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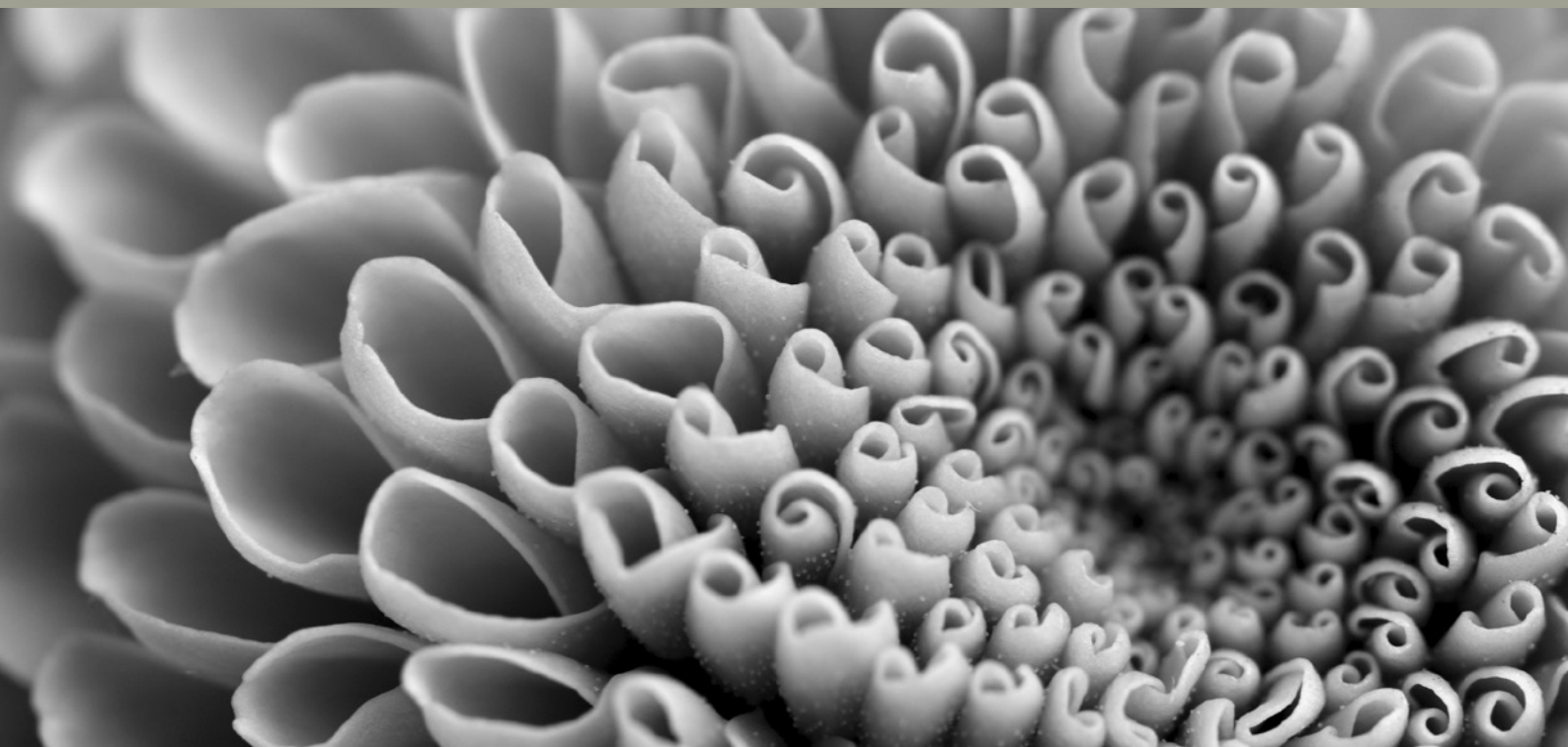
The Accountability Mechanisms and Needs of External Charity Stakeholders



The Accountability Mechanisms and Needs of External Charity Stakeholders

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Abbreviations

ASB	Accounting Standards Board
ASC	Accounting Standards Committee
AGM	Annual general meeting
CAF	Charities Aid Foundation
CA	Charity auditor
CB	Charity beneficiary
CD	Charity donor
CFDG	Charity Finance Directors' Group
CFG	Charity Finance Group
CICA	Canadian Institute of Chartered Accountants
CIO	Charitable Incorporated Organisation
CO	Charity official
CSR	Corporate Social Responsibility
FRS	Financial Reporting Standard
GB	Great Britain
HMRC	Her Majesty's Revenue and Customs
NCVO	National Council for Voluntary Organisations
NFPO	Not-for-profit organisation
NI	Northern Ireland
OSCR	Office of the Scottish Charity Regulator
SCIO	Scottish Charitable Incorporated Organisation
SIR	Summary Information Return
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
UK	United Kingdom
US	United States

Executive summary

THE CHARITY SECTOR AND ACCOUNTABILITY

The charity sector in the United Kingdom (UK) is significant numerically, socially and economically, comprising almost 200,000 registered general charities with a combined total income approaching £60bn. It is a sector in which both the fact and perception of accountability are particularly important, one in which good accountability is viewed as a basis for both reducing the potential for scandal and breeding confidence, which, arguably, promotes increased giving and increased charitable activity. The growth in the size and influence of the sector (Cabinet Office 2002), combined with a number of highly publicised scandals, has led to increased sector visibility and public scrutiny (Beattie, McInnes and Fearnley 2002; Pratten 2004; Katz 2005), with the need for the sector to operate transparently and discharge accountability being widely articulated in the academic literature and practice (Brody 2001; Ebrahim 2003; Home Office 2003; Pratten 2004; Charity Commission 2005a; Accounting Standards Board (ASB) 2007).

The user-needs model is now well established as a useful basis for a conceptual framework for charity reporting, and the view that accounting should provide information to satisfy the information needs of stakeholders is inextricably linked with the concept of accountability. This involves explaining what has been, or is being, done and what has been planned; it is a principal mechanism by which charitable organisations can achieve legitimacy for their activities with upward and downward stakeholders. Charity funders, donors and other external parties have information needs, yet because they are not involved in the management of a charity they must rely primarily on the annual report to meet those needs. The provision of information through formal information channels is a major part of the process of discharging accountability by the charity to those outside its immediate management, as the information is important for making decisions and judgements relating to involvement with, and support of, the organisation.

In considering the accountability of charities, two key questions emerge: to whom is a charity accountable; and what form should that account take? Two main types of information that are particularly important in discharging accountability are: financial information as contained in traditional financial statements; and wider performance information, often of a non-financial nature, relating to the goals, objectives, efficiency and effectiveness of the charity (Stewart 1984; Charity Commission 2004a, 2004b). Previous research into charity accountability indicates a wide variation in practice, with a significant proportion of organisations not meeting the basic requirements of best practice.

RESEARCH OBJECTIVES

Despite the widespread acceptance that charities should discharge accountability to their external stakeholders, there is limited knowledge of their information needs (in particular, the needs of charity donors, who are identified in earlier research as a key stakeholder group to whom accountability is owed – see, for example, Hyndman 1990; ASB 2007 – and whether the information being disclosed is aligned with these needs). Through extensive document analysis, surveys of various stakeholder groups and a number of semi-structured interviews with key actors, the main aims of the present study were to identify:

- the accountability information made available publicly to charity stakeholders
- stakeholder needs for such information, and
- the perceptions of key providers of information about stakeholder information needs.

RESEARCH METHODS

This report focuses on the top 100 UK fundraising charities (as ranked by CaritasData), because they are economically significant and have a high national and international profile. These charities are also likely to be the trendsetters in the sector and have sufficient resources to engage in innovation. A mixture of quantitative and qualitative research methods were used to address the key research questions.

To identify the accountability information made available publicly to charity stakeholders, 99 annual reports, 53 annual reviews and 92 Summary Information Returns (SIRs) of the top 100 UK fundraising charities for 2007/8 were analysed (the year immediately preceding the year in which the research reported here commenced). To allow comparisons to be made over time, Hyndman's checklist (1990, 1991) of 14 information types, amended as required for changing terminology, was used. This list contained a mixture of the information types that were identified as important by charity donors and those that were most frequently disclosed by charities in Hyndman's (1990) study.

In addition, an anonymous online questionnaire was developed to gather, among other things, information about key stakeholders, the relative importance of well-established channels of communication and the information needs, as perceived by themselves and others, of stakeholders. In total, 228 respondents from four key stakeholder groups (beneficiaries, charity officials, donors and external auditors) completed the questionnaire. This included definitions of key terms and examples of charity disclosures, and was tailored to take consideration of the differing circumstances of each of the respondent groups.

Finally, in order to obtain a more in-depth understanding of the issues, and enrich the findings of the document analysis and the online questionnaire, interviews were undertaken with stakeholders drawn from each of the key stakeholder groups. The questions asked were informed by the themes arising out of the literature review and the findings from the content analysis and online questionnaire. In total, 26 interviews were conducted.

SUMMARY OF RESEARCH FINDINGS

Among the main findings of the empirical research are the seven issues detailed below.

1. Relevance of annual reports to donors questioned
This research provides evidence that donors are viewed as the key stakeholders to whom a charity should be accountable, followed fairly closely by beneficiaries. No other stakeholder group is perceived as being close to the primacy of these two groups. Because donors normally have no powers of interrogation, they must rely on formal channels of reporting to meet their information needs. When donors' information needs are compared

with the information disclosed in the annual reports, annual reviews and SIRs of the largest fundraising charities in the UK (with annual reports and annual reviews being the two channels of communication viewed as most important and most engaged with by all questionnaire respondent groups), a gap is apparent.

Extant charity annual reports, which are mandatory, are dominated by audited financial information, but this information is perceived by donors as being less important than performance-related information that is much less disclosed. In addition, the inclusion of such audited financial statements, and their associated voluminous and technical notes, lengthens annual reports considerably, making understanding difficult for the 'lay reader' (which is an appropriate descriptor for most donors). There was much less disclosure performance-related information such as measures of output (the most important information type identified by donors in this research) and measures of efficiency (ranked fifth by donors in order of importance). This brings into question the relevance to donors of charity annual reports, even though these documents are identified as being primarily addressed to such stakeholders, and suggests a charity sector where accountability is not discharged in the most effective manner.

2. Annual reviews most closely meet donors' information needs

Annual reviews (voluntary and less formal, shorter, pithier publications than annual reports), produced by the majority of large fundraising charities, include a greater proportion (although, overall, similar levels of disclosure) of performance-related information (disclosures viewed by donors as of greatest importance) than the annual reports. Compared with the latter, however, they contain a much lower proportion (and much lower levels of disclosure) of traditional audited financial statement information (information viewed by donors as much less important). For example, 94% of annual reviews include some measure of output (85% in annual reports) and 21% include information on administration costs (22% in annual reports). Conversely, very few annual reviews include any audited financial statement information; indeed, if financial statement information is given at all it is more often disclosed in a simplified, easier-to-understand format. This suggests that annual reviews are perhaps a more meaningful communication with donors, something alluded to by all respondent groups, who considered annual reviews to be a more engaged with, although less important, communication channel than the annual report. Therefore, given the lack of alignment between the contents of the annual report and the information needs of donors, it seems that annual reviews have become the main means of discharging accountability to such stakeholders, while annual reports, documents that have greater regulatory oversight, assume a more formalised role relating to the legitimation of the charity.

3. The relevance gap has closed over time

While there remains a relevance gap between donors' information needs and the information disclosed in annual reports and annual reviews, this study demonstrates that this gap has closed considerably since the Hyndman studies in 1990 and 1991. Comparing the present and the earlier work shows that there is now much greater disclosure of recent information in annual reports, particularly performance information (the most important information sought by donors). For example, measures of output were disclosed in 85% of annual reports in this research compared with 29% in 1990.

A possible explanation for this increase in performance information disclosure since the early 1990s is the growing commitment of the UK government to charity accountability, driven, in part at least, by a desire to see the interests of donors reflected in charity accounting requirements. This has been seen principally in legislative changes (particularly by making the Statement of Recommended Practice (SORP) mandatory for many large charities in the UK) and in pressures to ensure that the SORP Committee considered seriously the performance-reporting needs of donors in its deliberations (Hyndman and McMahon 2011). Moreover, in tandem with this, the growth of UK organisations that aim to raise public interest in charitable giving, direct more funding to effective charities and help donors make informed decisions on how to give (such as GuideStar, Intelligent Giving and New Philanthropy Capital), has emphasised a message about the need to give wisely (on the basis of good information, particularly relating to performance). Overall, these influences have resulted in the championing of donors' information needs by other stakeholders in order to educe change, possibly reflecting the desire of a number of parties to give donors, in the language of stakeholder saliency (Mitchell et al. 1997), greater 'power' to have their information needs met.

4. Charities are reluctant to disclose administration cost-percentage information

An area where performance disclosure has not increased substantially over time, although one considered very important by donors, is administration cost-percentage information. This was disclosed in annual reports by only 19% of charities in 1990, and this research has showed identical levels of disclosure in annual reports (although disclosure in annual reviews was 25%). The idea behind such a disclosure is that charities exist to convert funds received into direct benefits for beneficiaries, and therefore the rate of conversion is important. Although it is not necessarily the case that an increase in such a ratio is the result of less efficient management, it does indicate that fewer of the total resources have been used in pursuing the directly charitable objectives of the organisation. While it may be viewed as an indicator of efficiency, the use of the ratio may present problems of definition, cost classification and interpretation, and these problems make charities particularly sensitive to such headline numbers (as indicated in interviews with auditors and charity officials in this research).

Concerns relating to this have been expressed by a number of stakeholders, including charity finance directors (Charity Finance Directors' Group (CFDG), now the Charity Finance Group (CFG), 2003). The CFDG's unease about such ratios influenced the development of SORP 2005 (Charity Commission 2005a) to the extent that administration (or support) costs were not featured on the face of the Statement of Financial Activities, although they were required to be disclosed as a note (thus making it difficult for an interested party to calculate the ratio easily). Interestingly, as seen in this research, administration cost percentage information is the only information type where there is a significant difference (at the 1% level) between the respondent groups' ranking of its importance (or perception of importance) to donors, with donors ranking it much more highly than either auditors or charity officials. These differences in ranking (from the

questionnaire results) possibly provide some supplementary rationale for non-disclosure (with non-disclosure conceivably occurring because providers of information are not aware of its importance to donors), although they may also be indicative of donors' potential misinterpretation of the information, or perhaps, most likely of all, the unwillingness of providers to be exposed to scrutiny in this area (with both of these reasons being highlighted in the interviews).

5. Accountability to beneficiaries is important but difficult
While it is recognised among stakeholders that beneficiary engagement, through formal accountability reports or in more direct ways, may have substantial benefits for the charity (such as greater focus on key goals and the avoidance of mission drift), such involvement may be difficult to achieve. Difficulties experienced include a desire by beneficiaries not to engage; beneficiary-identification problems (such as in medical research charities and animal welfare charities); and a lack of interest in formal accountability reports by the beneficiary group (even though good accounting and reporting could well serve their best interests). Evidence regarding the existence of each of these is identified in this research. It is likely that the presence and extent of these difficulties will vary within the sphere of charitable activity and from charity to charity. While highlighting best practice and 'what works' in individual cases may support beneficiary interests, this research suggests that many beneficiaries are predominantly interested in the services that they receive (for example, the timing, the quality and the quantity of service), with the accountability that they value being primarily related to this.

Greater user involvement has been promoted as a means of making organisations more responsive to user needs. For example, the 1979–97 UK Conservative government sought to increase the involvement of users (or beneficiaries) in the decision-making processes of public service providers, both as consumers (in response to its free market ideology), and in order to reduce the scale of service provision by local authorities (Locke et al. 2003). In addition, in some spheres of charitable activity, moves were afoot in the 1990s toward the empowerment of users in, for example, the disability movement (Campbell and Oliver 1996; Oliver 1996). Furthermore, in spite of the difficulties that arise from trust law if beneficiaries are members of charity boards, the Charity Commission (2000b) has recognised that it may be appropriate for some organisations to have a majority of users (or beneficiaries) on their governing board. In the absence of direct involvement of beneficiaries in the management processes, attention to beneficiaries' needs by charities, possibly through well-developed and sensitive feedback processes, becomes even more critical.

6. Focusing on donors' information needs may support beneficiaries' interests
While this research demonstrates a debate among stakeholders as to the primacy of donors or beneficiaries for charities' accountability (although, overall, this research suggests that donors were viewed as the most important stakeholder in this respect), it is argued that tension between the accountability owed to beneficiaries and that owed to donors is sometimes overstated. In many cases the meeting of beneficiaries' needs (a key aspect of discharging accountability to beneficiaries) is perceived as being aligned with the information needs of donors (which are frequently related to facilitating the aims and objectives of the charity – commonly associated with providing good services to the beneficiary group). This was evidenced among a range of stakeholders in the interview stage of this research, with donors often being seen as proxies for beneficiaries. Frequently, the goals of a charity are directed to meeting beneficiary needs, and those who work within a charity are often concerned with maximising the benefit provided to the beneficiary. In addition (as was evidenced in responses to the questionnaire), the donor frequently takes a beneficiary-focused view of events, as the plight of the beneficiary is often at the heart of the funding decision.

7. More focused guidance on performance and financial reporting needed to support charities
Although performance reporting, which is key to meeting donors' information needs (and potentially crucial in supporting beneficiaries' interests), has increased substantially since 1990, there are still major gaps. If charities are to meet the information needs of donors, it would seem appropriate that those concerned with the administration, control and support of the charity sector should provide even more focused guidance to charities and put pressure on them to produce and disclose performance information. Organisations that may be expected to have an interest in facilitating such provision include the Charity Commission, Office of the Scottish Charity Regulator, National Council for Voluntary Organisations, Charities Aid Foundation, New Philanthropy Capital and CFG. For example, more detailed recommendations, guidance and examples relating to the performance-related requirements of the trustees' annual report (part of the SORP), and pilot testing of common performance indicators in specific sub-sectors of the sector (with subsequent benchmarking), would be useful.

To expect individual charities to develop meaningful and extensive performance reporting systems is perhaps optimistic. Nonetheless, the bones of such guidance might be 'read-across' from that existing in the UK public sector (where performance measurement and performance reporting issues have been to the fore for many years). In addition to improving performance reporting, the formal channels of communication used in the discharge of accountability need to be considered. Annual reports have traditionally been viewed, both in the charity sector and elsewhere, as the primary means by which the management of an entity is able to fulfil its reporting responsibility. Such documents have, however, become extremely lengthy, often because of the increasingly complex audited financial statements and notes that are required (information that is often not deemed to be of vital importance to donors and that many of them may not understand). As a result, although such documents are important, donors do not engage with them extensively, and voluntary annual reviews have assumed greater prominence. If the annual review has become a more significant communication with donors, then conceivably there should be more legislative control of the information content in such channels to curtail possible misrepresentation and 'gaming'. With respect to this, perhaps the professional accountancy bodies have a part to play in this debate and in suggesting ways forward (particularly in finding ways to communicate potentially complex financial statement information in a summarised and meaningful way to financially unsophisticated users).

AREAS FOR FURTHER RESEARCH

The study focuses on the accountability of large UK charities, which, numerically, are a small part of the entire sector, albeit representing a large proportion of its economic activity. Previous research shows it is highly likely that accountability mechanisms are much less developed in smaller charities, and perhaps the means through which accountability is discharged are much less formal (because, for example, smaller charities are closer to their donor and beneficiary bases). A study comparing accountability processes across different size-groupings of charity would aid understanding in these areas. Moreover, the present research considers UK charities only, which in reality, because of the location of most large UK charities, are predominantly English charities. The charity sector in England and Wales has more history of control and regulation than that in other parts of the UK (where charity regulatory bodies have only relatively recently been established) and many other parts of the world. To learn about the development of charity accountability as the sector moves along a control and regulation spectrum, some comparison of England and Wales with Northern Ireland and Scotland would be of benefit, as would international comparisons with countries where charitable activity is significant (for example, with the US, Australia and Canada). Perhaps the expectation is that greater maturity in terms of control and regulation leads to greater expectations from stakeholders, which in turn provide the impetus for greater accountability by the sector. Furthermore, it may be that greater control and regulation, and better accountability, may support charitable activity by reducing information asymmetry problems and resulting in a growth in charitable giving. A mixture of quantitative and qualitative research methods might support such investigations.

This research focused on large UK fundraising charities, for the most part ignoring grant-making charities (except in so far as a small number of the fundraising charities are also significant grant-making charities), and therefore generalisations beyond this group should be made with caution. Comparative studies would aid understanding, particularly as the mix of stakeholders in grant-making charities is likely to be very different (given that funds often are not raised from the public and many grant-making charities do not engage with beneficiaries directly), as would comparative studies across the wider not-for-profit (NFP) sector (where similar issues of accountability exist). This research centred on large charities, regardless of their sphere of activity, and data were gathered, and interviews undertaken, from within this group. A more extensive sample, allowing a disaggregation of the data into areas of service activity, might provide a better understanding of, and a more targeted response to, the accountability challenges of different parts of the sector.

In recent years, the issue of governance has come to the fore in a consideration of how both businesses and NFP organisations are administered and managed. It could be argued that those charities with 'better' governance regimes are more likely to develop more extensive internal systems to target, measure and report performance, particularly performance related to effectiveness and efficiency. It may also be that charities with better governance regimes have more complete foundations on which to base the external reporting of performance, and are therefore more likely to provide such information in their annual reports. The identification of key governance variables, possibly by reference to the recent research on governance and charities referred to above, and the relationship of these to performance reporting, might provide another rich area for further research.

This research has highlighted beneficiaries as an important stakeholder group to whom charities must give account and this report argues that good accounting and reporting could well serve beneficiaries' best interests. Although there is no direct economic 'contract' between the beneficiaries and the charity, recent thinking suggests that there should be some level of user or beneficiary involvement within charities, although it is rarely claimed that there is one best way of doing this. As a general principle, this study finds agreement with the proposition that some direct involvement of beneficiaries in the management of charities has obvious benefits (although significant obstacles in achieving this may exist). At its very best, such involvement can, among other things: provide managers and members of boards with useful feedback on the effectiveness of service provision; cement a mutual vision that is shared by all stakeholders; and be a source of important and appropriate ideas as to what should be planned for the future. Nonetheless, possible dangers relating to inappropriate beneficiary involvement, such as tokenism and too much focus on current service recipients, can be considerable. The research demonstrates that many beneficiaries do not want direct involvement in the management (or steering) of charities and are not interested in traditional, formal means of discharging accountability by charities (for example, through conventional accounting channels of communication such as annual reports and annual reviews); and they are more concerned with the actual services made available and received. With respect to service provision, identifying effective means of generating meaningful feedback from users and potential users, and examining how such feedback is used by charities, would appear useful. Regarding beneficiaries' desire not to be involved in the management of charities, and their lack of interest in accounting and reporting, some exploration of whether such involvement and interest is appropriate, and, if so, how it could be achieved, would be valuable. Through empirical study, these issues can be analysed and this may help in the identification of best practice frameworks.

Good accounting and reporting are essential to build confidence in the charity sector and increase both charitable giving and charitable activity. The development and adoption of appropriate accountability practices that meet the information needs of a range of stakeholders, particularly donors and beneficiaries, and the continuous renewal of such, has the potential to provide a basis for greater confidence in the control processes within charities and result in a more accountable and more legitimate sector. While this report shows that the relevance gap in information disclosure has narrowed since 1990, further debate as to how charities should communicate with stakeholders and what should be included in such communications is essential in order to connect more closely with donors and beneficiaries, and to increase public confidence in charities. The net result of such debate, if it is conducted with key stakeholder input and reflects the context in which charities operate, can provide the basis for a more accountable charity sector, surely a widespread desire for the varied, valuable and socially desirable activities engaged in by charities.

1. Introduction

After providing an overview of the charity sector and outlining the importance of accountability in such an arena, this chapter presents the purpose and structure of this report.

1.1 AN OVERVIEW OF THE CHARITY SECTOR AND ACCOUNTABILITY

The charity sector in the UK comprises a vast and growing segment of economic activity with substantial assets at its disposal. There are almost 200,000 registered charities with an estimated total annual income approaching £60bn. The growth in the size and influence of the sector (Cabinet Office 2002), combined with a number of highly publicised scandals has led to increased sector visibility and public scrutiny (Beattie et al. 2002; Pratten 2004; Katz 2005), and the need for the sector to operate transparently and discharge accountability has been widely articulated in the academic literature and practice (Brody 2001; Ebrahim 2003; Home Office 2003; Pratten 2004; Charity Commission 2005a; Accounting Standards Board (ASB), 2007). Indeed, under the 2006 Charities Act, the Charity Commission in England and Wales has been charged with the responsibility of enhancing charitable accountability, increasing public trust and confidence, and promoting the effective use of charitable funds. In Scotland and Northern Ireland (NI), major changes in the regulatory environment have emphasised similar themes. While the conceptual framework for charity and other not-for-profit (NFP) reporting has been guided by the accountability paradigm (ASB 2007), the focus has principally been on financial reporting and the annual report. Recent discussion has, however, emphasised the significance of narrative and non-financial quantitative disclosures in the discharge of NFP accountability. Indeed, the Summary Information Return (SIR), which applies to large charities, focuses particularly on meeting this need, as does the most recent Statement of Recommended Practice (SORP) (Charity Commission 2005a).

The user-needs (or stakeholder-needs) model is now well established as a useful basis for a conceptual framework for charity reporting, and the view that accounting should provide information to satisfy the information needs of stakeholders is inextricably linked with the concept of accountability. External charity stakeholders have information needs, yet because they are not involved in the management of the charity they must rely on external communications, including the annual report, to meet those needs. This provision of information through formal information channels is a major part of the process of discharging accountability by the charity to those outside its immediate management, as the information is important for making decisions and judgements relating to involvement with, and support of, the organisation.

In considering the accountability of charities, two key questions emerge: to whom is a charity accountable; and what form should that account take? Two main types of information that are particularly important in discharging accountability are: financial information as contained in traditional financial statements; and wider performance information, often of a non-financial nature, relating to the goals, objectives, efficiency and effectiveness of the charity (Stewart 1984; Charity Commission 2004a, 2004b).

Notwithstanding the above, the conceptual framework for charity and other NFP reporting has been guided principally by the accountability paradigm, and financial information contained in traditional financial statements has dominated discussions (ASB 2007). By contrast, the Charity Commission, which has specific responsibility for developing guidelines for charity reporting in England and Wales, has also highlighted the role of the trustees' report, which contains substantial non-financial, narrative and quantitative information, as a vehicle for discharging accountability to external stakeholders. While the trustees' annual report and the financial statements (hereafter referred to as the 'annual report') are seen as a single package of information, it could be argued that the accountability discharged in the form of traditional financial statements largely demonstrates financial stewardship (relating to such factors as the non-misappropriation of funds, how money has been spent, the cost of raising funds and the liquidity of the organisation). In contrast, accountability in relation to one's actions, outcomes and responsibilities cannot be captured in such reports. Essentially, financial statements of NFP organisations (NFPOs) cannot convey organisational success (or failure) to stakeholders. Other reports, such as the trustees' annual report, containing non-financial quantitative and narrative information, can more appropriately relay achievements and future plans in the context of objectives, activities and strategies.

1.2 THE EMPIRICAL RESEARCH INCLUDED IN THIS REPORT

Despite the widespread acceptance that charities should discharge accountability to their external stakeholders, there is limited knowledge of their information needs (in particular, charity donors who are identified in earlier research as a key stakeholder group to whom accountability is owed – see, for example, Hyndman 1990; ASB 2007) and whether the information being disclosed is aligned to these needs. Through extensive document analysis, surveys of various stakeholder groups and a number of semi-structured interviews with key actors, the main aims of this research were to identify:

- the accountability information made available publicly to charity stakeholders
- stakeholder needs with respect to such information, and
- the perceptions of key providers of information with respect to stakeholder information needs.

1.3 STRUCTURE OF THE REPORT

The report is structured as follows.

Chapter 2 outlines the size and scope of the charity sector in the UK, together with a discussion of why people give to charities.

Chapter 3 discusses the origins and evolution of the SORP framework for accounting and reporting by charities; outlines previous related research; and reviews accountability and charities, stakeholder theory and the user-needs model. This, together with the material in Chapter 2, provides a theoretical and contextual backdrop for understanding and interpreting the research reported in Chapters 5, 6 and 7.

Chapter 4 outlines the methods used in the empirical analyses presented in this report (the results of which are subsequently presented in Chapters 5, 6 and 7). A mixture of quantitative and qualitative research methods were used to address the key research questions.

Chapter 5 presents the results of an analysis of annual reports, annual reviews and SIRs of the top 100 UK fundraising charities, to ascertain disclosure practices. The findings are presented, analysed and discussed, with relevant examples used for illustration purposes.

Chapter 6 discusses how the research developed by the use of a questionnaire survey to ascertain key charity stakeholders to whom an account is owed and the information needs of such stakeholders. In addition, by comparing the results presented in this chapter with the results of Chapter 5, any gaps between the information disclosed and information needs are highlighted.

Chapter 7 reports the results of semi-structured interviews with key actors about the provision and use of charity information, to get a deeper understanding of the needs of key stakeholders and the views of providers of information. The interview questions were driven by the findings in the earlier part of the research and the main themes in the academic literature.

Chapter 8 concludes with the main findings of this research.

Appendix 1 provides examples of different types of charity information found in the documents analysed (corresponding to the information types used in the empirical analysis reported in Chapters 5 and 6).

Appendix 2 illustrates the main questions asked during the semi-structured interviews, as reported in Chapter 7.

2. The charity sector – size, scope and motives for giving

This chapter provides a context for understanding and interpreting the empirical findings presented in Chapters 5, 6 and 7. It outlines the size and scope of the charity sector in the UK as well as providing some international comparisons. In addition, it explores possible reasons why people give to charities.

2.1 THE CHARITY SECTOR IN THE UK

Charities are voluntary organisations established to serve specific purposes of a charitable nature. In the UK, a major reference point in deciding whether a particular purpose is charitable or not is the preamble to the Elizabethan Statute of Charitable Uses (1601). This provides a list of objects that are considered to be charitable. Lord McNaughten, in the case of *Income Tax Special Purposes Commissioners v Pemsel* (1891), classified these objects into four main groups as follows: the relief of poverty, the advancement of education, the advancement of religion, and other purposes considered beneficial to the community, which the law recognises as charitable. More recently, the Charities Act (2006) provided further guidance on whether an organisation can be deemed charitable by specifying 13 'charitable purposes'. An organisation seeking charitable status must have as its main goal at least one of these and, in addition, fulfil a 'public benefit' test. To be recognised as a charity confers certain benefits, chiefly of a fiscal nature, on an organisation.

In the UK, there are three charity regulators: the Charity Commission for England and Wales, the Charity Commission for NI, and the Office of the Scottish Charity Regulator (OSCR). It is the policy of the Charity Commission for England and Wales not to compulsorily register charities with an income of less than £5,000. This does not mean that such organisations cannot be charities and enjoy the benefits of charitable status; these charities can still request to be registered (but there is no requirement to do so). There is no minimum income threshold for charities regulated by the Charity Commission for Northern Ireland (NI) or OSCR. All charities are subject to various legal obligations and compliance measures, which place strict conditions on the nature of the charity and how it is managed.

The UK charity sector has grown considerably in recent years. While the estimated annual income of registered charities in England and Wales in 1997 was £18.3bn (Charities Aid Foundation (CAF) 1998), this has grown to £58.5bn in 2012, a £3bn increase from the previous year (Charity Commission 2012). In December 2012, there were approximately 193,000 UK charities. This figure is made up of around 163,000 charities in England and Wales,[1] 23,000 in Scotland, and 7,000 in NI (Charity Commission 2012; Charity Commission for NI 2012; OSCR 2012). While the size of the charity sector is growing, the income distribution is skewed, with a small number of large charities accounting for a significant proportion of the total sector income. For example, in England and Wales, 901 large registered charities (just over one-half of 1% of total charities) accounted for 56.8% of total income (Charity Commission 2012). With respect to income, the largest UK charity is the British Council (£706m) while, with respect to investment funds available, the Wellcome Trust (£13bn) is largest (CaritasData 2011).

The National Council for Voluntary Organisations (NCVO) and the CAF also provide some indication of trends and patterns of individual giving (NCVO/CAF 2012). From 2007 to 2010, the income generated from individuals in the UK grew by 11%, from £9.5bn to £10.6bn. The NCVO/CAF (2012) findings show, however, that over 2011/12 the UK public gave £9.3bn to charity which, compared with 2010/11, is a decrease of £1.7bn in cash terms and a decrease of £2.3bn in real terms. Indeed, in real terms, this 2011/12 figure was the lowest since the survey began in 2004/5. Between 2010/11 and 2011/12, the total amount donated decreased by 15% (20% in real terms). At the same time, trends in charitable giving have remained relatively stable with regard to age, gender, occupation and charity area. Participation in charitable giving remains relatively widespread, with over half of adults giving in 2011/12, equivalent to 28.4m adults. The typical amount given per donor per month in 2011/12 was £10 (the median value), down from £11 in 2010/11 and £12 in 2009/10. Women continue to be more likely to give to charity than men (58% compared with 52%). In 2011/12, women aged 45 to 64 and 65 or more were most likely to give (62%) and gave the largest median amount (£15 per month). The least likely age/gender grouping to give to charities continues to be men between the ages of 16 and 24, with women in the same age group being only a little more generous. In terms of occupation, individuals from a professional background give the most to charity. Medical research charities continue to be the most successful kinds of charity in attracting total individual giving, followed by hospitals, children's and then animal charities. The proportion of donations coming from high-level donors (those who donate £100 or more per month) fell in 2011/12 from 45% to 40% of total donations.

