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THE STATE OF CHARITY ACCOUNTING IN IRELAND: A STUDY BY JURISDICTION AND SIZE

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ABSTRACT

Ireland has a vibrant charity sector, and the Irish are among the most generous people per capita *when it comes to charitable donations. Attempts to standardise charity external financial reporting have had limited success, and this has made it difficult for users of charity external financial statements to understand (and therefore use) the information provided. Little is known with respect to the impact of both an original (1988) and revised Statement of Recommended Practice (SORP) (1995) on Irish charities. These documents sought to reduce the diversity of accounting practice in charities' financial statements and thereby increase their quality. This paper presents the results of a comparative analysis of the accounts of 83 Irish charities, with incomes over £100,000, with respect to the recommendations contained in the revised SORP (1995). The results are presented on the basis of both jurisdiction (Northern Ireland and Republic of Ireland) and size (income). The findings provide evidence that the accounts of charities in the Republic of Ireland are less compliant with the recommendations made in the revised SORP than their Northern Irish counterparts, and that larger charities are more compliant than smaller ones.*

INTRODUCTION

In recent years the charity sector in both Northern Ireland (NI) and the Republic of Ireland (RoI) has experienced substantial growth and rapid change. Irish[1] charitable organisations are engaged in a wide range of service provision at community, national and international levels. Furthermore, the Irish are regarded as among the most generous people *per capita* when it comes to charitable donations, despite having very little knowledge of where their donations actually go (Ward, 1999).

However, until recently, there has been little public awareness or formal recognition of the work of this third sector in Ireland, with government policy on both sides of the border appearing confused and *ad hoc* in nature (Association for Voluntary Action Research in Ireland, 1998). It is estimated that there are approximately 5,000 charities in NI (Northern Ireland Council for Voluntary Action (NICVA), 1998), with a similar number in the RoI (Office of Information Commissioner, 1999). Well-known charities in NI include NIPPA (with an annual income of £4.2 million in 1996/97) and the NI Hospice (with an annual income of £3 million in 1996/97), while RoI charities include Trócaire (with an annual income of £18 million[2] in 1996/97) and St. Vincent de Paul (with an annual income of £15 million[2] in 1996/97).

Notwithstanding the financial significance of the sector, financial reporting by Irish charities has been of variable quality. A survey of the voluntary and community sector (which includes charities) in NI by the NICVA reported varying standards of accountancy (NICVA, 1998). In the late 1980s, such was the level of public disquiet in the RoI about possible abuses in charitable fundraising that a committee, under the chairmanship of Mr. Justice Declan Costello, was set up to examine the control and administration of charities in the RoI. Among other things, the committee recommended that there should be a system of registration for charitable organisations in the RoI, that the registered charities should report annually to the charity registration body and that an audit requirement should be imposed on charities with incomes over £20,000. In 1996, a government advisory group made similar recommendations, but the enactment of legislation remains under consideration by the Department of Justice. The position is similar in NI, with the responses to a consultation paper prepared by the Department of Health and Social Services in February 1996 still being considered.

While there has been significant change in recent years with respect to recommended financial reporting practice of charities in Britain and Ireland, there is very little evidence as to the impact of such recommendations in Ireland. Indeed, there have been a number of calls in the RoI for much tighter regulation and greater accountability of the charity sector as a basis for improving confidence. For example, the Attorney General Michael McDowell, at a meeting of the Not-for-profit Business Association, called for greater regulatory scrutiny of charities, including the formation of a charity commission to manage the financial accountability and regulation of charities (Beesley, 2001).

Similarly, Senator Máirín Quill of the Progressive Democrats argued that there was 'far too much laxity and too little accountability' in the charity sector in the RoI and there was a need for greater control (Humphreys, 1999, p. 2). In a recent comparative study of financial reporting by British and Irish charities, Connolly and Hyndman (2001) found that the accounts of Irish charities were considerably less compliant with the recommendations made in the revised Statement of Recommended Practice (SORP) (Charity Accounting Review Committee (CARC), 1995) than their British counterparts.

It is argued in a number of publications (Bird and Morgan-Jones, 1981; Accounting Standards Committee (ASC), 1984; the *Woodfield Report*, 1987; Hyndman, 1990) that compliance with recommended accounting practices by charities is important to users as it aids understandability and comparability of financial statements. On the basis of these views, it is suggested that increased compliance can be seen as an improvement in the quality of financial reporting practices. This paper, while recognising the importance of non-financial performance information in reporting by charities, considers the quality of financial reporting by Irish charities, where quality is seen in terms of compliance with the revised SORP (CARC, 1995). Connolly and Hyndman (2001) focused on fundraising charities in Britain and Ireland with incomes between £100,000 and £650,000, and suggested that further studies, comparing the detailed reporting practices of charities in NI with those in the RoI and/or of Irish charities of differing sizes, would increase knowledge of charity accounting in Ireland. This study makes those comparisons, firstly by considering the quality of accounts from the two jurisdictions (NI and RoI), and then by focusing upon quality by size of charity based upon total income.

In terms of the format of the discussion, the following approach is taken. The next section outlines the accounting and legislative framework within which charities operate and reviews the findings from previous studies. This provides some insight into changes over time and the extent to which the level of charity income is a factor with respect to the degree of compliance. The method used in this research is then outlined and the findings are presented and discussed. The final section assesses the findings and identifies areas for further research.

ACCOUNTING AND LEGISLATIVE BACKGROUND

Accounting

The work of Bird and Morgan-Jones (1981), which highlighted immense variety in charity accounting practices, brought the issue of charity accounting to the fore (Palmer and Vinten, 1998). This research led to the setting up of a working party to 'consider financial reporting by charities, in particular ways of enhancing the usefulness of charities' annual reports and the diverse practices of financial accounting and reporting adopted by charities' (ASC, 1984, p. 2). The findings were published by the ASC (1984) as a discussion paper and later as an exposure draft, ED 38 *Accounting by Charities* (ASC, 1985). Reports by the National Audit Office (1987) and Sir Philip Woodfield (the *Woodfield Report*, 1987) also fuelled the debate on the supervision and regulation of charities, all of which contributed to the publication of the original SORP 2 *Accounting by Charities* (ASC, 1988). This SORP attempted to improve the consistency and reduce the diversity in accounting practice and presentation, and thereby improve the quality of reporting. However, the SORP only contained recommendations and in several key areas offered alternative accounting treatments for like items (for example, investments could be stated either at cost or market value).

