ROYAL HOLLOWAY, UNIVERSITY OF LONDON
SCHOOL OF BUSINESS AND MANAGEMENT

FRAUD IN THE CHARITY SECTOR IN ENGLAND AND WALES: ACCOUNTABILITY AND STAKEHOLDER OVERSIGHT

by
Saffet Aras Uygur

A thesis submitted in fulfilment of the requirement for the degree of Doctor of Philosophy of Royal Holloway, University of London

August 2020

Declaration

I, Saffet Aras Uygur, hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed: _____

Date: _____

ABSTRACT

The thesis develops a comprehensive framework to analyse charity fraud, an important but under-investigated problem. The organisational factors that are associated with the likelihood of financial misconduct/fraud occurring within charities in England and Wales are examined. A mixed research method is utilised with both qualitative research methods (particularly the use of interviews) and quantitative research methods (involving the testing of hypotheses). The thesis sheds light on perceptions of the reasons why fraud occurs in the charity sector and suggests solutions to the fraud problem.

Interviews were conducted with charity officials, donors, beneficiaries, auditors and regulator/watchdog organisations. The findings of the interviews suggest that the charity sector is an easy target for fraud. Compared to the for-profit and public sectors, excessive trust in charities plays a key role in the occurrence of fraud, as it hinders appropriate controls and creates opportunities for fraud. Among Cressey's fraud triangle components, 'opportunity' has been discovered to be the leading component for fraud to take place in charities. Solutions which work in the for-profit sector were criticised as too costly and not fit for charities. Oversight by stakeholders is seen to be vital for tackling fraud but is found to be inadequate.

The quantitative section of the thesis analyses 42 fraud and 42 no-fraud charities using logistic regression to assess the differences between fraud and no-fraud charities. The thesis finds that fraud charities are more likely than no-fraud charities to have a small number of trustees, which supports the finding of the qualitative section of this thesis that charities have a 'small cosy environment'. Also, absence or low grant funding deprives charities of long-term donor monitoring, which is also important in fraud occurrence. The high accuracy of prediction of the model enables the model and therefore the variables to be developed for further use.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to the people who supported me during my Ph.D. journey to whom I owe a lot.

I want to thank my two supervisors, Professor Napier and Professor Nobes for their invaluable support and guidance during my studies. I am very grateful to Professor Napier who, starting from the research proposal, shed light on my studies and led me to the right direction. I appreciate the inspiration he has given me and the time and effort he bestowed on me. I am also grateful to Professor Nobes for his mindful suggestions and providing very important feedback on the study. Without their support the thesis would have never been complete.

I am also very grateful and thankful for all the staff in the School of Management at Royal Holloway for providing an excellent study environment and for the financial support during the study.

Finally, I would also thank my wife (Burce) and my daughter (Ayla) and my parents for their support and belief in me and for encouraging me to carry on the whole thesis process.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

PART I

1. INTRODUCTION

The aim of the first chapter is to provide a brief outlook of the charity sector in the United Kingdom with a focus on England and Wales. The charity sector's importance for the UK economy and society, its progress, and some definitions on charities are provided. The role of the Charity Commission for England and Wales and the development of charity accounting and reporting through time is discussed. The chapter then focuses on misconduct and fraud in charities, the topic of the thesis. How crucial the problem is for the sector and society, and therefore the source of the motivation for this research, is stressed. Research objectives, questions and the methods used are also briefly stated. The chapter concludes with presenting the findings, contributions of the study and a summary of the structure of the thesis.

1.1 The charity sector in the UK
1.1.1 Size of sector
1.1.2 History and development of the charity sector
1.1.3 Definition and types of charities
1.1.4 The Charity Commission for England and Wales

1.2 Charity accounting and reporting

1.3 Misconduct/fraud in charities

1.4 Motivation for the study

1.5 Research objectives and questions

1.6 Research method

1.7 Overview of findings

1.8 Contributions of the study

1.9 Structure of thesis

Figure 1.1 Structure of Chapter 1

1.1 The charity sector in the UK

1.1.1 Size of sector

The not-for-profit sector and in particular the charities part of it, which contains the majority of not-for-profits in the UK, has an immense importance both financially and in terms of its impact on society (Parliament, 2017). As of September 2018 (the most recently available data), there were 183,941 charities registered with the Charity Commission for England and Wales, with an income of £77.07 billion (Commission, 2018c).

According to the Charities Aid Foundation's (CAF) World Giving Index 2018 (Foundation, 2018), which is a generosity league table that aggregates cash giving, volunteering and helping strangers, the UK is 6th in the world and if donations alone are considered the UK is 4th. While the charities possess significant economic influence, their impact on society deserves closer attention.

1.1.2 History and development of the charity sector

Although the UK's oldest charity is indicated as the King's School, Canterbury, which was founded in 597, the first legal document that is accepted as clarifying the purposes of a charity is the Statute of Charitable Uses (1601), enacted during the reign of Elizabeth I (Committee, 2013). The preamble of the Elizabethan Statute of Charitable Uses (1601) is still accepted as an essential reference in assessing whether or not a purpose is charitable. As is usual in Anglo-Saxon lawmaking, the courts played a significant role in shaping charity law. The famous case of Income Tax Special Purposes Commissioners v Pemsel (1891, A.C. 531) in which charitable purposes were classified as "the relief of poverty; the advancement of education; the advancement of religion; and other purposes to the community which the law

recognises as charitable" is still used as the inspiration for charity legislation and law.

The industrial revolution of the 18th and 19th centuries, for which Britain was the standard bearer, brought enormous social change and as a result proliferation of charities. With the Charitable Trusts Act (1853), the Board of Charity Commissioners for England and Wales (today's Charity Commission) was formed. The introduction of the Charities Act (1960) brought the registration of charities, and the Charity Commission was equipped with authority to investigate charities. The Charities Act (1992) made registration mandatory for charities with over £1,000 income, and the Charities Act (1993) merged the acts of 1960 and 1992. In 2006, the Office of the Third Sector in the Cabinet Office was established to coordinate policies for the sector. The (2006) and the following (2011) Charities Acts transformed the legislation into the form it takes today (Committee, 2013). While the charities in England and Wales are obliged to implement the Charities Act 2011, they also have to comply with the Statement of Recommended Practice (SORP) which designates financial reporting matters, where this is required (SORP, 2015).

Following the growing concern over the transparency and accountability of charities (Hyndman and McConville, 2016), the Charities (Protection and Social Investment) Act (2016a) provided investigation powers to the Charity Commission. The Act made improvements, one of them being the ability to publicly issue official warnings to a trustee or charity where the Charity Commission thinks a "breach of trust or duty or other misconduct or mismanagement" has taken place (2016a, Provision 1). Other new rules include enhanced authority to the Commission by procuring power to: remove trustees following an inquiry (2016a, Provision 4), remove a disqualified trustee (2016a, Provision 5) and require more clarity about fundraising (2016a, Provision 14).

1.1.3 Definition and types of charities

According to section 1 of the Charities Act (2011) 'charity' means an "institution which (a) is established for charitable purposes only, and (b) falls to be subject to the control of the High Court in the exercise of its jurisdiction concerning charities.". The term 'charitable purpose' is defined by section 2 (1) as: "a purpose which (a) falls within section 3 (1), and (b) is for the public benefit[1]." There are four types of charity (Commission, 2014a), differentiated in specifications such as who will run the charity and whether it will have a wider membership:

- charitable incorporated organisation (CIO)
- charitable company (limited by guarantee)
- unincorporated association
- trust

1.1.4 The Charity Commission for England and Wales

The Charity Commission for England and Wales[2] (The Commission) which is a non-ministerial and independent government department accountable to the Parliament of the UK, is the regulatory authority of charities in England and Wales (2011). One duty of the Commission is to decide if organisations are charitable and therefore should be added or removed from the Register of Charities[3]. The Commission also tries to solve problems regarding charities

---

[1] According to Section 3 of the Charities Act (2016) an organisation can be deemed charitable by following at least one of 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.

[2] As the study is not limited to fundraising in the charity sector, the Fundraising Regulator, which regulates charity fundraising in England and Wales and Northern Ireland is not discussed

[3] According to section 14 of the Charities Act, 2011 the Commission has the following objectives: "(1) The public confidence objective is to increase public trust and confidence in charities. (2) The public benefit objective is to promote awareness and understanding of the

with its involvement, which can range from warnings to opening a statutory inquiry. The Commission's priority risk areas are defined as:

> "fraud and other financial abuse of charities; safeguarding beneficiaries, particularly children and vulnerable adults; misuse of a charity for terrorist purposes or to foster extremism; other significant breaches of trust or non-compliance that significantly affect public trust and confidence in charities." (Commission, 2015-16, p.8).

The Commission, as a response to the priority risk areas, has developed five strategic priorities on:

> "holding charities to account, dealing with wrongdoing and harm, informing public choice, giving charities the understanding and tools they need to succeed abuse or mismanagement, keeping charities relevant for today's world." (Commission, 2018-2019, p.10-11)

1.2 Charity accounting and reporting

It is was agreed by scholars (Ashford, 1989; Bird and Morgan-Jones, 1981; Connolly and Hyndman, 2000) that the Charities Act (1960) was insufficient to establish a unified charity financial statement and reporting, and therefore that an inadequate regulatory structure governing charity financial reporting was in force.

A report by Bird and Morgan-Jones (1981) mentioned the lack of consistency and poor accounting practices, and they were the first to allege a lack of

---

operation of the public benefit requirement. (3) The compliance objective is to promote compliance by charity trustees with their legal obligations in exercising control and management of the administration of their charities. (4) The charitable resources objective is to promote the effective use of charitable resources. (5) The accountability objective is to enhance the accountability of charities to donors, beneficiaries and the general public."

coherence in financial accountability of UK charities. This report (commissioned by the Institute of Chartered Accountants in England and Wales) triggered debate on the necessity for a revision of accounting and reporting practices of charities because of designated variations in accounting implementations and also non-compliance with reporting standards. The report created controversy and led to further work, resulting in *Accounting by Charities, Statement of Recommended Practice* in 1988. Subsequent research (Gambling et al., 1990; Hines and Jones, 1992) also revealed that discrepancies between charities were continuing but diminishing (Connolly and Hyndman, 2000; Connolly and Hyndman, 2004; Hyndman, 1990; Hyndman, 1991; Hyndman and McMahon, 2010; Palmer et al., 2001) with each new SORP.

Following the Charities Act of (1992), the SORP became mandatory (SORP 1995) for charities which met certain criteria. Further research and the need for greater accountability established by the impact of various scandals led to the issuance of subsequent iterations of the SORP: SORP (2000) and SORP (2005). A new SORP (2015) began to be used in line with the latest UK GAAP, applying for financial years starting on or after 1 January 2015.

Over time, the SORPs, which are defined as 'engines' of the charity sector by Hyndman (2018) also changed in some particular areas. For example, a Statement of Financial Activities (SOFA) was introduced to replace the income and expenditure statement. The SORPs became clearer and more detailed, composing of mandatory aspects rather than being recommendation base only, and also began to provide recommendations on better governance and performance reporting (Hyndman and McMahon, 2010). The accounting recommendations of the SORP do not override accounting standards (now FRS 102) but aim to supplement them.

The accounting requirements of charities depend on the type, income and value of assets of the particular charity. All charities, even the ones that are not registered with the Commission, have to prepare accounts and make them

available on request (Commission, 2016a). An annual return form must be completed and filed by all charitable incorporated organisations and all charities if gross income is more than £10,000 (Commission, 2016a). A registered charity also needs to prepare a trustees' annual report and make it available on request (Commission, 2016a). Filing accounts and trustees' annual reports is mandatory for all registered charities whose gross yearly income exceeds £25,000 and for all charitable incorporated organisations regardless of their income (Commission, 2016a). A more simplified accounting scheme (receipts and payments) can be adopted by a non-company charity whose gross income is £250,000 or less in one year (Commission, 2016a). If on the other hand, a non-company charity whose gross income is over £250,000 or utilising accruals accounts or the charity is a charitable company, then the charity is required to prepare accounts in accordance with the SORP (Commission, 2016a).

The amount of scrutiny is being determined regarding the assets and income of the charity. In line with the recent changes in December 2017, while an independent examination is required if gross income is over £25,000, an audit is needed where gross income is over £1 million, or the gross income exceeds £250,000 and total assets (before liabilities) exceeds £3.26 million (Commission, 2017). Figure 1.2 summarises the documents necessary to be prepared by charities depending on their type and income.

Table 1.1 Required charity documentation

Type of document/ Income per year	Between £25,000 and £250,000	Over £250,000 or £1million
Accounts/ Comply with the SORP	Filing accounts and trustees' annual reports is mandatory Receipts and payments can be adopted by a non-company charity if gross income is £250,000 or less Applying SORP not needed if charity is a non-company charity	A non-company charity whose gross income is over £250,000 or utilising accruals account or a charity that is charitable company, is required to prepare accounts in accordance with the SORP
Scrutiny	Independent examination is needed if gross income is between $25,000 and £1million	Audit needed if total assets (before liabilities) exceed £3.26 million, and the charity's gross income is more than £250,000 or where gross income exceeds £1million

Source (Commission, 2016a)

1.3 Misconduct/fraud in charities

Fraud is a big problem as it damages the organisations, the society and the economy in many aspects (Hogan et al., 2008). Fraud is also a major issue for not-for-profit organisations (Gibelman and Gelman, 2001). Although this has not been assessed and analysed in detail by scholars, the impact of financial misconduct and fraud has shaped the regulation, such as the Charities Act (2016a), and has damaged the perception of charities. Reports such as the *Annual Fraud Indicator Report* also underline the importance of fraud and financial misconduct in the sector and estimated losses of £2.3 billion or 3% of annual charity income during 2017 (Fraud, 2017). The same report states that compared with 2016, fraud in the sector has increased by nearly £400 million (Fraud, 2017).

This problem rubs salt into the wound, as the reputation of the charity sector is already damaged because of other misconduct allegations. As a result, the voluntary income of the top 100 charities has fallen for three successive quarters from beginning the second half of 2016 (Society, 2018). As of July 2018, public confidence in charities was also recorded at the lowest level

since monitoring began in 2005 (Sector, 2018), again a consequence of the highly publicised scandals.

The issue of fraud and financial misconduct is so widespread that, for the period 2016-17, fraud/money laundering occurred in 296 serious incident reports, and 315 of the compliance cases opened for the 2016-17 term were related to fraud, theft or other misapplication of funds (Commission, 2018e). Also, for the same period, fraud, theft or other misapplication of funds featured in 253 compliance cases which concluded during the year and in 92 inquiries which were opened during the year (Commission, 2018e).

Given the scale of financial misconduct and fraud, it is not surprising that, 'Holding charities to account' and 'Dealing with wrongdoing and harm' were determined as two of the five strategic objectives of the Charity Commission for the period between 2018-2023 (Commission, 2018b). The Commission had previously stated that identifying and investigating apparent fraud, misconduct or mismanagement is a statutory function (Commission, 2013a, p.2). The Commission defines the terms of 'mismanagement,' 'misconduct' and 'fraud' as:

> *'Mismanagement'* "includes any act (or failure to act) that may result in charitable resources being lost or misused, a charity's reputation being harmed, beneficiaries being put at risk." (Commission, 2016b, p.2)
>
> *'Misconduct'* "includes any act (or failure to act) that the person committing it knew (or ought to have known) was criminal, unlawful or improper" (Commission, 2016b, p.2)
>
> *'Fraud'* on the other hand is defined as "a form of dishonesty involving, amongst other things, false representation, failing to disclose information or abuse of position, which has been

undertaken in order to make a gain or cause loss to another" (Commission, 2013a, p.2).

The Charity Commission uses tools such as accounts monitoring and review[4], monitoring, operational compliance cases[5], reports of serious incidents (ROSI)[6], official warnings and statutory inquiries[7] to combat fraud/misconduct (Commission, 2014-15). Some other powers the Charity Commission possess as of 2019 are suspending or removing a trustee, officer or employee, restricting the transactions of a charity, establishing a scheme for the administration of the charity etc. (Commission, 2018a).

The Commission also had initiatives such as the Charity Sector Counter Fraud Group (CSCFG)[8] and national charity fraud prevention conference with the Fraud Advisory Panel (FAP) to tackle the issues of fraud and financial misconduct (Commission, 2018-2019).

1.4 Motivation for the study

The importance of the charity sector in the UK is beyond dispute as it has an immense impact on the economy and on society. However, the publicised

---

[4] "identify potential mismanagement or non-compliance as well as concerns about inadequate reporting"

[5] "robust regulatory advice to the trustees, or instructing them to fulfil an action plan."

[6] "A serious incident is one that results in, or risks, significant loss of a charity's money or assets, damage to a charity's property or harm to a charity's work, beneficiaries or reputation. Serious incidents include, for example, fraud, theft or other significant loss, large donations from unknown or unverified sources, suspicions and allegations or incidents of abuse or mistreatment of vulnerable beneficiaries."

[7] "an inquiry is opened where there is a high risk to public trust and confidence in the charity, where there is evidence of misconduct or mismanagement or charities' assets, reputation, services or beneficiaries are at a high risk of harm or abuse. The purpose of an inquiry is to establish the facts."

[8] "Brings together over 30 charities, professional bodies and other key stakeholders. It meets four times a year to identify emerging fraud risks, share good practice and support charities to enhance the sector's capability to prevent fraud."

scandals, which mainly are related to fraud/misconduct (McDonnell and Rutherford, 2018), damage public trust and confidence in charities, which was recorded at the lowest level since monitoring began in 2005 (Sector, 2018). The fraudulent activities come in several varieties, including excess expenditure to the private benefit of officers and directors, misuse of the charity's bank account, the creation of false employees or inflated expenses, or other claims (Commission, 2013c). One of the highly publicised fraudulent activities concerns the Kids Company which closed on 5 August 2015 and is still under inquiry at the Charity Commission because of the allegations of poor governance and financial misconduct (Kids, 2015).

This level of fraud highlights the need for charities' accountability and therefore a focus on the charity stakeholders. The accounting research in the area, which has been influential as it changed the SORP, mainly focused on how accountability is discharged (Connolly and Dhanani, 2009; Connolly et al., 2013a; Dhanani and Connolly, 2012; Dhanani and Connolly, 2015; Hyndman, 1990; Hyndman, 1991). The studies also revealed the importance of stakeholders for charity regulation and the impact on society (Dhanani and Connolly, 2012), and that the stakeholders playing vital part in legitimising charities and shaping their policies (Connolly and Hyndman, 2013b). The studies of Hyndman and McDonnell (2009) and Connolly et al. (2011), which proposed important and interesting areas for further studies to be focused on matters such as the involvement of beneficiaries and donors in the governance of charities, also inspired the thesis and encouraged a focus on the stakeholders.

Also, the fraud studies for both the for-profit and not-for-profit sector mainly focused on the impact of governance and the influence of stakeholders was not well studied. Different from for-profit organisations, the not-for-profit organisations are characterised by the absence of owners, profit incentives and shareholder meetings. Therefore, the organisational structure and task environment of the charities imposes increased demands on the charities, as

their economic model is more complicated, they have a larger base of stakeholders but an unclear external accountability.

The primary motivation of the thesis derives from the importance of fraud/misconduct in the charity sector and that the phenomenon has not been investigated in detail. There were only a few recent fraud/misconduct studies which are either focused on Scottish jurisdiction (McDonnell and Rutherford, 2018) or on smaller charities (Ohalehi, 2019). Therefore the present study, which aims to assess the organisational factors that are related to fraud/misconduct, is intended to contribute to the literature and to improve practice by enhancing the understanding of the problem. The scope of the research is limited to internal charity fraud, performed by members of the organisation. Fraud perpetrated on charities by beneficiaries and outsiders is not considered in this research.

1.5 Research objectives and questions

Compared to the for-profit sector, fraud research has been limited in the not-for-profit sector. The general tendency in both for-profit and not-for-profit sector studies had been to use quantitative analysis (Beasley, 1996; Beasley et al., 2000; Holtfreter, 2008), aiming to assess governance determinants and their relationship with fraud. Fraud studies predominantly focused on the internal-organisation governance aspects in analysing empirical data and did not take into account the 'task environment' or the impact of the stakeholders on fraud.

The purpose of this research is to examine the organisational factors that are associated with the likelihood of fraud and financial misconduct occurring within charities. The thesis analyses accountability discharged towards charity stakeholders, stakeholders' perceptions of and stakeholders' influence (if any) on fraud and fraud prevention, governance elements of charities such as board structure, disclosure patterns, and the role of auditors/accountants. By doing this, the research aims to find any determinants of fraud in charities.

While the study benefits from research on the for-profit sector, it creates relevant hypotheses and employs methodology individually tailored to the not-for-profit sector. As the topic is awaiting further research, it is believed that the study will contribute to the enhancement of accountability of charities in multiple dimensions.

The research provides a holistic view of fraud in charities by analysing the relationships of fraud to organisational factors, both internal and external (task environment). The thesis also combines theories and methods (qualitative and quantitative). The study integrates and utilises agency, stewardship and stakeholder theories and also benefits mainly from Mitchell et al. (1997) theory of stakeholder salience and the fraud triangle theory of Cressey (1953). To briefly summarise, the integrated theory allows assessing the factors affecting fraud in charities both internally and externally.

As the study aims to assess both internal and external organisational factors relevant to fraud in the charity sector, two research objectives are identified to realise the research aim:

Research Objective 1: To assess how stakeholders conceptualise charity fraud and their views on the reasons for and solutions to fraud

Research Objective 2: To assess the governance characteristics associated with fraud in charities

The first research objective assesses stakeholders' views and influence on charity fraud. This research objective aims to reflect first the problematic areas of charity organisations in three areas: understanding ownership, stakeholder salience and accountability; assessing the causes of fraud; and examining solutions to fraud. In more detail, the objective comprises six research questions, as follows:

Ownership, stakeholder salience and accountability

Research Question 1a: What are the accountability dynamics in the charity sector?

Research Question 1b: How do stakeholders identify ownership and stakeholder salience in the charity sector?

Causes of fraud

Research Question 1c: How do stakeholders conceptualise fraud in the charity sector?

Research Question 1d: What reasons are identified by charity stakeholders for fraud?

Solutions to fraud

Research Question 1e: What solutions to fraud are identified by charity stakeholders?

Research Question 1f: What are stakeholders' perceptions of stakeholder oversight?

The second research objective aims to provide an assessment of charity fraud from an internal charity perspective and comprises two research questions:

Research Question 2a: What are the differences between fraud and no-fraud charities in terms of governance?

Research Question 2b: Which governance characteristics are related to fraud?

The figure 1.2 depicts the research objectives and questions that will be assessed in this study:

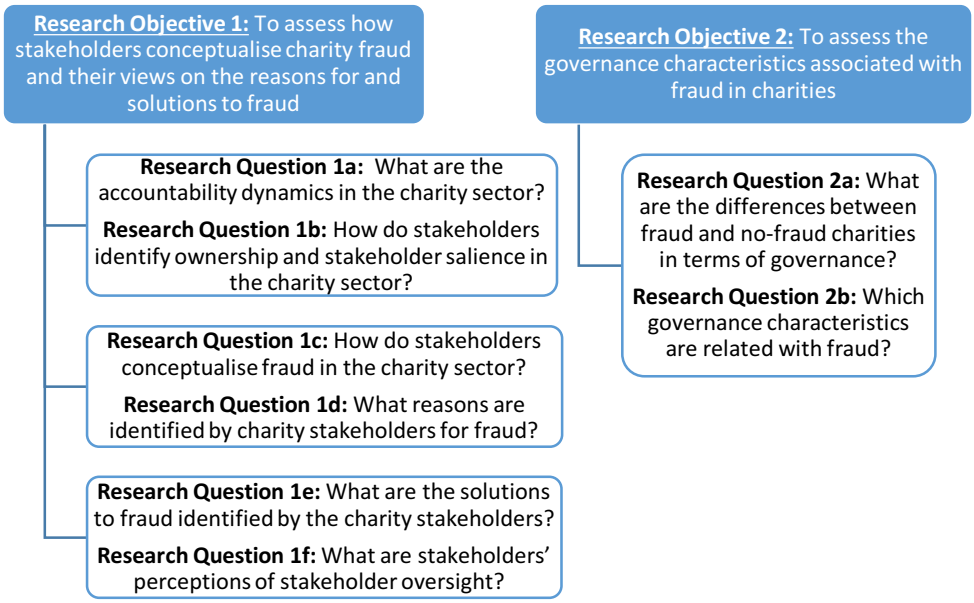


Figure 1.2 Research objectives and questions

1.6 Research method

The research employs a mixed methods approach. This has been proved to strengthen possibilities of uncovering causal relationships among variables, thereby reinforcing both internal and external validity of the research. Because this study is multi-focused and utilises an integration of theories, utilising mixed methods is believed to enhance the research. The research is distinguished in two stages: qualitative and quantitative methods respectively.

The first stage involves a qualitative assessment of stakeholders' views and their influence on charity accountability and fraud. This stage conducts interviews with key charity stakeholders. The second stage utilises a quantitative examination of charity governance practices and their relation to fraud. The data for this stage is derived from official charity documents and is assessed by using logistic regression analysis.

The research method utilised is explained in detail in Chapter 5.

1.7 Overview of findings

The findings demonstrate that the fraud problem in the charity sector is unique and multi-dimensional in terms of the reasons of the fraud problem and the solutions offered for the problem. Therefore, the remedies offered in the for-profit sector are not applicable directly to the charity sector. Awareness of fraud is found to be high in the charity sector and no charity is immune to the problem. The findings suggest that 'excessive trust' towards the charities creates the opportunity for fraud to take place. Among Cressey's (1953) 'fraud triangle', opportunity is also found to be the leading component of fraud, ahead of the other two components of 'pressure' and 'rationalisation'.

The quantitative section findings show that lack of donor oversight as evidenced by low or zero grant income is also a contributory factor for fraud to take place. In terms of factors enabling fraud, lack of segregation of duties, absence of fraud policies and insufficient control environment were identified most often by the charity stakeholders. The quantitative section findings presents that charities with few number of trustees are more prone to fraud. The red signals of fraud identified by both the qualitative and quantitative methods are: problematic independent examinations and audit reports, trustees receiving remuneration, absence of documentation, charities depending highly on cash and individuals with excessive powers.

The research used an integrated theory that combines agency, stewardship and stakeholder theories in order to provide a broader understanding of the fraud problem. The findings suggest that unlike the for-profit sector in which the shareholders are the definitive owners, the charity sector has multiple owners or principals. This absence of a single owner is found to hamper the monitoring that can be done by the charity stakeholders, and therefore creates opportunities for fraud to take place. Mitchell et al.'s (1997) stakeholder salience theory, with its three dimensions of 'urgency', 'legitimacy' and 'power', suggests that donors are the primary stakeholder. Beneficiaries on the other hand are found to be leading regarding salience in terms of 'urgency'

and on par with donors and regulators in terms of 'legitimacy' however are way behind in terms of 'power'.

Beneficiaries and donors were proposed by interviewees as the two charity stakeholder groups to whom accountability should be mainly directed. However, the discharge of accountability was found to be unsatisfactory as especially donors and beneficiaries wanted less financial and more inclusive accountability which would allow them to feel 'a part' of the charities. Also, the mechanisms such as the financial statements used to discharge accountability were not found to target the beneficiaries. The accountability relationship between the charities and their stakeholders is also found to be 'informal' especially with donors and beneficiaries. Therefore, the accountability is more in range of Laughlin's (1990) 'communal accountability' and even Stewart's (1984) 'links of accounts'. However, this informality is also argued by the respondents to hamper monitoring and accountability in the sector. The interaction among charity stakeholders is found to be very limited and barely existing.

The solutions suggested to the fraud problem in the charity sector by the respondents were efficient internal and external oversight, an effective control environment, proper segregation of duties and dual authorisation process, an interiorised anti-fraud culture and tone at the top which enhances whistleblowing practice and enhanced prosecution. However, the respondents criticised the solutions as imposing a heavy burden on the charities and therefore argued the solutions to be ill suited for the charity sector and especially for the smaller charities. The legislation was also argued by the respondents to be satisfactory but also too burdensome on especially the smaller charities and not a direct solution for fraud.

Trustees were identified by the respondents as the first in line to tackle fraud, however the tackling process is also found to comprise every stakeholder. Stakeholder oversight is argued by the respondents to be very important in tackling fraud. However, the findings suggest that especially small donors

and beneficiaries are ineffective in performing oversight and not interested in overseeing the charities through assessing financial reports and annual reports. Lack of power for beneficiaries and excessive trust for donors and absence of a definitive owner were found to be the main reasons for this ineffective oversight. The stakeholders identified that effective oversight from the charity stakeholders can be achieved by embodying the stakeholders in the organisational structure of the charities and not by discharging more accountability.

The findings of the quantitative section of the study extend the findings of the qualitative section and provide a view on actual charity fraud cases. This part of the study suggests that fraud charities have fewer committees, receive a lower percentage of grant income and are prone to problematic audit reports. Also a higher number of fraud charity trustees receive remuneration. Both the univariate and logistic regression analysis suggest that larger boards of trustees provide better monitoring in the charity sector as fraud charities had fewer trustees compared with the no-fraud charities. The study also tested the predictive accuracy of the model, which is found to have accurate predictions for fraud occurrence.

The findings overall suggest that the charity sector is made up of an over-relaxed environment with lack of sufficient monitoring and therefore triggering the opportunity for fraud and financial misconduct to take place. The solution for the fraud problem is also found to be unique to the charity sector, and especially has to comprise stakeholder involvement in the oversight process. In line with the findings and to foster the development of new research agendas for the sector (Hyndman and McDonnell, 2009), the thesis suggests that a new approach is needed to tackle fraud in the charity sector and to enhance stakeholder oversight and engagement (Connolly et al., 2013c).

1.8 Contributions of the study

The study contributes in three different pillars: the literature, the theory and the methodology. The research is one of only a few studies that assess fraud in the charity sector in the UK. The study also contributes to the literature on fraud in the not-for-profit sector by assessing both reasons for fraud and solutions to fraud in a single study. In terms of the accountability literature, the study finds that the charity sector has an informal accountability framework, donors and beneficiaries are the two groups to which accountability should be discharged the most, and beneficiaries and donors are not interested in accountability provided by documents only.

The study contributes to the accountability and governance theory by showing that an integrated theory is more suitable and appropriate for the charity sector rather than separate theories designed with the for-profit sector in mind. The study finds that agency theory coupled with stewardship and stakeholder theory is more capable of explaining the reasons and solutions to fraud in the charity sector compared with the theories used individually. Two theories were also tested by the study and contributions were found regarding the two theories: the fraud triangle (Cressey, 1953) and stakeholder salience theory (Mitchell et al., 1997). Regarding the fraud triangle theory the component 'opportunity' was found to be the leading component for fraud to take place in the charity sector over the components of 'pressure' and 'rationalisation'. Donors were found to be the 'primary' stakeholder in the charity sector and beneficiaries being very crucial in terms of 'legitimacy' and 'urgency' but lacked 'power' when assessed by the stakeholder salience theory.

The study contributes to the methodology by using mixed methods in the analysis of fraud, which has generally been examined using the quantitative methods only. Using mixed methods has enhanced the understanding of the fraud problem and has contributed to the accounting fraud literature by incorporating interviews along with content and logistic regression analysis. Unlike most of the charity studies, the qualitative analysis also conducted

interviews with a wide range of stakeholder groups and did not only concentrated only in larger charities but also comprised small and large charities together and therefore provided a broader view on the charity sector. The use of logistic regression was also a contribution to the fraud literature in the not-for-profit sector as logistic regression has seldom been used. The study has assessed the variables used for the for-profit sector logistic regression analysis and has examined their suitability to be used in the charity sector. The study has also contributed to the not-for-profit fraud literature by identifying new variables specifically for the charity sector to be tested in the analysis of fraud in the logistic regression model.

1.9 Structure of thesis

This thesis is organised into ten chapters. Chapter 1 introduces and summarises the key issues covered in the thesis. It provides vital facts and information on UK charities. It explains the research problem, the motivation for the study and the research objectives. The findings and the contribution of the thesis are also outlined.

Three chapters make up Part II. Chapter 2 briefly highlights internal and task environments and focuses on accountability and governance in organisations and charities. The meaning, types, need for, the aim and the target group of accountability and governance are assessed. The chapter especially focuses on accountability and governance in not-for-profit organisations and provides a review of UK accountability and governance literature on charities. Chapter 3 discusses the theoretical framework and elaborates agency, stewardship and stakeholder theories. The chapter examines how each theory is used to explain the concepts of accountability, governance and fraud, especially in not-for-profit organisations. It also emphasises the importance of integrating the theories to fully understand internal and external causes of fraud. Chapter 4 assesses the concept of fraud. It evaluates fraud theories and previous empirical work regarding fraud prediction. It also analyses the relationships between governance and fraud and the influence of stakeholders on fraud. It

then examines the empirical work on fraud in the for-profit, public and not-for-profit sectors.

Chapter 5 outlines and justifies the research methods of the study. The chapter analyses the research paradigms and philosophies which the thesis could use. It also stresses and explains why the mixed methods approach is more appropriate for this study than qualitative or quantitative methods alone. The chapter, by distinguishing two stages, provides the research methods, population sample and data collection techniques. It summarises the first stage which involves a qualitative assessment of stakeholders' views on charity accountability and fraud. This is achieved by conducting interviews with key charity stakeholders. The chapter also assesses the second stage which utilises a quantitative examination of charity governance practices and their relation to fraud, for which the data is derived from official charity documents and is assessed by use of logistic regression analysis.

Four chapters make up Part IV. Chapters 6, 7 and 8 present the findings of the qualitative research, and Chapter 9 the quantitative. The first 3 chapters comprise interviews conducted with key charity stakeholders. Chapter 6 is organised in line with the first two research questions related to the first research objective. The first section of the chapter amplifies the accountability dynamics of the charity sector. The second section of the chapter discusses how stakeholders identify ownership and stakeholder salience in the charity sector.

Chapter 7 presents the findings of the qualitative research by focusing on the reasons of fraud in the charity sector. The chapter is organised in line with the third and fourth research questions related to the first research objective. The first section of the chapter examines how stakeholders conceptualise fraud in the charity sector. The second section assesses the reasons for fraud identified by the stakeholders.

Chapter 8 provides the findings derived from the qualitative research regarding the solutions offered by the stakeholders to the fraud problem in the charity sector. The Chapter utilises the same interviews as Chapters 6 and 7. The structure of the chapter is formed by the remaining two research questions related to the first research objective. The first section evaluates the solutions to fraud identified by the charity stakeholders. The second section of the chapter focuses on stakeholders' perceptions of stakeholder oversight.

Chapter 9 presents the quantitative findings of the study. The empirical analysis of 42 fraud and 42 no-fraud charities by using univariate and logistic analysis is performed in this chapter. The chapter assesses the governance characteristics associated with fraud in charities, the second research objective of the study. The chapter has six sections. The first section discusses the sample selection and identification of fraud charities and content analysis performed for the fraud charity documents. The section also assesses the criteria used to match fraud with no-fraud charities. The second section examines the content analysis performed for both fraud and no-fraud charities' annual reports and financial statements and then evaluates the identification of variances that will be used in univariate and logistic regression analysis. The third section focuses on the identified variables to test hypothesis and control variables. In section four, in line with the research question 2a) the univariate analysis is performed in order to assess the differences among fraud and no-fraud charities in terms of governance. Section five discusses the findings of the logistic regression analysis again in line with the research question 2b) examination of the governance characteristics related with fraud. The sixth section assesses the predictive accuracy of the logistic regression model.

Part V comprises Chapter 10 which summarises the findings, provides an overview of the thesis and concludes the study. The first section of the chapter discusses the findings of the research in line with the research questions and also provides a general overview by comprising the findings of the two

methods used. The second and third sections of the chapter review the contributions of the study and the limitations confronted while conducting the research, respectively. Section four evaluates the policy recommendations and section five discusses implications for future research. The sixth and last section provides a conclusion to the chapter and the research.

The thesis structure is depicted below in Figure 1.3:

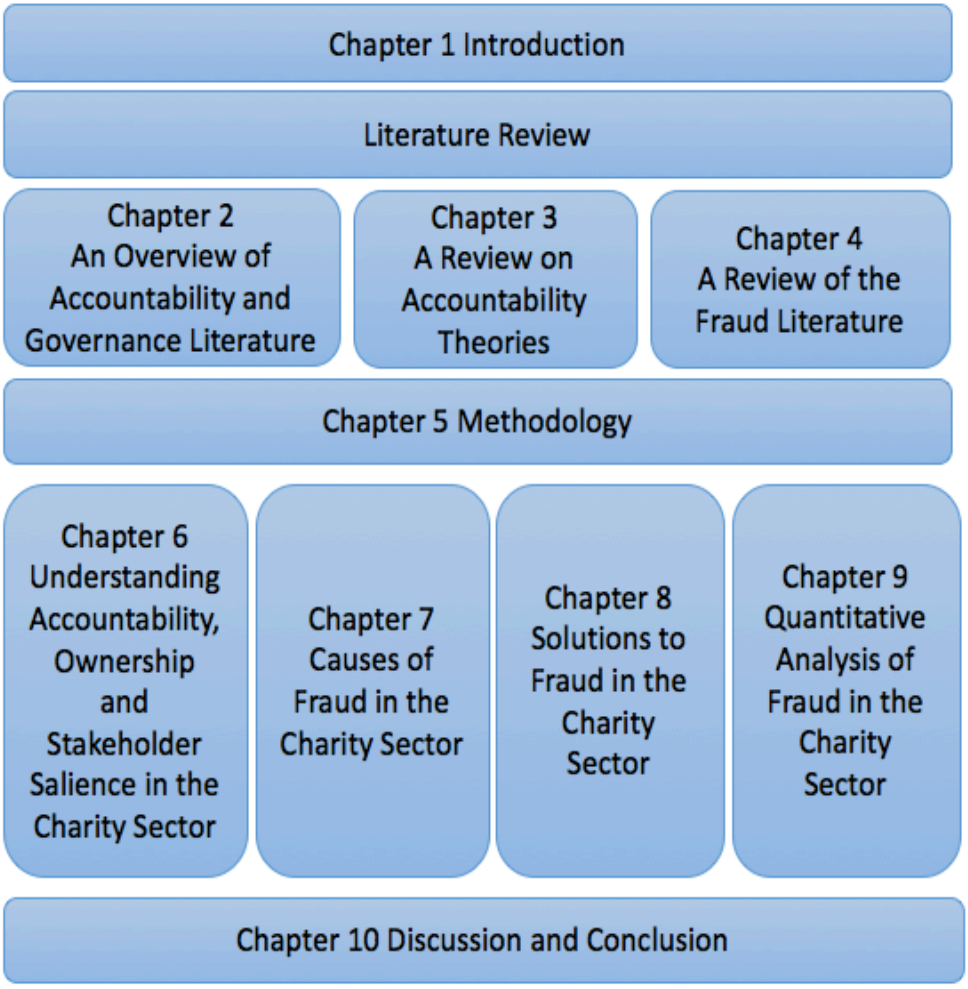
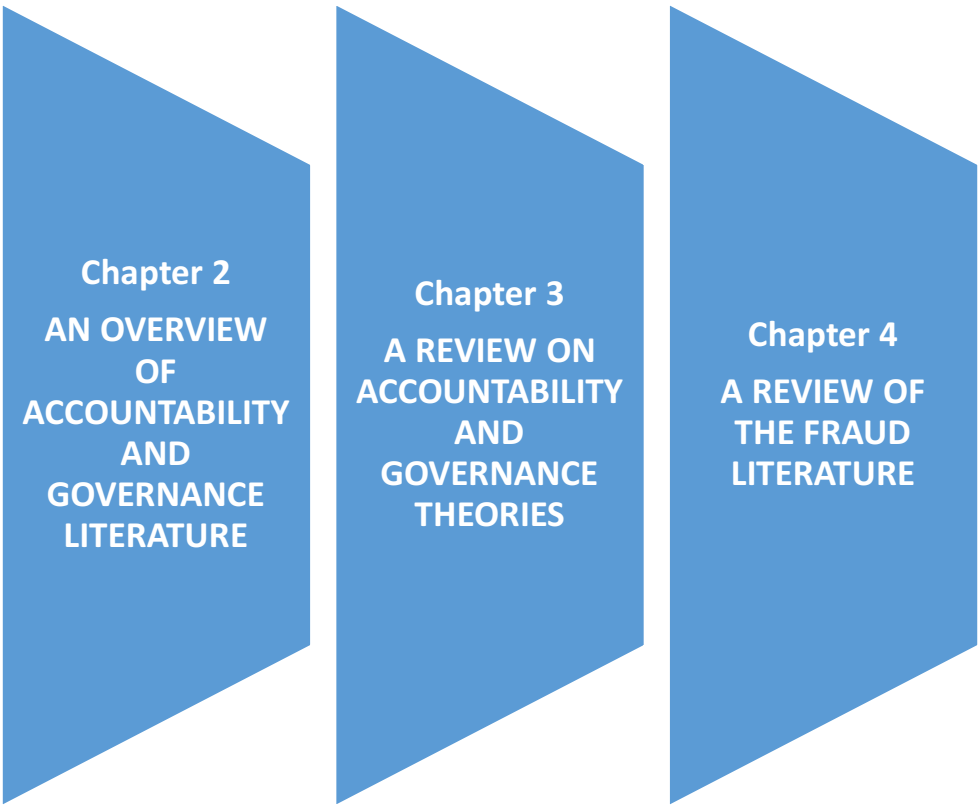


Figure 1.3 Thesis Structure

PART II – LITERATURE REVIEW

The second part of the thesis contains the literature review which consists of three chapters. Each chapter provides an overview of a contextual assessment of previous literature relevant to the thesis. The first chapter of the second part, Chapter 2, analyses the meaning of accountability and governance to organisations and assesses the importance of accountability and governance to the UK charities in particular. Chapter 3 evaluates accountability and governance theories and their function in explaining fraud, concentrating on agency, stewardship and stakeholder theories. Chapter 4 focuses on fraud literature and provides an overview of fraud theories and literature on how to tackle fraud in different type of organisations. The chapters do not have a ranking in order of importance but rather provide an overview of a broader problem of accountability and governance to a more specific problem in the charity sector: fraud.



2. AN OVERVIEW OF ACCOUNTABILITY AND GOVERNANCE LITERATURE

The literature on the accountability and governance of not-for-profit entities agrees that the prominence of and concern about accountability and governance derives from the increase in the number of highly publicised scandals, which damages the public's perception of and confidence in not-for-profit organisations (Connolly and Dhanani, 2009; Connolly and Hyndman, 2003; Ebrahim, 2003b). The occurrence of these scandals has resulted in a quest for a more transparent and accountable sector (Connolly et al., 2015; Gibelman and Gelman, 2001).

This chapter provides an overview of the accountability and governance literature by first briefly evaluating the environments in which organisations operate, and later providing a definition of accountability, assessing the concepts of stakeholders (accountability to whom?) and purpose (accountability for what?) and analysing how accountability is discharged (accountability mechanisms). The chapter than provides definition of governance, assessing governance to whom and analysing how governance is discharged (governance mechanisms). The chapter also examines the relationship between governance and accountability in not-for-profit organisations and explains how these terms are used specifically for the thesis.

The chapter also summarises the UK charities' accountability and governance literature. The structure of this chapter is set out in figure 2.1.

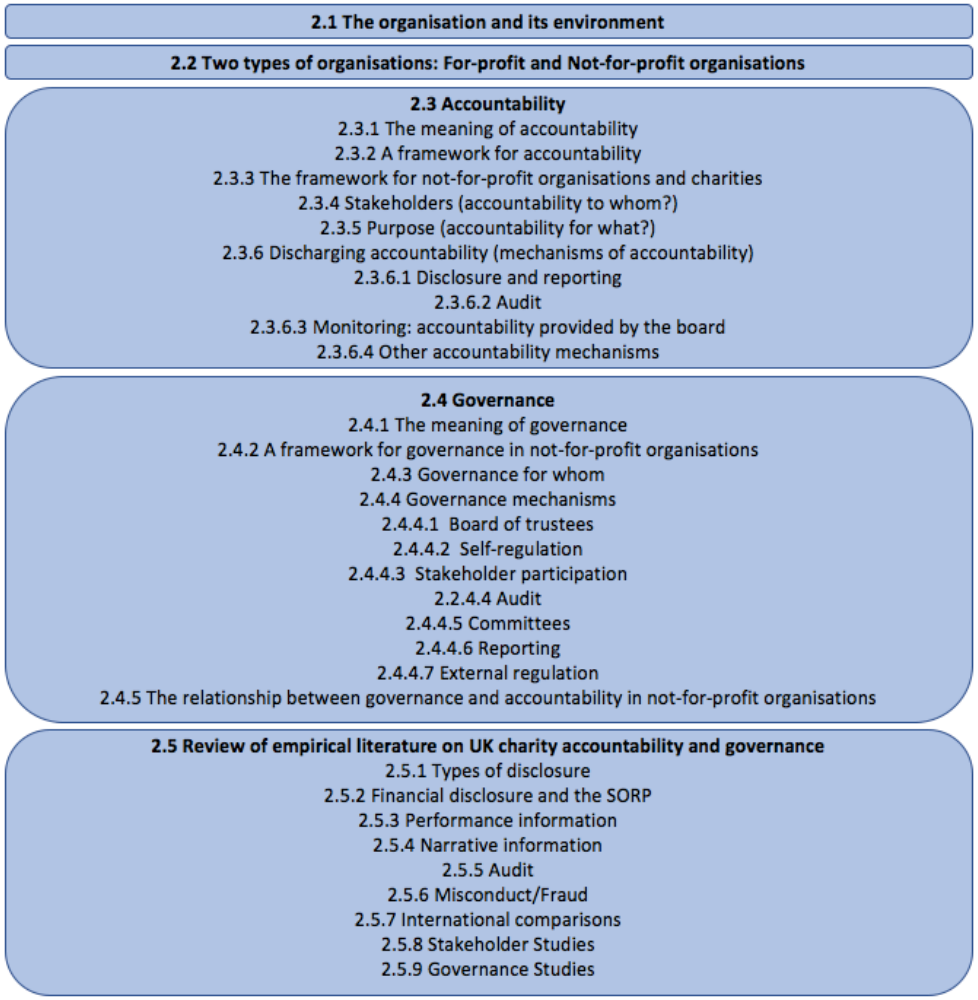


Figure 2.1 Structure of Chapter 2

2.1 The organisation and its environment

Organisations are set up to accomplish a target but are affected or even shaped by their environments (Daft, 2015). The environment in which organisations operate is crucial to their success: ignoring the environment while taking decisions may lead to devastating failures (Baker et al., 2012). The environment constrains and surrounds the organisation and therefore influences the judgement and behaviour of the organisation's participants (Dill, 1958).

Organisation theorists have focused their attention on the environment and its impact on organisational functioning (Negandhi and Reimann, 1973).

Duncan (1972, p.314) describes the environment as the "totality of physical and social factors that are taken directly into consideration in the decision-making behaviour of individuals in the organization."

One of the most influential descriptions of the environment is the physical and socio-economic definition (Huang et al., 2015). Differentiation is often made between the internal and external environments (Negandhi and Reimann, 1973).

The internal environment is made up of relevant physical and social factors falling within the borders of the organisation that have a direct influence on decision making (Backer, 2007). Owners, shareholders, the board of directors, employees, volunteers, the buildings, work places, offices, factories, culture and attitude are some of the main elements of an organisation's internal environment (Daft, 2015). The external environment, on the other hand, comprises related physical and social factors that have an impact on the organisation outside its boundaries (Baker et al., 2012). Compliance or even obedience (Dess and Beard, 1984) to the external environment is crucial for the survival and success of an organisation (Andrews, 2009).

The external environment is divided into two: general and task environment (Dill, 1958; Huang et al., 2015). The general environment is a broader context (Yüksel, 2012) that might impact the organisation in the long run (Dill, 1958). Examples of the general environment are political, economic, sociocultural, legal and technological environmental influences (Dale, 2000; Yüksel, 2012). Although being broad in context, the general environment helps the organisation to station itself among other organisations (Daft, 2015) and to forecast and plan its future activities (Duncan, 1972).

The task environment consists of more specific dimensions that are highly likely to impact the organisation, in both the short and the long term, with more direct and immediate effects (Bourgeois III, 1980). Dill (1958, p.410),

who used the term task, defined the task environment as "that part of the total environment of management which was potentially relevant to goal setting and goal attainment." Dill (1958, p.411) distinguishes between activities, tasks and task environment arguing that activities are what the organisation does, tasks are set goals, and task environment is stimuli that the organisation might respond to. Effective management of the task environment, identifying the environmental factors and managing resources, is crucial for success (Oliver, 1997). Some of the well-accepted components of the task environment for the for-profit sector are customers, suppliers, competitors, and government agencies (Daft, 2015).

The environment can have both positive and negative effects on an organisation (Dill, 1958). While the environment may create strengths or opportunities, it may also cause threats and weaknesses (Castrogiovanni, 2002). The management's ability is crucial in overcoming obstacles with strategic responses. Organisational theorists emphasise that organisations must adapt to their environment if they are to remain viable (Duncan, 1972), as environmental factors are very important in determining an organisation's success or failure (Chet Miller et al., 2006).

The degree of interaction between the organisation and its environment is mutual and as a result the flow of information among the parties directly impacts the effectiveness of the organisation (Kearns, 1994). Accountability of the organisation to its environment is the way to mutually interact with the environment and to demonstrate how efficient the organisation is and in which areas it should adapt itself with the environment (Dess and Beard, 1984). With accountability, while the organisation provides information on its activities, it also has the chance to reorganise its activities depending on the needs or expectations from its environment (Castrogiovanni, 2002). Accountability is also crucial in grasping the actual environmental conditions rather than the perception of organisations' decision makers. As will be discussed later in the chapter, the influence of different groups on the task

environment depends on their power, legitimacy and urgency (Mitchell et al., 1997).

The literature referred to above relates to for-profit entities. However, there is no reason to believe that they do not apply, at least in a broad sense, in the not-for-profit field. Ostrower and Stone (2010), for example, highlight the importance of the external environment of not-for-profit organisations in understanding their nature and suggests a contingency-based framework, in which one of the three sets of contingent variables is the external conditions or environment. Ebrahim (2003b) also emphasises that accountability allows to identify and prioritise different groups of the task environment. In section 2.2, differences in for-profit and not-for-profit sectors are explored.

Figure 2.2 depicts the environments within which an organisation, whether for-profit or not-for-profit, performs: internal environment, task environment and general environment. This thesis assesses information and makes assumptions based only on the internal and task environments and therefore general environment is excluded from analysis.

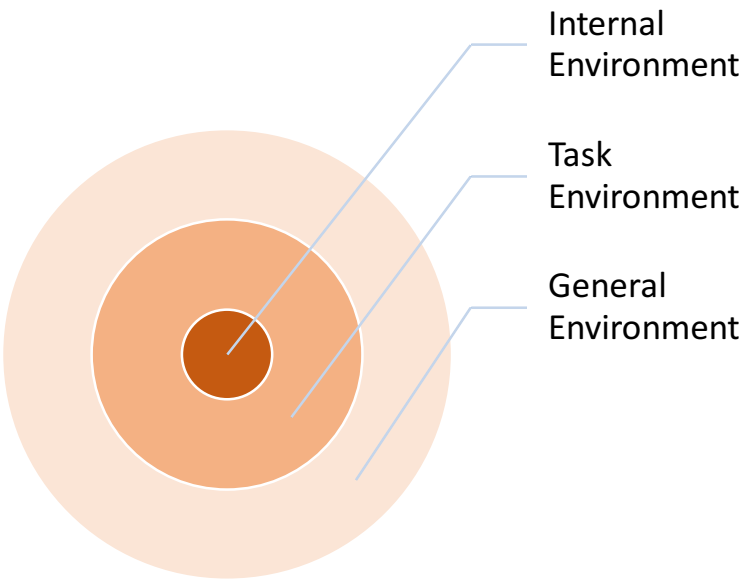


Figure 2.2 Organisational Environment

2.2 Two types of organisations: For-profit and Not-for-profit organisations

The for-profit sector is composed of organisations whose main aim is to make profit from their activities and operations (Fama, 1980). The for-profit sector has residual claimants: the shareholders in larger for-profit organisations or the owners in smaller for-profit organisations (Berle and Means, 1932). For-profit organisations operate mainly in a market and face competitors that compete for higher profits and market share (Fama and Jensen, 1983b). Organisations in the for-profit sector are conceptualised as a nexus of contracts among self-interested individuals with bounded rationality (Eisenhardt, 1989) whose identification with the organisation is low (Van Puyvelde et al., 2016), who have short-term orientation rather than long-term (Olson, 2000), and who will act in order to maximise their own benefits, which are not necessarily the same as those of the residual claimants (Fama, 1980).

The for-profit sector, which for a very long time was evaluated mainly by financial aspects such as profit and bottom-line results, regarded shareholders as their ultimate stakeholder (Freeman, 1984b). Although more socially and environmentally aware businesses were in a surge, as how the profit was gained became a more crucial question, profit is still the focal point for for-profit organisations and therefore shareholders are always regarded as the definitive stakeholders (Hillman and Keim, 2001). Agle et al. (1999) found that the shareholders possess power, urgency and legitimacy and they are the core stakeholder affecting managers' decisions.

Lack of a residual claimant and clear ownership structure, and absence of a market and common performance indicators (Aggarwal et al., 2012; Miller, 2002) are some important characteristics of not-for-profit sector organisations. As the not-for-profit sector is accountable to a more diverse group of stakeholders than other sectors (Cordery et al., 2019; Keating and

Frumkin, 2003; Ntim et al., 2017), prioritising the stakeholders is a very significant issue for not-for-profit organisations.

The stakeholder dynamics of not-for-profit organisations possess important differences from the for-profit sector. Berman and Davidson (2003) argue that objectives of donors in not-for-profit organisations are not as clear as those of the investors or shareholders in for-profit organisations. The interest of donors in a not-for-profit organisation ends or is diminished after the act of giving, as most donors are not interested in precisely how the funds they donated are used. Berman and Davidson (2003) argue that, because of the lack of clear objectives, it is hard to monitor not-for-profit organisations and whether they use their funds properly or not. Van Iwaarden et al. (2009, p.19) similarly argue that donors are more reckless than investors because, whereas investors are interested in their return on their investment, donors are just satisfied with making their donations and do not care later on what happened with their money.

Another major difference of the not-for-profit sector is that, although in both for-profit and public sectors the funder (investor/taxpayer) is the same as the beneficiary (shareholder/public), in the not-for-profit sector the donor and beneficiary are different entities and the donors do not, as a rule, receive any economic benefit from the organisation (Hyndman, 2017). Also, in both for-profit and public sectors, shareholders and the public may have other powers to sanction such as to vote against the management or government/ legal authority. In charities, small donors and especially beneficiaries lack such a power to sanction and can only withhold future donations or reject receiving the benefits (Cordery and Baskerville, 2005).

Overall, although some literature suggests that for-profit policies can lead to a more effective and efficient not-for-profit sector (Bradley et al., 2003), applying for-profit sector policies in the not-for-profit sector is argued not to be in line with, and may even hamper, not-for-profit aims and missions (Landsberg, 2004).

As the subject of this thesis is charities, which are not-for-profit organisations, the main focus of the literature will be on the not-for-profit sector. However, as will be discussed in Chapters 2, 3 and 4, studies in the for-profit sector have been drawn on because key concepts such as `accountability` and `governance` derive from the for-profit sector, and most studies of fraud relate to the for-profit sector. However, in benefiting from for-profit studies, it is necessary to take into account differences in organisational missions and objectives, in appropriate accountability and governance structures, and in how performance could be evaluated.

The chapter goes on to analyse in-depth the concept of accountability and governance and their impact on especially not-for-profit organisations.

2.3 Accountability

To understand the accountability relationship, various questions should be answered: to whom is a duty of accountability owed (Najam, 1996), what type of accountability is demanded, and through which mechanisms can accountability be discharged (Ebrahim, 2003a). This section first examines what accountability means, to help in drawing up a framework for accountability, and then assesses accountability regarding stakeholders, purposes and discharge mechanisms.

2.3.1 The meaning of accountability

In terms of history and semantics, the terms 'accounting' and 'accountability' both derive from the Latin word 'accomptare' (to account) and these words became part of the English language after the Norman conquest (Bovens, 2007; Bovens, 2006; Oldroyd, 1995). Broadbent and Laughlin (2013, p.11-15) state that although accounting and accountability are different terms, they are connected to each other as accountability systems are designed to solve the problems associated with inefficiencies of 'traditional accounting', which is incapable of providing sufficient expost information. While accounting

deals more with recording and reporting in legal means, accountability is a process that is maintained with interaction among the organisation and its stakeholders (Ebrahim, 2003b). Hyndman and McMahon (2010) argue that accountability is more than accounting, which aims at the transfer of information. Tower (1993, p.71) views accounting regulation as an instrument of accountability that affects the nature of corporate information reported.

Although many definitions of accountability have been provided by researchers, the term lacks clear definition. Accountability has been described as complex and dynamic (Ebrahim, 2003b), abstract (Edwards and Hulme, 1996), elusive (Bovens, 2007, p.449), chameleon-like in nature (Sinclair, 1995) and vague (Mulgan, 2000). Ebrahim (2005), stressing the difference between accounting and accountability, expresses that accountability is relational rather than absolute. Pollitt and Hupe (2011, p.642) posit that, with governance and networks, accountability is one of the "magic concepts" because of "their broad scope, great flexibility and positive 'spin.'"

Accountability proposes a relationship between at least two parties in which one of the parties provides information on what he/she has done as Bovens (2007, p.450-451) defines accountability as "a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences." Also the relationship of accountability involves justification of actions and, in case of wrongdoing, imposition of liability, as Schedler et al. (1999, p.17) state "A is accountable to B when A is obliged to inform B about A's (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct".

Cutt and Murray (2002, p.1) also drew attention to the fact that accountability implies the existence of at least two parties "one who allocates responsibility and one who accepts it with an understanding to report on, and account for, the manner in which it has been discharged."

Overall, accountability in either the private or public sector, or, as will be discussed in detail, in the not-for-profit sector, has been seen as a remedy to agency problems, the problems which occur among the parties of the agent and the principal (Sinclair, 1995). Much of the literature grounds accountability within agency theory where the agent is held to account by the principal (Bovens, 2007; Fama and Jensen, 1983b; Goodin, 2003; Stewart, 1984). Agency theory, with stakeholder and stewardship theories, will be dealt in detail in the next chapter. The framework for accountability will be discussed in the next section.

2.3.2 A framework for accountability

To understand the accountability relationship, this section will draw the borders for what can be deemed to be accountability and what not. Stewart (1984) states that accountability needs a link or a bond to be formed. Stewart (1984, p.25) tries to distinguish between "bond of accountability" (which formally and contractually defines accountability relationships) and "links of account" (which is an informal "recognition of responsiveness").

Laughlin (1990, p.97), like Stewart (1984), suggests that an organisation's accountability will be based upon the relationship between the organisation's principals and agents, and distinguishes two aspects of accountability: "communal" and "contractual". The "communal accountability" has a less formal set of accountability relationships in which expectations and information demand and supply are less structured and defined. The "contractual accountability" on the other hand brings a formal set of relationships in which expectations and information demand and supply are tightly defined and clearly specified. Whereas "contractual accountability" envisages the use of written commands and strict accounting-type measures, "communal accountability" entails unwritten proofs.