Gift Aid (where charities can claim back tax paid by donors on the amounts donated) continues to be perceived as an area where more could be achieved by charities, and Her Majesty's Revenue and Customs (HMRC) is promoting its use and helping charities learn the fundamentals of the scheme. The Chancellor announced in the 2011 Budget that a new Gift Aid Small Donations Scheme (GASDS) would be introduced in 2013, enabling qualifying charities to claim a top-up payment equivalent to Gift Aid on small cash donations without requiring the donor to provide a Gift Aid declaration. In November 2012, the government confirmed that, following consultation (HMRC 2012a) and the passage of the Small Donations Bill through Parliament, some policy adjustments have been made to the GASDS, including that:

- the maximum size of a 'small donation' has been increased from £10 to £20
- charities will now need to have been registered and claiming Gift Aid for just two years to qualify, and not the three years originally specified, and
- charities will be required to match each pound of GASDS with 10 pence of Gift Aid donations.

1. This refers to registered charities only. In addition, there are many exempt charities (mostly universities, educational institutions and national museums) and excepted charities (including religious charities), which are not required to register. Therefore the total number of charities, and their economic impact, is considerably higher.

In addition, in the Chancellor's Autumn Statement in December 2012, the government stated that it would examine whether the administration of Gift Aid could be improved to reflect new ways of giving money to charity, in particular digital giving.

Recent work by the CAF (2010) indicates the importance of the charity sector in the UK compared with other countries. In this, the UK was ranked the eighth most generous country in the world in supporting charitable activity, behind others including the US, Canada, Australia and New Zealand. These last two countries were viewed as the most generous, with almost 60% of the population donating to charities on a regular basis. Interestingly, Australia, although having substantial charitable activity, has a significantly less-developed regulatory framework than the UK. In September 2010, the Australian Senate called on the government to introduce a charity commission to improve transparency and accountability within the sector (Pro Bono News 2010). The US, fifth in the CAF (2010) ranking, has the largest sector in the world overall, with an estimated 1.5m registered charities and NFPOs, generating an annual estimated income of approximately $1.41 trillion in 2009 (National Centre for Charitable Statistics 2011). In Europe, the CAF ranks Ireland and Switzerland more highly than the UK (third and fifth respectively).

Given the significance of the UK charity sector, it is heavily scrutinised, with various aspects often subject to official examination. For example, Lord Hodgson (2012) conducted a review of the Charities Act 2006; his report was laid before Parliament in July 2012. This report contains more than 100 recommendations relating to the charity sector's difficulties and anomalies. A report on public perceptions of charity, commissioned from Ipsos Mori (2012), which underpinned Lord Hodgson's review, was published at the same time. In December 2012, the Minister for Civil Society, Nick Hurd MP, made an interim response to the recommendations contained in Lord Hodgson's report, stating that the government proposes to accept most of the recommendations, although he acknowledged that some will require more analysis and consideration before a final decision is made (Hurd 2012). The government's position on some of the key recommendations is summarised in Table 2.1 (for full explanation of these recommendations, and the entire list, see Lord Hodgson 2012: 123–35).

The government, being keen to respond to public concerns about face-to-face fundraising, is most likely to adopt Lord Hodgson's proposals on fundraising. Lord Hodgson recommends that face-to-face fundraising should be brought into the local authority licensing regime, but stops short of stating explicitly that charities should have to seek licences in the same way as for cash collections. The government is also likely to favour the recommendations on clarifying and simplifying the self-regulation of fundraising, and on drawing up national guidelines for public charitable collections that would allow local flexibility. Charging charities for regulation by the Charity Commission, withdrawing Gift Aid for late filing of accounts, and allowing charities with annual incomes of more than £1m to pay trustees without approval by the Charity Commission are among the reforms proposed by the review that are seen as less likely to make progress, at least in the short term. Lord Hodgson also recommends raising the income threshold for compulsory registration for charities from £5,000 to £25,000 and amending the law to put social investment by charities on a firmer basis. The Public Administration Select Committee is undertaking its own inquiry into the regulation of charities, and is expected to report in early 2013.

2.2 GRANT MAKING, FUNDRAISING AND LEGAL STRUCTURE

One way of classifying UK charities is to place them within one of two fairly broad categories: grant-making and fundraising (although some fundraising charities frequently also engage in grant-making activities). A grant-making charity provides grants to recipients (normally other charities or voluntary NFPOs) to enable them to pursue charitable activities. Often they are funded by endowments, do not seek money from the general public and do not directly engage with beneficiaries. On the other hand, a fundraising charity seeks funding from the public (and other sources) and engages directly with charity beneficiaries in fulfilling its charitable objectives. In reality, many fundraising charities also engage in a degree of grant making, and therefore the apparent fundraising/grant-making dichotomy is, in effect, a spectrum. Fundraising charities account for over 120,000 of registered charities in the UK compared with approximately 77,000 whose main focus is making grants. UK charities typically operate under one of the following three legal structures: an unincorporated association, a trust, or an incorporated association.

Table 2.1: Summary of the government's position with respect to Lord Hodgson's recommendations (2012)

Lord Hodgson's recommendations	Government position
Revise the definition of charity and public benefit	Broadly accepts recommendation
Allow large charities to remunerate trustees	Proposes not to accept recommendation
Revise role, form and functions of the Charity Commission	Broadly accepts recommendation
Allow Charity Commission to charge fees for its services	More work required before a decision can be made
Amend registration and other thresholds	More work required before a decision can be made
Improve transparency	Broadly accepts recommendation
Reduce regulation	Broadly accepts recommendation
Reform the jurisdiction of the Charity Tribunal	Broadly accepted, but more work required before a decision can be made
Develop standard social-investment vehicle	Broadly accepted, but more work required before a decision can be made
Clarify regulations relating to fundraising (including charity collections)	Broadly accepts recommendation

2.2.1 An unincorporated association

This the most common form of organisation within the UK voluntary sector. It is fundamentally a contractual arrangement between individuals who have agreed to come together to form an organisation for a particular charitable purpose. An unincorporated association will normally have as its governing document a constitution, which will deal with such matters as the appointment of office bearers and the rules governing membership. The organisation is not a separate legal entity, so it cannot initiate legal action, it cannot borrow money and it cannot enter into contracts in its own name. Moreover, the officers (or trustees) can be personally liable if the charity is sued or has debts.

2.2.2 A trust

A trust is basically a relationship between three parties: the donor of assets; the trustees, who hold the assets; and the beneficiaries (the individuals who should benefit from the activity of the organisation). When the trust has charitable purposes, the trust is known as a charitable trust. The governing document is the trust deed, which is signed by all the trustees. The main disadvantage of a trust is that, as with an unincorporated association, it does not have a separate legal entity and the trustees must themselves own the property and enter into contracts. Because of this the trustees are liable if the charity is sued or incurs liability.

2.2.3 An incorporated organisation

This may take the form of a company limited by guarantee, a company incorporated by Royal Charter or a Charitable Incorporated Organisation (CIO). A company limited by guarantee is a private limited company where the liability of members is limited. It does not have a share capital, but instead has members who are guarantors; these members agree to pay a nominal sum in the event that the company is wound up. A small number of charities are incorporated by Royal Charter, which is a document that creates a corporation with legal personality. The Charter must be approved by the Privy Council before receiving Royal Assent. Incorporation, either by guarantee or by Royal Charter, allows the trustees to have the protection of limited liability. In addition, the charity has legal personality and so can enter into contracts in its own name.

In response to requests from charities for a new structure that could provide some of the benefits of being a company but without some of the burdens, the Charities Act 2006 (which applies to charities in England and Wales) introduced a new legal form of incorporation designed specifically for charities, the CIO. The regulations that complete the legal framework for CIOs have now been agreed by Parliament, and the Charity Commission (for England and Wales) started accepting applications to register completely new organisations that wish to be CIOs from 10 December 2012. A CIO is an incorporated form of charity which is not a company; it has to register only with the Charity Commission and not with Companies House; it will be created only once it is registered by the Commission; it can enter into contracts in its own right and its members will normally have limited or no liability for its debts. Like the CIO in England and Wales, the Scottish CIO (SCIO) allows Scottish charities to incorporate without having to become a company and register with Companies House. The SCIO became available for Scottish charities to use from 1 April 2011; OSCR is responsible for registering and regulating SCIOs.

2.3 REASONS FOR GIVING TO CHARITIES

Over the past 20 years the charity sector has evolved considerably in size, structure and functions, and, together with changes in the nature of charitable giving, this has increased the need to understand what motivates people to give to charity (Clotfelter 1997). Earlier research on this area is both extensive and extremely broad and encompasses work from economic, sociological and psychological perspectives. Considering the motivations for charitable behaviour is important because an understanding of them can help charities in developing strategies to encourage and motivate people to donate (NCVO 2010). Moreover, establishing how the reasons why people donate to charity may change over time can help in identifying or responding to trends, such as changes in the economic environment and changes in demographics, so enabling charities to prepare for these changes (Vesterlund 2006). While a comprehensive coverage of this is beyond the scope of this report, some key themes (which inevitably overlap) are outlined below under the following headings: religious beliefs; tax incentives; altruism and warm-glow giving; economic reasons; personal connection; signalling; and shock advertising.

2.3.1 Religious beliefs

Religious belief is viewed as being one major determinant of giving, with the extent of commitment to religious beliefs being positively correlated with charitable giving (Edmundson 1986; Halfpenny 1990; Graham and Haidt 2009). Harris (2006) finds that many religious individuals believe that if they do good things (for example, by giving to charity) they will be rewarded in an afterlife, or, alternatively, punished if they do not. Even so, Brooks (2008), who categorises religious people into different faith groups, finds that individuals of faith, regardless of their belief in an afterlife, are equally generous to charitable causes. Other religion-related research has raised the question of whether religious people give because of self-interest. Norenzayan and Shariff (2008) argue that religious people sometimes give to charity for individual reputational purposes, supposing that if they are seen to be doing good by others they know, this enhances their reputation within their own religious community. Moreover, the link between social interaction and religious charitable giving has been identified as being important. Graham and Haidt (2009) find that religious individuals tend to involve themselves more directly in helping their communities, and, as a consequence of such involvement, increase their donations. This is supported by a study of wealthy individuals conducted by the Center on Philanthropy at Indiana University (2010), which reported that those who attended religious services once a week gave $14,408 per year on average, and those who attended more than once a week gave $18,673, on average; in contrast, those who did not attend religious services gave an average of $2,521. Nonetheless, in the US, donations directly to religious institutions are falling, from approximately 60% of all charitable giving in the 1960s to a current level of around 30%. In the UK, the figures for religious giving are much lower, with only 17% of donors citing religion as the reason for their gifts; although, religion is the cause that has seen the largest increase, rising from 14% of all donations in 2004/05 to 17% in 2011/12, and 'religious causes' received the largest typical monthly amount given in 2011/12 (with a median amount of £20, up from £15 in 2010/11) (NCVO/CAF 2012).

2.3.2 Tax incentives

The early work of Schwartz (1970) and Becker (1974) shows that the availability of tax-relief schemes has encouraged giving to charity. Several schemes are available in the UK, such as Gift Aid, the payroll giving scheme and capital gains tax relief on donations (HMRC 2012b). Notwithstanding this, empirical work from Smeaton et al. (2004) shows that a significant proportion of donors and charities fail to use these tax benefits in the most efficient manner, often because of a lack of knowledge. Indeed, NCVO/CAF (2012) report that the proportion of donors using Gift Aid fell from 42% in 2010/11 to 39% in 2011/12.

2.3.3 Altruism and warm-glow giving

A number of studies of charitable giving have explored behavioural aspects, often focusing on the concept of altruism. Occasionally linked with ideas connected to religious beliefs, altruism is viewed as a completely selfless form of behaviour whereby the individual's motivation comes purely from the concern for the well-being of others with no self-satisfaction. This concept lacks empirical backing, however, mainly because of difficulties in specifying donors' reasons for giving. Andreoni (1990) argues that pure altruism does not exist because it is human nature for a person to feel happy (or gain utility) about doing something good, such as giving to charity. On the basis of empirical testing, Andreoni argues that contributions to charities increased because of the self-satisfaction that individuals get from donating; supporting a notion of impure altruism. This became known as the theory of 'warm-glow giving' (Crumpler and Grossman 2008).

2.3.4 Economic reasons

Some economists have suggested that the main reason people give to charity is pure self-interest (Clotfelter 1997; Vesterlund 2006). Consequently, various models have been developed to try to explain what causes people to give, with income, age and education as the three main variables. These may provide some clues as to the types of people who are likely to be receptive to charitable messages (and who are liable to gain utility by responding to such messages) and may be particularly useful to charities in targeting potential donors. Nonetheless, it has been argued that the identification of these variables alone is not enough and that they are 'descriptive at best' (Smith and McSweeney 2007: 4). The main variables of such studies are outlined briefly below.

- *Income* In Becker's model (1974) of how people contribute to society, a strong correlation was found between the level of a person's income and the level of charitable donations.

- *Age/gender* Age and gender variables have also been included in models to explain who gives the most. A recent UK survey by NCVO (2010) indicates that the group most likely to give to charity is women aged 45–64.

- *Education* The trend is that more highly educated people tend to be more motivated to donate than those with a lower level of education. A US study (Anft and Lipman 2003) shows that, regardless of income, higher-educated people give more to charity. UK research, however, shows contrasting views, with a strong correlation between education, income and charitable donations being found (Piper and Schnepf 2008).

2.3.5 Personal connection

Literature from sociological and psychological perspectives has explored motivational trends related to giving. Empirical studies have shown that individuals are moved to support charities fighting causes that have affected their own lives, possibly through the illness or the death of a family member (Bekkers and Wiepking 2007). One particular charity to emphasise this type of connection is Cancer Research UK. Through various public events and the media it attempts to establish a bond not just with people who have had cancer, but also with the family and friends of victims, creating a real sense of awareness. Such connections are powerful. It is interesting to note that in 2009/10 'medical research' was the most popular area of charitable activity in attracting donations (NCVO/CAF 2012). Similarly, studies have shown that people who can be classified as 'animal lovers' give much more to charities for animal welfare than to charities for social welfare (Bennett 2003). Moreover, individuals with a sense of the importance of being involved within a community or social organisation are more likely to give (Aaker et al. 2009).

Unsurprisingly, the highlighting of particular causes (or particular individuals) by the media can have a powerful influence on giving by individuals. A study by Small et al. (2007) finds that people give more sympathy to an 'identifiable victim' of whom they have been made aware, than to a 'statistical victim'. Such findings encourage the highlighting of vignettes and stories by charities as a means of engaging with donors and potential donors. For example, within the UK, high-profile media campaigns by Children in Need and Comic Relief stress personal stories as a major thrust of their message. It has been argued, however, that as these campaigns are closely followed by the media and use various celebrities to generate public interest, it could be unfair to smaller charities that do not have the money, resources or connections to engage with such events (Brindle 2011). As a consequence, there is the potential of a diversion of charitable donations from small to large charities, which may not necessarily be beneficial for the sector as a whole.

2.3.6 Signalling

Research has shown that both individuals and businesses can use giving to charity as a signalling device, with those who are successful financially wanting to demonstrate that success through philanthropy (Glazer and Konrad 1996). Philanthropic activity has become common in recent years among wealthy individuals (for example, Bill Gates) and big corporations (for example, Tesco, Harrods and Top Shop), not only signalling how wealthy they are but also potentially rewarding them with popularity (which may be useful in driving future success). Particularly for corporations, while giving to charities may indicate a wider corporate social responsibility (which could be viewed as an aspect of good corporate governance), providing large donations to charities also demonstrates liquidity to the market and hence may encourage investment.

2.3.7 Shock advertising

It has been suggested that people may give to charities because they are asked to, or solicited, via television commercials, poster campaigns, door-to-door collections, telephone calls and street collecting, etc. Nonetheless, there is a danger that over-zealous

solicitation, perhaps by the use of street 'chuggers'[2], may be detrimental to the image of a charity. Notwithstanding this, it is argued that in recent years charities have more frequently engaged in direct, hard-line messaging to donors and potential donors through what have been called 'shock tactics' (Small and Verrochi 2009). For example, advertisements by charities demonstrating domestic violence, child abuse, abject poverty and deaths caused by various illnesses are not unusual; the objective being to 'shock' the audience to get their attention and, by doing so, provoke them into donating. Such approaches are controversial, both ethically and in terms of effectiveness. Recent research conducted by the NSPCC, using focus groups and feedback on advertising campaigns, found that shock tactics not only run the risk of not communicating the full objective of the campaign, but also make people feel uncomfortable and have the 'potential to alienate the audience to such an extent that it may affect... the ability to raise money or generate support for... the campaigning activities' (Grounds and Griffiths 2005: 71). By contrast, in a recent survey by YouGov, the vast majority of those surveyed (80%) agreed that shock tactics could be used by charities provided they raised awareness about the work of a charity (Wiggins 2010).

2. Paid street fundraisers are sometimes known as 'chuggers' because this type of fundraising is sometimes viewed as aggressive or invasive (a portmanteau of 'charity' and 'mugger').

3. Charity accounting and reporting – theoretical and contextual issues

This chapter discusses the origins and evolution of the Statement of Recommended Practice (SORP) for accounting and reporting by charities before outlining previous related research. In addition, it includes ideas concerning the concept of accountability in charities, stakeholder theory and the user-needs model. Overall, it provides a contextual and theoretical backdrop for understanding and interpreting the empirical research reported in Chapters 5, 6 and 7.

3.1 AN ACCOUNTING PROBLEM IDENTIFIED

In 1981, Bird and Morgan-Jones published a landmark report on financial reporting by charities. Having conducted an analysis of charity annual reports and financial statements, they identified huge variation in accounting practices, together with high levels of non-compliance with the relevant reporting standards and best practice of the time. Some of the contentious accounting treatments found concerned:

- legacies – the majority of charities that received legacies either credited them directly to capital (reserves) or split the credit between revenue and capital
- deferred expenses – a number of charities made use of a provision or reserve for deferred (future) expenses and charged the amount 'above the line', and
- fixed assets (including freehold property) – in a significant number of charities, fixed assets were written off on acquisition.

These treatments, and other widely adopted accounting ploys, had a significant impact on readers' assessment of the performance and position of the charity and on their ability to compare charities. The issues identified led Bird and Morgan-Jones to conclude that in many cases charity accounting did not show a true and fair view of the position and performance of the charity, with an apparent common aim of understating the revenue result (presumably as a basis for encouraging donors to provide funds).

> *Management is fearful that if it reports truly and fairly, its fund raising activities will be adversely affected, and therefore ways and means are found for tucking away revenue and charging expenses which would not be tolerated in business accounts. This results in an understatement of the surplus for the year or an overstatement of the deficit.* (Bird and Morgan-Jones 1981: 196)

This situation existed against a very limited and weak framework of regulation governing charity financial reporting (substantially different to that which exists today). The charity law at the time, primarily the Charities' Act 1960, was diverse and had little to say about charity financial statements. Charities were under an obligation to keep proper records and prepare financial statements regularly, but did not have a duty to show a true and fair view in their financial statements or have the financial statements audited. Charities that were incorporated as limited companies were subject to the much stricter reporting requirements of the Companies' Acts, although Bird and Morgan-Jones (1981) found evidence that even in these charities compliance was rather lax.

In 1981 the Accounting Standards Committee (ASC) had not yet made any specific pronouncements about charities, and while their intention was that, if relevant, reporting standards would apply to all organisations, including NFPOs, in practice there was confusion about the applicability of standards to charities, and in many instances reporting standards were not applied. It was recognised that to continue to tolerate this rather laissez-faire approach was to risk undermining public confidence in charity accounting and that change was necessary to safeguard the interests of a range of stakeholders. Although rejecting a prescriptive, rigid approach to the preparation of charity financial statements, Bird and Morgan-Jones came to the conclusion that (1981: 146):

> *users of charity accounts, as well as their producers and auditors, are as strongly in favour of moves towards greater consistency and comparability in the accounts as our analysis of users and their needs had led us to expect.*

Accordingly, in the appendix to their report they set out guidelines to prompt discussion on the best way forward and made specific recommendations of best reporting practice for items that they had identified as being inconsistently reported. The report stimulated debate, in academic writing and professional publications, on the need for change.

While wider performance issues were not the focus of the Bird and Morgan-Jones' work (1981) (that focus was clearly on improving financial reporting), their report nonetheless highlights that some charities provided performance information, including narrative and statistical information, that was viewed as likely to be important to users of the annual reports.

> *The provision of statistical information on the lines indicated can, in appropriate cases, be very useful in the accounts of a charity. Comparisons can be made as between similar charities and as between similar organisations run by the private and public sectors of the economy…We commend the practice of providing such additional information in charity reports and hope to see it extended.* (Bird and Morgan-Jones 1981: 102)

3.2 THE ORIGINS OF THE CHARITY SORP

In 1982 the ASC introduced a new instrument of accounting rule-making, the SORP, arguably to allow the accountancy profession to continue to develop rules in controversial areas but with reduced status so as to pre-empt enforcement problems. SORPs make recommendations for accounting and reporting to provide consistency of accounting treatment within specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in the particular industry or sector. The requirements of the law and accounting standards exist irrespective of SORPs, which simply provide consistent interpretation of these standards following consultation with the specific sector.

Since 1994 SORPs have no longer been issued by the ASC/ Accounting Standards Board (ASB) (the successor to the ASC), but by industry or sectoral bodies recognised for the purpose by the ASB. To secure such recognition, SORP-making bodies are

expected to meet criteria laid down by the ASB and to develop their SORP in accordance with the ASB's code of practice. Although not issued by the ASB, each SORP must carry a statement by the ASB confirming that it does not appear to contain any fundamental points of principle that are unacceptable within current accounting practice nor conflict with an accounting standard or the ASB's plans for future standards. There are currently three SORPs for public-benefit entities, covering charities, housing associations and further and higher education.

Since the early 1980s, considerable efforts have been made to improve the quality and consistency of charity accounting and reporting in the UK. It is widely accepted in the sector (for example, Connolly et al. 2009) that while significant improvement has been made, this would not have been seen without the sector-specific guidance and disciplining influence of the charity SORP. The charity SORP applies to charities generally in the UK unless a more specific SORP applies (such as for the further and higher education sector or registered social landlords).

3.3 THE FIRST CHARITY SORP: 1988 SORP 2

In April 1982, in a stated response to Bird and Morgan-Jones' report (1981), the ASC set up a charities' working party with representatives from various stakeholder groups (the accounting profession, charities, foundations and the Charity Commission) to look into ways of enhancing the usefulness and comparability of charities' annual reports. The findings of the working party were published as a discussion paper (in 1984) and an exposure draft (in 1985). Ultimately, Accounting by Charities, Statement of Recommended Practice 2 (ASC 1988) was issued (the practice of numbering SORPs later ceased).

These documents focused on addressing the financial reporting deficiencies identified in Bird and Morgan-Jones' report, often closely following that report's recommendations and interpreting existing UK reporting standards. In the majority of cases it clarified best practice – for example, that donated assets should be included as incoming resources at a reasonable estimate of their value to the charity, and that fixed assets should be capitalised and depreciated. Nonetheless, in a number of cases, the SORP allowed discretion and emphasised that presentation should be made in a manner appropriate to the charity. This, coupled with the fact that these were clearly only recommendations and were not mandatory, allowed preparers to use considerable judgement in the presentation of their financial statements. In the consultation process, although most respondents recognised the need for guidance, there was some criticism that the SORP's commercial focus and its 'either/or' approach could reduce the potential for positive impact. In retrospect, it was suggested that these weaknesses contributed to the rather limited initial impact that the 1988 SORP had on the sector (Charity Commission 2009a).

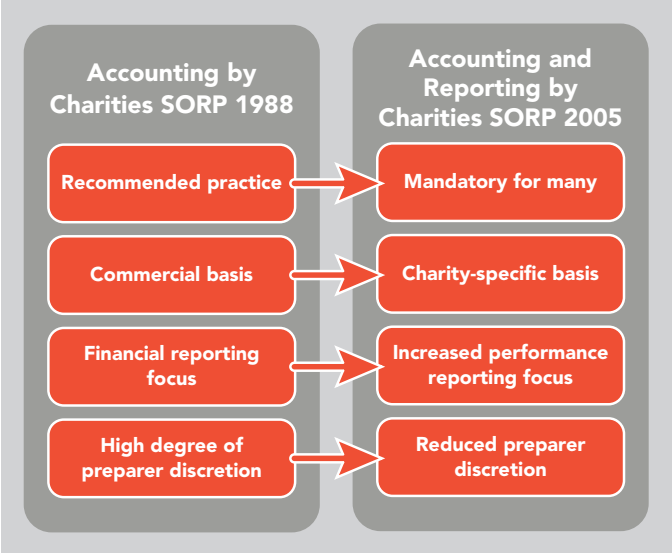
3.4 THE CHARITY SORP FROM 1995 TO 2005

In 1995, responsibility for the charity SORP passed to the SORP Committee of the Charity Commission, the regulatory body for charities in England and Wales, which had been established and continues to be funded by government. Subsequent iterations of the SORP were issued by this body:

- *Accounting by Charities, Statement of Recommended Practice 2* (Charity Commission 1995)
- *Accounting and Reporting by Charities, Statement of Recommended Practice* (Charity Commission 2000a), and
- *Accounting and Reporting by Charities, Statement of Recommended Practice* (Charity Commission 2005a).

Since 1995 the SORP has developed virtually beyond recognition. One notable modification was the name change in 2000 from 'Accounting' SORP to 'Accounting and Reporting' SORP, reflecting the much greater emphasis on the trustees' report in later versions. Other significant changes (as summarised in Figure 3.1) are discussed below under the headings: increased legislative weight; increased charity specificity; shift in focus; and reduced preparer discretion.

Figure 3.1: Evolution of the charity SORP, 1988–2005



3.4.1 Increased legislative weight

While charities in the UK were encouraged to apply the recommendations of the 1988 SORP (ASC 1988), they were not required to do so. Since the 1995 SORP (Charity Commission 1995), changes to the legislative framework have made compliance mandatory for many larger charities. In England and Wales, the Charities Act 1960 was replaced by new Charities Acts in 1992 and 1993, offering expanded accounting regulations for charities, expanded again in the Charity Accounting Regulations 1995. Significantly, compliance with the SORP has become a legal requirement for many of these large charities. In England and Wales, the 2000 SORP (Charity Commission 2000a) was reinforced by the Charity (Accounts and Reports) Regulations 2000, and the 2005 SORP (Charity Commission 2005a) by the Charity (Accounts and Reports) Regulations 2005.

The duty to file the annual report with the Charity Commission applies to all registered charities whose gross income exceeds £25,000; charities whose gross income exceeds £10,000 must also complete an Annual Return. These documents must be submitted to the Charity Commission within 10 months of the end of the financial year. Charity financial statements may be prepared

either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as a company. The (simpler) receipts and payments basis may be adopted where a non-company charity has a gross income of £250,000 or less during the year. Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies, must prepare their financial statements on the accruals basis in accordance with the SORP. Except for National Health Service charities, only those charities with gross income of more than £25,000 in their financial year are required to have their financial statements independently examined or audited.

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £25,000 and £500,000 and an audit is needed where the gross income exceeds £500,000. An audit will also be needed if total assets (before liabilities) exceed £3.26m, and the charity's gross income is more than £250,000. In 2006, compliance with the SORP was required for the first time in Scotland (for all charities preparing accruals-based financial statements) after the implementation of the Charity Accounts (Scotland) Regulations 2006. No such requirement was made in the Charities Act (Northern Ireland) 2008, although that position is still under discussion.

In effect, compliance with the SORP is now mandatory for large charities in England, Scotland and Wales (where the vast majority of UK charity spending takes place and where over 95% of UK charities are located (NCVO 2010). The 'Recommendations' have become 'Requirements' for many UK charities (especially large charities). Empirical evidence shows a high level of engagement with the SORP by these charities: among others, Connolly and Hyndman (2000, 2004) provide evidence that compliance has increased since 1995, presumably caused, at least in part, by the more mandatory nature of the contents of the SORP.

3.4.2 Increased charity specificity

Rather than create a set of charity reporting standards, the 1988 SORP (ASC 1988) focused on interpreting the existing commercial reporting standards. While the SORP remains an interpretation of those standards, charity financial statements have become substantially different from commercial financial statements owing to changes in the SORP over time. As an example, one of the most radical changes was the introduction of the Statement of Financial Activities (SOFA) in place of the income and expenditure statement in the 1995 SORP (Charity Commission 1995). The SOFA, which has evolved since its introduction, is unlike the income and expenditure statements of companies; for example, it is columnar, separately showing income and expenses related to restricted and unrestricted funds (an important distinction under UK trust law) and it shows income of different types together with the expenditure associated with that income (rather than showing only one type of income and many types of expenditure in 'natural categories' – such as wage costs and interest costs). The adoption of the SOFA as the primary income statement was an extremely significant step in that a SORP had never before recommended such fundamental changes, in particular such sector-specific changes. Connolly and Hyndman (2000) see these modifications as a direct result of criticisms levelled at the 1988 SORP, including the criticism that commercially based financial statements were not fully appropriate for charities.

In tandem with other developments in the SORP, charity-specific terminology has evolved and become part of the language both of the SORP and of charity reporting. Terms such as 'restricted funds' and 'designated funds' have no meaning or comparator in the commercial sector, necessitating expanded guidance on their use. The increased use of charity-specific terminology, the provision of definitions of that terminology and the augmentation of the SORP with clear examples have lengthened the document considerably, from a 30-page, A5[3] stapled pamphlet in 1988 to a 103-page A4 bound book in 2005.

3.4.3 Shift in focus

In line with the recommendations of Bird and Morgan-Jones (1981), the first SORP (ASC 1988) focused on improving financial reporting by providing guidance on such matters as best practice for the treatment of fixed assets, legacies and restricted funds. Recommendations on any type of performance reporting were limited. Research at the time indicated that this focus on traditional financial accounting issues would not meet all the information needs of users; for example, Hyndman (1990) shows that the information that resource providers (recognised as the key user of charity reports and financial statements) found most useful was information that allowed them to assess the performance of the charity in terms of output and efficiency. Such information was not routinely provided in charity reports and it was argued that the ASC's focus on the technicalities of audited statements at the expense of other types of reporting represented a mismatch between the information that users perceive as most useful and the information provided to them.

Over time, recommendations on performance and governance reporting have been progressively added to the SORP, usually with the rationale of allowing the reader to judge the performance of the charity. For example, the 1995 SORP (Charity Commission 1995) promoted reporting on the general progress of the charity and what it had been able to achieve during the year (supported by statistical information if available) and encouraged the provision of examples, such as the number of beneficiaries reached. Notwithstanding the above, there was concern that the recommendations relating to performance and governance reporting in the 1995 and 2000 SORPs were being poorly applied (see, for example, Connolly and Hyndman 2004; Connolly and Dhanani 2006; Jetty and Beattie 2009).

Given these concerns, which were reasonably widely expressed over a number of years, government then took a much more proactive role through the publication of *Private Action, Public Benefit* (Cabinet Office 2002), which was based on a review of charities and the wider not-for-profit sector. While its coverage is much broader than accounting and reporting, its Chapter 6 focuses on the need for better information as a basis for building trust and confidence in the sector, and on supporting the sector in improving performance. The report highlights a lack of credible information on performance and outcomes, and a lack of meaningful comparison between similar organisations; it argues that such information would boost public confidence and assist decision making. In an attempt to address this issue, it advocates a new document, the Standard Information Return (later renamed the Summary Information Return) for charities with annual

3. These refer to international standard paper sizes. A5 paper is 148.5mm x 210mm, A4 paper is 210mm x 297mm.

incomes greater than £1m to provide: 'Qualitative and quantitative information on how the charity sets its objectives and measures performance against them' (Cabinet Office 2002: para. 6.11).

It also recommends that:

> *Improvements should be made to the SORP to strengthen its focus on achievements against objectives, organisational impact and future strategy, and improved methods for apportioning cost and expenditure to allow more meaningful comparisons to be made.* (Cabinet Office 2002: para. 6.12)

Taking action on this report, the Charity Commission formed a subcommittee of its accountability implementation group, with a wider membership than the SORP Committee, to focus on governance and performance reporting. This Annual Reporting Advisory Group was instrumental in helping to develop the detail for the Summary Information Return (SIR) and recommendations for the trustees' annual report that were included in the revised SORP (Charity Commission 2009b). The change of approach was clearly evident in the 2005 SORP (Charity Commission 2005a), which included the most comprehensive recommendations on performance reporting yet seen. It advocated more disclosure on the administration, governance and management of the charity, and additional information in the financial review and on plans for future periods. Significantly, it also contained detailed recommendations on:

- the need to explain the charity's main objectives for the year and provide a description of the strategies for achieving those objectives
- the provision of qualitative and quantitative information about the achievements and performance of the charity in the year, to include summaries of any measures used by the charity to assess its performance, and
- disclosure of sufficient information to allow readers to understand the role and contribution of volunteers.