Three studies which sought to assess the impact of the original SORP shortly after its publication (Ashford, 1989; Gambling, Jones, Kunz and Pendlebury, 1990; Hines and Jones, 1992) each concluded that it 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 original SORP by charities. Gambling et al. (p. 9) reported that 'the SORP reflected the opinions of the accounting profession about charity accounting, rather than those of the charities themselves'. Hines and Jones suggested that non-compliance with non-mandatory accounting standards was not surprising, and that the use of mandatory accounting pronouncements or legislation was required.

In response to criticisms with respect to 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 2 (CARC, 1993), and in 1995 a revised SORP 2 (CARC, 1995) was issued. Williams and Palmer

(1998) sought to assess the state of charity accounting just prior to the introduction of the revised SORP, concluding that there had definitely been progress among larger charities in improving the quality of financial reporting. However, they also found that considerable variations in charity accounting practice still existed in 1994/95, particularly among medium-sized and smaller charities.

Connolly and Hyndman (2000) conducted an empirical analysis of the financial statements of the top 100 fundraising charities in Britain issued both before (1994/95) and after (1996/97) the publication of the revised SORP (CARC, 1995). The study suggested that while accounting by large charities had improved significantly since the 1980s (where improvement was seen in terms of increasing compliance with recommended practice), it would take time for the new recommendations contained in the revised SORP to be adopted by charities. Research to date has focused upon larger British charities, and the only major research with respect to Irish charities (Connolly and Hyndman, 2001) found evidence that the accounts of Irish charities were less compliant with the recommendations made in the revised SORP than their British counterparts, particularly with respect to items that were changes from the original SORP.

When the 1995 SORP (CARC, 1995) was issued, a commitment was given by the Charity Commission to review the SORP after considering its impact. Following a consultation process started in September 1998, a further revision of the recommendations relating to charities was published in October 2000 (Charity Commission, 2000). These recommendations apply to accounting periods commencing on or after 1 January 2001 and obviously did not impact upon the research presented in this paper. While SORP 2000 (Charity Commission, 2000) has been completely rewritten, compared with the 1995 version it does not propose any major changes to the structure of charity accounts (p. 3) 'nor are there any new requirements which might be regarded as onerous'. The key changes include a revision of the recommended content of the trustees' annual report, the inclusion of sections explaining the relationship between the SORP and the law, guidance on accounting for separate funds and alterations to the presentation of incoming resources and resources expended in the Statement of Financial Activities (SOFA).

Legislative

There is no comprehensive definition of what constitutes a charitable organisation, other than it must have purposes that the law regards as 'exclusively charitable'. However, legislative guidance is lacking as to what is meant by exclusively charitable, and it has been left to the courts to interpret this expression. The modern interpretation stems from Lord MacNaughton's judgement on the *Pemsel* case as far back as 1891 (Income Tax Special Purposes Commissioners v Pemsel, 1891). This case remains the benchmark for defining charitable purposes in Britain and Ireland. Broadly four categories of charitable purposes have been established. These are the relief of poverty, the advancement of education, the advancement of religion and other works of a charitable nature beneficial to the community.

Charitable organisations range from small, local groups operated on a voluntary basis to multi-national organisations. Some charities only dispense funds while many others carry out charitable work themselves. Charities may be incorporated or unincorporated. Incorporation can take place under company legislation, either as a company limited by guarantee or by issuing shares, or through the granting of a Royal Charter. In addition, a charity that is committed to doing work beneficial to the community may be incorporated under the Industrial and Provident Societies Act (NI) 1969 in NI or the Industrial and Provident Societies Act 1893 (as amended by the 1966 Act) in the RoI. The charitable sector also includes institutions (such as universities, public schools and other educational institutions) established and governed by special statutes. Different legal structures can co-exist within one and the same charity. For example, a company limited by guarantee with charitable status may set up one or several for-profit trading companies. The consequent permutations result in an extremely complex structure for the charity sector.

In addition to the different legal structures, different systems of charity administration are operated in NI and the RoI. The Charities Act (NI) 1964 and the Charities (NI) Order 1987 govern charities in NI, while the Charities Acts 1961 and 1973 govern charities in the RoI. There is no register of charities in NI or the RoI, such as exists in England and Wales, and Irish charities are not required under charity legislation to file accounts (unlike England and Wales). Furthermore, the public do not have a general right to see Irish charity accounts since a charity's affairs are considered private and trustees are not required to submit accounts, except when claiming tax exemption. Charity administration in NI is the responsibility of the Department for Social Development (DSD). The DSD has no statutory role in connection with the setting up of new charities. Its main functions concern giving consent to the disposal of land or buildings by charity trustees, making schemes to change the objects of charities whose original functions can no longer be carried out effectively and giving informal advice to trustees and their solicitors. The Commissioners of Charitable Donations and Bequests perform a similar role in the RoI.

As noted above, although the revised SORP (CARC, 1995) has been superseded by SORP 2000 (Charity Commission, 2000), there are no substantive differences between the two documents. The recommendations apply to all charities in Britain and Ireland regardless of size, constitution or complexity. Furthermore, although charitable companies also have to comply with company law, a small charity (whether a company or not) can adopt a simpler approach. However, the definition of a small charity, and therefore the extent to which the less rigorous recommendations apply, depends upon the applicable legislation. The Charities (NI) Order 1987 defines a small charity as one with a gross income in the preceding accounting period of less than £200. The RoI legislation does not define a 'small' charity, and in both NI and the RoI there are no regulations governing either the form or the content of charities' accounts.

Two major problems remained after the issue of the revised SORP (CARC, 1995). Firstly, the SORP only represented recommended practice and charities were not bound to comply with the recommendations. Secondly, an incorporated charity could legitimately ignore certain aspects of the SORP where these were more onerous than the requirements of company legislation. Both these problems continue to exist following the publication of SORP 2000 (Charity Commission, 2000), particularly in an Irish context where there is very limited charity legislation dealing with the form and content of accounts.

RESEARCH METHOD

By analysing annual reports published after the appearance of the revised SORP (CARC, 1995) this study aimed to assess the extent to which the recommendations of the revised SORP had been implemented by charities on the basis of both jurisdiction (NI and RoI) and charity size. The focus was on the form and content of the financial statements included in the annual report, not the entire annual report. As no consolidated source of information on Irish charities was available, names and addresses of NI charities were obtained from Bryson House (a major support charity for charities in NI) and from Golden Pages (Irish Telecom) for those based in the RoI. Letters were sent to each of the Irish charities for which names and addresses were obtained (excluding charities which were branches of UK charities) requesting copies of their 1996/97 annual report and accounts. Approximately three weeks after this initial request, second requests were mailed to those charities that: had failed to respond; had returned accounts for a different period; had returned inappropriate information (for example, summarised accounts or an annual review). The incomes of charities were not known prior to the receipt of their financial accounts. The details of responses by Irish charities, by jurisdiction and income size[2], are presented in **Table 1**.

