtain copies of a random selection of charities' annual reports and accounts; all of the interviewees indicated that their charity would distribute their accounts to any external stakeholders on request, although such requests were seen as rare occurrences. In this sense, consensus emerged with respect to the perceived users of external accounting information; this was summed up by interviewee C7, the treasurer of an unincorporated association who suggested 'I don't think many are interested in the accounts'; similarly C4, another treasurer of an unincorporated charity, said 'I wouldn't have thought anyone, just purely our funders really'. At charity C16, a company, the view was expressed that:

Everybody wants to know 'are we financially healthy?'; if the answer to this question was yes, then the membership seem fairly relaxed; there [are] not masses of questions.

Only three of the interviewed organisations – C8 and C14, both charitable companies and C12, a trust – were aware of ever receiving a request from the public for their trustees' annual report and account; perhaps because this document was available on its website, only the 'odd email funding inquiry' arrived at organisation C9 that is incorporated. Copies of the full accounts were generally made available to attendees at each charity's AGM; in contrast, charity C13, a company, undertook the significant task of sending full accounts to each of its 2,700 members; this organisation understood mistakenly that this level of dissemination was required of it by legislation. Interviewee C8, finance officer and administrator in a charitable company, revealed that:

Funders, prospective funders and members receive [annual reports] but we cannot be sure they 'use' them.

She continued to say that 'we hope [it meets their needs] and that they would say if it did not'.

Despite the apparent lack of externally expressed interest in charities' annual reports and accounts, interviewees from the larger charities generally recognised value in the process of preparing the accounting information; benefits identified included facilitating management decision-making and planning, as well as demonstrating control of their resources. A possible exception to recognising this value was evidenced most strongly in charity C1, a small unincorporated association; the interviewee was the sole employee and he described the significant difficulties he experienced in trying to meet charitable objectives in addition to keeping financial records, a role for which he was not trained. Given that the charity struggled to generate income, it is possible that the lack of income and the difficulties associated with keeping clear financial records are related.

Performance accountability

Previous work has explored the provision of performance-related information in charities. Hyndman (1990) and Connolly and Hyndman (2003) demonstrated that users of large charity annual reports valued this information very highly. SORP 2005 aims to improve and enhance the level of performance-related information provided by charities. Thus, an exploration of the use and provision of this information was undertaken. The aim was to understand the factors that influenced practice across a range of Scottish charitable organisations. These findings are now discussed.

The use of performance indicators

Of the small charities with income of less than £100,000, four did not use or provide any performance information at all; the remaining unincorporated charity, C4, recorded some data and was struggling to collate more in order to comply with its main funder's demands for feedback. However, as the interview progressed, the interviewee declared that he now understood that qualitative information would be more meaningful, more readily accessible than quantitative information and that such information might potentially be more likely to meet the funder's needs. Four of the five interviewees from charities in the second income band (£100,000–£249,999) – C6, C7, C8, C10, all incorporated with the exception of C7 – used performance information internally in order to gauge the extent to which strategy or project objectives had been realised; in three cases this information was disclosed regularly to funders. Some headline performance information was disclosed in the annual reports of organisations C12, a trust, and C11, C13 and C14, all charitable companies. However, interviewee C11, a financial director, revealed that such disclosures were 'hit and miss' and were perceived within the charity as a 'tedious task with not a lot of sympathy for its aims'. In charities C12, C13, C14 and C17, a statutory corporation, more detailed internal performance assessment information, derived from the strategic plan, provided a basis for setting employee action points and targets, and on occasion was used to assess appropriate staff rewards.

It may be unsurprising to reveal that the larger charities had more sophisticated requirements of, and uses for, their performance measurement systems. At charity C18, a company, the key performance indicators (KPIs) flowed from the quarterly board meetings' four report headings; these headings and indicators had evolved as the charity's operations had developed. One of charitable company C16's main funders had identified 20 KPIs of which 18 were required to be met

if funding was to be maintained; in contrast, at charity C19, also an incorporated body, performance indicators were calculated purely for disclosure in the annual report and accounts.

Stakeholder feedback

In terms of stakeholder feedback, charity C8, a company, surveyed its members every two years and fed the information gathered during this exercise into operational practice or strategic planning as deemed appropriate. Interviewees C8, C9 and C16, officers in charitable companies, all reported the use of annual away days where members, staff and trustees had an opportunity to meet, discuss and debate with one another in order to stay informed of current issues and of others' perceptions. Community-based charities C7, an unincorporated association, and C15, a company, saw the extent of community involvement in their activities as a means of informal feedback. In charity C6, constituted as a company, an advisory group of key stakeholders comprised an element of each project undertaken; this vehicle, coupled with specific feedback from meetings with funders, provided a robust mechanism for the charity to remain aware of key stakeholders' views. Several charities highlighted low levels of stakeholder engagement through formal meetings such as AGMs; however in each case stakeholders used alternative means to communicate with the organisation's management. At organisation C20, an educational endowment, the AGM was poorly attended and it was felt that 'if there is apathy, then there is no problem' in terms of delivering to stakeholders, as access to senior management was easily achieved through other channels if charity users required it. Similarly at charity C3, a small unincorporated association, where AGM attendance could have been better, the interviewee said that:

*...the amount of chocolate the staff get at Christmas time...is quite
[a] good indication of positive feedback [from service users].*

Charity C5, another small unincorporated charity, also reported that ‘attendance at the AGM is usually pretty poor’ despite various actions it had taken to address this; however issues related to a lack of resources came to the fore again when small, unincorporated charity, C1, revealed that they ‘can’t afford [to systematically gather feedback]’. Although the members of charity C12 met very regularly and thus had opportunities to provide informal feedback, interviewee C12, a trust trustee, acknowledged that:

[We] don't approach [their] members...looking for structured feedback – that would have to be a weakness.

Despite the range of accountability practices, and the variety of means for gathering stakeholders’ views, it was apparent from the interviews that a set of relationships had evolved between each organisation and its key stakeholders, whether funders, members, staff or service users; these relationships enabled each charity to continue to operate in a reasonably informed manner, which enabled them to demonstrate accountability to key parties.

Regulatory and legislative reforms

Given the pace of change in the Scottish charitable sector described in chapter two – the establishment of OSCR, the new Act, the new SORP – perspectives were sought regarding interviewees’ reactions to these reforms. Despite the volume of change, the principles underpinning the new regime were universally welcomed; however, some concerns were expressed about demands that continued to evolve.

The establishment of OSCR

Interviewee C12, the trustee of a trust, voiced the general reaction by proclaiming that he was 'absolutely for OSCR'; in a similar vein, the chief executive officer at charity C9, a company, declared that it was good that OSCR existed and that there was now a clear, legal Scottish framework for charities that was widely known and understood. Interviewee C4, the treasurer of an unincorporated association, stated:

Particularly with charities there needs to be a confidence that they are doing it above board...so I am in favour of [OSCR's role in that regard].

Nonetheless, mention of OSCR's annual monitoring return revealed a spectrum of attitudes. At charity C20, an educational endowment, the interviewee declared that 'I found [OSCR] helpful' in responding to annual monitoring form queries, although she conceded that it helps 'if you can speak their language'. However, she also stated 'I don't see why [OSCR] can't get [the annual monitoring information] from the accounts'. These themes, although informed by different experiences, were also mentioned by other interviewees. For example, charitable company, C9, had sought help from OSCR in resolving difficulties when it found that the monitoring form did not match the format of its accounts; after failing to get a satisfactory response to its query from the regulator the interviewee declared that:

OSCR will either have to get more user friendly or accountants will have to get much closer to clients to fill in their forms... which would inevitably have substantial cost implications.

The interviewee at charity C9 also revealed that colleagues who had been involved in the pilot distribution of the monitoring form did not feel that the feedback they were asked to provide had been incorporated in the final form that was issued subsequently. In addition, the interviewee at charity C8, a company, found it 'slightly irritating' that the monitoring form did not, as she saw it, fit in well with the accounting requirements of the new SORP. In declaring that the pre-OSCR 'Scottish Charities Recognition Office took a very practical proactive approach' to advising charities, interviewee C11, financial director of a charitable company, reflected his own experience. This contrasts with the perception of interviewee C13, chief executive of another incorporated charity, who stated that the pre-OSCR Office did not really support charities but engaged in the investigation of their activities; his expectation was that OSCR's role would be much wider than that of its predecessor organisation. However, interviewee C19, a charitable company financial director, stated that 'I don't think [OSCR] are there primarily to give advice and support', an opinion echoed by interviewee C3, both president and treasurer of an unincorporated association, who said:

We come (sic.) along [to an early OSCR presentation] to get information and we were none the wiser coming out.

Perhaps now that charities have been through at least one annual cycle of OSCR's requirements, they may find that attendance at the regulator roadshows, or other similar events, organised by OSCR might help to address this mismatch of expectations.

A popular theme emerged regarding the burden of administration in the discussions about OSCR; for example, interviewee C9, responsible for administration in a charitable company, stated that 'it would be a shame if bureaucracy pushes good organisations to the wall'. Similarly interviewee C6, chief executive in a charitable company, sought assurance

regarding over-reporting to regulators; his charity already reported to Companies House and HMRC, and he feared that OSCAR would add another bureaucratic tier to the reporting hierarchy; however, he did call for more disclosure by charities when he suggested that these organisations should be required to provide an annual operating and financial review as part of their external reporting.

Interviewee C14, chief executive in a charitable company, referred to the importance of external perceptions when he revealed that:

Organisationally it is perceived [that] we have to be clean. If you start collecting anything in the way of a form sheet with OSCAR then you will become less attractive in what is already a competitive funding market.

Thus, the potential role of OSCAR in affecting a charitable organisation's ability to attract funding and to maintain strong relationships with external stakeholders appears to be significant in interviewees' eyes.

Interviewees were unanimously in favour of Scottish charities' accounts and governing documents being made available on-line; in England the Charities' Commission undertakes this task. As interviewee C2, treasurer in a trust that operates as a company limited by guarantee, said 'it makes for an easy life'; similarly interviewee C4, the treasurer to an unincorporated association, said in support of the idea:

That is the whole thing about the AGM...that is why you advertise...I guess people are entitled to that information anyway.

The pervasiveness of electronic documents in organisational life was reflected by interviewee C13, chief executive in a charitable company,

when he noted that ‘the more that’s on-line, for us, the better’, however, he did acknowledge that although ‘the accounts would be very good’, he was ‘not sure how relevant governing documents would be’. Likewise interviewee C15, head of resources in a charitable company, had ‘no objection. We see our organisation as accountable to the public’ and putting charities’ accounts and governing documents online was seen as a convenient mechanism for discharging this public accountability.

SORP 2005 awareness

In order for charities to ensure compliance with regulations and legislation, it is essential that they are aware of them and their requirements; thus when interviewees were asked about how they remained aware of SORP requirements, the pivotal role of the professional accounting adviser became clear. With the exception of interviewee C5, the treasurer of an unincorporated association, who claimed that his organisation was wholly exempt from the SORP, all interviewees said that they relied on their accountant or auditor to keep them up to date with reporting requirements. Interviewee C13, chief executive in a charitable company, expanded on this theme by noting that his auditors ‘are pretty good at that, and they gave advance notice [of SORP changes]’. Likewise interviewee C18, chief executive in a larger charitable company, stated that her charity’s lawyers and accountants:

...send through quite a lot of information and there’s quite a lot of study days and training opportunities made available to interested parties.

Charities C19, a company, and C20, an educational endowment, had qualified accountants on the payroll who enrolled themselves on professional body ‘training courses just to give...an overview’ (interviewee C19, financial director) and then read the SORP in detail in order to

advise their employers. However, it was clear that, in at least one case, the external professional adviser had not impressed the charity client with his grasp of the changes; interviewee C20, treasurer, revealed that '[the audit partner] did not have a clue...he just waffled his way' about charities, the SOFA and format of the trustees' annual report and account in a meeting with the board. Nonetheless, confidence in the published trustees' annual report and account was maintained by a very impressive audit supervisor from the same firm who worked closely with the charity. A similar theme appeared to be in the mind of interviewee C16, head of resources in a charitable company, when he stated:

It is assumed that professionals know it and [that] you do get value for money; I don't think that is quite the case all the time.

In conclusion, interviewees' reactions to recent reforms were positive on the whole; interviewee C19, financial director of a charitable company, summed these feelings up by commenting that 'a lot of the changes were well overdue'. The need for evidence of adequate discharge of accountability of the sector was recognised and welcomed, although most discussion focused on accounting for probity and legality and process accountability, in other words, the lower rungs of Stewart's (1984) ladder; an increase in the provision of annual accounts and governing documents online was supported, and the key role of professional accounting advisers in keeping abreast of SORP changes was acknowledged and largely praised.

Extent of compliance with the regulatory regime

Previous work (including Connolly and Hyndman, 2001) has called for further research to explore charities' compliance or non-compliance with reporting regulations such as the SORP; to this end, perspectives were sought to examine regime compliance with the interviewees. The

typical reaction from smaller charities was exemplified by interviewee C3, the president and treasurer of a small unincorporated charity, who stated 'I have no idea what SORP 2005 is'; this view was echoed by interviewee C6, chief executive of a charitable company, who was 'not sure if we comply with the SORP' but stated that her charity paid professionals large sums of money to look after such issues. Larger interviewed charities tended to employ full-time qualified accountants, whose remit included addressing these issues. For example, professionally-qualified interviewee C19, who acts as financial director in a charitable company, revealed that compliance with SORP 2005 'was quite a task' but she also admitted that 'it made the Director's Report better'. She also added that compliance 'wasn't that difficult, but it was quite a change'; this sentiment was echoed by interviewee C16, head of resources in an incorporated charity, who stated that 'there [were] some challenges in there', but as his organisation was 'not one of the early [adopters]' then he planned to learn from the reports of those charities that had complied early. However, he also revealed that the external reporting environment was in line with existing internal practice in his organisation. At charities C17, a statutory corporation, and C18, a company, the interviewees remarked that their accountants had told them that they were complying with SORP 2005.

The role of auditors and independent examiners

In declaring that 'we're reliant on our auditors to keep us aware of what needs to be done' in terms of annual report disclosures, interviewee C17, the chief executive of the statutory corporation, reflected the common experience of the interviewed charities. At charitable company C18, the auditors attended a board audit committee meeting annually and provided a detailed management letter; however, interviewee C19, the financial director of an incorporated charity, found that the auditor's advice focused more on the Companies Act requirements than on those

of the SORP, and suggested that this might be because the SORP was largely complied with. It seemed a common experience with interviewees in charitable companies that they were more aware of charitable requirements than of company regulation requirements. Auditors were 'closely involved in the production of the annual report' at charity C11, a company, and provided 'very detailed' advice on disclosures; similarly at another incorporated charity, C14, the auditors presented 'a horrendously long list of information they wanted – on more or less everything'. Interviewee C8, a finance officer and administrator of a charitable company, praised her auditors who specialised in advising charities and whom she found to be very supportive and rigorous. However, smaller charities, such as C1 and C3, both unincorporated associations, did not appear to receive professional advice on their annual report; at C3 the interviewees referred to the independent examination of their financial statements as an audit, seemingly unaware of the difference between these exercises and the potential benefit to be gained in paying for professional accounting advice. Nonetheless, the size of these charities, their resource constraints and the voluntary nature of their management committees seem to be possible explanatory factors for this situation. It was striking during both of these interviews that the two charities focused on their charitable objectives and emphasised largely operational matters with little awareness of, interest in, or energy to address wider strategic issues, or the role of sound accounting information in such forward planning.

Risk management

Both SORP 2000 and SORP 2005 require:

A statement... confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks.
(SORP 2000, para. 30g; SORP 2005 para. 45)

Perspectives were therefore sought from interviewees regarding the risk management systems in place within charities and the existence of procedures for the review of emergent threats. Although not all of the interviewees referred explicitly to a risk management system, it was apparent that their awareness of threats to which their organisations might be exposed was widespread, and procedures were in place to mitigate against these dangers. As interviewee C2, the treasurer of a trust, confessed 'we've tightened up in certain areas' as a result of a recent incident. Charitable companies, C9 and C16, also revealed that risk management practices had evolved from financially risky situations in the past, while at organisation C5, an unincorporated association, the interviewee revealed that risks were addressed mainly 'in terms of money set aside.' Professionally qualified accountant interviewee C16, head of resources in a charitable company, disclosed that unusually the trustees of his charity were less comfortable with risk, as well as the level of financial reserves used to manage organisational risks, than he was himself. He revealed that he had previously worked successfully in a charity with a much lower financial reserve on a higher income level; however, he conceded that in the current charity:

The problem is that we've had our fingers burned in the past. I think we've reacted by setting very high levels [of financial reserves].

Charities C13, C16, and C19, all companies, and C17, a statutory corporation, had risks as an integral part of the business plan and reported on these regularly; in addition, the trustees or directors reviewed and reset the risk management document annually. Interviewee C6, the chief executive of a charitable company, revealed:

We're probably weak on that. Everyone is probably aware of the big risks but we haven't got a big document that identifies it and says what we're doing about it.

Nonetheless, health, safety and human resource issues were reported to this charity's quarterly board meetings, while policies and procedures were in place for identified risks; financial risks were typically managed through the budgeting process.

In conclusion, therefore, it seems that interviewees consider that they are complying with current regulatory requirements; professional accounting staff are considered to be key in terms of ensuring such compliance and guaranteeing that robust procedures exist to address identified organisational risks.

Summary

This chapter reports the results of a series of semi-structured interviews with a range of charity senior management and trustees. A number of conclusions emerge from this investigation. The term governance is well understood in line with definitions in the literature by the individuals interviewed in this study; the definitions offered did not vary greatly from those offered in the corporate sector although acknowledgement was made of the importance of involving representatives from different stakeholder groups. Governance arrangements within charities seem to evolve as necessary with board structures becoming more sophisticated as the organisations grow. Charities' levels of induction and training of new trustees vary widely; some organisations have no arrangements whatsoever in place to introduce trustees to their new duties while most others present new board members with comprehensive induction packs and at least one day's training.

Likewise, there is a broad understanding of the concept of accountability amongst interview participants and a wide range of mechanisms employed in its discharge that tend to depend on the size and nature of the charitable organisation. These mechanisms include monthly reports, practice reviews, monitoring of complaints, staff retention, auditors' comments, away days, member surveys, community involvement and funders' feedback.

Hyndman (1990) seemed to indicate the importance of quantitative performance measures to contributors to charities. The findings suggest that interviewees believe that both quantitative and qualitative data are a more informative combination than quantitative reports alone. Again the use of performance indicators appears to vary with charity size. Although some charities report performance indicators explicitly in their annual reports, this does not seem to be particularly indicative of the underlying sophistication or rationale of such measures. In certain organisations, indicators established from sound bases are used widely internally although not reported externally.