3.4.4 Reduced preparer discretion

The 1995 SORP (Charity Commission 1995) was described as being significantly more prescriptive than its predecessor, and this trend continued in subsequent SORPs. As an example, among many, the 1995 SORP required investments to be shown on the balance sheet at market value, whereas the 1988 SORP (ASC 1988) had made no specific reference to investment valuation (allowing preparers to use a variety of valuation bases). Over time, the SORPs have provided more clarification, more detailed technical guidance and more examples, reducing reliance on the judgement of the preparing accountant and lessening the scope for variability in charity accounting practices. These changes, which have been informed by the ASB's discussions (2007) on the *Statement of Principles for Financial Reporting* as they relate to public benefit entities (as acknowledged by the Charity Commission 2005b), seek to clarify how generally accepted accounting principles should be adapted and applied in the context of charities.

As a foundation for the future review of the SORP, the Charity Commission/OSCR undertook its largest-ever consultation on an accounting pronouncement (see Connolly et al. 2009). A revised SORP, drawing heavily on this consultation process, is expected in 2015.[4]

3.5 PREVIOUS RELATED RESEARCH

Prior research examining charity accounting and reporting can be broadly categorised into studies that have investigated the:

- extent to which charity annual reports and financial statements comply with the recommendations of the extant SORP, and
- disclosure patterns of information accompanying annual financial statements, particularly relating to the performance of charities.

These two aspects are discussed below. The major thrust of the findings of the former studies is that charity reporting is characterised by a diversity of accounting practices and a lack of standardisation which has resulted in difficulties for users in understanding financial statements. The second strand of studies has broadly reported a failure to discharge performance accountability to external stakeholders comprehensively.

3.5.1 Research related to the financial accountability of charities

A number of studies on the accountability of charities have focused on financial accountability, arguing that the quality of financial statements can be judged by their compliance with the extant SORP (or generally accepted accounting principles). The work of Bird and Morgan-Jones, which was reviewed in section 3.1 above, was based on an analysis of the annual reports of 135 charities and highlighted immense variety in charity accounting practices (Bird and Morgan-Jones 1981). A major thrust of the conclusions of the research was that such lack of standardisation in financial accounting was confusing, undermined confidence in the charities and possibly inhibited the growth of the sector. This research, together with reports by the National Audit Office (1987) and Sir Philip Woodfield (Woodfield 1987) on the supervision and regulation of charities, contributed to the publication of the original SORP (ASC 1988).

Later research sought to assess the impact of the original SORP (ASC 1988) shortly after its publication (Ashford 1989; Gambling et al. 1990; Hines and Jones 1992). Ashford (1989) reviews the conformity of the 1988/9 financial statements of 56 charities (grant-making and fundraising) with the SORP's requirements. The work concentrates on accounting policies, the content of the income and expenditure account, fixed asset accounting, investment valuation and legacies. While Ashford is able to illustrate a degree of compliance with the SORP, he concludes that many charities had continued to use dubious accounting practices, particularly in the area of accounting measurement. Gambling et al. (1990) carried out a cross-sectional survey, using in-depth interviews, on the application of the original SORP in six charities.

4. The ASB decided at its November 2011 board meeting to defer the application date of new UK GAAP until 1 January 2015 (thus aligning the application date of the new GAAP with the implementation of IFRS 9 *Financial Instruments* by the International Accounting Standards Board). The change to the application date of the new UK GAAP would delay the effective date of any revised SORP to at least early 2015.

The research suggests that as the requirements set out in the SORP were only recommendations, charities had little incentive to change their current practices. Gambling et al. (1990) argue that this was particularly true given the additional compliance costs. Hines and Jones (1992) conducted a longitudinal study of the reporting practices of 54 of the largest UK charities over the three years from 1988 to 1990 in order to assess whether or not the SORP had had a significant impact upon their accounting practices immediately after its introduction. The main conclusion from their work is that there was no evidence to suggest that it had. Overall, these studies suggest that the impact of the original SORP was limited. In some charities it appeared that the SORP was being ignored, while key individuals in others were not even aware of its existence. One reason put forward for non-compliance was the lack of ownership of the SORP by charities. Gambling et al. (1990: 9) report that 'the SORP reflected the opinions of the accounting profession about charity accounting, rather than those of the charities themselves'. Hines and Jones (1992) suggest that non-compliance with non-mandatory accounting standards was not surprising, and that mandatory accounting pronouncements or legislation were required.

In response to criticisms about the weaknesses of, and non-compliance with, the original SORP (ASC 1988), a committee sponsored by the Charity Commission in England and Wales was set up to review the original SORP. This resulted in the publication of an exposure draft for a revised SORP (Charity Commission 1993), and in 1995 a revised SORP (Charity Commission 1995) was issued (as referred to in 3.4 above). Williams and Palmer (1998) assess the state of charity accounting just before the introduction of the revised SORP. Using the work of Bird and Morgan-Jones (1981) as a benchmark, they examine the 1994/95 financial statements of 83 charities (classified into large, medium and small categories). While they conclude that there had definitely been progress among larger charities in improving the quality of financial reporting, they also find the persistence of considerable variations in charity accounting practices.

Subsequent to the publication of the revised SORP (Charity Commission 1995), Connolly and Hyndman conducted an empirical analysis of the financial statements of large fundraising charities in the UK issued both before (1994/95) and after (1996/97) the publication of the revised SORP (Connolly and Hyndman 2000). The study suggests that while accounting by large charities had improved significantly since the 1980s (where improvement was seen in increased compliance with recommended practice), it would take time for the new recommendations contained in the revised SORP to be adopted by charities. Subsequent research by the same authors, comparing UK charities with Irish charities, provides evidence that the financial statements of Irish charities were significantly less compliant with SORP requirements than their UK counterparts (Connolly and Hyndman 2001).

3.5.2 Research related to the performance accountability of charities

Several researchers have explored the use of performance information in the accounting and reporting systems of UK charities. Two studies by Hyndman (1990, 1991) provide some insights to the external reporting of performance information. On the basis of an analysis of the annual reports (including financial statements) of 163 large UK charities and a survey of 133 donors to such charities, Hyndman (1990) identifies the information that is routinely made available to donors through the annual report, and the most important information sought by donors. In the study, donors were asked to rank 14 types of financial and non-financial information, including frequently disclosed information, in order of importance to them; this was then compared with the information routinely made available to them in the annual report. Hyndman (1990) finds that while audited financial statements dominated reporting by charities, donors viewed other information, particularly that relating to performance, as most important. The seven most important information types identified were (in order of importance):

- a statement of goals of the charity
- information relating to the general problem or need area with which the charity was dealing
- administration cost information (a financial indicator of efficiency)
- measures of the output of the charity
- efficiency measures
- a statement of the current objectives of the charity, and lastly
- a statement of the future objectives of the charity.

Three of the four least important information types were (in decreasing order of importance):

- audited operating statement
- audited balance sheet, and lastly
- audited funds flow statement.

Two of these were the most frequently disclosed (operating statement and balance sheet) of all the 14 information types, while the other (funds flow statement) was the fourth most frequently disclosed information type. Hyndman argues that many of the most important types of information sought by donors relate to the assessment of performance, and suggests that the seven most important information types (indicated above) could all be connected to past or future performance.

In a related study, Hyndman investigated whether the identified 'relevance gap', the difference between the information disclosed by charities in their annual reports (mainly audited financial statement information) and the information required by donors (mainly performance-related information), was due to a lack of awareness on the part of the providers of the information (Hyndman 1991). The objectives of the research were to identify the views of providers of information (charity officials and auditors) regarding the importance of donors as users of charity reports, and to ascertain the perceptions of such providers about the importance to donors of the 14 information types used as the basis for the previous study (ie Hyndman 1990). The research found that providers of information (charity officials and auditors) were largely aware that the most important information that donors require is related to performance. Despite this, however,

the majority of charities did not disclose such information in their annual reports. Overall, Hyndman (1991) discounts the possibility that the 'relevance gap' was caused by lack of awareness of the information needs of donors. Rather, he argues that accountability to donors was not discharged in the most effective manner. In addition, he suggests that there may be a general complacency among the providers of information with respect to the adequacy of existing reporting procedures.

While Hyndman's studies (1990, 1991) focus on external reporting by charities, and in particular the external reporting of performance information, Wise (1995) provides some evidence of the paucity of performance information available internally to charity managers. Wise asked the representatives of 54 charities (subdivided into small, medium and large charities) to provide details of the information made available to, and used by, managers in their charity. One of the main findings of the research was that while many of the charities had some non-financial performance information available at routine management meetings (with large charities having more than small charities), examining the information in detail highlighted certain deficiencies. In particular, most of the performance indicators focused upon input or output volumes rather than concepts of efficiency or effectiveness. Furthermore, while the majority of respondents believed that their trustees were able to assess the performance of their charity, few could suggest how performance improvement might be measured. Wise (1995) asserts that these findings demonstrated significant weaknesses in the information systems of charities, which undermined efforts to plan and control effectively.

Later work by Connolly and Hyndman (2004), using a matched set of British and Irish annual reports, investigated the extent to which performance information is used in external reporting; how this has changed over time; and the extent to which this may be related to size and jurisdiction. The main findings of the research are that performance reporting by British charities, although limited, is considerably better than that of their Irish counterparts; performance reporting by British charities has improved over time; and large charities (both in Britain and Ireland) provide more extensive performance information than small charities. Connolly and Hyndman (2004) discuss these findings both in the context of accountability and in terms of conceivable economic incentives for disclosure. Extending the work of Connolly and Hyndman, the Charity Commission (2004b) and Connolly and Dhanani (2006) consider a variety of additional attributes of charity accountability. While focusing principally on compliance with the SORP but also on best-practice disclosures (ie those not required by the SORP), the Charity Commission examined the annual reports and annual reviews of 200 of the largest UK charities. This work revealed that disclosures about trustees, the statutory objects of the charity, charity mission and aims, risk management, reserves and achievements were provided readily and in good detail (Charity Commission 2004b). Items not frequently included related to investment powers and investment performance, explanations of grant-making policies, and the role of volunteers. The style, structure and content of annual reviews were much more attractive and user-friendly than those of the annual reports (Charity Commission 2004b). The Charity Commission concludes that, for a significant number of charities, poor disclosure of required information in the annual report (particularly about activities, achievements and results) was compensated by presentation of these details in the annual review. Nonetheless, the Charity Commission report (2004b) explains that while it was encouraging that the relevant information was being provided, annual reviews are not an appropriate substitute for annual reports. Overall, the results suggest that while a number of charities demonstrated sound behaviour, the level of transparency and accountability in 2004 was not satisfactory among the group as a whole and that too many charities did not meet the basic requirements of best practice.

Connolly and Dhanani (2006), examining the narrative content of the 2000/1 annual reports for the top 100 fundraising charities in the UK, focus on accountability disclosures on organisational structure and policies, reviews of financial information and overall performance and achievements. They find that charities more readily provided disclosures in relation to fiduciary accountability than those in relation to managerial accountability. Specifically, charities were more likely to disclose information about policies, risk management and organisational structure than that about organisational efficiency, achievements and plans for the future. Subsequent research by Jetty and Beattie (2009) also finds limited disclosure of performance and forward-looking information. Connolly and Dhanani (2006) also note that disclosure practices were influenced by charity size and performance: larger charities unsurprisingly had more extensive disclosures; and as would be expected on the impression management hypothesis, the sample charities were more inclined to disclose when they had positive information than when they had negative information.

More recent research by Connolly and Dhanani (2009), using an analysis of annual reports and annual reviews of the largest UK charities together with an examination of charity websites and interviews with key actors, extends their 2006 work by focusing on narrative reporting by charities and considering the extent to which initiatives such as the 2005 SORP (Charity Commission 2005a) had affected charity accountability. They provide evidence that charity annual reports were increasingly aimed more at upward stakeholders (funders, donors and supporters), while annual reviews were typically targeted at downward stakeholder groups (beneficiary and client groups). Both forms of communication were seen as having the general public as a targeted user group (although this stakeholder was not perceived as paramount). In addition, the researchers opine that charity websites were increasingly envisaged by key actors as having a progressively significant role in the communications strategy of a charity. Moreover, the research indicates that fiduciary and financial managerial accountability type disclosures (such as audited financial statements) are more commonly found in annual reports (where such disclosures crowd out more useful performance disclosures, making annual reports 'grey' documents), while annual reviews often focus principally on operational managerial accountability-type disclosures and are more likely to 'tell the story' of the charity (and hence use performance information) and connect more meaningfully with readers.

3.6 ACCOUNTABILITY, STAKEHOLDER THEORY AND THE USER-NEEDS MODEL

3.6.1 Accountability

Accountability has become the central tenet of modern times. The concept has been much debated in the for-profit sector and the public sector and has in recent times spilled over into the NFP sector. Even so, what constitutes accountability remains unclear

and the concept has been variously referred to as elusive, chameleon-like and abstract (Ebrahim 2003; Geer et al. 2008). Lawry (1995) defines accountability as the giving of an account whereas Rutherford (1983) and Stewart (1984) take a more stringent view, arguing that it is about being held to account. These definitions imply a principal–agent relationship in which the agent, who is entrusted to perform the delegated function, gives an account to, or is held to account by, the principal. While information transmission is critical in these views of accountability, Stewart (1984) explains that the mere transfer of information is not sufficient and that the actions taken by the principal on the basis of their interpretation of the account also constitutes accountability. Implicit in Stewart's view is that the principal should have the power or authority to take appropriate action, including continuing with the relationship if so desired, amending the relationship or severing the relationship. In practice, accountability here need not occupy only one of the two extreme positions described; rather, it may lie on a continuum between the two extremes whereby organisations (or agents) are answerable for their conduct to their principals, but at the same time also choose to give accounts voluntarily on aspects of their operations.

Various models have been developed that identify the different bases of accountability, together with the mechanisms through which it is discharged. Stewart (1984), for example, sets out a 'ladder' relating to public accountability. He distinguishes between five different rungs, each of which relates to a different form of accountability. These are: accountability for probity and legality; process accountability; performance accountability; programme accountability; and policy accountability. While the lower rungs of this ladder (for probity and legality, and process) are perhaps associated with organisational compliance, laws, regulation and agreed procedures, the higher rungs (for performance, programme and policy accountabilities) are more likely to involve extensive judgement. Similarly, Boyne et al. (2002) and Ebrahim (2003) distinguish between internal and external accountability, in which the former is concerned with accounting to constituents internal to the organisation, and the latter to external audiences. Necessarily, mechanisms used vary depending upon the form that the accountability takes. Mechanisms for internal accountability, for example, often entail operational adjustments and compliance with procedures and processes, while external accountability often entails formal report writing. A similar situation holds for Stewart's rungs of accountability (1984). Activities represented by the lower rungs of the ladder are exercised through compliance procedures, while performance accountability is monitored through formal evaluation systems and discharged through systematic report writing.

In considering accountability, two key questions emerge: to whom is a charity accountable; and what form should that account take? Drawing on Stewart's ladder of accountability (1984), Hyndman (2010) posits that accountability, in its widest sense, is more than accounting (however widely accounting is defined). He argues that external stakeholders of a charity have information needs, yet because they are not involved in the management of the charity they must often rely on its formal communications to meet those needs. Furthermore, he suggests that while financial accountability (through such documents as audited financial statements) is important (to indicate, for example, that the money raised has been used for the appropriate purposes; that the charity has 'lived within its means'; and the level of resources available to the charity for future service provision), such accounts, are likely to be of only secondary importance. Other, wider, information, particularly relating to performance, is probably paramount in discharging accountability to external stakeholders (particularly donors); and this will require the telling of 'the story' of the charity in a way that is truthful, consequential and engages with stakeholders.

3.6.2 Stakeholder theory

Ideas from stakeholder theory can be linked to themes in the accounting and accountability literatures. Stakeholder theory originated from studies by Freeman (1984) of organisational behaviour, although the term 'stakeholder' first appeared in the management literature in 1963 in internal communications within the Stanford Research Institute. The central argument advanced by Freeman is that if organisations engage with stakeholders on a basis of mutual trust and cooperation, those organisations will build legitimacy and reputation that will give a competitive advantage over rivals. Stakeholder theory is concerned with the long-term survival and success of organisations and proposes that these organisations require the support of their constituents, and that to gain this support and approval, management needs to legitimise its activities to these groups (Roberts 1991; Lindblom 1994). Management can obtain legitimacy by deploying different accountability mechanisms to demonstrate that the values, beliefs and successes of the organisation are commensurate with stakeholder expectations and demands (Gray et al. 1995). Public discourse serves as an important accountability mechanism through which organisations can convince stakeholders that their activities and operations are commensurate with societal values and expectations. Stakeholder theory is becoming an increasingly popular means of understanding accountability. The Charity Commission (2004a), for example, highlights the importance of stakeholders in its discussion of accountability and defines the latter as meeting the legitimate information needs of these constituents.

Key questions that arise when viewing accountability from the perspective of stakeholder theory are: who are the stakeholder groups, and is there a hierarchy within these groups? A number of charity-focused studies have identified a range of stakeholders to whom a charity should account. These include: funders and donors; the accounting profession and other regulators; beneficiary groups and clients; government; the general public; employees; and partner organisations (Knox and Graur 2007; Hyndman and McDonnell 2009; Le Roux 2009). A critical issue for the different stakeholder groups when considered from Stewart's point of view (1984) is how many of these constituents are in a position of authority to hold the charity to account. Major funders and donors, it could be argued, monitor organisational activity closely and where organisational activities are not deemed to meet the standards set, they can amend their relationship with the organisations as desired. Smaller donors also have the capacity to break their ties with charities although, unlike larger donors, they are unlikely to engage in a detailed assessment of the organisation's activities. By contrast, beneficiary groups and clients appear to have limited scope for holding charities to account. In the absence of voting rights or other means of exercising power, these constituents appear not to be in a position to demand financial statements from charities.

The different circumstances facing the various constituent groups as outlined above helps us to address the second issue in relation to stakeholder theory: the existence of a hierarchical structure of the different constituencies. Once potential stakeholders are identified, to allow organisations to evaluate 'who or what really counts' and prioritise competing stakeholder claims, Mitchell et al. (1997) introduce the concept of stakeholder saliency. They argue that the salience of stakeholders (or the degree to which they and their arguments are perceived to count) depends upon the stakeholder's possession of three attributes: power, legitimacy and urgency. They suggest that the most salient to the organisation are stakeholders who are perceived to have power, legitimacy and urgency; and the claims of these 'definitive stakeholders' are likely to be prioritised (Mitchell et al. 1997: 878). The salience of stakeholder groups, that is, the degree to which their influence(s) will impinge on organisational activities, will determine the hierarchical structure. Charity donors have been singled out as the most significant group of stakeholders for fundraising charities (Hyndman 1990) because they ensure the long-term survival of these organisations through regular funding. Indeed, many of the traditional guidelines for accounting have been targeted at donors and funders. For example, the ASB, in its recent *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* (ASB 2007) draws attention to the claims of this stakeholder group, which it classifies as the 'funders and financial supporters' (ASB 2007: 10). Discussion of the ASB and the emphasis on the donor community leads to the second model frequently associated with accountability, the user-needs model.

3.6.3 The user-needs model

Much of the formal guidance on charity reporting has been stimulated by accounting for the business community, and within this capacity the decision-usefulness model has informed practice. The key approach of this model is to determine the types of decision that organisational stakeholders will make and then use these to identify the information that the constituents will require. The ASB focuses on the donor community, highlighting economic decision making by this stakeholder group. Returning to Stewart's perception of accountability (1984), the ultimate decision of this user group is whether they intend to continue to support a particular organisation or not.

The approach of the ASB, borrowed principally from the business community, has traditionally focused on the provision of financial information by organisations. Investors, the main users of accounting information in for-profit organisations, have been concerned with the economic performance of their respective organisations, which can be relayed principally in numerical terms to this group of stakeholders. Financial information has thus played a central role in the guidance of charities' reporting practices (Bird and Morgan-Jones 1981; ASC 1988). Emphasis on the donor communities continues today, with funders and donors being considered analogous to investors. In its interpretation of the *Statement of Principles for Financial Reporting for Public Benefit Entities*, the ASB (2007) once again draws attention to this stakeholder group and seeks to ensure that reporting aids this group with economic decision making.

An alternative to the approach adopted by the ASB, which is to apply developments in the business community to non-profit organisations, is to use a positive approach to determine the information requirements of charity stakeholders. This approach (basically constructing a user-needs model) entails empirically assessing the information that the different groups say they need. While such an approach could potentially ensure an exact insight into the requirements of the constituents, it has been infrequently used in charity accountability practices because gathering and analysing data are complex (Boyne et al. 2002). Hyndman's report (1990) is one of the few charity studies that inquires into the information needs of charity donors in the 1980s and, while the study was useful at the time, questions arise as to whether the results still hold over 20 years later. Moreover, like the approach of professional bodies such as the ASB and the Charity Commission, the emphasis of the Hyndman study (1990) is principally on funders and donors (to the exclusion of other stakeholder groups, including beneficiaries).

Since the early 1990s, the corporate sector has witnessed extensive development of corporate accountability in the form of corporate social responsibility (CSR) reporting. Decisions of corporate stakeholders, it has been argued, should no longer solely be informed using traditional financial performance information, but this information set should be complemented by additional data such as that contained in social responsibility profiles. Most large multinational corporations have engaged in such reporting and terms such as 'social profit' and 'social auditing' have become not uncommon in the business world. Given that charity objectives are defined in social terms, adopting some of the key features of CSR disclosures may be appropriate to the charity sector. While measuring social impact is problematic for charities, the position is no different from that of public sector and for-profit organisations attempting to measure social profit.

3.7 CONCLUSION

In order to provide a perspective for understanding the empirical work presented in Chapters 5, 6 and 7, this chapter has provided an overview of the development of the charity SORP, reviewed previous research related to the accountability of charities and discussed the concept of accountability, stakeholder theory and the user-needs model. Accountability involves explaining what has been, or is being, done and what has been planned; it is a principal mechanism through which charitable organisations can achieve legitimacy for their activities (with both upward and downward stakeholders). Charity funders, donors and other external parties have information needs, yet because they are not involved in the management of a charity they must primarily rely on the annual report to meet those information needs.

Two main types of information are important in discharging accountability: financial information as contained in traditional financial statements; and wider performance information, often of a non-financial nature, relating to the efficiency and effectiveness of the charity. Previous research into charity accountability indicates a wide variation in practice, with a significant proportion of organisations not meeting the basic requirements of best practice.

4. Research methods

This chapter outlines the research methods used in undertaking the empirical research included in this report (the results of which are subsequently presented in Chapters 5, 6 and 7). As highlighted in Chapter 1, the work done for this report included empirical research to identify:

- the accountability information made available publicly to charity stakeholders
- stakeholder needs with respect to such information, and
- the perceptions of key providers of information with respect to stakeholder information needs.

A mixture of quantitative and qualitative research methods have been used to address the key research questions.

4.1 SAMPLE SELECTION

This study focuses on large UK charities as they are economically the most significant and also have the highest national profile. These charities are also likely to be the trendsetters in the industry and have sufficient resources to engage in innovation. Charity size was determined on the basis of charitable income and the top 100 UK fundraising charities as ranked by CaritasData were selected.

4.2 CONTENT ANALYSIS

To ascertain the information disclosed by charities, the researchers analysed the annual reports, annual reviews and Summary Information Returns (SIRs) of the top 100 UK fundraising charities for 2007/8 (the year immediately preceding the year in which the research reported here commenced) (see Chapter 5). The annual reports and reviews were obtained from the organisations themselves in the first instance and, if physical copies were not supplied, from their websites where available. The SIRs were accessed online through the Charity Commission's website.

The annual report was examined because it is seen as the official accountability document prepared by charities. The Charity Commission, in the latest Statement of Recommended Practice, states that the purpose of preparing a charity's annual report is to discharge the trustees' duty of public accountability (and stewardship). The SIRs, which provide a summary of a charity's key aims, activities and achievements, were also included in the study. The Charity Commission introduced these documents in 2005 for the larger charities (those with incomes of over £1m) to allow the public to access summaries of organisations' aims, activities and achievements easily. The SIRs can be accessed via a link on the Charity Commission's website. Finally, annual reviews were examined. Many charities prepare this additional, voluntary document alongside their annual reports as a means of both marketing the charity and discharging accountability to external stakeholders. The annual review is frequently written in less formal language and includes a higher proportion of stories, photographs and figures.

To allow comparisons to be made over time, Hyndman's checklist (1990, 1991) of 14 information types (see Table 5.1 and Appendix 1), amended as required for changing terminology, was used. This list contains a mixture of the information types that have been identified as important by charity donors and those that were most frequently disclosed by charities in the 1990 study. As in the Hyndman study, for analysis purposes information was considered disclosed if it was highlighted in some way (highlighted copy) and not contained in the main narrative of the communication (general narrative copy). The extent to which general narrative copy information was disclosed is not reported because, although this may be of some importance, it may be difficult for the user to isolate and use such information, which is often embedded in a mass of subjective comment. In addition, it is sometimes given in a form that may make it difficult for a user to understand its significance. This analysis was not concerned with the particular rubrics or degree of disclosure, only with whether or not particular information types were disclosed.

Definitions and rules were developed for classifying the highlighted copy information in order to reduce the impact of subjectivity. The rules included: information presented in more than one way is only counted once (in its most detailed form); when there is an efficiency target and the actual achievement of efficiency is given, this is counted as a measure of efficiency only; and when there is a quality target and the actual achievement of quality is given, this is counted as a measure of effectiveness. This approach ensured that, as far as possible, terms were being used in the same manner for each charity.

4.3 QUESTIONNAIRE SURVEY

To inquire into the views and information expectations of key stakeholder groups (auditors,[5] beneficiaries, donors and officials), an anonymous online questionnaire was developed (results are reported in Chapter 6). The questionnaire, which included definitions of key terms and examples of charity disclosures, was tailored to take consideration of the differing circumstances of each of the respondent groups. The director of finance (or equivalent) of each of the top 100 UK fundraising charities was contacted by telephone by the researchers and the background to the research explained. It was requested that the individual within the charity with most responsibility for the information included in the annual report and annual review (if one was prepared) complete the online questionnaire. If agreement was received, an email containing the link to the online questionnaire, which included an invitation to receive a summary of the findings, was sent. The telephone contacts were also asked to send the questionnaire link to their auditors and a sample of their donors and beneficiaries. Details of the respondents to the online questionnaire are provided in Table 4.1. Ninety-seven charity managers agreed to participate in the study and responded to the questionnaire. While the majority of respondents classified themselves as either a 'donor' or 'charity official', it is known that many of the 'auditor' respondents were engaged with a number of charities (and therefore 40 auditor responses related to many more than 40 charities). Engagement with beneficiaries proved difficult, as was the case in previous research sponsored by the Charity Commission (Connolly et al. 2009).

5. Auditors are a key stakeholder group, given their role (in conjunction with charity officials) in the provision of information to other stakeholder groups, together with assessing compliance with the SORP (for example, see Hyndman 1990, 1991; Connolly et al. 2009). As providers of information, their views and perceptions about the importance of donors as users of charity reports and the importance to donors of different information types are therefore relevant. The 'relevance gap' could be due to a lack of awareness on the part of the providers of the information (including auditors).

Table 4.1: Analysis of respondents to online charity reporting and accounting questionnaire

Charity stakeholder	Total %	Total No.
Auditor	17.5	40
Beneficiary	4.0	9
Donor	36.0	82
Official	42.5	97
	100	**228**

4.4 INTERVIEWS

Drawing upon the themes arising out of the literature review (Chapter 3) and the findings from the empirical analysis (Chapters 5 and 6), a semi-structured Interview Guide was developed (Appendix 2). The Interview Guide contains 19 questions, addressing a number of key themes: general background (questions 1 to 3); exploring accountability (questions 4 to 7); meeting user needs and discharging accountability (questions 8 to 15); and linking internal and external practices with drivers of charity accountability (questions 16 to 19). In total 26 interviews were conducted and Table 4.2 provides a split of the interviewees by stakeholder group (charity auditor (CA), charity beneficiary (CB), charity donor (CD) and charity official (CO)). The analysis of the interviews is presented under the headings of each of these key themes in Chapter 7.

Given the difficulties of gaining access to interviewees from each of the stakeholder groups, the potential sensitivities of the matters being discussed and the researchers' desire for the interviewees to be as candid as possible, each potential interviewee was informed (before agreeing to be interviewed) that the interviews would be reported in a manner where specific statements could not be attributed to particular individuals. It was considered that such assurances were necessary to increase the number of participants and the quality of participation.

The interviews, which ranged from one to two hours in length, were conducted by two researchers and all interviewees allowed their interviews to be recorded by tape. Moreover, the researchers took notes during the interview. The tapes were transcribed immediately to ensure the accuracy and comprehension of the interview data. Details of the interviewees are provided in Table 4.2. Giving each interviewee a unique reference (CA1-6, CB1-8, CD1-6 and CO1-6), allows the reader to identify comments from the same interviewee, while maintaining the confidentiality of the interviewee. While the approach adopted provides an opportunity for an in-depth analysis of many specific issues, it gives an insight only into the views of the particular interviewee and it is therefore dangerous to assume that the findings apply to all charitable organisations (Pugh 1988). Consequently, the findings may not be indicative of the sector as a whole.

Table 4.2: Charity interviewees

Charity stakeholder group (and reference)	Number interviewed
Charity auditor (CA1-6)	6
Charity beneficiary (CB1-8)	8
Charity donor (CD1-6)	6
Charity official (CO1-6)	6
	26

4.5 OVERALL APPROACH

The data in this research was extracted using a combination of three different approaches: a content analysis, a questionnaire survey and semi-structured interviews. Each method has its own limitations and it is hoped that the use of multiple approaches has eliminated some of the drawbacks of using the individual methods in isolation. For example, questionnaire surveys do not facilitate detailed insights into the issue of inquiry but enable researchers to draw on large sample sizes. Interviews do the opposite, and thus by using both, rich data are obtained as well as a wider indication of views and perceptions. The focus on large UK charities means that the views generated may be somewhat skewed towards this prominent group. While the economic impact of the Top 100 UK fundraising charities is significant (accounting for approximately 17% of the annual gross income of charities registered with the Charity Commission for England and Wales), the bulk of the Charity Commission register is made up of small charities. Documents and views from these charities are not covered in this research and therefore extrapolation from this study to the entire charitable sector should be undertaken with care.

5. Analysis of annual reports, annual reviews and summary information returns

This chapter presents the results of an analysis of annual reports, annual reviews and SIRs of the top 100 UK fundraising charities to ascertain disclosure practices. The method used in conducting this phase of the empirical research is explained in Chapter 4. After outlining the objective of this aspect of the research, the findings are presented, analysed and discussed. Relevant examples of the 14 information types that are analysed in this research are included within this chapter for illustration purposes (with additional examples provided in Appendix 1).

5.1 OBJECTIVE OF THE CONTENT ANALYSIS OF KEY DOCUMENTS

As discussed in Chapter 2, the complexity resulting from the difficulties in defining the charity sector, coupled with the different legal structures under which charities may operate and the different systems of charity administration that exist in England and Wales, NI and Scotland, has implications for the development of clear principles of accountability. Drawing on earlier research, studies of charity reporting can be broadly categorised into those that have investigated the:

- extent to which charity annual reports and financial statements comply with the recommendations of the extant Statement of Recommended Practice (SORP) (Ashford 1989; Hines and Jones 1992; Gambling and Jones 1996; Williams and Palmer 1998; Connolly and Hyndman 2000, 2001), and

- disclosure patterns of information accompanying annual financial statements (Hyndman 1990, 1991; Connolly and Hyndman 2003; Connolly and Dhanani 2006, 2009).

The major thrust of the findings of the first group of studies (which are now over 10 years old and should be interpreted with care in the context of current practices) is that charity reporting is characterised by a diversity of accounting practices and a lack of standardisation, which has resulted in difficulties for users in understanding financial statements. The second strand of studies has broadly reported a failure to discharge accountability adequately to external stakeholders.

In fact, despite the widespread acceptance that charities should discharge accountability to their external stakeholders, there is limited knowledge of the information needs of stakeholders and about whether the information being disclosed is useful. This chapter seeks to fill part of that gap by identifying the accountability information made available publicly to charity stakeholders (with the information needs of stakeholders being considered in Chapter 6). This chapter presents and discusses the results of an analysis of the 2007/8 annual reports, annual reviews and SIRs of the top 100 UK fundraising charities, to ascertain disclosure practices.