Broadbent et al. (1996, p.274) contribute to this argument by adding a dimension on trust. They argue that in case of low trust between the principal

and the agent, the principal will aim to exert a stricter control over the agent which will lead to formal accountability mechanisms. On the other hand, a high trust environment will allow more informal contracts among the parties. Broadbent et al. (1996) overall state that if there is a relative alignment of values between principals and agents, communal accountability is more likely; in contrast, if this is not the case, the principal may employ more contractual forms of accountability.

Roberts (1991, p.363) also categorises two types of accountability: hierarchical (where accountability tends to be more formal) and socialising (where accountability is based on "mutual understanding and ties of friendship, loyalty and reciprocal obligation").

Both Stewart's (1984) and Laughlin's (1990) works underline the importance of power in accountability settings. Stewart (1984) maintains that full accountability occurs when an account is given in a form that is understood within a power relationship. Stewart (1984) argues that the accountability framework needs the accountee, the institution/individual who expects to receive information, to hold power over the person/organisation who provides account, who is called the accountor. Cooper and Owen (2007) also highlight differentials of power between the accountor and the accountee, which they argue shape the level of accountability.

Ebrahim (2005, p.82) stresses the importance of power in accountability design saying that accountability is "about relationships of power among multiple organizational actors." Rubenstein (2007, p.616-617), states a problem in accountability of power relations and argues that problems in accountability occur when the accountee is to impose sanctions on the accountor. Rubenstein defines the "standard model of accountability" as a two-sided relationship in which those to whom an obligation is owed ("accountability holders") play a significant role in sanctioning those who are being held accountable ("power wielders"). He identifies the problem that accountability holders lack the power to sanction power wielders, which leads

to the inequality of power between the principal and the agent: "However, if accountability holders cannot sanction the power wielder, the power wielder has no external incentive to report back to accountability holders regarding its compliance with standards. Moreover, it can be very burdensome for accountability holders to track down (and publicize) this information themselves." Broadbent et al. (1996) also stress that the "communal" accountability provides freedom to the agent to act flexibly which can at times be abused by the agent by acting in self-interest. Table 2.1 summarises the accountability studies defined in terms of accountability's strength.

Table 2.1 Strength of Accountability

Author	Informal/Weak Accountability	Formal/Strong Accountability
Stewart, 1984	Links of Account	Bond of Accountability
Laughlin, 1990	Communal	Contractual
Roberts, 1991	Socialising	Hierarchical
Broadbent et al., 1996	High Trust/Alignment of Values	Low Trust/ Alignment of Interests
Rubenstein, 2007	Weak Accountability Holders	Strong Accountability Holders

As discussed in this section, accountability is structured in different levels and forms. The next section tries to locate where not-for-profit organisations belong regarding the accountability framework.

2.3.3 The framework for not-for-profit organisations and charities

Accountability is crucial for not-for-profit organisations as it provides public trust and support for such organisations (Cordery and Morgan, 2013). Eisenberg (2000, p.45) argues that their economic and social status gives not-for-profits an advantage of being less accountable: "because they provide good works, they need not be accountable to anybody—including the donors who support their work." Hansmann (1980) argues that, compared to the for-profit sector, the lack of a profit motive attracts donors to the not-for-profit

organisations and attaches trust to them. Hansmann (1980) suggests that the high level of trust makes it possible to prevent opportunistic behaviour and therefore little monitoring is necessary for not-for-profit organisations.

However, this attitude has been heavily criticised. For example, Burger and Owens (2011) found evidence to suggest that many not-for-profit organisations are not entirely honest in their accountability. Desai and Yetman (2005), who found that effective regulation reduces compensation and enhances accountability, argue, contrary to Hansmann (1980), that the non-existence of 'owners' leads to less effective monitoring and therefore opportunism. Breen (2013) argues that the lack of a market in not-for-profit organisations leads to an absence of a reaction from the related parties which leads to weaker compliance and accountability. Ebrahim (2003a, p.814) stresses that having multiple stakeholders with competing demands beclouds the situation. Although donors have been found to be the most influential stakeholder group (Connolly and Hyndman, 2013a; Hyndman, 1990), this complexity seems not to be solved. A weakness of not-for-profit organisations is that they do not have a clearly expressed accountability route to their stakeholders (Najam, 1996); Salamon et al. (2000) defines this situation as the 'accountability gap.'

Also as Stewart's (1984) analysis states, in charities, many stakeholders are not able to hold the charity to account. Britton (2008) argues that not-for-profit organisations' stakeholders are reluctant and lack the incentives to monitor the not-for-profits. Small donors and especially beneficiaries appear to have restricted power to hold charities to account (Connolly and Hyndman, 2013a; Cordery and Baskerville, 2011). Connolly et al. (2013b) argue that lack of power of the principal might lead to information asymmetry. They argue that this is especially true for small donors as they lack the power to request information. Wellens and Jegers (2011) suggest that beneficiaries are neglected by not-for-profit organisations in discharging their accountabilities because they are believed to possess a limited effect on decision making.

Laughlin (1990) suggests that, if there is an alignment of values between principals and agents, communal accountability is more likely; in contrast, if the opposite holds true, the principal may employ more contractual forms of accountability. Connolly and Hyndman (2017) argue that charities due to their nature are expected to align with a more socialising and communal accountability structure.

As a result, the accountability structure of not-for-profit organisations, in general, is accepted to be less formal in nature, and even in some cases non-existent, as summarised in Figure 2.1. In the following section an attempt is made to answer the 'accountability to whom' question for for-profit, public and not-for-profit organisations

2.3.4 Stakeholders (accountability to whom?)

Organisations are required to discharge accountability in terms of legislation for a limited basis, such as disclosing financial information, but can be held accountable to a broader variety of groups (e.g. individuals, other organisations, communities, governments), called stakeholders, which in a healthy relationship make organisations legitimate and will increase their reputation leading to competitive advantage (Connolly and Hyndman, 2017). Stakeholders are defined as "other groups to whom the corporation is responsible in addition to stockholders: those groups who have a stake in the actions of the corporation." (Freeman and Reed, 1983, p.89).

From the viewpoint of the stakeholder theory, accountability requires an analysis of the stakeholder groups and their hierarchy or importance. Freeman and Reed (1983, p.93) proposed a two-dimensional grid map to situate the stakeholders, in which the first dimension is "interest" or "stake" of a stakeholder and the second dimension is the power of the stakeholder which is used to affect the decisions and functioning of the organisation. Mitchell et al. (1997, p.854) introduced the notion of stakeholder saliency, arguing that

the salience of stakeholders rests upon the stakeholder's position regarding three attributes:

> *(1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm. Building upon this typology, we further propose a theory of stakeholder salience. In this theory we suggest a dynamic model, based upon the identification typology, that permits the explicit recognition of situational uniqueness and managerial perception to explain how managers prioritize stakeholder relationships.*

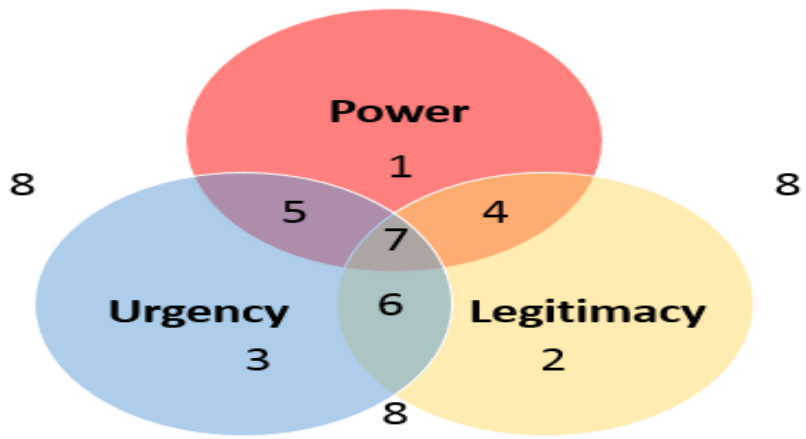


Figure 2.3 Qualitative Classes of Stakeholders

Source (Mitchell et al. (1997, p.872)

Mitchell et al. (1997) classified stakeholders as (1) Dormant (2) Discretionary (3) Demanding (4) Dominant (5) Dangerous (6) Dependent (7) Definitive and (8) Non-stakeholder, as can be seen from Figure 2.3. Stakeholders who hold all three of the attributes are accepted to be the most salient (Connolly and Hyndman, 2017). Scott and Lane (2000) suggested that managers are more attentive to stakeholders whom they perceive to be definitive. Magness (2008), by using the Mitchell et al. (1997) theory, found that the definitive

stakeholder is transient in nature and therefore can change depending on different circumstances.

Three categories of stakeholders have been identified in the not-for-profit sector: *upward* to donors, funders, and regulators; *downward* to beneficiaries and the local community and *laterally* to themselves and among not-for-profit organisations and to either paid or voluntary staff and board members (Christensen and Ebrahim, 2006; Najam, 1996).

Upward accountability is accepted to be the most crucial type because, if done properly, it can attract funding (Edwards and Hulme, 1995). However, Ebrahim (2005) argues that accountability focused only on donors can jeopardize long-term objectives of an organisation and is detrimental. Unlike the situation for donors, not-for-profit organisations do not have a legal responsibility to account to beneficiaries, as beneficiaries do not typically have any legal power to sanction not-for-profit organsations, therefore charities often accept downward accountability as an ethical and moral issue (Agyemang et al., 2017; Banks et al., 2015; Najam, 1996). Crawford et al. (2018) also found that not-for-profit organisations recognise the need for a broader accountability (Cordery et al., 2019) to all stakeholders, however they especially prioritise accountability to donors and regulators. The accountability needs of donors and beneficiaries are not found to contradict each other or to be dichotomous but rather to be supportive of each other (Uddin and Belal, 2019). For example, Connolly and Hyndman (2017) have found that donors are willing to cede their accountability needs in favour of the beneficiaries.

Ebrahim (2003b) analyses the relationship between non-governmental organisations (NGOs) and their key stakeholders: funders/donors, regulators and beneficiaries. Figure 2.4 shows that the funder/donor is the principal of the organisation and the organisation is the principal for the beneficiaries and the regulators. The figure also depicts that the beneficiaries can just exit the relationship or voice their concerns but are limited in power. Ebrahim (2003b)

argues that the principal-agent relationship is more complicated for beneficiaries because NGOs are more powerful as they provide resources to the beneficiaries and beneficiaries possess only the threat to complain or refuse the service.

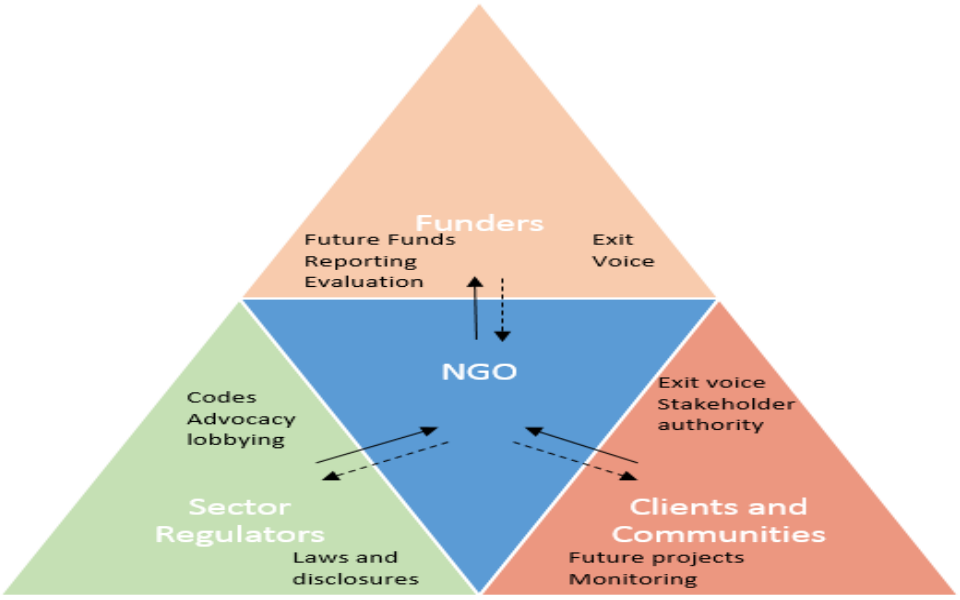


Figure 2.4 Relationship with stakeholders

Source (Ebrahim, 2003b, p.201)

Research shows that stakeholders in not-for-profit organisations and especially in charities lack the power to affect the managers or board of trustees of the organisations (Valeau et al., 2019). Power of stakeholders plays a crucial role in discharging accountability for not-for-profit organisations (Ebrahim, 2003b; Edwards and Hulme, 1996; Flack and Ryan, 2004). Connolly and Hyndman (2017) argue that, because of restricted powers, stakeholders are dependent on charities themselves to gain information. Research shows that funders/donors were the primary stakeholder and the most effective and powerful one, to whom accountability has to be discharged (Connolly and Hyndman, 2013a; Ebrahim, 2003b; Jetty and Beattie, 2009; Lee, 2004). Although beneficiaries seem to be catching up with the donors, they lack legal or economic power, and the difficulty in measuring and after

discharging accountability to beneficiaries means that they lag behind (Connolly and Hyndman, 2013a).

Cordery and Baskerville (2005, p.14-15) used the (Mitchell et al., 1997) model to explain charity accountability. They argue that, unlike donors, who shift from being more powerful to less, beneficiaries can remain in the discretionary or dependent categories as they lack the power to oversee the charities. Knox and Gruar (2007, p.123), again using the Mitchell et al. (1997) stakeholder salience model, found that grant recipients and donors were perceived as the most important stakeholder; beneficiaries, on the other hand, had been perceived as having low importance by charity managers, not holding any one of the three attributes and therefore revealed as being "unclassified" or "nonstakeholder" in the stakeholder salience model. Ihsan et al. (2016) also used the Mitchell et al. (1997) stakeholder salience model found donors (waqif) to be definitive, the regulator dominant and beneficiaires to be dependent stakeholders.

Keating and Frumkin (2003) propose a seven-component model to explain the accountability process, where external stakeholders (user community) can affect the organisation through assessing their performance by financial disclosure. Keating and Frumkin (2003) posit that donors' and beneficiaries' involvement in the process of decision making is limited due to lack of power, access and understanding the financial information disclosed.

Edwards and Hulme (1995) argue that, as a result of the environmental nature of the not-for-profit organisations, a variety of stakeholders may lead to multiple accountabilities which may result in over- or under-procurement of information to the stakeholders. Ebrahim (2003b) also states that the dual role of the not-for-profit organisations as both principal and agents makes their accountability harder to understand. Connolly et al. (2015) suggest that, although a broad discharge of accountability is beneficial for all parties, a balance has to be found in meeting accountability needs of some stakeholders and not damaging other stakeholders' priorities and risk misperceptions. It

has also been suggested that a 'holistic accountability' for not-for-profit organisations that is inclusive and aims to reach every stakeholder to ensure legitimacy will be more beneficial for the sector (Connolly and Hyndman, 2017; Ebrahim, 2005; O'Dwyer and Unerman, 2007).

In this section, the literature on stakeholders (accountability to whom?) has been assessed. The importance of identifying and prioritising stakeholders (Mitchell et al., 1997), which is crucial in effectively discharging accountability was analysed. Also, stakeholder identification for for-profit, public and not-for-profit sectors was discussed and the main differences among the sectors were highlighted. The next section discusses the purposes the literature provides for accountability being discharged for.

2.3.5 Purpose (accountability for what?)

Various models have been developed to examine bases of accountability. Although each study identified the several purposes for accountability to be discharged, under different names, they generally fall under the categories of financial, performance (outcome), strategic and fiduciary (legal purposes) (Dhanani and Connolly, 2012). In this section, literature on accountability purposes will be summarised briefly with an emphasis on the not-for-profit sector at the end of the section.

Stewart (1984) presented a 'ladder' relating to public accountability in which each 'step' demonstrated a different form of accountability. The ladder consisted of the steps of accountability for probity and legality, accountability for process, accountability for performance, accountability for programme and accountability for policy. Hayes (1996) reduces Stewart's bases to a simpler set of four steps: fiscal accountability, process accountability, programme accountability and accountability for priorities. Brody (2002) also provides four components of not-for-profit accountability: fiscal responsibility/avoidance of fraud, good governance, adherence to mission and donor direction, and demonstration of the organisation's programme

effectiveness. Stone and Ostrower (2007) suggest performance and delivery of programmes, collaboration with partners, and enhanced civic democracy as concepts for which accountability has to be discharged. Andreaus and Costa (2014) propose three categories of accountability: economic, purpose/mission and social impact/stakeholders.

Bovens (2007) classifies accountability as being based on the nature of the forum (political, legal, administrative, professional and social), the actor (corporate, hierarchical, collective and individual), the conduct (financial, procedural and product accountability) and the obligation (vertical, diagonal and horizontal). Mulgan (2000) distinguishes between institutions and devices of accountability in his work regarding public sector accountability. Kearns (1996) suggests that the environment of accountability is made up of four dimensions, which are legal, anticipatory, negotiated and discretionary.

Sinclair (1995, p.223) also mentions five forms of accountability: political, managerial, public, professional and personal. Sinclair (1995, p.229-232) stresses that the discourse of accountability can shift, and provides an example: "… even when the former managerial accountability, as the property of a contract, is dispensable, there is always personal accountability to fall back on. Research also suggests that accountability is continually being constructed".

For all the sectors, for-profit, public or not-for-profit, accountability has shifted to a broader approach than a narrow one (Edwards and Hulme, 1996). Accountability for just compliance and financial aspects has expanded to cover performance, efficiency, effectiveness and outcomes (Stewart, 1984; Stone and Ostrower, 2007). Rosair and Taylor (2000), distinguish between fiduciary and managerial accountability, where the first one emphasises compliance with laws and procedures which aims to satisfy a narrower stakeholder group, while the second one focuses on efficiency and performance to a wider stakeholder group.

Regarding not-for-profit organisations there is a tendency to put accountability for finance and performance (Kearns, 1994) in the lead, which, it is argued, enables the building of community trust (Saxton et al., 2012). Connolly et al. (2015) divide managerial accountability into financial managerial accountability and non-financial managerial accountability, where the first one analyses usage of funds and the second measures charitable objectives. Dhanani and Connolly (2012, p.1145-1146) identify four themes of not-for-profit accountability: strategic accountability, fiduciary accountability, financial accountability and procedural accountability. They argue that strategic accountability deals with what the organisations achieved, fiduciary accountability emphasis compliance with laws and governance, financial accountability concerns with financial outlook of the organisation and procedural accountability deals with how the organisation achieves its goals. O'Dwyer and Unerman (2008) suggest that a holistic view of accountability is needed for better discharge of accountability. Bovens (2007) states that to be accountable for finances, fairness and performance, charities can select from a myriad of informal and formal accountability mechanisms.

As will be discussed later in the chapter, the stakeholders of charities are not satisfied with the accountability discharged as they want to be informed more about performance rather than financial aspects.

2.3.6 Discharging accountability (mechanisms of accountability)

This section examines how accountability is being discharged towards an organisation's stakeholders. Tower (1993, p.61) argues that the accountability is the most appropriate means of communication with stakeholders regarding a societal viewpoint because of its broader perspective. Ebrahim (2003a, p.815) classifies accountability mechanisms into five categories: "reports and disclosure statements, performance assessments and evaluations, participation, self-regulation, social audits." Goodin (2003) argues that mechanisms of accountability are devices or instruments that enable and

ensure accountability. He distinguishes three mechanisms of accountability: hierarchical, competitive and social. According to Dhanani (2009), charity accountability was seen to be discharged through disclosures on charity aims and objectives; organisational activities; organisational performance; and future plans and strategy.

This section will try to assess accountability mechanisms under the headings of: a) disclosure and reporting; b) audit; c) monitoring by the board; and d) other accountability mechanisms.

2.3.6.1 Disclosure and reporting

Accountability is especially discharged by distribution of information and therefore disclosure of statements and reports of organisations (Dhanani and Connolly, 2012). To comply with legislation, financial statements and annual reports are discharged by organisations (Tower, 1993). Lee (2004, p.180) argues that disclosure is crucial to reach, increase confidence and discharge accountability to the general public (citizenry), which he also identifies as a stakeholder.

Disclosure in the for-profit sector is associated with reduced cost of capital (Li et al., 2008) and dealing with information asymmetry (Ntim et al., 2017). Healy and Palepu (2001) and Athanasakou et al. (2011) discuss market reaction to disclosure and suggest that enhanced disclosure is a remedy to the agency problem and they show the positive correlation between transparent and efficient reporting and disclosure decisions and increasing capital market returns. New trends such as Corporate Social Responsibility (CSR) also aim to influence and even manage stakeholders' views on the organisation (Cooper and Owen, 2007; Michelon et al., 2015).

Disclosure is also used to legitimise actions (Ebrahim, 2003b), and to gain support or prevent criticism from key stakeholders (Donaldson and Preston, 1995; Freeman, 1984b). Also, enhanced disclosure is found to promote

greater accountability and transparency and provide access to funds (Deegan, 2002). Disclosure is suggested to promote credibility (McConville, 2017) and to reduce dependence on other monitoring costs (Saxton et al., 2012).

Disclosure is critical for the functioning of efficiency in not-for-profit organisations. Tools such as the annual report, financial reports, annual review, press releases, website information etc. are important to discharge financial and narrative performance information and to meet stakeholder information needs (Connolly and Hyndman, 2013b). The lack of the profit aspect in the not-for-profit sector increases the importance of the annual report rather than relying only on financial statements (Connolly and Dhanani, 2009). Chen (2016) found that in not-for-profit organisations disclosure of expense reduces the percentage of misreporting and enhances director monitoring. Also, although audited financial statements have been extensively provided for donors, they regard voluntary disclosure, especially disclosure and information on performance, as more important (Connolly and Hyndman, 2013b; Hyndman, 1990; Hyndman, 1991). Although the mandatory disclosure requirements are determined by the legislation, voluntary disclosure practices are prioritised by importance and concern of the issue and to legitimise organisations' actions and strategies (Samkin and Schneider, 2010). Voluntary disclosure in not-for-profit organisations enhances public trust and legitimacy (Lee, 2004). Behn et al. (2010) found that larger not-for-profit organisations which receive substantial donations tend to disclose information voluntarily. Ntim et al. (2017) argue that voluntary disclosure reduces the uncertainties and provides a more balanced power relationship with the external environment and can become a medium of stakeholder management in not-for-profit organisations.

Research suggests that disclosure is valuable to stakeholders in promoting accountability. Britton (2008) suggests that voluntary rather than mandatory disclosure is more suitable for not-for-profit organisations, if the government acts as a major donor. Simnett (1987) found that the determinants of income,

number of members, the presence of a professional administrator, geographic dispersion of members, and auditing of financial statements were significant factors influencing not-for-profit voluntary disclosure.

2.3.6.2 Audit

Independently scrutinised accounts are accepted as tool to demonstrate accountability (Power, 1997). Charlton (2002), concurring that we live in the 'audit society' (Power, 1997), states that the coverage of accountability has extended through its financial usage and argues that an accountable organisation provides a comprehensive presentation of its activities. Tower (1993, p.71) states that, although necessary, audit is not a sufficient condition for discharging accountability: "The audit role is viewed as only one of the parts, albeit an important one, in the accounting regulatory framework for corporate reporting." Audit is also argued to provide assurance and to be a condition for an action to be accountable (Power, 1997). There is a consensus in the literature that effective audit can deter fraud and misconduct (Agrawal and Chadha, 2005; Beasley, 1996; Ege, 2013).

Bovens (2007) argues that auditors are agents of accountability, who are public actors deemed to be independent of bias. Moore et al. (2006) state that independence of the audit process is essential for an effective role in the accountability of an organisation. They argue that the financial scandals have proved that the relationship between the auditor and client is not transparent and independent enough and harbours conflicts of interest, and therefore this deformity causes accountability to be also defective. Baumüller (2013), in his study on audits in the not-for-profit sector, argues that a quality audit and therefore accountability is related to the skills and also the independence of the auditor.

High-quality audit and the existence of audit committees build trust in stakeholders. The existence of an effective audit committee implies more monitoring and leads to fewer illegal actions in an organisation (Zaman et al.,

2011). Efficiency and independence of audit committee (Abbott et al., 2000; Dechow et al., 1996) has a positive correlation with fewer sanctions for fraudulent or misleading reporting. Ghafran and O'Sullivan (2013) found that the more independent the audit committee is, the more the level of external audit coverage will increase and the quality of financial statements will be enhanced. They also found that the presence of an audit committee provides trust to the stakeholders. Allegrini and Greco (2013) and Ntim et al. (2017) found a positive correlation between the existence of an audit committee and the level of voluntary disclosure.

Audit (Keating and Frumkin, 2003) and audit committees (Pridgen and Wang, 2012) are found to enhance accountability and control mechanisms in not-for-profit organisations. Parsons (2007) argues that disclosure of audited financial statements assures stakeholders in not-for-profit organisations. Ntim et al. (2017) investigated voluntary disclosures in UK higher education institutions' (HEIs) annual reports and found a positive correlation between the level of disclosure and audit committee quality, governing board diversity, governor independence and the presence of a governance committee.

Jetty and Beattie (2012) argue that the existence of an audit committee in not-for-profit organisations assures quality and meets monitoring expectations and deters agency problems by establishing effective communication channels among parties. They found that larger board size, higher number of trustees and the existence of a two-tier board and receipt of government grants were associated with having an audit committee. Independence of the auditor also influences the outcome and efficiency of the audit in the not-for-profit sector. Kitching (2009) found that donors of not-for-profit organisations value more and donate more to high-quality audited not-for-profit organisations.

Audit in not-for-profit organisations is argued to have some different features from audit in the for-profit sector. One of these is the fee difference between the two sectors, in which not-for-profit auditors are paid less (Verbruggen et al., 2015). Beattie et al. (2001) examine audit risks in the charity sector,

finding that charity auditors charge less than a market-rate audit fee. They discuss three reasons for this: lower risk because of trustworthiness of charities, altruism by audit companies and lower audit quality. They argue that the lack of shareholders reduces the pressure on auditors for litigation loss, which impairs accountability. This is because, although the board of trustees resembles the board of directors in the for-profit sector, the charity lacks the influence provided by the shareholders who can blame and sue auditors for litigation loss.

2.3.6.3 Monitoring: accountability provided by the board

This sub-section begins by discussing the role of a board in for-profit organisations. Although the board has a variety of responsibilities (Hillman and Dalziel, 2003), monitoring the management is one of the most important. As Coles et al. (2008, p.329) state, "The board of directors of a corporation is meant to perform the critical functions of monitoring and to advise top management." Fama and Jensen (1983a) argue that the board's duty is to mitigate agency conflicts through monitoring the management of the organisation. Scholars (Brown, 2005; Miller, 2002) also suggest that the board has a fiduciary duty to monitor the management and be accountable to the 'owners' of the organisation. It is also expressed that, if used as an effective monitoring device, board oversight will prevent opportunistic behaviours and misconduct (Gibelman et al., 1997; Miller, 2002).

The attributes of the board has also been found to related with the accuracy and quality of monitoring and therefore accountability discharged by the board (Brown, 2002; Williams et al., 2005). For example, Brennan and Solomon (2008) identify board governance as a key mechanism of accountability and examine the literature regarding board attributes and accountability.

Board tenure

Directors' length of tenure is one of the most common means to analyse independence and therefore to assess if monitoring is conducted appropriately or not. The literature is divided, as some argue that a long tenure leads to effective accountability and monitoring (Beasley, 1996) while others argue that longer tenure leads to dependency on the same people and therefore less monitoring (Anderson et al., 2004).

Studies show that, with the passage of time, structural connections affect the relations between board members (Davis, 1996; Vafeas, 2003) and even cause social distancing against board members who deviate from the 'norms' of the board (Westphal and Khanna, 2003). Long tenures therefore negatively affect independent decision making. Herman (1981) posits that, if boards embrace a too cohesive and friendly environment, this will endanger monitoring. Williams et al. (2005) found that the longer the tenure, the more risk that misconduct will occur. Hillman et al. (2011) argue that shareholders are not happy with longer board member tenure. The longer the tenure, the more easily can a director influence other board members and managers (Anderson et al., 2004) and lead to excessive relationships with the management (Ryan and Wiggins, 2004). Brown and Guo (2010) found that longer tenure makes CEOs more powerful and as a result there is a reduction in the time spent on board duties in monitoring and accountability.

Interestingly, Xu et al. (2017) found a negative correlation between average age of the board of directors and CEO financial fraud, as the older board will be more experienced and less willing to accept wrongdoing. Li and Wahid (2018) found that, if the tenure of a board is diverse, the less accounting restatements and excess compensation occur. They argue that tenure diversity will increase the effectiveness of monitoring as it combines the positive aspects of long and short board tenure.

Now turning attention to not-for-profit organisations, there is little literature on board tenure. What there is seems to favour long tenure. Brown et al. (2012) argue that increased tenure positively affects the monitoring role of the not-for-profit board members. Olson (2000) and O'Regan and Oster (2005) found that increased tenure of board members has positive influence on performance and monitoring up to a certain length of time. In the UK, the tenure of non-executives serving on a for-profit board is restricted. According to the UK Corporate Governance Code (2016b), after six years non-executives are subject to rigorous review (B.2.3.). The 2018 version of the Governance Code (2018) requires all directors to be re-elected annually (Provision 18). However, the Charity Governance Code lacks such a provision (Governance, 2017).

Overall, although studies vary both short and very long tenure seem to have a negative effect on monitoring and accountability.

Board size

Like other board attributes, research regarding the impact of for-profit board size on accountability and monitoring has been inconclusive. Because of free-riding, larger boards are found to be less efficient in accountability and monitoring duties (Lipton and Lorsch, 1992; Yermack, 1996) and smaller boards are more enhanced in monitoring (Schnake and Williams, 2008). Jensen (1993) argues that the larger the board the harder will be coordination, and it becomes easier for the CEO to increase his or her dominance over the board, and also that smaller boards will be better in pursuing monitoring duties. However, Coles et al. (2008) argue that the impact of board size on effectiveness depends on the complexity of the firm; the more the complex a firm's transactions are the larger the board would be to be more effective. Therefore it can be argued that there is no one size fits all in terms of board size (Cornforth and Simpson, 2002).

Compared to for-profit studies, not-for-profit studies favour a bigger board and argue that larger boards are better to enhance monitoring. O'Regan and Oster (2005) argue that the effect of board size is less ambiguous in the not-for-profit sector. Larger boards have been found to lead to enhanced monitoring in not-for-profit organisations (Bai, 2013; Olson, 2000). Ostrower (2007) argues that having a large board in not-for-profit organisations does not weaken the board's effectiveness but enhances fundraising and diversity. Williams et al. (2005) found that a larger board is more effective in monitoring and therefore prevents wrongdoing better. De Andrés-Alonso et al. (2009) suggest that the bigger the not-for-profit organisation gets, the more monitoring it needs and so it needs a larger board. Brown and Guo (2010) on their study regarding not-for-profit organisations found that bigger and more diversified boards were more enthusiastic about discussing issues of monitoring and oversight. The effect of board size on accountability discharge through disclosure was less clear, although most research found a positive correlation with larger boards and disclosure (Allegrini and Greco, 2013).

Board diversity

As before, this survey begins with for-profit studies. Board diversity (meaning board members being not homogeneous in terms of gender, ethnicity, age, profession, etc.) has also been argued to influence monitoring and accountability (Adams et al., 2015; Cumming et al., 2015). Walt and Ingley (2003, p.219) state that, regarding governance, "the concept of diversity relates to board composition and the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision-making."

Board diversity is found to have a positive effect on monitoring (Ntim, 2015). Brown and Guo (2010) also found that bigger and diversified board members were more enthusiastic about discussing issues of monitoring and oversight. The gender balance of the board is an important attribute that has been

researched into. Monitoring is found to be increased by gender diverse boards (Cumming et al., 2015). For boards which are more gender diverse, the occurrence of conflict is lower and so monitoring is enhanced (Nielsen and Huse, 2010).

Turning to the not-for-profit sector, Callen et al. (2003), in line with the argument of (Fama and Jensen, 1983b), found that the existence of donors on a board enhances monitoring and performance of the organisation. Brown (2002) also argues that board inclusiveness enhances monitoring. Wellens and Jegers (2016) in their study regarding not-for-profit beneficiaries' influence in decision making and activity, found that, although mechanisms that aim to include beneficiaries exist, they are insufficient and there are rarely representatives of beneficiaries on the board.

Buse et al. (2016) argue that the diversity of the board in not-for-profit organisations regarding the ethnicity, gender and age enhances and has a direct influence on governance practices. Olson (2000) studied boards of not-for-profit colleges and found that diverse occupational background enhanced monitoring capabilities of the organisations. Guo and Musso (2007) posit that diversity in terms of stakeholders' existence on the boards of not-for-profit organisations will be more inclusive and therefore will enhance accountability.

Another issue for research is to assess how diverse the boards in not-for-profit organisations actually are. Steane and Christie (2001) argue that not-for-profit boards compared to for-profit ones are more diverse as women participate highly and ethnic groups are represented fairly. O'Regan and Oster (2005) also note that not-for-profit boards are typically described as being diverse, therefore a more diverse not-for-profit board will not have the same affect in terms of accountability and monitoring as it does in the for-profit sector.

On a quite different point, board diversity is argued to positively influence fundraising in not-for-profit organisations (Brown, 2002; Siciliano, 1996).

Siciliano (1996) found, based on his work on 240 YMCA organisations, that age diverse boards were more effective in attracting more funds. He also established that, while occupational diversity of the board members had a positive effect on both social performance and fundraising, gender diversity among board members only favoured social performance.

Board independence

The theory of Fama and Jensen (1983b) regarding for-profit board composition suggests that having a higher percentage of independent directors increases the monitoring features of the board. Other scholars agree that the more independent a board is the more it is efficient and effective in carrying out its monitoring duties (Byrd and Hickman, 1992; Coles et al., 2008; Yermack, 1996). Independence of non-executive directors is found to have a positive effect on disclosure and accountability (Armstrong et al., 2014; Gisbert and Navallas, 2013). Anderson et al. (2004) found that the larger and more independent a board is and the more independent an audit committee is, the lower is the cost of debt.

Independence also makes it possible to align compensation of CEO with shareholder priorities (Ryan and Wiggins, 2004) and effective corporate social responsibility (Chang et al., 2017) and disclosure (Goh et al., 2016). Goh et al. (2016) found that independent boards, which enhance voluntary disclosure, have fewer information asymmetry problems. Lehn et al. (2009) posit that information asymmetry increases with lack of monitoring and outside directors.

Interlocking and social networks (Heracleous and Murray, 2001) may negatively affect monitoring of a board. Bebchuk et al. (2002) state that relationships between the board members and executives damage the independence of the board. Hong et al. (2016) argue that a CEO who was hired earlier than the board members may be sympathetic to the board members because of his/her role in the nomination process. Directors being

appointed by and having ties with the CEO tend to be more supportive of the CEO and less focused on monitoring (Frankforter et al., 2000). Executives who are also board members are argued to decrease the independence level of the board and therefore monitoring and accountability (Bebchuk et al., 2011).

Holding multiple board seats is suggested to prevent directors from focusing on their monitoring tasks. Westphal and Zajac (1997) propose that CEOs of organisations who also serve as outside directors on other boards are reluctant to oppose CEOs, which hinders board independence. Interlocking directors are argued to devote less time to monitoring and accountability of the organisation (Beasley, 1996; Devos et al., 2009; Hillman et al., 2011; Jiraporn et al., 2008). However, Ferris et al. (2003) found that sitting on multiple boards do not have a negative affect on board directors' monitoring or accountability duties. They argue that holding multiple directorships do not cause to fraudulent actions.

Miller-Millesen (2003) posits that the increase in professionalisation in the executives will have a negative affect on monitoring and therefore monitoring activities will be deterred.

Kang et al. (2007, p.197) argue that 'independence' is very vague as "Most companies identify their directors in terms of "executive" and "non-executive" directors, and disclose very little information regarding their directors to external stakeholders. Subsequently, studies examining the independence of directors have found it very difficult to compare one company's definition of director independence to other companies."

Another special problem that arises for not-for-profit organisations is that all board members are expected to be independent. Callen et al. (2010) argue that the metrics, such as the proportion of executives on the board, used to measure board independence for for-profit organisations are not that appropriate in not-for-profit organisations. They argue that it is not common for executives

to be found on the board of not-for-profit organisations and only exceptionally do executives become the majority of not-for-profit boards.

Duality of roles

CEO duality (i.e., one person being both chairman and chief executive) is one of the topics where the for-profit literature agrees: duality leads to inefficient monitoring (Pi and Timme, 1993). Duru et al. (2016) found that the CEO duality, which has an adverse effect on monitoring, can be relieved by a more independent board. Fama and Jensen (1983b) argue that CEO duality enhances the power of the CEO on the board and therefore leads to less independence and less monitoring. Tuggle et al. (2010) found that CEO duality has a negative affect on monitoring duties of the board. They also suggest that dual CEOs have a more powerful impact on the agenda and location of board meetings and therefore their influence is greater. Ostrower (2007) found that CEO sitting on the board of not-for-profit organisations negatively effects the governance and accountability roles of the board.

Other board attributes

The culture of the board also impacts monitoring and accountability discharged to stakeholders. Jensen (1993) argues that a loose board culture of control leads to insufficient monitoring of the managers and to opportunism. Laksmana (2008) also found that larger boards with frequent meetings are more efficient in disclosing information on managerial pay. O'Regan and Oster (2005) found in their study of New York City not-for-profit organisations that executives apply pressure by using their dominance and power over the board to concentrate more on fundraising instead of monitoring. Ostrower (2007) on the other hand argues that as a result of the board culture, focusing too much on fundraising negatively affects the duties of accountability and monitoring, in not-for-profit organisations.

Ebrahim (2003a) identifies self-regulation, which includes developing standards and codes of conduct, as a complementary accountability mechanism. It had been suggested that well-designed codes of conduct are crucial to both the success and failure of an organisation's monitoring and accountability (Collier, 2008). Miller (2002) argued in her study of not-for-profit board of directors that lack of a clear code of conduct in a not-for-profit organisation leads board members to act on their competencies and not focus on organisational goals. She also posits that an amiable environment in a board may hinder monitoring as she found that not-for-profit board members did not indicate that there was a goal conflict between the board and the managers.

Identification with an organisation (Fiol, 2001) and with stakeholders (Hillman et al., 2008) are also suggested as leading to enhanced monitoring and accountability. The network and social position of the board members also affect their attitudes (Westphal, 1999; Zajac and Westphal, 1996).

2.3.6.4 Other accountability mechanisms

Accountability discharged to stakeholders enables a high level of engagement and interaction. Dialogue (Roberts, 1996) and communicative action (Habermas, 1984) is argued to build trust among parties and to enhance accountability. Habermas (1984) distinguishes between two social action models: communicative and strategic. Whereas strategic action is better structured and more formal, communicative action tends to focus on relationships among parties and uses linguistic communication which is participative in nature. Roberts (1996) suggests a 'dialogue based accountability' which aims to provide an unmediated relationship between an organisation and its stakeholders. Saxton and Guo (2011) argue that stakeholder participation is a crucial part of an enhanced accountability structure in an organisation. Ebrahim (2003a) identifies participation as another accountability tool in which stakeholders become involved in the daily routine of an organisation. Ebrahim (2003a) distinguishes participation

into four stages: a) consultation with the public, b) involvement of public to organisational activities, c) influencing decision making process of the organisation, and d) direct involvement to social action.

Social accountability/audit is an accountability mechanism that enables stakeholder involvement in the discharge of accountability. For example, Fox (2015) defines social accountability as oversight and monitoring performed by citizen (stakeholder) over organisations. Ebrahim (2003a) supports the use of social auditing especially by not-for-profit organisations as it enhances information systems of social and environmental roots and provides views and comments of stakeholders to be taken into account by the organisations. Ebrahim (2003a) also suggests that social auditing empowers reputation of not-for-profit organisations and provides important feedback derived from the stakeholders.

Dialogic accountability (Denedo et al., 2019) is also used whose main aim is to engage with stakeholders by using different accountability mechanisms in order to facilitate emancipatory transformation especially for stakeholders whose accountability needs are not met (Contrafatto et al., 2015; Gallhofer et al., 2015) and who are not able to voice their concerns or views powerfully enough (Bebbington et al., 2007). Denedo et al. (2019) found that the not-for-profit organisations enhance the visibility and power of power deprived and vulnerable stakeholders by enabling social and environmental impacts in their accounts and reports.

The rapidly changing technology also allows new mechanisms of communication and therefore accountability to be used. Online disclosure (Tremblay-Boire and Prakash, 2015), websites (Gandía, 2011), and social media (Guo and Saxton, 2014; Lovejoy and Saxton, 2012; Nah and Saxton, 2013) are all instruments to provide a 'dialogue' with the stakeholders and to discharge accountability. Saxton and Waters (2014) argue that social media enhances dialogue among the parties and provides a new way to communicate and discharge accountability. Saxton and Wang (2014) suggest that social

network tools enable not-for-profits to engage better with the stakeholders and especially to provide funds. Connolly and Dhanani (2009) found that charity websites are a tool to reach a wider stakeholder group. Saxton and Guo (2011) in their study regarding web-based accountability on not-for-profit organisations found that websites are more commonly used for disclosing information rather than being an interactive platform to engage with stakeholders.

Regulation is also another tool that provides a link and therefore enhances accountability between the organisations and their stakeholders. For example, donors pay more if the regulation is effective in sustaining transparency, accountability and efficiency (Furneaux and Wymer, 2015). Regulation also proved to enhance confidence in charities (Cordery et al., 2017) and therefore to increase trust in them (Hyndman and McDonnell, 2009).

Table 2.2 summarises the accountability mechanisms discussed in this chapter:

Table 2.2 Mechanisms of Accountability

Reporting and Disclosure	• Core mechanism to distribute information and discharge accountability • Reduces cost of capital and information asymmetry. • Voluntary disclosure enhances public trust and legitimacy
Audit	• Provide assurance and to be a condition for an action to be accountable, • Auditors are agents of accountability, who are public actors independent of bias • High-quality audit and the existence of audit committees build trust in stakeholders. • Existence of an effective audit committee implies more monitoring and leads to fewer lawsuits and illegal actions in an organisation
Board Monitoring: Board tenure	• Literature is divided, as some argue that a long tenure leads to effective accountability and monitoring while others argue that longer tenure leads to dependency on the same people and therefore less monitoring. Short and very long tenure seem to have a negative effect on monitoring and accountability. • Structural connections affect the relations between board members and therefore negatively affect independent decision making.
Board Monitoring: Board independence	• Higher percentage of independent directors increases the monitoring features of the board. Independence of non-executive directors is found to have a positive effect on disclosure and accountability • Enhance voluntary disclosure, have fewer information asymmetry problems • Special problem that arises for not-for-profit organisations: metrics, such as the proportion of executives on the board, used to measure board independence for for-profit organisations are not that appropriate in not-for-profit organisations.
Board Monitoring: Duality of roles	• Enhances the power of the CEO on the board and therefore leads to less independence and less monitoring.
Board Monitoring: **Size**	• For-profit organisations: larger boards are found to be less efficient in accountability and monitoring duties and smaller boards are more enhanced in. No one size fits all in terms of board size • Not-for-profit studies favour a bigger board and argue that larger boards are better to enhance monitoring.
Board Monitoring: **Board Diversity**	• Monitoring is found to be increased by gender diverse boards • Existence of donors on a board enhances monitoring and performance of the organisation. • Diverse occupational background enhanced monitoring capabilities • board diversity is argued to positively influence fundraising in not-for-profit organisations • However, not-for-profit boards are typically described as being diverse, therefore a more diverse not-for-profit board will not have the same affect as it does in the for-profit sector.
Board Monitoring Other Board Attributes	• Loose board culture of control leads to insufficient monitoring of the managers and to opportunism • Well-designed codes of conduct are crucial to both the success and failure of an organisation's monitoring and accountability • Identification with an organisation and with stakeholders are enhance monitoring and accountability.
Other Accountability Mechanisms	• Dialogue and communicative action build trust among parties and enhances accountability. • Dialogic accountability's aim is to engage with stakeholders by using different accountability mechanisms in order to facilitates emancipatory transformation especially for stakeholders who are not able to voice their concerns or views powerful enough • Direct participation identified as another accountability tool and mechanism process in which stakeholders being involved in the daily routine of an organisation. • Social accountability/audit is an accountability mechanism that enables stakeholder involvement as it enhances information systems of social and environmental roots and provides views and comments of stakeholders to be taken into account by the organisations. • Online disclosure websites, and social media are all instruments to provide a 'dialogue'

Source: Author

Overall all accountability mechanisms play a substantial role, but connectedly operated mechanisms will bring the ultimate benefit to both the organisations and their stakeholders (Connolly and Hyndman, 2017; Morrison and Salipante, 2007).

In the next section, the literature on governance will be discussed.

2.4 Governance

2.4.1 The meaning of governance

As in the case of accountability, the roots of governance derive from Latin origin, from the word 'gubernare', "meaning 'to direct, rule or guide'" (Hyndman and McDonnell, 2009, p.6). However, as with many organisational concepts and terms the concept of 'governance' was first developed for the for-profit sector and it is far from having a unified explanation and definition (Armstrong and Sweeney, 2002). Governance is a vague term that is used in various forms and for different purposes (Solomon and Solomon, 2004).

Governance of for-profit organisations (usually referred to as 'corporate governance') emerged as a prominent concept especially after the 1980s with the impact of hazardous scandals and misconduct (Cadbury Report, 1992). The importance of governance was highlighted by scandals such as Enron in 2001 and others in the preceding years (Vinten, 2002).

Various governance principles and rules were developed especially after the 1980s. Sir Adrian Cadbury's Cadbury Report (1992) was composed of recommendations to organisations that were damaged by allegations of misconduct such as fraud (Cadbury Report, 1992). The G20/OECD Principles of Governance (G20/OECD, 2015) suggest that the organisation should safeguard the rights and benefits of shareholders, including the stakeholders and should be transparent and disclose relevant information. The principles also highlight accountability as an important part of governance success and

that the boards are responsible for monitoring the management in order both to be accountable to the stakeholders and to ensure high quality governance (G20/OECD, 2015).

Governance can be defined as procedures (Brigham and Daves, 2004), authority (Speckbacher, 2008, p.298) systems (Cornforth and Simpson, 2003)), principles and rules (Ghafran, and Yasmin, 2019) that direct, steer (Hyndman and McDonnell, 2009), guide and control (Cornforth, 2003) how an organisation is governed (for example, by a board of directors) and how the governing body of an organisation is accountable to the stakeholders for the decisions and operations of the organisation (Hyndman and McDonnell, 2009). The Cadbury Report (1992) defined governance as a system "by which companies are directed and controlled" (1992, p.7).

Williamson (1983) suggests that governance is made up of mechanisms that protect interests and investments. In for-profit organisations, governance increasingly acknowledging a wider stakeholder environment rather than focusing only on shareholders (Speckbacher, 2008, p.298). Regarding the not-for-profit sector, Hyndman and McDonell (2009) suggest that governance should be including all stakeholders in order to diminish conflict of interest among the organisation and the stakeholders.

The next section and the following sections focus on governance in not-profit-organisations only.

2.4.2 A framework for governance in not-for-profit organisations

The term 'governance' does not have an exact definition for the not-for-profit sector (Ostrower and Stone, 2006, Cornforth, 2012). Dubnick (2003) suggests that there is no 'gold standard' for governance in the not-for-profit sector, when especially it is very hard to determine a definitive governance structure where organisational, geographical, and stakeholder needs differ for each entity.

Fundamental aspects of governance are similar to those relating to for-profit organisations. However, unlike the for-profit sector, due to lack of an owner or residual claimant (Ostrower and Stone, 2006, Speckbacker, 2008), and the absence of markets (Wellens and Jegers, 2014b), not-for-profit organisations should be governed in such a way that the needs of multiple stakeholders are met (Callen and Klein, 2010, Hyndman and McDonnell, 2009). Dellaportas et al (2012) and Donaldson and Preston (1995) argue that one of the biggest differences between not-for-profit and for-profit governance is that while stakeholders and especially shareholders legally participate in forming and maintenance of governance in for-profit organisations, the wide range of stakeholders in the not-for-profit sector are deprived of these rights and therefore have limited capability to influence governance making in not-for-profit organisations.

Hyndman and McDonnell (2009, p.9) stress the two main components or ideas of not-for-profit governance. They argue that the first component is based on the view that not-for-profit organisations are grounded on relationships between stakeholder groups and the "distribution of rights and responsibilities among and within the various stakeholder groups involved, including the way in which they are accountable to one another." The second component of governance that Hyndman and McDonnell (2009, p.9) highlight is related to the performance of not-for-profit organisations "in terms of setting objectives or goals and the means of attaining them". Overall, Hyndman and McDonnell (2009, p.9) in providing a definition to not-for-profit governance stress, the importance of stakeholders and accountability as well as performance and argue that governance connects two ideas: "Governance as the set of relationships between stakeholders with the idea of governance as ensuring the organization is effectively run in terms of attaining its objectives (which are defined in this case as meeting the needs for which the organization was created)."

Likewise Sinclair (2010) suggests that governance is built on two main components, conformance and performance, and that accountability can be regarded as a sub-component of conformance rather than performance. Conformance can be defined as the monitoring tasks related to governance and is therefore more directly related to accountability mechanisms discussed in Section 2.3.6. Monitoring is an important aspect of governance (Ostrower and Stone, 2010) which requires monitoring of whether the executives are using resources in line with stakeholder expectations.

Cornforth (2012) argues that conceptualisation of not-for-profit governance derives mainly from theories that are developed specifically for the for-profit sector. Theorisation of accountability and governance and the theory's usefulness in understanding and building governance and accountability structures that may hinder opportunistic behaviour (Fama and Jensen, 1983, Bellante et al., 2016) are discussed in more detail in Chapter 3.

Not-for-profit governance studies have especially focused on the board of trustees and how the board fulfils its responsibilities (Miller-Millesen, 2003, Callen et al., 2003; Jetty and Beattie, 2012). However Ostrower and Stone (2010) and Cornforth (2012) criticise the narrow focus on the board as limiting the understanding of not-for-profit governance framework. Cornforth (2012) and Ostrower and Stone (2006) suggest that focusing only on boards has led researchers to ignore governance structures of multi-faceted texture.

Hyndman and McDonnell (2009) and Harris et al. (2015) suggest that governance in not-for-profit organisations is composed of both external and internal mechanisms. Hyndman and McDonnell (2009) argue that governance encompasses the broader mechanism of various stakeholders' interaction among themselves and with the not-for-profit organisation. Ostrower and Stone (2010) also argue that focusing only on boards of trustees is insufficient. Not-for-profit governance needs a framework to examine and understand the dynamics of governance in the not-for-profit sector. They base

the framework on three pillars or contingencies: board attributes, internal organizational characteristics and the influence of the external environment. They especially stress the importance of the external environment, and its effects on board practices.

Ghafran and Yasmin (2019) identify the board of trustees of a charity as the governing body as the trustees bear the responsibility of administering the charity (Trustee Act, 2000). The board of trustees has the responsibility of ensuring that the funds of the charity be used for the charıtable purpose and to benefit the beneficiaries (Charities Act, 2011). Ghafran and Yasmin (2019) argue that although the SORP (2015) imposes some requirements on governance, there are few mandatory requirements that regulate and organise UK charity sector governance. Ghafran and Yasmin (2019) also argue that the voluntary Charity Governance Code (Governance, 2017) should be mandatory, even though the code is less rigorous than governance codes applying to companies.

Overall, as suggested for accountability (Section 2.3), the governance model for the not-for-profit sector should be unique (Dellaportas et al., 2012) due to multiple principal stakeholder environment

2.4.3 Governance for whom

Cornforth (2012) suggests that governance in not-for-profit organisations cannot be realised at the organisational level only but needs to be enhanced to a wider audience. Ryan et al (2014) argue that because of a wider stakeholder base and in order to be able to discharge accountability to this wider stakeholder range and to meet governance needs, not-for-profit organisations require a unique conceptual framework that meet the needs of stakeholders. Wellens and Jegers (2014b) suggest that a successful implementation of governance in not-for-profit organisations should involve various stakeholder groups. They argue that not-for-profit governance should be built on expectations of the stakeholders and on how these various and

different stakeholder relationships are managed. Other literature has also stressed the importance of stakeholders and their needs in determining a successful governance structure for not-for-profit organisations (Brown, 2005; Abzug and Galaskiewicz, 2001; Speckbacher 2008). As in the case of structuring and building successful and effective accountability in the not-for-profit sector, stakeholders play a crucial role in building governance successfully. As will be discussed in Chapter 3, unlike the for-profit sector, the importance of stakeholders in the not-for-profit sector gives prominence to a multiple principal framework (Wellens and Jegers, 2014b, Jegers, 2009, p. 146).

Jetty and Beattie (2012) argue that in terms of charities, all stakeholders, both internal and external, are involved in governance implementation but that the board of trustees is more important than other stakeholders. Cornforth (2012) argues that the board of a not-for-profit organisation is only one part of the governance structure. Other stakeholders who also can have accountability requirements from the organisation, such as the donors, regulators, and auditors, are also part of the governance system in not-for-profit organisations (Dellaportas et al., 2012).

Ostrower and Stone (2010) suggest that the multidimensional accountability environment composed of various stakeholders should be taken into account in structuring governance dynamics in not-for-profit organisations. Wellens and Jegers (2014b, p.234) puts "broadened accountability" as a crucial and important part of effective governance. They suggest that governance structures in not-for-profit organisations should be formed as "information exchange platforms" between their various stakeholders, and by enhancing and enlarging their accountability base, they should be building their governance structures on their "broadened accountability" with various stakeholder groups. Exclusion of stakeholders is suggested to be a problem in not-for-profit governance effectiveness (Rhoden, 2014). Dellaportas et al. (2012) argue that due to the legitimation risk occurring as a cause of scandals

and fraud, not-for-profit governance should not be limited to legal requirements but should be a mechanism that can reflect stakeholder interests.

O'Dwyer and Unerman (2008) also suggest that stakeholders are widely ignored regarding not-for-profit policy making. However the capability of beneficiaries has also been questioned by some scholars (Cornwall, 2008). Conflicting interests of stakeholders may hinder the establishment of functioning accountability and governance policy making (Guo and Musso, 2007; LeRoux and Wright, 2010). However as Connolly and Hyndman (2017) suggest donors for example are willing to share their powers with beneficiaries in order for beneficiaries accountability needs to be met. Wellens and Jegers (2014a) suggest that although beneficiaries are valued to be one of the most important stakeholders, their participation in accountability and governance policy making is limited.

2.4.4 Governance mechanisms

Mechanisms of governance are the tools and procedures (Cornforth, 2012) that aim to enhance performance, to ensure organisational objectives are met, and to ensure that assets of the organisation are preserved and that organisational wrongdoing is minimised (Ostrower and Stone, 2010). Hyndman and McDonnell (2009) list the possible governance factors or mechanisms as "government regulation, production of annual reports, monitoring of paid staff by the board, and even monitoring of beneficiaries by the charity, to make sure any funds provided are going to their intended use."

Hyndman and McDonnell (2009) distinguish between internal and external governance mechanisms. Whereas mechanisms of internal governance consist of the relationships between the internal stakeholders (board, staff, management) and internal control, mechanisms of external governance consist of the relationships between the charities and their external stakeholders such as donors, beneficiaries, and regulators. Harris et al. (2017)

suggested that governance benefits from internal and external mechanisms which direct the not-for-profit organisation to meet its objectives and to stop opportunistic behaviour. As discussed in the previous section, Ostrower and Stone (2010) suggest that different internal and external contingencies affect the governance and accountability dynamics of organisations.

Examples of internal governance mechanisms include the board of trustees and its composition and attributes, internal audit, separation of CEO and Chair (duality), existence of committees, stakeholder participation on the board, and existence of a governing document. Examples of external governance mechanisms include external audit and reporting, compliance with the regulations, disclosure, and stakeholder scrutiny (Jobome, 2006). Multiple stakeholders and their accountability needs, regulation, and the funding environment were identified as important variables that affect governance (Hyndman and McDonnell, 2009). Atan et al. (2013) emphasise the link between accountability and governance by stating that especially external governance can be used as a tool to enhance accountability. Most of these mechanisms are aspects of accountability. As the mechanisms have been covered in detail in section 2.3.6, only brief explanations will be provided here.

2.4.4.1 Board of trustees

The board of trustees in the charity sector is defined by the Charity Commision as "the people who lead the charity and decide how it is run" (Charity Commision, 2018). As in the for-profit sector, the board of trustees is expected to give direction to the organisation and monitor the management (Ostrower and Stone, 2010). However, as the charities do not have owners, as in the case of the for-profit sector, and as especially smaller charities are both governed and managed by the trustees only, the importance of the board of trustees' governing and monitoring duties increases (Cornforth, 2012). The lack of both owners and 'staff' however in smaller charities also stresses that

the board of trustees also should be monitored in order to prevent opportunistic behaviour (Hyndman and McDonnell, 2009).

Cornforth (2001) identifies board characteristics such as board size, composition of the board, diversity (gender, age, ethnicity), attendance, and frequency of meetings. The board characteristics were discussed in detail at section 2.3.6.3 with a focus on monitoring, as the thesis examines the opportunistic behaviour of charity officials, rather than how the charities perform. In terms of performance, larger boards have been found to be better at monitoring (Lipton and Lorsch, 1992) and to attract more funds, but may be inefficient at decision making. For example, Cornforth (2001) found that neither board size nor board meeting frequency had an impact on board effectiveness. Callen and Klein (2010) and Olson (2000) suggest that larger boards will perform better in attracting funds to not-for-profit organisations. As discussed in section 2.3.6.4 stakeholder involvement is found to enhance performance (Wellens and Jegers, 2011). Board diversity has been found to have both positive and negative impact on performance (Wellens and Jegers, 2011).

The board of trustees is even more crucial for not-for-profit entities than for for-profit entities, as not-for-profits lack mechanisms such as board remuneration and the existence of committees to tackle opportunistic behaviour (Speckbacher, 2008). The board-management relationship is also argued to be problematic. For example, Miller (2002) suggested that the board is ineffective at monitoring the managers because the board and managers are highly interconnected as discussed in section 2.3.6.3

Cornforth (2012) criticises the literature on not-for-profit governance as being too focused on the board of trustees (Cornforth, 2012). There is therefore a need to include other stakeholders to better understand the dynamics of the not-for-profit governance (Stone and Ostrower, 2007). This makes it necessary to consider further governance mechanisms, from the perspective of not-for-profit organisations.

2.4.4.2 Self-regulation

Dellaportas et al. (2012), following a survey of CFOs of not-for-profit organisations, concluded that self-regulation, as suggested by Ebrahim (2003b), rather than a strong regulator, may also be suitable in the not-for-profit sector to enhance governance. As discussed in 2.3.6.3, the use of a code of ethics is an important part of effective accountability and governance. In England and Wales, the governing document is crucial for identifying the governance framework of any charity. The governing document sets the rules for each charity regarding their charitable purposes and objectives, their powers, rules of operation and responsibilities of the trustees. (Charity Commission, 2014c).

2.4.4.3 Stakeholder participation

In terms of board structure, stakeholder representation on the board (Fama and Jensen, 1983; (Cornforth and Simpson, 2003), is also another aspect of governance that has been studied by scholars. As also discussed in section 2.3.6.4 Wellens and Jegers (2014a) suggest that participatory policy making mechanisms often operate symbolically rather than substantively in not-for-profit organisations. They conclude that focusing only on formal participation policies such as beneficiaries being part of the board may not always be effective. In subsequent research, Wellens and Jegers (2016) found that beneficiaries taking part in decision making of not-for-profit organisations enhance the quality of governance but that beneficiaries are seldom present at board of trustee meetings. With respect to donors, Callen and Klein (2010) found donor presence on the board to have a decreasing effect on administration expense ratio, which therefore enhances governance and diminishes excessive use of funds.