The new regulatory regime, particularly OSCR and the new legal framework, is widely welcomed by interviewees although some reservations exist over increased bureaucracy and cost as the demands of regulation evolve. While some charities employ qualified accountants, others rely fully on external accountants or auditors to advise them on reporting matters. Professionals with specific interest in the charity sector are particularly praised for their abilities to provide a good service. Among smaller charities some confusion exists over the difference between independent examination and audit. Funders are the only group that interviewees consider would use charity accounts.

Risk management forms part of the internal business plan of four of the organisations visited although this did not mean that the other charities were unaware of particular risks they faced. Their risk awareness often appears to be built upon the bad experiences charities have encountered in the past. Unlike for-profit companies, charities

can face a dilemma where they are required to reserve monies that they have accepted in order to advance their aims.

These issues are revisited in chapter eight where they are explored in light of the evidence gathered in the other empirical strands of this project.

ENDNOTE

- 1 Under the terms of the 1990 Act, trustees are persons in management or control of a charity. This use of the term trustee has been carried forward into the 2005 Act and for the purposes of this research all of the charity interviewees were thus seen as trustees.

6 INTERVIEWS WITH REGULATORS, AUDITORS AND INDEPENDENT EXAMINERS

Introduction

This chapter reports the findings of a second strand of interviews conducted with a range of individuals involved in different ways with Scottish charities: regulators; auditors; and independent examiners. These interviews were undertaken to present a more holistic view of the current state of governance and accountability arrangements in the Scottish charity sector. Each of the interviewees was closely involved with a range of organisations in the Scottish charity sector, and their experiences were seen as important for exploring charity practices and pertinent issues from a variety of informed perspectives. The chapter opens with an explanation of the selection of the interviewees and then discusses the findings under four main titles: (i) experiences of recent regulatory changes; (ii) internal business arrangements; (iii) perspectives on recent regulatory reforms; and (iv) governance and accountability. The chapter closes with a summary of key findings that form part of the discussion in chapter eight.

Sample and method

In addition to the 20 interviews undertaken with charity trustees reported in chapter five, a further 10 interviews took place over the same period with: a major funder of charities; an intermediary which acts as an umbrella body for the voluntary sector in Scotland; a charity regulator; a media representative; and six auditors/independent examiners, as shown in Table 6.1.

Table 6.1 Regulator, auditor and independent examiner interviewees

Interviewee	Job title(s)	Role	Base
R1	Partner	Auditor/independent examiner	Edinburgh
R2	Partner	Auditor/independent examiner	Dundee
R3	Senior manager	Auditor/independent examiner	Aberdeen
R4	Senior manager	Auditor/independent examiner	Glasgow
R5	Partner	Auditor/independent examiner	Edinburgh
R6	Manager	Auditor/independent examiner	Glasgow
R7	Trustee	Voluntary sector representative body	Edinburgh
R8	Deputy chief executive	Large funder/grant-making body for charities	Edinburgh
R9	Chief executive & senior manager	Main charity regulator	Dundee
R10	Reporter	Media	Glasgow

To make the findings clearer, it is important to distinguish between the requirements for an audit and those for an independent examination (see appendix two). Audits must be performed by registered auditors. Independent examinations of receipts and payments accounts can be performed by any person who is reasonably believed by the trustees to have the required competence. Independent examinations for accruals accounts providing a 'true and fair' view per SORP 2005, however, must be carried out by members of particular professional bodies.

These interviewees were chosen because of their seniority, detailed technical knowledge and awareness of the broader issues surrounding governance and accountability in Scottish charities. Further, all of the participants had extensive charity knowledge and significant experience in their present roles. Furthermore, given their familiarity with the changes taking place in relation to charity governance and accountability this group was well situated to comment on the issues relating to this

study. Interviewees were selected in the same way as the charity trustee interviewees; they were chosen from the business network within which the research team operates, or by direct contact. The approach adopted was the same as that used when interviewing charity personnel. In each case an outline of the project objectives was provided on initial contact, and the organisations were invited to identify the person(s) they considered most suitable for interview. As with the charity trustee discussions, each interview was attended by two researchers who began with an outline of the project's aims before a list of semi-structured interview questions was presented and used to guide the conversation. The interview questions were again informed by the previous research work reported earlier in chapter two. Where applicable, the same questions used with the charities were asked; where the relevance of these questions was less obvious, similar themes were pursued from the particular perspective of the interviewee. In each case the intention was to develop a holistic understanding of governance and accountability in Scottish charities in the light of the evolving legislative and regulatory regimes. Interviewees were also encouraged to elaborate on, or introduce, any matters they considered important to the discussion that had not been considered by the researchers. Permission to record the interview was obtained from all interviewees and detailed notes were also taken. Each interview lasted between one and two hours, and all were conducted on a strictly non-attributable basis.

As the majority of these interviews were held with auditors/independent examiners these six discussions are used to structure the findings in the following way: (i) the auditor/independent examiner's business's experiences of recent regulatory changes; (ii) the internal business arrangements for dealing with charity clients; (iii) interviewees' opinions of the reforms; and (iv) interviewees' impressions of governance and accountability in their Scottish charity client base. In sections one, three and four, this discussion is interwoven with a review of the insights provided by the funder, intermediary, regulator and media representative interviewees.

Experiences of recent regulatory changes

Professional auditors/independent examiners were asked to describe the profile of their charity client base, and to reveal the extent of their clients' awareness of recent regulatory reforms in order to provide a context for subsequent discussions. These responses, and the impact of SORP 2005 on the audit business, and on clients are reported here. Interviewee R1 revealed that, as one of Scotland's largest charity auditors, the profile of a:

...typical client would be a £1m+ income...probably incorporated, because they tend to be at the bigger end to mitigate the risks... They cover the full range...everything from social care, arts and heritage and kind of everything in between. They face the same business issues as most of our other clients...IT complexities...VAT complexities...customer relationship issues.

Similarly interviewees R3, R4 and R6 disclosed that their Big 4 practices had consciously decided to focus on larger charities with income significantly in excess of £500,000 per annum; interviewee R6 noted:

At least 80-85% [of our clients across all charitable sectors] would be incorporated. We have streamlined out a few of our smaller charities for economic reasons [in the past 5 years].

She went on to suggest that:

...a lot of those [smaller] charities didn't really need our skill sets... and if they are not doing complicated accounting...transactions, why would they need...us?...even with a decent discount it doesn't make commercial sense.

Where clients had not responded sufficiently to her firm's recommendations in the recent period of change, this auditor had assessed the risk of continuing with the client as being too high and this had prompted part of her firm's streamlining of charitable clients.

Across the larger auditors/independent examiners, clients were considered to have at least some awareness of recent changes to the legislative and regulatory framework. For example, interviewee R6 stated that she was:

...struggling to think of any that were not at a high level and already aware of things. They all knew OSCR was coming in, they all knew that there was the Act, they all knew a new SORP was coming out... Quite a few of them got involved in the consultations as well.

In contrast, interviewees R1, R2 and R5 dealt with some smaller clients who appeared as a group to be less well aware of wider changes; in this sense, auditor/independent examiner R1 noted that:

There is a lot happening and I am still finding there is still quite a lot of ignorance around because the trustees are voluntary, they are hands-off, probably busy doing other jobs during the day, and then they are supposed to be looking after these charities in the evenings, and I think there is an issue about the volume and the pace of change [which] means people are struggling to keep up.

Interviewee R2 echoed these sentiments, and highlighted the role of the professional advisor in helping charities to cope with change, when he commented that:

Clients in smaller charities probably rely on the advice that they are getting [to keep up to date].

Considering that a significant effect of recent legislative change has been the reduction in the number of charities requiring to be audited, interviewees were asked about the impact of this on their business. In this sense, the effect of regulatory changes on Big 4 clients' requirements for audit or independent examination was minimal; these interviewees all disclosed that 'as policy, we wouldn't do independent examination... we only do audits' (interviewee R3). Although most of interviewee R5's clients required an audit, around half of these were as a result of the specific requirements contained in the trust deed, rather than due to their income level or constitutional form; this was seen as a significant, and in many ways unnecessary, additional cost for the charities involved. The impact of this legislative change on his business strategy was highlighted by interviewee R2, who declared that his small practice:

...did not intend to get registered for audit. For normal companies it's not an issue for quite high levels of turnover but for charities you hit that threshold quite quickly and obviously charities' income tends to be reasonably volatile.

Thus, his aim was to work only with those charity clients that required independent examination. Nonetheless interviewee R2 saw the regulatory changes as a potential growth area of business income for the accounting profession and stated: 'that would be a good thing' as he believed that greater involvement of qualified accountants in charities would drive up reporting standards.

Impact of SORP 2005

The impact of SORP 2005 on clients and auditors/independent examiners was also explored; interviewees were specifically asked whether their clients who were required to prepare SORP-compliant accounts had adopted SORP 2005 early. This question arose as previous work had found that there was a general lack of awareness of the disclosures required by charitable organisations. Again, some common experiences were described, and some differences between Big 4 and other practitioners were noted. For example, all interviewees had advised their clients not to adopt SORP 2005 early; instead they had suggested in 2005, or before, that charities set up performance measurement systems to enable the trustees to report such in their 2006 annual report. In this context, interviewee R6 said:

We actually encourage clients not to adopt early...we know from experience the majority of our clients wouldn't have had the data to be able to comply with it...objectives, performance indicators and all that sort of stuff.

Similarly interviewee R5 noted that: 'for a lot of charities I don't think they really had the information certainly to do it', while interviewee R4 declared:

You will always get encouraged to have early adoption...and unless there is a distinct advantage to do it, [companies] tend not to, so it's not a thing that's different in the charities sector.

When describing the impact of SORP 2005 on accounting and audit/independent examination work, interviewee R1 stated that generally:

Accounts prep takes more time...much more time for our charity clients than it does for our commercials...I think SORP 2005 makes things more complicated.

But she went on to say that the simplified SORP was available to charities not requiring a statutory audit but obligated by their trust deed or funders to have an audit, this 'will help' in reducing the audit risk. However, the more demanding nature of working with charity clients was emphasised when she also said:

On the whole I think charity audits are more expensive because there are more risks, there is restricted funding...completeness of donations... dodgy allocations or spurious allocations of expenditure in the face of your accounts, so they take more time; under International Standards on Auditing (ISAs) they are taking even more time.

Continuing in this vein, but indicating less impact in certain areas, interviewee R3 revealed that:

For some clients there are some fundamental issues over income recognition policies caused by SORP 2005 and then there is representation of the SOFA. For some it is not a big deal, just moving figures from one category to another category, but there has still been work required by the SORP.

The wider changes in the financial accounting arena, and particularly the role of ISAs in generating more planning time and paperwork for accountants and auditors, were highlighted by interviewee R5; she remarked that:

The change in the accounts and SORP 2005 has certainly taken a lot of time and effort and thought [to process and implement].

However, one Big 4 auditor put the onus firmly on her clients to explicitly address the new SORP requirements; interviewee R6 urged these clients to:

...really understand what your objectives are...challenge their own internal business planning arrangements and performance management arrangements.

This approach had been effective: as a result of this process, one client had positively responded:

This is quite good. What we will do is have one document now instead of...one glossy and one boring set of accounts; we are putting them together and people can see straight off that they correlate and they are saying the right thing.

However, a different reaction was highlighted by interviewee R7 who worked for a body representing the voluntary sector across Scotland. He revealed that charities were having to change their practices due to the narrative review required by SORP 2005:

Organisations now find that it is less easy to use their annual report as sort of promotional literature which they once did.

He added that as a result, many charities now produced separate promotional materials, which inevitably resulted in extra costs. The impact of the SORP's increased emphasis on narrative information

in the annual report and accounts also prompted interviewee R5 to comment:

You need more words – the accounts had got terribly lengthy with a lot of numbers, and a lot of notes explaining those numbers, but not necessarily a lot of words explaining what's going on. So I think the new trustee annual report is quite good but there seems to be a lack of understanding that actually you're...going to activity based accounting – it runs through the new SORP.

When discussion turned to the costs associated with the arrival of a new SORP that recommended changed practice, most auditors/independent examiners revealed that they tended to charge a one-off additional fee in the year when a new SORP was introduced to begin to address the extra professional time and investment required in such a scenario. In terms of routine charging, however, interviewees revealed differences in their approaches: some auditors/independent examiners charged their charity clients at the full commercial rate to reflect the risks encountered in providing their services, other auditors/independent examiners indicated that fees for charity clients were less than the full commercial rate in recognition of their charitable status.

Internal business arrangements

As previous work had highlighted the lack of awareness of disclosure requirements in charity accounts, interviewees were asked to describe how their firm ensured that practitioners remained up to date with current regulatory and legislative requirements. They were also questioned regarding the nature and source of any additional advice they sought on interpreting recent regulatory changes.

The Big 4 interviewees all revealed that each of their respective firms had an internal training and accreditation programme for practitioners

engaged in charity work, to educate these auditors in the higher risk levels perceived to exist in the sector. Interviewee R4 noted a downside in the programme provided in that, as his firm's training was UK-based, the courses had focused on the Charity Commission's pronouncements and little awareness was displayed of the distinctly Scottish context he was operating in; he stated:

It's still too much based on the Charity Commission in England and Wales...there is a gap at the moment in the firm in terms of support specifically for the new Scottish Trust Act (sic.).

Although he also acknowledged a reluctance to complain too loudly in case one ended up running 'the Scottish desk'. The distinctly Scottish focus was specifically addressed in a different Big 4 firm, where in addition to the annual training required in order to maintain accreditation to undertake charity work, interviewee R6 sat on her firm's UK charity management team to represent Scotland; she also was part of an email group that facilitated the distribution of monthly newsletters highlighting current matters of interest.

A non Big 4 perspective was offered by interviewee R1 who headed up her firm's charity team; this position involved leading two types of team training: one for partners and senior staff, which occurred twice yearly, where she provided an overview of recent changes and the resultant implications for their business; and a second regime:

...that is much more like school, you have to do sums...and actually prepare example sets of accounts... for less experienced auditors, such as year-three trainees.

In addition, interviewee R1 provided emails for senior staff and disseminated relevant information she encountered; this had become

an almost weekly exercise in the current climate of far-reaching change. A similar and focused scenario was described by interviewee R5, where as well as updating relevant staff through annual training:

We brief the staff before they go out on any audit as to what the issues are; what they need to look for; what fund accounting means, so that they are at least in a practical sense prepared for the work that they have to do.

In this sense, practitioner R5 also mentioned ICAS courses, including the Charities Conference and Charities updates, as important sources of up to date information for herself and for her staff.

When it came to seeking advice on interpreting recent reforms, the Big 4 interviewees declared that they each had an internal helpdesk staffed by technical accounting experts in the charity field to which all their queries were directed. Other accounting interviewees used a variety of sources of information to keep abreast of changes; for example, interviewee R2 said 'we try and be generally aware...we know where to look', whereas interviewees R1 and R5 had sought advice from ICAS.

Perspectives on recent regulatory reforms

Having described the context of auditors/independent examiners' work, the following discussion turns to interviewees' impressions of recent regulatory reforms and their impact on the sector. These findings will be reported in the following way: a discussion of interviewees' opinions of the new regulatory regime includes views on SORP 2005; this is succeeded by specific consideration of the new audit threshold; the users of charity accounts are then addressed and this section concludes with an exploration of any unintended consequences and potential further improvements. With the exception of a few matters of detail,

there was wholehearted support for the reforms; for example, interviewee R1 stated:

I think it has been a good thing...what we have now is largely based on the McFadden recommendations...I think it was long overdue and I think it has been a very positive thing.

Continuing in this vein, interviewee R4 echoed this sentiment when he noted that the reforms were 'long overdue'. He added, that amongst his charity clientele:

A lot of what is coming in formally is being done already, and they are taking it seriously.

Journalist R10 agreed with these positive judgements and commented that 'we all want to see charities properly regulated'. However, implementation challenges were highlighted when, reflecting on the new regulatory regime, interviewee R5 stated:

I think [the regulatory changes] are good, but I also think that there is quite a lot of resistance and lack of understanding in the sector which needs overcoming.

This caution was tempered when interviewee R5 made a distinction between larger and smaller charities; she acknowledged that although the reporting requirements were less onerous for smaller charities:

Nonetheless, they need to say quite a lot, and where they have got help...then they could probably cope...but where they are struggling to account and maybe haven't accounted in the past

about activities because nobody's really asked them, I think it is going to be quite difficult. That is not to say it is not do-able, they've just got to get their minds round it. And I think to meet the regulators [at] roadshows and that kind of thing that OSCAR do is probably quite helpful.

Echoing support for OSCAR and its dissemination activities in this context grant maker and funder, interviewee R8, declared:

We all think OSCAR will improve a lot of [the] things...hopefully... the accounting procedure...[for example already] OSCAR do some good wee briefing books about accounts.

Similar sentiments highlighting support for welcome changes, while expressing concern over some organisations' ability to cope, were expressed by interviewee R6 when she said:

I think [the recent regulatory changes] have been a long time coming...it has been very helpful to have these changes but I can recognise that it will be very difficult for less geared up charities, who don't have the financial support [or] the infrastructure, to be able to keep up to date with the accounting changes and the disclosure changes...I imagine they will rely on their auditors to a great extent.

And again, although interviewee R2 could:

...see that the aim [of the reforms] is to increase transparency and accountability and that seems to be quite a sensible aim...

he expressed concern at the ‘burden of regulation’ and ‘lack of awareness’, particularly with respect to the way ‘quite small groups’ would cope. In this sense, the journalist R10 echoed this sentiment more generally by noting that:

All newspapers (sic.) are very sceptical about bureaucracy and regulation...they want assurances that this isn't a waste of taxpayers' money.

However the accounting reforms, particularly for lower income charities, were welcomed when interviewee R2 acknowledged that:

There seems to be a recognition that, for example, accounting should not be too burdensome on the smaller end of the charities' range so that you don't impose full accruals accounting...on really quite small organisations.

Nonetheless this practitioner voiced a concern that:

You don't necessarily have to be a qualified accountant to give an opinion or to examine [small charities'] accounts...I'm not quite sure how the quality gets maintained in that...Unless the charity itself is aware of the regulations I think there's a possibility they are relying on unqualified people. That could lead to errors. (interviewee R2)

Reflecting warmly on OSCAR's activities and publications, interviewee R1 expressed the view that:

...one of [the regulator's] mantras is 'proportion in regulation' and I think that has been well handled...[the material] that comes out of OSCAR is usually of a very high quality; it has been well thought through.