5.2 ANALYSIS OF ANNUAL REPORTS, ANNUAL REVIEWS AND SIRS

As outlined in the research methods chapter (Chapter 4), to allow comparisons to be made over time Hyndman's checklist (1990, 1991) of 14 information types (Table 5.1 and Appendix 1) was used as a basis for analysing the content of the trustees' annual reports and financial statements (referred to as the 'annual report'), annual reviews and SIRs. This list contained a mixture of the information types that were identified as important by charity donors and those that were actually most frequently disclosed by charities in the 1990 study. In this study, the researcher compared the information that was routinely disclosed in charity annual reports with 14 types of financial and non-financial information identified as important by charity donors. In broad terms, Hyndman (1990) shows that while audited financial statements dominated charity reporting at that time, donors viewed other information, particularly that relating to performance, as more important. Subsequently, Hyndman (1991) shows that this 'relevance gap' was not due to a lack of awareness on the part of the providers of the information.

Table 5.1 presents the results of an analysis of the 2007/8 annual reports, annual reviews and SIRs of the top 100 UK fundraising charities, together with a comparison of the Hyndman (1990) findings so as to highlight areas where disclosure may have changed over time. The table contains the 14 information types used in the Hyndman study, amended as required for changing terminology, showing the percentage of charities disclosing each particular information type (and an average for all 14 information types) and the individual importance for disclosure (ranked from 1 to 14) of each of the communication channels (annual report, annual review and SIR). Examples of each of these 14 information types are provided in Appendix 1. In addition, the rank in terms of importance to donors as identified in the earlier Hyndman study is presented. Of the 100 top fundraising charities, 99 annual reports and 53 annual reviews were analysed. Non-availability of annual reports was minimal, but note that not all charities produce an annual review (as it is a voluntary document).

The key issues arising from the analysis are discussed under the themes of: discharging accountability; changes over time; and charity awareness and willingness.

5.2.1 Discharging accountability

The main objective of accounting and accountability can be viewed as fulfilling users' information needs. Many of the external users of charity annual reports normally have no direct powers of interrogation and therefore must rely on such reports to meet their information needs. To help charities with the preparation of their annual report and financial statements in line with the recommendations of the SORP (Charity Commission 2005a), the Charity Commission has published a number of example reports. These are available on the Charity Commission website.[6] The main finding of Hyndman's research (1990), which focused on disclosure by charities in annual reports, is that at that time audited financial information was the most frequently disclosed, while other information, particularly non-financial performance information, was viewed as more important to users of annual reports. This research therefore brought into question the relevance to donors of charity reporting (Table 5.1, 'Hyndman (1990 & 1991)' columns).

As indicated in Table 5.1, Hyndman (1990) shows that the seven most important information types identified by the donors he investigated were (in order of importance): (e) statement of goals, (g) information on problem or need area, (j) administration

6. See http://www.charitycommission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_annual_reports/Example_Annual_Reports_index.aspx

Table 5.1: Comparison of disclosure and importance of different types of charity information

	Hyndman (1990 & 1991)			The present research					
	Annual report (n = 163)			Annual report (n = 99)		Annual review (n = 53)		SIR (n = 92)	
Type of information	% of charities disclosing	Rank in terms of disclosure	Rank in terms of importance	% of charities disclosing	Rank in terms of disclosure	% of charities disclosing	Rank in terms of disclosure	% of charities disclosing	Rank in terms of disclosure
(a) Audited operating statement/statement of financial activities (SOFA)	91	1	11	100	=1	4	12	n/a	–
(b) Audited balance sheet	89	2	12	98	4	6	11	n/a	–
(c) Audited funds flow/cash flow statement	58	4	=13	95	5	2	13	n/a	–
(d) List of charity officers	83	3	=13	100	=1	60	3	n/a	–
(e) Statement of charity goals	38	5	1	94	6	43	4	99	=2
(f) Statement of current objectives	0	14	6	61	9	40	5	99	=2
(g) Information on problem or need area	5	=10	2	100	=1	100	1	100	1
(h) Measures of output	29	6	4	85	7	94	2	33	5
(i) Measures of efficiency	2	12	5	22	10	25	9	4	6
(j) Administration cost %	19	8	3	19	11	21	10	1	7
(k) Simplified operating statement/SOFA	21	7	8	8	=12	28	=7	n/a	–
(l) Simplified balance sheet	6	9	10	8	=12	28	=7	n/a	–
(m) Statement of future objectives	1	13	7	74	8	32	6	96	4
(n) Budget information	5	=10	9	–	14	–	14	–	–
Overall average of all 14 information types	32	–	–	62	–	35	–	–	–

cost percentage (a financial indicator of efficiency), (h) measures of output, (i) measures of efficiency, (f) statement of current objectives and (m) statement of future objectives. Hyndman argues that while each of these information types sought by donors related to the assessment of performance, there was very limited disclosure of such information (with none being in the top four disclosures). For example, only 29% of charities disclosed any output information (the sixth most disclosed information type) and no charities provided information on current objectives (the least disclosed type of information). It is true that developing performance measurement systems and reporting performance information is fraught with problems. In particular, with some charities the ultimate performance, or outcome, that is being sought may be impossible to measure, possibly because of its intangible nature, the time period over which it occurs or the impact that factors unrelated to the activity of the charity may have.

The reverse was true with respect to traditional financial accounting information. Three of the four least important information types identified in the Hyndman (1990) study are (in decreasing order of importance): (a) audited operating statement, (b) audited balance sheet and (c) audited funds flow statement. The research shows, however, that it was this traditional financial accounting information that often dominated disclosure in 1990. For example, audited operating statements were disclosed in 91% of annual reports (making these statements the most frequently disclosed information type).

As can be seen in the current research (Table 5.1, 'The present research' columns), the general tendency to give prominence to audited financial statements in annual reports still persists (although such information types are rarely disclosed in the voluntary annual reviews). Audited Statements of Financial Activities (SOFAs) (the 1995 replacement to operating statements) are disclosed in the annual reports of all charities, with audited balance sheets and audited cash flow statements being disclosed in 98% and 95% of cases respectively. An example of the form and content of each of these primary financial statements (items (a), (b) and (c)) is provided in Appendix 1.

In relation to the seven most important (largely performance-related) information types identified by Hyndman (1990) (items (e), (f), (g), (h), (i), (j) and (m)), the present research finds that, with the exception of item (g) (information on problem or need area), none was ranked in the top five disclosures in the 2007/8 annual reports (Table 5.1). An example of a disclosure that combines item (g) (information on problem or need area), which was disclosed by all the charities in each of the documents in this research, and item (h) (measures of output), which was disclosed in over 80% of annual reports and annual reviews in this research, is presented in Example 5.1 below, with further illustrations provided in Appendix 1.

Example 5.1: Item (g) Information on problem or need area and Item (h) Measures of output

Macmillan Cancer Support
Annual Report for the year ended 31 December 2007

What we do
More people are living with cancer and surviving cancer than ever before. This means that they don't just need medical help, but information, practical, emotional and financial support too. Here you can see many of the free services we provide to support people through their cancer journey, and how many people were helped in 2007. We also reach and improve the lives of people affected by cancer through our role as a force for change where we campaign to improve health and social care policy, develop new services and address inequality.

Macmillan health and social care professionals
Such as radiographers, physiotherapists, pharmacists, dieticians, psychologists and speech and language therapists.
64,000 people helped

Macmillan nurses
Help with symptom and pain control, give advice and information on treatments and provide emotional support.
338,000 people helped

Macmillan grants
Help ease the financial hardship cancer can bring by paying for extra cancer-related expenses, such as larger heating bills.
24,000 grants given

Macmillan Benefits Helpline
Gives advice to people affected by cancer, on how to access appropriate statutory benefits and other financial support.
7,000 people helped

Macmillan information and support centres
Provide cancer information in a supportive way through local hospitals, libraries and GPs' surgeries.
128,000 people helped

Macmillan Cancer Line
A telephone helpline providing information and emotional support.
39,000 people helped

Macmillan doctors
Offer specialist cancer care and share their skills and knowledge, helping to improve cancer and palliative care.
12,000 people helped

Macmillan emotional and practical support services
Provide support to help people manage the social, practical and emotional problems of living with cancer. We support social workers, befriending and bereavement schemes and carers' schemes.
14,000 people helped

Cancer treatment and care buildings
Planned and funded by Macmillan they include chemotherapy treatment, breast care and palliative care suites.
62,000 people helped

Macmillan website www.macmillan.org.uk
Offers a wealth of on-line information about Macmillan and other cancer services, as well as advice, tips and the chance to share experiences.
1.4m visits

Macmillan benefits advice services
Work in partnership with organisations like Citizens Advice and local authorities, to offer face-to-face benefits advice for people affected by cancer.
17,000 people helped

Example 5.2: Item (i) Measures of efficiency

Cancer Research UK
Annual Report for the year ended 31 March 2008

A key objective and achievement in 2007/08:
Expand the mobile cancer awareness unit pilot scheme to spread prevention messages to more people in deprived communities

After a successful pilot scheme, we launched two mobile cancer awareness units. Both attracted a higher number of visitors than the pilot. During the year, the units visited 85 town centres in the North East, Scotland, the Midlands and Wales, attracting 27,000 people. Of those surveyed, 85% said they planned to make changes to their lifestyle as a result of their visit. Our evaluation shows that each visitor shares information with an average of five other people. On this basis, the awareness units would have reached 162,000 people in deprived communities over the past year.

While the performance-related information types shown in Example 5.1 were relatively frequently disclosed in the various documents (or channels of communication) examined, other information types were more rarely disclosed. For example, items (i) and (j), which both represent aspects of efficiency, were only ranked 10th and 11th in terms of disclosure (perhaps not surprisingly, given that they are not specifically referred to in either the SORP or the SIR). These disclosures are illustrated in Example 5.2 (Measures of efficiency) and Example 5.3 (Administration cost percentage), with further examples provided in Appendix 1.

Example 5.3: Item (j) Administration cost percentage

The Gatsby Charitable Foundation
Annual Report for the year ended 5 April 2007

We have reported in previous annual reports on Gatsby's running costs relative to a number of relevant parameters such as grants approved, paid and total income. We continue to maintain the view that the most appropriate measure of cost effectiveness in running a grant-making charity is to measure running costs relative to the day-to-day activity of grant-making. We appreciate there are difficulties in any one measure, particularly where distortions occur where there are particularly large grant payments or where abnormally large grants are approved, as is the case this year. The table that follows uses grant-related support costs in line with the SORP from 2005/6 onwards. Nevertheless, the figures for earlier years remain broadly comparable.

Grant-related support costs as a percentage of grants approved, paid and total income

	2002/03	2003/04	2004/05	2005/06	2006/07	5-year mean
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Grants approved	36,133	59,225	35,126	49,463	119,708	59,931
Grants paid	30,825	33,584	41,224	50,202	39,554	39,078
Funds available for grants	34,978	35,389	18,297	37,455	86,644	42,553
Costs	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Grant-related support costs*	1,617	1,834	1,630	1,893	1,639	1,723
Grants approved basis	**%**	**%**	**%**	**%**	**%**	**%**
Grant-related support costs*	4.48	3.10	4.64	3.83	1.37	2.87
Grants paid basis	**%**	**%**	**%**	**%**	**%**	**%**
Grant-related support costs*	5.25	5.46	3.95	3.77	4.14	4.41
Income basis	**%**	**%**	**%**	**%**	**%**	**%**
Grant-related support costs*	4.62	5.18	8.91	5.05	1.89	4.05

* Amounts for 2002/03 to 2003/04 are support costs and management and administration costs under SORP 2000. Governance costs are excluded for 2004/05 to 2006/07, but the effect is insignificant.

Conversely, the four items identified by Hyndman (1990) as least important (items (a), (b), (c) and (d)) continue to be frequently disclosed in the annual reports examined in this research (each being ranked in the top five for disclosure). For example, item (d) (list of charity officers), an information type viewed as relatively unimportant in the 1990 research and illustrated in Example 5.4, is included in all the annual reports and annual reviews examined in this research (Table 5.1).

It is interesting to note the different disclosure levels for the seven most important information types identified by Hyndman (1990) across the three accountability documents (or channels of communication) analysed in this research. For example, as illustrated in Table 5.1, there was 100% disclosure of item (g) (information on problem or need area) (Example 5.1, and Appendix 1) in each of the documents. Item (e) (statement of goals) had 94% and 99% disclosure in the annual report and SIR respectively but only 43% in the annual review (Example 5.5, and Appendix 1). Relatively high levels of disclosure were found in the case of measures of output (item h) in the annual reports and annual reviews, with 85% and 94% disclosure respectively (but only 33% in the SIR) (Examples 5.1 and 5.6, and Appendix 1). In contrast, efficiency-related disclosures (item (i) measures of efficiency and item (j) administration cost percentage) were low across each of the accountability documents, particularly the SIRs, although the rate of disclosure in the annual reports of charities of item (i) had increased over time (albeit from a very low base).

Example 5.4: Item (d) List of charity officers

Action for Blind People
Annual Report for the year ended 31 March 2008

Chairman:
John Spence, appointed as Chairman on 30 January 2008
Judy Smith, resigned as Chairman on 30 January 2008

Vice Chairman:
Mike Dudgeon

Honorary Treasurer:
Clive Timms

Trustees throughout the year:
Mary Biggart, David Charters, Toby Davey, Mike Dudgeon, Alistair Fielder, Edward Hill, Rita Kirkwood, Khalil Rehman, Judy Smith, Clive Timms, Louise Wright

New Appointments:
David Hewlett, 23 May 2007
Kirin Saeed, 25 April 2007
John Spence, 24 October 2007

Resignations and Retirements:
Angus Aynsley, resigned 26 September 2007
Guy Neely, retired 26 September 2007

Chief Executive:
Stephen Remington

Director of Services:
Miriam Martin

Director of Fundraising and Marketing:
Andy Taylor

Director of Finance and Resources:
John Crowther, appointed 14 January 2008
Chris Harris, resigned 31 December 2007

Company Secretary:
John Crowther, appointed 16 January 2008
Chris Harris, resigned 31 December 2007

Registered Office:
14-16 Verney Road, London SE16 3DZ

Registered Charity Number: 205913

Registered Company Number: 26688

Auditors:
Deloitte & Touche LLP 2 New Street Square London EC4A 3BZ

Bankers:
Co-operative Bank plc, City Office 78/80 Cornhill, London EC3V 3NJ

Fund Managers:
Legal & General Investment Management Ltd One Coleman Street, London EC2R 5AA

Solicitors:
Russell-Cooke 2 Putney Hill, Putney SW15 6AB

Website:
www.actionforblindpeople.org.uk

Example 5.5: Item (e) Statement of goals

British Heart Foundation
Annual Report for the year ended 31 March 2007

Principal aim and activities
The aim of the British Heart Foundation is to play a leading role in the fight against disease of the heart and circulation so that it is no longer a major cause of disability and premature death. We are striving to achieve a world in which people do not die prematurely of heart disease. To this end, the Foundation is pursuing five strategic objectives:

- to pioneer research into the causes of heart disease and improved methods of prevention, diagnosis and treatment;
- to provide vital information to help people reduce their own heart health risk;
- to press for Government policies which minimise the risk of heart and circulatory disease;
- to help attain the highest possible standards of care and support for heart patients;
- to reduce the inequalities in levels of heart disease across the UK.

Example 5.6: Item (h) Measures of output

The Salvation Army Trustee Company
Annual Report for the year ended 31 March 2007

This year The Salvation Army in the UK and Ireland:

- Served two million meals to people in need.
- Reunited over 3,000 people.
- Housed almost 8,000 people in our residential homeless services centres.
- Assisted emergency services at 150 major incidents.
- Encouraged 2,200 people a day to take part in Salvation Army family-focused activities, such as parent-and-toddler groups and parenting classes.
- Provided spiritual guidance to over 70,000 prisoners.
- Enabled 30,000 people to access clean water through projects in Africa and India
- And much, much more.

During this year, The Salvation Army operated from over 700 local church and community centres, offering a wide range of services to various groups of people, including:

- Over 300 luncheon clubs.
- Almost 300 Over-60's social clubs.
- Over 400 parent-and-toddler groups.
- Day centres serving over 3,500 people each week.
- Drop-in centres serving over 6,000 people each week.
- Playgroups offering almost 1,600 session places per week.
- Children's and youth clubs attended by around 5,000 young people each week.
- Chaplaincy services at shopping centres, schools and universities and airports.
- Visitation to house-bound people and people in hospital.

It can be argued that performance information is required by users to make judgements and decisions that affect economic and social well-being by making visible the resources, activities and achievements of an organisation (thus enabling informed discussions and decisions), and lack of performance accountability could therefore disadvantage users of charity reports.

Overall, the findings in this research suggest that, while disclosure levels may have increased over time (see below), many charities still do not adequately discharge their accountability for performance (particularly with respect to efficiency). Moreover, it appears that there is great variability in what is disclosed in a particular channel of communication. This is particularly illustrated with respect to items (e), (f) and (h). For example, as can be seen in Table 5.1, information on current objectives, item (f), is disclosed in 99% of SIRs (where information on objectives is a specific requirement of the SIR), but only 40% of annual reviews (the content of which is at the discretion of charities).

5.2.2 Changes over time

A comparison of this research with the Hyndman (1990) study provides some insights into how reporting by charities has changed over time. As can be seen in Table 5.1, the overall average disclosure of the 14 information types in the Hyndman study was 32% compared with 62% in the annual reports analysed in the present research. The reporting of the 14 information types in annual reports has increased substantially over time, with 11 showing increased disclosure, one no change (item (j) administration cost percentage) and two a decline (item (k) simplified operating statement and item (n) budget information). In particular, the reporting of items (c), (e), (f), (g), (h) and (m) has increased significantly since the earlier Hyndman study. Examples of the disclosure of each of these items are provided in Appendix 1, with Examples 5.1, 5.5 and 5.6 also illustrating items (e), (g) and (h).

It can be seen in Table 5.1 that the levels of disclosure in the annual report of six of the seven most important (largely performance-related) information types identified by Hyndman (1990) (items (e) – (j) and (m)) have increased since Hyndman's 1990–1 work, with item (j) (administration cost percentage) retaining a constant level of disclosure at 19%). In this research, the disclosure levels for the six items that increased ranged from 22% (item (i) measures of efficiency – up from 2% in 1990) (Example 5.2, and Appendix 1) to 94% (item (e) statement of goals – up from 38% in 1990) (Example 5.5, and Appendix 1).

It is worth noting that the information that was most disclosed in the Hyndman (1990) study (but identified as significantly less important) has also increased in disclosure over time. This is particularly the case with audited financial statement information. For example, audited balance sheets (item (b)) were disclosed in 89% of annual reports in 1990 and in 98% of cases in the present research. With item (a) (audited operating statements/ SOFAs), disclosure increased from 91% in 1990 to 100% in this study. Items (a) and (b) are illustrated in Appendix 1.

A possible explanation for this overall increase in reporting of many of the information types may be that it results from the general increased prominence of the SORP. In addition, Hyndman and McMahon (2011) argue that the UK government has become much more engaged with charity accountability since the 1990s and that this has driven change in both performance reporting and financial accountability (particularly by making the SORP mandatory for many large charities in the UK). Moreover, the growth of UK organisations that aim to raise public interest in charitable giving, direct more funding to effective charities and help donors make informed decisions on how to give (such as GuideStar, the now-defunct Intelligent Giving, and New Philanthropy Capital, which now incorporates Intelligent Giving), may have given performance-related information (on which giving decisions may be based) higher prominence.

Nonetheless, despite increases in almost all performance-related information types over time, the disclosure of some performance-related items remains relatively low in the annual report (albeit higher than 1990 levels), particularly for items (f) (statement of current objectives), (i) (measures of efficiency), (j) (administration cost percentage) and, to a lesser extent, (m) (statement of future objectives) (Table 5.1). For example, statements of current objectives (or targets) (item (f), Table 5.1), which permit users to judge the achievements of the period being reported upon, were disclosed in the annual reports of 61% of charities. Information relating to the efficiency of the charity (item (i)) (Example 5.2), and related information on administration cost percentage (item (j)) (Example 5.3), were only disclosed in 22% and 19% of annual reports respectively (that is to say, not disclosed by 78% and 81% of charities). As (i) and (j) are both efficiency-related information types, this may reflect both the difficulty in measuring efficiency and the sensitivity of charities to publishing information of this type. This is regardless of the fact that efficiency information is viewed as important by users, and known to be so by providers of information (Hyndman 1991). It may also be influenced by the lack of a template for the reporting of charity performance and the limited charity-specific guidance available (largely because the diverse nature of the sector means that guidance has to be fairly general). Efficiency measures, particularly those relating administration costs to total costs (item (j)), are often perceived as potentially damaging headline figures and this may, in part, explain why charities appear hesitant to publish such information. In practice, because of the requirements of SORP, the more determined and experienced user is likely to be able to extract such information from the audited financial statements (although problems relating to the classification of expenditure between 'administration' and other categories of expenditure make it difficult to interpret the efficiency and administration cost information).

Comparing the Hyndman (1990) findings with those for the annual review (albeit a different, and voluntary, document) indicates much lower disclosure for items (a) – (d) (traditional audited financial statement information and a list of charity officers), and the greater disclosure of items (k) and (l) (simplified versions of two of the financial statements, information types that

are rarely included in the annual reports – see Table 5.1). This perhaps indicates that charities believe that the annual review has a different, arguably less financially aware or less financially interested audience. Nonetheless, while the disclosure of items (k) and (l) (simplified operating statement/SOFA and balance sheet respectively – both at 28%) in the annual reviews is higher than the disclosure of the more complex traditional audited financial statement information, the level of disclosure is still relatively low. The disclosure of items (k) and (l) is illustrated in Appendix 1.

Although annual reviews do not focus very closely on disclosing audited financial statements, and, if financial disclosures are made, simplified formats are more likely to be used, they display a much greater concentration on performance information. Although there is variation in individual levels of disclosure between annual reports and annual reviews, disclosure rates of performance-related items in annual reviews are much higher than in the Hyndman (1990) study of annual reports. Of note is the fact that some performance-related items, particularly those that are capable of quantification, show higher disclosure rates in annual reviews. For example, measures of output (item (h) in Table 5.1) (Examples 5.1 and 5.6, and Appendix 1) were disclosed in 94% of annual reviews (compared with 85% in annual reports), and measures of efficiency (item (i)) (Example 5.1, and Appendix 1) and administration cost percentage (item (j)) (Example 5.3, and Appendix 1) were disclosed in 25% and 21% respectively of annual reviews (compared with 22% and 19% of annual reports).

The SIR, which was introduced in 2005 (see Chapter 4, section 4.2), is intended to provide the public with better information about the work of larger charities by requiring those with an annual income of more than £1m to provide an easily accessible summary of their key objectives, activities and achievements. The SIR can give information about factors that have affected performance and also point readers to sources of more detailed information, such as the annual report on the charity's own website. Central to the SIR is the desire for charities to publish more focused performance information. For example, it requires charities to provide information in key areas such as: their aims; who benefits from their work; and their strategy, achievements, income and expenditure, financial health, future plans and governance. As can be seen from Table 5.1, the focus of the information disclosed in the SIRs is performance-related, although often concentrating on non-quantitative descriptive, rather than quantitative, performance information. For example, while almost all charities disclosed information on charity goals (item (e)), current and future objectives (items (f) and (m)), and the problem or need area with which the charity engaged (item (g)), there was much lower disclosure of measures of output (item (h) – 33%), measures of efficiency (item (i) – 4%) and administration cost percentage (item (j) – 1%) (Table 5.1). Disclosure levels of these output measures in the SIRs were considerably below disclosure levels of the same information in the annual reports and annual reviews. For example, measures of output were disclosed in 85% of annual reports and 94% of annual reviews, but only 33% of SIRs. Given the clear encouragement of the Charity Commission to use the SIR as a vehicle for summarising the performance story, such modest levels of disclosure suggest that a number of charities give limited attention to SIRs as an important communication channel.

5.2.3 Charity awareness and willingness

As has been seen, disclosure on the reporting of key aspects of efficiency (items (i) and (j) in Table 5.1) has remained relatively low in annual reports, annual reviews and SIRs. For example, disclosure for item (j) (administration cost percentage) was only 19% (annual reports), 21% (annual reviews) and 1% (SIRs). The disclosure of item (i) (measure of efficiency) was also low, although marginally higher than for administration cost percentage (item (j)). Conceivably, such limited reporting of efficiency information could result from charities' lack of awareness of the information needs of users or, alternatively, from their unwillingness to disclose such items. In fact, Hyndman (1991) demonstrates that providers of charity reports are aware of the information needs of users of charity reports and are conscious of the relevance of efficiency information to such parties. Moreover, more recently, given the publicity surrounding the various iterations of the SORP, developments and discussion relating to the revision of the SORP and the high-profile launch of the SIR in 2005, all of which touch on the importance of efficiency information, it is unlikely that large UK charities (the focus of this research) are unaware of the importance of this type of information. There could be a number of reasons for unwillingness to disclose. For example, charities may be satisfied with existing reporting procedures or they may fear that such information would be misinterpreted.

Furthermore, as with all cases of information provision, charities may view that the cost of providing such information is disproportionately high compared with the benefit received. It could be argued that the voluntary provision of efficiency information imposes costs on a charity, and the lack of disclosure is indicative of an efficient charity. This argument ignores important reasons for disclosing such information, some of which are related to economic incentives from disclosure, while others contradict the prescriptive model of stakeholder theory. Ignoring accountability issues, it could be argued that in an environment where charities compete for contributions, the voluntary disclosure of performance information, possibly emphasising past performance and future plans, may enhance their attractiveness to existing and potential donors.

Hyndman (1990) argues that extensive and varied performance information is vital in discharging accountability to key stakeholders. Nonetheless, an important issue relating to the use of information in external channels of communication is that of its reliability. If no verification of the performance numbers reported by a charity is required, then there may be a temptation to present performance in a manner that is perceived as more acceptable to the reader, for example by exaggerating good performance or underplaying poor performance. Here again, cost/benefit issues need to be considered; given that external parties may use externally reported performance information to make judgements and decisions about a charity, there appears to be a case for some degree of independent verification. It should be noted that an auditor must be satisfied that the information contained in the trustees' annual report is consistent with the financial statements, and highlight any inconsistencies should they exist.

5.3 CONCLUSIONS

Hyndman (1991) discounts the possibility that the 'relevance gap' is caused by unawareness of donors' information preferences. Rather, he argues that accountability to donors is not discharged in the most effective manner, with limited reporting of performance information to donors. In addition, Hyndman suggests that there may be a general complacency among the providers of information about the adequacy of reporting procedures, given that they know what is important but do not disclose it. Given such a scenario, it is not unsurprising that the more specific statutory financial accounting-related items are more disclosed than the less specific performance reporting ones. If the relevance gap is to be closed then consideration needs to be given to the desirability of making such information types (for example, those relating to aspects of efficiency) required disclosures.

The analysis of the annual reports examined as part of this research indicates an increase in the level of disclosures for all but three of the items reported by Hyndman (1990) (Table 5.1); these being item (j) administration cost percentage, which remained at 19%, item (k) simplified operating statement/SOFA, which fell from 21% to 8%, and item (n) budget information, for which there was no disclosure (from 5%). Indeed, even while showing an increase, the disclosure of some items in the annual report remains low; in particular, item (i) measures of efficiency and item (l) simplified balance sheet at 22% and 8% respectively. This is especially pertinent for item (i), given that Hyndman (1991) deems efficiency information to be very important.

This research focuses on the top 100 UK fundraising charities as they are economically significant and also have a high national and international profile. It is nonetheless recognised that since these charities perform different activities and provide a wide range of services they may have to account to different stakeholder groups with different needs, which may in turn influence their external accountability practices.

6. The information needs of key stakeholders

The previous chapter presented the results of empirical research that used extensive document analysis to ascertain the information disclosed by charities through well-established channels of communication, namely annual reports, annual reviews and SIRs. In addition, by comparing the findings with earlier research, changes in disclosure since 1990 were identified. This chapter discusses how the research developed through the use of an anonymous online questionnaire survey to ascertain key charity stakeholders to whom an account is owed and the information needs (and perceived information needs) of such stakeholders. The questionnaire, which included definitions of key terms and examples of charity disclosures, was tailored to take consideration of the differing circumstances of the various respondent groups. Again, earlier research is used here to show changes over time. Moreover, comparing the empirical results presented in this chapter with the results of Chapter 5 (which identified information disclosure) highlights any gaps between the information disclosed and information needs. The method used in the empirical research that is the focus of this chapter has previously been detailed in Chapter 4.

6.1 RESULTS

Charity stakeholders were categorised as charity (external) auditors, beneficiaries, donors or officials, and details of the respondents to the online questionnaire have been provided in Chapter 4 (total 228: 40 auditors, 9 beneficiaries, 82 donors and 97 officials). While the majority of respondents classified themselves as either a 'donor' or 'charity official', it is known that many of the 'auditor' respondents were engaged with a number of charities (and therefore 40 auditor responses related to many more than 40 charities). The vast majority of donor respondents were individual/personal donors. As anticipated in the research methods chapter (Chapter 4), obtaining the views of beneficiaries proved difficult (with only nine completing the questionnaire).

Respondents were asked to rank the seven stakeholder groups to which they believed a charity should be primarily accountable (most important rank 1, then 2, 3, etc.). The list of stakeholder groups was based on that used in a Canadian Institute of Chartered Accountants' (CICA) research study (CICA 1980) on NFPOs: beneficiaries; businesses dealing commercially with the charity; donors; employees; the regulator; trustees (or directors) and operational management; and society at large. As can be seen in Table 6.1, the responses to this question indicate that, overall, respondents believed that a charity should be primarily accountable to its donors (with an overall mean rank of 2.02), followed by its beneficiaries (mean rank 2.19). This is consistent with accounting theory, which views the 'investor' as the primary stakeholder; for example, see *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* (ASB 2007). Analysing the responses of each of the four respondent groups provides a similar ranking, with the exception of beneficiaries, who rank themselves first and donors second. In all other respondent groups donors were ranked first and beneficiaries second. Auditors in particular believed that charities should be primarily accountable to donors (giving them a mean rank of 1.65, with 50% of auditors ranking donors as being most important for discharging accountability). In total overall, 38% of the respondents ranked donors as the most important stakeholder group to whom a charity owes a duty of accountability, with beneficiaries being ranked as most important in 35% of cases.

The mean ranks of the other stakeholder groups were much higher (indicating less importance), with relatively few respondents ranking other stakeholders as most important. For example, the third most important stakeholder in terms of primary accountability was trustees (or other operational management), with a mean rank of 2.61; 11% of respondents ranked such a stakeholder as most important.

Charities typically provide accountability information in their statutory annual report (which includes audited financial statements), an annual return (to the regulator), a SIR (previously a standalone document, but latterly incorporated as an important separate part of the annual return) and possibly a voluntary annual review. The contents of these were analysed in Chapter 5. Respondents were asked about the importance of these channels of communication to their identified 'most important stakeholder' (most important rank 1, then 2, 3 etc.) and the extent to which they were engaged with by that stakeholder (1 = not at all, 2 = slightly, 3 = moderately, 4 = quite a bit, 5 = very much). For the purpose of this latter question, 'engaged with' was defined as meaning 'read, understood and considered'. The responses are presented in Table 6.2 (importance) and Table 6.3 (engagement).

From Tables 6.2 and 6.3 two key issues are clear. Firstly, the annual report and financial statements is clearly viewed as the most important document, followed by the annual review. This is the case in an overall sense and for each of the respondent groups. For example, the overall mean rank of the annual report and financial statements is 1.37 (low mean rank indicating high importance) compared with that of the annual review at 1.79 (Table 6.2). The mean rank of the SIR is much higher at 2.69 (indicating much less important). Sixty-seven per cent of respondents ranked the annual report and financial statements as most important, compared with 28% in the case of the annual review (and only 5% in the case of the SIR). Secondly, while the SIR (overall mean rank 2.27) is not viewed as a document that users particularly engage with (Table 6.3, a low mean rank being indicative of low engagement), the annual review (overall mean rank 3.21) is viewed as being more engaged with than the annual report and financial statements (overall mean rank 3.02). So in total the annual report, with its financial statements, is viewed as the most important channel of communication while the annual review is viewed as the most engaged with. This is the case overall and with each stakeholder group (auditors, beneficiaries, officials and donors) separately. The SIR is not viewed as particularly important or particularly engaged with. Indeed, Lord Hodgson (2012) states that the SIR is an unnecessary duplication of information provided elsewhere and thus of questionable value; consequently, Lord Hodgson recommends that the SIR be abolished.

As suggested, external stakeholders can consult a range of channels of communication to receive information from a charity. Traditionally these channels of communication were only, or overwhelmingly, available in hard-copy format. Now, with increasing internet access, and an estimated 73% of UK homes having an internet connection (Office for National Statistics 2010), and the growing use of the internet by charities to provide a visible platform for their activities and a means of communicating with stakeholders, the importance of hard-copy communications has been questioned by some. Respondents were asked their perceptions of how stakeholders preferred to receive information communications: hard copy by post; email

plus attachment; or by directly accessing the charity's website (most preferred rank 1, then 2 and 3). Perhaps surprisingly, given the growth of the internet, electronic communications and the allure of the paperless office, Table 6.4 shows that each of the four respondent groups believed that important stakeholders preferred to receive charity information in hard-copy format by post (overall rank 1.64) rather than by directly accessing the charity's website (ranked second overall) or by email with an attachment (ranked third overall). While each of the four groups ranked 'hard copy' first as the perceived preferred format for the most important stakeholder, it is of note that only donors indicated that 'an email plus attachment' was their perceived second preference format for the most important stakeholder (rather than directly accessing the charity website).