2.4.4.4 Audit

Audit is another governance mechanism that enhances the monitoring function (Verbruggen et al., 2011). In terms of performance, donations to not-for-profit organisations were found to increase when audit was performed by big audit companies (Kitching, 2009). Audit quality, such as receiving Big 4 audit is considered to enhance monitoring of not-for-profit organisations (Jetty and Beattie, 2012) The existence of an audit committee is also argued by Harris et al. (2017) to enhance monitoring and legitimacy in not-for-profit organisations.

2.4.4.5 Committees

Turley and Zaman (2004), Jobome (2006) and Jetty and Beattie (2012) argue that the existence of audit committees can enhance governance implementation in the not-for-profit sector. McMullen (1996) and Jetty and Beattie (2012) suggest that audit committees can enhance the monitoring component of governance and therefore reduce opportunistic behaviour. With the exception of the audit committee, there has been little research into the role of board committees in not-for-profit organisations.

2.4.4.6 Reporting

Disclosure and reporting is another important governance mechanism, which aims to minimise information asymmetry among the organization and the stakeholders (Ntim et al., 2017) as discussed in section 2.3.6.1. Reporting and accounting is described as the most important and common tool used in discharge of accountability and in effective governance (Dubnick, 2003). Yeo et al. (2017) found that governance disclosure encourages donors to donate more. Atan et al. (2013) suggest that transparency and accountability are enhanced by use of effective governance mechanisms. They argue that governance works as a tool to meet the needs of the charities' stakeholders

and that disclosure, such as by annual return, provides means of communication among the charities and their stakeholders.

2.4.4.7 External regulation

Dellaportas et al. (2012) and Hyndman and McDonnell (2009) suggest that the existence of an external and independent regulator will enhance governance mechanisms in not-for-profit organisations. Over time, the charities SORP has been enhanced in terms of governance principles and disclosures (Hyndman and McMahon, 2010).

The mechanisms used in governance are similar and even identical with the ones of accountability. The overlap of governance mechanisms was stressed by Hyndman and McDonnell (2009), who suggest that accountability mechanisms will also be the part of not-for-profit governance mechanisms.

2.4.5 The relationship between governance and accountability in not-for-profit organisations

The relationship between the concepts of governance and accountability is assessed by various scholars who agree on the fact that governance and accountability are concepts crucial for organisational structure that are linked together (Wellens and Jegers, 2014b; Sinclair, 2010). However, there is no consensus on how governance and accountability are connected.

One position suggests that accountability and governance are interconnected but separate concepts (Berger, 2009; Palmer and Randall, 2001). A second position is that the practice of good governance is a precondition and component of accountability (Keating and Frumkin, 2003) and a tool to enhance accountability relationships. A third position is that how accountability is discharged is a component of governance (Dellaportas et al., 2012; Cornforth, 2014) and that understanding the accountability framework in not-for-profit organisations will enhance governance policies in not-for-profit organisations (Burger, 2012).

Coule (2015) criticises the view that accountability is a function of governance but rather suggests that governance and accountability are dynamic, interconnected and social processes that have been shaped by various dimensions, both internal and external. Jepson (2005), who assessed the concepts of accountability and governance in environmental not-for-profit organisations, suggested that accountability and governance are linked to each other and that accountability cannot be seen as just an element of governance but rather accountability is the main goal of governance. Jepson (2005) argues that one of the most important purposes of not-for-profit governance is to ensure assets are used in the best possible way to complete the organisation's mission by enhancing trust to the public and its stakeholders.

Another important aspect of the connectivity between the concepts of governance and accountability is the influence that stakeholders exercise on these concepts. Stakeholders play a crucial part in determining both accountability and governance policies of not-for-profit organisations as both governance and accountability are related to responsiveness to the stakeholders (Speckbacher, 2008). Wellens and Jegers (2014b) also suggest that, as in the case of accountability, the implementation of governance should be based on exchange of information and should also work on platforms where stakeholders share information and discuss their needs. Wellens and Jegers (2014b) also argue that both governance and accountability should be built by enabling interaction and understanding the expectations of other stakeholders, and to cover the needs of the various stakeholder groups. Governance is also about satisfying the accountability needs of the stakeholders (Tricker, 1984). Therefore, it can be argued that, as accountability is part of governance, governance is also part of accountability as effective governance leads to enhanced monitoring and therefore a more successful accountability.

As discussed in sections 2.3.6 and 2.4.4 both internal or external governance mechanisms also resemble the accountability mechanisms discussed previously as they are mainly made up of board attributes and monitoring (Stone and Ostrower, 2007), reporting and disclosure (Jobome, 2006), audit and control (Beasley, 1996), and other mechanisms such as self regulation and participation and enhanced communication with the stakeholders (Ebrahim, 2003b).

Efficient governance as a result, in not-for-profit organisations has been argued to enhance performance in terms of donation acquisition (Harris et al., 2015) and a higher financial performance (Aggarwal et al., 2012), which has a close and integral relationship with accountability (Coule, 2015; Atan et al., 2013). As discussed before, both governance and accountability in the charity sector are shaped by various stakeholders (Atan et al., 2013). The purpose of governance and accountability is to meet stakeholder needs in areas of performance, finance etc., and stakeholders benefit from similar mechanisms (Speckbacher, 2008). Also as in the case of accountability, specific characteristics of not-for-profit organisations such as lack of an owner, performance indicator, market, residual claimant, multiple stakeholder environment in not-for-profit sector also applies to governance and therefore makes it harder to conceptualise a governance framework (Cornforth, 2012, p. 1121; Goodin, 2003).

In regards to opportunistic behaviour and more narrowly defined in the case of fraud the aim of these two concepts is also identical: to tackle, prevent, deter and minimise fraud. As accountability, effective governance also provides and enhances legitimacy and credibility, which is also argued to prevent opportunistic behaviour (Coule, 2015). Jetty and Beattie (2012) argue that growth in organisational wrongdoings and opportunistic behaviour has increased the importance of effective governance and accountability. One of the most important connections between accountability and governance is that they both use mechanisms to enhance organisational functioning and to

limit organisational wrongdoing (Burger, 2012). Dellaportas et al. (2012) suggest that risk of fraud increases with the absence of transparency, accountability and governance. They also argue that due to the legitimation risk occurring as a cause of scandals and fraud, not-for-profit governance should not be limited to legal requirements but should be a mechanism that can reflect stakeholder interests.

Governance has become an important concept for not-for-profit organisations, along with accountability (Hyndman and McDonnell, 2009). Although governance also comprises assessing how the organisation is performing in regards to its set of rules and objectives (Ostrower and Stone, 2010), the primary focus of this study is on fraudulent behaviour undertaken by charity officials. Therefore, the study focuses more on the conformance aspect of governance rather than performance (Sinclair, 2010). Following the approach of Hyndman and McDonnell (2009, p.9), the thesis focuses more on the stakeholders' expectations and their accountability relationships.

It is therefore not feasible, and may even hamper the understanding of organisational dynamics of the charity sector, to treat accountability and governance as totally different concepts (Stone and Ostrower, 2007; Tricker and Tricker, 2015). Therefore, this thesis does not assume that the concepts of governance and accountability are different, but rather regards them as part of the same system and dynamics that are complementary to each other (Soltani, 2014; Brennan and Solomon, 2008). What some researchers identify as 'accountability mechanisms', especially those discussed in section 2.3.6, are often similar to, if not identical to, what other scholars identify as 'governance mechanisms' as discussed in section 2.4.4. As both governance and accountability are shaped and affected by various stakeholders, and both use largely the same mechanisms to be effective and successful, in this thesis the two terms have been used in a way that reflects their interrelationship.

The main difference drawn in this thesis is that 'governance' tends to be used to identify systems and structures, whereas 'accountability' tends to be used

to refer to actual practices. For example, the membership attributes of a board of trustees would be considered as aspects of governance, whereas how the board reports on its activities to stakeholders and suffers consequences as a result of such reporting would be considered as aspects of accountability. Governance mechanisms are usually disclosed in publicly available documents such as annual reports, reviews and returns, and are therefore more easily observable than accountability practices. Hence Research Objective 2, which is assessed through statistical analysis of public data, refers explicitly to governance mechanisms. Interviewing stakeholders is more likely to reveal insights into how accountability is practised, so the analysis in Chapter 6 in particular emphasises accountability.

Overall, the thesis does not opt for a specific position but suggests that the concepts of accountability and governance are interconnected as they especially serve the interests of the organisation and use the same mechanisms (Crawford et al., 2009; Vinten, 2002).

The next section provides an outlook on UK charity accountability and governance literature.

2.5 Review of empirical literature on UK charity accountability and governance

Charities play a significant part in both the economy and the society in the UK, which is one of the most generous societies in the world (Foundation, 2018). In this section, accountability literature about UK charities will be analysed under the headings of types of disclosure (financial, performance, narrative), audit, misconduct/fraud, international comparisons, stakeholder studies and other studies. Many of these studies address issues of governance as aspects of accountability, which means that there are relatively few pure governance studies relating to UK charities.

2.5.1 Types of disclosure

The contents and readability of charity reporting in the UK began to be questioned starting from the 1980s (Hyndman and McMahon, 2010). Bird and Morgan-Jones (1981) posited that there was a lack of uniformity in reporting among charities and the implementations were out-dated and not inclusive of the sector. As a result, the arguments of Bird and Morgan-Jones (1981) aroused further both academic and regulatory work regarding the UK charity sector (Connolly and Hyndman, 2013b).

Ultimately, following the influence of the critical literature, the first SORP (1988) was issued and re-designed several times to meet the changing expectations of accountability and transparency of the sector (Palmer et al., 2001). Through time, the SORP was enhanced in terms of legislation, specificity, and focus, and cut down on preparer discretion (Connolly et al., 2015; Hyndman and McMahon, 2010).

The charity accountability literature in the UK regarding disclosure will be categorised into three sections: financial disclosure, disclosure on performance and narrative disclosure.

2.5.2 Financial disclosure and the SORP

After the release of the first SORP (see Section 1.2 of Chapter 1), research was undertaken that evaluated the level of compliance with the SORP and charities' actual accounting procedures (Gambling et al., 1990). This research found that the level of compliance was deficient (Ashford, 1989; Hines and Jones, 1992). Although the SORP was still voluntary at the time, the lack of consistency among charities brought new studies and led to an upgrade of the SORP (Palmer et al., 2001).

Further research, which focused on compliance with the SORP and financial statements, found that although there was an improvement, there were still areas to be enhanced (Connolly and Dhanani, 2009; Connolly and Hyndman,

2000; Connolly and Hyndman, 2004). Connolly et al. (2013b) found that the UK Charity SORP of 2005 was not sufficient for users to derive conversion ratios from financial documents provided by charities. They argued that charities were successful in disguising their information regarding conversion ratios. Hyndman and McConville (2016) posit that although conversion ratio reporting have improved whereas efficiency measures are seldom reported by the charities.

Williams and Palmer (1998) stressed the lack of user feedback, which could have improved implementation. However, Hyndman and McMahon (2011), who assessed the progress of the SORP across several decades, argued that with the help of stakeholders the regulator, as being the 'definitive' stakeholder in law making, had developed a more enhanced accounting and reporting structure for charities in England and Wales.

Dhanani and Connolly (2015), utilising the theory of communicative action of Habermas (1984), examined the annual reporting process of UK charities. They found that, although most charities tended to make truthful disclosures, some tended to target specific stakeholder groups (e.g., powerful donors) and to provide some information that was misleading.

Scholars also agree that financial statements hold a restricted role in discharging accountability because they are focused on monetary means and lack information regarding output, performance and outcome (Connolly and Dhanani, 2009). In line with the expectations and as a result of academic studies, charity reporting and SORP requirements were also improved with an enhanced focus on performance and outcome reporting (Hyndman, 2018).

2.5.3 Performance information

The lack of disclosure of charities' performance led scholars to concentrate on this area. Hyndman (1990) found that donors expect charities to disclose more information on performance rather than financial information. He also

argued that information expectations of donors were not met even though their expectations were known by the charity officials. Hyndman (1991) continued his previous work and found that both the preparers and auditors were aware of the gap but did not perform enough to close it and therefore accountability to donors was not discharged appropriately. Connolly and Hyndman (2003) also found that little had changed concerning performance disclosure since Hyndman (1990) and that disclosure of background information was still preferred to performance indicators.

Connolly and Hyndman (2013b), who based their work on Hyndman (1990), found that donors' information expectations are not met, even though they are perceived to be the key stakeholder group. They argue that donors want more performance related information than financial information. They also state that annual reviews, which include more information on outcome/performance, are more relevant for donors than the annual report, which is made up of financial information. Compared to Hyndman (1990), they found that the information gap has been reduced with time. However, they also add that provision of information on the administrative cost percentage[9] is an area where there is no development.

Connolly and Hyndman (2013a) assessed the views of charity donors with regard to accountability discharged by charities, by using semi-structured interviews. They found that, although donors are regarded as the most important stakeholder group, their accountability demands are not met. Also, larger donors compared to small ones use their power on the charities to acquire more information.

Hyndman and McConville (2016) found that efficiency reporting in the UK charities is driven by a desire to sustain legitimacy rather than being ethical

[9] Conversion ratios are a broader term that also covers administrative cost percentage.

and transparent. Boateng et al. (2016, p.6) in their study of UK charities found financial measures, client satisfaction, management effectiveness, stakeholder involvement and benchmarking as the most important performance measures. They argue that using a variety of measures enhances the discharge of accountability in a diverse stakeholder environment.

Overall, the literature states that the user-needs of stakeholders are more than financial information, and that these extra needs seemed not be met (Connolly et al., 2015).

2.5.4 Narrative information

The annual review, which is exclusively made up of narrative reporting, is highly favoured by the charity stakeholders (Connolly and Dhanani, 2009; Connolly and Hyndman, 2013b). The narrative content of annual reports was assessed by Connolly and Dhanani (2006), who found that, while compliance with the regulation was met by the charities, performance reporting was deficient. They also found that the larger a charity is, the more accountability is discharged. Descriptive rather than performance was disclosed (Dhanani, 2009), as was information to meet regulations rather than to meet donor expectations (Connolly and Dhanani, 2009).

Studies on narrative reporting (Baker et al., 2012; Beattie, 2014; Morgan and Fletcher, 2013) discussed how accountability could be enhanced (Jetty and Beattie, 2009). Morgan and Fletcher (2013) analysed the public benefit reporting in charities and found that enhanced public benefit reporting positively affects accountability. McConville (2017) argues that impact reporting can enhance transparency and accountability in not-for-profit organisations and therefore will benefit stakeholder relationships and gain their support.

2.5.5 Audit

Independent examination of accounts is found to legitimise the actions of

charities in the eyes of the stakeholders and enhance the trust towards them and build value for the charity (Morgan, 2017). However, the findings of (Hyndman, 1991, p.81-82) stress that both charity officials and auditors knew that charity reports should meet donors' information needs but "there appears to be little motivation on the part of information providers to improve the accountability of charities to contributors." Overall the article points out the relationship between charity officials and auditors and states that the 'relevance gap' is formed on purpose by those two stakeholder groups. The scholars found that auditors are not using their role to channel charities towards better reporting quality, or to encourage the charities to comply with the SORP (Palmer et al., 2001; Williams and Palmer, 1998).

Other works examine the role of independent examiners in charities (Morgan, 2011) and audit fee determinants (Beattie et al., 2001). Beattie et al. (2001), in line with the for-profit sector, found that major determinants of fees are size and audit firm location. They also observed a positive relationship between audit fees and non-audit service fees. Also, they stated that audit is more complex especially for fundraising charities. They also found that auditors' audit fee of the charity sector is less than the market-rate audit fee. Beattie et al. (2006) found that charities tend to hire auditors that have expertise in the sector. They found that appointment of an auditor was more likely if an audit committee exists, if the charity revenues had fallen and if the existing auditor is top-tier. Cantoni et al. (2011) found that, unlike in the for-profit sector, the organisational complexity of charities has no affect on audit fees. Jetty and Beattie (2012) assessed the relationship among the reporting, the existence of audit committees and board attributes. They found that a bigger board size and a two-tier board has a positive correlation with the existence of an audit committee. They also stated that no correlation was found between the existence of an audit committee and donor dependence and the legal structure of the charity.

Morgan (2011) found that the independent examination of the charities in the UK enhances the accountability discharge of the charities. Kemp and Morgan (2019) examined a sample of charities with an income of between £100,000–£250,000 and assessed how accurately they reported to the Charity Commission whether their accounts had been qualified by their auditors. They found that 96% of charities which stated that their accounts had been qualified had given an incorrect response. They also found that a minimum of 7.5% of their 199-charity sample failed to submit and 5% of the sample failed to comply with submission regulations.

2.5.6 Misconduct/Fraud

There were recently a couple of studies on fraud/misconduct in the UK charity sector. McDonnell and Rutherford (2018) focused on Scottish charities and found a "disconnect between the types of charities that are suspected of misconduct and those that are subject to subsequent regulatory action" (p.107).

Ohalehi (2019), in his work on fraud in small charities, posited that the absence of a strong control system and segregation of duties, led to a greater threat of fraud. McDonnell and Rutherford (2019) also found, in their study on disclosure of serious incidents, that smaller and younger charities are seen under more threat for serious incidents to occur by the regulator. Nguyen and Soobaroyen (2019) examined earnings management practices in charities in England and Wales and found that earnings management is used abundantly by larger charities with income over £500,000 in England and Wales.

2.5.7 International comparisons

Scholars also analyse and compare different not-for-profit jurisdictions, including the UK (Breen, 2013; Mack et al., 2017) and argue that a more unified approach that would enable comparison of not-for-profit organsations which would enhance accountability by benchmarking of the best practices

made easier. Connolly and Hyndman (2001) compared UK and Irish charities and concluded that the financial statements of Irish charities were not as much as in line with SORP requirements as the UK ones. Breen (2013) argues that, as a result of inadequate reporting, comparability among the UK, USA and Ireland is not satisfactory. Cordery and Baskerville (2007) compared the history and regulation of UK and New Zealand charities. They argue that the UK established a more effective enforcement regulation system for charities, whereas New Zealand opted to stay sector neutral. McConville and Cordery (2018) assessed the differences in terms of reporting of charities in the United Kingdom, New Zealand, Australia, and the United States.

2.5.8 Stakeholder studies

Stakeholder salience (Mitchell et al., 1997) has also been assessed in UK charities. It is suggested that small donors and beneficiaries lack the power to scrutinise charities for more effective disclosure (Hyndman and McDonnell, 2009). Connolly and Hyndman (2017), through interviews with key stakeholders (donors, charity managers, auditors and beneficiaries), found that donors were regarded as the most salient group and that the donors want to share their power with beneficiaries in order their accountability needs to be met. Yasmin and Haniffa (2017) found that, although Muslim charity organisations in the UK provide accountability, it is not sufficient.

Crawford et al. (2009) conducted interviews with charity stakeholders in Scotland and found that regulations in general targeted larger charities. They also found that the costs of some of the regulations are burdensome for smaller charities. McDonnell (2017), in his study of the Scottish charity sector, assesses a charity accountability monitoring programme, implemented by the Office of the Scottish Charity Regulator (OSCR). He found no relationship between accountability warnings (or 'triggers' [10]) and

[10] "The program examines 32 aspects of a charity's financial status that may be indicative of accountability concerns, with a particular focus on fundraising, governance and compliance

unfavourable outcomes of such as inquiries by the charity regulators or complaints from the public.

2.5.9 Governance studies

The literature discussed in Section 2.4 also covered governance themes. This section briefly examines UK charity governance studies that were not discussed previously in the thesis.

Scholars have assessed the structure of the UK charity boards (Gambling and Jones, 1998; Harrow et al., 1999; Vinten, 1997; Vinten, 2001). The effectiveness of the board of trustees in terms of governance has been questioned (Knight, 1993). Clifford and Mohan (2016) classified charities depending on their sources of income and found that the majority of charities with an income of over £500,000 depended on government funds. Kirkland and Sargant (1995) found that larger boards in the charity sector are found in larger charities in terms of income. Cornforth and Simpson (2002) examined the importance of organisational size for board characterisitics and found that larger charities tend to have larger boards and have more subcommittees, and larger charities tend to have formal board trustee responsibilities.

Leadership is another aspect of UK charity governance studies (Wilson-Jones, 2017). For example, Lambert and Lapsley (2010) examine the relationship between governance and leadership in not-for-profit organisations and how powerful leadership can both negatively and positively affect governance.

Another topic examined is the remuneration of the trustees and managers. Nguyen and Soobaroyen (2020) found that CEO compensation in UK

---

with regulation. Exceptions are triggered automatically during the submission of a charity's annual accounts; if this occurs, the organization is immediately informed and offered the opportunity to provide an explanation." (McDonnell, 2017, p.729)

charities is positively correlated with existing nomination or remuneration committees and board diversity but negatively with audit committee, experience of the CEO and charities that are funded by the government. Wise (2001) assessed if receiving remuneration will have a positive impact on trustees regarding their governance responsibilities. Wise (2001) found that although a majority of potential trustees will be willing to serve without remuneration, providing remuneration to trustees may attract a higher number of potential trustees and trustees will perform better regarding their duties.

Marketisation or benefiting from for-profit governance policies was also discussed in the literature (Lambert and Lapsley, 2011). Hyndman and Jones (2011) who stress the difference between for-profit and not-for-profit organisations regarding the concept of governance, suggest that marketisation of the charity sector is important when assessing governance in the charity sector. Scholars highlight the difference of the two sectors and that marketisation might bring more harm than good to the sector (Bruce and Chew, 2011; Hind, 2011). Toothill (2018), who argued that charities were having legitimacy problems due to their damaged reputations, found that rather than marketisation of the sector, which even has little effect on fundraising, effective governance practices may be the remedy for the legitimation problem of the sector.

2.6 Summary

This chapter has examined the accountability and governance literature, with a focus on not-for-profit organisations and especially on charities in the UK. Although the accountability and governance structures (concerning stakeholders, purposes and mechanisms) in the for-profit, public and not-for-profit sectors bear similarities, the literature finds that there are significant differences. The special features of not-for-profit organisations include lack of residual claimants and explicit identification of ownership (Aggarwal et al., 2012; Fama and Jensen, 1983b), a market (O'Regan and Oster, 2005), clear objectives (Berman and Davidson, 2003) and a common performance

indicator (Miller, 2002). These absences make it harder for not-for-profit organisations to be monitored, to ceonceptulaise a single governance framework and for the accountability to be discharged effectively.

The existence of a large variety of stakeholders with different priorities makes it imperative for not-for-profit entities to discharge accountability (Cordery and Baskerville, 2007). Also, the lack of power of stakeholders (Connolly and Hyndman, 2017) and focus on reporting to a selected stakeholder group exacerbates this problem (Ebrahim, 2005). Although the purpose of accountability does not seem to differ too much, the demand from users for more information related to performance and outcome seems to be shaping how accountability is discharged in not-for-profit organisations (Connolly and Hyndman, 2013b; Hyndman, 1990).

To develop a single governance framework for not-for-profit organisations also seems to be a hard task as various internal and external governance contingencies (Ostrower and Stone, 2010) should be taken into consideration, where especially the stakeholders play an important role in governance making and therefore the governance making should not only focus on the board of trustees (Miller, 2002; Hyndman and McDonnell, 2009).

In terms of mechanisms, unlike disclosure/reporting and audit/monitoring, which have been found to provide a positive influence on the discharge of accountability in for-profit organisations, the large variety of board attributes in not-for-profit organisations makes it hard to design a conceptual framework for governance and the discharge of accountability for not-for-profit organisations (Holland, 2002; Miller, 2002; Ostrower and Stone, 2010).

Although the complexity of accountability and governance in not-for-profit organisations provides a fruitful area to research, more has to be discussed especially theoretically to grasp better and structure the fundamental elements of accountability and governance. In the next chapter, theories of accountability and governance will be evaluated to provide an integrated theory.

3. THEORIES OF ACCOUNTABILITY AND GOVERNANCE: A REVIEW AND SYNTHESIS

While accountability and governance are crucial for not-for-profit organisations, theories are generally derived from the for-profit sector and therefore are more underdeveloped for the not-for-profit sector (Coule, 2015). The different structure of the not-for-profit sector, as well as the variety of stakeholder groups, makes theorisation for the not-for-profit sector more difficult (Van Puyvelde et al., 2012).

As discussed in Section 2.4.5, governance and accountability are closely associated, particularly in not-for-profit organisations. This means that theories of accountability may generally be applied to understand and explain not only structures and mechanisms of accountability but also structures and mechanisms of governance (indeed, the structures and mechanisms are often the same). Solomon (2013) discusses three theoretical frameworks for explaining and analysing corporate governance: agency theory, transaction costs theory (which she considers to be "different lenses through which the same problems may be observed and analysed" – Solomon, 2013, p.15), and stakeholder theory. In this chapter, agency theory and stakeholder theory are considered alongside stewardship theory as perspectives on both accountability and governance in charities. Drawing on theories that have been developed mainly by reference to for-profit organisations is useful in that most studies of fraud have been undertaken in the for-profit sector and have often used these theories.

In this chapter theories that try to provide frameworks for accountability and governance will be evaluated and discussed. The chapter argues that agency theory, under-gridded with stakeholder and stewardship theory, is efficacious to examine misconduct/fraud in not-for-profit entities and therefore charities.

3.1 Agency Theory
3.1.1 Agency theory criticism
3.1.2 Agency theory and not-for-profit organisations
3.1.3 Agency theory and fraud

3.2 Stewardship theory
3.2.1 Stewardship theory criticism
3.2.2 Stewardship theory and not-for-profit organisations
3.2.3 Stewardship theory and fraud

3.3 Stakeholder theory
3.3.1 Stakeholder theory criticism
3.3.2 Stakeholder theory and not-for-profit organisations
3.3.3 Stakeholder theory and fraud

3.4 Other theories

3.5 Integration of theories

Figure 3.1 Structure of Chapter 3

3.1 Agency Theory

Agency theory is rooted in the work of Berle and Means (1932), who suggested that stockholders' power over the organisation had diminished because of companies getting larger with an immense number of stockholders. The large quantity of stockholders all having minority interests led to the separation of the ownership and control/management of the organisations (Miller-Millesen, 2003). The duality of the controller and owner led to an analysis of the relationship between managers and investors/stockholders. Agency theory builds upon this duality in which the manager (agent) is obliged to serve the interests of the owner (principal) (Miller-Millesen, 2003). This relationship is defined by Jensen and Meckling (1976, p.308) as "a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some of the decision making authority to the agent."

General assumptions of agency theory are that organisations are a nexus of contracts among self-interested and bounded rational individuals (Eisenhardt, 1989) whose identification with the organisation is low (Van Puyvelde et al., 2016), who have short-term orientation rather than long-term (Olson, 2000), and who will act in order to maximise their own benefits (Fama, 1980). The theory envisages that the interests of principal and agents will not align and this divergence may lead to goal conflicts (Miller-Millesen, 2003). The theory also posits that while agents are risk averse, principals are risk neutral, which may lead the agent to pursue different expectations than the principal (Eisenhardt, 1989; Saam, 2007).

Agency problems may show up resulting from the general assumptions of the theory. The agency problem emerges when a) there are conflicts of interest among the parties, and b) verifying the actions of the agent is not possible or the information held by the parties differs, which is referred to as 'information asymmetry' (Eisenhardt, 1989). Two of the most important agency problems

are adverse selection and moral hazard. Whereas an agent concealing negative information of himself before being selected as an agent is called 'adverse selection', misbehaving after being appointed as an agent and behaving opportunistically is defined as 'moral hazard' (Jegers, 2009).

Goal conflict between the principal and the agent is a result of different priorities and interests (Eisenhardt, 1989) which may cause opportunistic behaviour of the agent. Fama (1980) argues that if each of the parties will try to maximise its own utility, the optimal actions of the principal and the agent will differ which will lead to different outcomes.

It is generally assumed that the agent is equipped with better quality of information than the principal regarding the organisation (Miller-Millesen, 2003). Therefore the principal finds it hard to be confident about the agent's performance on designated tasks. Kirsh (1996) argues that the more complex the tasks are, the more power the agent will have and therefore more complicated agency problems will arise.

Agency theory posits that the agency problems are quite general, are inevitable as a perfect contract between the principal and agent is not possible and therefore will occur in every organisation in differing levels where there is imperfect monitoring of the agent (Jensen and Meckling, 1976).

Agency theory tries to address the agency problems by answering how agents' behaviour can be controlled by the principal to achieve their and not the agent's interests (Harris and Bromiley, 2007; McColgan, 2001). Jensen and Meckling (1976) suggest that the principal can restrict and diminish the difference in interests with the agent by forming incentives and providing monitoring practices in order to limit the opportunistic behaviour of the agent.

Monitoring (Davis et al., 1997), independent external audit (Davis et al., 1997; Watts and Zimmerman, 1983), internal control (Jensen, 1983), managerial shareholdings (Jensen and Meckling, 1976), effective cash and

non-cash remuneration schemes (Macey, 1991), boards adequately composed of outside directors (Beasley, 1996), selecting the right agent (Caers et al., 2009), and disclosure (Abrahamson and Park, 1994) are some tools that are used to mitigate the agency problem. The board of directors, for example, is expected to act in the interests of the principal and to monitor and align the interests of the agent and the principal (Fama and Jensen, 1983b; Hillman and Dalziel, 2003).

However, every organisation will have a different nexus of contracts and therefore will be in need of different remedies (McColgan, 2001). Himmelberg et al. (1999) posit that the agency problem differs due to unobserved environmental heterogeneity between organisations. The cost-benefit of each remedy also needs to be taken into account as remedies having more costs than benefits will lead to inefficiency for organisations (Eisenhardt, 1989).

The agency problem and its remedies bear a cost, that is the 'agency costs' which are the costs relating to tools and methods that are used to align goal congruence between the agent and the principal (Jegers, 2009). Agency cost is defined as "the sum of monitoring costs, bonding costs, and residual loss" by (Jensen and Meckling, 1976, p. 308-309). Monitoring costs are expenses to assess and control the actions and decisions of the agent like audits, remuneration and training costs (McColgan, 2001). Expenditures incurred by the agent for establishing the monitoring structure and convincing the principal of the commitment and the qualities of service are defined as bonding costs (Mason et al., 2006). As it is impossible to completely align the interests of the agents and the principals, there will be costs remaining which is the loss of welfare for the defective relationship between the principal and the agent (Fama and Jensen, 1983b). This 'residual' amount is described as "residual loss" and is defined by Jensen and Meckling (1976, p. 308) as "The dollar equivalent of the reduction in welfare experienced by the principal due to this divergence is also a cost of the agency relationship, and we refer to this

latter cost as the residual cost." Figure 3.2 below depicts the agency cost equation:

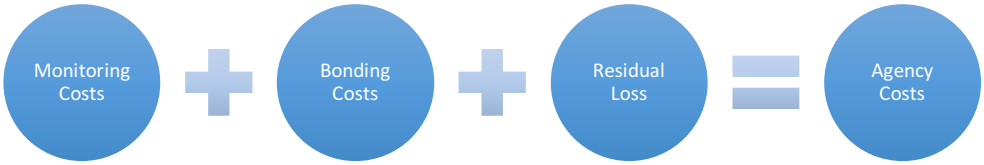


Figure 3.2 Equation of Agency Cost

Source (Author)

Agency theory is argued to be developed through two routes: the positivist and principal-agent streams (Jensen, 1983). The positivist stream deals mainly with examining which mechanisms are useful in solving the agency problem (Eisenhardt, 1989) and is more focused on the relationship among owners and managers and tends to be less mathematical compared with the principal-agent stream (Jensen, 1983). The principal-agent stream, on the other hand, is more conceptual and mathematical and can be applied to agency relationships other than the for-profit organisations (Eisenhardt, 1989).

3.1.1 Agency theory criticism

Although agency theory is praised as being universal (Bosse and Phillips, 2016) it is also criticised as providing a narrow point of view of regarding the relationship between the principal and the agent (Coule, 2015; Cuevas-Rodríguez et al., 2012), not taking into account the social context, organisation culture and the organisational environment (Aguilera and Jackson, 2003; Lubatkin et al., 2007); and only focusing on the quantifiable impact of the principal-agent contract while ignoring stakeholders other than the stockholders (Culpan and Trussel, 2005).

Agents may be characterised as being too opportunistic and negative and self-fulfilling (Donaldson and Davis, 1994; Kostova et al., 2018), while agency theory is also criticised for not analysing institutional embeddedness (Bosse and Phillips, 2016). Agency theory is also criticised for providing only a western and particularly USA based world-view and because of that it is unclear if the theory is applicable to different culture contexts or not (Ekanayake, 2004). Aguilera and Jackson (2003, p.448-449) state three main reasons for why agency theory lacks credibility: not taking into account a diverse number of stakeholders, overlooking interdependencies among stakeholders and providing a loose analysis of the importance of organisational environment. Empirical research is also critical of the agency theory. For example, (Frydman and Jenter, 2010; Sanders and Hambrick, 2007) found that stock options, which aim to align the interests of the principal and the agent, do more harm than good. Also ignoring good characteristics of humanity like fairness, cooperation and trust and designing incentives just based on the assumption that humans are self-driven and greedy exacerbates the agency problem and increases costs (Hoff, 2010). Da Silveira (2015) blames the 'homo economicus' approach that agency theory proposes and argues that rather than monetary incentives, psychological motivations and employee awareness are the remedies for agency problems. Empirical evidence is also mixed for agency theory as many studies found that agency theory is not efficient in coping with agency problems (Chen et al., 2016; Tosi et al., 2000).

Agency theory, envisaging that the owners of the organisation are the only principals, is also criticised as the principal-agent relationship is not that straightforward and as for each organisation, the agents and principals may vary (Davis and Thompson, 1994). Napier (1998) stresses that the board of directors can be taken as either principal or agent: as principal along with the shareholders or as agent in the form of the management. Caers et al. (2006) also suggest that there are several internal and external principal-agent relationships for not-for-profit organisations. The board can be the principal

of the management, it can also be an agent of stakeholders. Likewise, the management can be both the principal of employees and an agent of the board.

These criticisms of the agency theory have brought in new approaches to the traditional agency structure to be examined, such as culturally enhanced trust (Doney et al., 1998). For example, Bosse and Phillips (2016) argue that even in extremely competitive and volatile environments people are driven by bounded self-interest, that is, the self-interest of an agent is reshaped and softened by reciprocity and fairness. They argue that if incentives are designed accepting that agents are boundedly self-interested then the agency theory will provide more beneficial designs for both the organisations and the society as a whole. Pepper and Gore (2015) propose a behavioral agency theory' which posits that agency problems can be minimised by motivating agents to perform at their capabilities.

Wiseman et al. (2012) oppose the argument that agency theory is not capable of comprising social facts. They argue that agency theory is universal and non-rigid in nature and therefore can be applied to a variety of settings. They along with Wowak et al. (2017) also suggest that the context-specific and the heavily US focused analysis led to erroneous inferences and proposed a deductive approach which builds on the present agency theory by adding specific organisational contexts and social environment that shape the principal-agent relationship. Gomez-Mejia and Wiseman (2007) also posit that agency theory cannot be limited to a specific context and therefore is applicable to a variety of different contexts if applied appropriately. They also argue that the narrow approach of the agency theory should be replaced with a broader view extending financial aspects and that the lack of the acknowledgment of socially embedded characteristics of the organisation is not a failure of agency theory but rather an opportunity to extend the theory to new dimensions. Eisenhardt (1989) had argued that agency theory provides better observations when coupled with complementary theoretical perspectives.

3.1.2 Agency theory and not-for-profit organisations

Compared to for-profit organisations, not-for-profit organisations are believed to be different because trustworthiness is embedded in their structure and as a result agents bear fewer desires to act opportunistically (Hansmann, 1987). Although Fama and Jensen (1983a) argue that the lack of residual claimants in the not-for-profit sector avoids agency problems to occur, this assertion has its own defects and is not hassle-free (Herzlinger, 1996). Bernstein et al. (2016) found that in line with the agency theory, principals and agents have differing interests and act in line with differing incentives also in the not-for-profit sector.

Prakash and Gugerty (2010, p. 25-26) favour the implementation of the agency theory for not-for-profit organisations and argue that agency problems are enormous in not-for-profit organisations because of: principals not being residual claimants as in the case of for-profit organisations and the principals (donors) incapable of monitoring the agents, quality of 'product' or 'service' hard to verify and therefore hard to assess, absence of effective information flow and lack of communication between the specially small donors and the organisation, lack of efficient disclosure and monitoring mechanisms (regulation, market, clear owners) which may lead to malfeasance and lack of power of stakeholders to judge and evaluate the performance of not-for-profit organisations. While for-profit organisations have shareholders and/or owners as accepted as the ultimate principal (Jegers, 2008), not-for-profit organisations on the other hand are responsible to a broader range of stakeholders (Van Puyvelde et al., 2013). Jobome (2006) argues that the absence of shareholders or the 'residual claimant' (Jegers, 2009) makes performance to be measured harder for not-for-profit organisations as shareholders are more likely to be effective in monitoring the actions of the agents (Caers et al., 2006). Chen et al. (2014) suggest that both not-for-profit and public sector organisations face more exacerbated agency problems because of principals being less interested in monitoring the actions of the

organisations due to absence of clear outcomes and existence of complicated and multifaceted objectives which are not easy to quantify. Bernstein et al. (2016) found support for the agency theory that self-interest dominates the organisations in their study on the governance perceptions of managers and boards of charities.

Miller (2002) also stresses that in charities, it is not clear who ought to be regarded as the principal as the variety of stakeholders makes it difficult to decide who the definitive principal is. Szper and Prakash (2011) posit that reach for information is not easy for the not-for-profit sector stakeholders as they lack capabilities to interpret the data but also there is lack of interest from the stakeholders even for the readily prepared charity ratings. Preston (1989) also found that lower wages in the not-for-profit sector are more common than in the for-profit sector because of the belief that not-for-profit sector is providing positive social externalities.

Although agency theory applies to the not-for-profit sector (Fama and Jensen, 1983a) there is less research on with which remedies can agency problems can be mitigated with (Speckbacher, 2013). As a result of the absence of the of profit-driven structure, non-monetary rewards (Caers et al., 2006) and not the competitive compensation packages build on profit are deemed to be effective for mitigating agency problems in the not-for-profit sector (Jobome, 2006). While both internal and external audit is deemed to be effective in the struggle with agency problems board structure and composition is an area of controversy as board members of not-for-profit organisations are expected to be independent (Commission, 2014b). Callen et al. (2003) found that presence of donors on boards of not-for-profit organisations enhance confidence and assurance towards other stakeholders and therefore increases organisational efficiency by mitigating agency problems.

Caers et al. (2009) state that the selection of agents is crucial in mitigating agency problems and argue that agents' inherent utility functions are derived from both agency and stewardship theory: agent's personal objectives

(agency theory), organisational objectives (internal stewardship), and client objectives (external stewardship). Connolly et al. (2011) argue that in the case of charities, principal-agent theory may envisage a hierarchical monitoring, in which the board of trustees monitors the managers and the management monitors other staff like the volunteers, and all other charity stakeholders such as donors, beneficiaries and regulators are able to monitor the charities.

While Cornforth (2012) posits that agency theory neglects the wider governance system and multifaceted structures of the organisations, Benjamin (2010) argues that philanthropic and accountability relationships are different and therefore not-for-profit organisations have special needs and agency theory does not perfectly fit for not-for-profit organisations.

Miller (2002) founds during the interviews conducted with board members of not-for-profit organisations that the board disbelieves that managers will act opportunistically and therefore she criticises agency theory, noting that the relationship between the agent and the principal in not-for-profit organisations builds on mutual trust and cooperation and therefore more close to the stewardship theory. While there are views that the board of trustees in not-for-profit organisations is the main principal (Miller, 2002; Ruggiano and Taliaferro, 2012); donors are accepted as the core principal by (Fama and Jensen, 1983b). Miller (2002) criticises Fama and Jensen (1983b) and Hansmann (1987) for proposing that the donors are the owners of the not-for-profit organisation. She suggests that as unlike for-profit sector in which shareholders are the owners, donors do not pose all the characteristics of ownership and criticises the agency theory by arguing that it has restricted explanatory power to explain not-for-profit organisations. Also, Callen and Falk (1993) suggest that donors lack the motivation to oversee because of nonmonetary relationship with the not-for-profit organisation.

Overall, the apparent differences among not-for-profit and for-profit sectors and that the traditional agency theory being argued to be insufficient in explaining the dynamics of not-for-profit organisations has led scholars to

favour an extended and reformed agency theory (Jegers, 2008). Donaldson and Preston (1995) argued that agency theory should be developed by taking wider stakeholder interests into account and therefore proposing a multiple principal agency theory. While Coule (2015) argues that with an enhanced agency theory the stakeholders who are less powerful will be heard more, Van Puyvelde et al. (2012) suggest a more comprehensive principal-agent theory for not-for-profit organisations, adding aspects of stakeholder theory and stewardship theory. Mason (2015) proposes a 'common agency framework' among multiple principals/stakeholders in which each principal aims to control the one and only agent – the 'common agent'. (Mason, 2015, p.301) exemplifies the common agency framework for not-for-profit organisations as;

> "For nonprofit organizations engaged in advocacy, the leader (whether that's paid executive director, or a volunteer board president) should be considered the agent, while the organization's various stakeholders are the principals – including donors, volunteers, board members, and policymakers. Each principal is assumed to have their own expectations for organizational outcomes and creates its own "contract" with their agent. What differentiates a traditional principal-agent problem with a common agency framework is that the principals are uncoordinated in their efforts to manage their common agent, and may often be in conflict, leaving the agent to manage the diverse demands of his or her various principals."

3.1.3 Agency theory and fraud

Despite its drawbacks (Greve et al., 2010) agency theory is one of the most prominent theories in explaining fraud (Albrecht et al., 2004; Macey, 1991) by trying to explain goal conflicts between the principal and the agent (Albrecht et al., 2015).

Macey (1991) suggests that fraud is a rare case because agents are risk-averse and agents will be in a position to face immense personal costs if they act fraudulently. However, fraud does occur and cannot be disregarded (Farber, 2005; Hendry, 2005). The existence of fraud in not-for-profit organisations is against the argument of Hansmann (1980) that the no distribution constraint prevents opportunistic behaviour. Davis et al. (1997) argue that in line with the assumptions of agency theory, self-interest and the short-term focus of agents are the main causes of fraud.

Miller (2005) argues that agency problems provide an opportunity to purposeful wrongdoing of agents or by being ignorant to threats. Agency theory posits that agents have a tendency to be fraudulent as they are self-driven and looking for opportunities to cheat and distort (Cuevas-Rodríguez et al., 2012). Saksena (2001) suggests that agency theory provides insights into when fraud is likely to take place and agents may found further opportunity and courage to take risks if the monitoring is inefficient in the organisation. Raelin and Bondy (2013) stress that agency theory endeavours to restrict managerialism and opportunistic behaviour of the agent and to align the goals of the principal and the agent.

Culpan and Trussel (2005) assess the 'Enron debacle' by using the agency and stakeholder theories. They argue that the Enron incident proves the agency theory to be right as the failure to detect and cope with the agency problems and unable to effectively monitor them caused the agents to act in malfeasance. They also posit that agency theory is fundamental in exploring fraudulent practices in accounting and financial areas but should be supported by other theories like the stakeholder theory if the aim is to grasp a broader understanding.

While Alexander and Cohen (1999) argue that the agency theory capably explains fraud may occur in organisations, Amara et al. (2013) identify information asymmetry as the principal cause of agency problems and that the fraud risk increases with perpetual information asymmetry. Szper and

Prakash (2011) also argue that the information asymmetries among the principal (donors) and the agent can cause the funds to be used for personal interest.

While components of 'residual loss' change based on the organisation (McColgan, 2001), Alexander and Cohen (1999) argued that corporate crime/fraud is also an agency cost as it cannot be eliminated by the organisation and is, therefore, a residual loss. Remedies of agency problems such as audit, compensation, independent board, etc. are also directly related with fraudulent activity. As will be examined in more depth in the next chapter, inadequate audit committees (Beasley et al., 2000), lower percentages of outside board members (Farber, 2005) and inadequate internal and external audit are some indications of potential fraud.

Greve et al. (2010) criticise agency theory as focusing only on actors lower in a hierarchy (agents) against higher ones (principals), and not addressing misconduct against colleagues or other stakeholders. Integration of agency theory with other theories is deemed to provide more explanatory power as will be discussed in section 3.5. Machado and Gartner (2014) posit that if intensified with other theories, such as the fraud triangle (Cressey, 1953), agency theory will form a suitable mechanism to evaluate and assess the occurrence of organisational fraud.

Although not being evaluated enough (Greenlee et al., 2007) and the belief that not-for-profit managers will not act out of self-interest (Miller, 2002), in reality not-for-profit organisations are exposed to misconduct/fraud (Steinberg and Gray, 1993) and the exposure may even be more dangerous compared to for-profit organisations because of the absence of clear principal control, existence of a variety of stakeholders and lack of efficiency metrics (Ben-Ner et al., 2011; Brickley and Van Horn, 2002; Golden-Biddle and Rao, 1997). The absence of the residual claimant causes agency relationship among principals and agents to be clouded and therefore managers have enhanced opportunity to shirk and pursue self-interest (Olson, 2000).

Nikolova (2014) examined if stakeholder monitoring (donors, beneficiaries, regulator and board of directors) had an effect on financial misconduct or not. She found that the nature of the not-for-profit sector is not immune to opportunistic behaviour. She also found that especially donor monitoring restricts risk of misconduct and diminishes executive pay and therefore agency problems. Nikolova (2014, p.681) posits that agency theory is not applicable directly for the not-for-profit sector and needs to be extended with "stakeholder, stewardship, social capital, and intrinsic motivation theories"

3.2 Stewardship theory

Stewardship theory follows a different path from agency theory in assessing the relationship between stewards and principals (Bacq and Eddleston, 2018). Stewardship theory builds on the view that managers of an organisation are 'stewards' rather than 'agents' (Davis et al., 1997). The theory suggests that the steward will possess interests in line with the objectives of the organisation and will cherish working in the organisation (Sundaramurthy and Lewis, 2003). Some of the theory's specifications are that the stewards are committed to the organisation and adorned with moral values (Hernandez, 2012), such as self-esteem, loyalty, mutual trust (Van Slyke, 2006), shared goals, self-achievement and cooperation (Karns, 2011), the steward takes decisions that will be in the principal's best interest (Davis et al., 1997).

Stewardship theory also suggests that the steward should be supported by the organisation and its board to improve his/her skills, and training of the steward should be undergirded to enhance the potential performance of the steward (Viader and Espina, 2014). Also, the theory envisages that in the case of conflict of interest between the principal and the steward, the steward will align himself/herself with the goals of the organisation (Davis et al., 1997) as this alignment will favour both the principal and the steward (Donaldson and Davis, 1991).

Stewardship theory is positioned as the opposite and a counterweight of agency theory (Van Slyke, 2006). The self-interested agent of the agency theory becomes the steward who is pro-organisationally positioned (Davis et al., 1997). Stewarts are intrinsically motivated and they believe that putting the organisation first will also provide personal satisfaction (Segal and Lehrer, 2012). Also unlike agency theory, which proposes that the agent will behave opportunistically and is short-term focused, stewardship theory suggests that stewards aspire for collective interest and are long-term oriented (Caers et al., 2006). In contrast to agency theory, which is a 'control system', stewardship theory is defined as a 'collaboration system' in which interests of the steward and the principal align together (Sundaramurthy and Lewis, 2003; Viader and Espina, 2014). Hernandez (2012) and Seyama (2015) also argue that contractual mechanisms that try to align the objectives of the agent and the principal and incentivise the agent are harmful to the relationship between the steward and the principal and therefore damage the overall objectives of the organisation.

3.2.1 Stewardship theory criticism

Stewardship theory is criticised as being formalised just to be an opponent of the agency theory rather than structuring an own framework (Hernandez, 2012) and for being too idealistic and optimistic (Dicke and Ott, 2002) and is applicable to only smaller and family businesses where cooperation and mutual trust are already expected values (Bernstein et al., 2016). Van Slyke (2006) criticises stewardship theory for suggesting that trust and cooperation exist from the start of the principal-steward relationship and argues that stewardship theory can only be relevant after mutual time is spent among the parties. Van Puyvelde et al. (2016, p.224) state there is a very thin line between pursuing a steward or agent policy: "More specifically, if too much controlling takes place, managers' intrinsic motivation may be crowded out. Too little controlling, in contrast, may result in increased opportunism." A

major number of studies have criticised stewardship theory as not effectively explaining fraud and misconduct, which is assessed in section 3.2.3.

As in the case of agency and stakeholder theories, stewardship theory is suggested to be integrated with other theories to broaden its coverage (Schillemans and Bjurstrøm, 2019). While Amara et al. (2013) argue that agency and stewardship theories are complementary to each other, Hernandez (2012) suggests that in line with the stakeholder theory, stewardship theory aims to meet expectations of multiple stakeholders in order to succeed in communal welfare. Caers et al. (2006) argue that stewardship and agency theories does not contradict but rather complete each other.

3.2.2 Stewardship theory and not-for-profit organisations

Stewardship theory envisages the steward will act in accordance with organisational objectives even there is lack of alignment of interests (Tosi et al., 2003), or principal and steward's goals are already aligned and therefore the steward is selected by the principal (Sundaramurthy and Lewis, 2003). Carman (2011) argues that by their nature not-for-profit organisations possess the specifications of stewardship theory such as collective action and cooperation and therefore stewardship theory fits well with the not-for-profit sector and donor-not-for-profit relations will flourish if steward-like policies are pursued. Kelly (2001) and Hon and Grunig (1999) suggest in line with the stewardship theory that, not-for-profit managers are motivated to perform their duties favoured by the donors and propose four stewardship strategies that not-for-profit organisations can use to improve a favourable fundraising link with the donors: reciprocity, responsibility, reporting, and relationship nurturing. Waters (2009) found that donors favour Kelly's stewardship strategies. Segal and Lehrer (2012) found that stewardship theory is also applicable in large organisations in which individuals do not know each other and that the theory is not limited to small groups where trust is already embedded.

Findings, whether not-for-profit organisations are in line with stewardship theory, are ambiguous. While Jobome (2006) favoured stewardship theory, Caers et al. (2006) argue that stewardship theory is not sufficiently capable of reflecting management behaviour. Kluvers and Tippett (2011), who conducted interviews with not-for-profit staff, argue that extrinsic incentives are not useful in the sector and therefore stewardship theory rather than agency theory has a higher explanatory power for not-for-profit governance. Van Puyvelde et al. (2012) and Van Puyvelde et al. (2016) on the other hand suggested that agency theory and stewardship theory do not compose competition but rather they complement each other. Van Slyke (2006) found a shift of not-for-profit organisations from a principal-agent to a principal-steward relationship with time and the relationship bearing partnership and mutual respect. Jobome (2006) and Sinclair et al. (2010) posit that not-for-profit stewards are partially at least intrinsically motivated.

3.2.3 Stewardship theory and fraud

Stewardship theory envisages that stewards will act with high moral values and will not behave opportunistically (Davis et al., 1997). Cuevas-Rodríguez et al. (2012) argue that intrinsic incentives envisaged by the stewardship theory such as identification with an organisation and personal satisfaction will provide better restraints towards opportunistic behaviour than extrinsic incentives proposed by the agency theory.

Segal and Lehrer (2012), in analysing the case of Edmonton Public Schools, argue that organisations can establish their governance structures on intrinsic motivation and monitoring systems and therefore even in large organisations fraud can be reduced, but they also state that 'corruption prevention' is the most vulnerable part and a real concern for the stewardship theory and posit that (p.175) "no combined treatment of stewardship and corruption exists."

Choo and Tan (2007) argues that stewardship theory is incapable of explaining the acts of fraud and misconduct and posit that the close

relationship between the board and the management envisaged by the stewardship theory to be the reason of providing a ground for opportunistic behaviour. The theory's suggestions of self-control and moral values in managing fraud are criticised as being not sufficient in combating fraud (Dicke and Ott, 2002). Galle and Walker (2016) also found that managers of not-for-profit organisations who pursue a stewardship approach take advantage of the lack of monitoring and act opportunistically and pursue remuneration over donor expectations.

3.3 Stakeholder theory

The stakeholder theory, which especially gained momentum after the book by (Freeman, 1984a) 'Strategic Management: A Stakeholder Approach', is based on the assumption that organisations affect and are affected by the group or individuals called stakeholders (Ferkins and Shilbury, 2015).

Different from the shareholder view in which only the shareholders or the 'owners' of the organisation are given prominence, stakeholder theory offers a broader approach that argues that multiple ownership is possible and posits that there are other parties which possess a stake in the organisation (Parmar et al., 2010). Also, unlike agency theory, which envisages a bilateral relationship only between the principal and the agent, stakeholder theory provides an extensive perspective and examines the relationship between the organisation and stakeholders and among stakeholder groups (Cuevas-Rodríguez et al., 2012). Organisations are perceived in a social context in which their responsibilities towards their stakeholders exceed their fiduciary duties (Ambler and Wilson, 1995), with management as the core of the nexus (Hill and Jones, 1992).

Culpan and Trussel (2005) posit that organisations have moral reasons to satisfy the needs and interact with stakeholders. The theory also argues that organisations are in need of the approval of their stakeholders in order to survive, enhance reputation and legitimise their activities (Connolly and

Hyndman, 2013a). Loyalty, mutual trust, responsibility and cooperation are some key attributes in a healthy organisation-stakeholder relationship (Fassin, 2012). The progress and future of the organisation is shaped by the relationships between the organisation and the stakeholders (Culpan and Trussel, 2005) and therefore how these relationships are managed by the organisation is important (Wellens and Jegers, 2014a). Donaldson and Preston (1995) suggest that both the organisation and the stakeholders will benefit from efficient stakeholder management policies.

Belal (2002) distinguishes stakeholder theory into two approaches: stakeholder management and normative. The normative approach suggests that the organisation must not restrict itself to only satisfy the needs of the key stakeholder but should attempt to establish a fair balance among different interests of various stakeholders (Ntim et al., 2017). The stakeholder management approach on the other hand posits the identification and prioritisation of stakeholder groups with regard to their power and interest towards the organisation (Connolly et al., 2013c), and designs actions for different types of stakeholders (Brammer and Millington, 2004). Mitchell et al. (1997), as discussed in the previous chapter, suggest that prioritisation of stakeholders should be performed depending on their salience, which will be determined by each stakeholders' power, legitimacy and urgency attributes. Different variations of stakeholder prioritising have been proposed by several scholars (Agle et al., 1999; Jawahar and McLaughlin, 2001; Speckbacher, 2008). Bryson (2004) mentions 15 different stakeholder identification techniques including power versus interest grids, building a winning coalition around proposal development, stakeholder influence diagrams, etc.

3.3.1 Stakeholder theory criticism

Although providing a broad stakeholder approach is beneficial, the existence of multiple stakeholders is challenging and is a portent to a variety of principal-agent problems (Miller, 2002). Therefore, stakeholder theory has to deal with various issues but is criticised as being incapable of doing so.

Stakeholder theory has been described as a 'vampire' (Orts and Strudler, 2009) that expands and impacts every discipline and therefore it is overblown. Orts and Strudler (2009) especially criticise the theory for not providing sufficient definition of stakeholders and therefore having vagueness attached, and for being unreliable, as every organisation can define its own stakeholders in the way they desire (Stoney and Winstanley, 2001). Ambler and Wilson (1995) indicate the problem areas of stakeholder as hard to determine stakeholders, measuring the stake, measuring the success of the policies and lack of how representation of stakeholders will be achieved. They also argue that the identification and prioritisation process envisaged by stakeholder theory is spoilt as it enables rights to those stakeholders who do not contribute or participate may also benefit from the actions of the organisation.

Fassin (2008) and Fassin (2012) posit that reciprocity is being neglected in the stakeholder theory literature, with only the liability towards stakeholders being considered, rather than stakeholders' liability towards the organisation. Fassin (2008, 2012) argues that stakeholders also bear duties to the organisation as well as demands and needs.

Abzug and Webb (1999), aiming at to give an answer to the criticisms, favour a more comprehensive stakeholder theory which can be enhanced by embodying and building on various bilateral relationships among the stakeholders of the not-for-profit organisation. They also argue that stakeholder theory provides a more flexible approach compared to the agency theory with suggesting that conflict of interest is not key regarding the relationship between principal and the agent. Jegers (2009) argues that contractual interests among different stakeholders should be designed similar to the principal-agent relationship which is envisaged under agency theory.

3.3.2 Stakeholder theory and not-for-profit organisations

Stakeholder theory is highly utilised in theorisation of the not-for-profit sector such that Valentinov and Iliopoulos (2013) defines not-for-profit

organisations as ‘stakeholder coalitions.' Not-for-profit sector organisations have a diverse range of stakeholders such as beneficiaries, management, donors, board members, government, volunteers and other non-managerial staff members (Wellens and Jegers, 2014a) and therefore identification and prioritising of them is crucial for the wellbeing of the organisation (Wellens and Jegers, 2011).

Aligning stakeholder expectations is argued to have a positive effect on governance and performance of not-for-profit organisations (Herman and Renz, 2008). Determining user needs (Dhanani and Connolly, 2015) and prioritising stakeholders (Connolly and Hyndman, 2017) in such a sector of various stakeholders is found to be very beneficial for not-for-profit organisations (Jegers, 2009). Dainelli et al. (2013) in their study regarding accountability in museums found that accountability is designed by variety and power of various stakeholders which they conclude validates stakeholder theory.

Cordery and Baskerville (2005) by utilising the Mitchell et al. (1997) stakeholder salience model proposed that due to their lack of power, beneficiaries will never be the definitive stakeholders. Donors, on the other hand, have been identified by several studies as the most significant group of stakeholders (Connolly et al., 2013c; Hyndman, 1990) as a result of their power to supply funding to the not-for-profit organisations. In terms of legislation and decision making the importance attached to donors and ignorance of beneficiaries is also apparent (Candler and Dumont, 2010).

It has been argued that implementing stakeholder theory for not-for-profit organisations is not easy due to competing interests of multiple stakeholders and vagueness of who the prime principal is (Caers et al., 2006; Nikolova, 2014). Miller (2002) stresses the importance of determining the ‘principal’ of each not-for-profit organisation as existence of multiple stakeholders with different objectives creates vagueness of ownership in not-for-profit organisations, and beclouds monitoring which hampers the struggle with

opportunisms and misconduct. Wellens and Jegers (2014a) posit that donors as well as beneficiaries, board of trustees, regulators and other stakeholder groups can be accepted as 'principal' in not-for-profit organisations and therefore they propose an extended stakeholder theory for not-for-profit organisations in which demands and needs of different stakeholders are prioritised and shape the actions of the not-for-profit organisation. Wellens and Jegers (2014a) even argue that beneficiaries are 'intended residual claimants' in not-for-profit organisations because their needs drive the actions of the not-for-profit organisation. They also stress that not assessing perceptions of stakeholders, stakeholder theory's assumptions will be incomplete.