However, she noted a corresponding lack of accounting regulation quality, when she also claimed that:

...what is coming out of the Scottish Executive [in terms of accounting regulations] is not of the same standard.

She attributed this primarily to a lack of consultation, and failure to take account of the Companies Act; and added that she was of 'the impression that there are too few people trying to do too much'. More praise for OSCAR was offered by the journalist R10 when he noted it was: 'a very slick operation, very professional...very efficient'; he had been highly impressed in any dealings he had had with the regulator.

When questioned regarding their input to the reforms, interviewees R3, R4, R6, R7 and R8 revealed that their organisations had made representations in that regard; auditor/independent examiner R3 stated:

I think we have made some observations to OSCAR...It has been a pretty prolonged gestation period for OSCAR.

Two auditors had greater involvement than this: interviewee R6 said 'we have been involved in assisting the [Scottish] Commission'; whilst interviewee R5 had worked closely on secondment to the new regulator to help create 'the forms that come from OSCAR'. Thus, it appears that several of the interviewed auditors/independent examiners had taken the opportunity to influence the new regime in a variety of ways.

Usefulness and clarity of SORP 2005

There was a divided opinion regarding the interviewees' perceptions of the usefulness and clarity of SORP 2005. Interviewees R2, R3, R4, R5 and R6 indicated their positive impressions of the SORP; for example, accountant R2 said: 'I thought it was quite plain', while interviewee R3 noted that:

Financial reporting generally is becoming very complex and the SORP picks up on that complexity.

This process of evolution of charity financial reporting was also alluded to by interviewee R5 when she stated that 'this [SORP 2005] is better than the last one [SORP 2000]'. This comparative view was shared by interviewee R6 who noted that SORP 2005:

...is more explicit...in SORP 2000 there was an awful lot of... discretion. That is why we had such inconsistencies...even for accountants who are familiar with charity accounts it was difficult to do comparisons in the past...now you explain what you are doing and how you are doing it so it is quite open, so when you do comparisons you can...strip it back if you know how a set of accounts work.

However, interviewee R1 was significantly less impressed with the SORP; she declared:

[The SORP is] far too complicated. They need to have...SORP for the really really big guys, SORP for Barnardos...and then they need to have SORP for everyone else, the small guys...they managed it with [the] Financial Reporting Standard for Smaller Entities (FRSSE).

She added that 'most of the people on the SORP committee represent either big firms or big charities' and she expressed concern that 'they are [not] thinking enough about, by number, the vast majority of charities'. In a similar vein, and with his perspective of the Scottish-wide voluntary sector, interviewee R7 said:

SORP 2005...is quite difficult for lots of charities...the smaller the organisation...the less likely you are to have people who have read and thoroughly absorbed the systems and annual reporting.

He went on to reveal his hope that OSCR would be stricter with larger charities, and 'for the smaller ones...provide a degree of latitude in the SORP consistency'.

Audit threshold

During the interview discussion concerning the appropriateness of the requirement for a statutory audit for charities with income in excess of £500,000, interviewee R6 reflected that this practice might be:

Very expensive for a charity who doesn't have that much money to spend on audit fees but at the same time it is almost like public money so I think it is right that it is properly regulated.

Funder and grant-maker, interviewee R8, supported the change in audit requirement legislation when said in this context:

I like the whole idea of up to a certain level you just need to have them examined, as opposed to having full audits. Full audits for some of these [small] charities – that is just over the top.

Comparing the charity situation with wider corporate financial reporting, interviewee R4 commented that the threshold ‘doesn’t seem to have moved the way companies’ [thresholds] are moving’; but he reflected that as a threshold needed to be set, that this one was as good as any other; he confirmed that he was unconcerned about the fact that the independent examiner for charities below the £100,000 threshold was not required to be a member of a professional body. Having a broad client base which included both large and small charities, interviewee R1 was able to comment on situations where the local authority, the major funder for many charities, mandated that recipients of their funds supplied:

...the stat[utory] accounts, plus a detailed income and expenditure relating to the budget for their grant.

Believing that this funder mandate was erroneous and resulted from a misunderstanding of the legal situation, she opined ‘it is a piece of nonsense!’ and went on to note:

Now that [we] have this regulator and we have this relaxation of rules, you should not now still be required to have an audit by your local authority funder... because then you are paying twice.

It will be interesting to monitor, as the new regime becomes embedded, whether such changes in funder requirements emerge.

Charity accounts and users

Previous work had claimed that releasing accounting information is an important means of a charity demonstrating accountability; to this end interviewees’ reactions to such a claim were explored. The theme of availability and appropriateness of charities’ accounting information was explicitly pursued when interviewees were asked about

the prospective readership and users of the annual report and accounts; further discussion ensued on the ability of this document to meet user needs. A variety of perspectives emerged. For example, interviewee R1 declared that 'no-one!' made use of the document, while auditors/independent examiners R2, R3, R5 and R6 mentioned funders and OSCAR as likely users of this accounting information; interviewee R4's main clients provided funds to charities, so he identified 'bodies that are funded by this big organisation' as interested readers of its financial information. Media representative R10 also mentioned 'journalists and researchers' as potential users. However, auditor/independent examiner R2 suggested that:

It's maybe one of those things that if you make people do it [prepare accounts] then they have to go through the process of doing it; and whether anybody looks at it after that is not really the point. What you don't want is a situation where...nobody knows what happened to the money.

Nonetheless, the potential usefulness of annual reports to other organisations competing for funding was highlighted by interviewee R6; she stated that:

Most of [my] clients are looking at their competitors quite often... to see where they lie...in comparison...I think that will increase as SORP 2005 [becomes more widely implemented]...Somebody should [be able to] pick up the Directors' Report and read that and understand what is going on, what the charity is all about, what their long-term objectives [are], what their short-term objectives [are] and how they performed.

However, a lack of adequate skills to interpret information provided in the annual report and accounts was identified by interviewee R5 as

a potential drawback when she said: ‘mostly people don’t know how to read a set of accounts’; nonetheless she went on to suggest that the increasing trend towards more narrative reporting may be a step in the right direction when she declared: ‘maybe as the trustee annual reports improve the wider population might consult them more’. In this sense, interviewee R3 also highlighted the potential for wider use of charity information when he declared:

I think you will get more users potentially because of the availability. I think people in the past have not necessarily known that they were entitled to see charities’ accounts.

He went on to highlight the impact of the process of external reporting on charities’ internal decision-making when he said:

Having to report publicly, I think, will help the internal strategic directions to what we’re about, and it may actually lead to some charities saying ‘Well, we should be merging or folding or...coming together with somebody else’.

This auditor also suggested, provocatively, that:

It would be quite good to see some investigative journalists asking for [the annual reports and accounts]... and not justifying the request, simply as an exercise in heightening awareness of the public’s right to see charities’ accounts.

Given the difficulties in attempting to obtain charities’ annual reports and accounts reported in chapter four above, the time seems ripe for such an exercise.

As the Charities Commission in England and Wales provides electronic access to the annual accounts of the charities it regulates, interviewees were asked for their reactions to the possibility of Scottish charities' accounts being made available online to the public; responses were largely positive. Interviewee R1 articulated the broad consensus of views when she noted that 'it is a good idea'; she also highlighted charities' lack of awareness that they are legally required to supply their accounts to those requesting them – the difficulties experienced in obtaining accounts for the research reported in chapter four bear this out most strongly, and highlight potential issues in wider perceptions of accountability. In this sense, this interviewee further suggested that a field on OSCR's web page enabling people to view any registered charity's accounts would make access to such information for any stakeholder or interested party significantly more straightforward. Likewise, interviewee R3 declared:

In restoring public confidence and accountability there needs to be somewhere... that the public can go to and get a set of [charity] accounts and can look at [them].

He added:

Whether people do or not, I don't know, it is debatable, but I think that is part of accountability.

The peculiar situation of charities keeping information from even their funders was identified by grantmaker and funder R8 when she revealed that 'sometimes they [funding recipients] try and keep the information' from her funding organisation. Therefore, it would appear that any increased access to accounting information that OSCR can facilitate would benefit those stakeholders who are interested in the financial reports of charities.

Unintended consequences and further improvements

The extent and scale of change in the regulatory and legislative field prompted questions about unanticipated consequences or any further desired changes. In response to the researchers' query regarding unintended consequences of the current arrangements that had become apparent, different views were expressed amongst the interviewees. For example, in considering the accounting regulations specifically, interviewee R1, made a number of observations about unintended consequences:

(i) They bring the trustees' annual report (TAR) into the scope of the audit/independent examination opinion, which is not appropriate as the TAR is not intended to give a true and fair view; (ii) they require the use of the examiner's designatory letters, a practice discouraged by ICAS for non-practising CAs as they may be deemed to be holding out to have a practising certificate; and (iii) the independent examination is being developed by OSCR without reference to the statutory agencies that normally deal with such things (Auditing Practices Board (APB, ICAS).

Potentially unforeseen consequences arising from wider corporate financial accounting developments were acknowledged by one auditor; in this sense, Financial Reporting Standard (FRS) 17 which contains the rules to be followed when accounting for retirement benefits was identified 'as the main concern at the moment' by interviewee R6. However, a more general concern was expressed by interviewee R2 that the current spirit of change in the charity sector:

...squeezes the smaller end [of the charities' spectrum] and makes it too difficult for them to operate.

Nonetheless, the impact of recent sector developments on some very small, largely inactive charities was seen as a definite benefit by interviewee R5 when she commented that:

A number of small charities that were kicking around thought, 'Well, we [had] better get ourselves sorted out'.

She mentioned the use of asset transfers to facilitate the winding up of 'absolutely tiny' charities that 'often lurked in lawyers' offices'. Journalist R10 also alluded to this beneficial effect by suggesting that:

A lot of small charities will think 'what's the point?' and wind themselves up.

Indeed, the research team heard anecdotally of at least one small charity that had made this decision to cease operating as a result of recent reforms. Whilst Desai and Yetman (2005) suggest that more stringent controls and reporting requirements, such as those recently introduced, may discipline human behaviour in non-for-profit enterprises, this anecdote indicates that such demands may ultimately crowd out charity volunteers' and board managers' intrinsic motivation to pursue their good works. Nonetheless, Big 4 interviewees R3 and R4 were unaware of any unintended consequences and considered it too early to determine whether further changes would be required.

Governance and accountability

In response to the question about the state of current governance arrangements in Scottish charities, a range of views were forthcoming. For example, interviewee R1 highlighted the key role of the specialist auditor or professional advisor when she said:

I think it is variable, with good compliance at the top end... determined by auditor/independent examiner...[there are] not many big charities that don't have one of a small number of advisers.

She went on to call for an experienced and capable professional service and expressed:

...a real concern... that this sector is well served and that the people that are getting the business are the people who can deliver that competently.

Interviewee R5 also had a variety of different clients and revealed that in her opinion current governance and accountability procedures were 'not bad'; however, she expressed 'slight anxiety' about 'the split between responsibility and...the executive and trustees' in charities since:

A non-executive director is always a difficult role to play anyway, because you long to get into the detail, but it's not your job. Your job is the strategy.

This tension and split was also mentioned by grantmaker and funder interviewee R8; she claimed that management of this split in charities demanded strong leadership and clear role specification. Nonetheless, a positive view overall of the sector was offered when auditor/independent examiner R5 concluded that:

Most trustees are pleased to be trustees...there is a general questioning of what they [trustees] are doing arising out of all this emphasis on governance which can only be a good thing.

Benefits of scale were alluded to when the advantages experienced by the better resourced charities were identified by interviewee R3 as:

The scrutiny that goes on in the larger ones by management, where the trustees are very much the supervisory body, [this] is I think really good 'challenge thinking' about strategic direction.

He went on to highlight other aspects of such benefits when he continued:

Where I suspect you have got the problems with the smaller ones is that the trustees will also be fundraising and they may even be carrying out some of the activities themselves, so they are not able to separate the functions.

And, thus, he declared: 'that will cloud things when something goes wrong'. However, this interviewee did not offer any potential solution to these problems, apart from smaller charities with similar objectives merging together to pursue their goals as a larger body. One possible solution to the problems of smaller scale charity operations were highlighted by interviewee R8; her grant making body offered a capacity building programme and funding, to help develop a charity board's skills and expertise in specified areas. Similarly, interviewee R7 highlighted training, web information, publications and educational opportunities offered by his own intermediary body as valuable sources of information for charities. However, little need for change was seen by interviewee R4 when he suggested that his impression of the current governance and accountability mechanisms in place in Scottish charities was such that:

They may have to change their recruitment policy; they may have to do a bit more training, but that shouldn't be a significant cost.

The typical robust governance procedures found in the Scottish charity sector were described by interviewee R3, whose client base was entirely large audited charities, as comprising:

Trustee boards...management teams, there is a chief executive... they have got management that actually undertake their activities and therefore, management are accountable to the trustees...I think that works really well, a really strong model.

In contrast, interviewee R2's impression of his small clients was that they were:

Not strong on governance mechanisms as such. They are aware of their responsibilities...[and] do whatever they are set up to do.

However, he noted that, despite this general awareness, they are unfamiliar with the formal terms and legal expectations associated with governance and accountability. This formal/informal distinction was also highlighted by funder and grantmaker, interviewee R8, in the context of implied and expressed powers that existed from individuals' interpretations of a charity's original memorandum and articles of association; she explained that, in order to make powers and responsibilities explicit and to minimise potential misunderstandings:

...once an organisation grows and becomes a bit more complex, they need to start writing things down.

Auditors R3, R5, R6 and intermediary R7 described a typical charity as having a 'board of trustees of varying sizes but not involved in operational details at all' (interviewee R3). Standing committees addressing finance and/or remuneration activities and occasionally policy issues were also largely in evidence with ad-hoc committees set up as

required. Auditor/independent examiner R6 revealed that the boards of smaller organisations 'only meet quarterly, rather than monthly or two weekly or whatever' as there was less business to conduct; interviewee R1 also referred to this difference in workload when she noted that:

The bigger charities are much more organised, because the board agenda gets too long, and that forces sub-committees to actually do more work.

However, she revealed that it could be a fine balancing act as it was sometimes 'hard to get people to come to a board meeting' never mind 'in between, a finance meeting or services meeting' too. When discussing the initiation of strategy in charities she went on to reflect that:

Although the trustees' responsibility is to set strategy and what not, often I find the strategy initiatives will be coming from the chief executive to the board... which makes, arguably, the chief executive the most important appointment.

She continued by praising the qualities and abilities of the trustees she came into contact with, noting that: 'the charities are extremely lucky to have [them]'.

The impact of regulatory reforms on governance and accountability

In assessing the impact of OSCR, SORP 2005 and the new Scottish Act on the governance and accountability practices in charities, interviewees shared a similar view. For example, interviewee R5 identified the establishment of OSCR as being beneficial for accountability, although some of her client trustees with commercial experience resented the lower reporting thresholds applicable in Scottish

charities when compared with the requirements of the corporate sector; nonetheless, she said:

I like [the new reporting framework], it is good reporting and it tells you more about what the charity is doing and that is good accountability.

Interviewee R1 welcomed the new legislation as she believed that the new requirements would:

...improve governance and accountability because people are doing things like bringing accounts up to date. Previously if you were unincorporated there was no sanction for not having accounts up to date...the issue [now] is around the renegades and I guess [OSCR] are going to deal with those by striking them off.

Auditor/independent examiner R6 felt that OSCR's focus to date had been on the policing of the charity sector rather than an advisory role, and she added that:

It is really important for OSCR to ensure it develops its guidance... you need something that you can just pick up the phone to, and I think that is what they [OSCR] would be really good at doing.

This request for advice was made also by interviewee R2 who called for OSCR to continue to 'support the sector by giving consistent and clear information' as he believed that its website was doing currently. The response to this request came from interviewee R9 who maintained that, as regulator, its job was 'to increase accountability, confidence and value of the sector' and therefore it would champion Scottish charities in an indirect rather than a direct manner. However, intermediary R7 hinted

at a widespread debate around these separate issues surrounding the regulation and promotion of charities; he made it clear that he supported a clear distinction between the bodies responsible for oversight functions and those serving as sector champions. The more narrow aspiration of interviewee R3 was that the new framework:

...is all kept as a fairly light touch except where things go wrong or things are fairly deficient – [then] they [OSCR] should be quite publicly taking action...

as he maintained that: 'you only actually need to actually hang a few in public to scare the rest'. A slightly different concern around proportionality was highlighted by interviewee R4 when he suggested that:

Time will tell if OSCR...treats all charities the same or does have a degree of flexibility...there is potential for this [OSCR] to have a huge impact.

However, a key role played by the press in communicating about change was highlighted by journalist R10 when he said:

The only way anyone knows about these things is through the media, so if you accept the argument that charities are tightening up their procedures and smartening up their act because they know about these new regulations, you probably have to accept that the media has some role in that.

This sentiment of the importance of the press was echoed by regulator R9 who said that, as regulators, they used the media to communicate with other stakeholders; the capacity of the media to

hold OSCR to account, to influence the public and to be influenced by the public were identified as significant, if informal, accountability mechanisms by this regulator interviewee.

The role of the auditor/independent examiner in charity governance and accountability

In assessing the role of the auditor or independent examiner in relation to charities' governance and accountability, interviewees offered a range of views. For example, interviewee R4 was clear in his mind when he indicated that:

[The] audit report at the end of the day will be to the trustees of the charity. As part of our audit procedures we...need to check that they are compliant with the SORP...even though it is not directly giving any assurances to OSCR that everything is ship-shape, what we need to do to get to that place involves checking governance and accountability...It is right to think that by signing our opinion we have considered the relevant governance and accountability issues, even though our audit report won't quite say that in black and white.

However, interviewee R2 saw his role as less explicit about these topics; as an independent examiner he sought: 'to get the accounts right and to give advice if requested' or where he identified a need for guidance. Coming from the viewpoint of the wider voluntary sector, interviewee R7 concurred that guidance on SORP compliance 'ought to be part of the services a good auditor provides'. However, the charity's own responsibility and a separate and distinct role of auditors was highlighted by interviewee R6 when she noted that her profession:

...are the independent check...we really are only there as a final checking balance. The [charities] need to have their own internal control procedures all in place before we come along.

Interviewee R1 described a level of service provision which sought to drive up governance standards when she revealed:

I often only see boards once a year, at audit completion time... when we are giving them the management letters. We say 'Here [are] all the things that you have done wrong; here are all the adjustments we have made to the accounts; here are all the things we have not adjusted which we should have done'...and...we say what is going to happen next year that they should be aware of, and how we will help [them] with it.

She concluded 'that is my role, just to keep them informed'.