Table 6.1: To whom should a charity be primarily accountable?

	Auditors			Beneficiaries			Donors			Officials			Total		
	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank
Beneficiaries	2.00	33	2	1.44	56	1	2.35	33	2	2.21	35	2	2.19	35	2
Businesses dealing commercially with the charity	2.95	0	4	6.00	0	7	3.20	1	6	3.13	1	7	3.24	1	7
Donors	1.65	50	1	1.78	44	2	2.04	40	1	2.18	31	1	2.02	38	1
Employees	3.00	0	5	4.89	0	6	3.16	0	5	3.03	0	6	3.14	0	6
The regulator	3.08	2	6	4.22	0	5	2.55	11	3	2.64	9	4	2.75	8	4
Trustees (or directors) and operational management	2.05	10	3	3.44	0	=3	2.95	10	4	2.47	13	3	2.61	11	3
Society in general	3.15	5	7	3.44	0	=3	3.23	5	7	2.97	11	5	3.11	7	5

[a] The lower the mean, the greater the importance. [Most important rank 1, then 2, 3 etc.]

Table 6.2: Importance of channels of communication

	Auditors			Beneficiaries			Donors			Officials			Total		
	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank
Annual report and financial statements	1.28	73	1	1.33	67	1	1.42	65.00	1	1.36	66	1	1.37	67	1
Annual review	1.55	25	2	1.67	33	2	1.86	25.00	2	1.75	32	2	1.79	28	2
Summary information return	1.95	2	3	3.00	0	3	2.53	10.00	3	2.76	2	3	2.69	5	3

[a] The lower the mean, the greater the importance. [Most important rank 1, then 2, 3 etc.]

Table 6.3: Engagement of most important stakeholder with channels of communication

	Auditors		Beneficiaries		Donors		Officials		Total	
	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank
Annual report and financial statements	3.15	2	3.44	2	3.04	2	2.91	2	3.02	2
Annual review	3.53	1	3.56	1	3.16	1	3.08	1	3.21	1
Summary information return	2.45	3	1.89	3	2.58	3	1.96	3	2.27	3

[a] The higher the mean, the greater the importance. [Not at all =1, Slightly =2, Moderately =3, Quite a bit =4, Very much =5]

Table 6.4: Perceived preferred format of information

	Auditors		Beneficiaries		Donors		Officials		Total	
	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank	Mean rank[a]	O'all rank
Hard copy by post	1.73	1	1.00	1	1.63	1	1.67	1	1.64	1
Email plus attachment	1.98	3	2.89	3	1.81	2	1.87	3	1.91	3
Directly accessing charity's website	1.85	2	2.11	2	2.09	3	1.74	2	1.90	2

[a] The lower the mean, the greater the importance. [Most preferred rank 1, then 2, 3 etc.]

Table 6.5: Reasons for requiring information

	Auditors			Beneficiaries			Donors			Officials			Total		
	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank
To assess the charity's financial position	2.23	33	2	3.78	0	4	2.85	8	3	2.69	3	4	2.71	10	3
To assess how resources have been used in meeting beneficiaries' needs	1.63	58	1	2.11	11	2	1.37	77	1	1.32	73	1	1.42	69	1
To ensure that the charity has complied with legal requirements	2.73	5	4	4.78	0	5	3.15	6	5	2.60	16	3	2.91	10	4
To find out future plans	3.03	2	5	3.00	0	3	2.95	0	4	2.91	1	5	2.95	1	5
To find out the nature and objectives of the charity	2.60	2	3	1.33	89	1	2.70	9	2	2.51	7	2	2.55	10	2

[a] The lower the mean, the greater the importance. [Most important rank 1, then 2, 3, etc.]

Respondents were asked to identify what they perceived as the main reasons why stakeholders required information from a charity (most important reason rank 1, then 2, 3 etc.). The list of reasons presented was based on that given in previous research (CICA 1980): to assess the charity's financial position; to assess how resources have been used in meeting beneficiaries' needs; to ensure that the charity has complied with legal requirements; to find out future plans; and to find out the nature and objectives of the charity. Overwhelmingly, respondents ranked 'to assess how resources have been used in meeting beneficiaries' needs' as the most important reason (overall rank 1.42), with 69% of respondents ranking it as the most important reason (Table 6.5). The next highest total rank (2.55) – 'to find out the nature and objectives of the charity' – was ranked first by only 10% of respondents. Regarding the main reason for requiring information ('to assess how resources have been used in meeting beneficiaries' needs'), the relative difference in the mean ranks across respondent groups indicates general consensus on this among charity auditors, officials and donors. Such information is perhaps most obviously seen as relating to the current performance of a charity, and possibly the most likely type of information capable of quantification. Interestingly, beneficiaries (who viewed themselves as the group to whom charities should be primarily accountable) indicated that they were most likely to require information in order to find out the nature and objectives of the charity, and secondly for assessing how resources have been used in meeting beneficiaries' needs (Table 6.5).

Overall, the responses indicate that most respondent groups view past service performance of a charity (which would encapsulate both 'to assess how resources have been used in meeting beneficiaries' needs' and 'to find out the nature and objectives of the charity') as substantially more essential to important stakeholders than other information. Beneficiaries, donors and officials ranked these reasons as either first or second in importance. Interestingly, auditors, who recognised 'to assess how resources have been used in meeting beneficiaries' needs' as the most important reason why information was sought, ranked 'to assess the charity's financial position' (presumably drawing on traditional financial statement information) as second most important. Perhaps auditors' technical focus on the production and auditing of financial statements has influenced their perception of the importance of such information to stakeholders.

Hyndman's research (1990) shows that the most important information disclosures identified by donors at that time were performance-related (as was also suggested, in broad terms, in this current research (Table 6.5)), whereas the most common information published in annual reports related to audited financial accounting statements. Hyndman's detailed findings are now over 20 years old. As identified in the present research, donors are viewed as the stakeholder to whom a charity should be primarily accountable (which is similar to the Hyndman findings); and the annual report is the most important channel of communication to external stakeholders. To provide a more up-to-date assessment of the detailed information needs of donors, and to make available a basis for identifying any gaps between information currently disclosed in annual reports and the information needs of donors, the major part of the questionnaire asked auditors, beneficiaries, officials and donors to rate the 14 specific information types in terms of importance to donors (or, in the case of auditors, beneficiaries and officials, in terms of perception of importance to donors). A five-point scale was used to measure responses of subjects as follows: 1 = not important; 2 = slightly important; 3 = moderately important; 4 = very important; and 5 = of vital importance. As in some cases there was a possibility that the respondent might not readily understand the description of the information type used in the questionnaire, the latter included examples for explanatory purposes. The responses were analysed using mean ranks and, by comparing the responses of the three respondent groups, any similarities and differences were identified. The Kruskal-Wallis test was used to identify whether the importance/perception of importance of each information type was similar among the three groups. The survey results from this research are shown in Table 6.6, with the results from Hyndman (1990, 1991) included for comparison purposes.

Hyndman (1990) shows that the seven most important information types identified by donors in his study were (in order of importance): (e) statement of goals; (g) information on problem or need area; (j) administration cost percentage (a financial indicator of efficiency); (h) measures of output; (i) measures of efficiency; (f) statement of current objectives; and (m) statement of future objectives. These were fundamentally performance-related disclosures. As can be seen from Table 6.6, the present study shows that these seven items (albeit in a different order) continue to be ranked one to seven by donors, thus suggesting that the Hyndman findings still largely hold. For example, administration cost percentage (item (i)) has been given a mean rank of 3.96 by donors in this research, making it equal fifth in terms of importance (compared with the 3.95 in the earlier Hyndman research – third most important information type). Indeed, in this present research, six of the seven items ranked as most important in the Hyndman study are ranked within the first seven information types in terms of importance/perception of importance to donors by each of the respondent groups (items (e), (f), (g), (h), (i) and (m)), with item (j), administration cost percentage, being ranked eighth by auditors and officials (both of whom ranked a simplified balance sheet, item (l), at seventh). Interestingly, the Kruskal-Wallis test indicates a significant difference at the 1% level with this information type, with donors viewing information on administration cost percentage (item (j)) as more important than the perception of importance to donors by auditors, beneficiaries and officials (Table 6.6). Notwithstanding this, the fact that each of the four respondent groups ranked the same five information types ((e), (f), (g), (h) and (i)) in the first five places (albeit in a slightly different order in each case) suggests that providers of information are, in the main, aware of the information needs of donors (the stakeholder to whom it is perceived that a charity is primarily accountable). In fact, as can be seen in Table 6.6, there were no significant differences, at normal levels of significance, between each of the groups regarding the importance of these five information types. As seen earlier in Chapter 5, however, six of the seven most important information types identified in the 1990 study (excluding item (g) – information on the problem or need area) are ranked outside the top five in terms of disclosure in the annual report.

When the research regarding importance of information types (reported in this chapter) is compared with the disclosure research (Chapter 5), it demonstrates a continuing gap between the disclosure of audited financial statement information (which is widely included in annual reports), and the importance to donors of such information (Table 6.6 – items (a), (b) and (c)). In line with legal requirements, this research finds that there is almost full disclosure of these items in the statutory annual report. Even so, the findings shown in Table 6.6 indicate that each of the four respondent groups view this information as having limited importance to donors. Indeed, as seen in Chapter 5, the disclosure of these three items is negligible in annual reviews (ranging from 2% to 6%). This may suggest that charities recognise that this information is not considered central to donors' information needs; the annual report and annual review have different audiences; or that the annual report and annual review serve different purposes. In a similar vein, Table 6.6 also illustrates that item (d) (list of charity officers) is consistently believed to be of low importance to donors, albeit that it is one of the most widely disclosed types of information (Chapter 5).

As is seen earlier in this chapter, annual reports and annual reviews are considered the dominant channels of communication with which donors engage. This is the view of donors themselves and the perception of other stakeholder groups. Annual reports are identified as more important than annual reviews, although annual reviews are considered as being slightly more engaged with. This being the case, the need for a charity to manage the relationship between itself and its donor base in relation to the contents of these channels of communication, as a foundation for safeguarding its funding base, would seem crucial. Given the importance of both the donor as a stakeholder to whom accountability is owed and communications with donors, the need for a charity to identify the reasons why donors give would seem central to this. As discussed in Chapter 3 (section 3.6), stakeholder theory suggests that if charities engage with their stakeholders, they can build legitimacy and reputation, which will give them a competitive advantage. Management can obtain legitimacy by using different channels of communication to demonstrate that the values, beliefs and successes of the organisation are commensurate with stakeholder expectations and demands (Gray et al. 1995). Public discourse through annual reports and annual reviews serves as an important accountability mechanism with which organisations can convince stakeholders that their activities and operations are commensurate with societal values and expectations.

Table 6.6: Importance of different types of charity annual report information to donors

	Auditors				Beneficiaries		Donors				Officials				Total		Statistically significant[b]
	Mean rank[a]		O'all rank		Mean rank[a]	O'all rank	Mean rank[a]		O'all rank		Mean rank[a]		O'all rank		Mean rank[a]	O'all rank	
Type of information	H	TR	H	TR	TR	TR	H	TR	H	TR	H	TR	H	TR	TR	TR	TR
(a) Audited operating statement/ statement of financial activities (SOFA)	3.57	2.95	5	12	3.67	=8	3.05	2.61	11	13	3.31	2.92	10	12	2.84	12	No
(b) Audited balance sheet	3.48	3.20	7	10	3.67	=8	2.83	3.05	12	10	3.53	3.26	7	9	3.19	10	1%
(c) Audited funds flow/cash flow statement	2.40	2.68	14	15	3.44	11	2.66	2.49	=13	14	2.73	2.48	14	16	2.56	14	5%
(d) List of charity officers	2.68	2.73	13	14	2.22	=15	2.66	2.48	=13	15	2.84	2.57	=12	15	2.55	=15	No
(e) Statement of goals	4.33	4.00	1	2	4.11	1	4.44	4.01	1	4	4.29	4.16	1	1	4.08	2	No
(f) Statement of current objectives	3.49	3.90	6	3	4.11	1	3.70	4.04	6	2	3.59	3.90	6	3	3.96	3	No
(g) Information on problem or need area	3.86	3.80	3	4	4.11	1	3.98	4.02	2	3	4.26	3.86	2	4	3.92	4	No
(h) Measures of output	3.90	4.18	2	1	4.11	1	3.90	4.27	4	1	3.97	4.14	3	2	4.19	1	No
(i) Measures of efficiency	3.41	3.70	9	5	4.00	5	3.73	3.96	5	=5	3.83	3.81	5	5	3.86	5	No
(j) Administration cost %	3.73	3.28	4	8	3.78	=6	3.95	3.96	3	=5	3.86	3.44	4	8	3.61	7	1%
(k) Simplified operating statement/ SOFA	3.27	3.10	10	11	3.33	=12	3.48	2.78	8	12	3.32	3.02	9	11	2.96	11	No
(l) Simplified balance sheet	2.97	3.43	11	7	3.56	10	3.16	3.44	10	8	3.28	3.46	11	7	3.45	8	No
(m) Statement of future objectives	3.43	3.65	8	6	3.78	=6	3.67	3.80	7	7	3.35	3.68	8	6	3.72	6	No
(n) Budget information	2.95	3.23	12	9	3.33	=12	3.46	3.39	9	9	2.84	3.12	=12	10	3.25	9	No

[a] The higher the mean, the greater the importance. [Not important = 1, Slightly important = 2, Moderately important = 3, Very important = 4, Vitally important = 5]
[b] Kruskal-Wallis Test. H – Hyndman (1990, 1991) results. TR – the results from this research

The questionnaire explored this issue by asking donors to rank the reasons why they gave generally (Table 6.7) and why they chose a specific charity (Table 6.8), and asking other stakeholders to rank their perceptions of why donors gave and their reasons for choosing a specific charity (most important 1, then 2, 3 etc.). With respect to general giving, eight reasons were presented (emanating from the literature on giving explored previously in Chapter 2, section 2.3): personal experience; commitment to aims and objectives; religious belief; tax deductions; to feel good; to be seen as charitable; to make a difference; and 'other'. The questionnaire gave respondents a choice of 12 reasons for charitable giving (again emanating from the literature): personal experience; commitment to aims and objectives; religious belief; to make a difference; tax deductions; to feel good; to be seen as charitable; feeling obligated to; being well known; being asked to; good reputation for performing efficiently; and 'other'. The results are presented in Table 6.7 (reasons for giving) and Table 6.8 (reasons for choosing a specific charity) and these give insights into motivations for giving.

Table 6.7: Reasons for donation

	Auditors			Beneficiaries			Donors			Officials			Total		
	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank
1. Personal experience	2.20	31	2	2.43	0	2	2.25	25	2	2.46	26	2	2.34	26	2
2. Commitment to aims and objectives	2.09	56	1	1.22	89	1	1.80	56	1	1.46	68	1	1.67	63	1
3. Religious belief	4.25	15	5	3.50	17	4	3.37	20	4	4.09	9	5	3.82	15	5
4. Tax deductions	5.78	0	7	6.67	0	7	4.80	0	7	5.65	0	8	5.48	0	7
5. To feel good	3.72	4	4	4.00	0	5	3.72	7	5	3.86	5	4	3.79	5	4
6. To be seen as charitable	5.19	0	6	6.33	0	6	5.53	7	8	5.27	0	6	5.37	2	6
7. To make a difference	2.50	17	3	2.80	0	3	2.41	22	3	2.77	10	3	2.58	16	3
8. Other	8.00	0	8	8.00	0	7	4.29	0	6	5.50	0	7	5.7	0	8

[a] The lower the mean, the greater the importance. [Most important rank 1, then 2, 3 etc.]

Note: As all respondents did not rank all options, the '% Ranked first' is based upon the number of respondents who did rank that option. Therefore the total does not sum to 100%.

Table 6.8: Reasons for choosing a specific charity

	Auditors			Beneficiaries			Donors			Officials			Total		
	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank	Mean rank[a]	% Ranked first	O'all rank
1. Personal experience	1.91	45	1	2.33	0	2	2.19	42	3	2.15	41	2	2.13	40	2
2. Commitment to aims and objectives	2.07	55	2	1.33	89	1	1.76	54	1	1.69	59	1	1.76	58	1
3. Religious belief	4.18	9	8	4.75	25	6	3.16	8	4	3.43	9	5	3.54	10	6
4. To make a difference	4.12	6	7	5.00	0	=7	3.19	19	5	3.50	2	6	3.52	9	5
5. Tax deductions	5.00	0	9	5.00	0	=7	6.00	0	12	6.20	0	11	6.00	0	12
6. To feel good	3.50	0	6	7.00	0	=9	4.33	0.00	9	5.05	0	10	4.64	0	9
7. To be seen as charitable	5.25	0	10	7.00	0	=9	4.25	0	8	6.80	0	12	5.95	0	11
8. Feel obligated to	5.29	14	11	8.00	0	11	5.08	8	11	5	0	9	5.19	6	10
9. Well known	3.47	6	5	4.14	0	5	4.11	0	7	3.92	3	7	3.91	2	7
10. Being asked to	3.24	5	4	3.63	0	4	4.29	9	10	4.37	0	8	4.02	4	8
11. Good reputation for performing efficiently	3.09	14	3	3.50	0	3	3.31	8	6	3.09	9	4	3.20	9	4
12. Other	None	N/A	12	None	N/A	12	2.00	50.00	2	2.75	0	3	2.50	17	3

[a] The lower the mean, the greater the importance. [Most important rank 1, then 2, 3 etc.]

Note: As all respondents did not rank all options, the '% Ranked first' is based upon the number of respondents who did rank that option. Therefore the total does not sum to 100%. In addition, as not all respondents ranked all the categories, the mean rank is based on the number of responses for that category. A consequence of this is that in the donors' group only two respondents ranked 'Other' – one giving it '1' and the other '3' – giving it an average of 2 (which is somewhat misleading).

From Tables 6.7 and 6.8, it is clear that donors believe that the reason for giving to charity in general, or to one charity in particular, was primarily either 'commitment to aims and objectives of the charity' or a 'personal experience', either with the charity or with the cause with which it sought to engage. These two reasons dominated the donors' responses. For example, when asked about the motives for giving generally (Table 6.7) donors ranked 'commitment to aims and objectives' first (mean rank 1.80, percentage of donors ranking this first 56%) and 'personal experience' second (mean rank 2.25, percentage of donors ranking this first 25%). This perception was also overwhelmingly held by all other stakeholder groups, with 'commitment to aims and objectives of the charity' ranked first and 'personal experience' ranked second by auditors, beneficiaries and officials. This was the case when asked about the reason for giving to charity in general (Table 6.7) and the reasons for giving to a specific charity (Table 6.8). No other reasons presented came close to these in importance. Overall, the mean rank of 'commitment to aims and objectives of the charity' in giving generally was 1.67 (indicating high importance), with 63% of respondents ranking it first (Table 6.7); 'personal experience' was ranked second overall with a mean rank 2.13 (40% of respondents ranked this first).

A very similar pattern is seen in Table 6.8, which details the overall response for giving to a specific charity. For example, 'commitment to aims and objectives' was ranked first overall (mean rank 1.76, 58% of respondents ranking this first). All other reasons, although of some importance, were viewed as much less central to the giving decision. For example, tax deductions, a reason sometimes given as influencing giving, was ranked seventh out of eight overall when considering giving generally (Table 6.7) and 12th out of 12 when considering giving to a specific charity (Table 6.8). No respondents ranked it as the most important reason for giving generally or giving to a specific charity. This is not to say that such factors do not influence the giving decision, but only that they are not the central motivation, or perceived to be the central motivation, in the giving decision. The results in Tables 6.7 and 6.8 highlight the importance of activity and performance to the donor. Given that the aims and objectives of a charity are critical in the giving decision, it suggests that an articulation of aims and objectives, and presumably the achievement of aims and objectives, is important information in both attracting donors and reporting to them after the event (a key aspect of accountability, as discussed in Chapter 3).

6.2 DISCUSSION AND CONCLUSIONS

In this report it is argued that charities have a duty to account to stakeholders, and that accounting information can play a key role in the discharge of such accountability. Good accounting (accounting that meets the information needs of stakeholders) has the potential to increase stakeholders' confidence, legitimise the operations of charities and provide a basis for stability and growth in the flow of funding. While, in this process, a range of stakeholders can be acknowledged as being affected by an organisation's activities (although possibly to varying extents), the identification of definitive stakeholders (those who 'really count') and their information needs is central if accounting and reporting by charities is to be developed in the most meaningful manner.

The evidence from the research reported in this chapter indicates that all parties consulted view donors as the key stakeholder to whom a charity should be accountable. Because most individual donors normally have no powers of interrogation, however, they must rely on formal channels of reporting to meet their information needs. When the information donors need, as identified in the research reported in this chapter, is compared with the information disclosed in formal channels of communication (annual reports, annual reviews and SIRs) of the largest fundraising charities in the UK (research reported in Chapter 5), a gap is apparent. Extant charity annual reports, mandatory reports that are viewed as the most important channel of communication by all four stakeholder groups, are dominated by audited financial information, although donors perceive this information as less important than performance-related information that is much less disclosed. On the other hand, annual reviews include a greater proportion (although, overall, similar levels of disclosure) of performance-related information (disclosures viewed by donors as of greatest importance) than annual reports, but a much lesser proportion (and much lower levels of disclosure) of traditional audited financial statement information (information viewed by donors as much less important).

This suggests that annual reviews are perhaps a more meaningful communication with donors, something alluded to when annual reviews were considered by all respondent groups as being a more engaged with (defined in this research as being read, understood and considered), although less important, communication channel than the annual report. SIRs are viewed as much less important and are much less engaged with by all stakeholder groups and hence much less central to the discharge of accountability. This is supported by Lord Hodgson (2012), who reports that the SIR is seen as an unnecessary duplication of information provided elsewhere and thus recommends that the SIR be abolished.

Notwithstanding the above, while there remains a gap between donors' information needs and the information disclosed in both annual reports and annual reviews, the research reported in this chapter and in Chapter 5 demonstrates that this relevance gap has closed considerably since 1990. The present work shows much greater information disclosure in annual reports in 2007/8, particularly of performance information (the most important information sought by donors). Nonetheless, much is yet to be done and major issues need to be considered. Although performance reporting, which is key to meeting donors' information needs, has increased substantially over time, there are still major gaps. If charities are to meet the information needs of donors, arguably the administrators and controllers of the charity sector should do more to ensure the production and publication of performance information. In addition, the formal channels of communication used in the discharge of accountability need to be considered. Annual reports have traditionally been viewed, both in the charity sector and elsewhere, as the primary means by which the management of an entity is able to fulfil its reporting responsibility. Such documents have become extremely lengthy, and often contain much information that is neither understood nor valued by donors. As a result, such documents, while important, are not engaged with extensively by donors, with voluntary annual reviews assuming greater consequence.

If the annual review has become a more significant communication with donors, then arguably there should be more oversight of the information content in such channels to curtail possible misrepresentation and 'gaming'. Perhaps more guidance should be provided as to their contents and structure, and 'rules' developed relating to what can be included and how it should be reported (with a degree of verification possibly required). These are big issues that would seem apposite to those interested in promoting greater accountability by the sector as a basis for maintaining its health and dynamism (for example, the Charity Commission, OSCR, the CAF, CFG, the Association of Chief Executives of Voluntary Organisations, or even, particularly with regard to how financial information is presented, the professional accountancy bodies). There are many issues that need to be considered in doing this, including the danger of an overload of regulation and 'guidance', the resource commitments necessary to produce guidance and rules (with cost-benefit issues to the fore), and the danger that certain interest groups may capture and steer an agenda that does not necessarily promote accountability.

It should also be noted that in the research reported in this chapter strenuous efforts were made to get beneficiaries to complete the questionnaire (as outlined in the research methods chapter – Chapter 4) but, owing to a range of difficulties, only nine did. The desire to engage with them was driven by recognition of their legitimacy as the focus of charities' mission and work, and this is reflected in the importance respondents placed on discharging responsibility to this stakeholder group (being ranked only slightly behind donors as the group to whom accountability is primarily owed by auditors, officials and donors). Frequently the mission of a charity is focused on the beneficiary, and those who work within a charity are often concerned with maximising the benefit provided to the beneficiary. Certainly the funder often takes a beneficiary-focused view of events (albeit possibly a somewhat removed view), because the plight of the beneficiary is often at the heart of the funding decision. It has been argued that involving, or consulting, beneficiaries about charity decision making can encourage a much sharper focus by a charity and guard against the danger of mission drift, and hence can be a strong legitimising force (Wellens and Jegers 2011). In practice, identifying beneficiaries and engaging with them in a meaningful way about accounting and reporting issues (and wider governance issues) is often problematical. This is particularly seen in Connolly et al. (2009), who report on a major Charity Commission/OSCR consultation process where beneficiary engagement was much sought by these bodies but beneficiaries did not respond. This difficulty may be because of beneficiaries' motivation and capability, and the urgency of their needs, and is especially difficult in certain types of charities (such as those dealing with animal welfare and medical research). While engagement with beneficiaries has the potential to improve reporting by charities considerably, and legitimise further the accounting and reporting framework, this research highlights the difficulties of doing this. Indeed, this may imply that beneficiaries of many charities are not particularly interested in accounting and reporting (even though good accounting and reporting could well serve their best interests), and accountability to them is more about the direct provision of a service when in need (something explored further in Chapter 7).

7. The views of stakeholders

In an attempt to develop and enrich the findings from the document content analysis (Chapter 5) and the online questionnaire (Chapter 6), interviews were conducted with individuals from each of the four stakeholder groups (charity auditors, beneficiaries, donors and officials) identified in the previous chapter. In total 28 interviews took place (six with charity auditors (CA1-6), eight with charity beneficiaries (CB1-8), six with charity donors (CD1-6) and six with charity officials (CO1-6)); the methodology adopted is explained in Chapter 4. The questions asked (which are shown in Appendix 2) were informed by the theoretical and contextual issues explored in Chapter 3, together with the findings in the two empirical chapters (Chapters 5 and 6).

The next section of this chapter presents the analysis of the interviews under the headings used in the semi-structured interview guide (Appendix 2): general background; exploring accountability; meeting user needs and discharging accountability; and linking internal and external practices/drivers of charity accountability. The chapter concludes with a discussion of the implications of the findings.

7.1 ANALYSIS OF SEMI-STRUCTURED INTERVIEWS

7.1.1 General background

Interviewees were initially asked to outline their background and experience in dealing with charities so that their views and opinions could be placed in context (Questions 1–3). Each of the interviewees had substantial knowledge of some aspect of the sector. For example, each of the charity auditor interviewees, five of whom were partners and one a senior manager, had been engaged in the audit of charities for a number of years. Six of the beneficiaries interviewed had used the services of more than one charity for at least 15 years, and all had engaged with large national charities. With respect to the charity donor group, three were individual donors (CD1, CD3 and CD5), two were grant makers (CD2 and CD4) and one a corporate donor (CD6). Each of the charity officials held a senior position in their respective charity, including roles such as director of finance, director of resources and head of strategy.

7.1.2 Exploring accountability

In an attempt to link user needs, stakeholder theory and accountability, and perhaps give an insight into the sources of accountability pressures, interviewees were asked what they understood by the 'accountability' of charities (question 4). Most interviewees made reference to accountability's association with demonstrating that monies received had been spent in accordance with the aims and objectives of the charity. Consequently, and perhaps not surprisingly, views on accountability were often closely associated with how this responsibility was discharged.

> *In practical terms, it should answer the question 'tell me what you have done with the money that I have given you?'* (CA6)

> *Accountability is about keeping people informed.* (CB8)

> *Being accountable is being able to show that the money given to the charity has been spent on providing services for us.* (CD2)

> *For charities, accountability is about ensuring that monies are used efficiently and effectively, and for the purposes that the funders had intended.* (CO3)

Charity auditors and officials explicitly linked accountability with stewardship.

> *The charity has to practise good stewardship and make sure that any money received is used for the purposes for which it has been given.* (CA1)

> *Accountability is stewardship isn't it? The management is entrusted with looking after the assets of the organisation.* (CA4)

> *I suspect that people want to know that if they are giving you their money, stewardship is strong and that it's being spent in the way you said you were going to spend it.* (CO5)

Discussions on stewardship with charity auditors and officials usually developed to include the implementation of appropriate systems and structures to record monies received and how they were spent, particularly with respect to restricted funds (as it was believed that this was of particular interest to larger donors and grant makers).

> *I am most interested in making sure a charity has the right processes in place so that they can track that money is spent as it should be, spot mistakes and focus on what works.* (CD4)

> *Moreover, charity auditors and officials acknowledged that such systems were vital to ensure compliance with the charity Statement of Recommended Practice* (SORP).

> *When you're talking about charities that deal with restricted funds, it's critically important because donors want to see how that money has been used and it's needed for the SORP accounts.* (CA1)

Charity auditors and officials were also most likely to assert that accountability involved reporting to the members or donors on how money had been spent. This was assumed to occur most frequently through the audited annual report and financial statements[7] and annual general meeting (AGM), although it was acknowledged that readership of the annual report (or attendance at the AGM) could be low. While both these groups discussed the importance of systems and structures for external reporting purposes, charity officials emphasised internal reporting and the provision of information for boards of trustees, together with implementing internal controls for audit purposes, as being central to charity accountability. In addition, charity officials stressed that these elements were fundamental as many charities were limited companies and therefore had to comply with non-charity-related obligations.

When the interviewees were asked to which stakeholders charities should be primarily accountable (question 5), most began their response by acknowledging that charities are accountable to a wide range of stakeholders, including the Charity Commission, government, their members and the public.

[7] Referred to merely as the 'annual report' (unless included in a quotation).

I think charities are accountable to many parties. I don't think there is any one party in the chain that charities are not accountable to. (CA3)

One of the interesting things about charities is that they have multiple and overlapping levels of accountability. They're accountable to their funders, to government, to their members, to their beneficiaries (if they don't have members), and even to the community. (CD2)

A charity is accountable to the public, not just its beneficiaries or its donors. As a charity you are accountable to the public for your ethos, your values and your ways of working. The word charity has a very, very special connotation in the mind of the public. (CO6)

Interestingly, the beneficiary interviewees, confirming beneficiary responses to the questionnaire in Chapter 6, were most adamant about the primacy of the beneficiary.

The beneficiary is the most important. (CB6)

The individual in need should be at the centre of everything the charity does. (CB7)

Even so, while maintaining the view of their pre-eminence as to accountability, some beneficiaries clearly recognised the importance of donors.

Charities have to be accountable first to us [beneficiaries]. But you can't ignore the donors, especially the big ones. (CB1)

In contrast, the other interviewee groups tended to deliberate whether primacy of accountability should be towards donors or beneficiaries.

We are given money in trust on the basis of what we do and therefore we are accountable in the first instance to those who give us the money and those…whom we do work for. Therefore our accountability is to the beneficiaries and to the funders. (CO5)

When probed further, however, these interviewees acknowledged that the needs of beneficiaries must be central.

Charities will be more successful if they listen to their beneficiaries. (CA6)

Our service users in the main. Obviously you are accountable to the funders as to how you've utilised their money, but at the end of the day if we don't focus on the service user then we've lost our direction. (CO3)

Indeed, one charity official, resonating ideas similar to those expressed by beneficiaries, expressed this most adamantly:

For me it's very clear that a charity is absolutely solely accountable to its beneficiaries and not to its donors. (CO4)

Echoing issues from stakeholder theory reflecting power-related themes related to discharging accountability (Mitchell et al. 1997), interviewees frequently distinguished between those who, in an ideal world where all needs were funded, they should be accountable to (beneficiaries), and those who, because of the need to ensure funding flows, they often concentrated on in terms of accountability (donors). This was particularly the case when funding pressures were severe.

In theory charities should be accountable firstly to their beneficiaries...Because of the way things are at the minute in terms of funding, the main focus is on accountability towards the funders. Charities need to get the money in. (CA2)

This dilemma as to which stakeholder a charity should be primarily accountable was evident in all the interviews (although to a lesser extent with beneficiary interviewees) and is consistent with the questionnaire findings reported in Chapter 6. These show that, overall, respondents believed that a charity should be primarily accountable to its donors, closely followed by its beneficiaries, with the responses of three of the four respondent groups indicating a similar ranking (in contrast, beneficiaries ranked themselves first and donors second). In total, 38% of respondents ranked donors as the most important stakeholder group, with 35% ranking beneficiaries as most important.

This apparent tension between rankings of primacy of different stakeholder groups' accountability may, however, be overstated. A number of interviewees clearly acknowledged that meeting the needs of beneficiaries could not be divorced from being accountable to donors and that the interests of these two groups might in fact be mutually supportive. Indeed, some interviewees saw donors' interests as proxies for those of beneficiaries, particularly in cases when it was difficult for charities to engage with their beneficiaries. Here it was suggested that because of the connection between beneficiaries and donors, addressing the needs of one should serve the needs of the other.