Hill and Jones (1992), Abzug and Webb (1999) and Jegers (2009) argue that principal-agent relationships may be regarded as a subgroup of the overall stakeholder relationship and an enhanced principal-agency theory that encompasses a multiple principal framework is more appropriate. Van Puyvelde et al. (2012) suggest that by utilising stakeholder perspective, possible principal-agent relationships in a not-for-profit organisation can be structured. They distinguish between external and internal not-for-profit principal-agent relationships and provide three subgroups for each:

Table 3.1 Principal-agent relationships in not-for-profit organisations

External not-for-profit principal-agent relationship	Internal not-for-profit principal agent relationship
Donors as principals and the managers and/or board as its agents	Board as principal and managers as its agents
Consumers, clients (beneficiaries) and members as principals and managers and/or board as its agents	Managers as principals and employees as agents
Other organisations (auditors) as agents and the not-for-profit organisation as the principal	Managers as principals and volunteers as agents

Source Van Puyvelde et al. (2012)

3.3.3 Stakeholder theory and fraud

Trust is very important in stakeholder theory (Harris and Wicks, 2010) and trustworthy relationships among the organisations and its stakeholders are expected to mitigate misconduct and fraud (Arvidsson, 2010). Culpan and Trussel (2005) posit that stakeholder theory is useful in providing insights of determining unethical practices that have an impact on the stakeholders. Kaptein (2008) also utilises stakeholder theory to assess unethical behaviours in workplaces. While Kolk and Pinkse (2006) suggest that neglecting stakeholder demands caused opportunistic behaviour like in the Enron case, Mulligan (2007) argues that because of the absence of shareholders a Sarbanes-Oxley-like regulation is not appropriate for not-for-profit organisations and therefore stakeholder theory should be used to formulise a regulatory approach to determine the needs of each stakeholder and to fight with misconduct. Cordery and Baskerville (2011) argued that fraud is sustained in charities when charities do not have a powerful relationship with especially salient stakeholders.

However relying only on stakeholders in overcoming misconduct may not provide effective outcomes (Dunn, 2010). Heath and Norman (2004) criticise stakeholder management because of scattering the focus and causing less monitoring and indirectly to misconduct and therefore proposed a more shareholder-focused approach. Carson (2003) argues that stakeholder theory lacks preventive measures against fraud and deception and enables a rationalisation of acts of opportunistic behaviour. He argues that stakeholder theory provides an illusion of a loft aim which depicts agents as 'moral arbiters.' He suggests that stakeholder theory should be re-formulised to fit up well with the moral codes. Barnett (2014) criticises the belief that stakeholders will oversee the organisation continuously and that the stakeholders have their limited attention and bounded rationality and therefore will assess misconduct differently for each case and judge misconduct inappropriately. He also argues that social control is not sufficient in dissuading misconduct and therefore even when stakeholders are informed by the opportunistic behaviour, the perpetrators may not be punished.

Although stakeholder theory is good at envisaging well-structured and balanced management of stakeholder relationships, its deficiencies to explain and solve opportunistic behaviour steer especially not-for-profit scholars to extend the theory with other theories (Van Puyvelde et al., 2012).

3.4 Other theories

In this section resource dependency and institutional theory will be examined. Resource dependence theory interprets how organisations diminish environmental dependence (Bryant and Davis, 2012). The theory's important assumptions are that organisations depend on resources to survive (Hillman et al., 2009), they are open systems, their aim is to reduce dependence on the external environment and uncertainty (Bryant and Davis, 2012; Johnson et al., 1996) and requirement for resources determine an organisations activities (Reheul et al., 2014). Viader and Espina (2014) state that resources could be tangible or intangible ranging from goods and services to reputation and

networking. The resource dependence theory is widely used especially in the analysis of the boards (Hillman et al., 2009; Hyndman and McDonnell, 2009). The theory was especially very useful in understanding how boards obtain resources they need for survival (Hillman and Dalziel, 2003). The theory also provides guidance on merging (Malatesta and Smith, 2014) and in lobbying (Ruggiano and Taliaferro, 2012).

The theory is criticised as assumptions are taken for granted (Wry et al., 2013) and becoming a subsidiary theory rather than being its own (Hillman and Dalziel, 2003) and dwarfed by the applications of the agency theory. Miller-Millesen (2003) argues resource dependence theory assumptions may not fully be implemented in the not-for-profit sector as resource access is more complicated and that the theory assumes a non-complicated external environment.

The resource dependence theory focuses more on how the resources are obtained rather than on how they are used (Bryant and Davis, 2012). Gales and Kesner (1994) suggest that resource dependence theory is not sufficient to explain governance policies in cases of bankruptcy and situations other than existence in a healthy environment. They argue that agency theory is better in explaining the policies of the organisation in such 'abnormal' situations. The theory especially assesses how organisations are affected by fraud but does not provide an explanation of how fraud actualises (Cowen and Marcel, 2011). The theory is accepted to be more useful when used with other theories. For example, Callen et al. (2010) found that agency and resource dependence theories are complementary to each other and point various issues of not-for-profit organisations.

Institutional theory is based on the assumption that organisation's external environment shapes the structure and actions of the organisation (Meyer and Rowan, 1977). The theory argues that regulations, sector rules, organisation culture, traditions, industry norms, cultural beliefs and all other internal and external factors influence the organisation (Carman, 2010; Cuevas-Rodríguez

et al., 2012; DiMaggio and Powell, 1983). Institutional theory posits that compliance with the social and cultural forces provides legitimacy and survival to the organisation (Chen et al., 2016; Meyer and Rowan, 1977). Institutional theory is also used to examine not-for-profit organisations and how well they are adaptive to their institutional environment (Benjamin, 2008; Carman, 2011).

Institutional theory is criticised for neglecting how individual abilities of decision making and acting incentives other than to comply with the external environment (Cuevas-Rodríguez et al., 2012). Helmig et al. (2004) also stress that activities without institutional thought are overlooked. They argue that stakeholder, resource dependence and institutional theories can be used together in not-for-profit organisation studies.

Both the resource dependence and institutional theories and other theories such as legitimacy are used to assess how good the organisation is at accommodating itself to its environment and raising funds. However as the thesis is assessing how the funds are used and how fraud is building up rather than how they are raised, these theories are less relevant and offer little insight when compared with especially agency theory. Nevertheless, the thesis aims to benefit from other theories where applicable.

3.5 Integration of theories

Although special problems exist for the not-for-profit sector, the theorisation of accountability and governance is still conducted using theories structured for the for-profit sector. While Coule (2015) argues that the nature of the not-for-profit organisations makes it harder to directly apply theories developed especially for the for-profit sector, other scholars also posit that it is not appropriate to directly apply theories like agency that are specifically designed for the for-profit sector (Caers et al., 2006; Van Puyvelde et al., 2012).

Stone and Ostrower (2007) argue a broader view of relationships within an organisation's wider environment will provide a more enhanced understanding of not-for-profit governance. Brown and Guo (2010) argue that all theories if applied alone are incapable of capturing all aspects of not-for-profit behaviour. Finding an appropriate theory becomes much more difficult especially for this study as the aim is to analyse fraud/misconduct in charities, a highly sensitive issue.

Agency theory, which assumes that individuals are self-interested and act opportunistically, has been the leading theory in explaining the relationships between the principal and the agent (Eisenhardt, 1989). Fama and Jensen (1983a) argue that the survival and success of the not-for-profit organisation rest upon how wisely the donations or funds it receives are spent and not being exploited. The theory provides important explanations on why funds may be spent unwisely or even be a target of fraud (Callen et al., 2010). Agency theory also guides how to prevent fraudulent activities with incentives and monitoring (Jensen and Meckling, 1976). However, the different nature of the not-for-profit organisations makes it harder for a direct application of the agency theory (Caers et al., 2006).

Eisenhardt (1989) argues that when used with complementary approaches agency theory provides valid results and also enhances understanding of uncertainty and risk. Cuevas-Rodríguez et al. (2012) propose that agency theory should be incorporated with other theoretical perspectives to empower predictions of agency theory. Hill and Jones (1992) argue that the relationship between principal and the agent could be seen as a sub-group of a wider group of stakeholder links.

Stewardship theory, even though it seems to place itself at the opposite of agency theory, as it posits that goals of the steward and the principal are aligned, is argued to complete the features of agency theory and therefore the two theories together provide a better-structured framework. Van Puyvelde et al. (2013) and Caers et al. (2006) and Cuevas - Rodríguez et al. (2012) and

Seyama (2015) argue that this case is especially favourable for not-for-profit organisations where the organisational structure is more complicated. Du Bois et al. (2009) found that aligned and not-aligned goals exist together in the not-for-profit organisations and therefore argue that agency and stewardship theory do not contradict.

Stakeholder theory, which is again formalised for the for-profit sector, argues that the policies of the organisation should include a variety of stakeholders and must not be focused to a particular one (Culpan and Trussel, 2005). The theory is deemed to be a response to the agency theory who depicts a one-dimensional principal-agent relationship, which only focuses on managers and the board (Van Puyvelde et al., 2013). Hill and Jones (1992) argue that nexus of contracts among the stakeholders can be used as a restructured agency theory model. Wellens and Jegers (2014a) argue that an extension of the stakeholder theory especially designed for not-for-profit organisations is more appropriate to reflect the multiple principal nature of the not-for-profit organisations. Jegers (2009) also proposes a multi-principal approach where each stakeholder can be depicted as a principal.

Different aspects of agency, stakeholder and stewardship theory complete each other especially regarding the special circumstances for not-for-profit organisations. Van Puyvelde et al. (2012) argue that supplementing aspects of stakeholder and stewardship theory to agency theory provides identification of the broad range of principals in the not-for-profit sector and as a result may establish a more holistic approach.

The agency theory forms the backbone of the theory part of this study, as it is especially useful in explaining the unethical accounting and financial practices in not-for-profit organisations. However stewardship and stakeholder theories also have their own merits to grasp a better understanding of not-for-profit fraud and therefore an integration of these three theories into an 'extended agency theory' will provide a better theoretical framework (Callen et al., 2010). Miller-Millesen (2003, p.522)

argues every theory provides a contribution that broadens the understanding of not-for-profits and their actions: "Each theory paints an incomplete picture of a highly complex phenomenon because each theory focuses on a different set of activities and functions."

Integrating the theories for assessment of fraud is also widely utilised. Albrecht et al. (2004) also combined aspects of agency, stewardship and the fraud triangle (Cressey, 1953) theories and formalised the 'Broken Trust Theory'. Nikolova (2014) proposes an integrated agency theory with stakeholder, stewardship, social capital and intrinsic motivation theories for not-for-profit organisations in order to assess the influence of multiple stakeholders (principals). She argues that only concentrating on a limited agency theory perspective is insufficient in analysing how the organisation is affected by misconduct and if multiple principals are monitoring well enough.

Overall, in line with the recent theoretical stream to integrate several theories to better fit for the not-for-profit organisations (Andreaus and Costa, 2014; Caers et al., 2006; Choo and Tan, 2007; Du Bois et al., 2009; Miller-Millesen, 2003; Nikolova, 2014; Van Puyvelde et al., 2012; Van Puyvelde et al., 2016) this study argues that an integrated theory is more suitable for analysis of fraud/misconduct in not-for-profit organisations.

Figure 3.3 below summarises the structure of the integrated theory with mentioning key aspects of each theory:

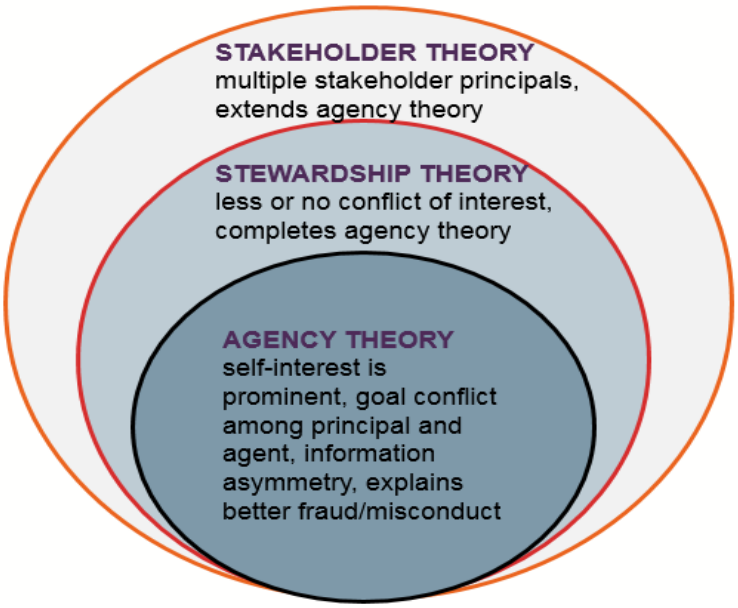


Figure 3.3 Integrated Theory

Source (Author)

3.6 Summary

This chapter has assessed agency, stewardship and stakeholder theory in detail regarding their fundamental features, criticised aspects and power to explain fraud and not-for-profit sector accountability and governance. After the assessment, in line with the recent theoretical framework suggested by not-for-profit scholars (Nikolova, 2014; Van Puyvelde et al., 2012) the study argues that integrating the theories rather than using a sole theory to examine fraud in charities will provide a broader and a more generous approach that can cover both the internal and external environment aspects of fraud in charities.

The next chapter analyses the term 'fraud' in detail and provides identified research gaps that will be assessed.

4. A REVIEW OF THE FRAUD LITERATURE

This chapter builds a theoretical framework for fraud and provides a literature review on fraud in organisations. First, the concept of 'fraud' is analysed. The chapter focuses on theories that aim to understand the causes of fraud and then assesses models predicting fraud. Afterwards, the mechanisms used in tackling fraud are discussed. Empirical literature is examined for for-profit, public and not-for-profit sectors in the chapter. The research in this thesis is about fraud in charities. However, for charities in England and Wales, there have been only a few academic studies on fraud, and such studies are scarce even for the wider not-for-profit sector. Therefore, stressing the differences between for-profit and not-for-profit sectors, the chapter draws on for-profit, public sector and not-for-profit sector fraud studies to discuss the theories of fraud and tools used to mitigate fraud, with fraud literature in the not-for-profit sector discussed in the last section of the chapter.

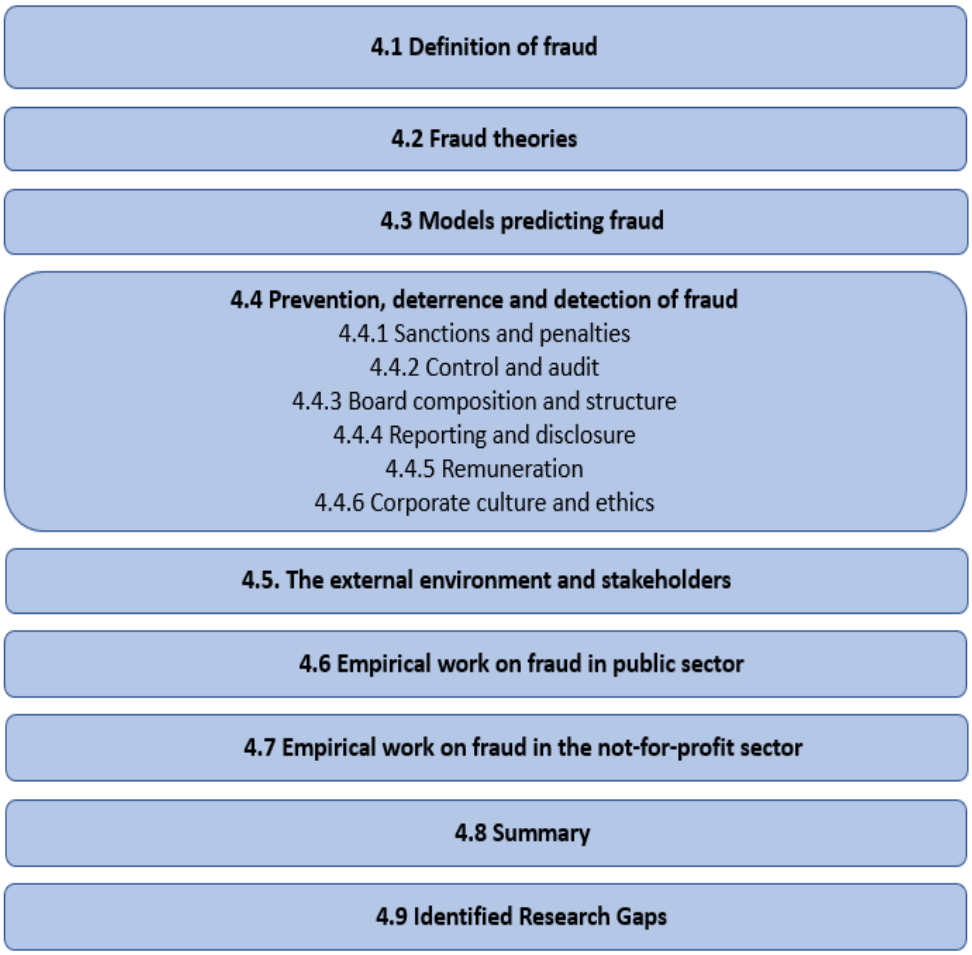


Figure 4.1 Structure of Chapter 4

4.1 Definition of Fraud

Fraud[11] can be defined as "the quality of being deceitful; criminal deception; the using of false representations to obtain an unjust advantage or to injure the rights or interests of another; a dishonest trick" by the Oxford Dictionary (2003) and "any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage" by Merriam-Webster (1996). Deception (Albrecht et al., 2010), abuse (Dellaportas, 2013) and self-benefit

[11] The study focuses on charities accused of acting fraudulently. In this respect, although earnings management and restatements, and fraud share certain traits, they are not the same and therefore earnings management and restatements are not assessed in this study.

(Simpson, 2013) are the key concepts for fraud. As this study assesses charity fraud carried out by charity officials[12], occupational fraud will be included, which is using an occupation to be enriched by abuse of the organisation (Greenlee et al., 2007). Archambeault et al. (2015) state that occupational fraud consists of three types: corruption, financial statement and asset misappropriation, among which asset misappropriation is the most common fraud type in charities. The fraud identification of the Association of Certified Fraud Examiners (ACFE) suggests again three types of occupational fraud: Corruption, Asset Misappropriation, and Fraudulent Statements (ACFE, 2019).

The UK legislation on fraud, the Fraud Act (2006), separates the definition of fraud into three categories, which all involve the person acting against the law if the person acts dishonestly and with the aim to make a gain or cause a loss:

> "Fraud by false representation" is defined as "untrue or misleading representation which was expressed or implied." (Provision 2)
>
> "Fraud by failing to disclose information" is defined as "failure to disclose to another person information which the person is under a legal duty to disclose." (Provision 3)
>
> "Fraud by abuse of position" is defined as "abuses of the position where the person occupies a position where expected to safeguard the financial interests of another person." (Provision 4)

Although not defined in the Charities Act (2011), financial crime and financial abuse has been identified by the Charity Commission as one of the strategic risks facing charities. The Commission's definition of fraud is exactly derived from the the Fraud Act (2006), whereas misconduct is defined

[12] Charity officials are all employees and board members of the charities

as follows: "Misconduct includes any act (or failure to act) that the person committing it knew (or ought to have known) was criminal, unlawful or improper" (Commission, 2016b, p.2).

In this research 'fraud' as well as 'financial misconduct' rather than 'mismanagement' will be used, as the term 'mismanagement' includes actions not being deliberate and therefore has the potential to dilute the research. Although fraud may be categorised differently, the scope of the research is limited to internal charity fraud, that is fraud performed by members of the organisation. The study analyses frauds which have been detected and also publicly exposed.

4.2 Fraud theories

This section embraces theories that study the nature of fraud. Although fraud was examined by different scholars, fraud committed in organisations was theorised by Edwin Sutherland (1949, p.9) who defined white-collar crime[13] as "a crime committed by a person of respectability and high social status in the course of his occupation." Sutherland (1940, p.12) disagreed that poverty is the only reason for crime and posited that white-collar crime was in need of theorisation. He also developed the differential association theory, which argues that to behave criminally and the motivation for it is a process acquired through contact with other people (Sutherland, 1949).

Donald Cressey, who was co-author with Sutherland in *Principles of Criminology* (Sutherland et al., 1992), developed the theory of the "fraud triangle" in 1953. Cressey identifies the factors that form the triangle as pressure, opportunity and rationalisation.

[13] Sutherland first used and described the term "white collar crime" in a speech in 1939.

Pressure, which Cressey (1953) defines as being financial, derives from 'non-shareable' problems that can only be solved by acquiring the resources of others. The pressure is perceived by the perpetrator and leads him or her to commit fraud (Albrecht et al., 2008). Some examples of pressure are debt, health related needs, addictions (drugs, gambling, alcoholism etc.); desire for possession, work related pressures to be successful, loss of employment, issues of health, , financial demands of relatives, child support (Burke and Sanney, 2018). Competition over social status is also identified as a pressure factor positively related with fraudulent behaviour (Ramamoorti et al., 2009).

The second factor is opportunity, in which the fraudster has the belief that there are chances to act fraudulently without being caught (Benson et al., 2009). Gottschalk (2019) suggests that the perpetrator is able to create and expand opportunity over time. Dorminey et al. (2012) argue that weakness in monitoring and control and the remoteness of being caught creates the perceived opportunity for the fraudster. Opportunity can derive from internal sources such as weak internal audit system or external sources such as regulatory weakness (Power, 2013; Skousen et al., 2009). Crawford and Weirich (2011) posit that industry nature, lack of monitoring, unstable organisation and insufficient internal control activities are reasons of opportunity. Schuchter and Levi (2015) found, during their interviews with 'white-collar' fraudsters, that they only perceive opportunity as the real precondition for fraud.

Rationalisation, the third factor, identifies the actual reasons for fraudulent behaviour, or the underlying motivation and a moral excuse for the fraudulent action (Dellaportas, 2013). A particular mind-set which justifies committing fraud is rationalisation by the perpetrator (Morales et al., 2014). The fraud act is justified by reasons and beliefs such as being unpaid, or underpaid, being under appreciated, personal reasons such as revenge, borrowing (Burke and Sanney, 2018). Some other rationalisation factors positively related with fraudulent behaviour are job dissatisfaction and unfavourable workplace

conditions (Hollinger and Clark, 1983). The theory can be depicted as in Figure 4.2:

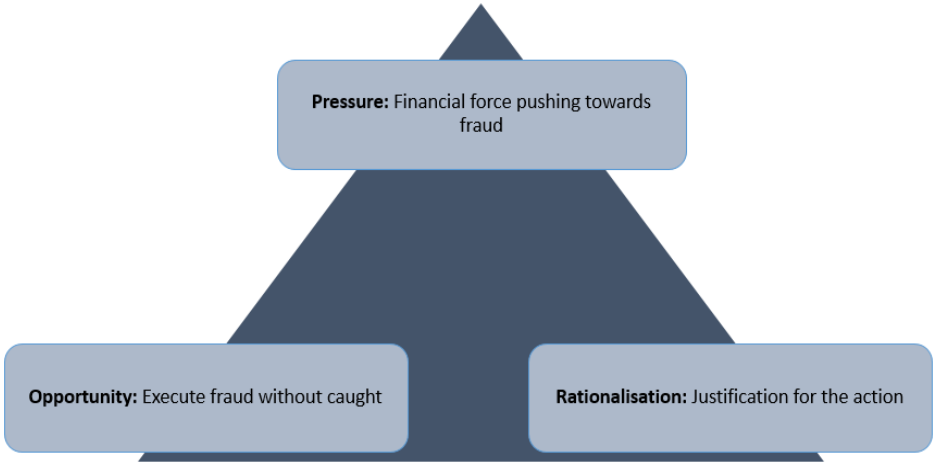


Figure 4.2 The fraud triangle

Source (Cressey, 1953)

Cressey's work (1953) was tested and largely supported by many scholars (Abdullahi and Mansor, 2018; Bell and Carcello, 2000; LaSalle, 2007) and it led to further work to examine fraud (Roden et al., 2016).

Theories developed further to try to enhance the fraud triangle model psychologically by focusing on new components especially those related to personal traits and competence of the perpetrators. Albrecht et al. (1984) proposed to add personal integrity to Cressey's theory and to replace it with the rationalisation component which creates 'the fraud scale'. They argue that higher pressure and opportunity and lack of personal integrity will cause the scale to shift towards the occurrence of fraud. Wolfe and Hermanson (2004) enhanced the fraud triangle model with the addition of a fourth factor, capability, and came up with the 'fraud diamond.' The factor 'capability' posits that the fraudster also has to be able to commit fraud. Wolfe and Hermanson (2004, p.39-40) argue that this capability is determined by a fraudster's function in the organisation, intellect, ego and confidence,

influence over other people to coerce or conceal fraud, effectiveness and consistence and ability to deal with stress. Another theory that is derived from the fraud triangle is the triangle of fraud action, which posits that act, concealment and conversion are the three elements that are necessary for an action to be fraudulent (Dorminey et al., 2012).

Marks (2009) added the components of arrogance and competence to the fraud triangle and derived the 'fraud pentagon.' Like Marks (2009), Sorunke (2016) suggests a different fraud pentagon model that adds 'personal ethics' as a fifth component to the fraud diamond in which fraudsters are motivated by lack of ethical stance. Soltani (2014) also suggests modifying the fraud triangle especially emphasising the importance of the component opportunity, by taking into account themes such as control environment, regulation and organisational ethical climate.

Huber et al. (2015) suggest the fraud triangle should be extended by the crime triangle, which also has three components: offender, target and lack of guardian/oversight (Tillyer and Eck, 2011). They argue that the fraud triangle only focuses on the perpetrator and therefore, by coupling with the crime triangle components, fraud can be assessed in a broader environment to include the target/victims, the people who are responsible for overseeing the perpetrator, and where the crime occurs.

M.I.C.E. (money, ideology, coercion, entitlement) is the acronym to elaborate the pressure factor, which expands the definition by including other elements than the non-shareable financial pressure (Dorminey et al., 2012; Kassem and Higson, 2012). Ramamoorti et al. (2009) in their 'ABC analysis' argued that fraud is made up of three aspects: the bad apple which is the individual who acts fraudulently, the bad bushel which symbolises collusion in fraud behaviour, and the bad crop which is the organisational and social dynamic that leads to fraud.

Dorminey et al. (2012, p.565) criticise the fraud triangle theory as being only a descriptive model and argue that rationalisation and pressure are temporary factors and that the fraud triangle only concentrates on the 'accidental fraudster' "who under normal circumstances would never consider theft, break felonious laws, or harm others." Dorminey et al. (2012, p.566) argue that the factors of pressure and rationalisation which were identified by the fraud triangle should be replaced by criminal mind-set and arrogance. They propose that the fraudster may also act as a predator, an individual whose permanent purpose is to conduct fraud and who only needs 'opportunity' to complete his/her act. Dorminey et al. (2012) posit that opportunity is the main element of risk that organisations and regulators should assess when planning to prevent fraud. The fraud triangle that builds on the argument that the perpetrator is a 'predator' is depicted in Figure 4.3:

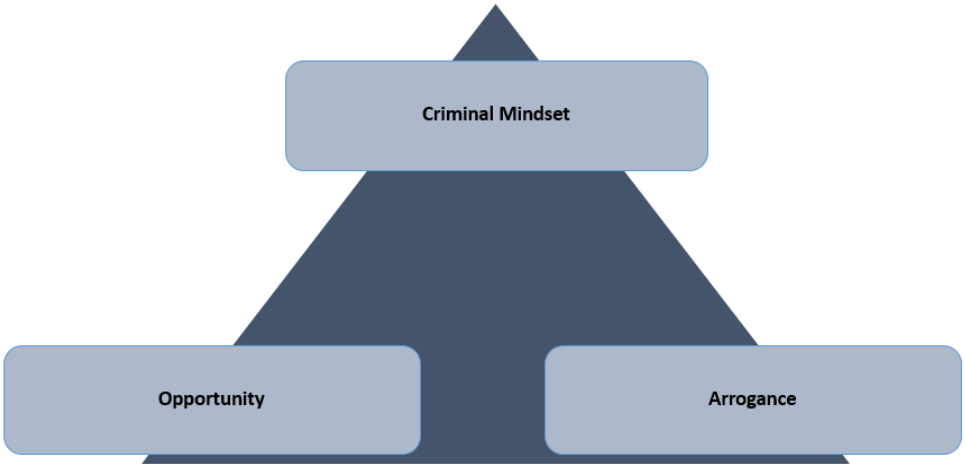


Figure 4.3 The new fraud triangle

Source (Dorminey et al., 2012)

The literature provides ample integration of theories to explain fraud. While Albrecht et al. (2004) integrate agency, stewardship and fraud triangle theory. Choo and Tan (2007) enhance Albrecht's (2004) theory by adding features of the American Dream theory, which are: importance of success in terms of money, disregarding regulation and justification of the fraudulent act. Raval

(2016) proposes a 'disposition based fraud model' which criticises the fraud triangle theory for ignoring the human side of fraudulent behaviour and emphasises that human desires and intentions determine the act of fraud or absence of it. Lokanan (2015, p.6) argues that the "multifaceted and interrelated complexity of fraud makes it difficult to come up with a unidirectional causal theory that can explain all occurrences of fraud" and posits that the macro social environment should also be elaborated in discussing fraud and fraudulent behaviour. The theory is also criticised as treating fraud as being only incidental (Free and Murphy, 2015), and political and economic institutions (Morales et al., 2014) social dimension (Murphy and Free, 2015) and collusion (Free, 2015) of fraud is not explained enough.

Trompeter et al. (2014) surveyed the non-accounting academic literature on financial crime and argued that nearly all of the research is consistent with the three factors of the fraud triangle. Overall, although fraud theories are very useful in explaining fraud, they still cannot adequately explain all the features of white-collar crime. As will be discussed in section 4.5, the social dimension and influence of stakeholders still need to be further discussed.

Table 4.1 below depicts the key aspects of some fraud theories with an emphasis on the fraud triangle:

Table 4.1 Theories of Fraud

Theory	Key Aspects
Fraud Triangle **Cressey (1953)**	***Pressure:*** **'**non-shareable' problems that can only be solved by acquiring the resources of others. Examples are debt, health related needs, addictions, desire for possession, work related pressures to be successful, , health issues, or loss of employment etc. ***Opportunity:*** the fraudster has the belief that there are chances to act fraudulently without being caught. Examples are weakness in external and internal monitoring and control, the remoteness of being caught, weak internal audit system, regulatory weakness, industry nature, unstable organisation etc. ***Rationalisation:*** identifies the actual reasons for fraudulent behaviour, or the underlying motivation and a moral excuse for the fraudulent action. Examples are being unpaid, being under mobbing, personal interests such as revenge, job dissatisfaction, unfavourable workplace conditions etc.
Fraud Scale Albrecht et al. (1984)	The component rationalisation is replaced by the component ***personal integrity.*** Examples are lack of honesty, diligence, work ethic etc.
Fraud Diamond **Wolfe and Hermanson (2004)**	A fourth component, ***capability***, is added to the fraud triangle. Capability is determined by a fraudster's function in the organisation. Examples are intellect, ego and confidence, influence over other people to coerce or conceal fraud, effectiveness and consistence and ability to deal with stress etc.
Fraud Pentagon Sorunke, (2016)	Adds ***personal ethics*** as a fifth component to the fraud diamond in which fraudsters are motivated by lack of ethical stance.
Marks (2009)	Adds the components of ***arrogance*** and ***competence*** to the fraud triangle.
ABC Analysis **Ramamoorti et al. (2009):**	Argues that fraud is made up of three aspects ***the bad apple:*** which is the individual who acts fraudulently ***the bad bushel:*** symbolises collusion in fraud behaviour ***the bad crop:*** organisational and social dynamic that leads to fraud.
Fraudster as 'predator' Dorminey et al., (2012)	Suggest that ***opportunity*** is the main element of risk that organisations rationalisation and pressure are temporary factors and that the fraud triangle only concentrates on the 'accidental fraudster'. Argues that the components of rationalisation and pressure should be replaced by ***criminal mind-set*** and ***arrogance*** as the fraudster may also act as a predator, an individual whose permanent purpose is to conduct fraud and who only needs 'opportunity' to complete his/her act.

4.3 Models predicting fraud

In this section, models either quantitative or qualitative that aim to predict fraud in organisations will be examined. Financial ratios such as profitability, liquidity and gearing have been seen as signs of a problem (du Jardin, 2015). Inventory, accounts receivable (Beasley et al., 1999) and revenue recognition (Rezaee, 2005) are some accounts frequently used to commit fraud. Trompeter et al. (2012) also argues that degenerated and misused documents such as journal entries are other signals of a fraudulent event. Fanning and Cogger (1998) found that in cases where gross margin percentage or accounts receivable exceed 110% of the value for the previous years, then fraud may be suspected.

Apostolou et al. (2001) found that red flags regarding the management are twice as important as financial red flags of fraud. However, the accuracy of red flags is doubtful (Albrecht et al., 1986; Patterson and Noel, 2003), and ratio analysis is also criticised as being subjective (Hogan et al., 2008). For example, Kaminski et al. (2004) assessed 21 financial ratios for their capability of predicting fraud and found no consistency through the seven years examined.

Predicting failure and bankruptcy with more enhanced formulas began in the 1960s. While Beaver (1966) formulated a predictive model emphasising cash flow and debt coverage, Altman (1968) developed the Z-score in which a variety of different financial ratios are used to predict failure and bankruptcy. The Z-score, which did not take account of 'unexpected factors' such as fraud or political or economic crises, posits that a Z-score of 1.8 or less (calculated by weighted coefficients of different ratios) means that the organisation is in danger of bankruptcy. Argenti (1983) developed a qualitative model, which utilises a management-scoring approach that rates management risks that may lead to organisational failure. Apart from the models, audit reports, credit ratings and other external reviews are widely used to predict business failure (du Jardin, 2015).

Loebbecke and Willingham (1988) were some of the first who tried to predict fraud and proposed a model which analyses the likelihood of management fraud. The model is consistent with Cressey's fraud triangle where conditions (C), motivation for fraud (M) and attitude (A) replace pressure, opportunity and rationalisation. The model envisages that, in case of simultaneous existence of each attribute, then management fraud is very likely: P(MI)=*f*(C, M,A). Loebbecke et al. (1989), by using the model found that, in 86% of the fraud cases, at least one factor out of the three components was present. Bell et al. (1991) also found that fraud occurrence had an apparent link with the components and that the 'attitude' component provided the strongest relationship.

Fanning et al. (1995) used Artificial Neural Networks (ANNs) to predict fraud and found that neural network usage is better than earlier models built using logistics analysis. Bell and Carcello (2000) on the other hand investigated fraud using logistic regression and found logistic regression to be a better predictor of fraud risk than auditors' risk assessment.

While Phua et al. (2010) posit that logistic models are the most utilised, Ngai et al. (2011) assessed the use of data-mining techniques between 1997 to 2008 and found that 26 techniques have been used to the detect financial fraud. They found that logistic models, neural networks, the Bayesian belief network and decision trees were the most used,with logistic models leading by 21.3%. Sharma and Panigrahi (2013) provided a review of fraud data-mining techniques and found that decision tree, Bayesian network, neural network and regression analysis are frequently used to detect fraud. Albashrawi (2016) again, by analysing data mining techniques to detect financial fraud between the years 2004 to 2015, found that the logistic regression model was the most utilised technique with 13% out of a total of 41 techniques. Albashrawi (2016) also found that supervised learning tools have been used more frequently than unsupervised ones. Multiple uses of data-mining techniques are also very

popular and are argued to yield better outcomes (Ata and Seyrek, 2009; Dutta et al., 2017; Kotsiantis et al., 2006; Lin et al., 2015).

Brazel et al. (2006) and Brazel et al. (2009) also suggest that non-financial measures, such as employee number and warehouse space, are beneficial in assessing fraud. They found that fraud firms either had differences and variance in financial or non-financial measures when fraud is assessed. LaComb et al. (2007) argue that fraud can be assessed through content analysis.

This section briefly summarised the models that aim to predict fraud occurrence in an organisation. Although all of the models used are found to be useful in predicting fraud, logistic regression models have been favoured by scholars due to their easy formulation (Ngai et al., 2011). Logistic regression model is also utilised by this study, which is discussed in Chapter 5 on methodology.

Figure 4.4 depicts the models that are mostly utilised to predict fraud occurrence in organisational setting:

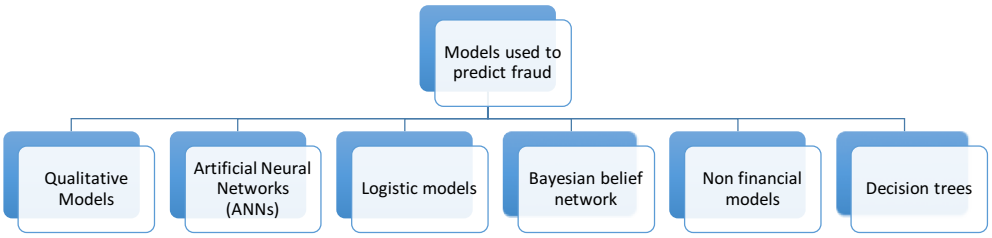


Figure 4.4 Models Predicting Fraud

Source (Author)

4.4 Prevention, deterrence and detection of fraud

The campaign against fraud is carried out through measures of prevention, deterrence and detection (Dorminey et al., 2012). While prevention aims to stop the fraudster by reducing the opportunities for fraud (Farber, 2005), deterrence aims to discourage people from committing fraud by creating suitable working environments (Dorminey et al., 2012). Fraud detection on the other hand, is the ex-post reaction that aims to uncover the results and reasons for fraud (Beasley et al., 2000). Although deterrence, prevention and detection of fraud in organisations are different, they can benefit from same general measures against fraud (Baucus and Near, 1991). Tackling fraud can either be attempted by legislative and sector level implementations by regulators and policy makers or by individual organisations (Button et al., 2012). Anti-fraud policies are also implemented by goverments and sector regulators by using mandatory anti-fraud measures for each organisation or by implementing penalties and sanctions that who commited fraud. For example, Hogan et al. (2008) argue that efficiently structured governance aspects have crucial roles in diminishing fraudulent opportunities. These include audit committee, internal and external controls and audits, monitoring of board of directors, tone at the top and ethical codes. This section will assess the sanctions and penalties that are used to deter fraudulent action (Becker and Stigler, 1974) and governance tools such as internal and external controls and audit (Abbott et al., 2000), corporate culture and ethics (Schein, 1996), remuneration (Efendi et al., 2007), board composition and structure (Uzun et al., 2004) reporting and disclosure (Beasley et al., 2000).

4.4.1 Sanctions and penalties

Regulation to deter or prevent fraud is done either by a) facilating mandatory requirements or recommendations to tackle fraud at the organisational level, or b) sanctions or punishment to deter fraud at the sector or even at the country level. The measures applied by organisations to tackle fraud are elaborated in the following sections.

Deterring fraud with sanctions and penalties has long been in use (Becker and Stigler, 1974). Murphy (2005) suggests that deterrence policies, such as sanctions and penalties and other authority driven measures, can only be successful because the perpetrators will be confronted by these policies. The sanctions are either monetary only, which aim to recover the defrauded amount, or also in most cases involve a criminal sentence. However, the effectiveness and success of deterrence policies is debatable (Murphy, 2005; Ogren, 1972). While some studies found that punishment leads to compliance (Maxwell and Gray, 2000), others found that punishment is not effective in deterring fraud (Alt and Lassen, 2012). Button et al. (2012) argue that effective sanctions should be inevitable, unavoidable and should be severely and speedily administered. They argue that failure of sanctions and penalties as fraud deterrents occur because only a very small number of frauds are reported and sanctions are not applied properly and effectively. Murphy (2005) argues that excessive and disproportionate and unwarranted prosecutions cause counter effects and may lead to increase in criminal behaviour.

Regarding the UK, conviction of fraud and financial crime is applicable according to the UK Sentencing Council's Definitive Guideline for Fraud, Bribery and Money Laundering Offences (Council, 2014). The Serious Fraud Office (SFO) and Crown Prosecution Service (CPS) have the powers to prosecute relevant acts of fraud. However, there is no specific fraud sanction legislation that is specific to the charity sector.

4.4.2 Control and audit

Efficient control and audit have been seen as the most accurate way to prevent and detect fraud (Greenlee et al., 2007), as lack of control and audit paves the way for fraud (Doyle et al., 2007).

Internal audit is accepted to be the first line of defence against fraud as it makes it possible to identify wrongdoing earlier than other anti-fraud

measures (Chambers and Odar, 2015). Dellaportas (2013) argues that an important factor contributing to fraud is insufficient internal control. Jokipii (2010) argues that internal control is designed to cope with external uncertainty and eliminate wrongdoing. Trompeter et al. (2012), who provide a fraud review of accounting literature, argue that internal control is a mechanism that can hinder fraud opportunity but full benefit from internal control can only be achieved with time as the organisational culture settles. Coram et al. (2008) also found that a more enhanced internal audit structure enables self-reporting of fraud to increase. Archambeault et al. (2008) argue that stakeholders are not able to view and analyse internal audit reports and suggest that internal audit reports shared with the stakeholders would benefit the organisation by enhancing stakeholder trust.

Bell and Carcello (2000) found lack of effective audit to be one of the main risk factors. External audit is also found to be important, as an 'independent' mechanism overseeing the organisation and preventing and detecting fraud assures trust for the stakeholders (Arens et al., 2012; Cullinan and Sutton, 2002; Power, 1997). Lennox and Pittman (2010) discovered that working with the biggest audit firms reduced the risk of fraud. Knapp and Knapp (2001) found that experience is important in detecting fraud, as audit managers were more efficient than audit seniors. Lee et al. (2008) stress the role shift of audit from being detective to being preventive.

Audit is not without problems. Beasley et al. (2001) stress that auditors can fail to detect fraudulent transactions as they found that auditors were unable to detect a problem in 27% of their sample. The lack of full understanding between the organisation and the auditors (Abbott et al., 2000) and more importantly the absence of auditor independence hinders the function of audit (Carcello and Nagy, 2004). While Shockley (1981) posits that audit tenure has no effect on audit quality and auditor independence, Carcello and Nagy (2004) found that the first three years of the auditor-client relationship are the most dangerous as there is a greater risk that fraud will happen then. Beasley

et al. (1999) discovered that fraud firms can be spotted by the fact that they switch their auditors twice as often as firms with no fraud. They also found some cases where auditors were in collusion with the fraudsters and providing assistance to them.

Audit committees also play a crucial role in the fight against fraud. While Beasley (1996) found no relationship between the existence of an audit committee and fraudulent behaviour, Abbott et al. (2000) argue that firms with audit committees made up of independent directors which come together at least twice a year have a lower risk of fraud. Beasley et al. (2000) found that fraud firms were likely to have fewer audit committee meetings than non-fraud firms. Abbott et al. (2004) analysed the characteristics of audit committees and found that restatement of financial statements decreases with a more independent and frequently meeting audit committee. James (2003) found that internal auditors who reported directly to the audit committee were more likely to detect fraud than the ones who informed the management.

4.4.3 Board composition and structure

Fama and Jensen (1983b) posit that the highest and most effective monitoring mechanism is the board of directors. Beasley (1996) provided information that as the percentage of outside directors and their tenure increases the fraud risk decreases. He posits that board composition and not the existence of an audit committee have an impact on financial statement fraud. Dechow et al. (1996) also show that the percentage of outside directors and misleading reporting are negatively correlated. Uzun et al. (2004) found that increase of independent directors on boards and audit and compensation committees reduces the risk of fraud. Farber (2005) posits that fundamental aspects of fraud firms are few independent board members, lack of an adequate number of audit committee meetings and higher CEOs also being the chairman. Gao et al. (2017) found that, while fraud is happening, the turnover of independent directors accelerates, more independent directors leave and being appointed during that timeframe.

Zhao and Chen (2008) found that boards that are made up of members elected for a long time correlated with higher risk of fraud. Xu et al. (2017) argue that there is a negative correlation between age of the board and occurrence of fraud.

CEO duality is also another aspect that is correlated with fraud. Albrecht et al. (1984) argued that being unable to segregate duties may exacerbate the fraud risk. Fanning and Cogger (1998) also argue that, if the chairperson has an influence on the committee appointing the CEO, this decreases the effectiveness of the committees in terms of monitoring.

The existence of committees has been found to have a negative correlation with fraud occurrence (Fanning and Cogger, 1998). Houston et al. (2016) found a positive correlation between fraud and former employees being appointed as independent members of the board.

4.4.4 Reporting and disclosure

Fama (1980) posits that effective reporting and disclosure helps to prevent opportunistic behaviour and agency problems. Jensen and Meckling (1976) argue that the absence of disclosure will result in higher levels of asymmetric information and may be signs of a problem. Disclosure enables an organisation to sustain trust with its environment and is a means to show that the organisation is free of error, such as fraud (Healy and Palepu, 2001).

Keeton (1936) argues that not disclosing enough may be suspicious and may be a sign of deliberate concealment. Donelson et al. (2016) found that there is a positive correlation between low reporting quality and fraud. Purda and Skillicorn (2015) developed a model that distinguishes between fraudulent and non-fraudulent annual and interim reports. Hoberg and Lewis (2017) also found that fraud companies have 'abnormal' disclosure which uses ample verbal disclosure about the performance of the organisation but fewer details regarding the resources used. Agyei-Mensah (2017) found that as the level of

fraud and corruption increases disclosure of forward-looking information decreases.

4.4.5 Remuneration

Jensen and Meckling (1976) argue that compensation and other incentives that aim to align the interests of the management and the owners are useful. However badly designed compensation packages may bring more harm than good. Burns and Kedia (2006) and Lie (2005) found that stock options can trigger misreporting and fraudulent behaviour. Johnson et al. (2003) found that managers of companies who are accused of fraud have larger unrestricted stock incentives than not accused ones. Efendi et al. (2007) empirically discovered a positive correlation between CEO having large quantity of stock options and financial statements being restated.

Coffee (2006) identified stock options as the main reason for the scandals occurring in the 1990s and 2000s. Harris and Bromiley (2007) argue that wrongly formulated incentives coupled with insufficient organisational performance cause misreporting and fraud.

Armstrong et al. (2010) on the other hand found that a high level of equity incentives are successful in preventing accounting irregularities and fraudulent behaviour. Erickson et al. (2006) who analysed equity incentives of companies accused of fraud between 1996–2003 found no proof that fraud and equity incentives are correlated. Ndofor et al. (2015) found that, in highly complex environments, the risk of fraud increases with more stock options and decreases with enhanced audit committee control.

4.4.6 Corporate culture and ethics

Organisational climate is the combination of attitudes, beliefs, religion (Koerber and Neck, 2006) norms and values (Ashkanasy et al., 2006) of an organisation that affects how individuals working in it behave (Tseng and Fan, 2011). Schwartz et al. (2005) posit that the corporate culture and ethics

of the organisation especially designed by the board of directors influence governance of the organisation and prevention chances of corporate scandals and fraud. Trompeter et al. (2012) argue that in case of collusion, tone at the top and ethical conduct rather than preventive measures such as monitoring and internal control are useful.

Organisational practices and culture may also exacerbate fraud or make it possible for wrongdoing to be hidden (Gabbioneta et al., 2013). Reed and Yeager (1996) and Pinto et al. (2008) argue that some organisational cultures are inclined to wrongdoing and therefore committing crimes and fraud are endogenised. Law (2011) and Krummeck (2000) suggest that both board of directors and management are in need of a code of ethical conduct and commitment to provide an ethical stance and tone at the top to act against fraud. A well-established ethical code is necessary to protect the organisation against any personal opportunistic traits (Cohen et al., 2012; Kaptein, 2011b). Dorminey et al. (2012) argue that ethical sensitivity in working environments has the power to deter fraud. Lack of an appropriate code of ethical conduct and management acting opportunistically may also result in concealment of wrongdoing (Erben and Güneşer, 2008). Therefore, tone at the top and a deterrent leadership style will help to prevent wrongdoing in an organisation (Ghosh, 2008; Grojean et al., 2004).

Whistleblowing is another important tool in the struggle with fraud (Kaptein, 2011a). Bowen et al. (2010) argue that whistleblowing coupled with other measures can reduce fraud risk. Seifert et al. (2010) found that organisational culture affects the aspiration for whistleblowing. While Mesmer-Magnus and Viswesvaran (2005) suggest that whistle-blowers will not come forth if management is not supportive or even forbidding, Vandekerckhove and Commers (2004) argue that distinguishing between the physical organisation and its values and mission will enhance whistleblowing. Miller and Thomas (2005) found that whistleblowing was less likely for subordinates than for

peers and therefore argue that the position of an employee also affects whistleblowing attitude.

Figure 4.5 depicts the measures assessed in this study to prevent or deter fraud:

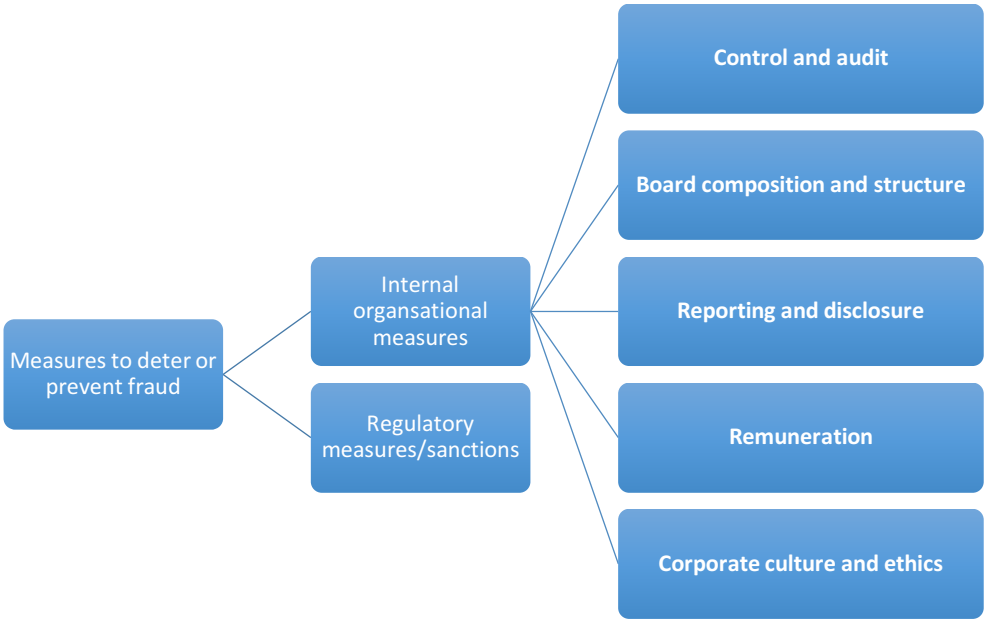


Figure 4.5 Measures to deter or prevent fraud

Source (Author)

4.5 The external environment and stakeholders

The governance approach, which used to be shareholder or owner-centric, has shifted to a more stakeholder-oriented attitude (Brennan and Solomon, 2008) which encompasses policies such as a broader accountability discharge, corporate social responsibility (Harjoto, 2017), environmental and social sustainability and a triple-bottom-line approach (Soltani, 2014). The importance of stakeholders, external environment and social dimension has also risen in the fraud literature too (Trompeter et al., 2014; Zyglidopoulos and Fleming, 2008).

Pinto et al. (2008) suggest that misconduct not only covers the features of individuals inside the organisation but also organisations' external environment too. Colvin et al. (2002) posit that crime is only possible if coercion and support from social environment exists. Vaughan (1999) suggests that misconduct is a product of interaction between personal cognition, individual choice, organisational structure and environmental dynamics. The sophistication and dynamism of the environment is believed to play a role in illegal activities, while Baucus and Near (1991) and Saksena (2001) found a complex environment exacerbates illegality, Staw and Szwajkowski (1975) found the opposite. Chau and Siu (2000) also found that, in turbulent and hostile environments, entrepreneurial and ethical decision making conflict with each other.

Mon (2002) argues that one of the aspects that contributes to corporate crime is the absence of public concern such as the absence of regulation and low self-control. He posits that the public attitude towards corporate crime is complacent and therefore provides an opportunity for illegality. Brazel et al. (2015) suggest that most investors do not see a need for their own fraud risk assessments as they believe that it is not their duty.

Cullen et al. (2009) argue that public interest in white-collar crime has increased since the 1970s but that, when compared to street-crime, it still lacks the attention of the public. Zahra et al. (2005) posit that fraud has societal, as well as industrial and organisational antecedents. Maynard (2001) also suggests that lack of public transparency encourages the managers towards misconduct. Ndofor et al. (2015) see information asymmetry between executives and owners as the main reason for fraud.

Stakeholder attention to organisational issues might vary depending on the stakeholder and the dynamics of the specific organisation (Chandler, 2015). Schnatterly et al. (2018) suggest that stakeholders' lack of information and lack of attention to organisational events provide opportunities for CEO wrongdoing. Fombrun et al. (2000) suggest that the idea of corporate

citizenship assumes that stakeholders of organisations benefit by overseeing the organisation by not being alienated. As a result, the reputation of the organisation is improved by this oversight. Barnett (2014), on the other hand, criticises stakeholder oversight by arguing that their rationality is bounded. He states that (p.694) "stakeholders' attention is directed in certain ways that bound where they look, limit what they notice, bias their assessment, and constrain their willingness to act. As a result, firms' bad behaviours may not be consistently extinguished through social control". Carberry et al. (2018) on the other hand argue that stakeholders are very attentive to misconduct especially if the wrongdoing is brought up by the media or by adequate measures to attract their attention. Daudigeos et al. (2018) define organisational scandals as 'catalysts' and suggest that especially vulnerable stakeholders are attentive to scandals as they view scandals as an opportunity for their voices to be heard and their views to be reflected in decision making.

Engdahl (2008) also argues that strong social networks may create an opportunity for fraud. Zona et al. (2013) assessed a corporate scandal of the Italian bank of BPL, argue that a broader analysis is needed to understand the roots and reasons of fraud. They criticise previous fraud models as static and one-dimensional as they focus only on the perpetrators of scandals and ignore collaborators. Zona et al. (2013) found that cohesion of stakeholders enables the management of an organisation to pursue a risky and opportunistic strategy. They state that "we clarify the role that stakeholders may play in supporting the processes and strategies leading to corporate scandals. We suggest that stakeholders' support increases the amount of additional resources available to the CEO (i.e., support, legitimacy, financial resources), fostering his/her proclivity to undertake imbalanced, risky strategies." (p.280).

Trompeter et al. (2014) and Trompeter et al. (2012) argue that non-accounting rather than accounting research provides a focus towards the external environment and the influence of stakeholders on fraud. To this end,

Ramamoorti (2008) suggests use of non-accounting sciences such as criminology, psychology and sociology, to enhance the fraud studies in the accounting discipline. The impact of power is also assessed in non-accounting fraud literature as power may lead to the deviance of the organisation and even to misconduct and fraud if not used appropriately (Soltani, 2014; Vaughan, 1999). While Overbeck and Park (2001) identify social power as the skill to govern others' funds and decisions, Albrecht et al. (2015) posit that fraud offenders used their power to find collaborators. They argue that as the power increases it becomes easier to construct an opportunity to commit fraud. Dellaportas (2013) through interviews with accountants who committed fraud argue that fraudulent accountants used their oversight power and professional reputation and deceived people to accompany their crimes.

Trompeter et al. (2012) posit that collusion inside the organisation to commit fraud also can find external support. Free (2015) argues that, although fraud is theorised as an individual action, all major frauds were realised with collusion, and he calls for future research to focus on collusion. McBarnet (2006) identifies accountants and attorneys as 'enablers' of financial crime who participate in promotion of such activities. Albrecht et al. (2008) stress the role of auditors in the occurrence of fraud and argue that auditors used to their advantage the vulnerability of fraudulent companies. Gordon et al. (2007) also suggest that auditors fail to detect fraud occurring as a result of transactions with related parties.

Especially for the for-profit sector, external pressures such as financial distress (Fanning and Cogger, 1998), need for growth (Loebbecke et al., 1989), lack of dividend payment (Caskey and Hanlon, 2013) and meeting analyst forecasts (Bell and Carcello, 2000) play a crucial part in raising the risk of fraudulent behaviour.

So far in this Chapter, the theories and anti-fraud measures discussed have mainly come from literature related to the for-profit sector, as this sector has been the principal location for fraud studies. The next two sections provide

literature on public entities and especially the not-for-profit sector.

4.6 Empirical work on fraud in public sector

Fraud in the public sector has important differences when compared to the for-profit sector. Economic efficiency, cost of monitoring, regulation, growth and bribery seems to be the main concerns in the public sector (Monteduro et al., 2016; Treisman, 2000).

One of the most important fraud types in the public sector is bribery, money given to civil servants to reduce red tape (Shleifer and Vishny, 1993), which does not diminish public sector resources but causes to inefficiency, cronyism and hampers trust in the public sector (Duvanova, 2014). Bribery and other public sector fraudulent behaviour vary across different cultures, socioeconomic factors and historical development (Agyei-Mensah, 2017). In contrast, Timofeyev (2015) argues that fraud happens everywhere irrelevant of countries and cultures.

Corruption in the government is an example of financial misconduct in the public sector (Campos and Pradhan, 2007; Rose-Ackerman and Palifka, 2016). While LaPalombara (1994) argues that a high budget and therefore a bigger government is positively correlated with corruption, Themudo (2014) argues that corruption risk diminishes with larger governments. La Porta et al. (1999) and Hopkin and Rodriguez-Pose (2007) also found that larger governments are inclined towards less corruption.

Another fraud type in public sector organisations is misappropriation of assets, public assets used for personal interest (Coram et al., 2008). Unauthorised use of public organisations' assets such as vehicles, stationery and other facilities are very common which creates waste of public money (Ab Majid et al., 2014).

Stalebrink and Sacco (2007) argue that entrepreneurship can be a source of deception and may provide incentives and opportunities especially for the

public sector organisations to act fraudulently. They propose a framework in which political and nonmonetary incentives play a part in fraud and that it is committed by elected individuals. Wesley Lane (2010) argues also that political aspirations of people cause the occurrence of fraud and provides a comparision among public sector entities such as the London local authorities, National Health Service (NHS) and the Department for Work and Pensions (DWP). He found that all entities are similar in their reactions towards fraud and in investigating fraud.

4.7 Empirical work on fraud in the not-for-profit sector

Trust is a crucial relationship between not-for-profit organisations and their stakeholders and, if damaged with an incident like fraud, not-for-profit organisations have much to lose (Arshad et al., 2015; Fleckenstein and Bowes, 2000; Lauck and Brozovsky, 2018). Zack (2003) posit that in addition to being sensitive to fraud, not-for-profit organisations are also more vulnerable to fraud than compared to for-profit sector organisations due to lack of ownership and therefore weak monitoring by the board and also from donations being nonreciprocal which diminishes the monitoring incentives of donors.

Although fraud plays a negatively crucial role in the not-for-profit sector, the literature is very limited compared especially to the for-profit sector. One of the earleist works on fraud in not-for-profit sector is by Gibelman and Gelman (2001), who analysed nongovernmental organisations[14] (NGO) which have experienced wrongdoing incidents. They assessed the data derived from newspapers and newsletters and listed the incidents in terms of participating parties, impact on the NGO and status of the incident. Gibelman and Gelman (2001) argue that the absence of effective accountability and control

[14] "NGOs are referred to as not-for-profit, nonprofit, or voluntary organizations, all generally referencing the same group of agencies." Gibelman and Gelman (2001, p.50)

mechanisms were the causes of wrongdoing. Gibelman and Gelman (2002) found that there were no differences among religious and secular not-for-profit organisations in terms of wrongdoing. In another study, Gibelman and Gelman (2004) suggest that the remedies for not-for-profit wrongdoing are watchdog agencies, oversight by the government and enhanced ethical codes. Fremont-Smith and Kosaras (2003) and Fremont-Smith (2004) also assessed fraud events occurring in not-for-profit organisations from newspapers.