Nature of accountability

As a means of exploring accountability relationships, interviewees were asked to identify the members of a charity that should be held to account; the consensus view was that the board of trustees should assume that role. However, interviewee R5 attempted to widen the net by suggesting that:

Somehow I think you need to be able to pull in the senior management team [too].

Auditor/independent examiner R1 believed that the accountability relationship was rather narrow in that charities 'should only be held to account to the beneficiaries', but she also distinguished a wider set of

stakeholder influences on charity practices, including trust and statutory sector funders, as well as the wider public interest. Intermediary R7 also highlighted the role of these wider stakeholders when he revealed that:

Quite a lot of organisations are now inviting their users to engage more in the formal parts of governance which is one form of accountability to users...[and] that is consistent with the moves towards user-led, user-purpose services.

In identifying the fundamental effect of funders' policies on charities, for example, the decision by key funders not to finance charities that paid their trustees, interviewee R1 declared that:

The principle of volunteerism in large charities is naïve...I agree with the principle for small charities but how can you run a business completely voluntarily with voluntary directors?

Concern about the scope of accountability was also voiced by interviewee R6 when she said:

Most of the charities I have ever been involved with have been acutely aware of their responsibilities...but there is a wee bit of concern that they are making stakeholders too wide for charities.

She continued to highlight her view that wrongdoing in a charity would be more likely to feature on the front page of the newspapers than similar wrongdoing in a for-profit company, and she concluded:

Just because there are public interests [in charities] does not mean there is a public accountability.

When assessing how accountability is currently demonstrated through the SORP and OSCR, interviewee R4 said:

I think the SORP is designed to give enough information...for everyone to pick up that set of accounts and know exactly what the Trust is aiming to do, what it has done, what it hasn't done [and]...the powers [OSCR] has are just going to make [trustees] take accountability a little more seriously.

More aspirational accountability issues were referred to by interviewee R3 when he said:

The ideal world would be one where you did have performance indicators that were identified up-front...in terms of what your objectives were, how you were going to measure yourself and those were robust and capable of independent identification;

- and he maintained that the demands of SORP 2005 were designed to move charities' reporting in this direction.

The interviewees' descriptions of governance and accountability were in accord with previous work which explored these issues in the corporate domain (Bushman and Smith, 2001; 2003) although acknowledgement was made of the need to involve wider constituents (Parker, 2007; Speckbacher, 2008); discussions on governance highlighted operational matters and the mechanisms and processes in place to control and monitor charities' activities (Alexander and Weiner, 1998), while comments on accountability identified wide-ranging relationships with a variety of stakeholders. Although accounting for probity and legality and process accountability featured in interviewees' comments, there was also recognition of the higher rungs of Stewart's (1984) ladder, such as the need for the provision of information dealing with performance accountability.

Summary

This chapter reports the results of a series of semi-structured interviews with a sample of auditors, independent examiners and regulatory bodies in the Scottish charity sector. A number of conclusions emerge from this investigation. Due to the higher risks associated with the audit of charities, larger auditor groups have streamlined their client bases to concentrate their business dealings with those charities in the £500,000+ band of income which tend also to be incorporated. At the other end of the spectrum, one small auditing firm elected to work only with those charities that required an independent examination due to the lower audit threshold of charities compared to companies. The clients of the larger auditing practices are aware of the introduction of OSCR and SORP 2005. However, practitioners handling small charity accounts are less confident that these clients fully understand the recent changes to the sector.

Auditors and independent examiners did not advise their clients to adopt SORP 2005 early and, instead, encouraged the charities to work on the underlying systems that they were required to have in place, internally, to support the new recommended practice from 2006. Accounting/audit fees paid by charities were greater over such a period of change.

To ensure continued accreditation to undertake charity audit, large practices of accountants have systems of internal training for partners and employees dealing with charity clients designed to keep these individuals up to date with the changing regulation of charities.

Regulators, auditors and independent examiners are extremely supportive of recent changes to improve governance and accountability in Scottish charities that many feel are long overdue. Only the media correspondent interviewed is concerned that OSCR may not, in future, be the best use of public money. Despite their positive view of the changes, there is some recognition amongst accounting professionals that more education is required so that charity officials fully understand

what is being required of them. Some concern exists about a potentially disproportional burden of bureaucracy on small charities but interviewees concede that OSCR's requirements to date are well considered in this regard. Accounting professionals' opinion of the new regulator is very high although some interviewees question the feasibility of the tasks OSCR has set for itself.

The new, higher accounting threshold is broadly welcomed and little concern is apparent over small charities' receipts and payments accounts being examined by lay-people without professional accounting qualifications. Likewise, making charities' accounts available online is considered as a beneficial move that should bring to an end the current position where some charities' officials are ignorant of the fact that they are legally obliged to supply their accounts to any interested party. Generally, very few users of charity accounts are identified and it is felt that this is possibly due to the lack of skill amongst the public in interpreting accounting reports. A few, relatively minor, changes to the new regulations are suggested by a few of these interviewees to address one or two lingering concerns and to further improve the reporting environment. Other respondents acknowledge that, in future, more required changes may become apparent, although they do not elaborate on what these might be.

Regulators, auditors and examiners of charities in Scotland report that organisations' governance and accountability mechanisms vary. They recognise a particular difficulty in operating in a sector that separates the duties and responsibilities of trustees and managers. Large charities are typically structured with a trustee board responsible for setting a strategy that is put into operation by a management team. This structure is thought to be a sound model but it is not evident as often in small charities and there is some doubt that certain organisations' activities are satisfactorily governed in some instances. On balance, however, this group of interviewees hold the individuals volunteering as trustees of Scottish charities in high regard.

Overall, the development of OSCR has improved the accountability of the charity sector in Scotland and the position that the Office has adopted as regulator rather than champion of charitable organisations is thought to be appropriate. To date, interviewees have found OSCR's website useful and hope that the approach adopted by the regulator to date will continue. While most interviewees are happy that trustees are ultimately responsible for the running of a charitable organisation, this situation raises a question over the appropriateness of trustee remuneration and the related complication of the control of a sector that is so reliant on the goodwill of volunteers. These issues will be explored in the discussion in chapter eight.

7 CASE STUDIES OF FOUR SCOTTISH CHARITIES

Introduction

This chapter presents the findings from a series of cases studies undertaken in four Scottish charities. These case studies were initiated in order to consider the perceptions of charity governance and accountability from a wider set of perspectives than those considered in chapters five and six.

The chapter begins by outlining how the four case study charities and related stakeholders were identified and by detailing the method used for collecting stakeholder perceptions and analysing them. The findings from each case study are then presented in ascending order of charity income. Stakeholder perceptions are discussed, in the order of the stakeholder groupings identified in the literature: (i) the board of directors; (ii) the non-profit staff members; (iii) the clients who avail of non-profit services; (iv) the donors who provide charitable support; (v) the community that benefits indirectly from the services provided; and (vi) the regulatory bodies that oversee the charity's activities. Within each stakeholder discussion, their perceptions of relevant themes relating to governance, accountability and awareness of challenges facing the charity are presented. A final summary section concludes the chapter.

Sample selection and method

Four charities, from each of the income brackets outlined in chapter four: (i) less than £100,000; (ii) between £100,000 and £249,999; (iii) between £250,000 and £499,999; (iv) and over £500,000, were identified for an in depth analysis via case study. The selection was based

on evidence of good governance and accountability practice that became apparent during the interviews held with charity trustees and managers. For each case study, individuals representing different stakeholder groups from those listed above were sought through an introduction from the charity trustee or through business and personal networks. Due to the very diverse services offered by each charity the stakeholder groups show some variation. The charitable purposes of the charities written up as case study three and case study four did not permit researchers access to some of the stakeholder groups; this is explained within each case study below.

A series of interview guides were constructed on the basis of previous findings from the interviews with trustees and regulators (see chapters five and six), and used to semi-structure interviews with individual stakeholders. The interview guides were tailored to each stakeholder group, although related issues were explored during the interview process. Permission to record the interviews was sought from each stakeholder; the interview tapes were transcribed to allow a detailed analysis of individual stakeholder perceptions. These perceptions are presented in the following case studies and do not repeat the original trustee interview findings which were incorporated and presented in chapter five.

In addition to the interviews with key stakeholders, where possible, public and internal documents were also analysed. This documentation was used to substantiate and verify information where necessary and also provided additional insight into the governance and accountability mechanisms in place in some instances (Ryan *et al.*, 2003; Yin, 2003). In case study four a member of the research team was invited to attend the audit committee meeting; this allowed the researcher to gain additional insight into the subject-matter of this research. Due to the sensitive nature of some of the material discussed, the researcher did not tape proceedings. However, notes were taken and these were used to inform the case write-up.

Case study one

Charity context

This case presents the perceptions held by five stakeholders about the governance and accountability mechanisms operating in a small Scottish charity, identified as charity C3 in chapter five. At the time of the original trustee interview and case selection, this charity operated within the ‘less than £100,000’ income band. However, as the charity is growing in terms of income generation and the number of service users, by the year ending on 31 March 2007, the charity was operating in the ‘between £100,000 and £249,999’ income band.

The charity provides out of school care (OOSC) for primary school-aged children. According to the charity’s mission statement, contained within its business plan as at February 2006, the charity’s aim is communicated in terms of its own reported success:

Our success is built on our commitment to providing a top quality service, in a safe, caring environment for children whose parents require childcare, which is perceived by our customers to be excellent value for money.

This differs from its charitable purpose per the OSCR Charity Register website (see Table 5.1), which may have been an error when the OSCR annual return was being completed by a volunteer trustee.

The charity is inspected annually by the Care Commission and is governed by a voluntary committee of parents who meet monthly. A member of the committee also meets monthly with OOSC representatives from other regional clubs, who have joined together to form a voluntary Network group in order to share best practice and discuss operational issues. This group reports to the local government (council) and a local government OOSC support worker attends the Network meetings.

The Network group have recently formed a strategy sub-group which is populated by volunteer Network members and council representatives with the aim of devising a sustainable funding strategy for OOSCs in the region. The club is funded by an annual subscription from parents whose children use the club, fees paid to the club by the parents and local government to whom they apply for funds through the OOSC Network. The club has produced annually, an externally reviewed spreadsheet of income and expenditure that is distributed at its AGM; this information has not been in accordance with statutory requirements. Reflecting the club's move to the larger income bracket, the club is preparing fully accrued accounts and a trustees report, independently examined by a firm of professional accountants, for the year to 31 March 2007.

A description of each stakeholder, and how they relate to the stakeholder groupings as identified in the extant literature is presented in Table 7.1. This table shows that particular stakeholders of this charity may fall into more than one of the groupings. Thus, when contemplating the stakeholder perceptions presented in the following discussion, it should be borne in mind that these views may reflect the needs and involvement of the stakeholders in more than one stakeholder grouping. The following discussion presents the perceptions of the charity stakeholders in the order they appear in Table 7.1.

Table 7.1 Case study one - stakeholders

Stakeholder group as per the literature	Stakeholder description
Board of directors	Charity trustee – included in interview analysis in chapter five, charity C3.
Staff members	An employee who described herself as: ‘an employee in OOSC, part-time and I have been here for 5 years’.
User	A child who attends the club one or two afternoons a week.
Client/Donor	A parent who described himself as: ‘the father of...children who go to the OOSC’. The parent is a client as he pays fees to the club in payment for its services and also a donor in that he donates an annual registration fee, supports OOSC fundraising events and may engage in volunteer work for the club. The parent is also a service user of the OOSC childcare provision.
Community	A head teacher who described his relationship with the charity as: ‘the headmaster of the school [from which the charity leases premises] and I have essentially responsibility for what goes on in the school’.
Regulatory bodies	A OOSC support worker who describes her role thus: ‘I am employed I’m a support worker not only for the charity but for the staff within the club as well’. The support worker represents regulatory bodies in providing information on complying with Care Commission regulations. Arguably, she is also represents a funder (donor) in her capacity as the employed support worker of the local government which funds the club.

Notes: Table 7.1 reconciles the stakeholders as identified in the extant literature (Secretary of State for Wales, 1998; Keating and Frumkin, 2003) with the stakeholders associated with case study one.

Employee perceptions

At the start of the interview, when asked what she understood by the terms governance and accountability, the employee answered: 'I do not know if it is of much relevance to me'. However, as the interview progressed it became apparent that she was aware of governance structures and policies in place that were of direct relevance to her as an employee, although she may not have initially understood that they related to governance and accountability per se. For example, she reported that she could attend committee meetings, although she chose not to, and she obtained any information she needed from monthly staff meetings. A staff handbook had been given to her when she had started her employment with the club and she knew of the rules governing child protection; she felt that this was sufficient for her to operate effectively in the club and to provide a safe environment for the children.

In terms of her role in governance, she perceived herself to be at the bottom of a hierarchy that she considered worked quite well, stating that:

If we have something [to find out] we would ask the next person up, who would ask the next person up and you would always get some sort of answer... [this system] seems good.

In considering accountability, the employee thought that the club should be accountable to the local government funders and to the Network. She received information about training opportunities, new regulations affecting childcare and was able to access hard copies of committee and Network meeting minutes if she chose. She did not make use of the club accounts but would have liked to be able to access relevant club information online. She was not aware of the recent regulatory reforms affecting the Scottish charity sector such as the establishment of OSCR, the new Act, or the new accounting requirements.

In considering improvements to governance and accountability, the employee expressed a wish to receive performance indicator information pertaining to bookings at the club, external funding received and previous year comparisons. She knew that this information was prepared and she thought that distribution would enable staff to appreciate the club's importance, explaining:

I think it would boost people's morale a bit by being aware of what a big thing it was even across [the region].

Lack of access to this type of information meant that the employee thought that it was difficult for her to assess, and therefore contribute to overcoming, the challenges faced by the charity.

Child perceptions

From the perspective of the service user, in this case a child, the immediate operating environment of the club that she attended was important. The child said that there were a lot of rules and she recognised their importance, although she felt that they could be 'a bit less strict'. She thought that the rules were made by the supervisor and that if the children were allowed to make them then the rules would be 'crazy'.

With regard to any knowledge of communicating and reporting that operated within the charity to ensure good governance and discharge accountability, the child had noticed that the club supervisor prepared for 'a lady who comes in sometimes'; this lady's visit also meant that the children were instructed to behave, meaning:

...not mucking around and that sort of thing, like the boys might play with the dolls and twist their heads around!

However, the child was not aware of why the lady visited the club nor the information supplied to her. On one occasion, the children attending the club had been consulted about the content of healthy food at the club, however, the child was not aware of any feedback or evidence that their suggestions had been incorporated into the provision of snacks at the club. The child did not receive any club information directly and when asked if there was information that she would like, she answered 'no'. When asked about where she thought the club resources came from, the child identified supermarket loyalty vouchers, staff donating their old toys and parents paying fees as sources of money and equipment.

The child did not support the claim in the OOSC Business Plan that:

We provide a child led play environment where the children are consulted on various areas that affect them directly;

and she was not aware of the existence of a suggestion box which interviews with the club trustees had highlighted. She thought that a system similar to that operating in the school, where pupils are asked to put forward ideas, would mean children 'might enjoy themselves more'. When asked how these suggestions get put into action in the school, the child responded:

We talk about them and then [the teacher] at the meeting talks to the headmaster about it and [he] says if we can get that sorted.

Parent perceptions

The parent described his general understanding of governance and accountability as:

Governance is the actual control over the organisation and accountability is some way of feeding back what is going on to the stakeholders.

However, when considering these ideas in terms of the club, he pointed to a lack of transparency in the governance practices and communication with the parents. He was aware that the club had a parent-volunteer committee and an AGM, but stated that:

...we have not been given anything like a structural diagram of how [the club] is set up and there is nothing that is obvious to indicate who is actually in charge, other than the day to day interaction where there is a [supervisor] who is obviously setting up rotas and so on, but what is beyond that person is absolutely opaque.

The parent thought that the club should be accountable to the parents, although he recognised that the club probably saw its customers as funding related; he said:

No they are not customer focused at all...there isn't an ethos or atmosphere of wanting to listen to the [parent or child] customer. I don't know who they see the customer as maybe the council or something like that or people that give them funds beyond the fees that they get.

He was aware of a tension between wanting to make suggestions or complaints and demanding too much of volunteer parents, and stated:

It is not just worrying about having to complain to people that have to deal with your kids...it is also feeling that if you make a complaint, well the response will be 'well why don't you volunteer and do it'... I would probably say the same thing if I were in their shoes.

Apart from encouraging AGM attendance, the parent did not think that the club made any particular effort to discharge accountability to parents. The parent could receive information about the club's operations from a notice board displaying policies, club rules, staff training certificates, and children's artwork. The parent expressed dissatisfaction with this mechanism of communication when he said that:

First you have got to find the notice board...and then there is just a plethora of notices. What are you supposed to do? Look at them all, read them all and watch out for new ones. It is kind of impossible.

The parent did not use the club's accounting information and when asked who he thought might use this information, he thought 'nobody'. Although the parent was aware of the establishment of OSCR, and saw it as a welcome regulator to charity accountability, he expressed concerns about over-bureaucratising small charities. He thought that accounting information produced by the club, and charities more generally, would be more useful if it employed a 'simple traffic light stamp' similar to that used in food labelling, showing for example, the proportion of money actually spent on various charitable purposes. Such information would allow him, a parent, to assess the use the charity made of its money and whether it was worthy of charitable status, and, therefore, his donation.

The parent remarked that the club's governance and accountability could be improved by providing an 'induction pack' of information to

parents when they registered their children, ideally online, outlining the governance structure, contact details, key personnel, complaints procedure, staff qualifications and web links.

The main challenge facing the charity, from the parent's perspective, was that of balancing operational growth with its fundamental importance to working parents and demanding too much of a volunteer committee. The parent recognised the vulnerability of the OOSC, noting that:

It is not something that is set up as a statutory provision... school clubs can fold and some schools are without them and parents have nothing.

Head-teacher perceptions

From the head-teacher's perspective, the club was an outside body that used rooms in the school; the club needed to be aware of the school rules governing room use. He knew that the Care Commission inspected the club annually and laid down rules that the club had to follow. He was also aware that the club had regular 'small group/working party' meetings and an AGM. However, he was not sure of the purpose of these meetings or who attended them and offered an alternative perspective on who should comprise club committee membership, saying:

There has to be a balance of parents and non-parents... so it is not all one group with a vested interest.

The head-teacher met with club staff formally once a term, and informally on a regular basis, usually to discuss the movement of children from the classroom to the OOSC; in this context he stated:

There is always that kind of dialogue going on – how to improve our practice, how to improve their practice and how we can do things better.