It's a conundrum. I don't know if there is a right answer… Probably should be beneficiaries but many are unable to express what they want. The beneficiaries of many charities are not in a position to articulate their needs or views. Maybe this means charities then focus on their donors. (CA6)

How accountability actually manifests itself depends on who's there to hold charities to account. It might be that the regulator holds charities to account on behalf of beneficiaries because beneficiaries can't. Alternatively, funders can provide a good proxy because they act in the best interests of beneficiaries. (CD4)

In particular, the charity auditors who responded to the online questionnaire indicated that charities should be primarily accountable to donors, with 50% of auditors ranking donors as most important in terms of discharging accountability. Even in these cases where the belief was expressed that donors were paramount, however, the linkages with beneficiary interest sometimes emerged.

You could argue that charities don't exist because of users of charities; charities exist because of donors to charities. (CA3)

Definitely donors, but they kind of take a beneficiary-focused position. (CA6)

This possible alignment between donors' and beneficiaries' interests connects well with the results in Chapter 6, which found the primary motivation for giving by donors to be 'commitment to the aims and objectives of the charity'. Donors provide funding, often with no direct economic benefit to themselves. Given that their rationale for giving is driven by the purposes of the charity (frequently expressed in terms of beneficiary needs), and, as was also seen in Chapter 6, often reinforced by personal experience, this encourages a beneficiary-focused perspective. Indeed, if the personal experience is related to past or present beneficiaries and their needs, as is often the case, then this may be a very well-informed beneficiary-focused perspective.

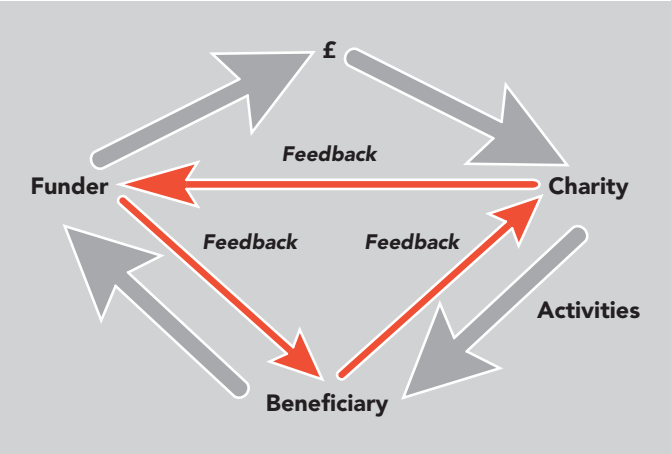
Nonetheless, although interviewees from all groups accepted that there could be a link between donors' and beneficiaries' interests, some respondents sounded a note of caution about focusing too heavily on donors' needs. This was particularly the case when donors' interests were not central to the goals of the charity (where the danger of mission drift was highlighted as charities may be tempted to 'chase the money') or where donors' perceptions of beneficiary needs were not up to date.

> *You have to be careful not to be led by what people want to give you money for as it may not necessarily be what people really want and you can then drift away from what you are there to do.* (CO5)

> *You have a funder, a charity, a beneficiary, a flow of money, activities and some sort of feedback of impact. If the charity reports no impact then the funder presumably will decide to give elsewhere. In theory, the funder is also measuring beneficiary needs and whether those needs are changing. But this is not a functional loop of information and so if funders are supposed to be acting as a proxy for the beneficiaries' best interests, they almost never do and the loop breaks down at every single point.* (CD4)

This last quotation was simultaneously illustrated by the interviewee (Figure 7.1), who outlined the ideal feedback model where both the funder and the charity would be aware of beneficiary needs.

Figure 7.1: Feedback, money and activity flows in relation to key stakeholders



It is generally accepted that accountability is wider than accounting, and although the annual report may be an important medium through which accountability is discharged, other mediums may also be important. Interviewees were asked both how do (question 6) and how should (question 7) charities discharge their duty of accountability to the primary stakeholders. Although the manner in which accountability was discharged was often perceived as unclear, charity officials tended to make a direct link between service provision and the discharge of accountability.

> *Assuming that service users or beneficiaries are the main group, then accountability is discharged through appropriate service provision.* (CO2)

> *It has to be from service delivery. We try to monitor this through regular review meetings with the purchasers of the service [funders]. We also carry out stakeholder and service user surveys and staff surveys as this information should improve the quality of service delivery.* (CO3)

In practice, knowing whether accountability had been discharged through appropriate service provision was seen as not without difficulty because of the challenges of measuring performance.

> *The donor gives you a pound and you are accountable for how well you have spent that pound. But can I tell the donor if it was spent effectively? Probably not. All you can do is look at your beneficiaries and try to assess whether the service you are giving them has achieved what it is meant to. But often that's a matter of judgement, especially if it's a long-term thing.* (CO4)

Charities typically provide accountability information through the statutory annual report and possibly a voluntary annual review. Respondents to the online questionnaire (Chapter 6) were asked about these channels of communication. They indicated that while the annual report is viewed as the most important channel of communication, the annual review is viewed as the most engaged with. When this was raised during the interviews, the consensus among charity auditors, donors and officials was that accountability was best discharged to beneficiaries through the annual review (as opposed to the annual report), and that the 'quality' of annual reviews was improving. Nonetheless, charity officials, in particular, stressed that the vast majority of beneficiaries were unlikely to be interested in the annual report and annual review and that, as reflected above, service provision was likely to be the main yardstick.

Beneficiaries, while acknowledging direct service provision as the most important aspect of a charity's accountability, expressed a strong preference for regular 'softer' magazines and leaflets as channels of communication (as opposed to annual reports and annual reviews). In addition, they expressed a desire to have such communications concentrate on local-interest and personal stories relating to a charity's work.

> *I like magazines, regular information with personal stories. I even use Facebook.* (CB8)

Moreover, without exception, each of the beneficiaries interviewed equated accountability with local representation or access to a regional contact, presumably to make personal contact and deal with individual needs.

> *Having a local representative is very important. That is largely how things get done.* (CB4)

Similar views were echoed by some of the charity officials (CO1, CO2 and CO3) who acknowledged the importance of having a presence at a local level as this enabled the organisation to react to local needs (which was seen as a foundation for discharging accountability).

> *Being accountable in a local sense has always been important...This also enables you to organise a network of support groups and volunteers more easily.* (CO2)

While acknowledging beneficiaries as an important stakeholder, charity auditors made the strongest association between the discharge of accountability and reporting to donors, albeit usually adding that the provision of such information could be of interest to beneficiaries. As regards the type of information in which donors were believed to be interested:

> *I think the narrative stuff at the front is useful because it gives you a good broad picture of what's going on. I would probably as a donor want to see how much of it is actually going on charitable activity and how much of it is going on administration.* (CA1)

In addition, the interviews indicated that individual donors had limited expectations, and while they expected to be 'kept informed' this was not necessarily through the formal annual report or even the annual review, with less formal magazines and pamphlets often being deemed sufficient.

As the charity sector changes in response to shifting needs, determining what motivates donors to give becomes increasingly important. This issue has spawned a substantial literature over many years, and the factors that motivate people to donate to charities are considered in Chapter 2 (under a variety of themes including religious beliefs, tax incentives and altruism). An understanding of the motivation for giving should help charities to identify or respond to trends (such as changes in the economic environment and demographics), and then prepare for these changes. The questionnaire used to gather data (Chapter 6) explored the issue of why people give and why they choose a specific charity. The results indicate that most donors give primarily because of either a 'commitment to the aims and objectives of the charity' or a 'personal experience' with either the charity or the cause. The overwhelming impression from individual donor interviewees was that the 'cause' was their motivation and that they trusted those organisations that they supported (possibly because of their charitable status and some previous contact). There was an inherent belief among individual donors in particular that the charities they donated to were inherently good and would spend the money given to them wisely and appropriately.

> *I usually give to charities based on people I know who are associated with them in some way.* (CD3)

> *I trust the charity to use the money that I give to them to do what they are supposed to do with it.* (CD5)

Interestingly, many of the individual donor interviewees did not show a significant desire to engage in a particularly detailed analysis of the formal communications produced by charities and, in addition, perceived themselves as having limited power and influence. Moreover, they appeared to rely on others to scrutinise what was going on. As one donor expressed it, other stakeholders had to 'do it on my behalf'. (CD1)

> *I might thumb through it* [annual report]*, but I'd never look at it in an analytical way. As long as someone else looks to see that they're doing it right, I'm happy with that.* (CD1)

Notwithstanding the above, when interviewees were given the opportunity to suggest how charities should discharge their duty of accountability (question 7), the most common response was the inclusion of more narrative information in the formal communications of charities (annual reports and annual reviews) so as to explain the story behind the figures. This was seen as beneficial for all stakeholder groups and as providing a direct link between meeting statutory reporting obligations and meeting stakeholder needs.

7.1.3 Meeting user needs and discharging accountability

It is often argued that accounting information can provide an important and regular mechanism through which major aspects of accountability are discharged, and that the annual report is a suitable vehicle for this. The user-needs model has been dominant in discussions in both the business and not-for-profit (NFP) sectors.

Interviewees were asked about who was involved in informing the form and content of their annual report, annual review and website (question 8). Charity auditors believed that the content of these mechanisms was driven by 'marketing, publicity and information people' (CA6). Indeed, it was suggested that, given the heavy input from those whose role it was to raise money, this was a clear indication of the documents' intended readers. Even so, the charity official interviewees suggested that, while communications and marketing staff were heavily involved in the form and content of these channels of communication (which were seen as vital in raising funds, especially from larger donors), representatives from the various formal committees of the charity also had an influence.

> *Here the Head of Communications takes the lead on the annual report and the Finance Director takes the lead on the accounts…We are conscious that it is a marketing tool, a means of demonstrating to people that we are making a real difference. Then hopefully people will feel inclined to help us more.* (CO5)

As an indication of whose needs charities were trying to meet, interviewees were asked to whom the annual report, annual review and website were addressed and who used them (questions 9 and 10). If not used, the role of such communications (or platforms) in discharging accountability is limited. Some interviewees were somewhat unclear as to whom the annual report was addressed, viewing it largely as satisfying a statutory obligation. Notwithstanding this, many interviewees

identified their members or larger donors (both existing and potential) as its primary audience, although it was recognised that larger donors regularly required (and received) more detailed information than that provided in the annual report.

> *Our experience is that certainly the grant-making trusts will definitely use the trustees' report and accounts as an important source of information when they are considering a grant application. But I don't think it's so important for other groups and individuals; it's very rare for them to look at financial information at all.* (CA6)

In addition, a number of the charity officials interviewed suggested that there was very little evidence that members and beneficiaries read the annual report.

> *I don't think they [members and beneficiaries] sit down and read the trustees' report. When you are asked a question, you are usually asked a slightly obscure question, which is often just because they want to make a point. We rarely get grilled on the accounts.* (CO1)

Large donor interviewees stated that although they did use annual reports and annual reviews, they would request additional information and additional direct engagement before a funding decision was made (for example, management accounts and cash flow information, together with at least one visit to the organisation's premises). In addition, specific reports (frequently to include information on outputs) relating to any project funded would often be required during the funding period. Therefore, in many cases, while formal channels of communications (particularly annual reports) had limited impact on the funding decisions of large donors, it was expected that they would be available as a matter of course. In other words, in these cases, they were necessary but not sufficient for funding purposes.

> *Mostly these things give you a warm fuzzy feeling about what a nice organisation it is. We would be looking into the organisation's finances and performance in a lot more detail than what is provided in these documents.* (CD2)

> *Before we go out to see the client, we'll have a look at the different published reports and the website. But you would never make a decision just on that basis.* (CD6)

Despite the apparent limited interest of large donors in the annual report, other stakeholders were aware that larger donors might be sensitive to information contained in formal communications. For example, both charity auditors and officials acknowledged that careful consideration was given to ensuring that amounts shown in the financial statements for specific projects or purposes agreed with amounts received from particular (larger) donors, and that clear acknowledgement of such donations was made in the annual report. Moreover, some donor interviewees stated that this was often checked (and expected).

> *Those donors want to see how their money is being used and they want to see their name in the accounts.* (CA1)

A range of interviewees considered the annual review to be a marketing document for 'smaller' donors and a form of information provision for beneficiaries.

> *In my experience many of the major donors request specific information...Most of my clients use the annual review to encourage individual givers and for the benefit of their members, who are usually service users.* (CA4)

> *Here, and in [the charity where the interviewee worked previously] the annual review was designed to encourage the public to give and to make the beneficiaries and their families aware of what we were doing.* (CO5)

It was argued previously that charities typically provide accountability information through several channels and that accountability, in its widest sense, is more than accounting (however widely accounting is defined). From Chapter 6 it is evident that the annual report is viewed as the most important communication channel while the annual review is viewed as the one most engaged with. In order to explore this issue further, the interviewees were asked which of the communication channels (annual report, annual review and SIR) they believed were the most important in discharging accountability (question 11). The broad thrust of the responses from each of the interviewees was that the annual report was a formal document that provided independent assurance (from the auditor) that the charity was complying with its responsibilities. Without exception, it was considered by each of the stakeholder groups as essential for the proper regulation of charities and the sector (ie it is important to be accountable and to be seen to be accountable).

Moreover, there was agreement that the SORP-based annual report had improved considerably, particularly since the publication of the 2005 SORP (Charity Commission 2005a), as a communication of accountability, both in the trustees' report's narrative and in the financial statements. Perhaps not surprisingly, charity auditors were the most vehement in their belief that fulfilling statutory obligations through the audited annual report was an important part of discharging accountability.

> *As an accountant, I'm going to say that the annual report and accounts is the most important.* (CA3)

While the annual report was believed to be important in discharging accountability, it was generally recognised that few people actually read or understand the document. Nonetheless, it was broadly believed that its preparation and availability were an important part of the accountability process, although, as indicated by charity auditors and officials, there was often too much dry information in the trustees' report and that sometimes 'less would be better' (CA4). Charity auditors in particular believed that a well-crafted SORP-compliant annual report should be able to meet the needs of many users, especially if greater attention is given to the trustees' narrative report.

> *Charities want to be open; they don't want to be seen to be hiding anything. Therefore they send out lots of information. But I do wonder how many people actually look at the accounts. I think the front end [of the annual report] is actually important for charities because that's where they get to tell their story, and that's the bit that people understand. A set of SORP accounts even to most accountants is hard to understand.* (CA1)

Beneficiaries preferred frequent and regular information of a narrative nature (containing personal stories), such as monthly or quarterly magazines.

> *Maybe some money information. But the stories from those that have been helped are much more interesting. They give you hope.* (CB2)

> *I know the accounts get done but I'm not that interested in them. I'd rather read about the members, the services and the different people that have been helped.* (CB6)

Indeed, similar ideas were also expressed by a number of the charity auditors (stakeholders who should be able to comprehend the more technical contents of annual reports) who admitted that they might not pay very close attention to the annual report themselves when making personal decisions to give.

> *I'm a finance director and I don't read the annual reports of the charities I give to. I support them because of what they do. I'm actually quite happy with a fairly regular, what I would call, magazine. Even just a few pages to keep me informed.* (CO5)

Consistent with the questionnaire results reported in Chapter 6, while interviewees were not unsupportive of their purpose or content, the SIR was perceived as having limited importance in discharging accountability to the majority of stakeholders. Indeed, a number of the interviewees were not even aware of its existence.

In order to assess the perceived information needs of stakeholders, interviewees were asked for what purpose they believed each of the channels of communication (annual report, annual review and SIR) was used (question 12). The broad view was that the annual report was used primarily to gain assurance that the charity was upstanding and legitimate. In addition however, a number of charity auditors also suggested that donors might also use the annual report to compare money spent on charitable purposes and on administration.

> *I think they want to find out that their money isn't all going on administration and governance costs. That's what most people are interested in.* (CA4)

While the general opinion was that members of the public and small donors had a limited interest in the contents of the annual report, most interviewees believed that it was still a useful document. One of the main benefits for the charity was seen to be that its preparation imposed a certain amount of discipline on the charity and focused attention on how it was being run.

> *It forces a charity to review what happened during the year, and to look at this in relation to what their plans are...You can't force people to learn from that reflection, but the hope is that they will.* (CD2)

> *Leaving aside the fact that it has to be prepared, the exercise of putting the annual report and accounts together is a useful discipline for the finance team, for the trustees and for the fundraising people. It forces people to think and reflect.* (CO4)

Charity officials acknowledged that, apart from the statutory obligation, the annual report was also very much a marketing instrument, particularly for large donors.

> *For us, it's a marketing tool.* (CO3)

> *Yes, it's mainly marketing.* (CO4)

> *The only people who really read the accounts are probably the large giving charities* [ie large funders]. (CA5)

Here again, most of the interviewees suggested that those charities that prepared an annual review probably did so for the benefit of individual donors and beneficiaries.

> *The annual review is probably aimed at the individual donor and the beneficiaries, just to say what we have done.* (CO4)

The individual donors interviewed largely supported this assessment, with many confirming that their funding decision was mainly based upon the 'cause' and not the financial content of the various reports; although being kept informed, particularly through personal stories, was widely supported.

> *I'm a story person. What prompts me to continue giving is if I think 'Yes, I like what they're doing'.* (CD3)

Beneficiary interviewees similarly confirmed that they had little interest in the financial numbers. Moreover, while they expected to be kept informed of what the charity was doing in an overall sense, their main interest was appropriate service provision, which was often communicated best through personal stories.

> *Numbers don't tell you what the charity is doing. I like to read the stories of what help people have received. Donors and the public should also want to see what beneficiaries are getting.* (CB7)

Interviewees were asked why, although the annual report was considered the most important channel of communication, the annual review was the one that users engage with most (question 13). Virtually without exception, the reason given for this was that the annual report, although mandatory and important in demonstrating that appropriate procedures and processes were followed (particularly the signal from having a clean audit report), was perceived as dull and dry compared with the more narrative pictorial annual review (and other more 'newsy' charity publications).

> *You know we always joke with clients that if you don't want anyone to look at information in the annual report, put it in with the financial statements.* (CA2)

> *Most stakeholders will stop reading the annual report after the first page of accounts.* (CO2)

Charity auditors tended to believe that charities struggled to strike a balance between making the annual report readable and meeting what were believed to be the requirements of the SORP. There was a view that the SORP was quite prescriptive and that charities (rightly or wrongly) felt obliged to comply rigidly with it.

Chapter 6 showed that websites have a role to play in the dissemination of information. When this was explored with interviewees, in relation to questions 8 to 13, websites were perceived as a useful, and growing, means of contact between a charity and its stakeholders. This was seen as especially beneficial for donors and beneficiaries where such an interface facilitated information flows quickly and easily. Moreover, websites were seen as an effective channel, which could quickly and inexpensively be kept up to date, and through which charities could tell their story to a range of stakeholders.

> *Most charities go to quite a lot of trouble to actually disclose what they are doing, who they are serving and what areas they are working in. It's much easier to capture this on the web than on a piece of paper.* (CA4)

> *Websites have definitely improved the provision of information. They make it easier to find out what has been going on and things that are happening in the future.* (CB3)

> *I would say our website is predominantly accessed by people who are looking for help and assistance from us.* (CO4)

Measurement is often essential to both the process of management and the discharge of accountability. The maxim 'what gets measured gets done' expresses the fact that measurement enables and motivates managers to take effective action. Commercial businesses have always measured performance in the narrow sense of profitability because the rewards of the owners and the continuity of the business are dependent on profit. There is considerably less certainty as to how performance can be measured in charities. A number of authors focusing on NFP organisations (for example, Bird and Morgan-Jones 1981; Anthony and Young 1999; Connolly and Hyndman 2003), while recognising difficulties of measurement, argue that efficiency and effectiveness are the two main criteria for judging performance.

Performance measures are needed in the charity sector to facilitate management decision making and to allow individual charities, and the sector as a whole, to justify their existence. Unless adequate performance measures are in place, it is often difficult for the charitable sector to counter criticisms as a whole, or for individual charities to refute accusations of poor management and ineffectiveness. Users of such information require it to make judgements and decisions that affect economic well-being. Performance information makes visible the resources, activities and achievements of an organisation, thus enabling informed discussions and decisions. Furthermore, it has been suggested that the need to discharge accountability through the publication of performance information acts as a disciplining pressure and encourages management to concentrate on the issues that are of importance to those stakeholders who are outside the immediate management of the organisation and often provide the resources for the organisation to function. Without pressure to discharge accountability through the disclosure of performance information, managers of charities might be led to pursue their own goals at the expense of the goals of the donors or the stated goals of the charity. Edwards and Hulme (1995: 9) assert that the absence of accountability 'begins to make the likelihood of ineffective or illegitimate actions by an organisation much more probable'. In the context of charities, this argument suggests that where accountability is weak, management might have no incentive to manage the charity's funds efficiently.

Hyndman (1990) shows that the seven most important information types identified by donors in his study were fundamentally performance-related disclosures. Although the results of the questionnaire reported in Chapter 6 indicate that these information types remain important, the findings from the disclosure research (Chapter 5) suggest a continuing gap between what is disclosed and what is most important to stakeholders. In order to explore this further, interviewees were given the opportunity to indicate what information, both financial and non-financial, that is not provided should, in their opinion, be included in an annual report (question 14). Surprisingly, the responses were fairly similar, with most of the interviewees simply suggesting that more narrative explanations should be included; although some did add that these explanations should be forward looking rather than merely describing past events.

Most of the interviewees believed that the disclosure of performance information would be a 'good thing' (CB5). Moreover, a number of charity auditor and charity official interviewees opined that many charities did have performance information available and that in many cases it would be discussed at management meetings.

> *Most charities will have that information, will have some measure of how they're performing. It would be problematic if they didn't. Even small charities will have information on the impact of their funds and whatever it is they're doing.* (CO2)

A number of charity officials were, however, uncertain of the extent to which stakeholders expected this information to be disclosed and the form that such disclosure should take, together with whether the annual report was the most appropriate channel through which to disclose it. It was acknowledged that large donors were the group most likely to require (and receive) such information.

> *Now we don't put that in our annual report, but the information is there. We might publish it in other publicity material, particularly if we're trying to raise funds, or if we're specifically asked for it.* (CO5)

The overall impression gained from each of the interviewee groups was that while it was accepted that the disclosure of performance information would be beneficial, this was an area that needed more thought and direction (concerning what information should be disclosed, the basis on which it should be calculated and the channel through which it should be made available). There was also debate on the measurement and disclosure of 'impact'. It was acknowledged that measuring 'impact' was extremely difficult, but that this should not prevent attempts to do so. Although many accepted that for some charities the 'impact' of their policies and work may be seen only in the medium or long term, charity officials in particular believed that the reporting of personal stories was a valid means of reporting aspects of 'impact'.

> *Stories of how we have helped are one way of illustrating impact, and it can help you plan your services accordingly.* (CO4)

When asked about the problems of providing performance information (question 15), all the interviewees were in agreement that for many charities there were significant difficulties. Issues mentioned included finding the right measure; confidentiality; freeing the staff resources to develop and monitor the measures; and whether impact or performance could always be measured.

> *It's almost impossible [to measure performance] in many circumstances. For example, it's obvious if you are an elderly or lonely person with no family that you need and appreciate a visit from a volunteer who sits with you having a cup of tea, a bit of gossip and listens to your stories for a couple of hours a week. But for many charities, the only thing that you can do is measure the activity.* (CO6)

7.1.4 Linking internal and external practices/drivers of charity accountability

The interviewees were asked to consider the extent to which initiatives such as the SORP, SIRs and recent changes in charity legislation have influenced charity accountability (question 16). Generally there was support for many of the various initiatives within the sector, especially because they were perceived as raising the sector's profile, enhancing professionalism and strengthening the public's perception of charities. Charity officials, in particular, believed there had been a substantial improvement in charity accountability and reporting, particularly since the publication of the 2005 SORP (Charity Commission 2005a), and that the various initiatives referred to above had undoubtedly improved the standard of reporting and awareness of the need for proper accountability in charities. Charity officials also suggested that not only had the various initiatives improved charity professionalism but also that:

> *Any charity that wants to have credibility needs to produce their accounts by following SORP.* (CO3)

Charity auditors especially referred to the SORP as being a major influence on charity reporting, particularly in providing a format for charities' financial statements and improving comparability for other users. Moreover, they believed that the SORP had increased confidence in the sector, even if most people did not actually read the annual report. In addition, they saw the focus on reporting the distinction between restricted and unrestricted funds as important.

> *I think the SORP has had a big impact. I think it has raised the bar and improved the professionalism of those in the sector. Without doubt you can really see the difference.* (CA5)

> *The SORP has had a huge impact over the years, especially moving from SORP 2000 as this made charities try to link their report to the numbers.* (CA6)

Charity auditors and officials remarked that the growing emphasis on internal controls, risk assessment and governance had forced many charities to implement and improve their reporting systems, and led to a greater appreciation among trustees about their duties and responsibilities.

> *Because the information systems are now in place, they are used on a more regular basis. For example, why not then produce monthly or quarterly management accounts so that when the Board meets it is not just a back-slapping exercise but actually a meeting where hard information can be looked at, either in terms of financial numbers or things done?* (CO6)

The Charity Commission was also recognised as being extremely influential in driving improvements in the sector and in facilitating charities in doing this (especially through their 'CC Guides'). Even so, there was a belief that care was needed not to over-burden charities with red tape, and the SIR was occasionally mentioned as an example of unnecessary bureaucracy. Furthermore, the increased scrutiny and professionalism of many funders was acknowledged as contributing to changes in behaviour within the sector. The larger donors suggested that the various initiatives tended to have most impact initially on larger charities, with the improved practices then permeating down gradually to medium-sized and smaller charities.

A comparison of the findings from the document content analysis reported in Chapter 5 with the Hyndman (1990) study indicates that the reporting of the 14 information types in annual reports has increased substantially since 1990, with a particular increase in the reporting of a number of the performance-related disclosures. Interviewees were asked about the increase in the disclosure of performance information (questions 17 and 18). A number of the interviewees attributed this to the growing maturity of charities and the sector, and that the changing reporting habits simply reflected the fact that charities now had the systems and the personnel to provide such information (ie in many ways a reflection of the improving professionalism within the sector, which is consistent with the views on the changes brought about by the SORP). In addition, there was a belief that improvements in reporting by some charities encouraged or 'forced' others to follow suit.

> *I think there is more desire and more competition in the sector, and also better quality people now working in the sector. Many charities we work with want to be seen to be best of their class in all that they do. They look at what others are doing and learn lessons from them. No one wants to be behind the trend, especially as they are all now fighting for a slice of a smaller cake.* (CA4)

Another interviewee, although expressing a similar theme, used a more pejorative tone and suggested that the pressure for this came from an unwelcome read-across of ideas from the business sector.

> *Actually I think it's become a 'meme'.*[8] *There is drive for charities to behave, act and look like businesses. We are constantly being told to be more professional and more business-like. Performance reporting comes with this.* (CO6)

Nonetheless, despite the increase in almost all performance-related information types since 1990, the disclosure of some performance-related items remains relatively low in both annual reports and annual reviews (see Chapter 5). In particular, disclosure of efficiency-related information types ('measures of

[8] A 'meme' is an idea that spreads through a culture: like a gene, it can replicate and evolve.

efficiency' and 'administration cost percentage' information) remains low, notwithstanding that efficiency information is viewed as important by users, and known, by providers of information, to be important to users (Chapter 6). When interviewees were asked why they believed this was the case (question 18), many stated that there was a fear that the 'numbers' would be taken out of context and that there was a incorrect perception that spending money on administration was inherently wasteful (rather than being an essential part of running an organisation) and that charities would be criticised regardless.

> *There is a perception that spending money on managing yourself is a bad thing.* (CO5)

As discussed earlier in this chapter, beneficiaries are viewed as important stakeholders to whom a charity should be accountable. Indeed, it has been suggested that involving such stakeholders in the management processes can help to sharpen and renew the vision and goals, as well as well as enhancing the legitimacy, of charities (Wellens and Jegers 2011). In fact, the evidence suggests that most beneficiaries not only have little interest in, and do not engage with, the formal communications produced, but also have little desire to be involved in the overview and decision making of 'their' charity. When asked whether this should change and, if desirable, how such change might be facilitated (question 19), the general response was that even if steps were taken to encourage it, it was unlikely to change because, in most cases, beneficiaries did not want to get involved at this level.

> *There is an assumption that beneficiaries want to be involved in the decision making of the charity and I suspect an awful lot of them don't. And why should they? All that matters is the service they are getting and how they are being treated. They are not there to run the charity; they are there to be served by the charity.* (CO6)

Generally, across all the stakeholders (including beneficiaries), it was thought sufficient that charities focus upon providing appropriate services, especially if beneficiaries have the opportunity to give feedback on the services being provided and that this informs future service provision.

> *The dilemma is that the happier the beneficiaries are with the delivery of service, the less likely they are to want to be involved.* (CD2)

7.2 DISCUSSION AND CONCLUSIONS

Using document analysis and an online questionnaire to gather data, the main findings of the previous two empirical chapters are that all four stakeholder groups view donors and beneficiaries as key stakeholders, and consider information relating to performance most important for discharging accountability; and, although the gap between information needs and information disclosed has reduced since 1990, there are still major deficiencies in the reporting of performance information that lead to weak accountability (and have the potential to undermine planning and control processes within charities). The findings reported in this chapter, derived from semi-structured interviews with key stakeholders, develop and enrich this evidence. The questions in the interview guide were driven by the findings in Chapters 5 and 6 and the main themes in the academic literature (Chapter 3).

The primary impression gained from the interviews is that accountability is believed to be closely associated with demonstrating that monies received have been spent in accordance with the aims and objectives of the charity, and that charity auditors and officials in particular perceive this as being closely linked to stewardship. This in turn is related to the implementation of appropriate systems and controls to record monies received and how they are spent in furtherance of the charity's objectives. While there is broad agreement that charities are accountable to a wide range of stakeholders, there was debate as to the primacy of donors or beneficiaries. It is suggested that, notwithstanding the temptation for charities to engage in funded activities that have the potential to cause mission drift, any tension between these two stakeholder groups is sometimes overstated and that the meeting of beneficiaries' needs (a key aspect of discharging accountability to beneficiaries) is often aligned with the information needs of donors (which are frequently related to facilitating the aims and objectives of the charity – commonly associated with providing good services to the beneficiary group). Although, as argued by Wellens and Jegers (2011), there may be major benefits for charities in engaging more closely with beneficiaries, such as more intensive focus on key goals and greater legitimation, there are difficulties in achieving this. Among these is the possibility that beneficiaries, even if they can be easily identified, may not want to engage (something supported by the interviews in this research). In addition, with some charities (such as medical research charities and animal welfare charities), beneficiary engagement is problematic because of beneficiary-identification problems.

While it is acknowledged that there are other forms of communication between a charity and its stakeholders, two key mediums through which charities provide accountability information are the statutory annual report and a voluntary annual review. Respondents to the online questionnaire (Chapter 6) were asked about these channels of communication and, from the responses, it is apparent that while they view the annual report as the most important channel of communication, they see the annual review as the most engaged with. From the interviews it is clear that many beneficiaries and donors (particularly small donors) are not especially interested in the annual report (something evidenced in this research and alluded to in earlier work (Connolly et al. 2009)). This is regardless of the likelihood that good accounting and reporting could well serve their best interests. Without entering the debate regarding the distinction between 'interest of beneficiaries and donors', possibly as evidenced by avid readership of annual reports, and 'beneficiary and donor interest', possibly facilitated by transparency and possible scrutiny by other interested parties (albeit that the number may be few), it is clear from the interviews that the preparation of annual reports to a high standard and their publication is viewed by many stakeholders (including beneficiaries and donors) as important for demonstrating credibility and legitimacy, ensuring financial discipline and maintaining focus on key performance aims. The annual report supports important accountability processes and is seen as essential by all stakeholder groups. Additionally, in terms of engaging with many donors and beneficiaries, the consensus among stakeholders interviewed (including charity auditors and charity officials) was that annual reviews (as opposed to annual reports) are much more useful for direct communication with small donors and beneficiaries (again, confirming the findings reported in Chapter 6).

Most interviewees identified charity members and large donors as the primary audience for the annual report. In addition, although they believed that small donors and beneficiaries expected to be kept informed of what was going on in a charity (for beneficiaries this mainly related to the availability of services), this was not necessarily through the annual report or even the annual review. Indeed, while large donors expected that the annual report would be available and that it would be SORP-compliant, the evidence from the interviews was that this group often requested other, more specific, non-publicly available information. Overall, the interviews revealed that all stakeholder groups saw the annual review as a marketing and accountability document for smaller donors and a form of information provision for beneficiaries (with a view expressed by both stakeholder groups that it should focus on personal stories and performance information rather than detailed financial matters). Moreover, websites were acknowledged as an increasingly valuable and important means of conveying information and maintaining contact, particularly between the charity and beneficiaries and donors, and as a place where information about a charity could be easily accessed.