Greenlee et al. (2007) tried to identify perpetrators and victims of fraud in not-for-profit organisations in the USA. They found that, in a typical fraud, the fraudster was a woman with no previous criminal offences who has worked in the organisation for a minimum of three years, and the median size of the fraudulent event was below $50,000. They also found that, at least in a quarter of the cases, the perpetrator was the manager. Further, while asset misappropriations constitute 97% of frauds, the loss from each case of financial statement fraud was 30 times bigger than the loss from asset misappropriations.

Holtfreter (2008) used survey data on auditors of not-for-profit organisations in which fraud had taken place, based on the findings of the Association of Certified Fraud Examiners (ACFE). She found that there was a negative correlation between fraud loss and organisational size and effective control. Holtfreter (2008) also found that the majority of frauds are committed by female employees. Archambeault et al. (2015) also found that female employees were the leading fraudsters and the size of loss correlates with the organisational role of the fraudster. Sze and Talib (2018) posit CEO or founder power as the reason for fraud in not-for-profit organisations. Archambeault and Webber (2018) assessed the characteristics of not-for-profit organisations that survived after they were found to be fraudulent. They found that organisations which are younger and smaller were less likely to survive compared to larger and older not-for-profit organisations.

Petrovits et al. (2011) assessed internal control in not-for-profit organisations and found that unfavourable financial condition, being small and growing and existing in a complex environment exacerbates internal control problems. They also posit that donors and government grants react negatively to internal control problems in not-for-profit organisations.

Kummer et al. (2015) assessed data from a survey of not-for-profit organisations in Australia and New Zealand. They posit that vulnerability to fraud, insufficient internal controls and inability to detect fraud (especially in small not-for-profit organisations) show that fraud prevention and detection tools in not-for-profit organisations are not appropriate. Harris et al. (2015) found that fraud occurrence has a negative correlation with duties managed internally, audit, debt and government grant holder monitoring. McDonnell and Rutherford (2018) analysed 25,611 charities in Scotland and, by using multivariate analysis, found that charities which are susceptible of misconduct are not the ones subject to regulatory supervision. They also argue that charity misconduct is driven by the opportunity to act illegally.

Bradley (2014) argues that the most effective way to cope with fraud in not-for-profit organisations is to empower the employees, while Rothschild (2013) suggests that misconduct in not-for-profit organisations is only reported by whistle-blowers after it is identified and witnessed on more than one occasion, owing to fear on the part of whistle-blowers that they will be discredited. Kummer et al. (2014) argue that not-for-profit organisations which have been exposed to fraud in the past tend to enhance their monitoring and control mechanisms and utilise measures such as enabling whistleblowing and risk assessment. On the other hand, organisations not exposed to fraud tend to utilise tools such as external audit and tone at the top. Kummer et al. (2015) suggest that risk registers, whistleblowing and control policies are tools that should be used against fraud in not-for-profit organisations. Bromley and Orchard (2016) argue that the not-for-profit sector is also in need of effective codes of conduct to cope with fraud

and misconduct as environmental factors make adoption of the codes necessary.

Nikolova (2014) found that effective monitoring by donors and a higher share of government grants (which leads to increase in monitoring by the government and decrease in CEO compensation) reduce the opportunity for misconduct. Lauck and Brozovsky (2018) found that enhanced board of director oversight was the only tool that led donors to donate after fraud caused by material misappropriation of assets.

Cordery and Baskerville (2011) provide one of the only studies which shows how stakeholders are affected by fraud in a charity and how ineffective they are in preventing the opportunity for charities to act fraudulently. They argue that lack of power makes even the most important stakeholders destitute of information.

4.8 Summary

This chapter has examined the fraud literature, with a focus on for-profit sector, due to lack of study in the not-for-profit sector. The definition of fraud provided from various sources shows that the term is used to describe something sinister with many features and kinds. The definition section also clarifies the borders of fraud which will be used for this study only with providing citations from Acts and other relevant official documents.

The fraud theories which mainly derive from Cressey's (1953) work provide a conceptual framework on how fraud in organisations emerge. Although Cressy's (1953) fraud triangle is built on the three angles of pressure, opportunity and rationalisation, the literature argues (Dorminey et al., 2012) that opportunity and its sources should be assessed more in detail. This thesis does so. The next section summarises briefly the models used to predict fraud in organisations.

The governance mechanisms used to prevent, deter and detect fraud caused

by opportunity are generally the governance mechanisms also used to enhance accountability. Audit (Beasley, 1996), board monitoring (Uzun et al., 2004) disclosure (Donelson et al., 2016) remuneration (Harris and Bromiley, 2007) and ethical codes (Schwartz et al., 2005) are the most well-known governance mechanisms used to struggle against fraud.

The influence of the external environment and the stakeholders on fraud is where a research gap is prevalent, especially in the accounting literature. Complexity of the external environment (Saksena, 2001), stakeholders attitudes towards fraud (Mon, 2002) and possible collusions within the organisation, between it and its stakeholders (Zona et al., 2013), are some areas at which further studies should aim.

While public sector fraud has its own sub-divisions such as bribery (Shleifer and Vishny, 1993) and corruption (Rose-Ackerman and Palifka, 2016), not-for-profit sector lacks an adequate number of studies (Bromley and Orchard, 2016). This is despite the fact that the not-for-profit sector is argued to pose more danger of fraud because lack of ownership and adequate monitoring (Zona et al., 2013). The literature shows that nearly all not-for-profit fraud studies were conducted in the last decade with a great emphasis on US studies, whereas misconduct and fraud studies that focus on charities in the UK are only very recent (McDonnell and Rutherford, 2018; Ohalehi, 2019).

The next section discusses the research gaps in the literature covered until now.

4.9 Identified Research Gaps

The literature concerning accountability and governance theories and fraud on not-for-profit organisations demonstrates that there are problems specific to the not-for-profit sector which need to be assessed further. In this section, the research gaps identified in Chapters 2, 3 and 4 will be discussed. These relate to the substantive topic of the thesis (fraud in charities), the underlying theory used to understand fraud in charities, and the research methods to be

used to gain a deeper understanding of stakeholders' views on fraud in charities and the governance structures that make fraud easier or more difficult.

Fraud, accountability and governance

The review in this chapter of the literature on fraud and the review in Chapter 2 of the accountability and governance literature reveal some important gaps in our knowledge relating to fraud in the charity sector. We have very limited knowledge of how charity stakeholders conceptualise fraud, and their views on why fraud occurs and how it can be dealt with effectively. This suggests the first research objective: "**To assess how stakeholders conceptualise charity fraud and their views on the reasons for and solutions to fraud**".

This research objective covers three important aspects: a) stakeholders' views on ownership, stakeholder salience and accountability, b) stakeholders' views on the causes of fraud, and c) stakeholders' views on the solutions to fraud. In the context of views on ownership, stakeholder salience and accountability, two specific research questions are suggested: **RQ1a "What are the accountability dynamics in the charity sector?"** and **RQ1b "How do stakeholders identify ownership and stakeholder salience in the charity sector?"** With respect to the causes of fraud, two research questions emerge: **RQ1c "How do stakeholders conceptualise fraud in the charity sector?"** and **RQ1d "What reasons are identified by charity stakeholders for fraud?"** Two questions also emerge in relation to the solutions to fraud: **RQ1e "What solutions to fraud are identified by charity stakeholders?"** and **RQ1f "What are stakeholders' perceptions of stakeholder oversight?"**

The governance mechanisms of the not-for-profit sector, apart from disclosure, audit and CEO duality, are different from those in the for-profit sector. The variety of board attributes that influence governance and monitoring activities in the for-profit sector, such as size, diversity, and

tenure, does not seem to produce the same effect in the not-for-profit sector. Therefore, there is a research gap regarding board attributes and their impact on governance in not-for-profit organisations. This suggests the second research objective**: "To assess the governance characteristics associated with fraud in charities"**. To respond to this objective, two research questions emerge: **RQ2a "What are the differences between fraud and no-fraud charities in terms of governance?"** and **RQ2b "Which governance characteristics are related to fraud?"**

Overall the accountability and governance literature acts as crossing stone and brings forward many issues that are early signs of a bigger problem: fraud.

Theories

All the accountability and governance theories examined in Chapter 3 were developed specifically for the for-profit sector. As there is no specific theory designed for the not-for-profit sector, it seems more appropriate to integrate the theories and create a framework suitable for the not-for-profit sector (Van Puyvelde et al., 2012). Although integration of theories has been proposed before (Wellens and Jegers, 2011), it has not been tested much. Therefore, there is a research gap to assess if integration of theories can succeed for not-for-profit organisations. Research question 1b, which aims to identify ownership in the charity sector, benefits from the use of the integrated theory.

Also, assessing fraud with a multiple theory approach is not something frequently tried. Agency theory, although accepted as the ultimate organisational theory to explain fraudulent behaviour, is also criticised for being old-fashioned (Da Silveira, 2015) and one-sided (Donaldson and Preston, 1995). With the existence of a multiple principal environment (Nikolova, 2014), not-for-profit organisations seem to be the optimal sector to assess if an enhanced agency theory produces better explanatory outcomes for fraud. As the enhanced agency theory broadens the frontiers of the agent-

principal relationship to include the stakeholders, the integrated theory enables assessment of the stakeholders' views and influence, in line with the research objective. More specifically, the integrated theory also provides to assess the perceptions of stakeholder oversight, in line with research question 1f. Therefore, the study tries to fill the research gap of providing a unique integrated theory to understand better the fraudulent activities in not-for-profit organisations.

Method

Integration of the theories also enables the study to use mixed methods in assessing fraud in charities. The charity accountability and governance literature utilises either qualitative or quantitative research methods, and using them together in one single study is rare. The fraud literature, especially the accounting literature on fraud, is dominantly quantitative. Therefore, this study aims to provide a broader understanding by examining fraud in charities by utilising mix methods.

The research gap for fraud in not-for-profit organisations is apparent as, although stressed as an important proof of the need for an increase in not-for-profit sector accountability, studies of not-for-profit sector fraud are few (Kummer et al., 2015; McDonnell and Rutherford, 2018). As stated before, there have been only very recent fraud studies of charities in England and Wales, so this study aims to contribute to the studies in this area. In line with the lack of research into fraud in the charity sector, the study elaborates how fraud is conceptualised in the charity sector by the stakeholders. Secondly, the fraud literature as discussed before is predominantly quantitative methods based. The external environment and the stakeholders' influence have not been assessed in detail (Trompeter et al., 2014). The study therefore aims also fill the gap in the accounting fraud literature by conducting interviews with charity stakeholders in order to examine reasons identified by charity stakeholders for fraud and the solutions to fraud identified by charity stakeholders, in accordance with the fourth and fifth research questions.

Third, logistic regression analysis is used extensively to analyse fraud in the for-profit sector (Beasley, 1996) but studies on fraud in the not-for-profit sector are deprived of this. Logistic regression analysis is utilised to assess the governance characteristics associated with fraud in charities, in line with the second research objective. The research questions examine the differences between fraud and no-fraud charities in terms of governance and elaborate governance characteristics that are related to fraud. As the test variables used in fraud logistic regression analysis (such as board independence, existence of an audit committee, compensation package effectiveness, impact of publicly traded stock options) are not relevant in the not-for-profit sector, new independent variables specific to the not-for-profit sector will be assessed and used for the first time in this study.

Overall the aim is to provide a holistic approach to charity fraud and to understand the organisational features of fraud in not-for-profit organisations. The next chapter will provide methodology on how these research gaps will be assessed, setting out the research philosophy and research methods and design.

PART III

5. METHODOLOGY

This chapter assesses the research methodology and identifies the research paradigm, explains the quantitative and qualitative research methodologies employed in the research, especially clarifying the need for mixed methods. Data collection methods and the sample that is used in the research are discussed in the last part of the chapter.

Figure 5.1 Structure of Chapter 5

5.1 The research paradigm and philosophy

Research, whose purpose is to present a new perspective to events and facts (Crotty, 1998) is described by Saunders et al. (2016, p.5) as "a process that people undertake in a systematic way in order to find out things, thereby increasing their knowledge." The methods used for the research can be distinguished as either qualitative or quantitative. However, it is not the methods used but the complexion of knowledge and the perception of the researcher that constructs science (Howell, 2012; Sassen, 2013). A position of philosophy becomes crucial in order to determine the framework of methodology (Alasuutari et al., 2008; Broadbent and Unerman, 2011).

Ontological and epistemological stance has to be clarified in order for the researcher to formulate the methodological framework (Johnson and Duberley, 2000). The structures derived from epistemology and ontology permit researchers to evaluate conformability of different research methodologies by assessing the outputs and value of research (Burrell and Morgan, 1979). Therefore, the attitude of the researcher towards epistemology, ontology, and methodology defines the paradigm that he/she will use and will be the basis for the research framework (Denzin and Lincoln, 2017).

Paradigm is identified as researchers' intellection of social phenomena (Collis and Hussey, 2013) and presuppositions on the nature of knowledge (Saunders et al., 2016). Paradigm aims to uncover how to perform the research (Shannon-Baker, 2016) by defining the values and practices of the researcher and enlightening the reader about the research (Denzin and Lincoln, 2017).

Dualism is utilised frequently by social science, as contrast making is the route to develop social concepts (Llewelyn, 2003). The subject/object dualism makes it necessary to choose a stance on a continuum for the researcher (Denzin and Lincoln, 2017). Burrell and Morgan (1979, p.2-4) depict the continuum ranges as "a belief that the researcher's own subjectivity

has no influence on the recording or interpretation of empirical data, to a belief that all these observations will be filtered through the subjective life experiences of each researcher."

5.2 Positivist and interpretivist approaches

Francis Bacon, who posited that empirical observations are the basis for science, and Auguste Comte, who proposed that objective quantification is applicable to human behaviour, are deemed to be the first advocates of the positivist approach (Bryman, 2015; Crotty, 1998).

Positivist approach has an objectivist epistemological approach and realist ontological one. Some significant specifications of positivist approach are generalisation of research findings and facts, world, structures and social phenomena being independent from individual perceptions and social actors, value-free research nature, reality being in existence independent of the researcher and discovered by the researcher (Collis and Hussey, 2013; Crotty, 1998; Gephart, 2004).

The positivist approach also does not distinguish between social or natural sciences and favours experiments and observations and larger and more quantitative data sets (Bryman, 2015). Researchers' subjectivity does not pose an influence on the research itself in positivist approach as researchers are investigators of the realities, as described by Johnson and Duberley (2000, p.5): "data collected, rather than the processes of observation, dictate the findings and theories of science." Reality is aimed to be found by using quantitative data in positivist approach, which are utilised in natural sciences especially and the approach envisages replicable methods to be used (Collis and Hussey, 2013; Howell, 2012).

Qualitative methods and interpretative approach are criticised by positivists as insufficient to validate the truth and therefore is a fiction and not science (Denzin and Lincoln, 2017). Objectivist approach is animadverted for being attenuated, not focusing enough the complicated dimensions of reality and

being faulty in distinguishing social context from the research (Bryman, 2015; Collis and Hussey, 2013).

Hermeneutics [15] makes the basis for the interpretative approach which constructs its position against the natural order (Bryman, 2015). Max Weber, one of the pioneers of interpretative approach, argues that social sciences are different from natural sciences as they do not have to make absolute judgements but rather assess the social inquiries "on the meanings and values of acting persons and therefore on their subjective meaning-complex of action." (Crotty, 1998, p.68-69).

The interpretative approach uses an ontology of relativism and an epistemology of subjectivism (Howell, 2012). Important features of the interpretative approach are that social phenomena cannot be analysed in a laboratory as natural science does, researchers are not machines but human beings who reflect their own beliefs and world of views on their research, to make generalisation is not rational as each single social phenomenon can be interpreted in multiple ways, human subjectivity is the source of understanding the culturally and historically shaped world (Burrell and Morgan, 1979; Gephart, 2004; Llewelyn, 2003). Johnson and Duberley (2000, p.59) define interpretative approach as "subjective in nature of text, role of the researcher is insider, validity checks are qualitative." Crotty (1998) stresses the importance of subject as arguing that subject is imposing the meaning over the object and not the other way round as in the positivist approach.

Qualitative research and interpretative approach form a proximity between each other as individual's perception of the world is aimed to be assessed by the qualitative research (Collis and Hussey, 2013). Denzin and Lincoln (2017)

---

[15] "The method of the interpretation of human action" (Bryman, 2015, p.15)

state that the perspectives of subjects are being captured by the qualitative research.

The totally opposite arguments of the positivist and interpretative approaches lead researchers to position themselves on different points on the continuum (Crotty, 1998). Intermediation and integration of these conflicting approaches opened the way to new approaches such as critical realism, post-positivism, feminism etc. (Bryman, 2015). This intermediation allows to link new concepts to existing ones by both testing hypothesis but also being tentative in nature (Edmondson and McManus, 2007). This middle range approach also has its reflections on the methods used, either to select between the quantitative and qualitative methods, using them or mixing them together is also possible (Howell, 2012; Saunders et al., 2016).

5.3 Mixed methods

Mixed methods, also called integrative research, triangulation, multimethod, blended research is first to be used by Campbell and Fiske (1959) (Johnson et al., 2007). Mixed methods is defined as a combination of qualitative and quantitative methods to validate data and findings in the same study (Edmondson and McManus, 2007).

Mixed methods usage is rising in many disciplines as theoretical design, data collection, and analysis all can be utilised by mixed methods (Shannon-Baker, 2016). Research in accounting also shifted from a dominant positivist stance to a more enriched positivism with qualitative methods usage (Hopper and Hoque, 2006; Modell, 2010).

As mixed methods is a mix of qualitative and quantitative data, it is being promoted for leveraging the negative and positive aspects of both methods in order to provide a new body of method (Creswell, 2013). Alise and Teddlie (2010) posit that mixed methods aim to enable the researcher to obtain data more smoothly than either quantitative or qualitative research methods alone.

Mixed methods by reconciling quantitative and qualitative methods and providing a 'third route' is argued to increase validity (Modell, 2010), overcome bias of solo methods (Saunders et al., 2016), enhances credibility of the research and data (Collis and Hussey, 2013). Mixed methods also both allow researcher values to be reflected to the research (Hopper and Hoque, 2006) and also dissolves the view that qualitative data is very subjective by promoting it with quantitative data (Creswell, 2013). Johnson et al. (2007) also argue that mixed methods is especially useful in identifying and assessing less investigated, controversial and insufficiently theorised and examined social phenomena.

Modell (2009) argues that the effectiveness of mixed methods will be enhanced if also the theoretical basis of the research is based on multiple perspectives as findings will be complementary to each other. Ahrens and Chapman (2006) suggest that agency theory can be improved if coupled with qualitative methods such as interviews. Overall mixed methods brings breadth and depth to the research by extending findings (Grafton et al., 2011; Modell, 2005). Table 5.1 summarises the features of qualitative, quantitative and mixed methods.

Table 5.1 Qualitative, Quantitative and Mixed Methods Approaches

Tend to or Typically	Qualitative Approach	Quantitative Approach	Mix Methods Approach
Use these philosophical assumptions	Constructivist/Advocacy/Participatory knowledge claims	Post positivist knowledge claims	Pragmatic knowledge claims
Employ these strategies of inquiry	Phenomenology, grounded theory, ethnography, case study and narrative	Surveys and experiments	Sequential, concurrent and transformative
Employ these methods	Open-ended questions, emerging approaches, text or image data	Closed-ended questions, predetermined approaches, numeric data	Both open- and close-ended questions, both emerging and predetermined approaches, and both quantitative and qualitative data and analysis
Use these practices of research, as the researcher	Positions himself or herself Collects participant meanings Focuses on a single concept or phenomenon Brings personal values into the study Studies the context or setting of participants Validates the accuracy of findings Makes interpretations of the data Creates an agenda for change or reform Collaborates with the participants	Tests or verifies theories or explanations Identifies variables to study Relates variables in questions Or hypotheses Uses standards of validity and reliability Observes and measures information numerically Uses unbiased approaches Employs statistical procedures	Collects both quantitative and qualitative data Develops a rationale for mixing integrates the data at different stages of inquiry Presents visual pictures of the procedures in the study Employs the practices of both qualitative and quantitative research

Source (Creswell, 2013, p.18)

Mixed methods is also criticised for being too complicated and demonstrating a lot of data but not inferring enough (Creswell, 2013). Some other important disadvantages of mixed methods are that mixed methods requires skills in qualitative and quantitative data collection and analysis (Grafton et al., 2011), requires access to diverse data (Saunders et al., 2016), requires capacity to justify embracing mixed methods, requires capacity to reconcile different/diverging paradigms, worldviews and results (Creswell, 2013). Mixed methods is also criticised as not putting too much emphasis on the integration of theories and focusing only on the empirical observations (Ahrens and Chapman, 2006).

5.3.1 Mixed methods: the paradigm

Regarding the paradigm, mixed methods as a result of its nature encourages the researcher to take a stance in the middle and not to be on the edges (Denzin and Lincoln, 2017). In this section two paradigms that are being favoured by mixed methods (Mertens, 2010; Modell, 2009; Modell, 2010; Shannon-Baker, 2016) will be assessed: pragmatism and transformative-emancipation.

5.3.1.1 Pragmatism

Pragmatism can be defined as a paradigm that is flexible to use whichever methodology and method that works for the research and which often favours mixed-methods to ease problematic research areas (Morgan, 2007). The research question is pivotal for pragmatism as it focuses on the outcome and improving the research and making it more powerful and efficient by bringing together various research methods (De Loo and Lowe, 2011). Therefore pragmatist paradigm favours mixed-methods research as it enables the extremes to be mixed and provide a more holistic approach (Modell, 2009). Pragmatism also assumes that theories can be transferred to suit in another event and "qualitative and quantitative approaches can be combined in order to "compliment" the advantages and disadvantages present within each" (Shannon-Baker, 2016, p.325).

Pragmatism utilises abduction to address the connections between theory and data, which can be defined by Morgan (2007, p.71) as "moves back and forth between induction and deduction—first converting observations into theories and then assessing those theories through action." The use of abduction makes integration and transferability of theories and methods easier and therefore generalisability of the research findings becomes more probable (De Loo and Lowe, 2011). However pragmatism is being criticised as focusing on integrating methodologies and methods only, and setting aside ontological and epistemological considerations (Modell, 2009; Modell, 2010).

5.3.1.2 Transformative-emancipation

Transformative-emancipation paradigm can be defined as a paradigm which requires precision on power relations among stakeholders and the need and necessity of collaboration within less powerful and neglected groups in a community (Mertens, 2003). It requires researcher to identify the community and its characteristics and sub-groups that he/she is analysing (Mertens, 2010). Mertens (2007) also argues that the research should inform and reflect how the research would be in favour of the community, and especially the less powered stakeholders.

Shannon-Baker (2016, p.327) states that "a sequential explanatory design could be used to highlight the voices of the participants in terms of how they understand the research phenomenon from their own perspective" by using the transformative-emancipation paradigm. Overall the transformative-emancipatory paradigm lets the researcher establish a broader perspective by investigating the power relations in a community and therefore bring the stakeholders and their views right in the middle of the research.

5.3.1.3 Integrating the paradigms

Overall, use of mixed methods is demonstrated to empower causal links among variables, thus strengthening both internal and external validity of the research. Because this study is multi-focused and utilises integration of theories, utilising mixed methods is believed to enhance the research. Regarding the research paradigm, like the mix of theories the paradigm will also be integrated to gain benefit from the perspectives of pragmatist and transformative-emancipatory perspectives (Breakwell, 1993; Caracelli and Greene, 1997). Pragmatism is utilised because the research questions are leading the way to the research and the method of abduction is believed to be used immensely. The paradigm is also transformative-emancipatory as the researcher believes that charity stakeholders are the real force that designs

accountability and governance mechanisms in charities and therefore may have a strong impact in understanding fraud occurrence.

5.4 Research design

This research identifies organisational factors affecting the reasons and solutions for fraud in charities. The research assesses the influence of the stakeholder environment and governance mechanisms on fraud. As a result of the multiple research objectives, use of mixed methods was deemed more appropriate in assessing the objectives.

As the research provides an extended understanding of fraud in charities, both qualitative and quantitative research methods are utilised. The research first pursued interviews and then focused on content analysis and quantitative research. The reason to first conduct interviews was to first grasp an understanding of the fraud phenomena in the charity sector and also to provide insight and focus on governance elements which are perceived to be crucial by stakeholders and analyse them in the logistic regression model.

The qualitative research provides an in-depth assessment of charity stakeholders' views and influence on fraud. External environments' influence on fraud in charities is identified as a research gap as it is being neglected and therefore needs further evaluation. Also, research in charity accountability (Connolly and Hyndman, 2000) is suggesting of utilising more qualitative methods to assess charity stakeholders' views.

The questions that were asked at the qualitative stage of the research generated answers that will provide information to the quantitative research. While the transformative-emancipation paradigm helps to design a research that takes in to account and utilise stakeholders' views, the pragmatist approach enables to provide the link between the qualitative and quantitative research and findings and to abduct between the two models.

The quantitative research, using content analysis and logistic regression

analysis finds if any, governance practices' relationship with fraud. As especially performed in the for-profit sector (Beasley, 1996) certain governance specifications increase/decrease the occurrence of fraud in an organisation. The model is developed by assessing of previous logistic regression models tested for the for-profit-sector, outcome of the content analysis regarding the available secondary data for charities and directive answers derived from the interviews which reveal important governance aspects that may have an influence on fraud.

5.4.1 Qualitative research

Bryman (2015) posit that qualitative research emphasises an inductive approach and envisages that constant change realises social reality. Qualitative research comprises various types of research methods which in nature are subjective and aims to grasp an extended understanding (Walliman, 2006).

In this section first merits and deficiencies of interviews' as a qualitative research method will be discussed. Than data selection and interview utilisation in this research will be evaluated.

5.4.1.1 Interviews as a qualitative research method

One of the most highly used research methods is interviews. Although interviews are based on dialogue and therefore seems easy to be realised (Bryman and Bell, 2015), Alvesson and Ashcraft (2012, p.255) posit that interview is not as simple as it seems as "interviewing is a complex social activity that calls for careful, intensive and skeptical reflection." Interviews can be designed based on researchers' worldviews. However, a prospering interview has important aspects to be taken into account and some aspects that must not be utilised (Roulston, 2010).

Important features of a successful interview are maintaining representativeness of the sample group (Saunders et al., 2016), being able to

cope with compelling interviewees and to provide efficient listening talents (Kvale, 1996), acquiring the consent of the respondents and informing them before the interview (King and Horrocks, 2010), short and simple questions being asked (Cassell, 2005), use of technology to record and transcribe accurate interviews (Alvesson and Ashcraft, 2012).

There are advantages of interviews such as that they allow for a deeper and more powerful analysis of the sample group which leads to better assessment (Walliman, 2006). King and Horrocks (2010) posit that interviews put less pressure on the interviewees than observations and provide and enables more detailed responses to be acquired compared to questionnaires. Interviews also make it possible to examine the emotions, mimics and nods of the interviewee (Roulston, 2010) and even understand if something is being disguised by the interviewee (Miller and Glassner, 1997).

Interviews also pose tasks that are not easy to achieve such as designating the sample right, obtaining consent from the interviewee and conduct the interview in an appropriate environment and timeframe for the interviewee (Walliman, 2006). Having adequate interview skills such as ability to conduct and sustain a dialogue (Kvale, 1996), avoiding researcher bias (Saunders et al., 2016), if the questions are understood equally by the respondents (stimulus equivalence) or not (Cassell, 2005), tackling with transferring the findings to other research and therefore achieving generality are important obstacles (Collis and Hussey, 2013). As Bryman and Bell (2015) suggest that for one hour of interview at least five hours of transcription is required, therefore it is also a time-consuming method.

The number of interviews is also another important aspect which there is no consensus in the literature. While at least six in-depth interviews is suggested by Guest et al. (2006) if the population sample is homogeneous, Creswell and Poth (2017) posit that if the aim is to compare distinct groups than a minimum of at least 15 interviews are required in total.

5.4.1.2 Data selection and qualitative research

This research assesses perception of charity stakeholders regarding fraud in charities. The research design and method is developed in order to assess the perception of stakeholders regarding reasons and solutions to fraud in the charity sector and assess their impact on the problem.

Since there is a lack of literature that assesses stakeholders' influence on charity fraud, interviews were used to provide an in-depth analyses of the environmental reasons/opportunities for fraud in charities. To examine the impact of stakeholders' potential influence on fraud in charities, semi-structured interviews were performed.

Interviews with stakeholders, including the charity officials themselves, have been frequently used to in charity literature especially to assess accountability mechanisms and to learn more on stakeholder's perceptions on charity governance (Connolly and Hyndman, 2013a; Miller, 2002; Wellens and Jegers, 2014a; Yang et al., 2017). Interviews were selected to provide most profound analysis because were recommended the by previous studies (Connolly and Hyndman, 2000). For example, Connolly and Hyndman (2017) conducted semi-structured interviews with charity stakeholders, between 6 to 8 with each auditors, donors, charity officials and beneficiaries, by anonymising respondents in order to have efficient interview outcomes.

Five groups of stakeholders were identified to provide a broader picture of the sector and its stakeholders (regulator-watchdog, charity officials, auditor/accountant, donors, beneficiaries). To maintain generalisability, a wide variety of stakeholders in each sub group was selected. For example, along with income being the main selection criteria, interviewees were grouped according to their specific sector and area. Charity officials were selected among trustees, managers, audit committee members, and fraud specialties and finance directors. While auditors/accountants were identified according to their income in the charity sector, donors were selected through

their income and different type of donors such as funds, for-profit organisations, national authorities, local authorities and individual donors. As to determine 'benefit' was hard for all beneficiaries, benefits such as scholarship, direct monetary benefits, accommodation, food and cloth benefit, use of libraries, religious places and benefit from other, non-material charity benefits were used.

Sampling was purposive for regulators and charity watchdog organisations due to their restricted quantity (Walliman, 2006), and sampling was random for the other four stakeholder groups (Saunders et al., 2016). While the charities were identified from the database of the Charity Commission, apart from a number of auditors and larger donors, the rest of the respondents were found with use of previous connections and the snowballing effect. Emailing, direct telephone call, attendance to conferences and events and approaching the beneficiaries while being benefiting the charities were performed. As a high percentage of responses were negative due to the topic being 'sensitive', most of the respondents were identified after the interview process began.

The preparation of the questions was realised in order to obtain the broadest and most fruitful possible answers. Questions were generated regarding the sensitivity of the topic and also after reviewing the previous work on charity accountability (Connolly and Hyndman, 2017; Dhanani and Connolly, 2012). Groundwork (clear instructions and scheduled appointments for the interviews), interview guide including consent request for recording were realised before the interviews took place (Creswell, 2013; Walliman, 2006).

The interviews spanned from February to July 2018. Interviewees' needs such as timing and consent (King and Horrocks, 2010) were taken into account and as 'own setting of respondents' is argued to provide better outcomes (Walliman, 2006) the interviews were conducted in respondents' own settings. Pilot testing and redesign of questions were utilised (Guest et al., 2006). Both open and closed-ended questions were used as only utilising closed-ended question is deemed to restrict the interviewee's responses (King

and Horrocks, 2010). An overwhelming majority of the interviews were conducted face-to-face. Telephone and skype interviews were performed in three cases because of health issues and an interviewer being outside of the UK. In total 41 interviews were conducted and the interviewees were given unique references, to maintain anonymity of the interviewee and to provide identification of comments made by the same interviewee.

The sequence of the questions were from easy to tough in order to allow information flow (Collis and Hussey, 2013). As over two hours impairs the efficiency of the interviews (Pezalla et al., 2012), a maximum of 90 minutes were aimed. The length of the interviews changed between 25 minutes to 105 minutes with the interviews of the beneficiaries being generally lasting less. All the interviews were recorded with a hand-held audio recorder, with the permission of the respondents. Immediate recording and transcribing to enhance comprehension and accuracy (Kvale, 1996; Miller, 2002) was utilised. The analysis of the transcribed documents was done by classifying the responses in accordance with the questions. Table 5.2 summarises the number of interviewees for each stakeholder group:

Table 5.2 Stakeholder Interviews

Stakeholder Group	Sample Size	Sub-Groups
Regulator-Watchdog	5	No sub-groups
Charity Officials	9	Large (3): Income over £10million Medium (3): Income between £1million-£10 million Small (3): Income below £1million
Auditors-Accountants	9	Large (3): Revenue over £4million Medium (3) Revenue between £1million-£4 million Small (3) Revenue below £1 million
Donors	9	Large (3): Donation/grant over £1million Medium (3): Donation/grant between £1,000-£1million Small (3): Donation/grant below £1.000
Beneficiaries	9	As to determine 'benefit' was hard for all beneficiaries, benefits such as scholarship, direct monetary benefits, accommodation, food and cloth benefit, use of libraries, religious places and benefit from other, non-material charity benefits were used.

Source (Author)

5.4.2 Quantitative Research

Cohen et al. (2013) posit that quantitative research is the empirical investigation through a collection of numerical data and examining the data with mathematical and statistical methods. In order to make inferences from the obtained data statistical and mathematical hypotheses are tested (Walliman, 2006). Quantitative method differs from the qualitative methods as it is deductive in nature (Bryman and Bell, 2015), reality is perceived to be external to the researcher (Angrist and Pischke, 2008), a relationship is formed between variables to define the link among them (Saunders et al., 2016).

5.4.2.1 Documents (secondary data) analysis and logistic regression as quantitative research methods

Documents are collective social products (Prior, 2003) that are frequently used as a source of analysis for quantitative research. Lee (2012, p.391) defines documents as "durable repository for textual, visual and audio representations that may be retained and used, creating the possibility that the meanings of the representations may be interpreted differently". While authenticity, credibility, representativeness and meaning are measures to assess document quality (Scott, 1990), documents history, completeness, the purpose of production and other methods to support the verification of the document also designates if the document is in a quality to be useful or not (Walliman, 2006).

Documents possess important positive features. As most of the documents were not produced to be used for research, researcher bias is overwhelmingly eliminated (Lee, 2012). Also, the research subjects are in general not being affected by the research directly and as a result documents can form an unobtrusive inquiry (Walliman, 2006, p.84). Documents are also cost and time efficient, enable data transmission irrelevant of time and space (Reissman, 2008), can be assessed in different studies for different purposes

(Saunders et al., 2016), and are suitable for both quantitative and qualitative methods.

Some disadvantages of the documents are accessing (Scott, 1990), being sure that it is adequate and representative of the sample population and sometimes hard to assess the contents (Hodder, 1994). Also documents should be evaluated in a context-specific manner to prevent anachronism, which is applying modern-day implications and thought to older materials and people (Forster, 1994, p.149).

A form of a quantitative method is regression analysis, which is a statistical method that assesses the relationships between dependent and independent variables (Field, 2009). A special version of regression analysis is logistic regression in which dependent variable can only be '0' or '1' as it is binary (Ketchen and Bergh, 2009; Tabachnick and Fidell, 2013). This research utilises logistic regression analysis in order to examine the relationship among the test variables and FRAUD (the dependent variable) (Collis and Hussey, 2013).

As also discussed in Chapter 4, logistic regression is advantageous because it has higher generalisation accuracy and therefore is adaptable to a variety of different contexts (Hair et al., 2010), easier to construct and structure a model (Angrist and Pischke, 2008), works well with a variety of data sets (Dreiseitl and Ohno-Machado, 2002), and has great ability to identify casual relationships (Tu, 1996). Disadvantages of the logistic regression are: variable selection is very crucial and may impact the model immensely (Bryman and Bell, 2015) and it is also hard to construct very complex models with large number of variables (Tu, 1996).

5.4.2.2 Data selection and quantitative research

Content analysis and logistic regression are utilised to quantify data derived from the documents and to determine aspects of charity governance that are

influential in fraudulent behaviour.

Content Analysis

Content analysis usage is favoured in the not-for-profit organisation studies, especially regarding annual report, annual reviews and websites (Hyndman and McConville, 2016; Manetti and Toccafondi, 2014). Also content analysis is frequently mixed with other methods such as interviews (Boateng et al., 2016; Crawford et al., 2009; Yang et al., 2017; Zona et al., 2013). As secondary data form the basis for the quantitative research in this study the annual reports and any relevant information disclosed voluntarily by charities was aimed to be examined (Field, 2009).

The research utilised the use of content analysis to derive the test variables determined for the logistic regression hypothesis (Walliman, 2006). The documents were obtained using the Charity Commission's website, the official institution one of whose duties is to oversee charities, which promoted reliability, credibility and authenticity of the data used (Saunders et al., 2016). Multiple documents were examined to enhance validity of the research (Blumberg et al., 2014).

Population sampling was purposive sampling to maintain representativeness by assessing 42 fraud charities (Cohen et al., 2013), therefore one-to-one matching of fraud and no-fraud charities was utilised as the populations from which the samples were selected were different (Atkinson and Coffey, 2004). The examination of the documents was aimed to be time and cost efficient and without any difficulties or hardship in accessing them as they are open to the public (Hodder, 1994; Maitlis, 2012). A checklist was employed in designing and collecting data and afterwards information gathered was classified and grouped such as analysed sections etc. (Atkinson and Coffey, 2004; Hodder, 1994).

Chapter 9 provides a more detailed explanation of document content analysis, matching of the fraud and no-fraud charities and identification of variables.

Logistic Regression

The dependent variable is dichotomous (FRAUD) therefore logistic regression analysis was utilised (Abbott et al., 2000; Beasley, 1996; Collis and Hussey, 2013; McDonnell and Rutherford, 2018; Ndofor et al., 2015; Uzun et al., 2004). The research makes use of 84 charities as a sample which are established in England and Wales, which half (42) of the charities are representing fraud charities as these charities were inquired by the Charity Commission for England and Wales for reasons of fraud/ financial misconduct within the time frame of 2008-2018. Matching these fraud charities with charities of no fraud experience formed a sample of half fraud (42) and half no-fraud (42) charities (Abbott et al., 2000; Beasley, 1996).

Foundation years, geography, income, field of activities of fraud charities were assessed to specify the 42 no-fraud ones (Angrist and Pischke, 2008; Harris and Bromiley, 2007; Xu et al., 2017). The data was analysed by using the software package of Statistical Package for the Social Sciences (SPSS).

5.4.2.3 Hypothesis formulation

In developing a statistical model to test the relationship between governance variables and fraud in charities, three hypotheses have been developed, based on three different test variables. The variables and hypotheses are explained in this sub-section. In addition, five control variables were identified, and these are discussed in the following sub-section. The logistic regression model is set out in sub-section 5.4.2.5.

TRUSTEE

Independence is an important feature of a board that aims to prevent and deter wrongdoings and fraud. A board with an adequate number of independent members is found to increase the monitoring capabilities and therefore incidence of fraudulent events tend to decrease where the percentage of board member's independence increases (Beasley, 1996; Dechow et al., 1996;

Yetman and Yetman, 2012).

It is much easier to define 'independence' in the for-profit sector as the distinction between the executive and non-executive directors is more clear-cut when compared to not-for-profit trustees. Terms of reference and remuneration are the main means that provides to define 'independence' more easier in the for-profit sector (Uzun et al., 2004). However, the special case of the not-for-profit sector where the trustees are not expected to have remuneration, it has to be arranged by the Charity Commission or the courts specifically (Commission, 2013b), makes the definition of 'independence' much more troublesome.

The number of trustees is used to measure the influence of the board of trustees' size on charity fraud. Unlike for-profit sector studies, which tend to find in favour of smaller boards, not-for-profit studies have posited that larger boards enable enhanced independence and therefore monitoring and as a result reduce the occurrence of wrongdoing, which was discussed in Chapter 2 (Bai, 2013; Olson, 2000; Williams et al., 2005). Larger board size has especially been argued to be beneficial to disclosure practices of the not-for-profit organisations (Bradshaw et al., 1992). It was found by de Andrés-Alonso et al. (2006) that there exists a positive correlation between larger boards of trustees and enhanced disclosure in not-for-profit organisations. Jetty and Beattie (2012) found that a higher number of trustees in the charity sector is associated with the existence of an audit committee, which may be expected to enhance monitoring. While Harris and Neely (2018) found a positive correlation between transparency and board size in not-for-profit organisations, Chen (2009) also found that not-for-profit organisations that have larger boards are more effective in terms of performing the monitoring function.

This suggests the following hypothesis:

H1: Fraud risk is lower when the board of trustees is larger

GRANT[16]

As a variable specific to not-for-profit organisations, receiving grants[17] is assessed. As suggested by Nikolova (2014), effective monitoring by donors and a higher share of government grants[18] (which was found to lead to increase in monitoring by the government and decrease in CEO compensation) reduce the opportunity for misconduct. Ostrower and Stone (2010) found a high rate of correlation between government funding and compliance with enhanced documentation and policy formation and they suggest that higher government funding would require enhanced monitoring. Ostrower and Stone (2010) and Ostrower (2007) also argue that receiving government funding may lead to an enhanced reporting culture and a more formalised accountability.

Reheul et al. (2014) and Yetman and Yetman (2012) argue that donors and grants are useful enhancing monitoring in not-for-profit organisations. Zainon et al. (2012) found that not-for-profit organisations who are dependent on funding from the government face scrutiny and monitoring from the

---

[16] Grants and restricted funds in more than half of the cases were found to exist together. However, there were grants which did not require restriction and there were funds which did not require grants but were part of a donation. As a result, it was possible to identify separately grant and restricted funds received.

[17] "Grant income is any voluntary income received by the charity (or other transfer of property) from a person or institution. The income or transfer may be for the general purposes of the charity, or for a specific purpose. It may be unconditional or be subject to conditions which, if not satisfied by the recipient charity, may lead to the grant property acquired with the aid of the grant or part of it being reclaimed by the grant-maker. Entitlement to grant income may be subject to performance conditions, in which case it is classified as a performance-related grant and is recognised as the performance conditions are met." (SORP, 2015)

[18] "Government grants represent the assistance by government in the form of a transfer of resources to a charity in return for past or future compliance with specified conditions relating to the operating activities of the charity (or its subsidiary). Government refers to government, government agencies and similar bodies whether local, national or international." (SORP, 2015)

government, which leads to enhanced disclosure of financial and outcome performance. Jetty and Beattie (2012) also suggest that charities will be under greater scrutiny when they are receiving government grants. Trussel and Parsons (2007), also argue that government grants provide important monitoring duty in the not-for-profit sector, as they require enhanced disclosure and audit.

Hodge and Picollo (2011) also suggest that fundraising not-for-profit organisations need a more effective board of trustees than not-for profit organisations that rely on grants for financial stability. Therefore, if a charity has any grants as part of its income, it is expected that there will be better supervision by the donors and therefore fraud will be less likely. This suggests the following hypothesis:

H2: Fraud risk is lower when a charity has a higher percentage of grants in its income

RESTRICTED

Distinction is made between the sources of income of restricted[19] and unrestricted[20] funds. While the unrestricted funds can be used for any charitable purposes, restricted funds are held for use under conditions

[19] Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not an endowment fund and is held on trust for spending on specific purposes, it is known as a restricted income fund. The resources (the assets and liabilities) of each restricted fund are held and maintained separately from other funds. This is in recognition of the circumstances in which the resources were originally received, and/or the restrictions on that fund that determine the way those resources are subsequently to be treated. (SORP, 2015)

[20] Unrestricted fund is a legal term for the unexpended resources held by a charity on trust, comprising money and other assets that can be used for any of the charitable aims of the charity. The use of unrestricted funds is not restricted to any particular charitable purpose of the charity. (SORP, 2015)

generally designated by the donor (Wilke, 2003). Bac (2002), de Andrés-Alonso et al. (2009), and Hyndman and McDonnell (2009) also suggest that donor involvement in oversight may contribute to enhance monitoring of disbursement of funds. Ashford and Clarke (1996) and Rossouw (2006) suggest that restricted funds enhance oversight regarding not-for-profit organisations by allowing donors to assess if their funds are used in their restricted target or not.

As the donors have a say in the restricted funds it is argued that this may prevent wrongdoing (Committee, 2015-16). Vermeer et al. (2006) argued that donor funds which are restricted resemble shareholder capital and therefore will enhance monitoring. Jetty and Beattie (2012), who found that existence of an audit committee and monitoring increases with a higher rate of restricted funds and government grants, suggest that restricted funds are crucial in monitoring opportunistic behaviour.

Yermack (2017, p.215), who studied museums, argued that "Restricted donations represent a form of corporate governance, because they constrain the opportunities for non-profit managers to expropriate resources", and found that restricted funds tended to be associated with lower administration costs. This suggests that donors are important and successful in preventing misuse of not-for-profit resources. Also, Harris et al. (2015) found that asset diversions are negatively correlated with the existence of restricted funds.

H3: Fraud risk is lower when a charity has a higher percentage of restricted income

5.4.2.4 Control Variables

Five control variables were identified for the regression analysis:

ASSURANCE

Disclosure is accepted as a sign of trust and expression of confidence while lack of it is deemed to be a sign of hiding something, a possible malfeasance (Atan et al., 2013). In the for-profit sector, effective disclosure enhances transparency (Athanasakou et al., 2011) and enables effective monitoring by stakeholders with diminishing effects of agency problems (Healy and Palepu, 2001). Ndofor et al. (2015) posit that information asymmetries among agents and principals provide opportunities for financial fraud.

Audit, giving and monitoring accounts (Power, 1997), is the most effective way to fight with fraud (Agrawal and Chadha, 2005), diminish agency problems (Cullinan and Sutton, 2002) and assure trustworthiness of an organisation (Keating and Frumkin, 2003).

The mandatory disclosure requirements of charities in England and Wales are determined by the Charities Act (2011) and further by SORP (2015) depending on the income of the charity. However, stakeholders also value voluntarily disclosed information such as annual review, corporate sustainability reports and other documents which provide narrative information on performance (Connolly and Dhanani, 2006; Connolly and Hyndman, 2013b). Disclosure is used by stakeholders to monitor the charities and to understand if there is a problem with the charity (Harris et al., 2015; Nikolova, 2014). Arya and Mittendorf (2015) argue that enhanced disclosure reduces chances of misconduct in charities. Hyndman and McConville (2016) posit that the actual content rather than just the amount of disclosure is important in charities as some charities are inclined to disclose deceptive information. Therefore, both mandatorily and voluntarily disclosed information was assessed as a basis for analysis.

Lack of audit or insufficient audit mechanisms exacerbates the risk of fraud and misconduct in an organisation (Arens et al., 2012; Bell and Carcello, 2000). In not-for-profit organisations audit found to enhance disclosure (Atan

et al., 2013). Krishnan et al. (2006) found that in not-for-profit organisations there is a negative correlation between the existence of an outside accountant and misreporting of expenses.

As discussed in Chapter 1, charities are required to have independent examination if their income exceeds £25,000, but it is voluntary to have an examination below that income (Commission, 2017). Therefore, any type of accountant or independent examination was also accepted to be a form of voluntary disclosure of information and therefore a signal to the stakeholders that their accounts have been scrutinised by a third party.

Overall, fraud risk is assumed to be lower for charities which were examined and had unqualified examination reports.

COMMITTEE

The existence of nominating and compensation committees is argued to be effective in monitoring the management (Vafeas, 1999) and coping against fraud (Fanning and Cogger, 1998). Although committees are not found to be as frequent in the charity sector, especially for smaller charities, compared with the for-profit sector, this study has also assessed the existence of any type of committees. It is assumed that, as generally found in the for-profit sector, existence of committees will hinder fraud.

REMUNERATION

Remuneration of staff and other administrative costs are necessary expenses for routine operations but also aim to align the interest of the organisation with the staff, including the executives, and make employment with the organisation attractive (Garner and Harrison, 2013). Unexpected or fluctuating administrative costs, which remuneration are a key part of it, is if without any reason is accepted to signal a financial problem (Nikolova, 2014). In the for-profit sector, high-powered incentives and excessive administrative costs is correlated to have proxies of fraud and other misconduct (Bergstresser

and Philippon, 2006; Burns and Kedia, 2006).

Administrative cost/total cost and administrative cost/revenue are used as a financial risk assessment tool in not-for-profit organisations (Omar et al., 2013; Ryan and Irvine, 2012; Tuckman and Chang, 1991). Baber et al. (2002) posit that in their work on not-for-profit organisations, annual change in remuneration in terms of annual change in revenue is an effective way to assess problems in remuneration and administrative costs.

Krishnan et al. (2006) found that not-for-profit organisations tend to misreport fundraising expenses if the managers pose excessive incentives. While Connolly and Hyndman (2013b) found that the administration cost/income percentage has not changed in years when they compared their findings with Hyndman (1990), they also found that charities are not disclosing enough information on administrative costs. Callen et al. (2003) also provided evidence that higher donor participation on the board has a negative correlation with administrative expenses. Callen et al. (2010) found that administrative expenses are negatively related with committees' monitoring activities and positively related with staff presence on the board.

It is much easier to define 'independence' in the for-profit sector as the distinction between the executive and non-executive directors is more clear-cut when compared to not-for-profit trustees. However, in the special case of the not-for-profit sector, the trustees are not expected to be remunerated. According to section 9 of (SORP, 2015) it is required that charities must disclose in the notes to the accounts trustees' remuneration and benefits and expenses. Therefore, the study assumes that receiving remuneration will damage the independence of a trustee and will therefore make fraud more likely.

LOSS

Poor financial performance is found to lead to financial statement fraud (Bell et al., 1991; Loebbecke et al., 1989). Financial distress and lack of financial health is argued to cause wrong decision making by the management or board. Therefore, fraud risk is assumed to be higher for charities which have annual loss.

SURNAME

Boards who have directors that belong to the same family tend to make decisions which favour that family (Ghazali and Weetman, 2006). Family member existence is also found to have a negative effect on voluntary disclosure (Haniffa and Cooke, 2002). Matoussi and Gharbi (2011) also found that fraud firms are more likely to have board of directors of the same family than no-fraud firms. Therefore, the variable SURNAME, envisaged that fraud charities will have higher number of trustees with using the same surname.

5.4.2.5 The logistic regression model and the hypotheses

The following logistic regression model, made up of three variables to test the hypothesis and five controls, was used to test the hypotheses:

$$\begin{aligned} FRAUD_i = \alpha + \beta_1 \mathrm{TRUSTEE}_i + \beta_2 \mathrm{GRANT}_i + \beta_3 \mathrm{RESTRICTED}_i \\ + \beta_4 \mathrm{ASSURANCE}_i + \beta_5 \mathrm{COMMITTEE}_i \\ + \beta_6 \mathrm{REMUNERATION}_i + \beta_7 \mathrm{SURNAME}_i + \beta_8 \mathrm{LOSS}_i \end{aligned}$$

TRUSTEE= the number of trustees on the board of trustees

GRANT= percentage of grant/income received by a charity

RESTRICTED= percentage of restricted income/income of a charity

ASSURANCE= a dummy variable with a value of one if the charity does not have an independent examination opinion or has a qualified independent examination opinion, a value of zero otherwise

REMUNERATION= a dummy variable with a value of one if a trustee receives remuneration or payment of any kind, value of zero otherwise

COMMITTEE= a dummy variable with a value of one if the charity has committee(s), a value of zero otherwise

SURNAME= a dummy variable with a value of one if the charity has trustees with the same surname on the board of trustees, a value of zero otherwise

LOSS= a dummy variable with a value of one if the charity has a reported annual net loss in the fraud year, a value of zero otherwise

5.4.2.6 Limitations regarding the quantitative research

As discussed in chapters 2 and 4, although the for-profit and not-profit organisations have some common features, there are also very important differences that make it hard to apply the frequently used for-profit sector fraud independent variables to be directly applicable to this study.

Frequently used fraud variables such as board diversity in terms of ethnicity, gender and age (Xu et al., 2017), stock option increases (Abbott et al., 2000) is not considered appropriate variables due to different structures of for-profit and not-for-profit boards. Also, the effects of auditor tenure on independence of auditors is debated (Shockley, 1981). Beasley et al. (1999) and Carcello and Nagy (2004) suggest that it is not feasible to assess auditor independence using documents alone. The documents also do not provide sufficient information regarding audit committees which are found to be effective in deterring fraud (Abbott et al., 2000; Jetty and Beattie, 2012) or do not possess any significant effect (Beasley, 1996).

McDonnell and Rutherford (2018) posit that the literature for not-for-profit organisations is insufficient to provide an empirical basis for the outcomes of the variables. Also as most of the research on not-for-profit organisations are on the largest organisations in terms of income, it is hard to utilise them in this study (Nikolova, 2014).

5.5 Summary

This chapter has described the research methodology and data collection method used, including the two types of research methods: a qualitative method (primary data collected from different stakeholders) and a quantitative method (secondary data of UK charities). It explains how, given the research objectives, a mixed methods approach will be undertaken to explore occurrence of fraud in UK charities. Like the integration of theories explained in Chapter 3, this chapter also integrates paradigms that are used for mixed methods.

The first stage involves a qualitative assessment of stakeholders' views and their influence on charity accountability and fraud. This stage conducts interviews with key charity stakeholders. The second stage utilises quantitative examination of charity governance practices and their relation to fraud. The data for this stage is derived from official charity documents and is assessed by use of logistic regression analysis.

In the following four chapters, empirical findings for the two different methods utilised will be presented.

PART IV

The fourth part of the thesis presents findings in four chapters. The first three chapters discuss the findings of the qualitative research, and the fourth assesses the findings of the quantitative analysis. The first chapter of the fourth part, Chapter 6, evaluates the understanding of accountability, ownership and stakeholder salience in the charity sector. Chapter 7 assesses the understanding of fraud by the respondents and presents the findings regarding the reasons suggested by the respondents for fraud in the charity sector. Chapter 8, assesses the respondents' views regarding solutions to fraud and stakeholder oversight in the charity sector. Chapter 9 presents the findings of the content and logistic regression analysis of fraud charities, which was conducted by use of the Charity Commission database. The variable identification used in the logistic regression analysis benefited from the findings in chapters 7 and 8 therefore providing a flow of information among the qualitative and quantitative findings of the thesis.

6. UNDERSTANDING ACCOUNTABILITY, OWNERSHIP AND STAKEHOLDER SALIENCE IN THE CHARITY SECTOR

This is the first chapter which presents findings from the qualitative part of the research. The chapter analyses the interviews conducted with the regulator/watchdog organisations, charity officials, auditors/accountants, donors and beneficiaries. The chapter evaluates the stakeholders' perception of accountability, ownership and stakeholder salience in the charity sector. Research question 1a assesses the accountability dynamics in the charity sector and research question 1b focuses on the ownership and principal-agent relationship, and it evaluates the saliency of the stakeholders.

The chapter utilises the literature which was analysed in the Chapters 2 and 3 especially. The framework of accountability is assessed benefiting especially from Stewart's (1984) and Laughlin's (1990) accountability theories. Issues such as "accountability to whom?" and the mechanisms of accountability are also assessed. The views of charity stakeholders on Mitchell et al.'s (1997) stakeholder salience are also examined. The uniqueness of the sector, and whether the uniqueness is a result of ownership and multi-principal environment envisaged by Jegers (2009), in accordance with the integrated theories of agency, stewardship and stakeholder (Van Puyvelde et al., 2012) are also been assessed.

The chapter is designed in accordance with the research questions. Thus, section 6.1 assesses the accountability dynamics and section 6.2 examines the topics of ownership and stakeholder salience.

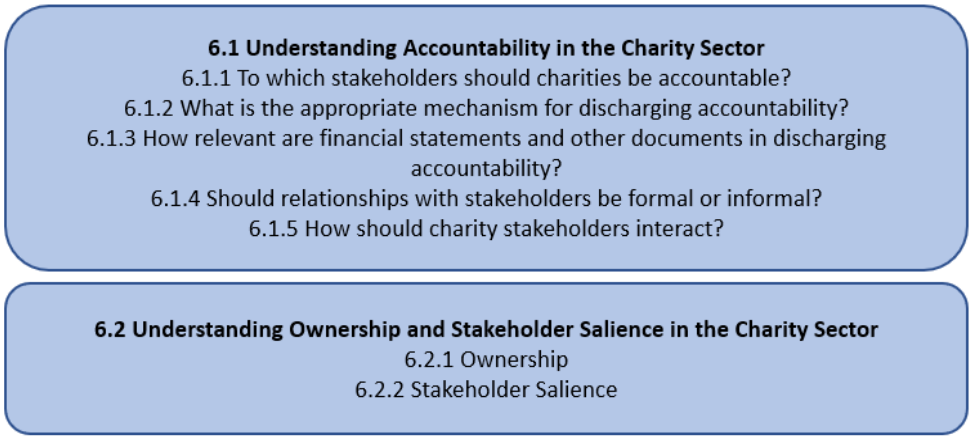


Figure 6.1 Structure of Chapter 6

6.1 Understanding Accountability in the Charity Sector

This section presents the findings regarding charity stakeholders' perceptions of (a) which stakeholders should charities be accountable to?; (b) what is the appropriate mechanism for discharging accountability?; (c) how relevant are financial statements and other documents in discharging accountability? (d) should relationships with charity stakeholders be formal or informal?; and (e) how should charity stakeholders interact?

Accountability literature was discussed in Chapter 2. Accountability enables a mutual relationship between an organisation and its stakeholders, as while the organisation discloses information to the stakeholders the organisation adapts its activities in line with the needs and expectations of the stakeholders (Castrogiovanni, 2002; Dess and Beard, 1984). The organisation also has to be accountable to the relevant stakeholders (accountability to whom?), purpose (accountability for what?) and analysing how accountability is discharged (accountability mechanisms).

Accountability, as discussed and found in Chapter 2, is crucial for not-for-profit organisations as absence of a profit and definite owners leads to inadequate monitoring and excessive opportunism (Breen, 2013; Burger and Owens, 2011; Desai and Yetman, 2005) . The framework of accountability

also distinguishes not-for-profit organisations from for-profit organisations. Whereas for-profit accountability is more formal and straightforward, the organisational structure of not-for-profit organisations and charities is argued to be based on trust (Broadbent et al., 1996).

UK charity accountability gained momentum after the 1980s with criticisms on lack of charity reporting (Bird and Morgan-Jones, 1981; Connolly et al., 2003). The literature is in agreement that, although the discharge of accountability is better compared to early years, it is still in need of improvement to meet stakeholder needs (Connolly and Dhanani, 2006; Connolly and Hyndman, 2003; Hyndman, 1990). Also narrative rather than financial accountability is found to be preferred, especially by the donors (Connolly and Hyndman, 2013b). The topic of misconduct and fraud has recently taken part in the literature (McDonnell and Rutherford, 2019; Ohalehi, 2019).

The findings of the interviews indicate that donors were not alone as the group to whom accountability should be directed. Beneficiaries were also found, along with the donors, to be the primary group that accountability should be discharged to. This finding contributes to previous studies (Cordery and Baskerville, 2005) in which beneficiaries were lagging behind. However it is interesting that the discharge of accountability seems not to be satisfying the beneficiary group. This is because they are not classified as a stakeholder group to whom information disclosed through the financial reports is aimed, and their demand for more basic information is not met. Overall, stakeholders demand more understandable and inclusive information rather than merely more information.

The accountability relationship between the charities and their stakeholders also provided interesting results. The relationship regarding donors and beneficiaries were found to be informal. However, excessive informality was also argued to be damaging for the sector as too much informality coupled with the lack of direct accountability and ownership diminishes the oversight

on the charities. Smaller organisations viewed the relationship as more informal. The results especially fit well with Laughlin's (1990) 'communal accountability' and even Stewart's (1984) 'links of account' specifically for the accountability discharged towards the beneficiaires. The findings also suggest that there is limited, if any, interaction between charity stakeholders. Donors and beneficiaries, the two stakeholder groups to whom accountability should be discharged seldom interact, with especially beneficiaries having near to zero relationships with the other stakeholders.