The head-teacher identified the Care Commission for child care regulation, and the Education Authority for funding, as the two groups to whom he thought the club should be accountable. When asked whether there was an accountability relationship between himself and the OOSC, the head-teacher replied 'no, essentially no', other than his responsibility to inform the club about issues relating to the fabric of the building. He did not get, and did not want, information from the club, but he knew that he could ask for information for a specific purpose if required. As for accounting information produced by the club, he thought that it might be used by parents but he pointed out:

Looking at accounts might be the last thing most parents would be interested in doing. If the club is doing its job, I suspect that is what the parents are interested in. If you have a disgruntled parent...or employee then you might have them looking at it with a view to using it for another motive, but I can't think of anybody else.

Through his involvement in other school-related charities, the head-teacher knew of OSCR. He thought that any plan to make the charity accounts and governing documents available online would be beneficial, but the paperwork required to comply with OSCR bureaucracy was a huge dis-benefit; he declared that, in his capacity as head-teacher:

We are being closely monitored all the time...If OSCR had a human face here explaining why...[then] my view might change.

When asked about potential improvements to the information supplied by the charity, the head-teacher considered that parents would like to see accounting information that was simple, relevant and easy to understand; he specified that it would be useful to see:

...how the money is spent on the children directly. So, if you take out...the running costs...then the amount of money that is left and how it is used for example, trips, equipment...how the money impacts directly on the kids.

With regard to challenges facing the charity, the head-teacher identified a growing tension between education and the increasing importance of out-of-school-care provision for working parents:

Quite a few parents would not be able to have the job that they have because of childcare if the OOSC was not there...[The club] can take more [children] if it had the space...but it cannot get more space because we do not have the space to give it because we have to keep reminding them primarily this is a school and we have to make sure that the kiddies can access all the benefits...and not be disadvantaged by the fact that there is an OOSC here.

Support worker perceptions

The support worker's understanding of governance and accountability encapsulated her wider knowledge of, and involvement in, the hierarchy of committees and groups within which the club was operating. She referred to the importance to the club of the regional Network of OOSCs saying 'the Network...concentrates on...sharing the best practice'. She highlighted the need for policies and practices to be developed at the Network level and that:

We have got the information [about operating policies and procedures], and there is no point in...all [the clubs] reinventing it.

The support worker also identified the Network as a vehicle for her to report to its member clubs on regulatory changes concerning childcare and local government funding that would affect club operations. She perceived the club to be an exemplar of good governance practice and disclosed that she planned to disseminate a DVD of the club's policies and procedures to other regional clubs to show 'how [their] club should be operating'.

In addition to sharing best practice for operational activities, the support worker highlighted the need for OOSC to be more strategic; as evidence of this need, she cited the recent establishment of the strategy working group:

The clubs are all growing. There is more expected of the clubs... so the strategic working group for out-of-school-care will take into consideration the business plan that they'll need for the forthcoming years as well as look at the main priorities and objectives within out-of-school-care and within any policy and guidelines that are coming in from the Scottish Executive.

When asked to whom the club was accountable, the support worker identified several stakeholder groups as follows:

The main one obviously is...the Care Commission...that is who they are regulated by. Obviously OSCR...I suppose the other person now is the [local government]... for the money that [the club] is receiving. I think also to our members. Every parent is a member. They are a body that [the club] has to be accountable to as well.

Accountability was seen by the support worker as discharged to the Care Commission through its annual inspection of the club, but recent changes to the accountability relationship with local government were highlighted by the support worker:

[Local government funding has]...*always been seen as the pot of money that lots of people dip into...the [local government] officer who's now been in post for over a year has really kind of reeled that in and said 'no, if we are giving money somewhere we want to know – who, why, what, how'. It is not just the case of – here is a cheque, go away and do what you want to do with it. You now have to come back and there are proper reporting procedures, whereas that wasn't really in place before.*

With regard to OSCR, the support worker did not 'have a clear picture from OSCR of what they want'. She was aware that OSCR had advised the club to prepare fully accrued accounts and a trustees' report and that this advice had been issued after OSCR had received the club's annual return. However, she did not know why this additional information was now required and thought that the only users of the clubs accounts were:

...themselves [the club] and me...we take a look at how we are sitting and obviously how we're going to look to give staff a pay rise each year...and we have to set our fees accordingly.

She agreed with the Charity Commission in England and Wales' action to make charity documents available online because: 'if you are a charity then you have to be accountable'. As a support worker, she regularly asked for operational and sustainability information from the club, such as:

...audited accounts...financial forecast...of where they see their funding being used...average attendance...[staff] training...the list is endless.... I've just sent out a business health check...how do you currently see yourself...do you think that you're viable...getting more information about...current staff...what do the kids think of everything that is in the club. The remit is huge.

When asked about her perception of the club's current performance measurements, the support worker responded 'I think...that is really done by the Care Commission' and because of changes to personnel who perform the annual inspection, she believed that the performance measures reported back to her and the club were sometimes 'quite inconsistent'. With the exception of the establishment of OSCR, the support worker was not aware of other regulatory reforms affecting the charity sector.

The support worker stated that the club responded to challenges and made improvements where it had the means to do so; for example, she cited contributing to the strategic working group, updating operating policies and training staff with a view to improving staff retention and recruitment. However, some challenges were difficult to address at club level; for example, voluntary parent members running the OOSC did not have the requisite skills or time to manage such charities effectively and efficiently:

Any other kind of care or education provision is not through a voluntary set up where you're talking about parents who are working who aren't business leaders, and have to do all the things like...business plans and everything. It's no wonder people put their head in the sand...[and] walk away from it.

According to the support worker, one of the main challenges facing out-of-school-care provision resulted from the tension between the Scottish Executive requiring local authorities 'to provide accessible, affordable child care' and the Executive's failure to acknowledge and protect out-of-school-care as 'a service with ring-fenced money'. As a result of this failure, OOSCs were locally set up and managed by volunteer committees that had to comply with national regulatory requirements and also had to generate their own funds to sustain themselves. This lack of direction and lack of ring-fenced funding from the Executive meant that out-of-school-care provision did not receive full support from local government:

...[a local] council won't look to take over out-of-school-care because although they see the benefits in what the clubs have, there is no benefit financially for them to take out-of-school-care under their hat and if they did do that then it is almost definite that they would then have to absorb all the clubs that are not sustainable...so I do not even know if the council [or] half the councillors know we exist.

Case study one - summary

In summary, the parent and child service users and the club employee had less understanding of the charity's governance procedures, and performance, than they would have liked. In addition, the service users highlighted a lack of communication with them about the charity. However, in contrast, the local council employee who worked closely with the charity, and other out of school care clubs, confirmed that in her view, the charity's governance practices were exemplary. Several interviewees confirmed the difficulties experienced in expecting a key social service, such as out of school care, to rely on volunteers without ring-fenced statutory funding.

Case study two

Charity context

The second case study explores stakeholder perceptions of governance and accountability in a charitable company, identified as 'C6' in chapter five, which falls into the income bracket of between £100,000 and £249,999 per annum; this income is derived from various funding bodies. The charity, set up in 2002, provides adult training opportunities and organises inclusion projects for members of the public who have suffered from disadvantages. It is governed by a board of directors that employs company secretarial services from a local legal firm; the board meets quarterly. The charity employs a chief executive who reports to the board at the quarterly meetings and briefs charity managers and staff on charity developments. The charity employs an accountant and prepares a set of professionally audited accounts that are included in its annual report.

The individuals that took part in this case study are described in Table 7.2. As can be seen in the table, the discussion that took place with the chief executive already forms part of the perceptions presented in chapter five and is not repeated here in any detail. The perception of governance and accountability that exists in the charity from the point of view of the other participants are presented in the order they appear in Table 7.2.

Table 7.2 Case study two - stakeholders

Stakeholder group as per the literature	Stakeholder description
Board of directors	A charity trustee, who had been the chair of the charity's board for over two years and described her involvement as 'part-time'.
Staff members	A staff member who described her position in the charity as 'operations manager'. The chief executive of this charity was also interviewed and her views are analysed, and identified, as charity C6 in chapter five.
Clients	A non-profit sector employee who attended a course run by the charity.
Donors	A volunteer offering educational development to the charity service users.
Community	A voluntary sector manager who refers her service users to attend short courses that '[Charity name] are providing in the community'.
Regulatory bodies	The regulators for this case study were identified as the auditor and OSCR and as such, these perceptions are included in interview analysis presented in chapter six.

Notes: Table 7.2 reconciles the stakeholders as identified in the extant literature (Secretary of State for Wales, 1998; Keating and Frumkin, 2003) with the stakeholders associated with case study two.

Charity trustee perceptions

The trustee had served as chair to the charity's board for over two years and had regular contact with the chief executive between the scheduled quarterly meetings of the board. Her understanding of the concept of governance was as 'managing and seeing what goes on'. The governance within this charity involved the chief executive being given a remit at the beginning of each year but this remit was often altered with changes to funding opportunities that arose throughout the year. The board relied on the chief executive to keep it up to date and inform

it of any changes affecting the charity; this communication took place at the board meetings. Given the part-time nature of her involvement, the trustee reported that she, and the board members, took guidance from the chief executive on devising a feasible strategy for the charity. The trustee recognised that the chief executive had 'a lot of free rein' but she acknowledged that this was due to the perceived integrity of that individual. She felt that if the holder of this position changed:

...a lot more governance may be introduced until we were confident of their capabilities.

When asked about accountability, the trustee recognised that the board was accountable for the charity and was comfortable that the people who sat on the board had the right skills to undertake their duties. The trustee acknowledged that the board was, overall, responsible for anything that might go drastically wrong; but she was confident that 'early warning systems' were in place to prevent such an eventuality.

The trustee welcomed the establishment of OSCR:

I would rather there was a governing body where if you are passed by OSCR then people have more confidence in the street.

She was happy with any intention to make the charity's documentation available online; and she suggested that this development may make funding decisions easier for smaller funders who might not have been in the practice of requesting charity accounts. Rotary Clubs, she suggested, were a group of funders who may especially benefit from such a development. The availability of receipts and expenditure information might 'make people a bit more conscious of what they're spending money on' but she could not think of any party other than funders who might be interested in accessing such information. OSCR

was good at updating the charity on developments to its requirements and she had attended roadshows that had been organised by the regulator.

According to the trustee, funding was the main challenge that the charity faced. She commented that securing certain funding could result in changes to the charity's activities. She explained:

If you can get funding for something then that maybe pushed in a direction you maybe wouldn't have thought of before or would maybe make you change the way you work because of the particular funding you received.

Despite this tension between funding and charity direction, the charity had experienced success in receiving funds from a variety of sources which had allowed it to do different things. She also commented that the charity had 'an excellent reputation in the community'.

Employee perceptions

The staff member described her position in the charity as the 'operations manager'. She worked under the direction of the chief executive and oversaw day-to-day operational activities through developing, monitoring and evaluating charity projects. She was also involved in building up partnerships and exploring 'very wide ranging' collaborative opportunities with other organisations. She reported directly to the chief executive with whom she had formal management meetings, although they talked informally on a daily basis. She and the chief executive shared information and the employee expressed the trust she held in this individual.

The employee viewed governance as complying with the requirements of 'regulatory bodies' and identified OSCR as the charity's regulator. There was a general awareness of governance and accountability in the organisation although the descriptive terminology used within the

charity would be different, for example 'evidence-gathering' or 'data collection' as opposed to 'accountability'. The charity was 'very open and transparent in everything we do' and she explained that there were 'many, many' policies and guidelines in place that were a particular strength in managing the organisation.

According to the employee, the charity was accountable to its funders and its clients and she explained 'otherwise we wouldn't be here'; she described accountability as:

...seeing that people know we do what we say we do...and to do as it said on the tin.

In the organisation, accountability requirements were fulfilled through procedures for collecting, monitoring and evaluating information as evidence of the charity's activities. The development of a database was now able to generate a wide variety of information to satisfy the requirements of its 'cocktail of funders'. The database had been seen as a huge success by this charity; knowledge of this system had been passed on to other organisations by word of mouth, as the staff member explained:

We have been held up as a model of best practice, we've had other organisations come in and look at our system.

The charity had also formed a sub-group from its team members to develop a 'soft-skills framework'. Many outcomes were difficult to measure and a framework to monitor progress with 'something tangible' was necessary. There was also an accountability relationship within the team, and the view that staff, volunteers and partners of the charity were accountable to one another. She was aware of OSCR and although she did not know what it did, she did know that her organisation had to comply with the regulator's requirements.

Information was shared widely throughout the team:

The more information you give people the more likely you are to achieve what you set out to achieve.

In terms of information received, she spoke of an induction pack compiled for every new member of the organisation by the chief executive who she said was ‘very good at making sure everybody knows what they’re doing’; she had not experienced any shortage of the information she required to do her job.

When asked about who uses the charity’s annual report, the staff member replied they were sent to ‘everybody, it goes along with what we do’ although she also mentioned that funders requested them. She felt the most successful way to secure funding, however, was to invite a potential funder to visit the charity’s centre:

I can talk until I’m blue in the face about what we do. It’s all very well talking or seeing it on paper but when you actually come into the projects you get the feel for it, you feel the atmosphere, it’s just so different and they go away with a completely different perspective from what it said on the bit of paper.

When asked what particular strengths she felt the charity displayed, the staff member mentioned its ability to adapt, to play to the strengths of its team and its ability to address the needs of a very diverse client group. She felt its weak areas included its small size and the pressure this placed on the few staff members. In terms of the challenges facing the charity, she felt the volatility of funding in the voluntary sector often led to problems with recruitment and retention of staff. Stable funding therefore was a challenge this charity faced and they sought to address this problem by developing new income-generating projects.

Client perceptions

This client had used the case study charity's services when he took part in a project that he was made aware of by some of the charity's employees. He had not sought any further information about the charity before becoming involved but he had been aware of some of its earlier activities, that it had a good reputation in the community, and that the charity's services were 'very, very helpful'. His understanding of the term governance was as 'a structure that is in place to allow decisions to be made and to take action'; he was aware that it was linked to accountability:

I guess they have a board of directors but I have very little knowledge of their structure.

He did not play any explicit role in the governance of the charity and had never read any of the reports that it produced, but he had no concerns over the way the organisation was managed and run and felt that he would become aware if this was not the case:

I think if something was amiss you'd get a feel for it but I haven't been given that impression.

Further, he believed that the charity's accountability should be to its funders and its community.

The interviewee was aware of OSCAR and SORP 2005 although this knowledge had come through his involvement with another charitable organisation. He was happy with any plans to make charities' documentation available online and stated that the recent developments 'seemed like a proper step'.

Volunteer perceptions

The volunteer provided adult literacy training to charity service users and became involved in her role about one year ago. This particular organisation appealed to her as it dealt with ‘lots of different types of people’; she volunteered one morning of her time each week to the organisation.

The volunteer’s understanding of the terms ‘governance and accountability’ was vague, although she was aware that there was a structure in place:

They all seem to have very definite roles. They work well together but as to what their roles are, I don't care.

She was also conscious that the charity operated in partnership with other organisations. This volunteer had ‘absolutely no idea’ of the way the charity was managed but knew the identity of the chief executive whom she had met and recognised as the ‘big cheese’. Although she did not feel that she had a formal role in the governance of the charity she respected that she maintained a position of trust and had a role to play in helping the organisation to achieve its stated aims. She imagined that the charity was providing the services that they existed to provide and, in so doing, were reaching out to the community and getting ‘a feel of what that community specifically needs’.

The volunteer thought that the charity should be accountable to its partnership organisations, local community, funders and clients. She explained:

I don't know whether it is ideal but they're always going to have to be accountable to whoever is funding them, that makes sense, but I think the people that they help; they have the biggest accountability to them or it's pointless.

The charity discharged its accountability through demonstrating that it was achieving its aims by its success in 'getting people through the door'; she expanded:

I suppose there is paperwork that goes alongside that. I suppose that is the way they do it to show whoever they are working alongside.

However, with regard to her knowledge of who funded the activities of the charity, she claimed:

To be honest I am not really aware of how they are funded, I know they are a voluntary organisation but I have no idea how. I don't know if they get Scottish Executive money or if they have lottery grants. I have no idea where they get all their money from.

The volunteer knew that information relating to the charity was available to her but she had never taken the opportunity to seek it out. She was not aware of the annual report that the charity was obliged to produce and had 'no idea' of who might receive or be interested in the information it contained. She had not heard of OSCR but when its aims were explained to her she felt that it was 'a good thing'. She qualified this opinion by saying:

If you are a charity you really do have a purpose to serve the people you have been set up for and I think sometimes they [charities] lose their way, either intentionally or unintentionally, and maybe people forget why they were set up in the first place...I think making these things a bit more formal is a good thing if it keeps you with the mission.

The accessibility of charity accounts on-line would be a positive step forward for the sector. She mused whether public access to accounting information would encourage more corporate funding as the sources of business donations became more visible.

Overall the volunteer made it clear that her motivation to continue to give her time to this charity came from her personal experience of the centre, how it operated and the other people involved in the service delivery; she had little direct interest in the formal details of its structure and reporting obligations.

Community representative perceptions

An individual, who worked in a charity that operated separately from the case study charity, was interviewed to gain some insight into the perceptions held of the case study charity by its wider community. Her relationship with the case study charity existed 'in many forms' due to the different work undertaken by her own charity and the remit its workers had. Quite often her own charity's clients' needs were able to be addressed through using the services offered by the case study charity; her charity's staff had also attended training courses hosted by the case study charity.

She understood governance and accountability as 'something directors do to ensure the project is taking the road it should be'. In respect of her knowledge of the charity's governance structure and management, she mentioned the chief executive by name and was aware of the location of the charity's head office. She also thought that her organisation could potentially have an indirect impact on the governance of the case study charity if she, or others, found it was not delivering what it claimed to. Her view was that the charity should be accountable: 'first of all to service users'; and to funders, to explain how their money had been used; to local government; and finally, to the local community, for the particular statuses that it enjoyed. The case study

charity discharged its accountability in various ways: in the different types of work it undertook; through its flexibility and willingness to adapt, through its open approach; via its recognition of its clients' achievements; and by means of its friendly, easily-accessed building.

She was aware of OSCR through her own activities as a charity staff member and her appointment on another charity's board. She welcomed the changes implemented by the regulator, felt that more scrutiny of charities was 'the way it should be' and that the changes in the sector had helped to professionalise the voluntary sector and change peoples' opinions of it:

There is a bit of a myth, culture, that people in charities are wee wives with blue rinses that make cups of tea.