The research presented in this chapter and the previous empirical chapter (Chapter 6) shows that while performance information is important to donors (and much more important than traditional audited financial statement information), some areas of performance disclosure have not increased substantially over time (for example, administration cost percentage information). Most of the interviewees were generally very supportive of the disclosure of performance information to donors and others, and the charity auditor and charity official interviewees asserted that most charities had access to good performance information internally. Nonetheless, the overall impression gained from each of the interviewee groups was that while they accepted that the disclosure of performance information would be beneficial, this was an area that needed more thought and direction about what information should be disclosed, the basis on which it should be calculated and the channel through which it should be made available. In addition, they acknowledged that performance disclosure would have to be continually reviewed and refreshed over time. These views provide some help in understanding both the increase in performance reporting since 1990, as a realisation that the importance of performance disclosure as part of accountability has increased, and continuing gaps in disclosure, as concerns over ways to capture data, their meaning and reliability, and the behavioural consequences of reporting them are considered. In particular, while charity officials and auditors acknowledged the interest of donors and others in disclosure of efficiency-related information, especially administration cost percentages, they were very cautious about giving too much prominence to this – because, for example, it could be taken out of context and easily misrepresented, or because of the unrealistic expectations of some uninformed stakeholders as to the need for good administration. Perhaps as a consequence of this, such information disclosure has remained limited as providers of information have exercised power over the disclosure process.

Notwithstanding the above, the interviews revealed an overwhelming sense that individual donors, while viewing good annual reports as necessary for charities and considering much of the information in annual reviews and other communications which they received as useful, had an almost complete trust in the charities to which they contributed. The general view of donors was that charities were inherently good; their decision to give was usually largely based upon the charitable 'cause' and their perception of a particular charity, rather than upon an in-depth analysis of accountability information. In addition, the donors expressed a belief that other stakeholders and actors would perform the scrutiny role on their behalf.

8. Conclusions and areas for further research

The focus of this study is the accountability of UK charities, and this chapter reviews the objectives of the research and some of the key themes. While conclusions regarding the empirical research have been presented at the end of Chapters 5, 6 and 7, a discussion of the main findings is provided here.

8.1 AIMS OF THE RESEARCH

The charity sector in the UK is significant numerically, socially and economically. It comprises almost 200,000 registered general charities with a combined total income approaching £60bn, with over 30% coming from statutory sources. Other sources of charitable income are large institutional funders, trusts and members of the public responding to fundraising campaigns by gifts or legacies. It is a sector in which the fact and perception of accountability are particularly important, one in which good accountability is viewed as a basis both for reducing the potential for scandal and for breeding confidence, which arguably promotes increased giving and increased charitable activity.

Despite the widespread acceptance that charities should be accountable to their external stakeholders, there is limited knowledge of the information needs of key stakeholders and whether the information being disclosed is aligned to these needs. The main aims of this research are to identify:

- the accountability information made available publicly to charity stakeholders
- stakeholder needs with respect to such information, and
- the perceptions of key providers of information with respect to stakeholder information needs.

8.2 ACCOUNTABILITY OF CHARITIES AND STAKEHOLDERS

External stakeholders of charities have information needs yet, because they normally have limited powers of interrogation, most rely primarily on communication channels such as annual reports, annual reviews and SIRs to meet these needs. The production of such documents is seen as a major part of the process of discharging accountability by charities to those outside their immediate management, including donors and beneficiaries. This accountability can be viewed as the duty of one party (the charity) to give an account of its activities to another party (the external stakeholder – such as a donor or a beneficiary). The provision of financial information (an aspect of the discharge of financial accountability) and of non-financial information, particularly wider social performance information where an organisation's mission is translated into practice in line with accepted social values (an aspect of the discharge of performance accountability), is important to external stakeholders as they make decisions and judgements relating to their involvement with, or funding of, the organisation. In addition, the provision of such information, and its scrutiny by interested parties, provides a control, or pressure, on the management of the charity to act in a way that meets the needs of donors and beneficiaries.

Financial information and performance information are the two main types of information important in discharging accountability to a charity's external stakeholders. Financial information, as contained in traditional audited financial statements, is of importance to stakeholders for reasons such as determining solvency and identifying whether or not the charity has lived within its means. Even so, it is argued that, for many external stakeholders, other information, particularly that relating to the effectiveness and efficiency of a charity, is paramount. As charities have goals and objectives that focus primarily on desirable social benefit provision, wider social performance information (mainly of a non-financial nature) is required on a variety of fronts, related to such matters as the amount and quality of service provision, and as a basis for judging effectiveness (where comparisons of achievements against objectives are made). In addition, measures of efficiency, which relate inputs (often expressed in money terms) to outputs (or achievements) are likely to be of interest to stakeholders who wish to be convinced that money received by a charity is being used wisely.

Accountability and accounting can be linked to ideas from stakeholder theory. The central argument advanced in this theory is that if organisations engage with stakeholders on a basis of mutual trust and cooperation, those organisations will build legitimacy and reputation that will give a competitive advantage over rivals. These considerations have been central in discussions on accounting principles and accountability in both the commercial and charitable sectors. Recent Charity Commission publications provide evidence of this focus on stakeholder engagement as a means of developing a framework for the effective management of, and good reporting by, charities. For example, extensive references are made to developing good relationships with stakeholders as one of its *Hallmarks of an Effective Charity* (Charity Commission 2004b), and the importance of involving key stakeholders, such as beneficiaries, on boards of trustees is expounded (Charity Commission 2000a). Specifically with respect to accountability and accounting, the meeting of stakeholders' information needs is a leitmotif in *Transparency and Accountability* (Charity Commission 2004a). Once potential stakeholders are identified, to allow organisations to evaluate 'who or what really counts' and prioritise competing stakeholder claims, Mitchell et al. (1997) introduce the concept of stakeholder saliency. They argue that the salience of stakeholders (or the degree to which they and their arguments were perceived to count) depended upon the stakeholder's possession of three attributes: power, legitimacy and urgency. It was suggested that the most salient to the organisation are stakeholders who are perceived to have power, legitimacy and urgency, and the claims of these 'definitive stakeholders' are likely to be prioritised.

8.3 THE EMPIRICAL STUDIES

To identify the accountability information made available publicly to charity stakeholders, 99 annual reports, 53 annual reviews and 92 SIRs were analysed to ascertain the information disclosed by charities. Comparisons were made over time by reference to earlier studies (Hyndman 1990, 1991), which used a checklist of information types that combined the most useful and most disclosed types of information. The spotlight was on whether or not a particular type of information was disclosed, not the detail of the disclosure. In addition, an anonymous online questionnaire was developed to gather, among other things, information about key stakeholders, the relative importance of well-established

channels of communication and the information needs, and perceived information needs, of stakeholders. In total 228 respondents from four key stakeholder groups (beneficiaries, charity officials, donors and external auditors) completed the questionnaire. This included definitions of key terms and examples of charity disclosures, and was tailored to take consideration of the differing circumstances of each of the respondent groups. To identify changes over time, the findings of earlier research were used for comparison. Finally, in order to obtain a more in-depth understanding of the issues, and enrich the findings of the document analysis and the online questionnaire, a series of interviews was undertaken with stakeholders drawn from each of the key stakeholder groups. The questions asked were informed by the theoretical and contextual issues explored in this research report, together with the findings in Chapters 6 and 7. In total, 26 interviews were conducted.

The main findings of the empirical research are set out below.

8.3.1 Relevance of annual reports to donors questioned

This research provides evidence that donors are viewed as the key stakeholders to whom a charity should be accountable, followed fairly closely by beneficiaries. No other stakeholder group is perceived as being close to the primacy of these two groups. Because donors normally have no powers of interrogation, they must rely on formal channels of reporting to meet their information needs. When the information donors need is compared with that disclosed in the annual reports, annual reviews and SIRs of the UK's largest fundraising charities (with annual reports and annual reviews being the two channels of communication viewed as most important and most engaged with by all questionnaire respondent groups), a gap is apparent. Extant charity annual reports, which are mandatory, are dominated by audited financial information, although donors perceive this information as less important than performance-related information that is much less disclosed. In addition, the inclusion of such audited financial statements, and their associated voluminous and technical notes, lengthens annual reports considerably, making understanding difficult for the 'lay reader' (such as most donors). There was, however, much less disclosure of performance-related information types such as measures of output (the most important information type identified by donors in this research) and measures of efficiency (ranked fifth by donors in terms of importance). This brings into question the relevance to donors of charity annual reports, even though these documents are identified as being primarily addressed to such stakeholders, and suggests a charity sector where accountability is not discharged in the most effective manner.

8.3.2 Annual reviews most closely meet donors' information needs

Annual reviews (voluntary and less-formal, shorter, pithier publications than annual reports) are produced by the majority of large fundraising charities. They include a greater proportion (although, overall, similar levels of disclosure) of performance-related information (disclosures viewed by donors as of greatest importance) than annual reports. For example, 94% of annual reviews include some measure of output (85% in annual reports) and 21% include information on administration costs (22% in annual reports). They rarely contain any traditional audited financial statement information (which donors view as much less important). Indeed, if financial statement information is given at all it is usually disclosed using a simplified, easy-to-understand format. This suggests that annual reviews are perhaps a more meaningful communication with donors, something alluded to when annual reviews were considered by all respondent groups as being a more engaged with, although less important, communication channel than the annual report. Therefore, given the lack of alignment between the contents of the annual report and the information needs of donors, it seems that annual reviews have become the main means of discharging accountability to such stakeholders, with annual reports, documents that have greater regulatory oversight, assuming a more formalised role relating to the legitimation of the charity.

8.3.3 The relevance gap has closed over time

While there remains a relevance gap between donors' information needs and the information disclosed in annual reports and annual reviews, this research demonstrates that this gap has closed considerably since 1990. The present research shows much greater information disclosure in the 2007/8 annual reports, particularly performance information (ranked most important by donors). For example, measures of output were disclosed in 85% of annual reports in the present research compared with 29% in 1990. A possible explanation for this increase in performance information disclosure since the early 1990s is the UK government's growing commitment to charity accountability, driven, in part at least, by a desire to see the interests of donors reflected in charity accounting requirements. This has been seen principally in legislative changes (particularly by making the SORP mandatory for many large charities in the UK) and in pressures to ensure that the SORP Committee considered seriously the performance reporting needs of donors in its deliberations (Hyndman and McMahon 2011). Moreover, in tandem with this, the growth of UK organisations which aim to raise public interest in charitable giving, direct more funding to effective charities and help donors make informed decisions on how to give (such as GuideStar), has emphasised the need to give wisely (on the basis of good information, particularly about performance). Overall, these influences encouraged other stakeholders to champion the information needs of donors in order to educe change, possibly reflecting the desire of a number of parties to give donors, in the language of stakeholder saliency (Mitchell et al. 1997), greater 'power' to have their information needs met.

8.3.4 Charities are reluctant to disclose administration cost percentage information

An area where performance disclosure has not increased substantially since 1990, despite its importance to donors, is administration cost percentage information. This was disclosed in annual reports by only 19% of charities in 1990, and the present research shows identical levels of disclosure in annual reports (although disclosure in annual reviews was 25%). The rationale here is that charities exist to convert funds received into direct benefits for beneficiaries, and therefore the rate of conversion is important. Although it is not necessarily the case that an increase in such a ratio is the result of less efficient management, it does indicate that fewer of the total resources have been used in pursuing the directly charitable objectives of the organisation. Although a possible indicator of efficiency, the ratio may present problems of definition, cost classification and interpretation, and these problems make charities particularly sensitive to such headline numbers (as indicated in interviews with auditors and charity officials in this research). A number of stakeholders,

including charity finance directors, have expressed concern about this (CFDG 2003). The CFDG's unease about such ratios influenced the development of SORP 2005 (Charity Commission 2005a) to the extent that administration (or support) costs were not featured on the face of the Statement of Financial Activities, although they had to be disclosed as a note (thus making it difficult for an interested party to calculate the ratio easily). Interestingly, as seen in the present research, administration cost percentage information is the only information type where there is a significant difference (at the 1% level) between the respondent groups' ranking of its importance (or perception of importance) to donors, with donors ranking it much more highly than either auditors or charity officials. These differences in ranking (from the questionnaire results) possibly provide some supplementary rationale for non-disclosure (because providers of information may not be aware of its importance to donors), although they may also indicate providers' fear of donors' potential misinterpretation of the information, or perhaps, most likely of all, the unwillingness of providers to be exposed to scrutiny in this area. Both reasons were highlighted in the interviews.

8.3.5 Accountability to beneficiaries is important but difficult

While it is recognised among stakeholders that beneficiary engagement, with formal accountability reports or in more direct ways, may have substantial benefits (such as greater focus on key goals and the avoidance of mission drift), such involvement may be difficult to achieve. Difficulties experienced include a desire by beneficiaries not to engage; beneficiary-identification problems (such as in medical research charities and animal welfare charities); and, in relation to formal accountability reports, a lack of interest in such communication channels by the beneficiary group (even though good accounting and reporting could well serve their best interests). Evidence regarding the existence of each of these is identified in this research. It is likely that the presence and extent of these difficulties will vary within the sphere of charitable activity and, within individual spheres, from charity to charity. While highlighting best practice and 'what works' in individual cases may support beneficiary interests, this research suggests that many beneficiaries are predominantly interested in the services that they receive (for example, the timing, the quality and the quantity of service), and primarily value the accountability related to this. Greater user involvement has been promoted as a means of making organisations more responsive to user needs. For example, the 1979–97 UK Conservative government sought to increase the involvement of users (or beneficiaries) in the decision-making processes of public service providers, both as consumers (in response to its free market ideology), and in order to reduce the scale of service provision by local authorities (Locke et al. 2003). In addition, in some spheres of charitable activity, there were moves in the 1990s toward the empowerment of users in, for example, the disability movement (Campbell and Oliver 1996; Oliver 1996). Furthermore, in spite of the difficulties that arise from trust law if beneficiaries are members of charity boards, the Charity Commission (2000b) has recognised that it may be appropriate for some organisations to have a majority of users (or beneficiaries) on their governing board. In the absence of direct involvement of beneficiaries in the management processes, attention to beneficiaries' needs by charities, possibly through well-developed and sensitive feedback processes, becomes even more critical.

8.3.6 Focusing on donors' information needs may support beneficiaries' interests

While this research demonstrates a debate among stakeholders as to the primacy of donors and/or beneficiaries for charities' accountability (although, overall, this research suggests that donors were viewed as the most important stakeholder in this respect), it is argued that any tension between beneficiaries and donors here is sometimes overstated. In many cases the meeting of beneficiaries' needs (a key aspect of discharging accountability to beneficiaries) is perceived as being aligned with the information needs of donors (which are frequently related to facilitating the aims and objectives of the charity – commonly associated with providing good services to the beneficiary group). This is evidenced among a range of stakeholders in the interview stage of this research, with donors often being seen as proxies for beneficiaries. Frequently the goals of a charity are directed to meeting beneficiary needs, and those who work within a charity are often concerned with maximising the benefit provided to the beneficiary. In addition (as was evidenced in responses to the questionnaire), the donor frequently takes a beneficiary-focused view of events as the plight of the beneficiary is often at the heart of the funding decision.

8.3.7 More focused guidance on performance and financial reporting needed to support charities

Although performance reporting, which is key to meeting donors' information needs (and potentially crucial in supporting beneficiaries' interests), has increased substantially since 1990, there are still major gaps. To meet the information needs of donors, arguably those concerned with the administration, control and support of the charity sector should give charities even more focused guidance and put pressure on them to disclose performance information. Organisations that may be expected to have an interest in facilitating this include the Charity Commission, OSCR, NCVO, CAF, New Philanthropy Capital and CFG. For example, more detailed recommendations, guidance and examples about the performance-related requirements of the trustees' annual report (part of the SORP), and pilot testing of common performance indicators in specific sub-divisions of the sector (with subsequent benchmarking), would be useful. To expect individual charities to develop meaningful and extensive performance reporting systems is perhaps optimistic. The bones of such guidance might be 'read-across' from that existing in the UK public sector (where performance measurement and performance reporting issues have been to the fore for many years). In addition to improving performance reporting, the formal channels of communication used in discharging accountability need to be considered. Annual reports have traditionally been viewed, both in the charity sector and elsewhere, as the primary means by which the management of an entity is able to fulfil its reporting responsibility. Such documents have become extremely lengthy, complex and unhelpful to many users and, as a result, are not engaged with extensively by donors, who prefer voluntary annual reviews. In light of this there should arguably be more legislative control of the information content in such channels to curtail possible misrepresentation and 'gaming'. Perhaps the professional accountancy bodies have a part to play in this debate and in suggesting ways forward (particularly in finding ways to communicate potentially complex financial statement information in a summarised and meaningful way to financially unsophisticated users).

8.4 CONCLUDING COMMENTS AND AREAS FOR FURTHER RESEARCH

This report makes a contribution to the understanding of accountability in relation to UK charities but the area is still under researched, and further work is needed to build upon this study.

The study focuses on the accountability of large UK charities, which, numerically, are a small part of the entire sector, albeit representing a large proportion of the economic activity of the sector. Previous research shows that it is highly likely that accountability mechanisms are much less developed in smaller charities, and the means through which accountability is discharged may be much less formal (because, for example, smaller charities are closer to their donor and beneficiary bases). A study comparing accountability processes across different size groupings of charity would aid understanding in these areas. Moreover, the research considers UK charities only, which in reality, because of the location of most large UK charities, are predominantly English charities. The charity sector in England and Wales has a greater history of control and regulation than other parts of the UK (where charity regulatory bodies have only relatively recently been established) and many other parts of the world. To learn about the development of charity accountability across the sector's control and regulation spectrum, some comparison of England and Wales with NI and Scotland would be of benefit, as would comparisons more internationally, with countries where charitable activity is significant (for example, with the US, Australia and Canada). Perhaps the expectation is that greater maturity in control and regulation leads to greater expectations from stakeholders, which in turn provide the impetus for greater accountability. Furthermore, it may be that greater control and regulation, and better accountability, may support charitable activity by reducing information asymmetry problems and resulting in a growth in charitable giving. A mixture of quantitative and qualitative research methods might support such investigations.

This research focused on large UK fundraising charities, for the most part ignoring grant-making charities (except in so far as a small number of the fundraising charities are also significant grant-making charities), and therefore generalisations beyond this group should be made with caution. Comparative studies would aid understanding, particularly as the mix of stakeholders in grant-making charities is likely to be very different (given that funds often are not raised from the public and many grant-making charities do not engage with beneficiaries directly), as would comparative studies across the wider not-for-profit sector (where similar issues of accountability exist). This research centred on large charities, regardless of their sphere of activity, and data were gathered, and interviews undertaken, from within this group. A more extensive sample, allowing a disaggregation of the data into areas of service activity, might provide a better understanding of, and a more targeted response to, the accountability challenges of different parts of the sector.

In recent years, particularly since the publication of *Private Action, Public Benefit* (Cabinet Office 2002), the issue of governance has come to the fore in a consideration of how charities are administered and managed. It could be argued that those charities with 'better' governance regimes are more likely to develop more extensive internal systems to target, measure and report performance, particularly performance related to effectiveness and efficiency. It may also be true that charities with better governance regimes have more complete foundations on which to base the external reporting of performance and are therefore more likely to provide such information in their annual reports. The identification of key governance variables, possibly by reference to the recent research on governance and charities referred to above, and the relationship of these to performance reporting, might provide another rich area for further research.

This research highlights beneficiaries as an important stakeholder group to whom charities owe accountability, and arguably good accounting and reporting could well serve their best interests. Although there is no direct economic 'contract' between the beneficiaries and the charity, recent thinking suggests that there should be some level of user or beneficiary involvement within charities, although it is rarely claimed that there is one best way of doing this. As a general principle, this study finds agreement with the proposition that some direct involvement of beneficiaries in the management of charities has obvious benefits (although significant obstacles in achieving this may exist). At its very best, such involvement can, among other things, provide managers and members of boards with useful feedback on the effectiveness of service provision; cement a mutual vision that is shared by all stakeholders; and be a source of important and appropriate ideas as to what should be planned for the future. Nonetheless, possible dangers from inappropriate beneficiary involvement, such as tokenism and too much focus on current service recipients, can be considerable. The research demonstrates that many beneficiaries do not want direct involvement in the management (or steering) of charities and are not interested in traditional, formal means of discharging accountability by charities (for example, through conventional accounting channels of communication such as annual reports and annual reviews); they are more concerned with the actual services made available and received. With respect to service provision, it would be useful to identify effective means of generating meaningful feedback from users and potential users, and examine how such feedback is used by charities. Given beneficiaries' desire not to be involved in the management of charities, and their lack of interest in accounting and reporting, it would be valuable to explore whether such involvement and interest is appropriate, and, if so, how it could be achieved. Through empirical study, these issues can be analysed and this may help in the identification of best practice frameworks.

Good accounting and reporting are essential to build confidence in the charity sector and increase both charitable giving and charitable activity. The development, adoption and constant renewal of appropriate accountability practices that meet the information needs of a range of stakeholders, particularly donors and beneficiaries, have the potential to provide a basis for greater confidence in the control processes within charities and result in a more accountable and more legitimate sector. While this research shows that the relevance gap in information disclosure has narrowed since 1990, a continuing debate as to how charities should communicate with stakeholders and what should be included in such communications is essential in order to connect more closely with donors and beneficiaries, and to increase public confidence in charities. The net result of such debate, if conducted with key stakeholder input and reflecting the context in which charities operate, can provide the basis for a more accountable charity sector, surely a desire of all those with a heart for the varied, valuable and socially-desirable activity in which charities engage.

Appendix 1: Examples of different types of charity information

The examples of the different types of charity information included in this appendix correspond with the information types used in empirical analysis reported in Chapters 5 and 6.

INFORMATION TYPE (A) – AUDITED STATEMENT OF FINANCIAL ACTIVITIES (SOFA)

Charity: Leonard Cheshire Disability
Annual Report for the year ended 31 March 2007

Consolidated statement of financial activities

	See Note	**Unrestricted funds £'000**	**Restricted funds £'000**	**Endowment funds £'000**	**Total year to 31.3.07 £'000**	Total year to 31.3.06 £'000
Incoming resources						
Incoming resources from generated funds						
Voluntary income	*2*	7,701	5,055		12,756	11,586
Trading sales	*3*	118			118	173
Investment income	*4*	1,554	196	5	1,755	1,675
Incoming resources from charitable activities						
Fees and grants for services	*5*	130,642			130,642	128,315
Gain on disposal of fixed assets		659			659	3
Total incoming resources		140,674	5,251	5	145,930	141,752
Resources expended						
Cost of generating voluntary income	*6*	4,054			4,054	3,344
Trading costs	*6*	97			97	134
Investment management costs	*6*	41			41	40
		4,192			4,192	3,518
Charitable activities						
Residential and day services	*6*	102,501	3,072	10	105,583	100,223
Domiciliary services	*6*	28,281			28,281	29,465
International services	*6*	1,478	735		2,213	2,054
Campaigning	*6*	442			442	300
Innovative projects	*6*	822	482		1,304	748
Service user support	*6*	990			990	882
Governance	*6/7*	384			384	374
		134,898	4,289	10	139,197	134,046
Total resources expended	*6*	139,090	4,289	10	143,389	137,564
Net incoming/(expended) resources	*8*	1,584	962	(5)	2,541	4,188
Gains on investment assets	*11*	259			259	1,374
Actuarial gain/(loss) on defined benefit schemes	*22*	228			228	(18)
Net movement in funds		2,071	962	(5)	3,028	5,544
Fund balances brought forward as restated		107,958	11,256	468	119,682	114,138
Fund balances carried forward 31 March		110,029	12,218	463	122,710	119,682

The Notes on pages 32 to 48* form part of these accounts. All activities relate to continuing operations. The group has no recognised gains or losses except those included above and, therefore, no separate statement of recognised gains and losses has been prepared. There are no differences between the net incoming/(expended) resources for the year and the historical cost equivalent.

*(*In the interest of brevity, the supporting Notes, which ran to 17 pages, are not included in this example.)*

INFORMATION TYPE (B) – AUDITED BALANCE SHEET

Charity: Leonard Cheshire Disability
Annual Report for the year ended 31 March 2007

Consolidated balance sheet

	*See Note**	**£'000**	**31.3.07**	**£'000**	£'000	31.3.06	£'000
Fixed assets							
Tangible assets	*10*			91,799			84,343
Investments	*11*			8,227			7,974
				100,026			92,317
Current assets							
Stock					49		
Debtors	*12*	13,725			17,273		
Short term deposits	*13*	11,000			11,000		
Cash at bank and in hand	*13*	17,011			21,490		
		41,736			49,812		
Creditors							
Amount falling due within one year	*14*	(9,619)			(12,108)		
Net current assets				32,117			37,704
Net assets excluding pension liability				132,143			130,021
Pension scheme liability	*22*			(9,433)			(10,339)
Net assets including pension liability				122,710			119,682
Represented by:							
Endowment funds	*15*			463			468
Restricted funds	*16*			12,218			11,256
Unrestricted funds:							
Designated funds	*17*	101,628			99,551		
Revaluation reserve		3,548			3,289		
Other charitable funds		14,286			15,457		
Unrestricted income funds excluding pension liability				119,462			118,297
Pension reserve	*22*			(9,433)			(10,339)
				122,710			119,682

Approved by the Trustees on 19 September 2007

*(*In the interest of brevity, the supporting Notes, which ran to 17 pages, are not included in this example.)*

INFORMATION TYPE (C) – AUDITED CASH FLOW STATEMENT

Charity: Leonard Cheshire Disability
Annual Report for the year ended 31 March 2007

Consolidated cash flow statement

	Year to 31.3.07 £'000	Year to 31.3.06 £'000
Net cash inflow from operating activities See Note (a)*	4,809	4,650
Returns on investment and servicing of finance		
Bank interest received	1,425	1,445
Investment income	330	230
	1,755	1,675
Capital expenditure and financial investment		
Purchase of tangible assets	(12,465)	(7,068)
Proceeds from sale of tangible assets	1,418	49
Proceeds from sale of investments	4	19
Net cash outflow from investing activities	(11,043)	(7,000)
Management of liquid resources		
Purchase of short term deposits		(3,000)
Decrease in cash	(4,479)	(3,675)
Cash at 1 April 2006	21,490	25,165
Cash at 31 March 2007	17,011	21,490

Notes to the cash flow statement: (a) Reconciliation of net incoming resources to net cash flow from operating activities	**Year to 31.3.07 £'000**	Year to 31.3.06 £'000
Net incoming resources	2,541	4,188
Investment income	(1,755)	(1,675)
Difference between pension contributions and current service cost	(677)	(514)
Depreciation	4,250	4,083
Decrease in stock	49	73
Decrease /(Increase) in debtors	3,548	(2,324)
(Decrease)/Increase in creditors	(2,488)	822
Gain on disposal of fixed assets	(659)	(3)
Net cash flow from operating activities	4,809	4,650

*(*In the interest of brevity, not all the supporting Notes, which ran to 17 pages, are included in this example.)*

INFORMATION TYPE (D) – LIST OF CHARITY OFFICERS

Charity: CARE International UK
Annual Report for the year ended 30 June 2007

The members of CARE International UK's board are:

Richard Greenhalgh (chair) Richard is a former chairman of Unilever UK; chairman of First Milk Ltd; chairman of the Council for Industry and Higher Education and deputy chairman of the Qualifications and Curriculum Authority. He is on the board of the Rank Group plc and British Youth Opera. He is also vice chairman of CARE International.

Andy Bearpark A career civil servant, Andy has primarily worked at the Department for International Development and its predecessor, the Overseas Development Administration. He worked closely with CARE International while head of information and emergency aid from 1991 to 1997 at DFID. Since then he has worked for the UN on reconstruction in Sarajevo and Kosovo and for DFID in Iraq. He earlier worked as press secretary to Baroness Chalker and was a private secretary to the then Prime Minister Margaret Thatcher.

Dr Alison Fielding Alison is chief operating officer for Techtran and a director of its parent company IP2IPO, an intellectual property company specialising in commercialising university technology. She previously worked for the Axiomlab Group as investment manager, and at McKinsey and Co as engagement manager. She started her career at Zeneca plc (formerly ICI).

Martin Hayman Martin was formerly general counsel and company secretary at Cadbury Schweppes Plc and Standard Chartered Plc. Martin has been a trustee of the Institute of Business Ethics and chair of Mediation UK. He is now a director of Financial Objects PLC, a special adviser to Standard Chartered Bank Africa on its anti-malaria and sight programmes, and is on the steering committee of the Coalition against Malaria advocacy group.

Stephen King Stephen is Director of the BBC World Service Trust, a board member for Crown Agents and a steering group member of the Global Forum for Media Development, an association of Sector Organisations working on training initiatives worldwide. He was formerly Executive Council on Social Welfare, Montreal, Canada and London and regional representative (Asia) for HelpAge International, Thailand.

Bill Lawes CA Widely experienced in international banking, Bill recently retired as managing director of JP Morgan Chase. He was formerly with ANZ Bank (including Grindlays Bank) and Deloitte & Touche. He is a member of the Institute of Chartered Accountants of Scotland.

Professor Steve Myint MD PhD Steve is Chief Medical Officer at BTG plc. Formerly he was Dean of Medicine & Head of Postgraduate Medical School, University of Surrey, and Scientific Adviser to the European Centre for Disease Control and Consultant in Microbiology and Molecular Diagnostics, Frimley Park and Royal Surrey County Hospitals.

Rajan Pandhare Rajan has wide experience in software services across USA, Europe and India. He has also been a director of the business-to-business ventures of a global oil and gas exploration firm and Head of Sales, Marketing and Product Management for a European Business Process Outsourcing company. Rajan has also been part of former President Clinton's HIV/AIDS Initiative as Deputy COO and Country Director across Africa, India and Cambodia.

Michael Rogerson FCA Michael was a partner in Grant Thornton, the chartered accountants, for 31 years. In his last six years he was head of the firm's charity and not-for-profit group which had more than 400 charities as clients. He is the past chairman of the London Regional Council of the CBI. His charitable work has included 15 years as a marriage guidance counsellor and he is on the board of eight other charities.

Sangita Shah Sangita is a director of Commonwealth Business Council Consulting. She was previously a director of the Leading Edge Strategy Company and worked for Ernst and Young, Mars and at Unilever where she undertook a number of assignments to Africa. She is also president of the Chartered Institute of Journalists, the world's oldest journalistic association.

Richard Street An independent adviser to international organisations on youth employment and employability, Richard has worked in business, civil society and government in more than 50 countries. Following twenty years in the security print industry, he was appointed CEO of the Prince's Youth Business Trust. In 1999 he founded Youth Business International, a network of youth business programmes based on the Prince's Trust model, helping disadvantaged young people become entrepreneurs. He is currently a non-executive director of Streetkids International and a Governor of the City and Islington College of Further Education.

Dr Fiona Thompson ACA Fiona is a consultant focusing on investment issues for development, including liberalisation of local markets, state restructuring and government-business relations. During her career she has lived in India, Brazil and South Africa and her work has included advice, strategic support and analysis for multinationals, governments and state-owned entities. She previously worked for over ten years at the auditing firm Arthur Andersen and is currently a Research Associate at the University of London.

Bowen Wells Formerly Member of Parliament for Hertford and Stortford, the Secretary of All Party Overseas Development Group and chairman of the Select Committee on International Development.

David Wright Formerly with the Department for International Development as chief enterprise development adviser and head of the Enterprise Development department, David was responsible for advice to Ministers and top management on all matters relating to enterprise development, for the overall direction and supervision of enterprise development advisers, and representing DFID internationally, including influencing the work of multilateral development institutions.

INFORMATION TYPE (E) – STATEMENT OF CHARITY GOALS

Example Charity 1: Age Concern England
Annual Report for the year ended 31 March 2008

Our corporate priorities, agreed by the Board of Trustees in December 2006, are:

- to prevent poverty and maximise income in retirement;
- to promote age equality and enable older people to make full contributions to the economy and wider society, families and neighbourhoods;
- to maximize healthy life expectancy and promote health, independence and wellbeing for older people;
- to achieve greater social inclusion of the most disadvantaged older people and challenge the causes of exclusion;
- to deliver an individual membership through which Age Concern England becomes an organisation of, as well as for, older people.

Example Charity 2: CARE International UK
Annual Report for the year ended 30 June 2007

The charity is a company limited by guarantee and was established on 7 May 1985, and is a registered charity. Its objects are to relieve poverty and sickness, to promote the preservation and protection of health and to advance education among the world's poor.

Example Charity 3: Arthritis Research Campaign (now Arthritis Research UK)
Annual Report for the year ended 31 July 2008

Objectives and activities
Charitable objects
Arthritis Research Campaign ('**arc**') is a registered charity with three objects stated within its Memorandum of Association:

- To advance the study of and research into the causes, treatment and cure of arthritis and other rheumatic disease and disseminate the useful results of that research;
- To advance the education of the public by promoting the teaching of rheumatology and further understanding of rheumatic disease among medical students and practitioners and other persons involved in the treatment of rheumatic disease; and
- To advance the education of the public in all matters relating to rheumatic disease including those persons suffering from the disease.

Charitable aims
arc aims to improve life for people who have:

- Inflammatory arthritis
- Osteoarthritis
- Connective tissue disease
- Bone disease
- Back pain and soft tissue disorders

In pursuit of this, **arc** will fund research which aims to increase and circulate knowledge of these conditions, or moves towards developing therapies to alleviate or cure them. The exact nature of the changes or differences that will be made is dependent upon the research proposals which are received and the potential for development which completed research may demonstrate.

arc's charitable activities fall into the main categories of research and education. The objectives and achievements in each of these areas of activity are presented below.