Table 1: Response Rate to Request for Information from Irish Charities

			NI		RoI		
			No.		No.		No.
Requests made			206		234		440
Income Range of Respondents Returning Financial Statements:							
Less than £100,000			7		7		14
£100,000–£300,000	(R1)	13		28		41	
£300,001–£700,000	(R2)	16		11		27	
£700,001–£1 million		0		0		0	
Greater than £1 million	(R3)	5	34	10	49	15	83
Total Number of Financial Statements Received			41		56		97
Unusable Responses							35
Total Responses							132
Overall Response Rate							30%
Usable Response Rate							22%

This paper focuses on the reporting of financial information measured in terms of compliance with the revised SORP (CARC, 1995). Although the recommendations contained in the revised SORP are less rigorous for smaller charities, NI and RoI charity legislation does not provide a common legislative threshold for a small charity. Consequently, in order that as many of the provisions of the revised SORP as possible would apply, it was decided to focus on those charities with an income greater than £100,000. This is also the threshold adopted in the Charities Act 1993, which applies to England and Wales. As a result, 14 charities (see **Table 1**), which had incomes of less than £100,000, are excluded from this analysis, while charities returning inappropriate information are shown as unusable responses (resulting in a total of 83 charities providing the data for this study). The average income of the 34 NI charities included in this analysis is £1,536,200 while the average income of the 49 RoI charities is £1,981,500. **Table 1** indicates that the overall response rate was 30 per cent.

As well as considering compliance by jurisdiction, the research identifies differences in compliance by size of charity. To facilitate this, charities were categorised into three size-related groups based on total income as follows: greater than £1 million (R3); £300,001 to £700,000 (R2); and £100,000 to £300,000 (R1). This categorisation is indicated in **Table 1**. It is interesting to note that no charities with incomes between £700,001 and £1 million supplied information.

A checklist was designed with reference to previous related research studies and the revised SORP (CARC, 1995)[3]. Non-response bias was a potential problem. To test for this, chi-square tests were used to identify whether there were significant differences between early and late responses[4]. The results of the analysis of the first respondents (early respondents) for each group of charities were compared with those who returned accounts after the second request was mailed (late respondents). No significant difference between the early and late respondents for each group of charities was found.

FINDINGS

The main findings, expressed in terms of compliance (not applicable or non-verifiable items first being deleted), are presented and discussed below. The items presented in **Tables 2–4** are recommendations that were in the original SORP (ASC, 1988) and were retained in the revised SORP with no more than minor changes. They relate to items that showed significant non-disclosure in previous studies (Bird and Morgan-Jones, 1981; Ashford, 1989; Hines and Jones, 1992; Williams and Palmer, 1998). The findings from these studies are introduced into the discussion below. **Table 5** illustrates compliance with new significant recommendations specific to the revised SORP. Chi-square tests were used to test the significance of differences between NI and RoI charities and between the different income groups (R1, R2 and R3) in terms of compliance with the recommendations of the revised SORP.

Retained Significant Provisions of Revised SORP 2 Relating to Income and Expenditure

Table 2 focuses upon key recommendations, items (a) to (j), relating to income and expenditure that were included in the original SORP (ASC, 1988) and retained (that is to say carried forward with no more than minor revisions) in the revised SORP (CARC, 1995). The table presents the results by jurisdiction and in terms of size-related groups, with significant differences highlighted as appropriate. Following **Table 2**, the recommended accounting treatment and findings relating to items (a) to (j) are discussed.

Table 2: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to Income and Expenditure

	Jurisdiction				**Size-related Groups**								
	NI		RoI		Income (R1) £100–300k		Income (R2) £300–700k		Income (R3) > £1m		R1 v R2 Sig.	R1 v R3 Sig.	R2 v R3 Sig.
Total no. of 1996/97 financial statements analysed:	*34*		*49*		*41*		*27*		*15*				
Item:	No.	%	No.	%	No.	%	No.	%	No.	%			
(a) Income & expenditure account provided (or omitted in accordance with SORP)	32	94	49	100	41	100	27	100	13	87	No	No	No
(b) Legacies credited to income when received	8	100	15	100	6	100	7	100	10	100	No	No	No
(c) Unrealised gains/(losses) form part of fund to which investment/asset related	8	100	2	67	2	100	3	75	5	100	No	No	No
(d) Realised investment gains/(losses) incl/d in income & expenditure account	6	86	2	67	2	100	1	33	5	100	No	No	5%
(e) Realised fixed assets gains/(losses) incl/d in income & expenditure account	5	71	*0	0	2	100	0	0	3	100	5%	No	5%

(f) Fund transfers shown separately without aggregation	19	100	14	100	8	100	15	100	10	100	No	No	No
Separate disclosure:													
(g) Fundraising expenses	18	69	32	82	27	84	14	64	9	82	No	No	No
(h) Publicity expenses	18	69	32	82	27	84	14	64	9	82	No	No	No
(i) Administration expense	24	71	43	88	35	85	19	70	13	87	No	No	No
(j) Charitable expenses	32	94	44	90	40	98	22	81	14	93	No	No	No

* NI v RoI significant at the 1 per cent level

(a) Income and expenditure account provided (or omitted in accordance with SORP)

The original SORP (ASC, 1988) stated that the accounts should include an income and expenditure account. This analysis found 100 per cent compliance with the recommendation by RoI charities, while 94 per cent of NI charities complied. These results are consistent with those of Ashford (1989) and Hines and Jones (1992), which reported 95 per cent and 100 per cent compliance respectively. Under the revised SORP (CARC, 1995) charities with no endowment fund movements for the year may omit the income and expenditure account needed to comply with FRS 3 *Reporting Financial Performance* (ASB, 1992a). Instead they can replace it with a SOFA. Two NI charities with endowment fund movements produced a SOFA but failed also to provide an income and expenditure account. However, on a more positive note, at least these two charities showed a willingness to implement the revised SORP by preparing a SOFA. The analysis based upon income indicates that the two NI charities referred to above had incomes of greater than £1 million.

(b) Legacies credited to income when received

The original SORP (ASC, 1988) recommended that all legacies (other than those received for permanent endowments) should be credited to income when received in order that all income received in the period is fully reflected in the income and expenditure account. Bird and Morgan-Jones (1981) found that many charities preferred to show as low an income figure as possible (perhaps in order to appear more deserving of donations), with 27 per cent of charities crediting legacies directly to reserves and a further 21 per cent splitting them between revenue and reserves. The revised SORP (CARC, 1995) required that all legacies should be included in the SOFA unless they are incapable of financial measurement. **Table 2** indicates 100 per cent compliance by Irish charities.