Placing charities documentation on-line would be a good move; she received and used the case study charity's accounts for new ideas and 'to know where its funds are coming from' as the formal reports from the case study charity often detailed new courses being offered and programmes that were running. She also received e-mails from the operations manager and had no suggestions for improvements to the case study's reporting practices as she had an 'open relationship' with it.

Case study two - summary

In summary, the charity's stakeholders identified a broad range of accountability relationships that the charity successfully sustained. The establishment of OSCR was wholeheartedly welcomed, as were any proposals to make available on-line a range of governance, performance and accounting information.

Case study three

Charity context

The third case study reported in this chapter was conducted in a charity that has a head office situated in a central Scottish city and provides free counselling services to clients throughout Scotland. The initial insight into this charity's governance and accountability procedures was gained during an interview with its former finance director who now serves as a trustee to the charity. His responses to the trustees' questionnaire are included in chapter five where he is referred to as C11. During this interview it became evident that this individual had a very good grasp of the issues surrounding the governance and accountability of charities and the interviewers were struck by the lengths recently undertaken by this charity to improve previously existing organisational and board structures to better demonstrate these duties of stewardship. It was evident from the discussion with the trustee that the changes to the governance structure within the charity had been the result of the internal realisation that its systems had become outdated rather than the result of changing requirements in the external reporting environment.

The charity was established by devolution from a UK-wide organisation in 2001 when it became a Scottish charitable company, limited by guarantee, in its own right. The current head office oversees the services that are carried out at various branches throughout Scotland

and at the time case study data was being gathered, the charity was in the midst of restructuring its operations throughout the country. The income of the organisation, as a whole, falls into OSCR's third income category as operating with charitable income of between £250,000 and £499,999 per annum. This income is generated from individual donations, regional trusts, local government and the Scottish Executive. The charity produces an annual report and accounts.

The interviewees that took part in the case study are shown in Table 7.3. Due to the sensitive nature of the work of this charity, and with due regard the charity's obligation to its clients' confidentiality, it was not appropriate for the researchers to speak with a service user and this therefore remains a limitation of this particular case study. Nevertheless, the contributions of those stakeholders that did participate in the case study allow an interpretation of the understanding and importance of the concepts of governance and accountability of various individuals involved in the organisation as well as to members of the wider community. Table 7.3 identifies the relationships that each stakeholder has with the charity; these stakeholder's perceptions are presented separately following the order in which they appear in the table.

Table 7.3 Case study three - stakeholders

Stakeholder group as per the literature	Stakeholder description
Board of directors	Charity trustee – included in interview analysis in chapter five, charity C11.
Staff members	Two stakeholders fell into this grouping: the chief executive, who was employed full time at the charity's head office and an administrator who was a part-time employee in a local branch and described her relationship thus: 'I am the admin assistant...I provide admin support to the co-ordinator, the management committee and the volunteers in the [branch name]'
Clients	It was not possible to access a service user – see charity context for explanation.
Donors	Two stakeholders fell into this grouping. The funder described her relationship with this charity as: 'the remit that I have is around parenting support... the bulk of the grants they [the charity] receive from us goes towards working with children'. A donor of services was also interviewed describing his relationship with the charity as 'I came in as a counsellor, seven or eight years ago'.
Community	A General Practitioner described his relationship as: 'I am a GP and often refer patients to [Charity name]'.
Regulatory bodies	The regulators for this case study were identified as the auditor and OSCR and as such, these perceptions are included in interview analysis presented in chapter six.

Notes: Table 7.3 reconciles the stakeholders as identified in the extant literature (Secretary of State for Wales, 1998; Keating and Frumkin, 2003) with the stakeholders associated with case study three.

Chief executive perceptions

Rather than revisiting the issues explored with interviewee C11 and reported in chapter five, the discussion held with the chief executive concentrated upon the recent improvements made to the governance and

accountability arrangements of this charity. This interview explored some of the challenges that currently face the charity and the chief executive's perceptions of the role of governance in facing these challenges.

The chief executive explained that when the charity became independent in 2001 there was a strong feeling that the organisation should move in a defined direction to avoid a 'mission drift' situation where aims were constantly altered to meet funders' criteria. When he took up his post in 2002 the view was that the Scottish operations:

...had drifted a little through no fault of their own...and the feeling was the organisation needed shaken up a bit.

His initial meetings at country-wide branches revealed a variation in practice within the organisation that he found 'astonishing'. Following this fact-finding mission, an 'away-day' was arranged for the board when one member addressed the other trustees on issues of governance in the voluntary sector. The chief executive explained why this was important:

Governance in my view is the weak link in the voluntary sector, not just in [Charity name] but across the board. So many people take on roles of governance out of goodwill, commitment to the cause all sorts of benign and important reasons but they don't necessarily have the skills of governance and they don't always understand that actually the role of governance, particularly at the national level, is a great deal more significant than they thought.

His next step was to address the board membership. Following the guidelines issued by a major national funder, a skills inventory conducted on the existing board members highlighted certain gaps in the individuals' combined skills set. These gaps were then filled with

the recruitment of new board members that demonstrated the necessary expertise in these particular areas. A strategic review followed that forced the organisation to look at where it was and to consider where it wanted to be. This process took two years and resulted in a vision document that outlined the organisation's objectives; it also detailed the activities and behaviour required to attain these goals. Each of the objectives formed part of the portfolio of a particular board member who had the necessary skill and experience to oversee the activity required to be undertaken to enable the charity's stated vision to be realised.

One of the initial operational effects of the strategic review was a revision of the statistical data collecting process within the organisation. This had resulted in an improvement in the consistency with which statistics were reported by branches. Monthly returns from volunteers had replaced the practice of annual figures being returned to head office by branches. The chief executive reported plans for this information to be fed straight into a national server that would continually aggregate all the received data so that it was possible to see how operations were developing on a day-to-day rather than a year-end basis. He also discussed the introduction of a new service model that had been developed to equip the charity with 'a benchmark for measuring progress'. The chief executive was pleased with the way that these changes had been received within the organisation:

I was really heartened by the changing attitude that we were picking up in feedback and comments about the need for accurate statistics data because I am always banging on about needing it for funders.

The chief executive thought that securing and sustaining funding was the greatest challenge that the organisation faced. As well as the insecurity that faces the charity's employees, arising from the need to reapply for core funding every three years, the sustainability of the

entire organisation was threatened by anticipated changes to its external operating environment. These changes related to the increased training and supervision requirements of its volunteers and were expected to lead to a significant increase in costs. This had led the chief executive to question the feasibility of continuing to operate as a free service to clients. He explained:

[Charity name] has had a very, very strong commitment to everything being done free at the point of service. I have a question mark over how long we can do that, the services themselves are not paid for, in other words, it is all done by volunteers...we have encouraged local services to try and raise money to buy supervision in, now again there was quite a lot of resistance to that in the outset but it's beginning to become part of the landscape and what we are hearing is a number of funders are quite willing to fund or give branches money to buy supervision as they see that as a form of quality assurance. In a way it is.

The funding application process was also a source of frustration for him as funders' priorities varied so widely and there was a lack of trust displayed towards voluntary organisations:

It is a bit like the tail wagging the dog with the tail being the funders and the dog being us and trying to deliver services and to some extent you could very rapidly end up torn in half a dozen different directions because each funder has their priorities, not just the statutory ones...I do sometimes think that funders could afford to trust those who are actually doing the work who know a little bit more of what is needed on the ground.

He also expanded that the relationship that the voluntary sector maintained with the government could be improved:

I think the government is very clear that it sees the voluntary sector as a partner and the cynical part of me says it is using us as a cheap workforce really and I think it would be great if they put their money a bit more where their mouth was.

Employee perceptions

The employee of this case study charity was employed on a very part-time basis. Her specific duties included the collection of statistical information from volunteers and processing clients' files and she considered that the term governance included:

...the way things are managed and looked after by the people who make decisions.

The employee found the charity's governance structure could be 'quite confusing'. This stemmed from the fact that, while she was technically employed by the board of directors based at the charity's head office, her work was directed by the management committee of her own branch; she reported that this committee met around every six weeks. The employee was aware of the existence of governance guidelines and policies and mentioned that they were being reviewed which led to some uncertainty:

I know there are structures in place but I don't always have immediate access to what they are and I don't know which ones are in date and out of date.

However, although she would have felt more reassured to have had this information at hand, she reckoned that she would probably be able to access any information that she 'desperately needed'.

She viewed accountability as the detail of who bore the responsibility for particular parts of a large organisation:

Accountability is knowing who is responsible for which particular area of governance and that person taking responsibility and knowing they are accountable and making the decision they need to make at the time.

Further, she declared that such accountability worked 'hand-in-hand' with the work undertaken by the charity where there were 'very few bureaucrats'. She described a natural line of accountability relationships that operated:

...even down to the local level our helpline is accountable to the callers, volunteers are responsible to their clients, I'm accountable to our volunteers to make sure they have the administrative support they need... You have to be aware of all the boundaries and what you're accountable for and how you can support each other if you need to.

At an organisational level the charity should be accountable to its clients and its funders:

I think it is the same for most of the voluntary sector. Your service users and your funders are the two people you have to keep in line and you may want to hope that your funders have the same sort of ideas as your service users...it is important to identify funders in sync with what you are trying to do.

Each of the charity's branch offices was financially independent of the head office and, although some money cascaded down to them from the centre, each unit was required to organise its own funding leading to a situation of 'disclarity' between the branches. The charity's long term restructuring plans aimed to improve on this isolation with individuals working more closely together to make the funding application process more efficient and effective; the practical details of the restructuring process were being worked out by a steering group that included staff representation. Overall, she welcomed the changes that were taking place within the organisation:

I think a lot of the regional changes and management changes are to try and make things easier and to try and ensure that as much as possible we have consistent levels of service across much of Scotland... maybe it is about closing the gaps a wee bit.

In particular, she felt the changes would make the charity's service easier to manage and would help to attract the volunteers that were vital to the achievement of its stated aims.

Funder perceptions

The funder that was interviewed as part of this third case study managed a fund available for the head office operations of a wide range of national voluntary sector organisations across Scotland. At the time the case study was conducted the Scottish fund had made money available, for a time period of three years, to around 30 charities of various sizes. The governance of each organisation was an important consideration of this funder to:

...ensure that, because this is public money, that there is value for money and that the organisations are doing what they tell us they are going to do.

In their grant application to this funder, the case study charity had supplied details of its governance structure which the funder was satisfied worked well; she felt that she knew what she could expect from it. She was aware of the recent changes to the governance structures of the charity and that this had come from a realisation from within the charity that it was not getting the best out of the organisation. Although she had been involved in 'a very detailed meeting' with the chief executive during the charity's review process she played no part in making any recommendations for revisions to its board structure or operations. She had witnessed similar activity, although not to the same extent, in another charity that she was familiar with where there had also been a realisation that operations being carried out in Scotland did not fit with the profile of the charity in its UK context. The funder was aware of OSCR and, although she had not had any dealings with them, thought that its establishment might encourage the Scottish arms of larger charities to become more independent from their parent bodies.

When asked to whom she felt the case study charity should be accountable she replied: 'to any organisation that gives the charity funding' although she acknowledged that the completion of several monitoring forms posed a burden for many charities. She also considered that the case study charity owed:

...an element of accountability towards their workers, their volunteers and to the people who use the service.

She suggested, however, that the users of the case study organisation accounts were:

...not really interested in who is paying for this and how that money is being managed; they are looking for a particular service.

The funder pointed out that organisations receiving money from her organisation are required to accept established terms and conditions relating to funds granted to them, so that the recipient charity discharges its accountability for the correct use of the resource. In their application to the funder charities are required to detail their objectives and the targets that they have set for the coming year. The funder usually meets face to face with all charity officials once a year and asks for a report every six months that provides a summary of their performance to date with a plan for the next six months. In addition, to have an overview of how their work is progressing she requires the charities' accounts and annual reports, which are required to be audited regardless of their level of income. When asked if the annual report and accounts contained information that was of value in her assessment of a charity's performance, she indicated that she only looked at the figures reported in the audited accounts. She obtained the other information that she required from the specific monitoring form that charities receiving money from her fund were required to complete; these monitoring forms could be improved because recipient charities interpreted information requirements differently.

The funder had a good relationship with all of the organisations which she was involved in funding and the case study charity was no exception. By maintaining an ongoing dialogue with charity officials, her organisation was 'able to deal with problems before they become a major problem'. She was open in her praise of those involved in the voluntary sector:

I'm always amazed at the amount of work and effort that people in the voluntary sector put in. When you look at what the salaries are, no matter what time of the day or whatever when you phone them

they are always there or you email them whatever time of night and you know that they are out there... and they are committed and they are very passionate.

Volunteer perceptions

The volunteer who was interviewed for this case study had been involved with the organisation for a period of seven years. Although the actual time he spent on the charity's affairs had reduced recently due to a change in his role, he had probably given 500 hours of his time to the organisation over a five-year period and had financed his own training. The volunteer was aware of the governance structure within the charity but this was due to his involvement with a sub-group formed as part of the ongoing review process being undertaken. He was not sure that his peers would necessarily know much about the governance structure:

I don't know how much 'Joe Volunteer' would know [about the governance structure] because I'm on this group or I will go to head office for the training day which incorporates the AGM which fulfils all this... At the end of the day folk are just here to volunteer.

He considered that the charity should be accountable to its clients and that mechanisms had been 'built-in' to the organisation to ensure that this was discharged. As far as external reporting was concerned he described the process of completing monitoring forms regarding volunteer input and submitting them to head office. He was aware that this information was incorporated into the annual reports and funding applications and that the reports were distributed at the AGM, which he attended. To encourage volunteers to attend the AGM, he explained that the AGM was combined with an in-service day, but the information presented on finances during the AGM was 'really dry' and that other activities had to be offered to entice people to attend:

We combine it as part of the day and fill the obligation of publicising, it's all on paper, as well going through it the auditor and whatever, but if you made that the day and nothing else you'd be talking to yourself.

He considered that the charity was very transparent and that all his information needs were fully satisfied.

The volunteer did not express any real concerns regarding the way the charity operated although he conceded that 'it's not perfect' citing communication as an area that could be improved. Through his involvement in a restructuring sub-group he was aware of the planned changes to the charity and thought that a new 'slim-line structure' would make a better fit around other improvements being made within the organisation. When asked about his knowledge of regulatory changes to the charity's reporting environment, he said that he was not aware of recent developments other than a vague knowledge of the introduction of a regulator. He explained:

I am not bothered that I don't know that, because I don't regard needing to know all that.

When asked about the challenges facing the charity, the volunteer expressed these in terms of the development needs of the volunteers. He was concerned that the requirements for continuous training and supervision of volunteers might become too onerous for volunteers to undertake in what is their spare time. Another challenge that he felt was particularly acute in the voluntary sector was the difference in service delivery that could transpire through the operation of branches where different personalities, providing their services freely, become involved in shaping individual units:

It is very difficult to put that structure on it when you don't have paid bodies to do it, and that's a feature of charity type - voluntary.

Overall, this volunteer thought that the charity's governance and accountability practices were in line with the organisation's aims to continue providing a quality service to the public.

General practitioner perceptions

A general medical practitioner was suggested by interviewee C11 as a member of the wider community that might have some knowledge of the work undertaken through this charity. The GP described his connection with the services the charity offered to the general public:

I am a GP and I often refer patients to [Charity name]. I give the patient their telephone number and recommend that they phone and leave their details.

He was asked about what he understood by the terms governance and accountability and he replied that this involved 'checking things are done properly'. He was not aware of any details regarding the structure of the organisation or how it was governed. When asked about accountability, he could not foresee that the charity should be accountable to anyone other than the clients it assisted and that the charity should not be required to show anything in order to discharge this accountability:

I think patients, if [Charity name] is successful, they probably want to move on and not be bothered by how the [organisation] is accountable.

He did not have any reason to inspect any accounting or other financial information made available by the charity and its financial position was not something he had ever considered:

I'm not aware at all about how [Charity name] is funded, I don't even know if people are paid or whether they are voluntary.

As a member of the public, the GP explained that he was aware that there had been new regulations affecting the charity sector but he did not know the form of any changes. He welcomed the idea of charities' documentation being made available on-line but he did not imagine that he would take any opportunity to view the accounts of this particular charity as he was 'not giving them any money just giving them patients'. His experience of the charity's work was sufficient to satisfy him that they were operating well and that his, albeit removed, relationship with it would continue as its staff were: 'reckoned to be the best people to help the issues being addressed'.

Case study three - summary

In summary, the chief executive, funder, employee and volunteer interviewees were all well aware of governance issues and procedures in the charity, possibly as significant restructuring had preceded recent legislative reform. Significantly more performance information was now gathered and reported, and the establishment of OSCR was welcomed. Once again, issues around the provision of key social services by volunteers and without ring-fenced statutory funding were highlighted.

Case study four

Charity context

Case study four explores the governance and accountability mechanisms in place in a large Scottish charity with income in excess of £2 million. This charity was identified in chapter five as C17. The organisation's charitable purpose is described as being the advancement of education. It achieves this by providing industry-specific qualifications and other professional development services. The charity has a mission statement which states that the aim of the organisation is:

To be the pre-eminent provider of professional qualifications for, and key influencer in, the development of the [industry] market.

The charity was established in the nineteenth century and is governed by means of a Royal Charter. This Charter details the specific governance mechanisms in place within the organisation; the charity is headed by a President who is supported by a Senior Vice-President and a number of Vice Presidents. A council deal with the general management and administration of the charity's affairs and property; this body consists of 15-35 elected and appointed people and its operations and composition are governed by the rules contained in the Royal Charter. The day to day management of the charity's operations rests with the chief executive. The charity employs an accountant and prepares audited annual reports and accounts.

The stakeholder participants who engaged in this case study are described in Table 7.4. The discussion that took place with the charity's chief executive was reported in chapter five, and is thus not repeated here. A discussion of the observations made at the audit committee meeting will be followed by an outline of the perceptions of the interviewed

stakeholders; the outcome of these interviews will be presented in the same order as outlined in Table 7.4. This reporting of the interviews will be interwoven with insights gained from the analysis of supplementary material where appropriate.

Table 7.4 Case study four - stakeholders

Stakeholder group as per the literature	Stakeholder description
Board of directors	Charity chief executive – included in interview analysis in chapter five, charity C17.
Staff members	The interviewee deals with governance and the secretarial function. He describes himself as having: ‘a dual role...part of that role is in the governance side of things...[and] I look after [the] secretarial function in support of the council.’
Clients/donors	The charity do not have donors as such, however, they do have members (corporate and individual) who pay a subscription fee. These individuals are also viewed as the charity’s clients. The managing director of a corporate member was interviewed.
Community	A university lecturer who was involved in liaising with the charity regarding accreditation issues.
Regulatory bodies	The regulators for this case study were identified as the auditor and OSCR and as such, these perceptions are included in interview analysis presented in chapter six. The auditor was also present at the audit committee meeting discussed below.