6.1.1 To which stakeholders should charities be accountable?

The arguments that the accountability structure is different in the not-for-profit sector (Breen, 2013; Salamon et al., 2000) led to assessing the charity officials' and stakeholders' views on accountability and the relationship among the stakeholders. To grasp a better understanding of the accountability dynamics in the charity sector, the interviewees were asked who they think the charities are accountable to. Most of the responses referred to more than one stakeholder group, implying that respondents saw charity accountability as operating within a multiple-stakeholder environment (Jegers, 2009; Van Puyvelde et al., 2012). Five stakeholders were mentioned frequently: the public, trustees, the regulator, the donors and the beneficiaries. For example:

> *" . . . without beneficiaries there is no reason to have the charity, there is no reason to do any of it."* ***(C9)***

> *"They're accountable to several groups. They are accountable to the trustees first of all, who have a legal responsibility, but they're also accountable to their external stakeholders. They're also accountable to their beneficiaries. They're also accountable to their benefactors, their donors. They're also accountable to their staff. They're also accountable to their suppliers and people within they have contractual relationships. At the end of the day, they are accountable to society."* ***(D6)***

"That's obviously a multitude of parties really if I think about it. They're accountable to the trustees. They're accountable to any kind of regulator that drives them. Depending on what they do, they're accountable to the beneficiaries because they act on their behalf". ***(RW4)***

Indeed, at least one respondent denied the relevance of stakeholders, remarking:

"Nobody. This is a nice cosy network." ***(A8)***

Respondents from specific stakeholder groups did not agree on particular stakeholders to whom charities should be accountable. Also, respondents did not mention auditors as stakeholders to whom charities should be accountable.

Figure 6.2 provides a count of the number of times that particular stakeholders were mentioned by respondents as stakeholders to whom charities should be accountable:

Figure 6.2 Accountability towards Charity Stakeholders

Overall, donors and also beneficiaries were viewed as the stakeholder group to whom accountability should mostly be directed.

6.1.2 What is the appropriate mechanism for discharging accountability?

Opinions about the accountability discharged and information disclosed by charities was also assessed during the interviews. The respondents were divided: while some beneficiaries and donors argued that more transparency and accountability is needed (Connolly and Dhanani, 2009; Connolly and Hyndman, 2013b; Hyndman, 1990), charity officials, auditors and regulator/watchdog organisations and a majority of donors argued that the bureaucratic burden is too much already and therefore there is no need for further information to be disclosed.

The respondents who argued that more can be done in terms of accountability and transparency suggested that understanding accounts and information disclosed is complex and sometimes relevant information is hard to find. The reports were also labelled as only a "tick box exercise" or a "compliance tool" for most charities. Respondents claimed that this complexity reduces the oversight of the donors and beneficiaries:

> *"... simply because a lot of our stakeholders are not at a level of understanding that they could not usefully read financial statements and understand the impact."* ***(C6)***
>
> *"... as a donor, I don't look at the reports and accounts."* ***(D5)***
>
> *"They are not the easiest things to read. You've got to have a bit of an understanding of being able to read financial statements to really often make sense of what they do. I mean if you are a beneficiary you are probably more likely to go to the website and see what it is and what they do and whether or not they can help you."* ***(RW1)***

The respondents who thought that reporting of accounts is satisfactory and is sufficient often compared the level of disclosed information to a decade ago and argued that the charities are now disclosing more. While accountants/ auditors argued that the accounts are too complex already, larger donors stated that they are able to achieve more information and accountability easily if they demand this. Regulator/watchdog organisations posited that compared to other countries, the UK charity sector is fairly transparent as to where the money is being spent and suggested it is necessary to achieve a balance between the amount of reporting and managing costs:

> *"Annual reports of charities I regard as being twice as complex as a corporate annual report for an owner managed business corporate. It's disclosing names and addresses of investment managers, or locations of where the charity operates and so on. Does that really add any value? I would question that."* ***(A5)***

> *" ... charities are having to do an enormous amount of paperwork and administration to keep up with regulation. I would say no more."* ***(D6)***

> ***"****We are in a good position as the funder. We can insist on a very considerable amount of information being disclosed to us as a condition of funding. Yes, we can get that."* ***(D4)***

Some of the respondents, more specifically charity officials, auditors and regulator/watchdog organisations, also discussed the relevance of the SORP. The respondents were in agreement that the SORP leads to more detail and information in the financial statements of the relevant charities. However, the SORP was criticised as not being tailored to the needs of society and therefore sometimes is too complex:

> *"The financial report is laid down in statutes, as such, it serves very little good purpose, if we're honest. You have to have a degree of*

technical knowledge to be able to read it, understand it, and ask questions. The commission's view has been for a long time, I think it was SORP-- I think it was a recommended practice of 1995 where they described the report as putting flesh on the bones of the accounts." ***(C4)***

The findings of this section shows that the cost of enhanced disclosure may not be justified, as it is already found too complex and burdensome on the charities. However simplified disclosure of information was favoured by the respondents.

6.1.3 How relevant are financial statements and other documents in discharging accountability?

Respondents were also asked about financial statements as a method of achieving accountability. The regulator and the donors were seen as the top choices for being the specific group of stakeholders that the financial reports are aimed at. Other responses included the public, the trustees, potential future donors and the media. Interestingly, no respondent suggested that financial reports are aimed at beneficiaries.

The charity officials also argued that the documents frequently used to discharge accountability are annual review, annual reports, newsletters, financial statements, management accounts, minutes, reports from their own work, and their own surveys.

The relevance of financial accountability was also questioned by the respondents. Some respondents highlighted the fact that the financial statements do not necessarily say much about whether the charity has used its funds properly. Most donors considered that narrative information offered enhanced accountability; this is consistent with the findings of Connolly and Hyndman (2013a) and (Connolly et al., 2015). Both financial and narrative reporting were valued by the auditors, charity officials and

regulator/watchdog organisations but most donors and beneficiaries favoured narrative over financial information:

> *"Actually I don't think that the wider issue of accountability, not the kind of the legal obligation of reporting, the wider issue of accountability isn't just by a charity's financial accounts. It's done better through, for example, the trustees on your report or other ways that are better about communicating to the public what the charity does, how it does it, and in the case of fraud for example, where things have gone wrong, the lessons learnt and how the charity has addressed the problem." **(RW3)***

> ***"**I think the annual review is quite a soft document that gives a really good overview in a nice, easy to read language. Only if I was being really, really dedicated would I look at their audited accounts."* **(B1)**

However, narrative reporting was also criticised by some as being very much a qualitative assessment rather than a quantitative assessment proving little. It was posited especially by auditors that recently they are being a bit more sceptical around some of the claims that are made in the narrative section of an annual report for a charity. Therefore, these respondents also mentioned the importance of performance, outcome or impact reporting (Hyndman, 1990; Connolly and Hyndman, 2013a) arguing that charities need to demonstrate what is being achieved by their activities, or present the outcomes/impact of them, not just disclose the output of the activities:

> *"We're having discussions about whether there's a role, a separate role for us or for somebody about impact auditing. The charity makes a statement that it's delivered this, this, this, and this, and the impact's being this, this, this, and this, could that actually be independently verified and will that add weight to a credibility to what the charity is saying?" **(A6)***

"… my question to charities would be, "So what? Just because you've reached 100,000 people doesn't mean you've made a difference to them. "It's around how charities can demonstrate that. Some charities are now going towards what we call outcomes. Which is, "I've helped young people develop employment skills, develop communication skills, develop leadership skills," that I would say is an outcome. The output is I've helped 100,000 people. The outcome is I've helped 100,000 people develop communication and leadership skills. . . . In terms of performance measurement at the moment, many charities are still in the first phase. Which is around, "How many have you helped?" rather than "How have we helped?" ***(A4)***

However, most auditors admitted that they do not assess the performance of the charities as they serve the charities and the regulator in an independent manner under their contract:

"In terms of auditing a charity, you're not there to assess the performance itself, you're there to give a fair opinion on the accounts. Are you looking at how well the charity has met its objectives, is it spending its money on the right things. Well that's not really what an auditor is there to do." ***(A2)***

Although there was sympathy towards donors and beneficiaries about the complexity of disclosed information, some charity officials accused stakeholders of being disinterested in financial or non-financial information and therefore limiting the options to enhance accountability:

"I don't think as a matter of course, they get it but there is nothing stopping them from looking at the internet. I also think that the financial press can highlight things and so if they get wind of something and smell blood the report is a very good place to look. I was interviewing the other day for the members of our National - well

our audit committee and all the people had read the financial report." ***(C2)***

A critic of the financial documents also highlighted the influence of accountants and auditors in making the regulations. The financial reports were argued to be developed by listening only to audit firms' preferences rather than taking notice of other stakeholders such as the trustees.

Some respondents also posited that accountability should not only be limited to documentation but should extend to all other means of communication and interaction. Some other communication tools identified by the respondents were telephone, email, face to face, annual meetings, website, social media and newsletters:

"You need to harness all the forms of communication because otherwise, you just disappear from view." ***(C4)***

6.1.4 Should accountability relationships with stakeholders be formal or informal?

The accountability relationship between charities and their stakeholders was also examined, and respondents were asked if the relationships are different between the public sector, for-profit sector and the charity sector. Most of the respondents argued that, due to the different nature of the sectors, differences of relationships among the organisations and their stakeholders is unavoidable. In the case of charities, there is over-reliance on trust and the lack of shareholders, which leads to less scrutiny:

"*Well, the for-profit sector has stakeholders as shareholders who may be more demanding of the organisation from a financial point of view in terms of turning a profit at the end of the day. Perhaps there is less scrutiny in that sense of a charity than there is to a commercial organisation****."*** ***(D1)***

"The relationship is a lot less tangible but in a way it makes a lot more complicated as well because the main difference for charities is that at the end of the day they rely on public trust and confidence. Public trust and confidence is very fleeting and is very difficult to manage, it's very easy to lose, it's difficult to rebuild when things go wrong. That then has implications on all sorts of relationships that the charity has." ***(RW3)***

The respondents suggested that relationships in the charity sector are based on good intentions and belief in the cause and less on expectations, especially for donors (Andreoni, 1990; Rose-Ackerman, 1996). Some respondents argued that absence of formal ties and links between the charities and their stakeholders allows donors and beneficiaries to easily walk away and end their relationship with a charity without any hassle. This is unlike the for-profit and public sectors where in the public sector the relationship is mandatory as a result of citizenship and in the for-profit sector there is an expectation of a service or product:

"I think the relationship between funder and beneficiary in a charity is different to certainly a private sector where the customer is the funder and the beneficiary at the same time. It's more similar to government where the tax payer is the funder, is also the beneficiary in many cases, but there's a wider beneficiary group than just those who are taxpayers. Whereas in charities often the funders and the beneficiaries are two completely different sets of people, and that's probably where the difference lies in terms of the stakeholder map. Obviously, each of them also have regulators and other things from that sense that's consistent." ***(A4)***

"You don't have a choice if you're in the public sector because you have to pay tax, in the private sector you have a choice but that's a contractual business relationship. Whereas if you're a donor it's because I believe in and I want to give some from a charitable

beneficiary basis, I want to help people, I believe in the cause whatever it might be so I think their level of commitment can, obviously be, much higher." ***(RW1)***

The respondents also stressed that an important reason for the different relationship of charities and their stakeholders compared to for-profit and public sector derives from the lack of a 'primary stakeholder' or owner. The respondents argued that it is hard to identify the primary stakeholder for the charities sector. The much wider variety of stakeholders are posited to make the relationship different and more complicated.

Rose-Ackerman, S. (1996), 'Altruism, Nonprofits, and Economic Theory', Journal of Economic Lit.

On the positive side, charities are argued to be more approachable than other organisations and can address an emerging need more quickly and in a less bureaucratic way than a public sector or private sector service. Also, the charities were posited to have a longer-term relationship in terms of the mission and vision with their stakeholders, and that is less determined by short-term changes. Reputational risk (in the court of public opinion) is also underlined to be the strongest driver of accountability, given how prone the charity sector is to economic turmoil and to scandals derived from within (Meijer, 2009):

"One charity, Kid's company commits fraud then we all get affected because people reduce trust. So the recent thing I suppose with Oxfam and look what happened to BBC Children in Need, in terms of their fundraising you might write down. Although I can't prove it, I'm sure there's a correlation between them, so I think our equivalent is we need to be accountable, we need to be above fraud because we are at the court of public opinion." ***(C7)***

Most respondents also posited that the relationship with any stakeholder is more flexible and even looser compared to the for-profit sector. The respondents, however, also stressed that this looseness makes the quality of

the services provided by the charities and the value for money to be open to question:

> *"I think the beneficiaries of the charity very often expect a different kind of service than one that they would buy from a private sector provider. They are often prepared to accept something that is a bit--how should I put this? A bit looser.*" **(D4)**

The respondents were asked if the relationship between the charities and stakeholders was more formal than informal. The top answers for this question were either 'informal' or 'depends' either on the stakeholder or the charity. Most answers included that relationships with the regulator, auditor and large grant-giving donors are generally formal, whereas they are much less formal with small and medium donors and especially with beneficiaries. Also, respondents suggested that charities are accountable to many more and different types of stakeholders, in both formal and informal ways (Van Puyvelde et al., 2012).

The respondents gave different answers as to why the relationship was informal. It was argued that charities have to be nicer and more flexible (Davis et al., 1997) and that the relationship is based more on trust and confidence (Broadbent et al., 1996) and similar good manners, which leads to less formality.

The relationship especially with the beneficiaries were not found to be formalised as the charities have a very low threshold to engage with the beneficiaries. Limited expectations from donors is also mentioned as contributing to an informal accountability relationship (Stewart, 1984). Informality is created as a result of most donors not expecting any personal benefit and the relationship involving less attachment because people can easily walk away and most donations are impulsive (Laughlin, 1990; Rose-Ackerman, 1996):

"Well, I think it is probably too informal. I think it would need to be more formal. I like the outcome of this Oxfam thing that is going to have far-reaching consequences across the charitable sector by the external stakeholders, all of them and donors, et cetera, all of them demanding more accountability from charities more, that we're not going to give you this money because we have no faith in the fact you'll look after it and spend it wisely." ***(C1)***

"I think it's more informal. What makes me say that? I think it's because there is that gap between people putting the money in and when decisions are being made. I think it is less formal like a stakeholder or shareholder you buy, you have a voice. You got to vote and that's very important. By putting money into a charity, you're voting anyway by helping that's almost like a shareholder, isn't it? Your decision is to help donkeys or school children whatever. You've given that decision but what you don't get is a decision how that money is being spent. You almost lose your voting right once you put your money in that's your vote over. Whereas as a shareholder, you put your money in and you have votes on how that is spent. It's that angle which is interesting." ***(A3)***

The relationship with the staff and the volunteers is unique to the not-for-profit sector as they contribute to the charity sector without being based on a contract (Hyndman and McDonnell, 2009), was stressed to be informal:

"With certain stakeholders, it's very formal because I've defined stakeholders as being quite large. With the regulator, with the Commission, with HMRC it's very formal. With their beneficiaries, it may be very informal. With their staff who are also stakeholders, it may be very informal." ***(A1)***

The respondents observed that formal relationships are based either on law or on contracts, especially agreements made with grant providers (Laughlin,

1990). The difference between funds that are restricted and unrestricted and how they can be applied and used and therefore a stricter monitoring was also stressed. The respondents argued that formal relations are limited mostly to the regulators, auditors and large donors:

> *"I think a community charity that's working on the ground is going to be a very informal place to work, but perhaps a very large international NGO-type charity operates a bit more like a government department. I think it just varies enormously.* ***(RW5)"***

It is interesting to note that the three answers given as 'formal' were from beneficiaries and donors who argued that there is too much paperwork; and one respondent who was also a beneficiary abstained from answering:

> *"The relationship between me and the National Trust is that I am a member, one of million and if I want to do anything or say anything, I will have to write or email or whatever."* ***(B6)***

Overall, informal accountability and relationships are found to be leading over formal accountability, especially in terms of donors and beneficiaries. Too much informality is also argued by the respondents to be harmful for accountability to be discharged. The findings of this section show that charity sector accountability is communal rather than contractual (Laughlin, 1990).

Figure 6.3 depicts the views of respondents regarding the accountability relationship between the charities and the stakeholders:

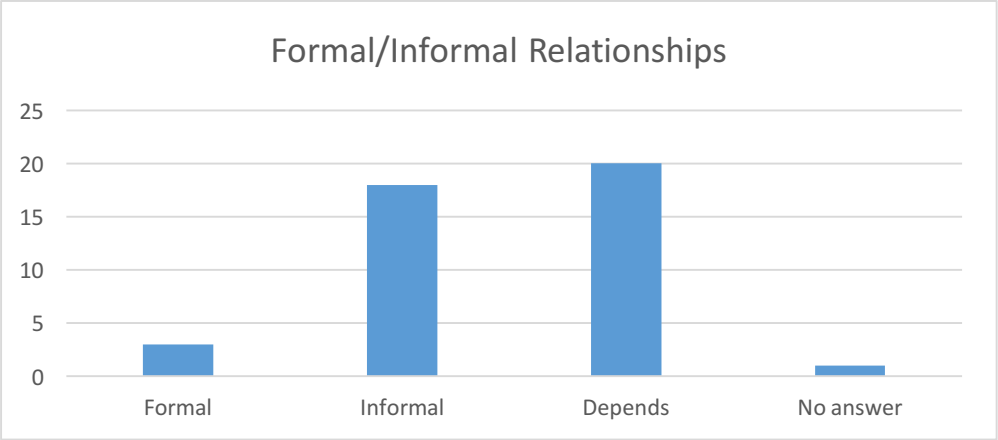


Figure 6.3 Formal/Informal Relationships

6.1.5 How should charity stakeholders interact?

The interaction and the frequency of the relationship among the charity stakeholders themselves was also examined. It was found that the interaction was very weak or even non-existent. Nearly all stakeholders stated that they do not interact with other charity stakeholders. Although larger donors were found to be more interested engaging with the beneficiaries, the engagement between donors and beneficiaries, the two most important charity stakeholders, was very limited (Manne, 1999), and some respondents even argued that it would be surprising for donors and beneficiaries to come together:

> *"As a beneficiary I'm unlikely to get in touch with any of those."* ***(B6)***

> *"No, I don't interact with anybody except by giving some money and a tiny bit of my time. I'm not a big donor to charities."* ***(D9)***

Auditors argued that it is not their role to engage with other stakeholders. It was also posited by other stakeholders that auditors were expected to interact mainly with executive and the trustees and not with the other stakeholders. Auditors could be seen not as a stakeholder but as a compliance tool:

"We tend to have very little involvement as auditors with the funders and with the beneficiaries…. From a purely charity audit perspective, as an auditor I will only tend to speak to the trustees and the staff because auditors are there to make sure that the financial statements are true and fair." ***(A4)***

"I interact in many ways. I interact with the management. I interact with the board. I sometimes interact with the funders. I very rarely interact with the beneficiaries as an auditor" ***(A1)***

Some respondents suggested that the interaction among charity stakeholders depends very much on the type of charity and whether the charity enables those interactions and conversations to happen, amongst different stakeholders or whether it kind of channels the interactions and conversations among the stakeholders itself. Only in very small communities, where everyone knows everyone else, do donors seem to interact with the beneficiaries directly. The respondents suggested that donor-beneficiary interaction would be more difficult due to an extensive number of stakeholders. It was also posited that the lack of one-on-one relationships between donors and beneficiaries creates an opportunistic behaviour to take place.

Overall, there seems to be virtually no relationship between donors and auditors/regulators or most importantly between donors and beneficiaries (Stewart, 1984) so the beneficiaries are largely left to themselves:

"Of course, there is this issue about bringing donors together with beneficiaries because often they're from very different worlds and it's not a natural mix, so maybe there's an issue there. Also even bringing charities together with donors in case those charities on a fundraising mission with the donors. There are certain, I think, barriers." ***(RW5)***

6.2 Understanding Ownership and Stakeholder Salience in the Charity Sector

In line with research question 1b, this section discusses the ownership structure and stakeholder salience in the charity sector. The aim is to provide in depth information about the task environment dynamics in the charity sector. Understanding better the organisational structure and stakeholder dynamics of the sector clarifies the fraud phenomenon in the charity sector.

Theorisation of accountability and governance was discussed in Chapter 3. It was argued there that theories developed for the for-profit sector are inadequate in explaining the dynamics of the charity sector. This situation is especially true for fraud, a phenomenon that has many dimensions to be assessed. Therefore in line with the recent literature (Caers et al., 2006; Du Bois et al., 2009; Miller-Millesen, 2003; Van Puyvelde et al., 2012) an integrated theory is utilised in the study. With the use of integrated theory, agency theory is augmented with elements from the stewardship and stakeholder theories to allow assessment of the multi-principal environment exhibited by the charity sector.

The integrated theory is also the basis of using mixed methods as methodology and especially for justifying inclusion of stakeholder interviews to the study. As most of the previous fraud studies centred around agency theory and quantitative analysis, integrated theory allows a broader focus, by including stakeholders as a crucial part of understanding fraud in the charity sector.

The concept of stakeholder was elaborated in Chapter 2. Stakeholder theory was developed to extend shareholder focused organisational theories. The theory briefly acknowledges the importance of stakeholders of an organisation, a group or groups of structures or people who have stakes in an organisation. The diversity of stakeholders also necessitates the identification and prioritisation of them. Mitchell et al.'s (1997) stakeholder salience theory

allows stakeholders to be ranked in order of priority in terms of the attributes of power, legitimacy and urgency. The study uses stakeholder salience theory in order to understand which stakeholder group or groups are seen to be more crucial for the charity sector.

The findings suggest that the charity sector has multiple principals rather than a definitive owner as in the for-profit sector (Jegers, 2009). The ambiguity of the ownership indicates that none of the stakeholders, internal or external, can dominate charity sector governance. The findings also imply that the monitoring function, fulfilled by the shareholders in the for-profit sector, is missing or ineffective, which facilitates opportunistic behavior in the charity sector.

The findings also justify the use of integrated theory as they suggest that the concepts of 'agent', 'steward' and 'principal' are not precise, as in the case of the for-profit sector. The complexity of the ownership structure therefore makes it necessary not to focus on the principal-agent relationship but rather to undertake a broader stakeholder analysis.

The section also suggests that the charity sector lacks one definitive stakeholder that strongly possesses power, legitimacy and urgency at the same time. The interviews indicate that the charity sector has a dynamic stakeholder saliency unlike the for-profit sector in which shareholders are attributed to be the definitive stakeholder (Cordery and Baskerville, 2005). Donors were found to be the primary stakeholder, if not the definitive one, as most respondents suggested that they possess power the most, one of the highest in terms of legitimacy and urgency in case of information. Other important stakeholders were found to be the trustees and the regulators. Although the findings suggest that, the beneficiaries are the leading stakeholder in terms of urgency and on a par with donors and regulators in terms of legitimacy, they are inadequate in possessing power over the charities.

6.2.1 Ownership

The lack of ownership was identified by the literature as exacerbating the difficulty of oversight and therefore causing future problems (Zack, 2003). The topic of ownership was found the most interesting by the respondents. Interviewees paused to think about the answer and expressed that they have not thought about and how important and how complicated it is for the charity sector.

Answers to the question of who owns a charity included: the public, the founder, the trustees, the donors, the beneficiaries, no one. Some respondents posited that everybody is a custodian of the charity rather than an owner. The organisational existence of the charities was also questioned by some respondents, who argued that society owns charities and therefore charities are neither companies nor the state:

> *"The charities aren't owned by anybody. What you have is the board of trustees who control the assets of the charity and hold it in trust. Strictly speaking, charities aren't owned by anybody."* ***(RW3)***

> *"In theory, it's owned by everyone because it benefits everyone. In practice, and that's why I was hesitating, ownership should be invested in the trustees."* ***(C4)***

The most frequent response was 'trustees' which was preferred by about one third of the interviewees. These respondents argued that trustees are the owners because they control the charity and responsible for the strategy, but they are also the ethos, the drive and the energy of the charity. The respondents stated that the trustees were putting their liability and their reputation for the sake of the charity's success:

> *"The trustees own the charity. It's their responsibility to ensure that the charity operates to its charitable objectives and meets its charitable objectives"* ***(B1)***

Respondents who identified donors as the owners justified this by stating that donors are the real force and the source of funding for the charities to exist, especially if the donors are deciding where and how their donations would be spent. Beneficiaries were also another group with frequent answers, as they were regarded to be the only people that can benefit from a charity and the reason why charities exist:

> *"Well, I think, I still say it's the beneficiaries, the beneficiaries are the owners of the charity, technically they are not but to me they are. The money is held in trust to benefit them, and if it doesn't then we shouldn't be doing it."* ***(C9)***

Two other questions asked if the interviewees saw the board of the trustees and the managers as the agents or the stewards of the principal (owner). The answers were mixed, unlike those for the for-profit sector (Ebrahim, 2003b). In respect to the board of trustees, while some argued that there are no principals, the trustees were either regarded as being the principal or the agent or the steward, therefore the stewards was not the major answer for the question. The answers for the managers also was in contradiction with the classical view of the agency theory where managers are believed to be the agents of the principal (Fama and Jensen, 1983a). Although the managers were answered as being agents slightly more than being the stewards, there was no unanimity and the results supports the work of (Van Puyvelde et al., 2013; Nikolova, 2014; Caers et al., 2006; Du Bois et al., 2009) that the charity sector is more complicated and no clear cut for-profit theory can explain the dynamics of the sector (Brown and Guo, 2010; Perego and Verbeeten, 2015):

> *"If you have an agent, you have to have a principal, and there's no principal so you can't have an agent. Agent for whom?"* ***(D3)***

> *"They're a little of both."* ***(C6)***

Overall, it was found that the charity sector lacks a 'definitive owner' and that the sector is built up of multiple owners. The answers proved that the charity sector lacks an owner relationship and the answers are in line with Edwards and Hulme (1995) and Van Puyvelde's (2012) multiple principal approach.

6.2.2 Stakeholder Salience

One of the questions asked the interviewees to rank stakeholders in terms of their power, urgency and legitimacy as in line with the stakeholder salience theory of Mitchell et al. (1997). Previous studies that employed the stakeholder salience theory conducted interviews generally at the management level. Agle et al. (1999) and Viveros (2016) assessed stakeholder attributes by interviews conducted with the CEOs and managers, respectively. The answers provided some very interesting and useful responses, as Table 6.1 depicts the respondents' responses regarding the components of power, urgency and legitimacy:

Table 6.1 Stakeholder Salience

	Donors	Beneficiaries	Regulators	Trustees	Managers/ Staff	Auditors	Total
Power	15	0	9	13	4	0	41
Legitimacy	11	11	11	7	1	0	41
Urgency	10	19	4	8	0	0	41
Total	36	30	24	28	5	0	123

While beneficiaries were posited to be legitimate and for most stakeholders are the ones whose needs are urgent, none of the respondents stated that they possess power. The answers also proved that, although the charities exist to meet the needs of the beneficiaries, beneficiaries lack voice which they can talk to charities and power to direct or influence the policies of the charities:

> *"For me I would place the beneficiary as the top, not in terms of power, because they have very little power, but in terms of which stakeholders charities should prioritise, they exist for the benefit of*

their beneficiaries. That's why they should be there but they have very little power." ***(A4)***

"I feel like I'm unable to critique them necessarily because of the power relationship that comes with donation versus recipient. Does that make sense? They all hold the cards. They can cut off my funding. I can't do anything to them." ***(B4)***

"We don't have the power to know. I mean even if we had the power, what are we supposed to do?" ***(B3)***

Some respondents also separated larger and smaller charities and therefore their relationship with the stakeholders. It was argued that, whereas in larger charities management and staff are powerful, the powerful role switches to the trustees in smaller charities. The donors were posited to be powerful as, if people do not put money in, a charity will be deprived of sources and therefore will not function. Overall, in terms of power, the trustees and the donors were classified as possessing power followed by the regulator:

"In terms of power may be the donors come first because they chose who gets the money." ***(A3)***

Legitimacy also had mixed responses, with the donors, regulator and the beneficiaries chosen the most:

"The donors probably have more power and the urgency is for beneficiaries and then the regulators and other organisations have the legitimacy." ***(D3)***

"The most legitimate, I would have thought that would be beneficiaries because they are the ones that the charities had to help". ***(A6).***

For urgency, beneficiaries was the first answer for the majority of the respondents:

> *"In terms of physical or social needs, it's going to be the beneficiary. I think the urgency for the regulators, the trustees, to some extent, the executive, only really comes in when there's a problem or some sense of crisis. Whereas really, it shouldn't be running on a regular urgent basis."* ***(RW5)***

Another interesting point was the lack of 'accountant/auditor' answers provided by the respondents. It confirms that accountant/auditors were not seen as stakeholders but rather as an external force that keeps to things in balance (Keating and Frumkin, 2003).

The findings matched with the previous studies where especially larger funders/donors were the primary stakeholder and the most effective and powerful one, to whom accountability has to be discharged (Connolly and Hyndman, 2013a; Ebrahim, 2003b; Jetty and Beattie, 2009). Although beneficiaries seem to be catching up with donors, they lack legal or economic power, and the difficulty in measuring and then discharging accountability to beneficiaries means that they lag behind (Connolly and Hyndman, 2013a).

6.3 Conclusion

This chapter examined the ownership, stakeholder salience and accountability dynamics in the charity sector. First the chapter reviewed the accountability dynamics in the charity sector. Than ownership problem in the charity sector is elaborated which provided interesting findings. Mitchell et al.'s stakeholder salience was also utilised to understand the most salient stakeholder in the charity sector.

The interviews revealed that respondents regarded donors and beneficiaries as the leading stakeholders. Despite this, the discharge of accountability does not target the beneficiaries and therefore seems not to be satisfying

beneficiaries, and their demands for more basic information are not met. Stakeholders demand more understandable and more inclusive information for the discharge of accountability rather than simply more information. Accountability relationships with two key stakeholders, namely donors and beneficiaries, were found to be predominantly informal. In line with the arguments of Stewart (1984) and Laughlin (1990), accountability towards charity stakeholders seems to be very weak or even non-existent.

The findings indicated that the lack of residual claimants and of explicit identification of ownership makes it harder for not-for-profit organisations to be monitored and for accountability to be discharged effectively, as also suggested by Van Pyvelde et al. (2012). The interviews suggested that, unlike the for-profit sector where shareholders are the 'definitive' stakeholder, a 'definitive' stakeholder is much less clear in the charity sector. Like Cordery and Baskerville (2005, p.14-15), it was found that, whereas donors have power, beneficiaries remain in the discretionary or dependent categories as they lack the power to oversee charities.

The findings of this chapter suggest that an examination of stakeholders is crucial to understand the fraud problem in the charity sector. Therefore, the findings of this chapter will form the basis for the discussion in Chapters 7 and 8 regarding reasons to fraud, solutions for fraud and stakeholder oversight.

7. CAUSES OF FRAUD IN THE CHARITY SECTOR

This is the second chapter which presents findings from the qualitative part of the research. The chapter analyses the interviews conducted with the regulator/watchdog organisations, charity officials, auditor/accountants, donors and beneficiaries. The chapter focuses on the charity stakeholders' perception of causes of fraud in the charity sector. Research question 1c examines what fraud means to the stakeholders, including comparisons with the for-profit and public sectors. Research question 1d assesses the reasons for fraud identified by the charity stakeholders.

The chapter utilises the literature which was analysed in the Chapters 3 and 4 especially. The term 'fraud' in the charity sector is assessed in comparison with the for-profit and public sectors. Charity stakeholders' opinions on causes of fraud are discussed in the context of previous studies on fraud theories (Cressey, 1953) and of the not-for-profit sector fraud studies (Greenlee et al., 2007).

The chapter is designed in accordance with the research questions. Thus, section 7.1 assesses the identification of fraud in the charity sector, section 7.2 focuses on the causes of fraud in the charity sector.

7.1 Identification of fraud in the charity sector
7.1.1 Understanding fraud
7.1.2 Fraud in charities compared with other sectors
7.1.3 Are charities more vulnerable than other organisations?
7.1.4 Which charities are more vulnerable?

7.2 Causes and red flags of fraud
7.2.1 Causes of fraud
7.2.2 Red flags of fraud
7.2.3 Who commits fraud?
7.2.4 Fraud Triangle

Figure 7.1 Structure of Chapter 7

7.1 Identification of fraud in the charity sector

This section presents the findings regarding charity stakeholders' perceptions of three issues: (a) fraud, both as a general concept and with specific reference to charities, (b) vulnerability of the charity sector compared to other sectors, and (c) which charities are more likely to be vulnerable to fraud.

The term 'fraud' and its legal definitions were discussed in Chapter 4. Because charities are dependent on their stakeholders, stakeholders' understandings of fraud are crucial in deepening the analysis. Conducting interviews with charity stakeholders who have not previously been assessed in detail in fraud studies (Trompeter et al., 2014) was therefore important. As discussed in Chapter 4, not-for-profit organisations are more vulnerable to fraud compared to for-profit sector organisations, and not-for-profit organisations have much to lose (Zack, 2003).

The interviews with the stakeholders regarding how they identify fraud found that stakeholders are aware of the risk of fraud and that fraud is known to take place. It was also found that donors and beneficiaries were less likely than other stakeholders to agree that the charity sector is more vulnerable to fraud.

The most important and distinctive vulnerability of the charity sector is found to be excessive trust towards the charities. It was found that good intentions of the charity stakeholders were exploited when fraud takes place. Overseas charities and charities which rely on cash transactions were found to be those most vulnerable to fraud. Charities that lack donor oversight and small charities were also identified to be slightly more prone to fraud. The findings of the section were taken into account when identification of fraud variables was conducted in Chapter 9.

7.1.1 Understanding fraud

In order to provide an insight into the perception of fraud[21], the interviewees were asked what they understood by "fraud" in terms of charities. Although the answers varied from a single sentence to comprehensive and detailed explanations of fraud, it was possible to identify the key descriptions.

The answers were in line with the concept of 'occupational fraud' (ACFE, 2019), with less emphasis on corruption but more on asset misappropriation and financial statement fraud. Table 7.1 summarises the terms (words and expressions) used to describe and classify fraud.

Table 7.1 Terms used to describe and classify fraud

Terms used to describe fraud	**Terms used to classify fraud**		
theft, stealing, abuse of position, misappropriation, misrepresentation, deliberate action for personal	**Corruption**	**Asset Misappropriation**	**Financial Statement Fraud**

[21] External fraud, fraud committed by e-fraud, hacking, robbery, is not specifically the topic of the thesis. The study does not relate to someone who is not related with a charity by any means.

gain/benefit, obtaining money illegally through illegal means, wrongdoing, burglary, robbery, reputational harm caused by a criminal act, embezzlement, manipulating figures to achieve another objective, putting in bogus expenses claims, transfer of funds in an unlawful manner, failure to disclose information and false representation, misusing your power for your own benefit	corruption	theft of cash, misapplication and misuse of resources, illegal capture of money or goods, fictitious and overstated expenses, inventory misuse	financial irregularity, manipulating figures, failure to disclose information and false representation, overstated expenses

Fraud awareness was high among the respondents: nearly all respondents were aware that fraud was happening in the charity sector on a daily basis and is harmful for the whole sector. Small donors and beneficiaries defined fraud in simple terms, while officials from the regulator, watchdog organisations and larger charities, as well as auditor-accountants and larger donors, referenced legal definitions such as the Fraud Act 2006:

> *"Altering data, systems and processes to show false information"* ***(D3)***

> *"I would define fraud as an individual being able to obtain resources from a third party in a dishonest deceptive manner."****(A5)***

> *"At very low level if you've got staff who are going into an organisation and taking pens home, taking paper home, photocopying without any knowledge and charging their mobile phones, that can actually be determined as fraud if you want to take it to the end degree."* ***(B1)***

It is important to note that most, if not all, respondents were aware that fraud may comprise not only monetary misuse but also false representation, failing to disclose information and abuse of position.

7.1.2 Fraud in charities compared with other sectors

As one of the aims of this study is to assess the organisational factors related to fraud specific to the charity sector, the interviewees were also asked if charity sector fraud had any differences compared with that in the public and for-profit sectors. Most of the respondents did not believe that the problem is hugely different compared to other sectors. They thought that the basic reason and the ways in which fraud is committed are much the same:

> **"***Charities can be hurt by the same kind of fraud that hurts any other kind of organisation. I guess the main difference between a charity and other types of organisations are some of the unique attributes that the charity sector has. So, the fact that the charity sector has fundraising, the fact that it relies on donors, the types of environment that it might be working in, the types of projects creates some unique vulnerabilities. But these vulnerabilities can also exist in other sectors as well, it is just how they manifest themselves really. So I don't think charities are heavily different from other entities, but they are different because of how the money comes and how it is used."* ***(RW1)***

Some interviewees believed that charities will not be defrauded because they have good intentions. A few of the respondents stated that to commit fraud against a charity would be considered more morally corrupt than against the public sector and the for-profit sector. Charity staff were thought to have better attitudes: people do not work in the charity sector for their own personal benefit but rather to bring good to the wider public. Some respondents stated that people who work for charities are very surprised to hear that charity staff commit fraud*:*

> "*Because the charity sector labours under an 'illusion' that fraud does not exist, based on the fact they say to themselves, "we are a charity so who will commit fraud against us?" And the answer is*

overwhelmingly the charities' own staff. 80% to 90% fraud in charities is committed internally." ***(C1)***

Some respondents also suggested that the relative paucity of funds and resource in the charity sector deters fraudsters from acting opportunistically as there is less to gain. On the other hand, respondents also stressed that the weaker controls in the charity sector work in the opposite way because fraudsters believe that charities are easier targets. Another important feature of the sector identified by respondents in terms of fraud was the existence of 'sham charitable organisations': those which are not authorised fundraisers or are not charities but are formed solely to solicit donations in a fraudulent way:

> *"When you have a small non-profit, very often the two or three people that are running it, have a real heart for the mission, they're really close to it and they try to do that genuinely unless they started the non-profit out of this whole idea of, "It's an opportunity for me to be fraudulent, I never wanted it to be a charity in the first place but it is my vehicle to acquire resources" and then obviously it's a whole different ballgame."* ***(RW4)***

Overall, respondents stated that charity sector fraud was different because of the sectoral differences that lead to fraud. The most important differences were found to be: different mission and goals, looser regulation, an environment of cooperation rather than competition, and income based on non-mutual funds.

7.1.3 Are charities more vulnerable than other organisations?

The interviewees were asked whether the charity sector is more vulnerable to fraud than the for-profit and the public sectors. More than half of the respondents agreed with the statement that the charity sector is much more vulnerable than the other sectors.

No respondent posited that the charity sector is less prone to fraud than other sectors. The respondents who did not state that the charity sector is more vulnerable to fraud argued that fraud affects every sector in some way or another and they could not find a reason why the charity sector should be an exception. Some respondents argued that the characteristics of the perpetrators and the cultures within each organisation, rather than those of the whole sector, are more crucial in enabling fraud. Half of the beneficiaries and donors rejected the view that charities are more vulnerable to fraud, arguing that it is the for-profit sector that is more vulnerable and less trustworthy:

> *"No there is more chance in the private sector and less chance in the charity sector because there is no money in the charities. They all give it to us"* ***(B5)***

> *"Actually better scrutinised in the not-for-profit sector because 90% of people working for the voluntary and not-for-profit sector are trying to follow the objectives of their organisation."* ***(D9)***

Several reasons were stated as why the charity sector is vulnerable. While some respondents argued that the whole sector lacked effective control and processes and procedures and therefore is vulnerable, other respondents posited that the laid-back attitude of stakeholders exacerbated the fraud problem in the sector, creating gaps in the system that can be exploited by the fraudsters. Only a few of the larger charities have counter-fraud departments, whereas in the for-profit sector this is standard practice, especially for large entities. Lower remuneration in the charity sector compared to the for-profit sector was also identified by some respondents as a reason why a few charity officials find illicit ways to augment their income.

'Excessive trust' - belief that those involved with charities would not do terrible things because they are trustworthy and nice people - was suggested by many respondents to be one of the most important vulnerabilities leading to fraud in the charity sector. The respondents argued that the level of trust in

the for-profit sector is low and therefore the controls are harsher whereas the excessive and unconditional trust towards charities makes them seem to be an easier target for the perpetrators. It was also posited by some respondents that charities seem to care less about procedures and policies and these are not often put in place because the sector is reliant on trust:

> *"That's why fraud is taking advantage there because it's easy to take advantage of somebody when they trust you. It's a fact, it's human nature."* ***(B7)***

Some respondents also posited that tighter oversight in the for-profit sector and efficient rules and procedures in the public sector brought the charity sector to the forefront for being more vulnerable. Less rigorous regulatory control and administration of the charity sector are argued by some respondents to be vulnerabilities of the charity sector that elevate the risk of fraud. Lack of an exchange contract in most cases between the charities and the donors was also stated as one of the factors which contribute to the vulnerability of the sector:

> *"There is not necessarily a reason for establishing a relationship between what the charity is provided and what the income should be. So you can very easily get the income diverted. So someone gives a donation of £10,000, it is possible to divert that income unless there is proper control. And there would be nothing else to match with it. Because there is no sales invoice, ledger or any other documents."* ***(A1)***

Donors were criticised by other stakeholders for donating without questioning enough what their donation is used for (Berman and Davidson, 2003). Charity officials, whether trustees, managers or volunteers, were argued to find it hard to believe that charities would be targeted by fraudsters, and therefore are unwilling to challenge the charities to prevent fraud in the first place. One respondent observed that there were two important issues:

> *"One is accountability or lack of, and the other is trust and abundance of. The charity sector, the trust is the lubricant that gets everything done. I trust you, you're nice, I'm nice, I trust you, you trust me, we're a charity so who can do fraud against us? As a supervisor, you could sound too busy and important and you could do what you like and so it goes on." **(C1)***

Overall, the respondents' answers are in line with previous literature (Gibelman and Gelman, 2001; Ohalehi, 2019) that the vulnerability of charities towards fraud and financial crime is high. It is found that the charity sector provides an opportunity for fraud to take place in charities because the sector is believed to be much more trustworthy.

7.1.4 Which charities are more vulnerable?

Asking the interviewees about the type of charities that are much more vulnerable to fraud received mixed results. Unlike Archambeault et al. (2015), who found prevalence of fraud in the health and human services sectors, respondents in the present study did not mention a specific sector where fraud is more often seen. Some interviewees posited that 'vulnerability' cannot be attributed to a specific type of charity but rather it has more to do with the people who run them or their internal policies, procedures and practices, and how charities are governed.

Respondents stated that, while small charities are targeted because they might not have the infrastructure and control environment to be alert to fraud, larger charities may be defrauded because frauds involving small amounts may well not be noticed in the grand scheme of things. Fraud in smaller charities was posited to be overlooked, especially by the donors:

> *"From my perspective as the funder to be honest, I'm less worried about that because we're talking about small amounts of money."* ***(D4)***

Although a slight majority of respondents suggested that smaller (Keating et al., 2005; Kummer et al., 2015; Petrovits et al., 2011) and fundraising charities (McDonnell and Rutherford, 2018; Ohalehi, 2019) were more vulnerable than larger and grant receiving charities, there was general agreement that charities operating internationally and those more likely to use cash were more prone to fraud. Cash was mentioned by the respondents as hard to track compared to bank transactions and therefore posited to enable illegal activities. International charities were underlined as the perfect place for fraud to take place because of operating in really challenging environments and across several geographic locations where oversight and technical capacity is lower than in the UK:

> *"I think where you see most of the problems is where there is a long gap between the money and the deliverables. How do you check that fresh water wells have been dug in Central Africa, boots on the ground, get out there and look, are photographs and reports enough, can you trust them. It's how, how do you see the collaboration that the money has been well spent. Because if it's in the UK, you can wander out, you can see something's been done, that's easy. If it's money going into Aleppo, good luck in being able to account how many people have received their medicines. But each has its own challenges, that's the problem."* ***(A3)***

7.2 Causes and red flags of fraud

In line with research question 1d, causes of fraud identified by the charity stakeholders are assessed in this section. Categorisation and analysis of previous studies on not-for-profit sector fraud found that lack of effective control mechanisms contributed to fraud occurring (Fremont-Smith and

Kosaras, 2003; Kummer et al., 2015; Petrovits et al., 2011). Perpetrators of fraud were also assessed which provided useful information of the identity of the fraudsters (Greenlee et al., 2007; Holtfreter, 2008).

This section utilises fraud theories in order to explain reasons for fraud. Cressey's fraud triangle theory (1953), a three-component model which explains the causes of occupational fraudulent behaviour in terms of opportunity, rationalisation and pressure, became the progenitor of subsequent fraud models (Albrecht et al., 1984; Marks, 2009; Wolfe and Hermanson, 2004). Later fraud models tried to enhance the fraud triangle by either amending the components or adding new components to the triangle.

The findings from the interviews have provided important contributions to the existing literature. For both small and large charities, the lack of a control environment and oversight were identified by the respondents as the major reasons for fraud. Other important causes were found to be segregation of duties for smaller charities and insufficient policy and organisational culture for larger charities. A dominant founder, missing documentation and excessive use of cash were highlighted as some of the important red flags for a possible fraudulent charity. In terms of perpetrators of charity fraud, the findings suggest that higher level personnel, especially those who have a power to control monetary transactions and finance, were likely to be the main perpetrators of a fraud in the charity sector.

The findings also shed light on the fraud theories and Cressey's (1953) fraud triangle in particular. Compared to pressure and rationalisation, opportunity was found to be the leading component that explains fraudulent behaviour in the charity sector. The findings from the interviews correspond to the argument of Dorminey et al. (2012) that the components of pressure and rationalisation have less to offer in explaining fraudulent behaviour compared to opportunity. It was also found that, because the charity sector creates a special trustworthiness problem which leads to the opportunity to be targeted by fraudsters, the sector can be seen as a 'bad crop' as suggested by

Ramamoorti et al. (2009). The findings support the argument of Dorminey et al. (2012) that the charity sector is targeted purposefully by 'predators' or people who are inclined to commit fraud. As discussed in section 7.1.3, excessive trust in the charity sector and belief of no wrongdoing contribute to the opportunities to be realised by the fraudsters.

The findings were also important in identifying possible variables that could be used in the quantitative analysis (see Chapter 9). The findings made it necessary to focus more on the governance structure of charities such as the board of trustees and other existing oversight mechanisms.

7.2.1 Causes of fraud

Interviewees gave a variety of reasons for why fraud happens in the charity sector. Many rrespondents had witnessed actual frauds or had information about fraud in charities. Therefore, answers reflected not only theoretical but more so real-world experiences of fraud in the charity sector.

Why fraud happens in the charity sector was one of the areas which respondents discussed extensively and provided a variety of reasons. Table 7.2 shows the causes of fraud suggested by various respondents, which have been divided into internal and external organisational causes of fraud:

Table 7.2 Internal and external causes of fraud

Internal Causes of Fraud	**External Causes of Fraud**
absence of segregation of duties, poor leadership at the top, lack of awareness and culture, lack of appropriate policies and procedures, not having the right knowledge and skills for proper oversight, lack of resources and staff, lack of transparency, excessive use of cash in transactions, autocratic founders and management, weak internal controls and oversight	weak external controls and oversight, fraudsters targeting specially charities, lack of legislation and sanctions

Important factors paving the way for opportunistic behaviour included deficiencies in organisational culture, which inhibited establishing the environment and providing the awareness to deter and prevent fraud, along with insufficient policies to tackle fraud. Tolerant behaviour that appears to be innocuous but is not in accordance with the organisation's policies is argued to cause more serious problems especially for the larger charities. Insufficient whistleblowing was also mentioned by the respondents as an explanation for the lack of criticism of wrongdoing in charities. The importance of 'tone at the top' and ethical conduct of senior staff was also underlined as it was posited that, if the 'leaders' are setting the right culture, then there will be less opportunity for fraud to occur:

> *"I think so much of it is down to culture. If leaders don't exhibit the behaviours that mean that-- and we've all seen things where controls, auditors come in and controls are talked about and eyebrows are raised. If you get that tone from the top where this is just seen as a nuisance, it's not adding any value, then that just creates a cascade of people thinking, "Well, I don't need to worry about this. I don't need to behave in this way," and then, at some point, somebody says, "Hang on. If that's the case, I can maybe get away with this."* ***(A4)***

Structural problems such as the presence of a strong founder and a lack of segregation of duties were also discussed (Loebbecke et al., 1989). Loading too many functions on one person is argued to give that person too much power and may allow opportunistic behaviour. Absence of segregation of duties was especially a problem for the smaller charities due to insufficient staff and resources. Strong personality and a dominant individual, which was the case in Kids Company, coupled with an abnormal turnover of other positions, were underlined as problematic. Absence of adequate staff and systems for handling cash was also argued to enable fraud especially in smaller charities. A board of trustees with members belonging to the same

family or having close ties with each other is also seen by respondents to be another reason of fraud.

Fraudsters' motives were also stressed as reasons of fraud, especially by the donors and beneficiaries. Greed, financial problems, revenge, and lack of satisfaction in the work, were mentioned (Albrecht et al., 1984; Sorunke, 2016). Habitual criminal behaviour was also mentioned by the respondents, in accordance with the idea of the fraudsters being predators, suggested by Dorminey et al. (2012). It was also found that the charity sector itself is a reason for fraud to happen as the sector's trustworthiness creates the opportunity to be targeted by fraudsters (Ramamoorti et al., 2009). Charities, both genuine and sham, which had been set up purely to facilitate fraud and people whose whole life is built around fraud and are motivated to extract money for whatever purposes were also mentioned by the respondents:

> *" The charity sector might attract a certain type of person. People who does not have the most honourable intentions might actively seek out the charity sector for that particular reason, having the weak controls and weak governance, and the charity sector create mire opportunity for the people who want to take advantage." (**RW1**)*

> *"Because people are opportunist. They want to grab the benefits and it is easier to escape from charities. So opportunity plays an important role in fraud." **(B2)***

Some respondents also highlighted a lack of interest on the part of trustees, who were thought to have insufficient day-to-day involvement, as trusteeship was seen as a hobby rather than a proper duty. Respondents also suggested that there were not enough board of trustee meetings and committees. This is argued to lead to breach of trust between the board of trustees and the management, which is reflected in lack of proper oversight.

In terms of external reasons, some respondents highlighted insufficiency of sanctions, the regulator being deprived of resources and determination, and regulation being only effective on larger charities:

> *"I think with Kids Company, it was known for several years beforehand that there were issues in that particular charity. Maybe this refers back to the previous comment about not having a regulator with enough resource or teeth to do anything."* ***(RW5)***

All stakeholder groups (especially auditors/accountants, who were unanimous on this issue) mentioned lack of effective control, including both internal and external oversight, as a cause of fraud. Control was used as an umbrella term comprising more than just internal and external audit. Respondents believed that the control function should be performed by a wide range of stakeholders, including the trustees, the managers, the staff and, if possible, donors and beneficiaries. The respondents argued that the frauds that are successful tend to be because of weak control environment, because the controls are not in place to prevent fraud in the first place and then subsequently the controls are not there to detect fraud.

While internal audit was found to be practised just in the larger charities, small charities miss out on the benefits of both internal and external audit due to their low income. Respondents also mentioned the difference between larger and smaller charities, as it could be difficult in small charities with only a few people involved to have the same sort of control environment as larger charities:

> *"I don't look to see a red signal for a fraud but look to see the control environment. And if the control environment is weak, than I believe a fraud can happen, and I have a concern. I don't look whether a fraud is happening. I look to see whether there is an environment that allows fraud to happen."* ***(A1)***

"Another cause would be the control environment. So whether they're-- If it's a weak controlling environment, then I think that could well be a cause and a trigger for someone to then go on and perpetrate a fraud. That could be because that creates an opportunity." ***(A5)***

Overall, lack of segregation of duties was argued to be crucial for smaller charities, while lack of culture and policies were stated as the major factor that causes fraud in the larger charities. However for both small and large charities lack of control and oversight, which was highlighted previously by Gibelman and Gelman (2004), Fremont-Smith and Kosaras (2003), Holtfreter (2008) and Archambeault et al. (2015), was stated by the respondents as the major reason of fraud.

7.2.2 Red flags of fraud

Interviewees were asked about how they develop suspicions about fraud, in particular the signals, or 'red flags' that might alert them to the possibility that fraud might be occurring. The red flags could be divided into three parts. The first group of red flags consists of conflicts of interest among charity officials or trustees or managers, the involvement of family members in the charity, the presence of a dominant founder who intervenes in every aspect of the charity, and control of the financial system of a charity by a single person. Several of these red flags could be observed in the case of Kids Company.

Secondly, peculiarity in documentation was underlined by the respondents, such as missing or absent documents, problems in bank reconciliations, delays in submitting accounts, and lack of evidence of expenditure or missing paperwork. The use of fake domain names and personal email accounts were regarded as red flags for large charities.

Thirdly, the existence of financial irregularities, such as components of the budget being different from what had originally been reviewed, trading activity or disbursements which seem out of kilter with the size, scope or charitable aims of a charity, spending very little on charitable objectives and a lack of restricted funds and grants were seen as potential red flags.

Accountants also mentioned annual accounts and financial measures as sometimes providing red flags of fraud, such as irregularities in the double-entry bookkeeping system, excessive capital expenditure and payroll costs and excessive use of cash:

> *"I would generally be looking for projects with heavy expenditures, that might be capital expenditure. It seemed capital expenditure is being used to hide fraud. That could be through, say, inflating an asset cost. Or otherwise it would be the classic expenses that go through an income and expenditure account or statement of financial activities. In a charity that could well be payroll. It could be charitable expenditure generally. Where there is a cost or an asset, the other side could be money leaking from a bank account."* ***(A5)***

Social behaviour, including behaviour that is not normal in an organisational sense, was also identified as a red flag for fraud: an example of this would be people not taking holidays.

On the other hand, small donors and especially beneficiaries responded that they have little knowledge and power to detect problems. They stated that it is not their business to be aware of fraud and therefore abstained from clarifying a red flag:

> *"I like to keep up current affairs and, if there is a problem and I wouldn't be told, I would be informed from just the general press. That will be my only way. I don't have regular personal communication with any of the charities that I give to. Other than not to find out*

whether they are in trouble or not. I believe I will be informed from the press, the media." ***(D8)***

Overall a dominant founder, missing documentation and excessive use of cash were highlighted as some of the important red flags for a possible fraudulent charity.

7.2.3 Who commits fraud?

The interviewees were also asked who commits fraud in the charity sector. Previous studies assessed age, gender, profession, and education of the perpetrators (Holtfreter, 2008). As the study focuses more on stakeholders, stakeholder groups were assessed rather than individual characteristics such as age, gender, and profession. Answers included all types of charity officials including the trustees, managers, employees, charity shops and volunteers. Some respondents stated that fraud can occur as a result of a collusion among internal and/or external stakeholders. The respondents also posited that, either intentionally or unintentionally, somebody inside the charity may have helped somebody outside the charity to commit fraud. However the management and especially the financial managers or people within a position of power and influence and who are directly involved with the finances of the charities (Wolfe and Hermanson, 2004), were mentioned the most (Greenlee et al. (2007):

"We have seen it with CEOs, seen it with FDs, seen it with finance teams. I've seen it with program directors, seen it with volunteers, seen it with trustees. It could be anybody." ***(A6)***

"People who are in power because the community selected or elected to govern the charity. So generally the people who govern the charity can commit fraud." ***(B1)***

7.2.4 Fraud triangle

The theorisation of fraud is used as a tool to understand basics of fraud. Taking into account the length of the interviews and especially technical limitations of the small donors and beneficiaries, the study aimed to utilise an understandable but functional theory. Therefore Cressey's 'fraud triangle theory' (1953) was chosen for use in the study.

Some previous studies also assessed the importance of each component in fraud occurrence. For example, Schuchter and Levi (2015) and Schuchter and Levi (2016) interviewed white-collar fraudsters in Switzerland and Austria and found that the perceived pressure is the most salient Fraud Triangle component. They also found that the opportunity component is essential for fraud to take place. Huang et al. (2017) also found, by employing surveys with academia and industry practitioners, that the rationalisation component is the least important and pressure is the most important component for fraud to take place.

Mentioning the fraud triangle theory allowed the interviewees to have second thoughts on fraud in charities and led to more discussion on fraud. Although a very small number of respondents suggested that specific conditions for each charity are crucial, most considered that, among the three components of the triangle, opportunity was the leading factor that causes fraud in the charity sector.

Respondents argued that assuming controls are robust, if the opportunity to commit fraud is limited then, even with the existence of pressure and rationalisation, fraud will not happen. Observability was another factor posited by the respondents, as pressure and the rationalisation were implied to be abstract and intangible facts and therefore hard to quantify, whereas opportunity is easily observed:

> *"- opportunity is the key, because it's observable, it's controllable, it depends on the amount of money you have. In other words, you have control over that one. What you don't have control over or less control over is people's motivation or their rationalisation."* ***(D2)***

While accountants/auditors stated unanimously that opportunity is the real factor that affects fraud in charities, it was also the leading factor among other stakeholder groups. The respondents stated that people probably would not even consider committing fraud unless they believe that there is a way of getting away with it without being caught:

> *"It's all about leave the keys to the door. I think that is the pivotal part. If that's locked down, and no matter what the pressure is on the person, no matter how they justify it, they can't get in. They can't commit the fraud. It's having jewellery with no front door or window. For me it's all about opportunity."* ***(A3)***

Donors and beneficiaries also argued that people are opportunist and if charity officials know that they can do it, and they can get away with it than they will act opportunistically:

> *"If they know that they can do it, and they can get away with it and if there's opportunity to do it, obviously people will do it. Anyone would do it. It's just, it's all human."* ***(B3)***

The financial pressure was the second choice among the respondents. Interestingly, pressure was mentioned most among the smaller donors and the beneficiaries. They argued that if one gets the financial pressure of not having enough money to survive, they will justify the actions and look for an opportunity to commit fraud. Pressure was also linked with 'otherwise good people finding bad ways' as a less important component with people being tempted into fraud because of their deprived lives. Some charity officials also argued that the employees are under pressure because of limited resources

and funds, and that the salaries in the charity sector are far lower than elsewhere, especially in the for-profit sector, which forces charity officials to find other ways to make a living.

> *"So that could exist in isolation, rationalisation, as could opportunity. I think pressure is different. It seems to me that, even if I didn't rationalise it and through the pressure I had to manufacture the opportunity, I had to really try to put myself in a position where I could do it, then pressure for me would force my hand."* ***(D8)***

While some respondents replied that both opportunity and pressure are equally important for fraud to take place, only four respondents mentioned that rationalisation was the key component:

> *"... most people who work in charities have a process of rationalisation about their position inside the charity. If that rationalisation becomes-- I've used the term perverted. For instance, through revenge, which is definitely, I can see, if somebody does something bad to you, you can say the charity is fine, but I'm going to hurt you. Then if there is a financial pressure, that's an added. From my own experience, I would say rationalisation is probably the key element."* ***(D6)***

Three respondents did not want to choose a component or argued that all components are equally important for fraud to occur. The argument they provided was that tackling all of the components together would be better at stopping fraud:

> *"I think you could put something around each of the three."* ***(D3)***

Overall, opportunity led the way as the most important component for fraud to take place, as can be seen from the Figure 7.2.