(c) Unrealised gains/(losses) form part of fund to which investment/asset related

Recommended practice is that unrealised gains and losses should be excluded from the income and expenditure account, and should form part of the particular fund to which the investment/asset related. **Table 2** indicates that compliance with the recommended treatment under the revised SORP (CARC, 1995) for unrealised gains and losses was lower in the case of RoI charities (67 per cent) compared with NI charities (100 per cent). However, this non-compliance related only to one RoI charity that had an income falling within the R2 range (£300,001–£700,000). The findings in this study demonstrate increased disclosure when compared with Ashford, 1989 (50 per cent compliance) and Hines and Jones, 1992 (55 per cent compliance).

(d) and (e) Realised gains/(losses) included in the income and expenditure account

Realised gains and losses should be included in the income and expenditure account as part of the appropriate fund. With respect to realised investment gains and losses, 86 per cent of NI charities complied with this recommended treatment compared with 67 per cent of RoI charities (two out of three charities). However, while 71 per cent of NI charities complied with the recommended treatment for realised fixed asset gains and losses, none of the RoI charities did so (although this requirement was only applicable to two RoI charities). This difference is significant at the 1 per cent level. In relation to each of these items, disclosure generally in this study, by both NI and RoI charities, was lower than that reported in previous studies for British charities. For example, regarding realised fixed asset gains, Ashford (1989) reported 91 per cent compliance and Connolly and Hyndman (2001) reported 100 per cent compliance.

Analysing the results by size rather than jurisdiction indicates that non-compliance with respect to items (d) and (e) is by charities falling within income range R2 (£300,001–£700,000). The differences in compliance by those charities falling within this income range are significant at the 5 per cent level for items (d) and (e) when compared with R3 (larger charities), and for item (e) when compared with R1 (smaller charities). Furthermore, with respect to items (c), (d) and (e), as the vast majority of charities were deemed non-verifiable, the actual number of charities reporting these three items is extremely low, as is highlighted in the comments above. It is therefore possible that the extent of non-compliance revealed in **Table 2** is underreported because of lack of disclosure. This issue is considered in more detail later in the paper.

(f) Fund transfers shown separately without aggregation

Both SORPs recommended that information on the charity's fund structure should be provided in the financial statements, including the significance of each of the major fund balances. For example, fund transfers should be shown separately from allocations to designated funds without aggregation or netting off and should be accompanied by a narrative explanation of the nature and objective of the transfer. All of the charities surveyed complied with this recommendation. High levels of compliance might have been expected here given that the majority of the charities analysed are likely to have fairly simple structures and often only one fund. These results are similar to those reported in previous studies (for example, see Connolly and Hyndman, 2000). Again, as was noted above with respect to items (c), (d) and (e), the number of charities actually reporting fund transfers is fairly low and it is possible that the level of compliance revealed in **Table 2** is overstated because of less than full disclosure. For example, only eight of the 41 smaller (R1) charities reported fund transfers. In all eight cases these were presented in accordance with the revised SORP (CARC, 1995).

(g) to (j) Fundraising, publicity, administration and charitable expenses

Recommended practice is that fundraising, publicity, administration and charitable expenses should be separately disclosed. Previous studies found little consistency in what was included under these headings (although precise definitions of expenses are not provided in the 1988, 1995 or 2000 SORPs), with fundraising and publicity expenses frequently netted against income. Where netting off takes place, gross figures should be disclosed in the notes. **Table 2** indicates that, with respect to fundraising, publicity and administration expenses, the level of compliance by RoI charities is higher than that of NI charities. However, with respect to the separate disclosure of charitable expenses, the level of compliance is higher by NI charities. These differences were not significant at normal levels.

When the results are analysed by size, a pattern similar to the other items in **Table 2** emerges, with R2 (medium-sized) charities tending to have lower levels of compliance than R1 (smaller) and R3 (larger) charities. With respect to R1 charities, one possible reason for the relatively high disclosure rates may be that these charities have fairly basic structures and therefore some of the recommended practices require no significant compliance effort. Furthermore, R1 charities often attached detailed income and expenditure analyses to their accounts (usually for the Board's information) and therefore inadvertently provided many of the additional disclosures. Since R3 charities should have more resources to devote to compliance and the preparation of their annual accounts, it is perhaps not unreasonable to expect higher levels of compliance from this group. With respect to the R3 group, separate disclosure of items (g) to (j) was higher than the R2 charities for all four items, but only higher for one of the four items when comparisons were made with the R1 charities. In none of the size-related comparisons of these four items was the difference significant at normal levels.

Retained Significant Provisions of Revised SORP 2 Relating to the Balance Sheet

Table 3 deals with recommendations, items (k) to (n), relating to the balance sheet included in the original SORP (ASC, 1988) and retained in the revised SORP (CARC, 1995) with no more than minor revisions. The table presents the results by jurisdiction and in terms of size-related groups, with significant differences highlighted as appropriate. Following **Table 3**, the recommended treatment and findings relating to items (k) to (n) are discussed.

Table 3: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to the Balance Sheet

	Jurisdiction				Size-related Groups								
	NI		RoI		Income (R1) £100k–£300k		Income (R2) £300k–£700k		Income (R3) > £1m		R1 v R2 Sig.	R1 v R3 Sig.	R2 v R3 Sig.
Total number of 1996/97 financial statements analysed:	*34*		*49*		*41*		*27*		*15*				
Item:	No.	%	No.	%	No.	%	No.	%	No.	%			
(k) Quoted investments stated at market value	14	100	6	86	4	100	7	88	9	100	No	No	No
Fixed assets:													
(l) Capitalised	25	76	24	57	19	56	19	73	11	73	No	No	No
(m) Depreciated	24	96	22	92	19	100	19	100	8	73	No	5%	5%
(n) Disclosure of valuation policies	25	76	27	63	20	59	20	74	12	80	No	No	No

NI v RoI – with respect to compliance, none is significantly different at the 5 per cent level *(k) Quoted investments stated at market value*

While the original SORP (ASC, 1988) allowed investments to be included in the balance sheet at cost or market value, the revised SORP (CARC, 1995) recommended that investments should be included at market value on the basis that market value best represents a true and fair view of the value of the assets to the charity (the historical cost should be separately disclosed in the notes). As can be seen from **Table 3**, this study found that 100 per cent and 86 per cent of NI and RoI charities respectively stated investments at market value (these results being broadly consistent with previous studies; for example, see Hines and Jones, 1992). The analysis based upon size indicates that the proportion of charities holding quoted investments increases as the income band increases. Again, non-compliance is by R2 charities.