Notes: Table 7.4 reconciles the stakeholders as identified in the extant literature (Secretary of State for Wales, 1998; Keating and Frumkin, 2003) with the stakeholders associated with case study four.

Audit committee observations

Following the first interview with the chief executive reported in chapter five, a member of the research team was invited to attend the audit committee. This invitation was gratefully accepted and a member of the team sat in on part of the meeting in April 2007. A number of charity personnel, including the chief executive (interviewed for chapter five), the employee (interviewed subsequently and reported below) and the accountant were in attendance. Two member representatives were also present, one of whom was also interviewed subsequently. Finally, the auditor was also in attendance.

Presence at the meeting proved to be very helpful in a number of respects. First, contact was made with a number of individuals who agreed to be interviewed. Second, it provided the researcher with experience of the nature of these meetings. Third, it allowed the researcher to address the subject matter of the research reported in this monograph in a unique setting. The researcher was invited to address the meeting and outline the objectives of the project. Following the introduction, a lively researcher-led discussion took place on the pertinent issues. This section of the chapter reports on the substance of these discussions while acknowledging the confidential nature of some of the material under review.

The open discussion primarily focused on the impact of the recent regulatory and legislative changes on the functioning of the charity. The chief executive described dealing with the new regime as a 'journey of discovery', while acknowledging that 'something like [OSCR] was needed, given the scandals'. The employee praised OSCR and remarked that it tended: 'to be very fair...sticking to the spirit as well as the letter [of the rules]', while the client stated that:

It is great to have a dedicated body with the expertise to challenge the less scrupulous of the charities that there are.

Discussion then turned to the implications of the new accounting requirements. The accountant voiced some reservations with the new framework, arguing that 'the old system served us well.' She commented on the split between restricted and unrestricted funds, and indicated that this distinction had implications for income streams. The chief executive concurred and argued that: 'operating surplus doesn't appear anywhere.' He suggested that this figure was still reported and available internally but did not appear in the published financial statements at present.

Observation of the audit committee meeting provided useful contacts for the interviews that took place subsequently. The experience also helped to set the scene in terms of prioritising the issues discussed in the stakeholder interviews. The outcome of these discussions is reported in the following sections.

Employee perceptions

The staff member interviewed described himself as embracing a 'dual role' within the charity. He worked in administration by providing secretarial support to the council and senior committees. He was also involved in what he describes as a 'loosely defined role...working in the governance side'. He emphasised an oversight capacity in this regard when he suggested that his role was: 'like the regulator in terms of keeping track of how things have been going'. He is charged with the responsibility for keeping abreast of developments that could impact on the functioning of the charity. In that regard, he had interacted with OSCAR on a number of occasions.

The interviewee had a good understanding of the terms governance and accountability. He described governance as 'the whole structure... the way the [charity name] is managed and run'. As part of his duties involved dealing with governance issues, he was very familiar with the way the charity was run. He clarified that most of the governance structure was prescribed within the Royal Charter. This document defines the role

of the council in this regard. The charity also has a number of committees appointed by council; their membership and powers vary depending upon the particular environment faced by the organisation, but derive their authority from council. At present, four major committees meet on a regular basis. The finance, planning and general purposes committee meets on a quarterly basis and is charged with responsibility for financial matters, the review of business plans, staffing and other relevant matters. The audit committee meets bi-annually and monitors the charity's internal control and risk management systems and review and approves the annual report and accounts prior to dissemination. The external auditor attends these meetings. The education committee discusses issues associated with the delivery of educational services and qualifications offered by the charity. Its meetings take place every quarter and are focused on strategic matters such as the identification and development of new markets for the charity's services. Finally, the business development committee deals with marketing and promotion initiatives on a quarterly basis. These committees formally report to council on their activities.

In addition to these principal committees, a number of other committees and subcommittees also exist. A recent addition to this list was the introduction of a nominations committee; this came into existence as a result of a review of governance procedures undertaken internally. The review was prompted by the reforms taking place in the sector generally; the charity viewed the changing climate as: 'a good opportunity to [review] your own internal processes'.

The definition of accountability advanced was two-pronged: 'accountability between the staff...[for] the way things are run' and:

...also beyond that from the [charity name]...to members and to the regulator and other stakeholders.

The employee described many channels for discharging accountability. The charity produces a magazine that is distributed to members and other interested parties. It also has 'regular dialogue, representation and committee [involvement]' with its key stakeholders. The importance of these stakeholders and the role of communication channels as an avenue for accountability were recognised when the employee remarked: 'you've got to maintain a relationship with them'.

Lines of reporting are very tightly defined in the case study charity. The employee stated that:

It is very clear who reports to whom within the [charity name] and there is an appraisal system in place for staff review.

Awareness of key governance and accountability concerns and mechanisms throughout the organisation was viewed as being very important. However, the employee acknowledged the difficulties associated with relying on the external involvement in the various committees. He commented:

Going forward...I suppose the timing commitment has always been a difficulty for people that have got professional ideas of their own. There is always a difficulty in getting commitment to attend various meetings, to get value out of the trustees.

He acknowledged that the amended committee structure was 'still at the early stages'. In particular, he noted that the: 'nominations committee are still trying to find their feet'. Nonetheless, he concluded that: 'it is small things rather than major concerns'.

Given his role within the organisation, the interviewee was very aware of the recent legislative and regulatory changes. For example, he worked closely with the in-house accountant with regard to implementing

the recent accounting reforms. While the accountant concentrated on the numbers he was:

...quite strongly involved with pulling the [narrative elements of the annual report and accounts] together.

He admitted that it had not 'found any great problems with [the new regime]', although he acknowledged that 'quite a bit of extra work involved the accountant and auditors' in compiling the enhanced accounting information. With regard to the narrative content, the charity had access to 'good exemplar material' and it:

...drew on documents that already existed for our business plan... [and] other things.

He suggested that the new format:

...didn't relay the same information about operating surpluses, which were more apparent in the old style.

However, he stated that its 'internal management accounts' still provided the 'on-going picture' and the necessary detail for decision-making purposes.

One of the major changes affecting this charity relates to a change in key personnel; the chief executive has recently been replaced following his retirement. However, the employee did not see this change as a major factor looking towards the future; he remarked that people have 'new ideas' but that 'it is too early to say'.

Client perceptions

The client was the managing director of a company that financed students taking some of the charity's courses. He sat on the charity's council and audit committee and so was very familiar with the operation of the organisation; some of his perspectives are clearly informed by his involvement in these aspects of the charity. The client stakeholder described governance as:

...clearly looking to the legal set-up and responsibilities of the key board committees, executives, non-executives of the [charity]... looking at how they are set up, and how the reporting lines work.

Although he was not familiar with the 'day-to-day running' of the charity, given his background in accounting and finance, he stated that he had 'a reasonable feel for the running of [charity name]', particularly from a strategic perspective. He was aware of the governance review initiated a couple of years ago (and referred to by the employee stakeholder). He was broadly supportive of the ensuing changes; he indicated that under the previous regime: 'too much operational detail [was] going up to the council', whereas following reform, the information:

...tends to be much more summarised, so that we have got time to focus on the strategic initiatives.

On the whole, he considered the governance process to be 'reasonably effective', although he acknowledged that in common with:

...a lot of bodies of this nature...maybe the council size is a bit too large and slightly unwieldy at times.

The client stakeholder offered a responsibility-oriented definition of accountability. He expected organisations of this nature to have 'a clear delineation as to who is responsible for...key areas'. He continued to define 'key areas' as including 'finance, risk compliance, etc'. He defined the key stakeholders in terms of his peer employers in the relevant industrial sector as these were 'the biggest contributors' to the running of the charity and 'have the most at stake'. He welcomed the representation of stakeholders on the council and the key committees as 'their needs are carefully considered when...reviews are undertaken'. He considered the functioning of the audit committee as playing an important role in the accountability process; he suggested that getting an appropriate membership in place was key, to ensure that 'the right degree of challenge for the executives and what they are doing existed'. To this end, he read the annual report and accounts and other associated documentation provided by the charity so that he could 'challenge where I feel that there may be issues of uncertainty'.

The client stakeholder offered some opinions of the layout of the new annual report and accounts. Although he generally welcomed the new format, he suggested that the split between charitable and non-charitable work was 'arbitrary'. He highlighted difficulties associated with accounting for staff time and suggested that charities would need to employ:

...detailed record-keeping as to how people are spending their time just purely for disclosure in the financial accounts.

He remarked that the annual report and accounts were: 'probably a bit long and too detailed in certain respects' and that: 'there is quite a lot of disclosure in there', but suggested that he was: 'not sure how much interest that is to...key stakeholders'. He added that from his perspective; 'it probably could be reduced somewhat'. When asked if particular areas could be amended he suggested that:

It goes into quite a lot of detail in terms on the internal running of [charity name], and I think we could certainly slim down in that particular area.

The client interviewee welcomed the new legislative framework. He cited the recent scandals and suggested:

...that anything that can be done to tighten up on that process, probably for some of the less well-run charities, the better.

Community perceptions

The employee interviewee suggested that educational matters were key to the charity's operations. To this end, it was decided that a representative from this community might offer an external perspective on the governance and accountability of the organisation. Thus, a University lecturer who liaised with the charity regarding accreditation issues for a degree programme was interviewed. The lecturer liaised with the educational representative from the charity on an ad hoc basis as necessary.

The lecturer was familiar with governance structures and described it in terms of:

...how the management of an organisation exercise control and check that the firm... achieves its stated goals as far as it can.

The interviewee was not familiar with the governance structures and mechanisms of the case study charity. The lecturer defined accountability in terms of 'getting information to all of those who are entitled to it.' He expanded on the idea of entitlement and suggested that the charity should be accountable to:

... its members to provide services that they would expect, but also to society because it is essentially giving validation and... assuring the public, and [industry employers] in particular, that its members have certain professional competencies.

The lecturer was less familiar with the detail of the recent reforms, but welcomed the overall aim of the exercise; he described the reform as a 'good thing', particularly with respect to the widely publicised misappropriation scandals of recent years. He suggested that making the accounting and governing documents available online was a 'positive' move. He added that 'anything that increases openness and transparency must be a good thing'.

Case study four - summary

In summary, stakeholders welcomed OSCR's role and activities, and recent charitable sector reforms. The charity maintained a range of accountability relationships and its board had more recently begun to focus on strategic, rather than operational, matters.

Summary

This chapter has reported on stakeholder perceptions of the governance and accountability of four Scottish charities of varying sizes. Stakeholder perceptions of governance and accountability in all of the case study charities, perhaps inevitably, varied between the stakeholders and reflected the relationship the individual stakeholder had with the charity. However, many of the descriptions of governance offered by the case study interviewees centred around the operational running of the organisation with an emphasis on legal structures and control issues, despite the absence of what may be seen as 'owners' in charitable concerns; these views tie in with agency-oriented definitions of corporate

governance, rather than the stakeholder-focused variants suggested in the non-profit world. For example, in case study one, the support worker reported her perception of good governance practice within the club in terms of operational issues, documenting operating policies, developing a working strategy, training staff and reporting from the club to the Care Commission and local government.

Awareness of governance structures and procedures varied from stakeholder to stakeholder. For example, in case study one, the employee was aware of how the charity's governance structure had impacted on her ability to do her job, whereas the support worker focused primarily on the governance issues, committees and groups in which she was directly involved. However, the employee, parent and child considered the lack of satisfactory communication between themselves as stakeholders and the charity's staff and management to be a weakness in governance.

In the second case study, the trustee and the client stakeholder had a very good grasp of the concepts of governance and accountability but the client did not have any knowledge of how these issues were addressed within the case study charity. The employee felt that governance was related to regulatory bodies rather than mentioning anything specifically about her employer organisation, while the volunteer had no knowledge of the way the organisation was run but thought that sustained links with its partner organisations indicated that it was well organised.

In the third case study charity, the funder stressed the importance of sound governance practices to her funding decisions. The employee was aware that guidelines existed to ensure governance and accountability but noted that these aspects were more strongly demonstrated in an informal way through her direct dealings with other stakeholders. The volunteer had become aware of the charity's governance structure through his involvement with a particular sub-group within the organisation; the GP had no interest in any detail of the organisation's internal processes, only in the service it provided to his patients.

At case study charity four, the employee was well versed on governance matters within his organisation, reflecting his role in the charity. The corporate member was also reasonably familiar with strategic-level concerns, but was less concerned with operational issues. Three of the charities (two, three and four) pointed to the pivotal roles played by their respective chief executives in the running of their organisations.

Discussions on accountability matters were equally diverse and typically centered on the identification of the ultimate accountee or ultimate recipient of accountability-related information. For example, in case study one, the support worker, head-teacher and employee identified two primary types of accountability: (i) accountability to clients through reporting to the Care Commission; and (ii) financial accountability to local government. The parent's view was that accountability was owed to the parents. In the second case, the stakeholders identified financial accountability to the funders and, in terms of charity outcomes, to charity clients. However, the community stakeholder went further to suggest that it was also accountable to the city where it operated; the stakeholders of charity three cited funders and clients as its main accountees. In the fourth case, the interviewees emphasised broader recipients, focusing on the public at large in most instances. Only one of the interviewees (the member), attempted to restrict accountability to those with 'the most at stake', who he described as being 'the biggest contributors'. Despite the focus on charity concerns, the interviewees of charity four primarily concentrated on financial accountability matters but also suggested that the emergence of well-qualified students was evidence of accountability. All of the case charities' interviewees reflected an outcome-driven view of accountability and demonstrated some awareness of higher rungs of Stewart's (1984) ladder (Figure 2.1), although the sophistication of the mechanisms in place to discharge higher levels of accountability varied between the charities visited. Further, the complexity of the processes in place for the collection and reporting of accounting information

amongst the charities appeared to be determined by the size of the organisation.

The charities responded to challenges and reforms in a variety of ways. In charity three, the constitution of the board has been re-engineered to incorporate the requisite skills to operate effectively and efficiently as a large Scottish charity in a competitive funding environment. Although the board size in this charity is still relatively large, arguably this re-engineering of the board reflects a move towards balancing the traditional non-profit sector philanthropic model of governance to a more corporate model of governance and the multiple-stakeholder presence on the board of charities three and four is typical of the non-profit sector model.

The stakeholders in each case study who were aware of the establishment of OSCR welcomed its inception. Generally stakeholders were unaware of any other sector developments. Only the support worker in case study one thought that there was a lack of specific guidance from OSCR regarding what it required. The parent and head-teacher from this case also expressed concerns about increasing bureaucracy for the charity sector as a result of the establishment of OSCR. No reservations were expressed by any of the interviewees in the other larger charities. There was also overwhelming support for any plans to place charity documents online.

8 CONCLUSIONS

Introduction

This research project explores the governance and accountability practices that operate within Scottish charities, particularly the awareness of, compliance with, and the effects of, the new regulatory requirements of the charity sector that have been introduced in recent years largely as a result of high profile scandals that had dented public trust in charitable organisations.

Statutory changes to the charity sector have been enacted through the Charities and Trustees Investment (Scotland) Act 2005. This Act elevated the status of The Office of the Scottish Charity Regulator (OSCR) to a non-ministerial department from 2006, and included provisions for more rigorous reporting practices of Scottish charities. In addition, the accounting profession issued a new *Statement of Recommended Practice* (SORP) in 2005 requiring charities to provide more information in their annual report and accounts particularly in relation to governance and performance-related matters.

The research also explores the internal mechanisms in operation in particular charities of varying sizes to investigate the nature of the governance structures in existence to manage the charity efficiently and to ascertain whether accounting practices effectively discharge each charities' accountability to their own stakeholders. Through an examination of the policies and procedures in place within different charities, variations in practice are highlighted and some examples of best practice are uncovered, as well as identifying the reasons for different governance and accounting practices being adopted.

To gauge the information conveyed to stakeholders through the charities' annual report and accounts a content analysis of these documents was undertaken. Interviews were also conducted with a variety of key charity stakeholders to gain an appreciation of their understanding of the concepts of governance and accountability and their opinion of how these concepts were translated into action in the particular organisations to which they were connected. A ladder of accountability (Stewart, 1984) for assessing the dimensions of accountability of public officials was used to interpret these research findings. The background gained from the interviews also informed four case studies that were carried out to allow a holistic overview of formal and informal governance and accountability practices within differently-sized Scottish charities at a time when the sector was experiencing change. The following sections of this chapter discuss the findings of each stage of the research while the penultimate section includes some recommendations for good governance and accountability in the charity sector.

Findings from the content analysis of charities' annual reports and accounts

A content analysis of the annual reports and accounts of Scottish charities within the three larger size income bands detailed by OSCR was conducted to determine the impact of regulatory reforms, particularly SORP 2005, on charity sector reporting in Scotland. In particular, the information relating to governance and accountability that was disclosed through these documents was analysed.

One key finding of this strand of the project was the extreme difficulty experienced in obtaining certain charities' annual reports and accounts. Only 75 charities co-operated with a request made to 545 organisations to supply their accounts and a significant number of individuals who were approached were oblivious of the fact that, legally, they were obliged to allow any member of the public access to these documents.

The results of the content analysis of the 75 charities suggest that there has been a serious effort by some Scottish charities to disclose information relating to their governance and accountability, where the amount of disclosure increases in line with the size of the charity as defined by SORP 2005. Regardless of a charity's size, the governance and accountability-related information is almost always narrative in form, and far less space is afforded in the accounts to quantitative or monetary information. The information provided by charities in their annual report and accounts meets the majority of levels of Stewart's (1984) accountability ladder. Thus, charities appear to be complying with reporting standards, discussing operational efficiency and governance procedures, providing performance information and the achievement of programme aims.

Findings from the interviews conducted with managers and trustees of Scottish charities

In-depth semi-structured interviews were conducted with managers and trustees in Scottish charities of varying sizes, exploring areas of governance and accountability within the charities. The interviews show that charity managers and trustees have a good textbook-based understanding of the concepts of governance and accountability, but the structures and procedures in place to provide governance within a charity tend to vary in relation to organisation size. Very small charities, where often no staff members are employed, are generally overseen by a management committee that directs a strategy for charitable operations at meetings that are usually held monthly. Larger charities tend to have less frequent meetings; committee members in these organisations often come together at two - or three - monthly intervals and the cycle of meetings usually mirrors each charity's reporting cycle. The number of participants in a management committee or board is often stipulated in charities' constitutions and these requirements usually increase in

line with charity size. There is also some variation in the business dealt with at full charity board meetings as some charities have adopted an approach whereby particular issues are addressed by standing or ad hoc committees. Any alterations to board structures and practices are mainly driven by changes in the legislative and regulatory framework introduced to the charity sector. Although not common to every organisation, charity managers typically report to the board and do not possess the same voting rights as trustees. Overall, the interviews reveal that the governance arrangements in place in Scottish charities usually reflect different levels of resources and diverse charitable objectives but managers and trustees consider that their practices are appropriate for their organisations.