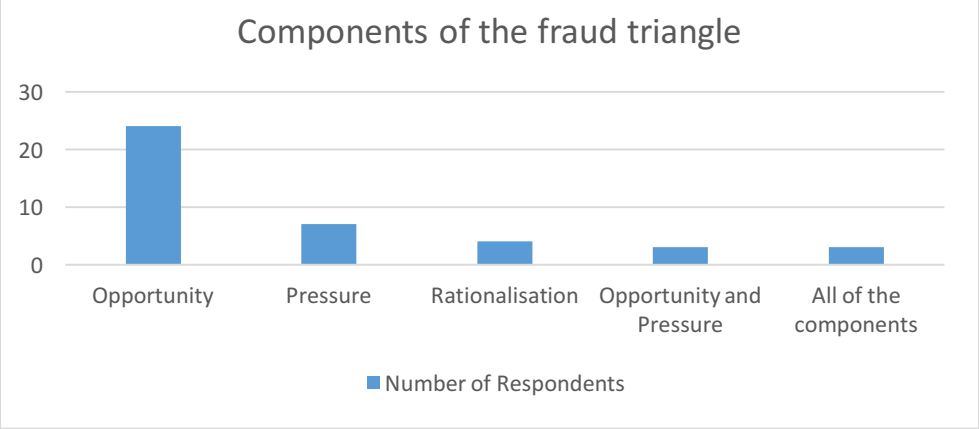


Figure 7.2 Components of the fraud triangle

Table 7.3, showing the theories previously discussed in Chapter 4, depicts the reasons of fraud found in the study according to the theories. The findings suggest that opportunity is the leading component of the fraud triangle and is also the aspect that explains a majority of reasons suggested by the respondents. The other two components (pressure and rationalisation), along with components suggested as a contribution to the fraud triangle such as personal integrity, personal ethics, arrogance, competence, capability are successful in explaining a more limited number of reasons compared to the component opportunity. The component 'capability' is also successful in explaining why people within a position of power and influence and who are directly involved with the finances of the charities commit fraud. The sector itself can also be reflected as a 'bad crop' (Ramamoorti et al., 2009) as trustworthiness creates the opportunity to be targeted by fraudsters. Also the concept of 'predators' suggested by Dorminey et al. (2012), which emphasises habitual criminal behaviour to target the sector, is successful in explaining the dynamics of fraud in the charity sector.

Table 7.3 Theories of Fraud Revisited

Theory	Examples derived from the interviews
Fraud Triangle **Cressey (1953)**	***Pressure:*** debt, work related pressures to be successful, financial demands of relatives ***Opportunity:*** absence of segregation of duties, poor leadership at the top, lack of awareness and culture, lack of appropriate policies and procedures, not having the right knowledge and skills for proper oversight, lack of resources and staff, lack of transparency, excessive use of cash in transactions, autocratic founders and management, weak internal controls and oversight, weak external controls and oversight, fraudsters targeting specially charities, lack of legislation, laid-back attitude of stakeholders ***Rationalisation:*** being unpaid, personal interests such as revenge, borrowing, common practice, job dissatisfaction, greed, lack of satisfaction in the work
Fraud Scale Albrecht et al. (1984)	Employees should have ***personal integrity*** and work ethic
Fraud Diamond **Wolfe and Hermanson (2004)**	The component, ***capability***, is especially applicable to section 7.2.3, 'Who commits fraud'. Fraudster is identified as a person who is capable of accessing to the finances of a charity
ABC Analysis **Ramamoorti et al. (2009):**	***the bad apple:*** predators who target the charity sector ***the bad crop:*** the charity sector itself is a reason for fraud to happen as the sector's trustworthiness creates the opportunity to be targeted by fraudsters.
Fraudster as 'predator' Dorminey et al., (2012)	Habitual criminal behaviour was mentioned by the respondents, in accordance with the idea of the fraudsters being predators,

Source (Author)

7.3 Conclusion

This chapter examined the reasons for fraud in the charity sector. First the chapter reviewed perceptions of charity stakeholders' regarding what is understood by fraud and if the charity sector is more vulnerable than the for-profit and public sectors. Then, the reasons, the red flags and the perpetrators

of fraud in the charity sector were discussed. Lastly, Cressey's fraud triangle was also utilised to understand better the fraud problem in the charity sector.

The respondents were aware that fraud is a devastating and multidimensional problem for the sector that has to be assessed in depth. A lack of oversight and of controls, caused by excessive trust, was seen as the most common reason for charities being more vulnerable than for-profit or public sector entities. Views of donors and beneficiaries that the sector runs on people with good intentions is criticised as an illusion created by the charity sector. Respondents also identified the charity sector as an easy target for fraud.

Segregation of duties was found to be crucial for smaller charities. By contrast, in larger charities, a lack of appropriate culture and policies were identified by the respondents to be the major factor that causes fraud. However, overall, insufficient control is found to be the most important aspect that causes fraud, and this includes lack of oversight from charity stakeholders. Fraud was discovered to not to be confined to one type of charity, as the fraud problem affects all types of charities.

In the context of Cressey's "fraud triangle theory", opportunity was found to be the leading factor. This was the case for all stakeholder groups, who underlined that lack of robust control and oversight is the main factor leading to fraud (Skousen et al., 2009). It was also found that the fraud triangle needs further analysis and enhancement, especially to comprise the sociological multiple-principal environment of the charity sector (Morales et al., 2014).

Overall, lack of an effective control environment along with some sector-specific problems were found to be the main reasons for fraud in the charity sector. The existence of a large variety of stakeholders with different priorities who lack power is also found to exacerbate the problem. Therefore, an examination of stakeholders is crucial to understanding the fraud problem in the charity sector.

The chapter also included important findings which will be used to assess solutions to fraud in the charity sector (Chapter 8) and underpin the quantitative analysis of fraud in the charity sector (Chapter 9). The findings of this chapter suggest that action by stakeholders could be important in addressing and minimising the risk of fraud in the sector. Therefore, the findings in this chapter will form the basis for the discussion in Chapter 8 regarding, stakeholder oversight and solutions for fraud in the charity sector. The quantitative analysis of charity fraud (Chapter 9) has also been nourished by the findings of this section. As will be discussed in section 9.3, the idea to use variables such as TRUSTEE, REMUNERATION, SURNAME and POLICY came into existence as a result of the findings of this chapter.

8. SOLUTIONS TO FRAUD IN THE CHARITY SECTOR

This is the third chapter that presents findings from the qualitative part of the research. This chapter focuses on the perception of respondents regarding solutions to the fraud problem in the charity sector. As in Chapter 6 and 7, this chapter analyses the interviews conducted with the regulator/watchdog organisations, charity officials, auditor/accountants, donors and beneficiaries. This chapter is structured around two research questions: a) what are the solutions to fraud identified by the charity stakeholders? b) what are stakeholders' perceptions of stakeholder oversight?

The chapter uses literature especially from Chapter 4. Deterrent and preventive measures discussed there are analysed, as is the literature based on stakeholder influence.

The chapter is also designed in accordance with the research questions. Section 8.1 examines stakeholders' perceptions on how to tackle fraud, including deterrent and preventive measures and legislation. Section 8.2 focuses on stakeholder oversight and asks how to make stakeholders more interactive to the fraud problem.

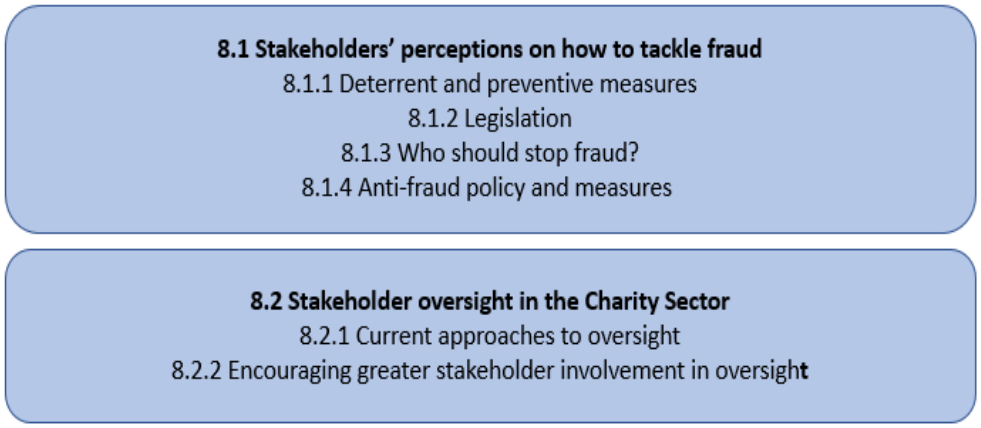


Figure 8.1 Structure of Chapter 8

8.1 Stakeholders' perceptions on how to tackle fraud

In line with research question 1e, deterrent and preventive measures and anti-fraud policies that the charities use are assessed. This section also examines the views of stakeholders in terms of effectiveness of legislation in tackling with fraud and who they believe should be responsible in stopping fraud.

The measures to tackle fraud were mainly developed specifically for the for-profit sector. While legislation and prosecution are fraud deterrence tools used generally by the regulators (Button et al., 2012), whistleblowing that externalises fraud is used by organisations themselves (Mesmer-Magnus and Viswesvaran, 2005).

Preventive measures to tackle fraud were also discussed in Chapter 4. Internal and external controls, audit, reporting and disclosure are some important preventive measures (Abbott et al., 2000; Jensen and Meckling, 1976; Trompeter et al., 2012). Remuneration to align the interests of the managers and the owners (Armstrong et al., 2010) and the corporate culture and ethics are also especially favoured by the large for-profit organisations (Schwartz et al., 2005).

The board structure and existence of committees are also important preventive tools to tackle with fraud (Farber, 2005; Uzun et al., 2004). Board independence, preventing CEO duality, higher number of committees, number of board and committee meetings are found to be effective in reducing fraudulent activities (Beasley et al., 2000).

The studies of fraud in the not-profit sector were limited compared to the for-profit ones. Risk registers, whistleblowing and control policies were found to be successful in detecting fraud (Kummer et al., 2015). Donor oversight (Nikolova, 2014) and empowered employees (Bradley, 2014) were also found to diminishes the risk of fraud in the not-for-profit organisations. Most

of these studies were quantitative in terms of methodology and did not use interviews as a method of analysis.

The interviews (conducted for this thesis) with stakeholders regarding the measures to tackle fraud included discussing remedies used in the for-profit sector. Organisational cultural elements such as whistleblowing, tone at the top and internalised anti-fraud culture were highlighted by the respondents. More structural remedies such as segregation of duties, a dual authorisation process, and disclosing more information were also stressed by most of the respondents. Some other less mentioned tools included board structure, committees and remuneration. The control environment and effective internal and external oversight as discussed in the section 7.2 were also highlighted as important mechanisms to tackle fraud. The measures discussed by the respondents were found not to be without criticisms. The remedies were castigated by some of the respondents for not being suitable for the charity sector, especially for the smaller charities which have limited capabilities and sources to have appropriate control mechanisms and remedies for fraud.

The findings suggest that trustees bear the primary responsibility for tackling fraud. Most of the respondents also stressed that it is every stakeholder's duty to tackle fraud. While not stated when asked directly, the stakeholders that constituted 'everyone' were mainly made up of auditors, donors and beneficiaries. Anti-fraud measures are found to depend on the size of the charity. The respondents were also generally happy with the legislation in place and most of them argued that little improvement in terms of legislation is necessary to tackle charity sector fraud. Strict enforcement of the existing legislation, however, is favoured by the respondents.

Overall, the respondents were in agreement that a new specific way to tackle fraud in the charity sector is necessary and that this responsibility should be a collaborative action by all stakeholder groups.

8.1.1 Deterrent and preventive measures

All interviewees were asked about measures that can deter or prevent fraud. Examples of deterrents suggested by respondents were exposing wrongdoing immediately, raising awareness of fraud, benchmarking, and making sure that if people get caught they will be prosecuted. Prosecution was mostly favoured by the donors and beneficiaries. Easier whistleblowing was also mentioned as a fraud deterrent (Bowen et al., 2010; Kaptein, 2011a); as some respondents posited that people will not bother to report a wrongdoing if it is a challenging task to report it:

> ***"****I think financial monitoring, but it isn't just finance. I think the other vital one is having proper whistleblowing and reporting, and anonymous at that. I also think there's a certain amount of benchmarking we've been doing. How do you compare with your peers? Are you in the same ballpark? Because they roughly say every third [fraud] you get, there's two thirds you don't." (**C2**)*

> ***"****It's making sure that, from a fraud perspective, there is whistle-blowing available, that people can flag instances and flag red flags internally, because those are the front line will know more about what's going on than us as auditors coming in once a year, for example."**(A4)***

> *"That having a prison sentence attached to fraud may well deter it or they'd hope that in charities in particular, people who work in the charity sector are not just for financial gain." **(B4)***

> *"Making a big example of a few cases so that people become aware that this is not acceptable."**(D3)***

Preventive measures such as segregation of duties, anti-fraud culture and tone at the top, dual authorisation processes and careful oversight of all cash movements were identified by the respondents. It is also argued by the

respondents that educating staff about fraud is crucial as the staff are the eyes and ears of the organisation and therefore they need more training and awareness to tackle fraud. Appointing moral people who have values that will distance themselves from wrongdoing is underlined as being important in preventing fraud:

> *"At the very basic level, you need to ensure that those whom you are employing are honest. Now, nobody wants to take on a dishonest employee. How do you ensure it? Well, it's a question of satisfying yourself through interview and references that these people are suitable and honest."* ***(D5)***

> ***"****Very basic measures like having several people counter sign for checks and all expenditure for instance. Final decisions on the expenditure should not be left to one person alone, you should look at conflicts of interest between people having family members on the management committees."****(D4)***

> ***"****I personally think that at the heart of it is culture because you can have the best-- A control framework, policies, and procedures that could be the best in the world, brilliant. If nobody enforces them, they're meaningless."****(C1)***

The control environment and effective internal and external oversight are especially identified by accountants/auditors as the most important measure to tackle fraud (Abbott et al., 2000; Arens et al., 2012). External oversight was also underlined by several respondents as a tool to tackle fraud. Respondents also mentioned the role of other charity stakeholders in oversight of the charities and that stakeholders need to be more involved:

> *"You also need outside people to verify it so you don't get 'group think', where nobody externally looking."* ***(C7)***

"Again also not being mentioned a lot, a proper respect agenda for everybody, all the stakeholders so that they're both properly recognised" ***(C9)***

Some respondents criticised the generic remedies to prevent and deter fraud as not applicable especially to small charities with limited resources and budget (Trompeter et al., 2012). Limited personnel and capacity of even the larger charities were also argued to impose burdens on charities. The sector was also criticised for having lack of enthusiasm to tackle fraud and for the absence of organisational policies to prevent and deter fraud. Most fraud remedies were also identified by the respondents to be unsuccessful:

"*It becomes more difficult in smaller charities because you have a number of functions that you have to carry out. If you have a very small number of people to deliver those functions, segregation of duties becomes more difficult. At that point, your internal load of program becomes even more critical."* ***(C6)***

*"You may have to employ another person which will cost you something like £40,000 in overheads which may actually save you that much in fraud. Maybe not and in that case it's not a good deal to make."****(D4)***

*"For instance, in one of my jobs, I went on fraud training that the organisation offered. It was one day. It was extremely good. Extremely useful. The ironic thing is the fraud that I mentioned took place fairly soon after the fraud training. Even with the fraud training, the systems, the processes, the auditing processes were not sufficient. There was a hole in the process."****(D6)***

Some respondents also argued that, whatever is done, it is very hard to completely prevent and deter fraud:

> *"On the other hand, how likely is it that in a large charity there are no frauds? If you're not hearing anything is that just because you're not hearing it and you're not finding it?"* ***(A2)***

Interviewees were also asked whether financial or non-financial information was more crucial in tackling fraud. Respondents were generally in agreement that both financial and non-financial information are crucial. Most of the respondents argued that information is important depending on who will benefit and use it. While accountants/auditors and people trained in financial documents find financial information to be useful, non-financial information is considered to benefit donors and beneficiaries more.

The two anti-fraud areas not discussed much by the respondents were (i) remuneration policies (Efendi et al., 2007; Jensen and Meckling, 1976); which are widely used in the for-profit sector, and (ii) board composition and structure (Beasley, 1996).

Trustees in the charity sector are not expected to receive remuneration (Commission, 2013b). In section 7.1.3, lower management remuneration in the charity sector was stated by respondents as a possible reason for fraudulent action. As remuneration in charities is lower than in the for-profit sector (De Cooman et al., 2011) and there are no similar tools to stock options, it is understandable that remuneration policy was not mentioned as a remedy.

Although effective oversight by the board of trustees was stated as a preventive measure by the majority of respondents, the composition and structure of the board of trustees and the structure and existence of audit or other committees was not discussed in detail. As discussed in 7.2.1, trustees were not found to be really interested in the day-to-day activities of the charities and this was argued to cause insufficiency in fulfilling their oversight responsibility. A few respondents suggested that an involved board with existence of committees is more a for-profit characteristic, one of the

most important reasons being that most small and even medium-sized charities do not have committees, mainly due to lack of personnel.

Overall, although classical fraud remedies were identified by the respondents, they were also criticised for their economic burden and inefficiency. Respondents wanted a fraud solution which is more inclusive and which can meet the needs of both small and large charities.

8.1.2 Legislation

Legislative measures and their sufficiency to deter or prevent fraud were also assessed. Most of the regulator-watchdog, charity officials and auditors stated that, although not being as strict as in the for-profit sector, legislation is sufficient to cope with fraud. Some donors and beneficiaries, on the other hand, asked for more prosecutions:

> *"Strict laws maybe, like if you're caught-- There's, of course, a law. Let's say if you're caught doing something, even a small thing, let's say you took £5 from the charity for your pocket, you're just fired on the spot or something. That is the law, I think that's what happens."* ***(B3)***

> *"From a legislative point of view, the legislation is quite strong. Obviously, in order to be able to enforce the Fraud Act, it requires a criminal prosecution at the end of the day. You need to involve the police in any investigation that leads to a conviction of the fraud act. There may be a cultural reason why that's slightly different within the charity sector, but in fact, the legislation crosses all sectors, and is sufficient for either all sectors really I suppose."* ***(D1)***

Most of the respondents argued that it is not the Charity Commission's duty to detect and prosecute fraud and that the Charities Act is not primarily aimed at tackling fraud. The fact that the regulator is under-resourced and restricted by limited powers was also stressed by some respondents.

However, respondents added that both the legislation and the guidance from the regulator are much more thorough than in the past. The new powers, which came into effect in 2017, were also mentioned by several respondents as possibly increasing deterrence, but their impact could only be assessed over time:

> ***"****Yes, I think the legal framework, the statutory requirements, the regulatory requirements are quite clear."* ***(C1)***
>
> *"It seems to me that legislation is there, but there's not enough active enforcement of it to make it useful in enough sectors."* ***(B4)***

Some argued that regulation is irrelevant or has only limited capability to deter fraud, and is not sufficient to counteract it in any sector, so that whatever legislation is put in place will not prevent or deter fraud. They argued that it is more to do with interpretation and application of the legislation rather than itself and depends on how the organisation complies with the existing legislation. It was posited that, even with the best policies, wrong interpretation of the regulations and lack of monitoring may create opportunities for fraud to happen:

> *"I can't see how legislation is going to stop fraud, because I think fraudsters are far too clever and they are not going to be interested in what the legislation says. If they're going to commit a fraud, they're not going to really worry about what the legislation is, are they?"* ***(A2)***
>
> *"The Charities Act has nothing in it to deter fraud. The Charities Act only requires an audit, but that doesn't deter fraud."* ***(A1)***

"I think the legislation is largely comparable to what we see in the corporate sector. I don't think the legislation is the weakness. I think the fundamental weakness in a charity context is that in a corporate, there is a profit motive and there is an owner and that might be an owner-manager, it could be a company that is listed with shareholders on a stock exchange. There is that ownership with a vested interest in the financial wealth of that corporate." ***(A5)***

Charities were blamed by some respondents for not applying the legislation fully, as they are believed to be reluctant to invest in governance. Reluctance in the sector to put more effort into tackling fraud or dismissal of the issue was also mentioned by some respondents. Even though reputational damage is stated by the respondents to be serious already, the culture to tackle fraud in the charity sector is found to be still inadequate. The Charity Commission was no exception in terms of criticisms. Some respondents argued that the Commission lacks adequate resources to tackle with fraud:

"But what we don't have, I suppose still in the charity sector, is some kind of regulator who is watching the sector closely and perhaps acting as a greater deterrent to bad behaviours, because it's not as obvious or as powerful as something like the, I don't know, PRA in the financial sector, for example." ***(RW5)***

"*Yes, I think the legal framework, the statutory requirements, the regulatory requirements are quite clear. It's the charities woefully let itself down, is the fact that it doesn't agree to them."* ***(C1)***

The complexity of the legislation was also identified by small charities, donors and beneficiaries who stated that they are not aware fully of what the legislation requires:

"I think the legislation is highly confusing for most people. Most charities are quite small, the larger organisations may set up adequate systems, but most charities are relatively small, they rely a lot on trust, they rely a lot on volunteers and they won't necessarily know what the legislation is." ***(C8)***

Overall, the majority of stakeholders are happy with the legislation but argued that fraud cannot be directly eliminated with legislation and that the effects of prosecution will be limited. Other solutions should therefore be sought to deter and prevent fraud.

8.1.3 Who should stop fraud?

The responsibility to find and tackle fraud was also assessed during the interviews. Responses frequently mentioned management and staff, the trustees, government, and a collaborative approach by everyone. It was found that the people who 'run their own house' are regarded as responsible to stop fraud. The most common response was thus the trustees:

"I wouldn't have said it's the regulator's duty to prevent fraud. I think the onus really is on the board of trustees and senior management team to have the right controls in place to help prevent it." ***(A2)***

"*Trustees. An auditor will always say trustees. I think in terms of responsibility but I think everybody has a part to play, management team, staff, auditors, but ultimately it's really for the trustees to determine what framework they need, what controls they need in order to stop fraud."* ***(A5)***

The trustees are suggested to be vital for the charities, although they are also criticised for not acting promptly against fraud:

"I don't think trustees are as engaged or challenge senior management within a charity in a timely fashion. Some of them don't engage with the charity, they literally just sit on the board and yet it's just a status that a trustee on a charity so they don't engage and they don't respond quickly enough." ***(B1)***

However, it was argued by most of the respondents that every stakeholder has a role to play in oversight and in making sure that certain material frauds are detected:

"I'd say everybody has a responsibility. It's in the interest of everybody to make sure that their charity is resilient to fraud. I'd say everybody has a responsibility but the buck stops with the trustees." ***(RW3)***

"*I think it's everybody's responsibility. The danger is, so many people will say, "Well, you've got an active fraud team, therefore it's an investigating function. Therefore, it's their problem, or its internal audits problem." I just think that everybody, throughout the whole any organisation, that's a pivotal role to play in A) Making sure they are adhere to the policies and controls. B) Making sure they conduct their work properly to apply the controls. But C) are also the eyes and ears for the organisation. Because the fact that fraud can happen at any point in a grant, or procurement cycle, or employment recruitment, whatever."* ***(A3)***

Overall, the respondents suggested that the board of trustees would be the first line of defence against fraud. It is interesting to note that auditors and accountants along with donors and beneficiaries were specifically cited by only a few of the respondents. However, when respondents were asked further questions on this point, it emerged that the answer 'everyone' included charity stakeholders, especially donors and beneficiaries.

8.1.4 Anti-fraud policy and measures

The charity officials were asked to provide information regarding the anti-fraud measures that their charities have. Answers included authenticity checks, risk register, delegated responsibility, segregation of duties and internal and external audit. It was found that the larger the charity in terms of income, the better and more detailed their fraud measures and policies are. One of the charities, which is a top 10 charity in terms of income in England and Wales, has also a separate anti-fraud department. Also, it was found that out 2 of the 9 charities which are small charities with income below £500,000 did not have an anti-fraud policy. Their argument was that fraud policies are too bureaucratic and not necessary in an organisation in which everybody trusts each other and that fraud is not expected to happen:

> *"Nothing's perfect, as sometimes it doesn't work out but that what we do and actually, we generally deal with quite small amounts of money so it's more manageable."* ***(C9)***

Some respondents also argued that, although there is an adequate control framework in place, the real problem is enforcing it. The policy problem arises with its implementation:

> ***"****I would say that the question is, is not, do you have an adequate control framework in place? It's, do we enforce the control framework that we have in place? Because if we don't enforce it it's just words. Too often we don't enforce it. The control is there, but there it is not adherence to it. That's the problem.****" (C1)***

Overall, although classic remedies were mentioned as deterring and preventing fraud (Efendi et al., 2007; Jensen and Meckling, 1976; Trompeter et al., 2012), the respondents also highlighted the limitations of these remedies. While anti-fraud measures depend on the size of the charity, legislation is seen as satisfactory by many stakeholders. Even though the

trustees were mentioned most by the respondents, tackling fraud was seen as a collaborative action. Some did mention the role of other charity stakeholders in oversight of the charities and that stakeholders need to be more involved. Therefore, rather than focusing on more generic answers, further questions tried to elaborate the role of stakeholders in preventing fraud.

8.2 Stakeholder oversight in the charity sector

The findings of this section are about stakeholder oversight over fraud in the charity sector: a) current approaches to oversight and b) encouraging greater stakeholder involvement in oversight.

The role played by stakeholders in terms of fraud was elaborated in Chapter 4. Fraud studies as mainly being quantitative and based on aiming to examine the governance characteristics, the effect of stakeholders was being the subject of a few studies (Trompeter et al., 2014).

Lack of stakeholder oversight is also found to provide opportunities for fraud to take place (Zahra et al., 2005). The power dynamics of the stakeholders as discussed in Chapter 6 may also have both positive and negative effects on fraudulent behaviour as excessive power of a single stakeholder group may facilitate collaborations for fraud to take place (Dellaportas, 2013) and too little power may diminish their oversight influence (Soltani, 2014).

The findings of the section depict the importance of charity stakeholders and their oversight to diminish fraudulent activities in the charity sector. Stakeholders were argued by most of the respondents to be crucial in preventing fraud. However the reality was different. It was found that the stakeholder oversight in the charity sector was limited and did not fulfil expectations. The absence of a definitive owner in the charity sector causes oversight provided by the stakeholders especially the donors and beneficiaries to be fragmentary.

It was also found that although the stakeholders, especially the beneficiaries, have a desire to have more oversight on the charities their capabilities are limited. The findings also show that document analysis or other means of accountability do not interest the small donors and beneficiaries. Most of the respondents posited that that they will provide a better oversight if they feel or if they are 'included' or 'being part' of the charity itself.

8.2.1 Current approaches to oversight

The respondents were asked whether they thought that the charity stakeholders were already providing enough oversight to prevent fraud. The answers revealed that while the charity stakeholders are expected to oversee the charities, in reality the oversight is very limited.

Nearly all respondents argued that stakeholders can play a role to deter or prevent fraud in the charity sector. The stakeholders that can have a direct role were posited as the auditors, the regulators, the staff and the trustees. Auditors are expected to be do professional oversight for obvious reasons. The regulator was praised for its work in putting fraud on the agenda for charities, as the last couple of years have seen fraud much to the fore. However, the effectiveness of the regulator and auditors in oversight is said to be restricted due to their limited time and involvement is the process. The answers regarding the oversight made by the donors and beneficiaries was mixed. While some respondents argued that they can provide oversight some posited that it will be hard for them:

> *" If given the opportunity, why not?"* ***(B5)***
>
> ***"****Yes, all of those, they're I think the trustees, the chairman, the regulators, the charity commission, and the auditors. I think they are the three big [ones] . . . [it's] hard for the recipients, and donors it doesn't work for us really."****(D7)***

> ***"****I think it's harder for beneficiaries, because they're people receiving whatever it is, how can they provide oversight other than just through general, public perception of the damage to reputation by having a fraud. If society at large views fraud as being potentially damaging to an organisation, then I suppose one could say that provides an element of oversight.****" (A2)***

The donors and beneficiaries were asked how often and which documents they analyse. The documents assessed, if any, were financial accounts, annual review, and the governance documents. It was found that stakeholders were reluctant to assess charity documents. As in Connolly and Hyndman (2013a), small donors and especially beneficiaries were not found to have a significant aspiration to use formal communications which were generated by charities, such as financial reports and annual reports. In some cases, small donors and beneficiaries were even not aware of the names of these documents and what they are used for. While most beneficiaries are not interested to find out where the benefit comes from, small and medium sized donors are also not keen to 'look after' their donations (Andreoni, 1990). As suggested by Connolly and Hyndman (2013a), especially smaller individual donors may be less interested in audited financial information and rather trust the examination reports and not oversee the charities themselves.

Some of the respondents who said they assess the documents posited that they will try to examine what the charity used the money for rather than how much their fundraising costs. This finding was in line with the recent trend of 'output disclosure' which was also discussed in Chapter 7. Out of the 18 respondents, of which nine were donors and the other nine were beneficiaries, only two beneficiaries and five donors stated that they assess charity documents of any type. While larger donors were more interested in charity documents, the two beneficiaries who state that they are interested were also part of a charity:

"No, I don't. The organisations I give to, I trust." ***(D6)***

*"I don't look at the documents."****(B8)***

"No. the charities they don't show the financial reports. ***(B2)***

"Oh yes. Categorically yes." ***(D2)***

It is also argued by charity officials that it is not common for the issue of operational activity to be questioned by the public or donors and by beneficiaries in particular. Some respondents stated that it would be wrong to generalise that all donors and beneficiaries are uninterested in charity oversight as some might have different motives, but respondents agreed that oversight provided by the donors and beneficiaries is limited, which may exacerbate the opportunistic behaviour as suggested by (Hyndman and McDonnell, 2009, p.24). It was also posited by some respondents that even though fraud awareness in the charity sector is greater compared to a decade ago, they also expect stakeholder interest and oversight to be on the rise.

As also discussed in Chapter 6, most respondents suggested that lack of power, compared to the trustees, staff and the regulator, was found to be the main reason for beneficiaries having restricted oversight of charities (Cordery and Baskerville, 2011). Most beneficiaries posited that they are inevitably unable to critique charities because of the power relationship that comes with donation versus being a recipient, and they were perceived by other respondents as having limited power and influence (Cordery and Baskerville, 2005; Connolly and Hyndman, 2017). Beneficiaries stated that they do not think that they will have the same amount of control as other stakeholders over fraud as they do not want to 'bite the hand that feeds you' as the charities can cut off funding without proper reasons. Beneficiaries were found to rely on other stakeholders' oversight on the charities:

"... a lot of our beneficiaries are down and outs. We are not giving grants to build companies, these are people who are in debt to our help, so in a way they are not going to be in a situation where they are able to start. We are genuinely helping people so it's not an equal relationship." ***(C2)***

*"I don't think. Personally, I wouldn't, because I'm getting things for free. Let's say I just go and complain that you're not doing this, they can easily take me out of that place if they want to."****(B3)***

Although beneficiaries were argued by some respondents to be more concerned because in the end every pound diverted to a fraudster cannot be spent on them, they were found not to be in a good position to exercise oversight. Therefore, irrespective of the level of their income or deprivation, beneficiaries do not question the sources of the benefit (Cordery and Baskerville, 2005). The beneficiaries also argued that they do not want to be headaches so they resist checking the documents:

*"I wouldn't even really know where to look for information that has been disclosed and it's certainly not advertised. It doesn't say anything. I don't get any communication. It's not like, "Come and take a look at our published finances or whatever or published projects that you've been involved in". I can't see any of that."****(B4)***

*"Why say, no? For example, if I'm in the street, I have bombs being thrown on me. If you come to me and say I'm going to give you some money or some project, I don't care where you get it from, I just want it. If there is no information provided, then I don't know, I'm just a person on the streets. How would I know?"****(B7)***

"If I was using an NHS, Hospice care or a charity as a hospice, as long as I was getting the service or my family would get in the service, I expected during that period of time I wouldn't really care whether

they were a charity or public sector. I wouldn't really care where the money came from and you paying for it, it would be about the service and quality of it that was being provided at a particular time. Stakeholders, commissioners, donors, I would expect them to be looking at the services and ensuring that they will provide adequate services for the money that they will receiving." ***(B1)***

Donors were seen to be ahead of beneficiaries in overseeing the charities, and this was especially true for larger donors and funders who have a mainly contractual relationship with charities. Larger donors are posited to be much more calculating or strategic about the giving, and may take a closer look to the charity, and make sure that it is financially sound. Smaller donors were posited by the respondents to care less and to be very hands off, and maybe not look for any kind of reporting or information to support the decision of donating. Therefore, especially small donors were not found to be attentive, as they believe that fraud does not seem to be prevalent and they assume that somebody must be doing something right:

*"A lot of our older donors will simply write a letter, send some money and they'll likely put cash in the envelope and then they'll say please don't send me any receipts, don't waste your money on postage."****(C3)***

"*The main people- because obviously, donors tend not to provide very much in oversight. It's very often the case that once they've made their donation, as far as they are concerned job done. The beneficiaries also probably don't provide very much in the way of [oversight] because once they've received their monies, the charities paid them, they go away and they deliver what they received the money to deliver."****(C6)***

*"I donate because I want to donate. Say I have an amount of money that I'm prepared to donate every year and trust tells me where the money should go that I would give that money anyway as it were because anyway this amount so I would-- Yes, trusted knowledge of the people I trust."**(D5)***

"**Again, I don't know. I don't know because I'm just not aware of that. Again, I guess, that in part comes back to a previous answer to the question, because it doesn't seem to be prevalent, so somebody must be doing something right, certainly in the charities that I donate to, because it doesn't appear to be, at least at my level a massive issue, but again, that might be largely through ignorance of what is happening. No. I'm not aware." **(D8)

However even larger donors argued that they have confidence that charities are going to spend the money wisely and that they already have enough information regarding the charity, which is why they donate:

*"There's a question about, it's a good question. Do we have enough oversight over hundreds of local charities? No. Do I think we should stop giving them money? No. If they have a fraud rate of 10% ,than the 90% is not being defrauded. Probably it's acceptable failure rate." **(D3)***

*"To account for every single penny, is simply not feasible from the organisation point of view, so we can't do that. We have the proportionate system to ensure that where we believe our biggest risk exposures are, that we have proportionate controls to ensure that that money is being spent appropriately and not exposed to fraud risks." **(D1)***

Some respondents also differentiated between grant receiving and fundraising charities and argued that grant receiving charities are better scrutinised because of the regular and more detailed oversight provided by the grant providers. However, the oversight is also posited to be limited regarding the amount of the grant:

> *"I think for grant-receiving charities, generally, they are much more aware of their role in doing that. Obviously, if they are granting £5,000 pounds, it's different to granting £500,000 pounds and they've got to be proportionate. I think the direction of travel is definitely forward, as far as funders are concerned, but I think inevitably there will always be a significant proportion of charities whose stakeholder groups just will never be able to play the role of a scrutiniser."* ***(A4)***

Some respondents also posited that the stakeholders in the charity sector are very remote and therefore may have little effect even if they want to. The lack of shareholders in the not-for-profit sector was also identified as an absence of natural checks and balances and therefore oversight (Manne, 1999). Beneficiaries and donors together are argued to replace shareholders, but they are not identical and as a result this 'dual replacement' exacerbates the oversight issue.

Overall, although it has been argued that charity stakeholders are more likely to be concerned about the use of resources of a charity because any fraud would reduce the ability of the charity to act for that public benefit, their capability to oversee a charity is found to be limited.

8.2.2 Encouraging greater stakeholder involvement in oversight

Interviewees were asked what would make them more interested in actively overseeing a charity. Some of the respondents said that they would be more interested if the documents were readable or more accessible or digestible to understand. Other answers included being a large donor or about to make a

large donation, and if they are aware of any warning or if the service provided by the charity is withdrawn suddenly, then they will be much more interested. They stated that, if an organisation proved to have a lot of fraud going on, they would certainly want to ask questions:

> ***"****As a donor, let's say I'm much more involved in the management. I'm interested in helping people who run the charities, the supervisory board side, maybe because of that I am less interested in charities in which I haven't got a piece of a major commitment so I would rather let them get on with them. I honestly don't know. Probably time, if I had more time, maybe. If I had a worry about the charity that I had given the money to or was thinking of giving money to, then I probably would be looking closely, but I have never got involved with any that I got worried about."****(D5)***

However, most respondents said that they do not want to assess documents as they are not a 'part' of the process. It was found that donors and beneficiaries will be more interested in overseeing a charity if it can be a daily routine in their lives then they can prioritise overseeing charities. They posited that if the stakeholders are given a role in the process or are a part of the procedures then they can allocate enough time or resources to oversee:

> ***"****If I'm a trustee of the charity. Obviously, they're much more engaged."****(D7)***

> ***"****I think if it could be arranged, then I think it could be a very good thing. Back to this point about how do you detect fraud and what kind of information, because I think in those sorts of conversations with beneficiaries or auditors or executives or trustees, the more the stakeholders are talking together, the less likely it is that something could be hidden."****(RW5)***

Overall, the findings suggest that beneficiaries and donors should be empowered to take part in charity oversight (Valeau et al., 2019). However, the stakeholders requested more time and responsibility and to be incorporated into the charity itself in order to oversee the charity effectively.

Figure 8.2 depicts stakeholder oversight as one of the measures to prevent fraud:

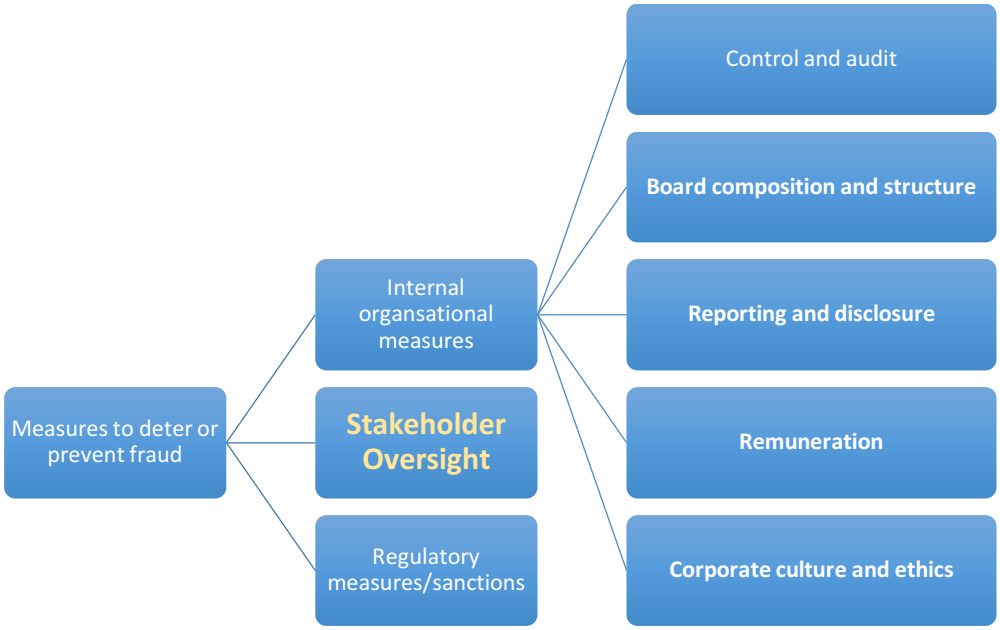


Figure 8.2 Measures to deter or prevent fraud - 2

Conclusion

This chapter analysed remedies for fraud in the sector, in particular discussing how stakeholders could exercise greater oversight.

The measures that respondents suggested for preventing and deterring fraud were remedies that were well established in the for-profit sector, but respondents often criticised these measures as being costly and not fit for all.

Most respondents were happy with the requirements of existing legislation for deterring and preventing fraud, and they did not regard some form of augmented audit as a solution to fraud in the charity sector. Some respondents thought that fraud could be addressed by means of a collaborative oversight process that would include all stakeholder groups. Also, taking into account that most charities in the UK are small, a cost efficient remedy suitable to small charities was considered to be needed. Some donors argue that contributing to charities provides a form of 'safe harbour', because they do not want to donate to the beneficiaries directly. They want the use of their donations to be under supervision. Because donors expect there to be an intermediary between beneficiaries and themselves, eliminating charities to stop fraud is not a possible solution.

Stakeholder oversight is found to be limited in every sense. Donors and beneficiaries, the two most crucial stakeholder groups, seem uninterested in overseeing charities, particularly where this involves reading documents (Hyndman and McDonnell, 2009). Although being criticised because of limited attention (Barnett, 2014), it was also found that the majority of respondents support enhanced stakeholder oversight as they believe that it will contribute to tackling fraud in the charity sector.

Evaluated in accordance with the findings of Chapter 7, both the reasons for and the solutions to the fraud problem are unique for the charity and the not-for-profit sector in general. Therefore, it is clear that new ways of encouraging stakeholder oversight need to be formulated. A more detailed assessment of the two chapters will be realised in Chapter 10, Discussion and Conclusion.

The findings of this chapter also contribute to Chapter 9, the quantitative analysis of fraud charities. The findings made it possible to concentrate on some characteristics specific to the charity sector. As a result, variables such as GRANT, RESTRICTED and COMMITTEE, which will be discussed in detail in section 9.3, were identified as likely to be relevant.

9. QUANTITATIVE ANALYSIS OF FRAUD IN THE CHARITY SECTOR

The second part of the research, the quantitative phase, is the subject of this chapter. The chapter evaluates the test variables derived from the content analysis of 42 fraud and 42 no-fraud charities' annual reports and financial statements. The chapter presents the findings of whether or not these variables are significantly related to the likelihood of fraud and financial misconduct in the charity sector. The chapter is based on research objective 2, which aims to assess the governance characteristics associated with fraud in charities. In relation to the research objective, the chapter tries to answer the research questions: question 2a examines if there is a significant difference between charities with fraud and those without, regarding governance structure, and question 2b explores the governance characteristics which are related to fraud.

Chapter 2 discussed accountability and governance mechanisms of disclosure and reporting; monitoring and audit; board attributes; and other aspects. Likewise, Chapter 4 examined structured governance aspects to deter or prevent fraud such as controls and audit, corporate culture, remuneration, and board composition. Following the literature and utilising the data derived from the content analysis, test variables and control variables were constituted and used in a logistic regression analysis.

The chapter first explains sample selection by discussing identification of both fraud and no-fraud charities. It then focuses on content analysis of the documents and selection of test variables and control variables. The chapter assesses the significance of the variables and discusses the logistic regression model. The chapter ends with a brief conclusion. Figure 9.1 depicts the outline of Chapter 9:

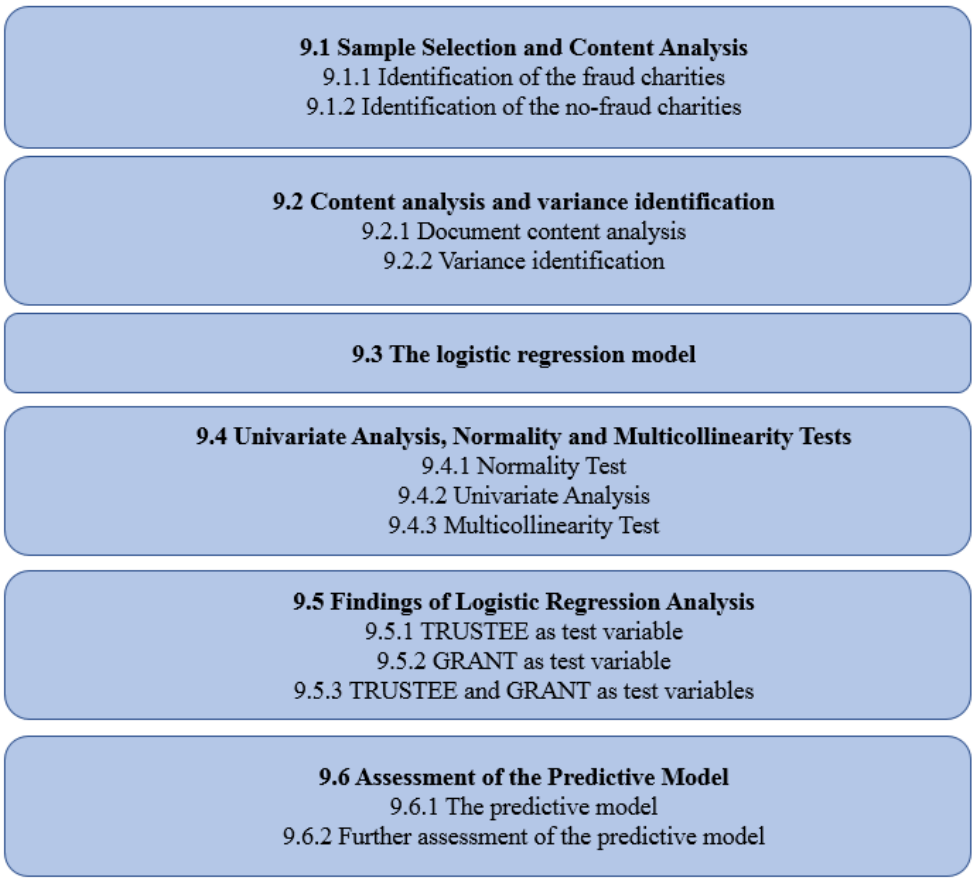


Figure 9.1 Structure of Chapter 9

9.1 Sample Selection and Content Analysis

This first section discusses the methods used in identifying fraud charities and the criteria used for matching fraud charities with no-fraud charities.

9.1.1 Identification of the fraud charities

Fraudulent charities were identified by utilising the Charity Commission's operational case reports and statutory inquiries database. The 'inquiry' reports derive from the Commission's power, under Section 46 of the Charities Act 2011, to gather information on suspected charity events and cases. The 'case' reports are not the outcome of an inquiry under Section 46, but they identify other matters for which the Commission believes there is a significant public interest in the case and its outcome.

As discussed in Chapter 4, this study considers 'fraud' as described in The Fraud Act (2006) and in order to comprise all financial purposeful wrongdoings, the study also includes 'financial misconduct' as a criterion in determining fraud charities. As only a few of the operational case reports and statutory inquiries identified events as 'fraud' or 'financial misconduct' the designation of fraud charities was done by the researcher by self-identification and eliminating reports and inquires not related to fraud or financial misconduct.

The Charity Commission case reports and inquiries are suitable sources in fraud identification for several reasons. First of all, the Charity Commission is the authority responsible for regulating the charities and instituting inquiries if necessary. Documents prepared by the Commission are official paperwork and therefore credible. Secondly, accurate fraud information could only be found through using the information derived from the Commission as other sources are limited. For example, newspaper reports, which were used by Fremont-Smith and Kosaras (2003), could be inaccurate. The aim of the study is not to reveal or investigate suspicious fraudulent events, so the use of cases and inquiries that have been previously examined validates the data used. Thirdly, the reports provide enough information on what can be accepted as fraud/financial misconduct. The Charity Commission's inquiries and reports give basic and easily readable information, which aids understandability: this is an important element in deriving data. As the aim of content analysis is to make objective inferences, reliable and official documents are favoured in information extraction (Loughran and McDonald, 2016). Overall, the Charity Commission's report and inquiry database was the sole option to assess pre-analysed fraudulent charity events and therefore allow these to be selected for further content analysis.

The case reports and inquiries both have similar sections. The documents briefly give information about the charity and outline the problem and explain why the Commission got involved. The documents also provide information

on what action the Commission took in response to the problem. The findings of the investigation and the Commission's proposed actions are also explained. Although, for both the inquiries and reports, the Commission's database starts from the year 2005, the documents are accessible online only from 2008. Therefore, the study assessed the documents for an 11-year timespan. A total of 268 inquiry reports and 131 case reports were examined to determine the documents which dealt with fraud and/or financial misconduct in the charity sector. Table 9.1 shows the quantity of documents by year.

Table 9.1 Number of inquiry and case reports by year

Year	Inquiries	Case Reports
2008	39	4
2009	14	3
2010	15	12
2011	8	7
2012	6	3
2013	8	8
2014	43	28
2015	28	26
2016	60	16
2017	35	16
2018	12	8
Total	268	131

Notes: The fluctuations in the number of inquiry and case reports among the years is not believed to be explained by wrongdoings of any type happening more frequently but rather the Commission's choice to publish different number of inquiries and reports per each year.

Out of the 399 reports examined, 113 were identified as having fraud and/or financial misconduct as the reason for the case report or inquiry. Some other reasons subject to investigation were late document submission, breach of trust deed, mismanagement of charity funds and acting against the charitable purpose. The most common reasons for fraud and/or financial misconduct

were classified by the reports as: personal or private benefit, benefit of another organisation, deliberate use of charity funds for non-charitable purposes, using charity as an ostensible tool for benefiting for-profit organisations, excessive remuneration, theft.

After identification of the fraud charities, hand collection of their financial documents was carried out for use in content analysis. Although 113 inquiries or reports were identified to be in relation to fraud and/or financial misconduct, only 42 of the charities could be included in the sample due to lack of access to annual reports of the others. Most of those others had been closed or removed from the charity register after the investigation by the Commission. The inquiry and case reports are generally made publicly available after a couple of years of the investigation. As the charities are removed from the charity register so is their financial and administrative information. If the charities removed from the Commission's database are only trusts or otherwise not registered with the Companies House, then it was not been possible to observe their reports. Although financial and administrative documents of removed charities were requested from the Commission, it was not possible to obtain the documents as the Commission stated that only publicly available information would be provided. Some other fraud charities had missing or no documents and therefore were also eliminated from observation. Consequently, the financial statements of observable fraud charities were derived from either the Commission (if they were not removed from the registry) or mainly from Companies House (if they are removed from the charities register but were registered with Companies House). As a result, an overwhelming number of the fraud charities used in the analysis were classified as companies and had financial information available on the Companies House database.

The 'fraud year' was defined as the financial year in which the fraud and/or financial misconduct occurred. In all cases, the financial year was before the period in which fraud/financial misconduct was publicised or under

investigation by the Commission in order to sustain independence of the variables to test hypothesis and make sure that the fraud charities are immune to the effects of the inquiry and reports on governance determinants of the fraud charities. If fraud/ financial misconduct was occurring for several years, the year preceding the fraud investigation commenced by the Commission was identified as the fraud year. The matching of fraud charities with no-fraud charities began after ensuring that all the relevant information on annual reports and financial statements were available.

There are different approaches in the literature for logistic regression that discuss the sample size, especially for events for each variable. Peduzzi et al. (1996) assessed the number of events required in order to obtain satisfactory regression models and estimates. They argue that 10 events per variable are required for efficient and problem-free regression results. Vittinghoff and McCulloch (2007) also analysed with several techniques to determine the number of events needed for each variable. They found that 5-9 events for each variable are adequate to perform satisfactory regression analysis if the results are statistically significant. They also stated that at least 10 events per variable is too conservative and that they encountered problems if the regression analysis had 30 or fewer events. They also stated that, percentages of problems with the regression model is not different for either 5-9 or 10-16 events per variance. Hosmer Jr et al. (2013) also suggests that the examination of Vittinghoff and McCulloch (2007) was more extensive and thorough compared to the work of Peduzzi et al. (1996).

As this study has 42 fraud events and 84 fraud and no-fraud observations, according to Peduzzi et al. (1996) the number of variables should be limited to 4. However, in accordance with the more recent literature (Hosmer Jr et al., 2013; Vittinghoff and McCulloch, 2007) the study may use up to eight variables.

9.1.2 Identification of the no-fraud charities

In order to compose a comparison group, 42 no-fraud charities were identified. The one-to-one matching technique is used to assess the different governance characteristics of fraud and no-fraud charities. Matching was previously utilised in fraud studies (Beasley, 1996; Roden et al., 2016; Skousen et al., 2009) due to ease of the process if there is adequate information. To enable the best matching of no-fraud charities which are similar to fraud charities, matching tools are used: registration date, where the charity operates, what the charity does, who the charity helps, how the charity operates and income. The matching process was conducted by utilising the Commission's 'find charities' search engine (Search, 2019) with particular use of the 'advanced search' section of the search engine. The 'advanced search' section enabled the matching of fraud charities with no-fraud charities by use of the following charity specifications:

1. ***Registration date:*** The date on which the charity was accepted as registered by the Charity Commission. Registration needs the income of the charity to be at least £5,000 per year or for the charity to be a charitable incorporated organisation (CIO), and the charity must be based in England or Wales (Commision, 2019). For matching purposes, the charities registered in the same year as the fraud charity were searched along with other criteria. The registration date criterion allows one to identify charities with the same lifespan and existence of relevant financial and administrative information. As other matching requirements were less flexible and were not appropriate to be changed, the registration date was altered the most in order to identify the no-fraud charity that most resembles the fraud charity. In case the matching tool provided a list of more than 10 matching charities, registration date was limited to the nearest month in which the fraud charity was registered. If no no-fraud charities were found in that particular registration year, the previous or subsequent year

was examined using again the same search engine. In all cases, the charities were matched within a range of three consecutive years.

2. **Where the charity operates:** The fraud charities were assessed to find if they were operating only inside the UK, only outside the UK or both. In all matchings, fraud charities were matched with a no-fraud charity which was operating in or near the same operating area. If the same foreign country or operating region in the UK was not found, then the fraud charity was matched with a no-fraud charity with the closest region or country where the fraud charity operates. Out of 42 fraud charities, four were operating outside of England and Wales, 33 were operating inside England and Wales and five of the charities were operating both outside and inside of the UK. 'Throughout England and Wales' was the option in which the charities operated with the highest number.
3. **What the charity does:** This matching tool classifies the charitable purposes of the charities. The Commission identified 17 charitable purposes, to which they allocated numbers ranging from 101 to 117. The purposes included general charitable purposes, animals, religious activities, other charitable purposes. The purpose or purposes of the fraud charity was identified in the 'charity framework' section of the Commission's charity database. In case of classification of multiple purposes, the purpose closest to the trustees' description in their own words of what they do is identified and selected. Out of the 42 fraud charities, ten belonged to 'the advancement of health or saving of lives' field followed by seven 'religious activities'. 13 out of the 17 charitable purposes identified by the Commission were present in the sample group.
4. **Who the charity helps:** The Commission identified seven charitable beneficiary groups, which were given code numbers from 201 to 207. These included children/young people, people with disabilities, and the general public/mankind. In case of classification of multiple beneficiaries, the beneficiary closest to the trustees' description in

their own words was assessed. The top beneficiary groups of the fraud charities were 'the general public/mankind' (with 16 appearances) and 'children / young people' (10). The sample for the beneficiary groups was composed of all the identified groups by the Commission.

5. **How the charity operates:** The Commission identified ten charitable tools of how the charity operates, designated by numbers 301 to 310. The tools include 'makes grants to individuals', 'provides human resources', and 'provides services'. In case of classification of multiple tools, the tool closest to the trustees' description in their own words of how the charity helps is assessed. The top tools used for providing benefit to the beneficiaries were 'provides services' with 22 charities, followed by four charities identified as 'makes grants to organisations'. The reason 'provides services' was the top tool for more than half of the charities is believed to be that it provides a more generic and broad coverage of the facilities undertaken by the charities. The sample for the beneficiary groups was composed of all the identified groups except 'Other charitable activities'.
6. **Income:** The Commission identified ten income brackets (includes donations, grants any other types of income), ranging from £0-1 (this includes charities that do not have any current income) to over £10 million. The income of fraud charities was identified depending on the 'fraud year'. Except for three cases, the income of the no-fraud charity was in the same income range as the fraud charity to which it was matched. The three exceptions arose when there were insufficient charities to choose from in the same income range, and in these cases the income was in the previous or subsequent income range.

Tables 9.2 and 9.3 show that, in terms of geography and income, the fraud and matched no-fraud charities are quite similar.

Table 9.2 Matching of fraud and no-fraud charities in terms of purpose, beneficiary group, operation method used and where the charity operates

Matching tool	Fraud charities	No-fraud charities
Charitable Purpose	Number of charities	Number of charities
103- The advancement of health or saving of lives	10	10
108- Religious activities	7	7
102-Education / training	4	4
104- Disability	4	4
105-The prevention or relief of poverty	4	4
101- General charitable purposes	3	3
106- Overseas aid / famine relief	2	2
107- Accommodation/ housing	2	2
111- Animals	2	2
109- Arts/culture/heritage /science	1	1
110- Amateur sport	1	1
113- Economic / community development / employment	1	1
115- Human rights / religious or racial harmony / equality or diversity	1	1
Total	**42**	**42**
Who the Charity Helps		
207- The general public/mankind	16	16
201- Children / young people	10	10
203- People with disabilities	5	5
204- People of a particular ethnic or racial origin	4	4
202- Elderly/old people	3	3
206- Other defined groups	3	3
205- Other charities or voluntary bodies	1	1
Total	**42**	**42**

How the Charity Operates		
306- Provides services	22	22
302- Makes grants to organisations	4	4
307- Provides advocacy/advice/ information	4	4
301- Makes grants to individuals	3	3
303- Provides other finance	2	2
304- Provides human resources	2	2
305- Provides buildings/facilities/open space	2	2
309- Acts as an umbrella or resource body	2	2
308- Sponsors or undertakes research	1	1
Total	**42**	**42**
Where the charity operates		
Inside the UK	33	33
Outside of the UK	4	3
Both outside and inside of the UK	5	6
Total	**42**	**42**
Fraud Year: 2002 **1** 2003 **2** 2004 **1** 2006 **3** 2007 **1** 2008 **4** 2009 **2** 2010 **3** 2011 **3** 2012 **4** 2013 **9** 2014 **8** 2016 **1**		

Notes: The number of fraudulent events being higher after the year 2012 is not believed to be explained by fraudulent events happened more frequently but rather the increase in number of inquiries and reports published by the Commission. As the Commission generally publishes the documents a few years after the investigation began, there seems to be a positive correlation between more published documents and fraudulent events.

Table 9.3 Matching of fraud and no-fraud charities in terms of Income

	Fraud Charities	**No-Fraud Charities**
	Total Income	**Total Income**
	Mean	**Mean**
	Median	**Median**
	Standard Deviation	**Standard Deviation**
Income Range	£126,056,897.50	£113,076,218.00
	£3,001,354.70	£2,692,290.90
	£350,430.00	£337,279.50
	£7,525,616.00	£6,732,786.66
£0 - £1	-	-
£2 - £1000	-	-
£1,001 - £5,000	1	-
£5,001 - £10,000	-	1
£10,001 - £25,000	2	2
£25,001 - £100,000	8	9
£100,001 - £500,000	12	12
£500,001 - £1,000,000	7	6
£1,000,001 - £10,000,000	9	9
10 - £10,000,001 and over	3	3
Total	42	42

Notes: The difference of £13 million of the total income between fraud and no-fraud charities derives mainly from two charities whose income was well above the £10 million range. Despite efforts to match with a no fraud charity with closer income, the difference of income between matched fraud and no-fraud charities were about £11 million.

The matching of the fraud with no-fraud charities in terms of income is first performed for the most up to date financial document, as the Commission database covers only the last 5 years. The annual report and financial statements of the no-fraud charity for the fraud year is assessed consequently.

For the three fraud and no-fraud charities whose income were below £25,000, any type of accountant or independent examination was also accepted to be a form of voluntary disclosure of information and therefore a signal to the stakeholders that their accounts have been scrutinised by a third party. Therefore they were also included in the analysis.

9.2 Content analysis and variance identification

This section first provides information on how the content analysis of disclosed information (annual reports and financial statements) is conducted for both the fraud and no-fraud charities. The section then explains the identification of variances that are used in the univariate and logistic regression analysis.