(l) to (n) Capitalisation, depreciation and disclosure of fixed assets

Both the original and revised SORP (and generally accepted accounting principles) require that fixed assets (excluding those which are inalienable or historic, or for which neither a cost nor a market value is available) should be capitalised and included on the balance sheet. Previous studies of British charities found that it was not uncommon for charities to operate a policy of writing off expenditure on fixed assets in the year of purchase. For example, Bird and Morgan-Jones (1981), Hines and Jones (1992) and Williams and Palmer (1998) found that 22 per cent, 30 per cent and 13 per cent respectively of charities were writing off capital expenditure immediately. This study found that 24 per cent of NI charities and 43 per cent of RoI charities were applying a similar policy. **Table 3** indicates that the majority of these were R1 charities. Furthermore, the Bird and Morgan-Jones, Hines and Jones, and Connolly and Hyndman (2000) studies found that 40 per cent, 45 per cent and 1 per cent respectively of charities capitalising fixed assets (with a finite life) failed to depreciate them. Again this is contrary to the recommendations included in both SORPs (and to normal accounting practice) that fixed assets with a finite useful life should be depreciated. As indicated in **Table 3**, 4 per cent of NI charities and 8 per cent of RoI charities that capitalised fixed assets then failed to depreciate them. This study found that, perhaps surprisingly, it was three of the larger R3 charities which failed to depreciate capital expenditure, a difference that is significant at the 5 per cent level when comparisons are made between R3 charities and the other two size-related groups.

The revised SORP (CARC, 1995) states that in order to understand fully a charity's financial statements, an explanation of the accounting policies adopted should be included. With respect to fixed assets, the policy for determining the amounts at which assets are included in the balance sheet should be disclosed. **Table 3** shows lower disclosure of valuation policies for fixed assets by RoI charities than by NI charities, with a compliance rate of 63 per cent compared with 76 per cent. Furthermore, larger charities were more compliant that smaller ones.

Retained Significant Provisions of Revised SORP 2 Relating to Cash Flow, Consolidation and Fund Accounts.

Table 4 relates to recommendations, items (o) to (r), associated with cash flow, consolidation and fund accounts that were in both the original SORP (ASC, 1988) and retained in the revised SORP (CARC, 1995) with no more than minor revisions. The table presents the results by jurisdiction and in terms of size-related groups, with significant differences highlighted as appropriate. Following **Table 4**, the recommended accounting treatment and findings relating to items (o) to (r) are discussed.

Table 4: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to Cash Flow, Consolidation and Fund Accounts

	Jurisdiction				Size-related Groups								
	NI		RoI		Income (R1) £100k–£300k		Income (R2) £300k–£700k		Income (R3) > £1m		R1 v R2 Sig.	R1 v R3 Sig.	R2 v R3 Sig.
Total number of 1996/97 financial statements analysed:	*34*		*49*		*41*		*27*		*15*				
Item:	No.	%	No.	%	No.	%	No.	%	No.	%			
(o) Cash flow statement provided	12	40[a]	*6	12	5	13[a]	8	33[a]	5	33	5%	No	No
(p) Subsidiaries consolidated	7	88	*2	22	2	29	4	80	3	60	No	No	No
Funds:													
(q) Assets/liabilities allocated to funds	24	92	25	100	9	82	27	100	13	100	No	No	No
(r) Funds structure disclosed	24	89	25	100	17	94	19	95	13	100	No	No	No

* *NI v RoI significant at the 1 per cent level*

[a] *Four NI charities, all of which were incorporated as limited companies, included a statement at the foot of their balance sheet that the directors had taken advantage of the small company exemptions and not provided a cash flow statement. These charities, one of which falls within the R1 income band and three within the R2 income band, have been excluded from the analysis with respect to this item.*

(o) Cash flow statement

The revised SORP (CARC, 1995) recommended that a cash flow statement be prepared in accordance with FRS 1 *Cash Flow Statements* (ASB, 1991) for all 'large' charities with the objective of showing the cash generated and absorbed by the charity in the accounting period. Few charities included in this analysis would be deemed 'large' within the definition used in FRS 1 and therefore most would not be required to prepare a cash flow statement. However, as this information may be more meaningful than information on income and expenditure since many charities are funded on the basis of their cash needs, the fact that only 40 per cent and 12 per cent of NI and RoI charities respectively prepared such a statement is disappointing. Previous studies in Britain demonstrated higher levels of disclosure (for example, Connolly and Hyndman, 2000, identified a disclosure rate in excess of 90 per cent). The difference between NI and RoI charities is significant at the 1 per cent level. In addition, the study found that only 13 per cent of R1 charities prepared a cash flow statement compared with 33 per cent of both R2 and R3 charities. The difference between R1 and R2 charities is significant at the 5 per cent level.

(p) Subsidiaries consolidated

The revised SORP (CARC, 1995) removed the 'fundamentally different' exemption from having to prepare consolidated accounts included in the original SORP 2 (ASC, 1988), and recommended that consolidated accounts be prepared in all cases (including where the activities of the subsidiary are not of a charitable nature) in accordance with FRS 2 *Accounting for Subsidiary Undertakings* (ASB, 1992b). Connolly and Hyndman (2000), in their analysis of the top 100 UK fundraising charities, found that 96 per cent of charities complied with this aspect of the revised SORP. The findings shown in **Table 4** indicate 88 per cent and 22 per cent compliance by NI and RoI charities respectively. This difference is significant at the 1 per cent level. The results based upon size indicate non-compliance is highest among R1 charities.

(q) and (r) Assets/liabilities allocated to funds, and funds structure disclosed

Both SORPs aimed to expand or improve the information that a charity discloses so as to give a more complete picture of its activities. Most charities will hold unrestricted funds, and many will hold restricted funds (some of which may be permanent endowments). Consequently, charities need to account for the proper administration of the individual funds. To discharge this obligation, the recommended practice is that assets and liabilities should be analysed in a way that enables the reader to gain a proper appreciation of their spread and character. Assets and liabilities representing the various funds of the charity should be clearly analysed between the funds, and the accounts should provide information on the structure of the funds so as to disclose the individual fund balances and the reasons for them. **Table 4** indicates 92 per cent and 100 per cent compliance by NI and RoI charities respectively with respect to information on assets and liabilities allocated to funds. Compliance with the recommendations regarding disclosure of information on fund structure shows a similar trend for NI and RoI charities. With both of these items, the levels of disclosure are higher than those reported by Hines and Jones (1992), but similar to more recent studies (for example, Connolly and Hyndman, 2000). The results also indicate higher levels of compliance by larger charities. However, with respect to both items (q) and (r), none of the differences (jurisdiction or size-related) was significant at normal levels.