Objectives for the year
Research
arc's objective remains to identify and award grants for research proposals which are judged by peer review to be internationally competitive in their standards of scientific excellence and which demonstrate a clear pathway from hypothesis to potential alleviation of musculoskeletal disease.

In addition to grant awards, **arc** provides long-term funding to two research centres, subject to the same peer review assessments of scientific excellence and relevance to musculoskeletal conditions carried out over five-year cycles. During the year the Kennedy Institute of Rheumatology was subject to its quinquennial review, which resulted in a further five years of programme funding. The Epidemiology Unit will have a similar review in 2008.

Education
arc's educational emphasis in 2006–7 was on improving the knowledge and skills base of health professionals who treat patients with arthritis; in particular GPs, nurses, occupational therapists, physiotherapists and podiatrists.

Strategy for achieving arc's objectives
To achieve its goals, **arc** operates a number of grant schemes which fall into four research categories:

- Targeted funding in Institutes
- Strategic/moderated funding in the form of Fellowships and support for Clinical Trials
- Response mode funding via Programme and Project grants
- Developmental funding for new initiatives

To qualify for **arc** support for a grant, research proposals must demonstrate:

- **Excellence** – Alpha rated by peer review process.
- **Financial need** – No other obvious or more appropriate source of funding.
- **Sustainability** – Conducted in a university, medical school or within the NHS.
- **Relevance** – Clear pathway from hypothesis to potential alleviation of musculoskeletal disease.
- **Originality** – Not replicating work being done elsewhere.

All **arc** grants are rigorously assessed, both prior to award and subsequent to completion. They will be expected to demonstrate progress in one or more of the following ways:

- **Knowledge creation** – The discovery of new things.
- **Research targeting and capacity building** – Identifying targets for future research and developing research skills, personnel and capacity.
- **Informing policy or product development** – Developing new treatment guidelines or therapeutics.
- **Health benefits** – Improvements (and possible cost reductions) in service delivery; better health.
- **Broader economic benefits** – Economic benefits from a healthier workforce and reduction in working days lost, disability benefit costs etc.

Activities
Activities contributing to the achievement of arc's strategic objectives fall into the following areas:

- grant awards;
- research centre funding; and
- direct charitable expenditure (primarily the production and distribution of educational materials, the administration of grant applications and awards, governance costs and support costs).

These activities relate to arc's strategic funding targets as follows:

- Developing & improving treatment/diagnosis £2,229,021
- Disseminating research results £76,750
- Promoting best practice/education £1,713,771
- Building academic strength £6,507,875
- Other arc costs £995,268

INFORMATION TYPE (F) – STATEMENT OF CURRENT OBJECTIVES

Charity: Marie Curie Cancer Care
Annual Report for the year ended 31 March 2008

The following example, while illustrating information type (f) (Statement of Current Objectives), also includes information types (e), (h) and (m) (see Table 5.1 for definitions).

This Impact Report shows what we aimed to achieve in the financial year 2007/08, whether we achieved it, and how we plan to achieve even more in 2008/09. Each area of our work is broken down, showing our specific aims and targets for last year. We then show our achievements against those targets and identify our new aims and targets for next year. The symbols (below) summarise how we have performed.

Fully achieved ☺
Part achieved 😐
Not achieved ☹

Aim 2007/08
Continue to provide more nursing care to more people in their own homes.

Targets 2007/08
- We will increase the number of patients we care for at home by a further 5%.
- We will find solutions for areas where the number of patients did not increase in 2006/07.

Achievements 2007/08
☺ We cared for 12% more patients at home than the previous year, and the hours of nursing we provided increased by 14%.

☺ Areas where our care has dramatically grown include the West Midlands, and the South West of England.

☺ We consulted District Nurses, who have a critical role in ensuring that people are referred to our services. We used their feedback to develop new marketing materials, and began implementing changes in the referral process.

😐 We have begun a significant project looking at better ways for people to access our services.

Targets 2008/09
- We will be on track to double the number of patients we care for at home to 35,000 by 2013.
- We will be on track to double the hours of care we provide for patients at home to 2m by 2013.

Aim 2007/08
Continue to progress our capital programme to ensure that our hospices will meet the needs of local cancer patients in future.

Targets 2007/08
- We will make good progress with construction of our new hospice in Glasgow.
- We will make significant progress on the refurbishment of our Hampstead hospice.
- We will secure a site and submit a planning application in Solihull.

Achievements 2007/08
😐 Progress on construction of our new Glasgow hospice has been slower than anticipated, but plans are moving ahead and work has started on site.

☺ Refurbishment of the wards and windows are well underway at our hospice in Hampstead.

☹ We have identified a preferred site for our new hospice in Solihull, but had not secured ownership by the end of the year.

Targets 2008/09
- We will begin building our new hospice in Glasgow.
- We will complete the refurbishment of our Hampstead hospice.
- We will secure a site and submit a planning application for a new hospice in Solihull.

INFORMATION TYPE (G) – INFORMATION ON PROBLEM OR NEED AREA

Charity: OXFAM
Annual Report for the year ended 30 April 2007

The following example, while illustrating information type (g) (Information on Problem or Need Area), also includes information types (e) and (g) (see Table 5.1 for definitions). In the interest of brevity, the supporting Notes referred to in the text are not included in this example.

Director's Report
The following section is a report on each of Oxfam's five aims. For each aim in 2006/07, we agreed specific objectives, targets and programmes within our eight regions of operation. The relationship between the expenditure on these aims and the expenditure on our three main charitable activities (humanitarian, development, campaigning and advocacy) is expressed in the table set out in Note 3c of the accounts section.

Programme by Aim
AIM 1 RIGHT TO A SUSTAINABLE LIVELIHOOD
The primary focus of our work in this area is to ensure the rights of people to have food and income security that is sustainable – for their future, and for the environment. Our priority is to work, with others, to shift power imbalances in local, national and international markets, which are the fundamental cause of poverty for millions of people.

This involves building the capacity of poor farmers and workers to participate in markets, and campaigning to change trade rules in favour of poor people. For this year, the key objectives were to:

- **Scale-up agriculture** programmes in India, Ethiopia, and Honduras;
- Continue **Make Trade Fair** campaigning;
- Begin to implement our new **private sector strategy**;
- Ensure delivery of long-term livelihoods in **response to the tsunami**.

In addition, we set out to define our future agenda for sustainable livelihoods work through the Oxfam International strategic review process for the economic justice change goal (2007–12) and the OGB Strategic Plan (2007/08–09/10). As part of this, programme policy was developed through the completion of sustainable livelihoods framework papers on smallholder agriculture and market chains, vulnerable livelihoods, decent work and labour rights and private sector and enterprise development. A framework and definition for a Vulnerable Livelihoods Strategy was agreed across the organisation. We delivered 58 programmes across all regions where Aim 1 was the principal aim. Of total expenditure on charitable activities, £42.9m (20 per cent) was attributed to this aim, compared to our objective of 22 per cent for 2006/07 and attributable spend of 17 per cent spent last financial year.

We made continuing progress in our **agricultural scale-up programme**. In Honduras, we supported community organisations to develop market gardens resulting in an additional 4,400 families improving their food security, and others gaining access to funds for agricultural production through community banks. In India, implementation has begun with co-ordinators in place in four designated regions and two initial projects to support cotton production and inland fisheries. Progress was also made in Ethiopia on design of the programme, but due to the political situation and other factors, Ethiopia will be replaced by Tanzania as the third global scale-up country. Ethiopia will, however, continue with its plans at a modest level. The main challenge for the coming year is to mitigate against [sic] further delays in implementation by ensuring project management resources and plans are in place. Substantial agriculture-related programming continues in an additional 20 countries, such as the successful initiative to promote local food production for the hotel industry in the Eastern Caribbean. In Colombia, we are supporting smallholder producers to access supermarkets in the national capital, whilst in Chile we are supporting the rights of women workers in the salmon and fruit industries. Work has also started on plans for at least 11 countries to combine advocacy and campaigning with strategies of direct support to farmers so that they can gain greater access to and power in markets.

Our focus for the **Make Trade Fair** campaign in the first three months of the year was on the Doha Round. But negotiations were formally suspended in July 2006, and resumed in February 2007. We continued to lobby key governments and their delegations in Geneva, ran popular campaigning and media work in the run up to the July 2006 deadline and worked with our allies and with key governments around key events such as G20 and G33 meetings. Pressure is still on to complete the round by the end of 2007, although hopes for a successful outcome are not high. In addition, we devoted considerable resources to campaigning for a development-friendly outcome on the EU/ACP Economic Partnership Agreements, and have been successful in influencing developing countries' assertiveness in these negotiations. A successful campaign was conducted to persuade Starbucks to sign a licensing agreement giving Ethiopia the right to control how the names of its speciality coffee brands: *Sidamo, Harar* and *Yirgacheffe* are used. The agreement, which came about through collective media and campaigning pressure from Oxfam and our supporters, has the potential to deliver significant financial benefit to Ethiopian coffee farmers in the long term.

Continued campaigning on TRIPs'4 [Trade related aspects of Intellectual Property Rights] flexibilities for developing countries by challenging pharmaceutical company practices and supporting southern governments to stand firm on flexibilities has led to progress – especially in India, Philippines, Thailand and Brazil. We began to develop Oxfam's new campaigning agenda focusing on smallholder agriculture, trade rules and climate change in the final quarter of the year. A key challenge will be ensuring that these elements are well integrated and aligned with programme priorities – as in Mali, where a national advocacy plan for cotton farmers secured five-year funding from *Comic Relief*.

Our **private sector strategy** was further developed with the intention of maximising the contributions that business can make to alleviating poverty. It brings together existing private-sector work but also seeks to increase engagement with the private sector in key sectors such as financial services and agriculture supply chains. West Africa is pursuing various initiatives with the

private sector, which include a cotton project and an innovative second-hand clothing enterprise called *Frip Ethique*. In Central America, we helped to develop a consortium with a diverse group of corporations to look at the development of sustainable food production.

This year, progress on ensuring the delivery of a **long-term livelihoods response to the tsunami** focused on readjustment to changing country contexts and to the forthcoming ending of tsunami appeal funding. In January 2007, management of the South India programme was transferred to Oxfam Novib. This programme has made significant impacts on the income and empowerment of 9,000 people affected by the tsunami, mostly small-scale farmers, saltpan workers and disenfranchised dalit communities. In Sri Lanka, the programme focused on long-term livelihoods, particularly of women in the paddy, fisheries, market gardening, livestock and coir sectors. The programme helped community members to organise and train so they are better able to create market links and add value to their products. Renewed conflict is a significant challenge to the programme with large numbers of new internally displaced people and increased insecurity for staff and partners. In Aceh, we fulfilled obligations made in the preceding year in supporting about 23,000 affected people and began interventions that will have long-term benefits to farmers and fishers. The programme developed will have a greater emphasis on working with partners, and a deeper recognition of the problems caused to civil society by the previous conflict.

In the latter half of the year, we consolidated the learning from across our livelihoods and humanitarian work in recognition of the increased vulnerability and the threat of climate change to people living in poverty. Learning from programmes in Kenya, South Africa and elsewhere is being integrated into our future plans on programming, advocacy and campaigning work on vulnerable livelihoods and climate change. For example, Oxfam prepared a policy position and an influencing strategy on climate change adaptation in time for the G8 meeting in June 2007.

INFORMATION TYPE (H) – MEASURES OF OUTPUT

Example Charity 1: Concern Worldwide UK
Annual Report for the year ended 31 December 2007

The following example, while illustrating information type (g) (Measures of output), also includes information type (g) (see Table 5.1 for definitions).

This year will be remembered for emergencies in Bangladesh: a cold wave in January and mudslides in June killed 246 people; devastating floods throughout the summer destroyed crops and killed 916; then Cyclone Sidr hit in November, leaving almost 3,500 dead. In the wake of widespread devastation, Concern led intensive relief operations, distributing food and other essential items to thousands of families. We also continued to work on education, health, livelihoods and HIV and AIDS throughout the year. One of our highlights was successfully drawing the attention of the national education forum to the need for a flexible school calendar in areas prone to recurrent flooding.

Some key achievements:
24,620 children in 75 schools benefited from a new project to improve the quality of and access to education. We also trained more than 3,700 teachers and school management committee members.

We reached 1.35 million people through primary healthcare and community-based nutrition projects. The prevalence of severely underweight people decreased in all project areas from 26.2% in 2002 to 11.7% in 2007.

More than 36,200 people (almost half of them women and adolescent girls) developed new vocational skills and received entrepreneurial training. The average household income in our project areas almost doubled from US$35 to US$65 per month.

We raised awareness of HIV and AIDS transmission and prevention among local organisations, sex workers, adolescents, community health volunteers, health committee members, religious leaders and municipality health staff in many of our existing projects. We now ensure that HIV and AIDS is a part of all new projects.

Mozambique was once again pummelled by natural disasters in 2007 – more than 250,000 families were affected by flooding, the south suffered its third drought in five years, and cyclone Favio destroyed the crops of more than 50,000 households. As well as quickly responding to these disasters, we increased our efforts to work directly with poor communities on disaster risk reduction, livelihoods and social protection, as well as our focus on HIV and AIDS. At a national level, we gave technical support to the National Disaster Management Institute, helping to design disaster risk and recovery training and manuals, and using them to train 16 disaster management committees.

Some key achievements:
59,874 people in three provinces benefited from our education work in 2007. School councils are better structured and now plan, monitor and implement activities to improve quality and access to education. School attendance has increased and dropout rates have reduced – particularly among girls.

2,400 people and 46 civil society organisations have benefited from our livelihoods work, which helps people gain access to water, technical farming expertise or cash for non-food needs.

Working with nearly 150 activists and community leaders and 5,000 vulnerable people, we have helped improve HIV and AIDS care and prevention and are addressing sensitive issues including unequal gender relations, cultural taboos, stigma, death and household dynamics.

In the aftermath of serious floods in the country, we set up temporary resettlement camps, distributed food, clothes, blankets and soap to over 6,500 and provided school materials to over 1,000 children.

In our countries of operation, our work focussed on our five core organisational programmes which comprise:

- Health
- Basic education
- Livelihood Security
- HIV and AIDS programming
- Emergency response and preparedness

In our view the main achievements of our **health programme** during 2007 were as follows:

We expanded the Community Therapeutic Care/Community Management of Acute Malnutrition (CTC/CMAM) programmes as planned (in Malawi and Ethiopia), and integrated emergency CTC/CMAM programmes into existing, government health systems. New CTC/CMAM programmes were developed in Timor Leste, Haiti, North Sudan, Burundi and Bangladesh, and a new Mother and Child Care programme is planned in Niger. The Child Survival Programme (CSP) was expanded in Rwanda from one to six districts. We also documented lessons learnt in the programme (which now operates in 5 countries), in partnership with country offices and local partners.

In the Democratic People's Republic of Korea and Nepal Concern Worldwide expanded the water supply and sanitation programmes. We consolidated and expanded current partnerships in the health sector. With Valid International, we are identifying further research objectives. We expanded relationships with RAISE and the Centre for Sustainable Urban Development at Columbia University, and began a new relationship with International Food Policy Research Institute (IFPRI) in the areas of nutrition, food security, HIV and livelihoods. During 2007 we conducted evaluations of eight country programmes in order to ensure that they were meeting our heath programme objectives. Overall the outcomes were very positive and showed that significant lasting impacts were being achieved.

The studies/evaluations also indicated some areas that could be improved, the main ones being the need: to ensure that efforts to increase usage and demand for health care are carefully managed so that they run in close parallel with work aimed at increasing the capacity of health services to respond to that demand; for high quality research and documentation to ensure the ultimate success of our health programmes; for intensive upfront training in the initial phase of programmes and for creative ways to provide regular technical support and review/

monitoring. Concern Worldwide will endeavour to build these insights into our programme design and ongoing programme work in 2008.

The table below details the beneficiaries reached in 2007 by sub programme:

Concern Worldwide undertook three emergency evaluations in 2007. The emergency responses were evaluated in terms of their timeliness, efficiency and appropriateness. The evaluations concluded that the projects were implemented effectively despite facing considerable challenges. Targeting was robust and beneficiary involvement was appropriate to each context.

Sub Programme	Direct			Indirect		
Mother and Child Health	405,325	347,330	752,655	556,696	456,288	1,012,984
Nutrition	191,110	134,583	325,693	1,004,976	953,372	1,958,348
Water Supply & Sanitation	307,818	282,398	590,216	639,010	491,162	1,130,172
Total	**904, 253**	**764,311**	**1,668,564**	**2,200,682**	**1,900,822**	**4,101,504**

The table below details the range of activities carried out in 2007:

Country		Total Direct Beneficiaries
Pakistan	Cyclone Yemyin: Rehabilitation and distribution of food and non food items (NFI's)	67,360
Zambia	Severe flooding: Flood awareness, cash transfer, livelihoods recovery	189,711
DPRK	Flooding: Water supply and sanitation, infrastructure rehabilitation	83,000
DRC	Global Acute Malnutrition and conflict: Livelihoods recovery, school construction, Community Therapeutic Care	111,735
Niger	Global Acute Malnutrition: Community Therapeutic Care	23,429
Tanzania	Site management/Refugee Care: Water supply and sanitation	25,758
Uganda	Civil conflict/flooding: Water supply and sanitation, livelihoods recovery	164,949
Zimbabwe	Drought/Government Land Reforms: Food distribution	176,937
Liberia	Conflict/flooding: Water supply and sanitation, emergency rehabilitation	96,239
Kenya	Drought: Community Therapeutic Care, livelihoods recovery	8,628
Sth Sudan	Conflict: Shelter, supplementary feeding, livelihoods recovery	28,764
Ethiopia	Natural Disasters: Provision of fuel, seed distribution, emergency preparedness	3,948
Nth Sudan	Conflict: Water supply and sanitation, camp coordination, livelihoods recovery, distribution of non-food items (NFIs), health and nutrition	448,889
Bangladesh	Natural Disasters: NFIs, food distribution	788,391
India	Natural Disasters: Food distribution, NFIs distribution, shelter and livelihoods recovery	244,636
Chad	Conflict: Site management	38,000
Haiti	Natural Disasters: NFIs distribution, livelihoods recovery	7,765
Somalia	Drought/conflict: Water supply and sanitation, CTC, livelihoods recovery	360,142
Mozambique	Flooding: HIV and AIDS mitigation, education, food, NFIs	29,319
Malawi	Drought: Livelihoods recovery	50,845
Total		**2,948,445**

Example Charity 2: Save the Children
Annual Report for the year ended 31 March 2008

The following example, while illustrating information type (h) (Measures of output), also includes information type (g) (see Table 5.1 for definitions).

Health in emergencies
We responded to several health emergencies during the year, including a measles outbreak in **Tanzania** and acute diarrhoea in **Ethiopia** and **Somalia**. We also provided healthcare as part of our emergency response to the floods in **Bangladesh**, **India** and **Mozambique**, and the conflict in **Chad**.

In **Somalia**, we helped renovate clinics and trained community health workers to staff them. As a result, health workers have been better able to assess the needs of more than 54,000 children who have come to the clinics and have referred them on for more treatment if necessary. We've developed a skills-based curriculum for community health workers which has been adopted by the Somaliland administration.

In **Pakistan**, we've refurbished seven clinics which serve a population of more than 200,000. More than 80,000 patients were treated during the course of the year. We've also helped to set up 12 village health committees, to work with their communities to prevent the deaths of mothers and newborn babies. As a result, the number of babies delivered in the health clinics has increased four times and three times as many people take their newborn babies for treatment there.

Preventing disease
We're working to enable communities to prevent illness. In **Angola**, we've supported community health committees to work at village level to encourage people to practise better hygiene. Together with their communities, the committees have built latrines and maintain both them and their water pumps or wells. The local health department has adopted this model and wants to expand it as a key element of primary healthcare. In **Afghanistan**, we've provided health education workshops at schools and learning centres for children, care givers, teachers and government officials, benefiting more than 22,000 children.

INFORMATION TYPE (I) – MEASURES OF EFFICIENCY

Example Charity 1: Help the Aged
Annual Report for the year ended 30 April 2008

£5.7m of benefits were claimed, meaning that for every £1,000 spent, we enabled older people to claim back £21,000 of benefits.

In 2007/8 £0.7million was spent on the YourMoney Matters Programme, helping to reduce older people's debts by £1.5m.

The £34,000 required to run a Your Money Matters project for one year enables us to: deliver an average of 24 awareness-raising sessions for over 500 older people; help write off over £92,000 of debt; manage over £376,000 of debts so that debt payments are realistic and affordable; and secure an additional £46,000 for older people.

In 2007/8 £0.3m was spent on the SeniorLine service, providing advice and information to over 78,000 people.

Example Charity 2: AQA
Annual Report for the year ended 31 December 2007

In summer 2007, almost 25,000 AQA examiners and moderators processed 2.7 million AS/A-level and 9 million GCSE marks.

Example Charity 3: Barnardo's
Annual Report for the year ended 31 March 2008

For every £1 we spend on fundraising, we raise £4.86.

INFORMATION TYPE (J) – ADMINISTRATION COST PERCENTAGE

Charity: Barnardo's
Annual Report for the year ended 31 March 2008

Out of every £1 we spend……81p* goes towards our work with children and young people.

* This rises to 94p if trading and property development costs (both of which are self financing) are excluded.

INFORMATION TYPE (K) – SIMPLIFIED OPERATING STATEMENT/SOFA

Charity: Anchor Trust
Annual Report for the year ended 31 March 2008

A summary of Anchor's operating statement over the last five years is set out below.

	2007/08	2006/07	2005/06	2004/05	2003/04
	£m	£m	£m	£m	£m
Turnover	264.9	247.4	233.4	223.5	205.9
Operating costs	(256.6)	(233.6)	(206.9)	(190.1)	(173.5)
Operating surplus	8.3	13.8	26.5	33.4	32.4
Net interest (payable)/receivable	(0.5)	(1.9)	6.5	(4.9)	(5.1)
Surplus after transfers from reserves	18.2	15.7	37.9	30.8	40.1

INFORMATION TYPE (L) – SIMPLIFIED BALANCE SHEET

Charity: Anchor Trust
Annual Report for the year ended 31 March 2008

A summary of Anchor's balance sheet over the last five years is set out below.

	2007/08	2006/07	2005/06	2004/05	2003/04
	£m	£m	£m	£m	£m
Goodwill	1.5	2.1	0.4	0.5	–
Housing properties at cost less depreciation	886.6	851.5	810.7	809.7	799.7
Social Housing Grant	(553.9)	(554.9)	(550.2)	(556.6)	(552.8)
Other capital grants	(54.7)	(53.2)	(53.5)	(55.6)	(55.3)
Other tangible fixed assets	4.6	6.1	3.6	2.1	2.2
Investments	1.6	105.8	103.6	82.5	75.3
Net current assets	84.8	(20.6)	8.1	1.6	4.9
Balance Sheet Total	**370.5**	**336.8**	**322.7**	**284.2**	**274.0**

INFORMATION TYPE (M) – STATEMENT OF FUTURE OBJECTIVES

Example Charity 1: Arthritis Research Campaign
(now Arthritis Research UK)
Annual Report for the year ended 31 July 2008

Plans for future periods
Arthritis Research Campaign has recently established a new five-year Strategic and associated Revenue and Business plans. In summary Arthritis Research Campaign intends to focus on, and invest heavily in activities designed to accelerate significantly the development and adoption of new techniques which will have an immediate impact on the lives of people who are affected by these debilitating conditions.

Example Charity 2: Macmillan Cancer Support
Annual Report for the Year Ended 31 December 2007

The following example, while illustrating information type (m) (Statement of future objectives), also includes information types (f) and (h) (see Table 5.1 for definitions).

What we aimed for in 2007	What we achieved in 2007	Future plans
• To fund 70 additional nurses and 20 allied health professionals.	• We improved the quality of life for cancer patients and their families by funding 108 nurses (54% above target), 52 allied healthcare professionals and seven doctors (well over 160% ahead of target). This was possible thanks to strong fundraising during the year. We now have over 4,300 Macmillan professionals, including over 3,100 Macmillan nurses, working in the NHS and other organisations across the UK.	• As part of our new healthcare strategy we will increase our resources for people with complex or rarer cancers. We will also support those who are older or have particular needs, for example people with learning disabilities. We will move towards funding whole teams of healthcare professionals, rather than individual posts. • In 2008, we will pay for six rehabilitation support teams, six lymphodema teams, three complex cancer teams and seven palliative care teams. These teams will include 95 nurses and allied health professionals. In addition, we will commit funding to 23 nurses, 13 allied health professionals, and continue to fund new doctors and clinical support professionals.
• To invest in eight more clinical buildings.	• We invested £5.6m, just over 7% of our total charitable spend, on expanding the number of high quality buildings that help people going through cancer treatment and care feel supported and cared for. We now have 149 Macmillan buildings (including information centres) through which we reached 62,000 people.	
• To launch an Environmental Quality Mark Scheme to push up the standard of cancer organisations across the UK.	• To ensure the standard of cancer treatment and care buildings is equally high across the UK, we influenced the Cancer Reform Strategy for England to recognise the need for a 'kite-mark' for cancer centres. We will pursue the development of this Environmental Quality Mark over the next three years. • To improve support for people living with and beyond cancer, we undertook to lead jointly with the Department of Health a National Cancer Survivorship Initiative in England. This will improve information and support services for people after active treatment, help them manage their illness more easily themselves, and extend research on the needs of people post-treatment.	• As part of the National Cancer Survivorship Initiative, we will begin to pilot new 'survivorship' services to help people living with cancer manage any late effects from cancer treatment, access appropriate psychological support, and manage recurrence of the disease. • We will continue to spend around 7% of our charitable spend on cancer treatment and care buildings in 2008, and reduce this slightly in 2009 and 2010 to reflect increased spend on information facilities. Through our Macmillan clinical buildings, we will reach a total of 68,000 people by 2010. We will also conduct a UK-wide audit of cancer treatment and care buildings in 2008, then roll out our Environmental Quality Mark to raise overall standards across the UK.

INFORMATION TYPE (N) – BUDGET INFORMATION

As explained in Chapter Five, and shown in Table 5.1, no examples of budget information were found in the analysis of the annual reports of the Top 100 UK fundraising charities that are the focus of this research. In order to illustrate budget information, the following example was obtained from a charity not included in this research.

Charity: Mango

Project: Hargeisa schools development project
Budget Period: 1 March 2010 – 28 February 2011
Total Budget: $197,495

		Unit	Unit cost ($)	Quantity	Total cost ($)	Notes
A	**Staff Costs**				**88,600**	
A1	Programme Manager (PM)	Month	800	12	9,600	Grade 12; spending 33% of her time on this project.
A2	Education Manager (EM)	Month	2,000	12	24,000	Grade 11
A3	Office Manager (OM)	Month	900	12	10,800	Grade 10; spending 50% of his time on this project.
A4	Accountant	Month	2,400	1	2,400	One visit from UK in March (to set up systems)
A5	Recruitment costs	Unit	2,000	1	2,000	For new Education Manager
A6	School outreach officer 1	Month	450	12	5,400	Hargeisa Grade B
A7	School outreach officer 2	Month	450	12	2,800	Hargeisa Grade B
A8	School outreach officer 3	Month	450	12	2,800	Hargeisa Grade B
A9	Office assistant	Month	350	12	4,200	Hargeisa Grade C
A10	Drivers	Month	250	36	9,000	3 drivers, each on Hargeisa grade D
A11	Guards	Month	250	24	6,000	2 guards for the office, each on Hargeisa grade D
A12	Cleaner	Month	250	12	3,000	1 cleaner, on Hargeisa grade D
A13	Medical costs	Person Month	50	132	6,600	Expected cost: $50 per national staff member (11 in total) per month
B	**Programme Administration**				**17,110**	
B1	Stationery	Month	100	12	1,200	Estimate, based on past costs.
B2	Phone/fax	Month	600	12	7,200	Estimate, based on past costs.
B3	E-mail	Month	200	12	2,400	Estimate, based on past costs.
B4	Courier	Month	30	24	720	Estimate, based on fortnightly pouch to Dar
B5	Office rent	Month	200	12	2,400	Estimate, based on past costs.
B6	Electricity	Month	30	12	360	Estimate, based on past costs.
B7	Bank charges	Transfer	83	10	830	£50 (=$83) per £10,000 transfer, on $158k (=£96k) of expected field-based expenditure
B8	Audit	Item	1,500	1	1,500	50% of audit fee paid by this project
B9	Books, manuals, publications	Lump sum	500	1	500	Estimate
B10	Other				-	
C	**Local Transport**				**10,980**	
C1	Fuel	Vehicle Month	150	36	5,400	$150 fuel per project vehicle p.m.
C2	Vehicle maintenance	Vehicle Month	50	36	1,800	$50 maintenance per project vehicle p.m.
C3	Vehicle insurance	Vehicle Year	300	12	3,600	Annual insurance for each vehicle
C4	Nairobi local transport	Person Day	6	30	180	For trips by PM, EM and OM (assumed 2 during the year, 5 days each).
C5	Other				–	

		Unit	Unit cost ($)	Quantity	Total cost ($)	Notes
D	**Capital Equipment**				**58,000**	
D1	Computer hardware (inc. printer)	Item	2,000	4	8,000	For new EM and School Outreach Officers
D2	Photocopier				–	Already available in Hargeisa office
D3	Fax				–	Already available in Hargeisa office
D4	Office furniture/ equipment				–	Already available in Hargeisa office
D5	4WD Vehicles	Item	25,000	2	50,000	2 new vehicles to be bought; one already available in Hargeisa office
D6	Other				–	
E	**Training**				**8,400**	
E1	Training materials	Workshop	200	12	2,400	Stationery, reproduction etc. for monthly workshop
E2	Workshop costs	Workshop	500	12	6,000	Venue, food, transport etc of participants at monthly workshop
E3	Other				-	
F	**Materials Development**				**5,000**	
F1	Design work	Manual	1,000	2	2,000	Professional design for two manuals to be produced.
F2	Reproduction	Unit	1,500	2	3,000	Reproduction of two manuals.
F3	Other				-	
Z	**Contingency**				**9,405**	5% of total budget up to this line.
	TOTAL				**197,495**	

Appendix 2: INTERVIEW GUIDE

Question	Rationale
General background	
1. For the purposes of this interview, which of the following groups best describes your relationship to charities? (a) Auditor (b) Beneficiary (c) Donor (d) Charity official	To place the interviewee's comments in the context of their experience/responsibilities.
2. Briefly how long have you been associated with the charity?	
3. What positions/roles have you held/performed in that time?	
Exploring accountability	
4. What do you understand by accountability in terms of charities?	Linking user needs, stakeholder theory and accountability, and perhaps giving an insight into where the pressures come from.
5. To which stakeholders should a charity be primarily accountable? *(For example, beneficiaries, business dealing with the charity, donors, employees, regulator, trustees, society, etc)*	
6. How do charities discharge this duty of accountability? *(ie to primary group)*	
7. How should charities discharge this duty of accountability? *(ie to primary group)*	
Meeting user needs and discharging accountability	
8. Who is involved in informing the form and content of the: (a) annual report? (b) annual review? (c) website?	User needs – as a means of discharging accountability.
9. To whom are these addressed? (a) Annual report (b) Annual review (c) Website *(For example, beneficiaries, business dealing with the charity, donors, employees, regulator, trustees, society, etc.)*	An indication of whose needs the charity is trying to meet.
10. Who do you believe uses each of these sources of information? (a) Annual report (b) Annual review (c) Website	If not used, their role in discharging accountability will be limited.
11. Which of the following channels of communication do you believe is the most important in discharging accountability? (a) Annual report (b) Annual review (c) Annual return (d) SIR	Accounting is more that the annual report (Stewart 1984). An indication of how useful each is perceived to be, and how they could be improved.
12. For what purpose do you believe each is used? *(For example, goals and objectives, historical financial information, financial position and performance, future plans.)*	To assess, from the charity's perspective, the perceived information needs of users, both financial and non-financial.
13. Our research suggests that the annual report is considered the most important 'channel of communication' but the annual review is the one that users engage most with. Why do you think this is the case? *(ie different information requirements)*	Usefulness, and possibly linked with views on the SORP.

Question	Rationale
14. What information, both financial and non-financial, that currently is not provided do you believe should be included in the: (a) annual report? (b) annual review? (c) annual return? (d) SIR? *(For example, performance information)*	
15. Do you foresee any problems in providing this information? *(For example, performance information)*	
Linking internal and external practices with drivers of charity accountability	
16. What role do you think the various initiatives such as the SORP, SIRs, Charities Act etc. have played in influencing charitable accountability?	
17. There has been a significant increase in the disclosure of performance information; what do you believe is driving this?	
18. While the disclosure of performance information has increased over time, measures of efficiency *(for example, support costs percentage)* have not. Why do you think this is the case?	
19. Is it desirable and feasible to have beneficiaries involved in the running of the charity and, if so, how might this be achieved?	

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