Charity managers and trustees see accountability as more extensive than simply in financial terms and identify a wide range of accountability relationships with a variety of stakeholders including the general public. Different mechanisms exist within charities to discharge these obligations; examples cited by interviewees include AGMs and the disclosure of information, including but not exclusively, of a financial nature. Trustees and managers also note that internal processes of accountability often include the provision of detailed information for the board on management accounts, reports and budgets. Some charities also conduct periodical reviews that consider wider factors such as the level of complaints made against the organisation and staff retention rates. Certain charities have processes in place to collect regular information from stakeholders regarding their views on the ways the organisation is operating, while a minority generate no feedback at all. The use of performance indicators and programme achievements as part of accountability processes also varies and tends to be positively correlated to the size of a charity. Programme and performance accountabilities are at the higher levels of Stewart's (1984) accountability ladder and provide evidence of relatively sophisticated understandings of accountability relationships in interviewees' minds, even when not described using these

terms explicitly. Although they vary widely in their content, all of the charities produce annual reports and accounts and state that they are willing to provide them to anybody who asks to receive them, but the interviewees do not consider that there is much external interest shown in these documents.

The establishment of OSCR has been broadly welcomed by the charity trustees and managers. They note that the establishment of a Scottish regulator of charities will improve confidence in the sector and are happy to comply with OSCR's requirements. Some reservations have been voiced, however, over the format of various returns demanded by the regulator and different levels of satisfaction were expressed over experiences individuals had in dealing with OSCR.

Most of the charities that are required to prepare SORP-compliant accounts rely on professional accounting advice in relation to financial reporting and some have benefited from the services of accountants and auditors with particular expertise in requirements often peculiar to the charity sector. Some interviewees, particularly in smaller charities, have never heard of the SORP and are happy to delegate these duties elsewhere, while other trustees and managers are qualified accountants with detailed knowledge of the SORP requirements. However, none of the interviewees display any concern over the matter of SORP compliance as they provide their auditors and independent examiners with the information they request.

There is wide awareness amongst interviewees of the risks faced by their particular charities and some organisations have reinforced risk management systems after experiencing some sort of crisis. A dilemma faces charities over the matter of financial reserves, as funds tied up in this way cannot be used to immediately further the aims of their organisations.

Findings from the interviews conducted with regulators, auditors and independent examiners of Scottish charities

A second series of semi-structured interviews was held with individuals involved in overseeing charities' reporting activities, to explore governance and accountability arrangements within the Scottish charity sector in the wake of recent regulatory and legislative reforms.

Recent changes to regulation in the charity sector have resulted in some auditors reviewing their client base to concentrate on dealing with charities of a particular size. On the whole, interviewees report that larger charities are aware of recent changes to the charities' reporting environment while some ignorance remains within charities operating at the smaller end of the scale.

Auditors and independent examiners have not encouraged their clients to adopt the reporting requirements of SORP 2005 early, but have advised them to develop systems to gather the information required for compliance with the SORP. Professional advisers generally charge a one-off additional fee in the year in which they advise clients on how to implement a new SORP. They also report that, as a result of the SORP, preparing and auditing charities' accounts has become more time consuming and fees charged for this work have risen accordingly.

Audit firms regularly organise staff training exercises to educate professionals involved with charity clients on the effects of any regulatory changes to charity reporting and auditing. The role of professional accounting bodies in helping practitioners to stay abreast of such changes has been very positive.

There is wide support amongst these interviewees regarding the recent reforms, although some teething troubles over specific details, particularly of SORP 2005, are mentioned by a few. Auditors and independent examiners are of the view that the developments in the Scottish charity sector's regulation have been long overdue. Only

one interviewee has expressed concern over the burden that the new requirements may place on smaller charity groups in discharging their accountability in the prescribed manner. Although there is a general consensus that an audit threshold is necessary for charities, one individual commented that the £500,000 figure imposed by the Charity Accounts (Scotland) Regulations 2006 does not reflect changes to the threshold amount for profit-making organisations. Another auditor highlighted the fact that charities funded by local authorities, as well as complying with OSCR's financial reporting requirements, have a mandatory obligation to provide their local council fund-makers with a further set of audited documentation and that in light of the introduction of OSCR, the local authorities' demands could be relaxed. Auditors and independent examiners are positive about making charities' documents available to the public online as this would help restore public confidence in the sector; many charities do not always appreciate the fact that they are required to allow any interested party access to their charity's accounts. Such public scrutiny might shift the strategy of some charities, particularly over decisions to end the charity or to merge it with other organisations with similar aims.

Over the governance and accountability arrangements in Scottish charities, interviewees are aware of the varying levels of compliance with regulations and one auditor notes concern that some charities may be taking advice from professionals who are not competent to deal with such a unique sector. Further, detailed structures of governance tend to be more evident in larger charities while some smaller organisations have no formal mechanisms to oversee strategy and operations.

Overall, the discharge of accountability in the charity sector in Scotland has improved with the establishment of OSCR and its guidance has proved useful. However, there is some concern over the sustainability of charity strategy being overseen by unpaid volunteers and a feeling that if the charity sector has to continue to rely on trustees' services it may become necessary to consider remunerating these individuals in the future for the work that they undertake.

Findings from the case studies conducted in four Scottish charities

Case studies were conducted in four charities of different sizes. Interviews were undertaken with representatives of several stakeholder groups within these charities to gain a wider interpretation of their perceptions of governance and accountability.

The first case study charity was governed by a group of parent volunteers. Good governance was demonstrated through established strategies and procedures, but there was also a lack of communication between management and charity users. Various stakeholders considered that this charity should be accountable to the local council that provided it with some funding and to the Care Commission that regulated its activities. However, the stakeholder who paid fees to the club stated that it should be accountable to its fee payers. Funders were generally considered by stakeholders to be the main users of charity accounts although two interviewees suggested that financial information might be of interest to other users if the particular information that they sought, such as the proportion of income directed to charitable purposes, was simplified and highlighted.

The second case study charity has a board of directors that oversees governance arrangements and this board has delegated the implementation of governing policies and practices to its chief executive. The employee stakeholder knows the charity's governance structure but the volunteer has no knowledge of the way the charity is governed; despite this, the volunteer was happy that the charity is well organised as indicated by sustained partnerships and sharing of information with other organisations. Indeed, a member of the community who contacts this charity regularly believes that she would know if it was being badly managed. All of the stakeholder interviewees identify charity clients and funders as the main groups to whom this charity is accountable.

The third case study charity is also governed by a board of directors whose chief executive believes that good governance and accountability procedures are crucial to effective service delivery. The funder regards robust governance and accountability practices as important in organisations where she awards money. The employee was less aware of the operations of the chief executive and the board and was more familiar with the less formalised governance procedures that guided her own activities directly. The volunteer stakeholder thought that his peer group in the organisation would not be concerned with the governance and accountability procedures in place in the charity as they would be a distraction from the services it provided. The GP interviewee had no knowledge or interest in the charity's governance and accountability structures but was happy with the service it provided to his patients.

In the fourth case study, an organisation which provided educational services, the chief executive, a client of the charity's services and a local community representative all welcomed the establishment of OSCR, particularly given recent scandals in the charity sector. Various channels for discharging accountability between a range of internal and external stakeholders were identified by the employee; the client described accountability in terms of the responsibilities of the charity. A recent revision of internal practices was welcomed by the client.

Recommendations

Largely through the observation of good practice during this study, twelve policy recommendations are made and detailed as follows:

1. Given the contribution of charities to life in Scotland, a debate should be undertaken to consider the feasibility and fairness of expecting key social services to be provided by charitable organisations which must rely on, and compete for, relatively short-term funding streams.

2. The charity sector and its regulators should consider the feasibility of continuing to rely upon unpaid volunteers to oversee the strategic direction of charities.
3. Funders and regulators should improve their dialogue with charities, and with one another; they should move to having the same documentation meet both sets of information needs.
4. Charities should develop mechanisms to obtain better feedback from their stakeholders and share their experiences of building feedback models. This would help to inform performance indicators reported in their annual report and accounts.
5. OSCR should make charities aware of their legal obligation to provide a copy of their accounts in response to a request from any member of the public.
6. Regulators should consider introducing the equivalent of a SORP FRRSE to simplify the reporting requirements of smaller charities.
7. Charities should make available information online relating to charity governance arrangements, funding, complaints, staff qualifications and accounts.
8. The percentage of a charity's income that is used directly in funding its aims should be shown explicitly at the beginning of a charity's annual report and accounts.
9. Charities should recruit trustees with an appropriate mix of skills. Board members' skills should be regularly reviewed to ensure they have the expertise required to advance the aims of the organisation. Any skills gaps should be filled by appointing suitably experienced individuals.
10. Induction and training arrangements for trustees should be developed and undertaken by charities to ensure that these individuals have a broad understanding of the duties their roles entail.

11. Charities should seek to separate strategic control from management operations as a matter of best practice in effective governance.
12. A charity should employ an accountant or engage an auditor or independent examiner with particular expertise in charity reporting, as interviewees believed this to be advantageous, in terms of risk management and coping with regulatory change.

Summary

This work explores the governance and accountability of Scottish charities at a time of unprecedented regulatory and legislative change via three discrete research strands. It finds that these changes have been largely welcomed, that the distinct role played by the new Scottish charity regulator is supported, and that charities comply with the new accounting reforms. Charities also play an important role in Scottish life and the individuals involved in them take their responsibilities seriously, often relying heavily on professional advice to stay abreast of new requirements. The authors hope that these findings and policy recommendations will be considered by OSCR and Scottish charities and will help to ensure that the demonstrated accountability of the sector strengthens and continues to grow.

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A PPENDIX 1

Basic information for content analysis sample charities

Table A Income level £100,000 - £249,999

Charity name	Charity no.	Constitutional form
Angus Independent Advocacy	SC025687	Company
Bellahouston Bequest Fund	SC030450	Unincorporated Association
Cairns Church of Scotland	SC009913	Unincorporated Association
Church of Scotland - Aberfeldy	SC007899	Unincorporated Association
Church of Scotland - Stirling - St Ninians Old	SC016320	Unincorporated Association
Clued Up Project	SC035036	Unincorporated Association
ECAS Ltd	SC014929	Company
Edinburgh Women's Rape and Sexual Abuse Centre	SC006208	Company
Glasgow Building Preservation Trust	SC015443	Company
Hamilton Information Project for Youth	SC024752	Unincorporated Association
Health Opportunities Team	SC031463	Company
John Watson's Trust	SC014004	Statutory Corporation
Logie Kirk	SC001298	Unincorporated Association
McSence Ltd	SC016874	Company
Montrose Day Care	SC011007	Company
Multiple Sclerosis Therapy Centre (Lothian) Ltd	SC014991	Company
Opening	SC030194	Company
Sacred Heart RC Church Edinburgh	SC003024	Unincorporated Association
Scottish Council on Deafness	SC016957	Unincorporated Association
Scottish Interfaith Council	SC029486	Company
Skye & Lochalsh Council for Voluntary Organisations	SC013885	Company
Smithton - Culloden Free Church	SC012271	Unincorporated Association
South Ayrshire Escape From Homelessness Ltd	SC028570	Company
St Anne's Parish Church Corstorphine	SC006300	Other
St Leonard's Parish Church St Andrews	SC013586	Unincorporated Association
West Fife Community Drugs Team	SC005131	Company
Woodhill Evangelical Church	SC018514	Trust

Note: Table A provides basic details relating to the sampled charities with income levels between £100,000 and £249,999. Details pertaining to constitutional form were taken from the OSCR website - www.oscr.org.uk

Table B Income level £250,000 - £499,999

Charity name	Charity no.	Constitutional form
Augustine United Church	SC000385	Unincorporated Association
CraigOwl Communities	SC033121	Company
Cramond Kirk	SC003430	Unincorporated Association
Crossroads (Blantyre) Care Attendant Scheme	SC002790	Company
Falkland Heritage Trust	SC022481	Trust
Fife Alcohol Support Service	SC010422	Company
Instant Neighbour Aberdeen	SC002223	Company
Kirkcaldy District Women's Aid	SC017293	Company
Neighbourhood Networks in Scotland Ltd	SC028984	Company
Perth Association for Mental Health Ltd	SC002072	Company
R S Macdonald Charitable Trust	SC012710	Trust
Scottish Council of Independent Schools	SC018033	Company
Scottish Native Woods	SC017971	Company
Scottish Spina Bifida Association	SC013328	Company
Setpoint Scotland North	SC010349	Company
SUAT Ltd	SC027240	Company
The Paxton Trust	SC002177	Trust
The Vine Trust	SC017386	Company
Utheo Ltd	SC021687	Company
Voice of Carers Across Lothian (VOCAL)	SC020755	Company

Note: Table B provides basic details relating to the sampled charities with income levels between £250,000 and £499,999. Details pertaining to constitutional form were taken from the OSCR website - www.oscr.org.uk

Table C *Income level £500,000+*

Charity name	Charity no.	Constitutional form
Art Galleries of Scotland Foundation	SC030263	Company
Ayr College	SC021177	Company
Barrhead Housing Association Ltd	SC036265	Industrial and Provident Society
Carr-Gorm Scotland	SC033491	Company
Dementia Services Development Trust	SC016905	Trust
Dundee Heritage Trust	SC011328	Trust
Filmhouse Ltd	SC006793	Company
Glenrothes YMCA + YWCA	SC013792	Unincorporated Association
Aberlour House Ltd	SC002933	Company
Grampian Health Board Endowment Fund	SC017296	Other
Hillcrest Housing Association Ltd	SC006809	Industrial and Provident Society
Hillhead Housing Association 2000	SC029908	Industrial and Provident Society
Institute of Occupational Medicine	SC000365	Company
Kilmarnock College Board of Management	SC021201	Company
Link Group Ltd	SC001026	Industrial and Provident Society
Loretto Care	SC034584	Company
Mansfield Traquair Trust	SC021599	Company
Margaret Blackwood Housing Association	SC007658	Industrial and Provident Society
Momentum Scotland Ltd	SC004328	Company
National Youth Orchestra of Scotland Ltd	SC015482	Company
Roman Catholic Diocese of Argyll & the Isles	SC002876	Trust
Royal Scottish Academy of Music & Drama	SC015855	Company
Scottish Christian Alliance	SC021765	Industrial and Provident Society
Scottish Seabird Centre	SC025837	Company
The Robertson Trust	SC002970	Trust
Volant Charitable Trust	SC030790	Trust
West Lothian Drug and Alcohol Service	SC005776	Company
Youth Scotland	SC000501	Company

Note: Table C provides basic details relating to the sampled charities with income levels in excess of £500,000. Details pertaining to constitutional form were taken from the OSCR website - www.oscr.org.uk

A PPENDIX 2

Summary of requirements for audit and independent examination

	Unincorporated Charity	
	Periods commencing	
	On or after 1 April 2006	Before 1 April 2006
Audit threshold	Audit required for charities with gross income of £500,000 or more, or gross assets of more than £2.8m at balance sheet date.	Audit required for charities with gross income or gross expenditure greater than £100,000.
Receipts & payments accounts	Permitted if gross income is less than £100,000.	Permitted if gross receipts are not more than £25,000.
Period for filing accounts	9 months	No requirement
Independent examination (independent examiner who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts)	For charities preparing receipts and payments accounts.	For charities with a gross income or gross expenditure of not more than £100,000.
Independent examination (new criteria, including being a member of one of the six UK accountancy bodies or a full member of the Association of Charity Independent Examiners).	Required for charities preparing true and fair accounts in accordance with the methods and principles set out in the Charities' SORP.	No such requirement.
Independent reporting accountant engagement	Not permitted	Not permitted

Adapted from ICAS website (<http://www.icas.org.uk/site/cms/contentViewArticle.asp?article=4686>), accessed 27 February, 2008.

Summary of requirements for audit and independent examination (Cont)

	Charitable Company	
	Periods commencing	
	On or after 1 April 2006 *	Before 1 April 2006
Audit threshold	Audit required for charities with gross income of more than £250,000 or gross assets at the balance sheet date of more than £1.4m.	Audit required for charities with gross income of more than £250,000 or gross assets at the balance sheet date of more than £1.4m.
Receipts & payments accounts	Not permitted	Not permitted
Period for filing accounts	10 months for Companies House 9 months for OSCR	10 months for Companies House
Independent examination (independent examiner who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts)	Not permitted	Not permitted
Independent examination (new criteria, including being a member of one of the six UK accountancy bodies or a full member of the Association of Charity Independent Examiners).	Required for charities not required to have an audit or not permitted to have an independent accountant's report in lieu of an audit. (Gross income of not more than £90,000).	No requirement
Independent reporting accountant engagement	Required for charities qualifying as small, with a gross income of more than £90,000 but not more than £250,000 and net assets of not more than £1.4m - electing not to have an audit.	Required for charities qualifying as small, with a gross income of more than £90,000 but not more than £250,000 and net assets of not more than £1.4 m - electing not to have an audit.

Adaped from ICAS website (<http://www.icas.org.uk/site/cms/contentViewArticle.asp?article=4686>), accessed 27 February, 2008.

* The Companies Act 2006 amended these requirements for periods commencing on or after 1 April 2008.

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An Exploration of Scottish Charities' Governance and Accountability

Significant regulatory change has taken place in the Scottish charity sector in recent years, following on from a number of high profile scandals in the late 1990s and early 2000s. This report examines whether these changes have been effective and whether they are considered worthwhile by those who are stakeholders in the charity sector.

This research analyses charities' annual reports and accounts, examines their processes for governance and accountability, conducts interviews with trustees, auditors, independent examiners and others involved in the sector's accountability processes and undertakes a number of case studies to evaluate the awareness and perceptions of governance and accountability in the charity sector.

Although governance and accountability issues varied in relation to the size and complexity of the charity, certain matters were recurring, including the challenge of recruiting suitable trustees and the issue of reliance on unpaid volunteers to deliver strategic direction to charities. The report makes twelve recommendations ranging from policy issues, funding considerations, improving communications, to obtaining suitable trustees and advisers.

It is hoped the report will aid charities seeking to identify best practice and improve their own governance procedures and the charity sector as a whole when planning for the introduction of revised SORPs and other regulatory change.

ISBN 978-1 904574-50-7

EAN 9781904574507



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