New Significant Provisions Included in the Revised SORP

As well as reiterating a number of recommendations included in the original SORP (ASC, 1988), the revised SORP (CARC, 1995) made several significant changes. The level of compliance with respect to some of the significant recommendations specific to the revised SORP is illustrated in **Table 5**. The table presents the results by jurisdiction and in terms of size-related groups, with significant differences highlighted as appropriate. This is followed by an outline of the recommended accounting treatment and a discussion of the findings relating to items (s) (i) to (z).

Table 5: Compliance by Charities with New Significant Provisions Included in the Revised SORP

	Jurisdiction				Size-related Groups								
	NI		RoI		Income (R1) £100k–£300k		Income (R2) £300k–£700k		Income (R3) > £1m		R1 v R2 Sig.	R1 v R3 Sig.	R2 v R3 Sig.
Total number of 1996/97 financial statements analysed:	*34*		*49*		*41*		*27*		*15*				
Item:	No.	%	No.	%	No.	%	No.	%	No.	%			
(s) (i) SOFA prepared	14	41	*6	12	5	12	10	37	5	33	5%	No	No
(s) (ii) SOFA reconciled to balance sheet	11	77	4	63	3	60	9	90	3	60	5%	No	No
(t) Income and expenditure account prepared in accordance with FRS 3	9	33	*3	6	2	5	7	29	3	25	1%	5%	No
(u) STRGL[a] included	23	68	*8	16	7	17	15	56	9	60	1%	1%	No
(v) Trading activities shown separately gross	19	95	30	100	25	96	14	100	10	100	No	No	No
(w) Appropriate disclosure for emoluments of employees	15	44	*2	4	3	7	10	37	4	27	1%	No	No
(x) Appropriate analysis/explanation of grants payable	9	90	8	100	9	90	5	100	3	100	No	No	No
(y) Appropriate disclosure of overhead costs	3	9	4	8	0	0	6	22	1	7	No	No	No
(z) Split of auditors' and independent examiners' remuneration	1	3	0	0	0	0	0	0	1	7	No	No	No

** NI v RoI significant at the 1 per cent level. [a]Statement of Total Recognised Gains and Losses* *(s) (i) and (ii) SOFA prepared, and reconciled to balance sheet*

In their analysis of the 1996/97 accounts of the top 100 fundraising charities and 'small British' charities (incomes ranging from £100,000 to £650,000), Connolly and Hyndman (2000 and 2001) found that 91 per cent of large British charities and 86 per cent of small British charities included a SOFA in their financial statements. **Table 5** indicates that only 14 (41 per cent) of NI charities and 6 (12 per cent) of RoI charities included a SOFA in 1996/97. The difference between NI and RoI charities is significant at the 1 per cent level. The level of compliance regarding the reconciliation of the SOFA to the balance sheet by RoI charities is also lower than NI charities, although the difference is not statistically significant. In addition, **Table 5** indicates a greater willingness by R2 charities to comply with these two provisions. The difference in the level of compliance between R1 and R2 charities is significant at the 5 per cent level for both items. Furthermore, the number of R3 charities preparing a SOFA is disappointingly low.

(t) and (u) Income and expenditure account prepared in accordance with FRS 3, and statement of total recognised gains and losses included

The revised SORP (CARC, 1995) recommends compliance with FRS 3, which revised the format of the operating statement (see earlier discussion). Moreover, this accounting standard recognises that not all components of an entity's financial performance will flow through the income and expenditure account. It therefore introduced a statement of total recognised gains and losses (STRGL) to highlight those gains and losses that are recognised in a period and which increase or decrease funds. This new primary statement should be presented with the same prominence as the income and expenditure account, balance sheet and cash flow statement. **Table 5** shows that only 6 per cent of RoI charities prepared an income and expenditure account in accordance with FRS 3 compared with 33 per cent of NI charities, a difference that is significant at the 1 per cent level. Furthermore, the level of compliance by RoI charities (16 per cent) with respect to including a STRGL was significantly lower (at the 1 per cent level) than the NI charities (68 per cent). Compliance with respect to items (t) and (u) was lowest with R1 charities, with the difference being significant at normal levels of significance when compared with R2 and R3 charities. Regarding both of these items, earlier studies show that British charities are more compliant (for example, Connolly and Hyndman, 2000).

(v) Trading activities shown separately gross

Charities can claim exemption from income tax or corporation tax for trading profits that are applied for the purpose of the charity. Where a charity carries out trading activities, turnover and gross expenditure should be separately disclosed in the SOFA and income and expenditure account. This is in accordance with the general principle contained in the revised SORP (CARC, 1995) that income and expenditure should be reported gross and netting off should be kept to a minimum so that the accounts are as informative as possible. Approximately 60 per cent of the Irish charities surveyed carried out trading activities, and **Table 5** shows that compliance with this recommendation by NI and RoI charities is high at 95 per cent (NI charities) and 100 per cent (RoI charities), levels consistent with previous studies relating to British charities. **Table 5** indicates that non-compliance is by R1 charities.

(w) Appropriate disclosure for emoluments of employees

Both the original and revised SORP recommended that the total emoluments (i.e. remuneration and benefits-in-kind) of the charity's employees and the average number of employees for the year should be disclosed in the notes to the accounts. The revised SORP (CARC, 1995) added that the notes to the accounts should also show the number of employees whose emoluments for the year fell within each band of £5,000 from £40,000 upwards. **Table 5** shows that the level of compliance by RoI charities with respect to these disclosures is significantly lower (4 per cent) than NI charities (44 per cent). This difference is significant at the 1 per cent level. Furthermore, R1 charities are less compliant than R2 and R3 charities, with the difference between R1 and R2 charities being significant at the 1 per cent level. Comparable studies of British charities demonstrated higher levels of compliance with this item (for example, Connolly and Hyndman, 2001, 50 per cent).

(x) Appropriate analysis and explanation of grants payable

The revised SORP (CARC, 1995) recommended that grants of a material amount made by a charity to one or more institutions should be appropriately analysed and explained. This could be disclosed either in the SOFA or in the notes to the accounts, or by means of a separate publication referred to in the notes and reconciled to the total amount charged in the accounts. Given the general trend with respect to the other items shown in **Table 5**, it is perhaps surprising that the level of compliance by both NI and RoI charities is high at 95 per cent and 100 per cent respectively (similar to comparable studies of British charities). However, the number of charities disclosing grants payable is quite low, with fairly consistent levels of disclosure across each of the income bands.

(y) Appropriate disclosure of overhead costs

The revised SORP (CARC, 1995) recommends that the basis for the allocation of overhead costs should be disclosed in the accounting policies, including an analysis of all the major components of the administration and support costs. **Table 5** indicates that the level of compliance was low (being less than 10 per cent for both NI and RoI charities), although not particularly out of line with disclosure by British charities (see Connolly and Hyndman, 2001). None of the R1 charities provided the appropriate disclosure, and only 22 per cent and 7 per cent of R2 and R3 charities respectively did so.

(z) Split of auditors' and independent examiners' remuneration

In accordance with the revised SORP (CARC, 1995), the amount of remuneration payable to the charity's auditor or independent examiner in respect of audit services and other services (such as accounting, taxation and consultancy) should be separately disclosed in the notes to the accounts. **Table 5** indicates that while compliance with this recommendation was only 3 per cent for NI charities (one charity) none of the RoI charities surveyed made the appropriate disclosure (although this item of disclosure was applicable to 49 RoI charities). The charity providing the appropriate disclosure fell within the R3 income band. Although other studies of British charities also reported relatively low levels of disclosure of such information, the levels of disclosure by Irish charities were somewhat less (Connolly and Hyndman, 2001).

ANALYSIS AND DISCUSSION

This study was undertaken to identify the quality of financial reporting by Irish charities, where quality is seen in terms of compliance with the revised SORP (CARC, 1995). The financial statements of 83 Irish charities, with incomes over £100,000, were analysed to facilitate this.

The results provide evidence that the accounts of RoI charities are less compliant with the recommendations made in the revised SORP than those of their NI counterparts. With respect to 27 items analysed in this research (as reported in **Tables 2–5**) NI charities showed greater compliance with 17 of them (with RoI charities showing greater compliance with only eight). Furthermore, as shown in **Table 6** (which summarises the differences in **Tables 2–5** that were statistically different at normal levels of significance), the levels of compliance by NI and RoI charities were significantly different for seven items. In each of these seven cases, NI charities showed greater compliance than RoI charities. This is particularly the case regarding items that were major changes from the original SORP (ASC, 1988). As can be seen in **Table 6**, of the nine items that were notable changes from the original SORP, four showed significant differences between NI and RoI charities. In all four cases NI charities demonstrated greater compliance than their RoI counterparts (see **Table 5**). For example, 68 per cent of NI charities prepared a STRGL (or included a statement that there were no recognised gains and losses other than the profit/loss for the period) compared with 16 per cent of RoI charities.

Table 6: Items Showing Significant Difference in the Level of Compliance between NI and RoI Charities*

	Jurisdiction		Size-related Groups					
	NI (34) v RoI (49) Significant at 1% or 5%		R1 (41) v R2 (27) Significant at 1% or 5%		R1 (41) v R3 (15) Significant at 1% or 5%		R2 (27) v R3 (15) Significant at 1% or 5%	
	No. of items	% of items	No. of items	% of items	No. of items	% of items	No. of items	% of items
Table 2: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to Income and Expenditure (total no. of items 10)	1	10	1	10			2	20
Table 3: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to the Balance Sheet (total no. of items 4)					1	25	1	25
Table 4: Compliance by Charities with Retained Significant Provisions of Revised SORP 2 Relating to Cash Flow, Consolidation and Fund Accounts (total no. of items 4)	2	50	1	25				
Table 5: Compliance by Charities with New Significant Provisions Included in the Revised SORP (total no. of items 9)	4	44	5	56	2	22		
Total	7	26	7	26	3	11	3	11

* *It should be noted that in all cases where a significant difference existed between NI and RoI charities, compliance by NI charities was greater. In 10 of the 13 cases where a significant difference existed based upon size, the larger income band had greater compliance.*

With respect to British charities, some evidence has been provided (see Williams and Palmer, 1998) that larger charities showed greater compliance with the recommendations in the original SORP (ASC, 1988) than medium and smaller charities. Moreover, Gambling and Jones (1997), in their survey of the financial statements of 45 British charities with incomes less than £100,000, concluded that there was 'rampant non-conformity'. An analysis of the charities in this paper by income size provides evidence that larger Irish charities are more compliant than smaller Irish charities (supporting the suggestion from Williams and Palmer that compliance is a function of the size of a charity). Comparing the levels of disclosure by each of the income bands for the 27 items analysed in this research indicates that R2 charities showed greater levels of compliance than R1 charities in 14 items (five the same), R3 charities showed greater levels of compliance than R1 charities in 15 items (seven the same) and R3 charities showed greater levels of compliance than R2 charities in 12 items (seven the same). Furthermore, of the 13 items shown in **Table 6** where there was a significant difference at either the 1 per cent or 5 per cent level based upon size comparisons, compliance was greater by the 'higher' income band in ten of these items (see **Tables 2–5**). In particular, the five items (out of nine) where a difference was statistically significant in **Table 5** (relating to major changes from the original 1988 SORP) show that compliance with each of these five items was lowest, or equal lowest, with respect to R1 charities. For example, with respect to item (u), the provision of a STRGL, only 17 per cent of R1 charities provided such a statement, compared with 56 per cent (R2) and 60 per cent (R3) of the other size-related groups.

It is interesting to note that of the 83 charities included in this survey, only 57 provided audited accounts (69 per cent). This figure was higher with the larger-sized charities. For example, 85 per cent of R2 and 87 per cent of R3 charities provided such accounts, compared with only 51 per cent of R1 charities. Analysing the results by jurisdiction indicates that while 82 per cent of NI charities had their accounts audited, only 59 per cent of RoI charities did so. This is surprising since one of the conditions upon which the Revenue Commissioners in the RoI grant charitable status is that RoI charities with income greater than £20,000 must have their accounts audited. The Inland Revenue in NI lays down no such condition. However, NI companies legislation does exempt companies with gross income less than £350,000 and gross assets less than £1.4 million from the requirement to have their accounts audited.

In interpreting the results, it should also be noted that the response rates of Irish charities to requests for annual reports and accounts were quite low, certainly compared to the 80 per cent and 50 per cent response rates for British charities obtained by Connolly and Hyndman (2000 and 2001). Charities receive considerable fiscal benefits from society and have a responsibility to account to society at large, as well as to other possible stakeholders such as potential contributors, creditors and employees. A lack of response to the request for information might indicate an unwillingness to be held accountable.

CONCLUSION

This research cannot easily provide explanations for the difference in compliance by jurisdiction. The charities are relatively similar in terms of size, with the mean income of the RoI charities being slightly higher than the NI charities (almost £2 million compared with just over £1.5 million). This should perhaps provide an expectation of greater compliance by RoI charities, given the propensity for larger charities to be more compliant than smaller charities (see further comments later). However, the contrary is clearly the case. Also, given that the SORP is equally applicable in NI and the RoI, and that the legislative and administrative systems relating to charities are similar, there is no obvious reason for these results. Perhaps the political linkage between NI and Britain provides some explanation. Given the increasing adoption of the SORP's recommendations in Britain (see, for example, Connolly and Hyndman, 2000), this effect may have impacted more in NI, given its political and administrative closeness to Britain, than in the RoI. Alternatively, it is possible that there may be a tendency for NI charities, and the NI culture as a whole, to comply with the rules to a greater extent than in the RoI. While such suggestions can only be very tentatively made, it is interesting to note that Hyndman, McKillop, Ferguson and Wall (2001) produced similar findings when comparing accounting practice in credit unions in NI and the RoI.

If the results of this study are compared with those of Connolly and Hyndman (2001), a distinct difference is seen between British and Irish charities, with British charities being more compliant with the requirements of the revised SORP (CARC, 1995). Possible reasons for the less extensive compliance in Ireland are the lack of research into charity accounting practices, deficiencies in scrutiny and the absence of strong statutory backing. Of the previous research reviewed in this paper, much of it focused on large British charities. It is clear that the earlier British studies influenced accounting standard setters and those responsible for overseeing the charitable sector. The ideas and suggestions of studies such as Bird and Morgan-Jones (1981) and Ashford (1989) are clearly seen as affecting the process. It is possible that the greater focus in Britain on the issue of the quality of financial reporting has led to good practice being adopted more quickly by many British charities. This pressure has been largely missing in both NI and the RoI. Furthermore, although the effectiveness of the Charity Commissioners in England and Wales in encouraging compliance could be debated, the lack of such a body in either NI or the RoI is likely to result in a more *laissez faire* approach to accounting in charities. With respect to a lack of statutory backing, the governing instruments relating to charities in NI and the RoI make no reference to the SORP, unlike the instruments in England and Wales.

It has been suggested (for example, see the results reported by Gambling et al., 1990) that requiring charities to comply with a SORP is inappropriate because of the costs of such compliance. Furthermore, because a SORP only contains recommendations there is little incentive to comply. It is interesting to note that despite the low levels of compliance found in this study with respect to some of the items, only one of the charities received a qualified audit report, and this was in relation to the difficulty in verifying voluntary donations rather than non-compliance with the SORP. However, given that there is an accountability issue, at the very least towards contributors (who often receive no direct economic benefit from their contributions) and the general public (who afford significant tax advantages to charities), it is incumbent upon charities to render an appropriate account. Even in the absence of a strong regulatory framework, charities could self-regulate on the basis that public accountability and professionalism are key to the survival of the sector. While cost/benefit issues need to be considered, there appears to be a strong case for charities to provide appropriate financial accounts of their activities. In the absence of any clear reason to the contrary, complying with the revised SORP (CARC, 1995) would provide a suitable means of achieving this. At the very least, it could be argued that any departures from the SORP should be explained. Given recent adverse publicity surrounding the governance of a small number of Irish charities, such an approach might enhance the credibility of the sector in Ireland. As highlighted earlier, a number of political figures have alluded to a lack of confidence in the Irish charitable sector and called for improvements in the legal and fiscal framework, the introduction of modern legislation to regulate the sector and the appointment of a national commission to oversee the working of charities (Cullen, 1997; O'Morain, 1999; Beesley, 2001).

Hems and Passey (1996) estimated that in the UK approximately 20 per cent of the total assets of the charitable sector were held by organisations with incomes less than £100,000. This suggests that considerable resources are controlled by a large number of small organisations. Many small charities are local/community-based organisations and their financial statements are an integral part of the charity's outreach into the community. However, as reported above, an analysis of the charities in this paper by income size suggests that smaller charities are less compliant than larger charities. Gambling and Jones (1997) suggested that while the trustees of small charities care about their charity and put time, effort and money into presenting their charity in a way they want it to be presented, they see compliance with externally imposed norms as a chore, and largely irrelevant. The SORP reflects an official view that the charitable sector is an essential part of the provision of social welfare. As such, a charity's resources could be viewed as quasi-public, particularly given the tax advantages afforded charities, and it would seem appropriate that they be accounted for in a formal manner by all charities regardless of size. Following the line of argument presented initially by Bird and Morgan-Jones (1981), and followed subsequently by many commentators on charity accounting, it would seem important that areas of difference and the variety in accounting treatment for similar items be narrowed and charity accounts be more understandable and useful. An audit report that concludes the financial statements give a true and fair view should perhaps mean the same regardless of the size of the charity. Small charities typically rely on their auditors, acting as accountants, to prepare the charity's financial statements. The extent of non-compliance by smaller Irish charities suggests that their auditors are possibly unaware of the provisions of the SORP, or perhaps unwilling to implement the changes given the initial effort involved compared to what is often a relatively small fee. Although beyond the scope of this paper, it would be interesting to ascertain whether the extent of compliance varies depending on the audit firm or the size of the audit fee.

The evolution of recommended practice has been based on consultation and discussion by interested parties (for example, compare the requirement for a SOFA with Ashford's, 1989, suggestions). It could be argued that this has resulted in incremental improvements from a very low base and the extant SORP may well be a staging post on this continuing journey. Indeed the recent publication of a further revision to the SORP (Charity Commission, 2000) illustrates this point. Perhaps the situation in Ireland will only improve significantly when charity financial reporting receives similar legislative backing and research attention to that provided in Britain. Maybe it will need major controversy, or further scandals, to move the relevant authorities from their apparent lethargy. However, this research does indicate a degree of willingness to implement change by large Irish charities, and may be an indicator that further significant improvements are possible, especially if promoted more vigorously by central government or by bodies such as the Institute of Chartered Accountants in Ireland.

While this paper presents an initial, quantitative analysis to ascertain the quality of financial reporting by Irish charities, further studies, perhaps of a more qualitative nature and possibly utilising interviews, might provide useful insights to help explain the reasons for the current level of compliance/non-compliance in Ireland. Furthermore, given the importance placed upon performance information by contributors to charities (Hyndman, 1990), it would be interesting to conduct an empirical analysis of the annual reports of charities to ascertain the extent to which performance information is used in external reporting. Studies of this nature would help to provide a more complete understanding of the role of annual reports in the provision of information. Finally, as alluded to above, studies relating to the impact of the audit function in Ireland as a possible force for improving the quality of financial reporting by charities could help in identifying key influences.

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NOTES

1 Different political and legislative systems operate in Northern Ireland (NI) and the Republic of Ireland (RoI). Unless stated

otherwise, the terms "Ireland" and "Irish" are used to indicate the combination of NI and the RoI.

2 Because of differences in currency in the RoI and NI, income figures in RoI are in punts (£IR) whereas income in NI is in sterling (£Stg). For convenience, exchange differences are ignored and the symbol £ used to denote £IR in RoI and £Stg elsewhere.

3 A copy of the checklist is available from the authors on request.

4 Late respondents were used as surrogates for non-respondents (Wallace and Mellor, 1988; Oppenheim, 1992; Babbie, 1998).

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