9.2.1 Document content analysis

After the identification of fraud charities and the matching of fraud charities with no-fraud charities, content analysis of the annual reports and financial statements and any other administrative documents began. As documentation and deriving data from these documents play a crucial role in quantitative methods, the best pathway to identify and utilise the information has been chosen in this study. As a result, content analysis is utilised as it enables a researcher to systematically identify specific characteristics of messages (Stemler, 2001) and simplifies use of replicable inferences from texts (Drisko and Maschi, 2015). The annual reports and financial statements were assessed to identify both variables to test hypotheses and control variables and to gather data. As documents are frequently used as a source of analysis for quantitative research, the financial statements provided enough information for the analysis. Ensuring that document quality and authenticity, credibility and representativeness (Scott, 1990) was achieved by using documents officially submitted to the Charity Commission. The categorisation of the derived information needed little, and for some variables no, interpretation (Drisko and Maschi, 2015) which made the content analysis straightforward.

Previous literature has shown that annual reviews and more narrative information provides information that is especially useful and understandable

to donors and other stakeholders (Connolly and Dhanani, 2006; Connolly and Hyndman, 2013b). However, because the fraud sample is composed mainly of middle or small sized charities, nearly all of them lacked separate annual reviews and extensive narrative parts in the annual reports. Therefore, the main focus point of the study became the annual report and the financial statements. The annual report and financial statements have been shown to be useful sources of information, as they are official sources of accounting disclosure mechanisms. Also because annual report and financial statements are standardised and produced regularly, they enable comparative analysis to be conducted effectively (Guthrie et al., 2004).

The annual reports and financial statements varied among charities especially in page number and the topics covered. Whereas charities which have income below £250,000 had only a basic income statement and balance sheet without any further explanations of activities, charities which had greater income generally made reports of over 10 pages and had sections such as activities during the year. 77 out of 84 charity financial statement reports had a separate 'independent auditor report' or 'examiner's report' or 'accountant's report'. Seven charities lacked an auditor's report and some, mainly fraud charities, had a qualified opinion or the auditor abstained from commenting due to lack of information and documents.

9.2.2 Variance identification

To determine and identify possible variables to test hypothesis and control variables, the literature on for-profit sector fraud studies was examined as the work for the not-for-profit sector is very limited. It was found that the sectors differ in a variety of aspects and therefore variables suitable for the for-profit sector are not suitable or simply do not exist for the not-for-profit or charity sector. New variables came to light through the use of content analysis.

Most variables which are found in the literature could not be used for three main reasons. First, some variables were only suitable in the for-profit sector,

such as: proportion of independent outside members of the board and committees, Big 4 auditor's percentage in performing audit, existence of internal audit function, growth rate of assets, existence of IPO, stock trading, percentage of ownership in the firm held by insiders, percentage of outstanding common stock shares, block holders shares, and shares held by management.. Secondly, frequently used variables such as geography, size, age, organisational category, income were deliberately not used in the regression analysis as they were utilised during the matching process.

Thirdly, some variables which were believed to be useful in the analysis and were thought to be able to be derived from the content analysis were unobtainable due to limited information available in the annual report and financial statements and other possible documents. These variables included existence of parent organisation, resignation of auditor, board member expertise, expertise of Chief Financial Officer (or Chief Accounting Officer or Controller). Also, the diversity of the board of trustees and tenure of the CEO cannot be detected from the documents. Other variables such as disbursement of grant which was used by McDonnell and Rutherford (2018) were not observed enough to be utilised. Stakeholders participating on the boards were also found to improve and benefit monitoring (Callen et al., 2003; Nikolova, 2014; Wellens and Jegers, 2011) but they were not assessed in the quantitative section due to the absence of appropriate information. Another important variable, expense and subtypes of expense was planned to be assessed as fluctuating administrative costs might signal a problem (Bergstresser and Philippon, 2006; Burns and Kedia, 2006). Unfortunately, administrative costs and other expenses were not able to be used due to limited data to interpret expenses correctly. For example, charitable expense or governance expenses could not be directly derived from the content analysis, because many charities do not disaggregate these expenses, merely reporting a total expenses figure.

The findings of the qualitative research, explained in Chapters 7 and 8, were also utilised in identifying the possible variables. As previously discussed in Chapter 5, mixed methods provided the opportunity to examine and identify variables in this insufficiently analysed topic. Without the findings of the qualitative research, determining the variables would have been more limited in scope and would lack a practical foundation. The findings in Chapters 7 and 8 enabled a complementary link between both methods and guided the way of identifying variables.

The most important finding of the qualitative research was to acknowledge the importance of charity stakeholders. Therefore, when identifying the variables, stakeholder involvement or oversight was also taken into account. The findings made it necessary to focus on the board of trustees and much as on the donors and beneficiaries.

As lack of an effective control and oversight was found to be the main cause of fraud in Chapter 7, the study especially focused on variables which may have direct impact on the control environment. Other important fraud reasons such as lack of segregation of duties and lack of effective anti-fraud policies and organisational culture were also taken into account when identifying the variables. The identification of the variables also are in line with the findings regarding Cressey's (1953) fraud triangle (Roden et al., 2016). While an attempt was made to derive variables from all components of the triangle, opportunity and therefore control environment were put in the first place.

As a result, the study originally planned to use variables for POLICY and DUALITY. The control variable POLICY, which aimed to assess the effects of culture and ethics, was intended to be measured by examining if the charities have existing fraud and/or risk policies or not. Although a handful of charities recorded some kind of risk and/or fraud policy in their annual reports, the number was too limited to be meaningful and the context of 'policy' was varied, as some charities had a separate heading and paragraphs explaining the policy whereas others mentioned that they had a policy but

used only one sentence for this. Therefore the variable POLICY was not used in the analysis. The variable DUALITY, which aimed to assess trustees also holding a managerial position, was discarded from use because duality of trustees and management could not be assessed appropriately, as smaller charities do not have existing managerial staff but rather the trustees act as managers, without receiving any benefits, consistent with charity law requirements. As DUALITY could not be used, REMUNERATION was instead used as a control variable to differentiate among charity trustees who receive remuneration and/or other gains to assess if the trustees were receiving any kind of benefit for their services or not.

The variables were kept as faithful as possible to their original values. Continuous variables were kept as continuous because dichotomising these variables is argued to cause loss of statistical power and result in false positive outcomes (Altman and Royston, 2006). MacCallum et al. (2002) and Royston et al. (2006) also suggest that data set should be left continuous and only dichotomised if continuous data cannot be reliably accrued.

Overall, because the previous literature did not provide a sufficient basis for identification and possible outcomes of the variables, this study contributes by testing some variables in a new context for the first time, while also introducing some completely new variables.

9.3 The logistic regression model

As discussed in Chapter 5, logistic regression analysis is used in analysing the data. Logistic regression analysis is used as it is the most common data analysis technique for fraud studies (Ngai et al., 2011). Logistic regression analysis, being easily formulated, enables fast track and efficient data analysis.

The following logistic regression model, which a more detailed analysis of the model was conducted in Chapter 5 is presented below:

$$FRAUD_i = \alpha + \beta_1 \text{TRUSTEE}_i + \beta_2 \text{GRANT}_i + \beta_3 \text{RESTRICTED}_i + \beta_4 \text{ASSURANCE}_i + \beta_5 \text{COMMITTEE}_i + \beta_6 \text{REMUNERATION}_i + \beta_7 \text{SURNAME}_i + \beta_8 \text{LOSS}_i$$

9.4 Univariate Analysis, Normality and Multicollinearity Tests

The identified variables are assessed by using univariate analysis and normality and multicollinearity tests in this section.

9.4.1 Normality test

The study also assessed the normality of the possible variables in order to determine which goodness of fit tests will be utilised for the models. None of the variables were normally distributed as being found in Appendix A, which was tested by using Skewness and Kurtosis Z-values and Shapiro-Wilk test p-value (Razali and Wah, 2011).The histograms and Q-Q plots for both fraud and no-fraud charities were also visually assessed (Appendix B[22]) which shows that the variables are not normally distributed. Therefore during the analysis of the logistic regression models, Chi-Square and Hosmer-Lemeshow goodness of fit will be used (Harrell Jr, 2015; Hosmer Jr et al., 2013).

9.4.2 Univariate analysis

The research methodology uses both univariate analysis and logistic (logit) regression analysis to examine differences between 42 fraud charities and 42 no-fraud charities. Univariate analysis is first performed in order to initially assess and identify variables, which significantly differ between fraud and no-fraud charities (Hosmer Jr et al., 2008). By utilising univariate analysis, variables which do not differ between the fraud and no-fraud charities are

[22] Only the histograms of continuous variables are presented as histograms for the dummy variables makes little use

disregarded (Roden et al., 2016; Skousen et al., 2009). Therefore, the means variables of the fraud and no-fraud charities are examined. The analysis used Wilcoxon signed rank tests and paired t-tests to assess the significance of difference in mean values of fraud and no-fraud charities. Table 9.4 depicts the findings regarding the univariate analysis:

Table 9.4 Univariate Analysis of fraud and no fraud charities

	Fraud Mean	No Fraud Mean	Wilcoxon Z-Scores	Wilcoxon P-value	t-statistics T-value	t-statistics P-value	
ASSURANCE	0.285	0.071	-2.324	0.020	2.460	0.018	***
LOSS	0.357	0.405	-0.535	0.593	-0.530	0.599	
COMMITTEE	0.071	0.214	-2.121	0.034	-2.218	0.032	**
SURNAME	0.333	0.191	-1.414	0.157	1.432	0.160	
REMUNER-ATION	0.214	0.071	-1.732	0.083	1.776	0.083	*
TRUSTEE	5.333	8.000	-3.494	0.000	-3.694	0.001	***
GRANT	0.110	0.311	-2.600	0.009	-2.896	0.006	***
RESTRICTED	0.159	0.231	-1.496	0.135	-1.160	0.253	

The univariate analysis helped to identify 5 variables (ASSURANCE, COMMITTEE, REMUNERATION, TRUSTEE and GRANT) for which fraud charities differ significantly from no-fraud charities, as mean differences are significant ($p<0.1$). RESTRICTED, a test variable and two

other variables, LOSS and SURNAME, were disregarded for the logistic regression model as univariate analysis showed that fraud charities do not differ significantly from no-fraud charities.

Overall, apart from the RESTRICTED, LOSS and SURNAME variables, pairwise comparison univariate analysis suggests that fraud charities have fewer trustees and who receive remuneration. Fraud charities also are less dependent on grants and are subject to more problematic[23] audit reports when compared to no-fraud charities. Fraud charities have also fewer committees. However because univariate analysis uses more basic examination techniques than logistic regression analysis, it is viewed with more caution. Therefore, logistic regression analysis is performed to test the variables on a multivariate basis. Based on the outcome of the univariate analysis, the variables of TRUSTEE, GRANT, ASSURANCE, REMUNERATION and COMMITTEE and will be used in the logistic regression analysis.

9.4.3 Multicollinearity

The study examined multicollinearity among the variables found significant in the univariate analysis in order to obtain the highest predictive value per variable, as multicollinearity between the variables will not contribute to the predictive value of the logistic regression model (Midi et al., 2010). Table 9.5 depicts the multicollinearity between the variables by using both Kendall's and Spearman's collinearity models. These models are used instead of Pearson's collinearity model as none of the variables are normally distributed (Dormann et al., 2013, p.44). The variables are tested for multicollinearity to assess if there is any high correlations (0.7 or above) between variables (Hair

[23] Qualified examiner reports or reports where examiners abstained to comment

et al., 2010). The results of the Kendall's and Spearman's models for each variable found no multicollinearity among the variables. Therefore, all the variables contribute to the predictive value of the logistic regression model and will be used in further assessment (Hair et al., 2010)..

Table 9.5 Assessment of multicollinearity

	TRUSTEE	GRANT	ASSURANCE	REMUNER-ATION	COMMITTEE
				Kendall	Kendall
	Kendall	Kendall	Kendall		Spearman
				Spearman	
	Spearman	Spearman	Spearman		
TRUSTEE	1.000	.313	-.289	-.060	.332
	1.000	.395	-.339	-.070	.389
GRANT	.313	1.000	-.235	-.103	.050
	.395	1.000	-.257	-.112	.055
ASSURANCE	-.289	-.235	1.000	-.190	-.190
	-.339	-.257	1.000	-.190	-.190
REMUNERATION	-.060	-.103	-.190	1.000	-.167
	-.070	-.112	-.190	1.000	-.167
COMMITTEE	.332	.050	-.190	-.167	1.000
	.389	.055	-.190	-.167	1.000

9.5 Findings of Logistic Regression Analysis

Although the univariate analysis provided important results, logistic regression will test the hypotheses (about TRUSTEE and GRANT), controlled by ASSURANCE, REMUNERATION, COMMITTEE (Beasley, 1996; Skousen et al., 2009).

From here onwards, manually stepwise regression will be utilised, in which first, each of the two test variables will be tested alone. Thereafter, the test variables will be tested together. As a result, the association among the test variables will be assessed (Roden et al., 2016). As the test variables are tested for the first time, stepwise regression is used to examine the relationship among the variables and to understand the dynamics of each variable and to obtain the most inclusive logistic regression model (Bendel and Afifi, 1977). Each model table will include exploratory values of coefficient, standard error for the unstandardized beta (SE), the Wald test (Wald) and the significance of the variables (sig). Also, for each tested model, R^2 (Nagelkerke model), Chi-square, Hosmer-Lemeshow of the model will be examined.

The coefficients used in the model explain the relationship between the dependent and test and control variables (Hosmer Jr et al., 2008). If the coefficient is positive than both the dependent and test and control variables react in the same direction (Harrell Jr, 2015), if the coefficient is negative then the dependent and the test and control variables react in opposite directions (Hair et al., 2010). Significance explains how powerful is the test or control variable in explaining the dependent variables (Xu et al., 2017). If the p value is less than 0.1 then the test or control variables is considered to be significant (Harris and Bromiley, 2007), that is, the null hypothesis that the coefficient is zero may be rejected. The Wald test also tests the significance of each test or control variable. The Wald test suggests that the higher the Wald test score, the more the test or control variable is significant in explaining the dependent variables (Field, 2009), and that a value of "0" should indicate that the variable can be omitted from the model (Angrist and

Pischke, 2008). The unstandardized beta (SE) also is used to test the significance of a test or control variable as a lower SE implies a better significance for the variables (Hair et al., 2010). R2 explains the percentage test and control variables can explain the variations in the dependent variable and that Nagelkerke's R2 provides a range between 0 to 1 (Field, 2009). Both Chi-Square and Hosmer-Lemeshow goodness of fit tests explain how well the data used fits in the model. Both for Chi-Square and Hosmer-Lemeshow goodness of fit tests, the higher the value, the better the data fits to the model (Hosmer Jr et al., 2008).

9.5.1 TRUSTEE as test variable

The logit regression results are in line with the univariate findings. The test variable TRUSTEE is statically significant ($p<.05$) when ASSURANCE, REMUNERATION and COMMITTEE are used as control variables. While ASSURANCE and REMUNERATION were statistically significant, COMMITTEE was not found to be significant which suggests that it does not have impact on the likelihood of fraud. Table 9.6 presents the findings of the logistic regression analysis when TRUSTEE was used as the test variable:

Table 9.6 Logistic Regression Results for the Probability of Fraud – TRUSTEE as variable to test hypothesis

Test Variables	**Coefficient**	**S.E**	**WALD**	**SIG.**
TRUSTEE	-.170	.077	4.911	.027
Control Variables				
ASSURANCE	1.416	.736	3.695	.055
REMUNERATION	1.573	.779	4.074	.044
COMMITTEE	-.128	.793	.026	.872

R^2: .274 / Chi-Square test of model's fit: 19.296

Hosmer-Lemeshow Test: .383 Cross-Validation Prediction: % 77.4

The model can explain the 27.4% of the fraud and no-fraud events used in the sample. The Chi-square statistic of 19.296 (4 degrees of freedom) rejects the

null hypothesis that there is equality among variable coefficients. The Hosmer-Lemeshow test result of 0.383 depicts that the model is a good fit.

Overall, the findings are consistent with H1 as the model depicts that a higher number of trustees is negatively correlated with fraudulent events in the charity sector. That is, fraud is more likely to occur in charities with small boards rather than in charities with large boards. This finding posits that, as previously argued by the literature (Bai, 2013; Brown and Guo, 2010; de Andrés-Alonso et al., 2009; Olson, 2000), larger boards tend to have a better monitoring and oversight capability than smaller boards in the not-for-profit sector. The results do not indicate the optimal number of trustees to prevent fraud. As charities with more income tend to have larger boards, the results may be too limited to be generalised. However, an important finding is that, whereas 17 fraud charities had 3 or fewer trustees, only 4 no-fraud charities had 3 or fewer trustees.

9.5.2 GRANT as test variable

The logit regression results are in line with the univariate results. When ASSURANCE, REMUNERATION and COMMITTEE are used as control variables, the variable GRANT is statically significant ($p<0.1$). As such, in the case for Section 9.5.1, COMMITTEE was not found to be significant while ASSURANCE and REMUNERATION were statistically significant, suggesting that COMMITTEE did not affect the likelihood of fraud. Table 9.7 presents the findings of the logistic regression analysis when GRANT was used as the test variable:

Table 9.7 Logistic Regression Results for the Probability of Fraud - GRANT as variable to test hypothesis

Test Variables	**Coefficient**	**S.E**	**WALD**	**SIG.**
GRANT	-1.412	.752	3.528	.060
Control Variables				
ASSURANCE	1.558	.733	4.520	.034
REMUNERATION	1.303	.751	3.010	.083
COMMITTEE	-.774	.750	1.066	.302

R^2: .253 / Chi-Square test of model's fit: 17.701

Hosmer-Lemeshow Test: .863 / Cross-Validation Prediction: % 69.0

25.3% of the fraud and no-fraud events used in the sample can be explained by the model. The Chi-square statistic of 17.701 (4 degrees of freedom) rejects the null hypothesis that there is equality among variable coefficients. The Hosmer-Lemeshow result of 0.863 depicts that the model is a good fit.

Overall, a higher percentage of grant income is negatively correlated with fraud in the charity sector. This is consistent with H2. The finding is important as it demonstrates the influence of grants in preventing fraud in the charity sector. Grants have been found in previous studies to be associated with a higher degree of monitoring and oversight (Boris et al., 2010). Consistently with the findings of Nikolova (2014), this study concludes that receipt of grants limits agency problems and provides a sign of quality and trustworthiness of an organisation. However, the study does not overlap with Nikolova's (2014) findings that restricted funds are effective in mitigating agency problems, as this study could not find a significant association between restricted funds and fraud.

9.5.3 GRANT and TRUSTEES as test variables

Of the two hypotheses, the results from the logit regression incorporating both GRANT and TRUSTEES as test variables support H1 only. The outcome of the regression analysis does not support H2, as GRANT ceased to be

statistically significant (p>0.1) in this model. Like the results under the two previous models, while ASSURANCE and REMUNERATION were statistically significant COMMITTEE was not. The model provides the highest R^2 value with variables can explain the 29.6% of fraud and no-fraud events in the charity sector. Table 9.8 presents the findings of the logistic regression analysis when TRUSTEE and GRANT together were used together as test variables:

Table 9.8 Logistic Regression Results for the Probability of Fraud – GRANT and TRUSTEE as variables to test hypothesis

Test Variables	**Coefficient**	**S.E**	**WALD**	**SIG.**
TRUSTEE	-.143	.079	3.258	.071
GRANT	-1.013	.769	1.738	.187
Control Variables				
ASSURANCE	1.320	.750	3.094	.079
REMUNERATION	1.430	.785	3.323	.068
COMMITTEE	-.222	.807	.076	.783

R^2: .296 / Chi-Square test of model's fit: 21.116

Hosmer-Lemeshow Test: .276 / Cross-Validation Prediction: % 72.6

Overall, in none of the models were the test variables significant at the (p<0.01) level. However, TRUSTEE was significant with (p<0.05) level when alone, and GRANT was significant at the (p<0.1) level when alone. The findings suggest that more trustees and higher grant income are likely to reduce fraud in the charity sector.

9.5.4 Overall assessment of the model

Regarding the variables, TRUSTEE comes as a forerunner for being the most significant variable in the two models used for all SE, WALD and SIG. Also there is a negative correlation between FRAUD and TRUSTEE, suggesting that a higher number of trustees is significantly important in preventing or

minimising the risk of fraud by enhancing the monitoring component of governance in charities (Jetty and Beattie, 2012; Bellante, 2016). Although not as strong as TRUSTEE, both ASSURANCE and REMUNERATION as control variables were found significantly effective on the model and the findings suggest that there is positive correlation between charity fraud and both the existence of problematic assurance and charity trustees receiving remuneration.

The higher rate of GRANT received in terms of charity income is found to deter as found by previous literature (Reheul et al., 2014; Yetman and Yetman, 2012). Although GRANT is highly significant when tested alone the significance diminishes by a high percentage when tested with TRUSTEE and therefore this finding implies that the variable GRANT is not as important as TRUSTEE in explaining FRAUD in the charity sector.

There is negative correlation between the existence of committees and fraud cases, as suggested by previous literature (Vafeas, 1999; Fanning and Cogger, 1998). The variable COMMITTEE has the lowest significance when examined by using SE, WALD and SIG. It can even be suggested that COMMITTEE is the variable that has the smallest effect in the model and the model will not be losing much if the variable is omitted. However as existence of COMMITEE increases the R^2, and therefore the explanatory power of the model, it is still used in the assessment of the predictive model.

Although depending on each model and study itself, literature in accounting and management suggest that R^2 should be above 25% for the model to be effective and explanatory (Cohen, 1992). All the models are above 25% in terms of R^2 and even near to 30% when all 5 variables used in the model. All the models had high Chi-Square test of model's fit: and none of the models were below 0.1 regarding Hosmer-Lemeshow Test suggesting that the models have good fits (Hosmer Jr et al., 2008).

As previously suggested for the for-profit studies (Arens et al., 2012; Cullinan and Sutton, 2002; Power, 1997) and not-for-profit studies (Greenlee et al., 2007; Kummer et al., 2015), audit is found to be an important tool in preventing fraud. This study also found a positive correlation between problematic independent examination reports such as; qualified reports, auditors/accountants unable to comment because of missing documentation; and fraud events in the charity sector. The study however cannot assess the impact of internal audit as most of the charities examined lacked an internal auditor or an internal audit was not mentioned in their policy documents.

Board of trustee members do not generally receive remuneration in the charity sector. The study found that a higher number of trustees of fraud charities received remuneration compared to the no-fraud charities. The findings in the for-profit sector regarding the relation between remuneration and fraud vary. Whereas some literature argued that an effective remuneration system is associated with effective tackling of agency problems (Armstrong et al., 2010; Jensen and Meckling, 1976), some other studies found that especially stock incentives lead to more fraud (Burns and Kedia, 2006; Lie, 2005; Roden et al., 2016). Therefore, the relation between remuneration and fraud in the charity sector needs further assessment.

Unlike the independent examination and remuneration, the existence on committees did not show an effect on fraud when assessed in the logistic regression, as COMMITTEE was insignificant in all 3 models examined. Existence of committees either audit, remuneration or nomination, was generally found to reduce the fraud risk in the for-profit sector (Uzun et al., 2004; Vafeas, 1999; Fanning and Cogger, 1998). Beasley (1996) on the other hand found no significant effect of audit committees in preventing fraud. The univariate analysis showed that existence of committees was significant between fraud and no-fraud charities. However the number is still limited: only 9 no-fraud charities and 3 fraud charities had committees in their organisational structure. The types of committees were various, from

development to risk therefore the study did not concentrated on a single type of committee.

In order to assess the predictive strength of the model and to understand if the model is being effective in predicting fraud and no-fraud charities, as conducted by similar studies (Skousen et al. ,2009; Kaminski et al., 2004), the predictive accuracy of the model is tested in the next section.

9.6 Assessment of the Predictive Model

This section first assesses the predictive accuracy of the logistic regression model. After that two charities which were wrongly predicted are further examined to discuss the weaknesses of the model.

9.6.1 The predictive model

The study uses cross-validation in order to assess if the results of the logistic regression are applicable to the sample of 84 fraud and no-fraud charities. Cross-validation enables one to utilise the original sample and test the prediction of the model. Kuruppu et al. (2003) posits that cross-validation is effective when the sample size is small. The study uses a leave-one-out cross-validation technique in which the original 84 observations are used to test the predictive accuracy of the model.

Table 9.9 shows that the model can classify 71.4% (calculated by 60 right prediction – 31 no fraud and 29 fraud charities – over the total of 84 cases) of the charities accurately, in that classification is correct for 69% of fraud charities and for 73.8% of no-fraud charities. Compared with Skousen et al. (2009) and Kaminski et al. (2004), the classification percentage is on par or higher and important as a high percentage of fraud and no-fraud charities were classified accurately. The misclassification is 28.6% for the total of 84 charities, i.e. 26.2% for no-fraud group and 31% for the fraud group. 13 and 11 charities were misclassified from the fraud and no-fraud samples

respectively. Appendix C shows each case of both fraud and no-fraud charities and if they have been correctly predicted by the model.

Table 9.9 Cross validation of predictions

		No Fraud	Fraud	Total
Count	No Fraud	31	11	42
	Fraud	13	29	42
%	No Fraud	73.8	26.2	100.0
	Fraud	31.0	69.0	100.0

Overall, use of the cross-validation procedure enabled a test of the predictive accuracy of the model. The prediction accuracy of above 70% is important (Skousen et al., 2009) as it shows that the model is capable of detecting fraud with high accuracy. The high accuracy also justifies the future use of these variables in other work.

9.6.2 Further assessment of the predictive model

Although the predictive accuracy of the model is high, a substantial amount of fraud and no-fraud charities were inaccurately predicted. Therefore, this section assesses one fraud charity which was identified as no-fraud by the prediction model and one no-fraud charity which was identified as fraudulent in order to examine the inaccurate identification.

Charity CF3 is identified as one of the fraud charities which was wrongly predicted to be no-fraud. The charity was removed from the charity register due to financial misconduct and allegations regarding its CEO and trustees. In the fraud year, the charity had more than 10 trustees, and both restricted and grant income of over 75%. The charity also had an unqualified audit report, none of the trustees received remuneration and all trustees had different surnames. The only apparently weak point was that the charity did not had committees in its organisational structure. When the Charity Commission's inquiry report was assessed, it was realised that the trustees

had little oversight of the CEO who was using charity resources for his/her benefit without being authorised by the trustees. It is apparent that the segregation of duties was insufficient in the charity and that there was little or no oversight on the CEO. This example is important to show that adequate authorisation and effective control environment are crucial in tackling fraud in the charity sector.

The second example is a no-fraud charity which was predicted to be fraudulent by the model. CNF32 is still a registered charity as of September 2019. The charity had only 5 trustees during the matching year, and it did not have a committee. Further, none of its income is restricted or is derived from a grant. This led the model to inaccurately predict the no-fraud charity as fraudulent. However, the charity had an unqualified audit report with no trustees having the same surname or receiving remuneration. This example also shows that quantitative governance aspects may be limited in predicting fraud. Therefore, qualitative as well as quantitative findings should be elaborated together in order to understand and provide better fraud solutions to the charity sector.

9.7 Conclusion

The quantitative part of the study provided important results despite some limitations. The study uses logit regression for fraud in the not-for-profit sector, which is one of the first of its kind, therefore most of the test and control variables were used for the first time. Use of cross-validation enhanced the authenticity of the model and validated the use of the variables. Therefore, identification of variables for the first time was the most important contribution to the literature. The main limitation was sample size, due to insufficient availability of charity information.

Both the univariate and multivariate analyses provide important results. From the univariate results especially, it is clear that governance plays a role in deterring and preventing fraud in the charity sector. Univariate analysis led to

the discarding of variables which had little significance and therefore eased the process for the logistic regression model. Regarding the logistic regression model, despite TRUSTEE being statistically significant either used alone or in combination, GRANT lost its significance when used together with TRUSTEE. The results of the logistic regression are in line with the previous literature that larger boards enhance monitoring in the not-for-profit sector. Finding that a small number of trustees occurs more often in fraud charities corresponds with the qualitative section of this thesis that charities have a 'small cosy environment'. Although losing its significance in the last model, absence or low grant funding deprives charities of long-term donor monitoring, which is also important in fraud occurrence. The high accuracy of prediction of the model enables the model and therefore the variables to be developed for further use.

The results do not enable one to identify a single governance aspect as crucial in minimising fraud in the charity sector. The study suggests that the not-for-profit sector variables and governance structure are different from those of the for-profit sector. The results of the study suggest that the governance implications in that sector are not directly applicable to prevent charity fraud. As will be discussed in the Chapter 10, the results of the quantitative study must be addressed together with the results of the qualitative studies, which the findings were examined in Chapters 6, 7 and 8.

PART V

10. DISCUSSION AND CONCLUSION

This chapter discusses the findings of both the qualitative and quantitative parts of the study and presents a conclusion. The study's qualitative and the quantitative findings individually provide important and interesting results. However, different stages of the study complement each other and therefore they need reassessment together. Therefore Section 10.1 both presents a general overview of the findings but also summarises them in the order of the research questions. The chapter also lists the contributions of the study in Section 10.2 and examines the limitations encountered while conducting the research in Section 10.3. Policy recommendations and implications for future research are discussed in Sections 10.4 and 10.5 respectively. Section 10.6 concludes the chapter and the research.

10.1 Review of Findings
10.1.1 A General Overview
10.1.2 Understanding Accountability in the charity sector
10.1.3 Understanding Ownership and Stakeholder Salience in the charity sector
10.1.4 Identification of fraud in the charity sector
10.1.5 Causes and red flags of fraud
10.1.6 Stakeholders' perceptions on how to tackle fraud
10.1.7 Stakeholder oversight
10.1.8 Differences among fraud and no-fraud charities in terms of governance
10.1.9 The governance characteristics that are more related to fraud

10.2 Contributions of the Study
10.2.1 Contributions to the literature
10.2.2 Contributions to the theory
10.2.3 Contributions to research method

10.3 Limitations
10.3.1 Limitations on qualitative research
10.3.2 Limitations on quantitative research
10.3.3 Limitations in general

10.4 Recommendations for policy

10.5 Recommendations for future research

10.6 Conclusion

Figure 10.1 Structure of Chapter 10

10.1 Review of findings

10.1.1 A General Overview

The fraud problem in the charity sector is multi-dimensional in terms of the reasons, the effects and the possible remedies to minimise it. The findings clearly demonstrate it is neither possible to fully grasp the problem nor to develop a solution to this problem solely based on a for-profit approach. Compared with the for-profit sector, the roots, understanding, and possible solutions to the problem should be unique to the charity or not-for-profit sector in general. Therefore, the use of an integrated theory and mixed methods turned out to be appropriate for this research in order to provide a more holistic understanding of charity fraud. The qualitative and quantitative studies revealed important findings when elaborated together.

The reasons for fraud, taking qualitative and quantitative findings together, are: excessive trust, lack of segregation of duties, lack of effective control and policies, a low number or inadequate number of trustees and lack of stakeholder oversight. The aggregation of the two methods also identified solutions to the problem: enhanced prosecution, taking into account red signals such as problematic audit reports and remuneration, a higher number of trustees, enhanced stakeholder oversight by using grants, and stakeholders involved in charity boards, committees or decision making. Figure 10.2 provides a synopsis of the qualitative and quantitative findings.

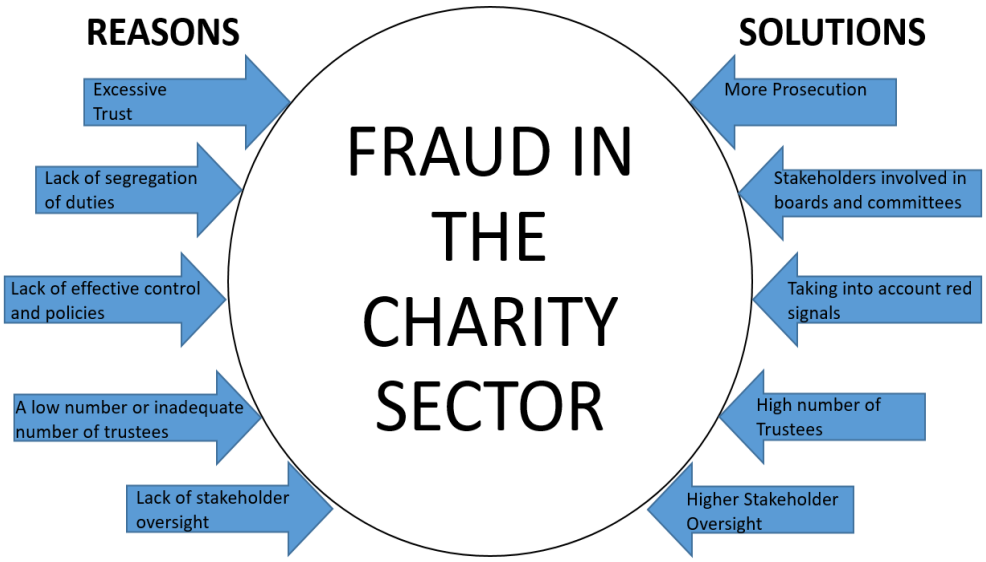


Figure 10.2 Reasons and Solutions to the Fraud Problem in the Charity Sector

Source (Author)

10.1.2 Understanding Accountability in the Charity Sector

The first research question (RQ1a) examines the accountability dynamics in the charity sector. Beneficiaries were found to be on a par with donors with respect to the discharge of accountability. Interestingly financial statements and annual reports, the main tools used in the charity sector to discharge accountability, were not found to target the beneficiaries. Therefore, the actual practice of the discharge of accountability was found to be

unsatisfactory. As previously discussed, beneficiaries were found to be neglected by charities in discharging accountability because they are believed to have limited effect on decision making. The stakeholders were found to prefer accountability that is more inclusive rather than receiving loads of information. The stakeholders required an overarching accountability mechanism in which they would be informed without dealing with technical details.

The accountability framework discussed in Chapter 2 was also found to be informal for the charity sector, especially for donors and beneficiaries. The informality is also found to hinder effective monitoring that could have been provided by the donors and beneficiaries. The interaction among the charity stakeholders is also found to be limited. While auditors/accountants do not interact at all with donors and beneficiaires, the relationships of the charity with regulator and watchdog organisations is also superficial. The relationship between donors and beneficiaries, the two most important stakeholder groups, barely exists.

10.1.3 Ownership and Stakeholder Salience in the Charity Sector

The second research question (RQ1b) assesses how stakeholders identify ownership and stakeholder salience in the charity sector. The findings of the study provided important information regarding the direct use of for-profit accountability and governance theories in the not-for-profit sector and how appropriate it is to use a single theory in that sector. It was found that, unlike the for-profit sector, which has shareholders as the definitive owner, the charity sector possesses multiple principals. The multi-principal environment in the charity sector is also found to be responsible for dispersed and therefore inefficient oversight by charity stakeholders. The lack of a main owner is found to endanger the monitoring of charities and provide further opportunities for fraud. In line with these findings, terms such as ‘agent’, ‘steward’ and ‘principal’ lose the precision that they have in the for-profit sector. The findings suggest that an enhanced agency theory with a broader

stakeholder perspective is necessary to understand better the dynamics of the fraud problem in the charity sector. Overall, because of the complexity of the charity sector, the findings of this study justify the use of an integrated theory and a broader focus on the stakeholders for a full understanding of fraud and financial misconduct.

The study also assessed the views of stakeholders regarding Mitchell et al.'s (1997) stakeholder salience theory. The findings suggested that none of the stakeholders could be depicted as definitive. Although donors are identified by interviewees as the most important stakeholder in terms of "power" and one of the most important ones for "legitimacy", in terms of "urgency" beneficiaries are ahead of any other stakeholder group. However, beneficiaries lack power and therefore are behind donors in terms of stakeholder salience. One finding of the research is that specific stakeholder groups cannot be placed in a unique position in the diagram. This is because the diagram assumes that each of the three dimensions ("power", "urgency" and "legitimacy") is binary, for example a stakeholder either has power or does not have power. This may be valid for individuals, but when a group of stakeholders is analysed, it is possible that some members of the group possess a particular attribute that others do not. For example, large donors may have power over the charity that smaller donors do not.

10.1.4 Identification of fraud in the charity sector

The third research question (RQ1c) evaluates how stakeholders conceptualise fraud in the charity sector. The fraud problem is recognised by every stakeholder group and the awareness of fraud among the stakeholders is high. The findings suggest that both sectoral and organisational factors contribute to fraud in the charity sector. 'Excessive trust' that makes it easier for fraud to take place is found to be specific to the charity sector, and this makes the sector vulnerable. The good intentions especially displayed by donors and beneficiaries cause them to believe that fraud is a trivial risk for the charity sector. The fraud problem is also found to affect all types of charities. While

in the qualitative study respondents stated that smaller charities, fundraising charities and especially international charities were more prone to fraud, it was also argued that fraud is a sectoral problem not providing exceptions to any kind of charity. The quantitative findings especially the univariate analysis also proved that a higher rate of grant receiving is associated with less fraud in the charity sector. Therefore, absence of donor oversight and being a charity with not grant-receiving also increases the vulnerability towards fraud.

10.1.5 Causes and red flags of fraud

The fourth research question (RQ1d) analyses the reasons identified by charity stakeholders for fraud. The qualitative and quantitative findings complement each other. The findings of the qualitative section of the study suggest that lack of segregation of duties and absence of policies were the leading factors of fraud for smaller and larger charities, respectively. Although the effect of fraud policy and culture could not be examined in the quantitative section, it was found in the same section that charities with few trustees and therefore which are unable to allocate enough people for various tasks were more prone to fraud.

Lack of an effective control environment was identified as an important reason of fraud in the charity sector by both the qualitative and the quantitative sections. This finding is based on two foundations: First, respondents unanimously stated that weaknesses in the control environment was the most important factor that leads to fraud. Second, opportunity to commit fraud, which derives from the lack of an efficient control environment, was found by a large margin to be the leading component of fraud when respondents were asked about Cressey's fraud triangle (1953). The component "opportunity" is found to be more explanatory of fraud than the other two factors: "pressure" and "rationalisation".

In line with the findings of the qualitative section, variables directly and indirectly related to the opportunity component of the triangle were examined in the quantitative section. The findings suggest that neither restricted income nor unrestricted income have an efficiency monitoring effect in terms of providing oversight to fraud.. The finding for the grants received provided a different picture: charities receiving grants were found to be significantly less prone to fraud not only in the univariate analysis but also when the variable GRANT was tested with the three other control variables: ASSURANCE, REMUNERATION and COMMITTEE.

The findings also provided information on possible red signals of fraud in the charity sector. During the interviews, the stakeholders identified possible red signals as: lack of documentation, disproportionate use of cash, and aggressively commanding figures. The quantitative analysis found that a problematic audit report, the existence of remuneration for trustees, and lack of committees are possible red flags for fraud. While the existence of committees lost its significance under the logistic regression model, problematic audit reports and receiving remuneration were identified as crucial signals.

The findings from the qualitative section also provide some clues about fraud perpetrators. The characteristics of power to supervise and administer money are found to indicate the main perpetrators of fraud in the charity sector.

10.1.6 Stakeholders' perceptions on how to tackle fraud

The fifth research question (RQ1e) appraises the solutions to fraud identified by the charity stakeholders. The most frequent solutions to fraud suggested by the respondents were: an established anti-fraud culture, tone at the top, whistleblowing, segregation of duties, a dual authorisation process, an efficient control environment, and effective internal and external oversight. Whistleblowing, tone at the top and internalised anti-fraud culture were found to be organisationally initiated solutions to fraud. The solutions of segregation

of duties, dual authorisation process, efficient control environment and effective internal and external oversight, on the other hand, were remedies offered by the stakeholders that have a structural element relating to the whole charity sector. However, these remedies were also criticised by the respondents for not being compatible with smaller charities and for not suiting the charity sector well. Effective board structure, committees and remuneration were less mentioned by the respondents.

The finding of the quantitative section that a higher number of trustees decreases the risk of fraud should be taken into account with the findings of the qualitative section. A higher number of trustees is a possible solution to lack of segregation of duties and dual authorisation, as more trustees will be available, and this will also enhance the monitoring capability of the board of trustees.

The respondents found legislation to be generally satisfactory for control purposes, although, apart from a few stakeholders, most respondents considered the level of legislation and bureaucratic burden already too high. The legislation was not found to be suitably developed to tackle fraud, however, and the need for enhanced prosecution and enforcement of legislation was especially stressed by donors and beneficiaries.

While trustees were seen as the foremost group to tackle fraud it was also found that every stakeholder is also being expected to take part in the struggle against fraud. The lack of stakeholder oversight was also identified by some respondents as a unique characteristic of charities and the not-for-profit sector in general. The implication of this is that a charity-specific way to tackle fraud which comprises every stakeholder group is necessary.

10.1.7 Stakeholder Oversight

The sixth and last research question related to the first research objective (RQ1f) discusses stakeholder perception of stakeholder oversight. Although

stakeholder oversight is argued by the respondents to be crucial for effective monitoring and tackling fraud, respondents believed that it was ineffective and insufficient. Stakeholders, especially small donors and beneficiaries, lack the incentives and power to monitor not-for-profits. Consequently, small donors and beneficiaries were found to have only a limited desire for engaging with formal communications.

Enhanced stakeholder oversight cannot be achieved via accountability discharge through documents but only through inclusive charity stakeholder policies, stakeholders becoming 'part' of the charity itself. Enhancing stakeholder oversight will benefit not only the charities by mitigating fraud and misconduct problems, but it will also have a transformative effect that will enable the voices of stakeholders, especially smaller donors and beneficiaries to be heard and have a say in decision making.

10.1.8 Differences among fraud and no-fraud charities in terms of governance

The first research question of the second research objective (RQ2a) assesses the differences among fraud and no-fraud charities in terms of governance. The univariate analysis for the fraud and no-fraud charities depicts that fraud and no-fraud charities have important differences, especially in terms of governance and the control environment. The findings suggest that fraud charities have fewer committees and trustees than no-fraud charities. Also, a greater proportion of the trustees of fraud charities receive remuneration compared to no-fraud charities. Fraud charities receive a lower percentage of grants and are exposed to more problematic audit reports. The univariate analysis, on the other hand, made it possible to disregard some variables that were planned for the logistic regression. It was found that fraud charities and no-fraud charities were not significantly different in terms of percentage of restricted income they have, whether or not they make a loss (expenses being more than their income) during the financial year, and having trustees with the same surname on the board.

10.1.9 The governance characteristics that are more related to fraud

The second and last research question of the second research objective (RQ2b) evaluates the relationship of governance characteristics with fraud. The logistic regression analysis was conducted by using the variables of TRUSTEE, GRANT, ASSURANCE, REMUNERATION and COMMITTEE. TRUSTEE and GRANT were assessed as test variables. Both TRUSTEE and GRANT were found to be statistically significant when tested on their own with ASSURANCE, REMUNERATION and COMMITTEE. However, GRANT lost its significance when used together with TRUSTEE. The findings suggest that larger boards of trustees provide better monitoring in the charity sector. The variable GRANT also signals that donor monitoring is important in tackling fraud. The logistic regression model was also found to provide accurate predictions for fraud occurrence in the charity sector. Two other variables, ASSURANCE and REMUNERATION, were statistically significant in the model, suggesting that a problematic audit report and existence of remuneration are red signals for fraud in the charity sector. Another variable, COMMITTEES, was not found to be significant. Taking into account that only a few of the charities have committees, their existence may not be as powerful as the other variables.

Overall, the findings of this study are that the charity sector is a 'nice cosy environment', as one of the respondents stated during the interviews. The opportunity created by this cosy environment can lead to fraud and financial misconduct. New solutions specific to the charity sector, which increase the involvement of stakeholders, have to be developed. The study therefore suggests a stakeholder attitude change and a stakeholder involvement in organisational structure for the solution of the problem. The policy recommendations are discussed in Section 10.4. The next section discusses the contributions made by this study in terms of literature, theory and methodology.

10.2 Contributions of the Study

This section summarises the contributions of this study in the context of the literature, theory and methodology.

10.2.1 Contributions to the literature

Reasons and solutions to the fraud problem are seldom assessed in the not-for-profit literature. The study contributes to both the not-for-profit fraud literature and fraud literature in general by addressing reasons for fraud and assessing possible solutions. The study thus provides a picture of the issue from various angles and dimensions.

This is one of the few studies that has examined both the reasons of fraud and solutions to it in a single study. Reasons such as excessive trust, insufficient number of trustees and lack of stakeholder oversight were important contributions to the reasons for fraud in the not-for-profit sector. For the solutions to the fraud problem, the study has contributed to the literature that stakeholder involvement and a higher number of trustees are important ways to tackle fraud.

The study has also contributed to the small number of UK charity sector fraud/financial misconduct studies (McDonnell and Rutherford, 2018; Ohalehi, 2019). McDonnell and Rutherford (2018) focused on a different jurisdiction, Scotland, rather than England and Wales, as this study does. Ohalehi (2019) focused only on small charities and utilised charity officials as the sole resource of the interviews.

The study has also contributed to the accountability and governance literature in general: the accountability framework of the charity sector is found to be informal in nature and tends to exacerbate the fraud problem. The charity sector accountability framework is found by this study to be more communal (Laughlin, 1990), comprising high trust which leads to informal contracts

(Broadbent et al. ,1996) and more closely related with 'links of account' (Stewart, 1984).

The study has also contributed to the UK accountability and governance literature more specifically. The study has drawn on the work of Hyndman and McDonnell (2009) and Connolly et al. (2011) by assessing topics such as donors caring about the use of their funds, the level of government regulation, user involvement within charities and stakeholder representation in the board. An important contribution is that beneficiaries were found, along with the donors, to be the group to which accountability should be discharged.

10.2.2 Contributions to the theory

The accountability and governance theories examined in Chapter 3 were developed specially for the for-profit sector. This study has contributed to the theory by using and also assessing, an integrated theoretical model especially designed for the charity sector. Although previous studies suggested the use of integrated theories in the not-for-profit sector (Jegers, 2009; Wellens and Jegers, 2011), these have seldom been tested. This study has found that integration of theories is an optimal solution where the not-for-profit sector lacks theories suitable for the sector itself.

The study has also contributed to enhancing agency theory so that it better fits the not-for-profit sector, by gathering elements of agency, stewardship and stakeholder theory. As it was found that the terms such as 'agent', 'steward' and 'owner' are not precise in the charity sector, the integration of theories provided the flexibility to move away from these terms. The multi-principal structure of the not-for-profit sector therefore justifies the use of an enhanced agency theory to better understand the dynamics of fraud in the charity sector.

The integration of the theories also enabled mixed methods to be used for the study. Previous fraud studies correlated quantitative fraud work with agency theory only. With especially the use of the stakeholder theory, the theoretical

base became more suitable to broaden the study into assessment of the stakeholders and their influence and views on fraud in the charity sector. Therefore, integration of theories enabled qualitative methods to be used along with quantitative analysis.

The study also tested two important theories for the charity sector: the fraud triangle (Cressey, 1953) and stakeholder salience theory (Mitchell et al., 1997). Regarding the fraud triangle theory, among the three components, 'opportunity' was found to be the leading factor causing fraud, whereas the impact of 'pressure' and 'rationalisation' were not found to be high. The theory was tested for the not-for-profit sector as a contribution, and findings were in line with Dorminey et al. (2012). In terms of stakeholder salience theory, although donors were found to be the primary stakeholder as they are highly regarded in terms of 'power' and 'legitimacy', the charity sector is found to lack a definitive stakeholder. Also, beneficiaries were found to be a group that completely lacked power. Stakeholder salience theory had also been used in several previous studies (Cordery and Baskerville, 2005; Ihsan and Adnan, 2016), but the findings of this study especially reflected the views of all charity stakeholders and thus this study extends prior research.

10.2.3 Contributions to research method

As discussed before, the fraud literature is predominantly quantitative. The views and influence of stakeholders and on fraud occurrence have not been assessed in detail. This study adopted a mixed methods approach by utilising both interviews and logistic regression analysis. Using mixed methods permitted a multi-focused approach to assess casual links between the qualitative and quantitative parts of the research.

In terms of qualitative research, the study involved interviews with five different charity stakeholder groups, with 41 interviews in total. Most of the previous studies that used interviews as the research method had concentrated on only a limited number of stakeholder groups. Also, this study included

both small charities and larger charities in terms of income. Most of the previous studies were focused on larger charities, mainly the top 100 in terms of income. Therefore, the study has provided a broader understanding of the charity sector.

Fraud studies use logistic regression extensively, especially in the for-profit sector (Beasley, 1996). However, the not-for-profit sector fraud literature has seldom used logistic regression. This study's main contributions are: a) examining variables used in the for-profit sector and their suitability to be used in the charity sector, and b) using the findings of the qualitative sector and identifying new variables for use in logistic regression specifically for the charity sector fraud analysis. While variables such as ASSURANCE, REMUNERATION and COMMITTEE were also used in the for-profit sector studies, TRUSTEE and GRANT were specific to the charity sector. Other variables identified were eliminated during the univariate analysis of the quantitative part of the study.

10.3 Limitations

This study has some limitations which will be discussed in this section. Limitations that relate to the qualitative section, limitations that relate to the quantitative section, and limitations that apply to the study in general, are reviewed separately.

10.3.1 Limitations on qualitative research

The qualitative part of the study conducted interviews with a large variety of charity stakeholders and therefore it extends the literature in this area. However, how accurately the interview sample reflected the whole charity sector may be deemed as a limitation of the study. Given that there are many charity beneficiaries, it was especially hard to get in touch with and to persuade beneficiaries to participate, and to derive information from them. This may reduce the representativeness of the sample of beneficiaries.

Another limitation of the qualitative part of the study is that the interviewees were located mainly in the Greater London area. Out of the 41 interviews conducted, only seven were from outside the Greater London area. The researcher aimed to identify interviews regarding 'regions of England' along with Wales a separate region. However, because of obstacles in persuading interviewees to take part in the study, this objective could not be fulfilled.

10.3.2 Limitations on quantitative research

The main limitation of the quantitative section is sample size. The number of observations was limited to 42 fraud events, and matching these to 42 no-fraud charities resulted in 84 observations in total. Matching of the fraud with no-fraud charities was done with sensitivity as explained in Chapter 9. However, for a limited number of identified fraud charities there were several possible no-fraud charities that could be matched. The results of the quantitative analysis could have been slightly different if different no-fraud charities had been selected. Another limitation of the study is the variables assessed under the logistic regression model. The identification and use of the variables were both derived by utilising the literature and the qualitative findings. However due to the lack of previous research, the variables may not have been identified or used in the best possible way. Therefore, further research may be necessary to examine how accurate the variables used are, as also discussed in Section 10.5

10.3.3 Limitations in general

Lastly, as the study covered both qualitative and quantitative data on the charity sector for England and Wales only, the study might not be extendible to charity sectors in other parts of the UK, and indeed in other countries. Although charities and not-for-profit organisations bear extensive similarities in terms of their operating structures and the problems they face, even minor differences may be important as they may affect reasons or solutions to fraud in a specific country in the world other than the UK. The jurisdiction even in

the UK is split up into three: England and Wales, Scotland and Northern Ireland. Therefore, although the jurisdictions and the economic and cultural environment where the charities operate are similar, caution is needed when applying the results to the charity sectors in Scotland and Northern Ireland.

10.4 Recommendations for policy

The findings of the study lead to important policy recommendations relevant to the regulator (the Charity Commission), charities themselves, and other stakeholder groups in general. The findings imply that the stakeholders are in general satisfied with the policies of the Charity Commission. However, the desirability of an increase in the level of prosecutions was especially stressed by the donors and beneficiaries. Although the Charity Commission is not responsible for either identifying or implementing prosecutions for crimes that have been committed, it can be in the forefront of drawing attention to the problem of charity fraud, with the aim of encouraging more rigorous enforcement of the criminal law. Possible legislative amendments in the UK Sentencing Council's Definitive Guideline for Fraud, Bribery and Money Laundering Offences (Council, 2014) may enhance the deterrence power of the jurisdiction.

A rise in fraud awareness may ease whistle-blowing, which was identified as a crucial element in tackling fraud. An open communication environment may help to report wrongdoing and misconduct by employees. Also, increased fraud awareness will have a deterrent effect on probable perpetrators as they may be wary of committing fraud if they think that being detected is a big possibility. The media has been found in the study to help increase fraud awareness among the public especially during the last decade. For the deterrent effect of prosecutions to be high, the media can play a more influential role in disseminating the news of wrongdoing and its consequences. How the case of Kids Company was covered by the media is a good example of enhanced media coverage of wrongdoing and its influence on fraud awareness.

Since 2005, the charity sector has possessed a Charity Governance Code, which was renewed in 2010. In 2017 a third edition was brought into effect (Governance, 2017). As discussed in Chapter 2, board independence is crucial in tackling wrongdoing in organisations. The UK Corporate Governance Code (2018), which is designed for the for-profit organisations, sustains board independence by addressing board tenure. However, the Charity Governance Code lacks such a provision (Governance, 2017). Current regulations recommend that charity boards should be formed from a minimum of three trustees. However, this study found that even this number is not enough to maintain trustee independence and to prevent the 'small cosy environment' that makes fraud more likely. Therefore, the Charity Commission should ensure that the Charity Governance Code or other policy statement specifies a higher number of trustees on charity boards.

The Charity Governance Code also has a section "7.5 Communicating and consulting effectively with stakeholders" (Governance, 2017). Briefly this section recommends that charities should identify key stakeholders and have efficient communication with them regularly. This should involve stakeholders being able to hold boards to account and being consulted on important issues that affect the function of the charity. The findings of this research suggest that small donors and especially beneficiaries did not show a significant desire to engage with formal communications produced by charities and lack incentives and power to monitor the not-for-profits. It was also found that charity stakeholders demand more understandable and more inclusive information for the discharge of accountability rather than simply more information. Therefore, in line with the findings of this research, it is recommended that the Charity Governance Code should be amended to enhance inclusive accountability towards the stakeholders.

Stakeholder involvement in charity decision making and especially oversight is found to be one of the areas that could be further developed and could help in tackling fraud. This study suggests several routes to enhance stakeholder

oversight of charities: a) Arranging meetings that involve charity stakeholders. Frequent meetings with the stakeholders, and in particular with the beneficiaries, may enhance their involvement to the charity decision making and oversight. b) Forming a 'stakeholder committee'. The applicability of a stakeholder committee depends on the willingness of both charities and their stakeholders. A stakeholder committee may enhance oversight of charities by including the charity stakeholders in their organisational structure. Although the existence of committees was found to have an impact on fraud in univariate analysis, it did not have the same effect in the logistic regression. However, the stakeholder committee with different content may play a better role in overseeing the charities. c) Stakeholders as trustees. Including stakeholders on the board is also another way to incorporate stakeholders in an organisation. Although stakeholders sitting on the board of trustees may seem a clear way to tackle the 'small cosy environment', it has many obstacles such as persuading both the trustees and the stakeholders to agree on such a proposal.

The findings of the study are also in line with the Charity Commission's 'Focus on insider fraud: research report' (Commission, 2018d), which suggested that 'excessive trust' towards the charities along with a dominant individual having too much control are reasons for fraud. The present study came to similar conclusions. The 'excessive trust' problem both inside and towards charities should be tackled. As mentioned earlier in this section, a rise in fraud awareness seems to be the most effective solution to this problem. Tackling the influence of a dominant figure who generally controls the financial aspects of a charity may again be challenged by an increase in the number of trustees/staff and enhanced stakeholder oversight.

Audit was not especially mentioned in the qualitative section of the study as a solution to charity fraud. In contrast, in the quantitative section, the absence or qualification of the audit report was found to be an important red signal that fraudulent activity is taking place. Therefore, audit should be regarded as

an important factor that both deters and signals fraud in the charity sector. This study found a desire on the part of some stakeholders for financial documents, annual reports and reviews to focus more on the performance/outcome reporting for the charity sector. Therefore, the charities, the regulator but most importantly accountants/auditors should focus on including performance/outcome reporting in their reports, although taking into account the economic burden too.

Trustees do not generally expect to receive remuneration for their services and if they receive any, this is exceptional and may require to be in the interests of the charity and for the trustee to bring advantage to the charity (Commission, 2013b). The qualitative section did not find a relationship between remuneration and charity sector fraud. However, in the quantitative section, it was found that the existence of remuneration was linked to the existence of fraud, which was supported by the findings of both the univariate analysis and logistic regression. This study suggests that trustee remuneration must be justified clearly if it has ever been provided and be under oversight especially by the auditors and other stakeholders if possible.

The relevance of financial documents and their effectiveness in discharge of accountability to the charity stakeholders was also highlighted by the respondents. As discussed before, widening stakeholder engagement (Connolly et al., 2013c) is found to provide inclusive results and be approved by every stakeholder group who is included in the process. Therefore, it is recommended that a consultation process should be commenced by the Charity Commission in order to re-examine the use of annual reports and annual reviews, financial statements, and the SORP. As most of the stakeholders complained about the complexity of the documents, simplified disclosure documents may be needed to satisfy the information needs of the stakeholders.

The findings suggest that interaction between charities' stakeholders is limited which hampers monitoring. Also, the study found that accountability

relationships with two key stakeholders, namely donors and beneficiaries, were predominantly informal and sometimes non-existent. Therefore, charities may find it useful to provide opportunities or facilitate the interaction of the stakeholders to enable cross-sectional information transmission. Individual charities might arrange stakeholder gathering meetings regularly or invite stakeholders to trustee meetings occasionally. The policy recommendations that provide inclusive charity stakeholder incorporation to charity policy making, such as a 'stakeholder committee', and others as discussed before will also enhance stakeholder interaction.

The findings suggest that employing the right people for the right job was also crucial in preventing fraud. As suggested by Dorminey et al. (2012), there are fraud 'predators' who seek the right opportunity to commit fraud. The charity sector was also found in the present research to attract these 'predators' due to the lack of monitoring in the sector. Therefore in order to tackle fraud, charities, especially larger ones, may 'go over the matter with a fine-toothed comb'. Appointing the right personnel may need extra safety checks or job trials. For smaller charities, the issue may be more problematic as all the trustees may be 'predators'. As also discussed above, a higher number of trustees or stakeholders sitting on the board of trustees may provide the required oversight to tackle wrongdoing.

Overall, many new approaches and policy initiatives can be commenced to tackle fraud. Tackling fraud in the charity sector is crucial, given both the growing importance of the sector and the rising level of fraud and financial misconduct in charities. Effective solutions are likely to rely on the interaction between various solutions, of which enhancing the interaction and oversight of the stakeholders is one. However, new policies which came into effect in 2017 may also provide substantial benefit in tackling fraud. Therefore, their outcome needs to be scrutinised and new possible policies may then be put on the agenda to be realised.

10.5 Recommendations for future research

Some implications for further research are also offered by the findings of this study. First, given the lack of research in the field, a focus on fraud in the charity sector, which assesses both reasons and solutions, may build on the findings of this study. Future research can broaden this study with a wider data set and build upon this study by especially focusing on the policies and structural changes that can be implemented to tackle fraud in the charity sector.

This study is limited to the jurisdiction of England and Wales. As discussed in Section 10.3, this limitation might hamper the generality of the study. Therefore, similar studies that utilise mixed methods to assess charity fraud and financial misconduct in other jurisdictions are necessary. A study which may compare reasons and solutions for charity fraud in different jurisdictions might also be useful.

This study used mixed methods and used interviews and logistic regression as research tools. Other possible methods could also be used in examining fraud, which may include surveys and questionnaires, case studies and focus groups. Questionnaires have the advantage of examining the perceptions and views on a subject in a wider sample group. Therefore, questionnaires may broaden the analysis conducted by this study. Case report analysis examines cases or events with an in-depth assessment. Therefore, in-depth case report analyses of fraudulent charities may provide an enhanced understanding of the reasons for fraud in the sector. While this study assessed the views of different charity stakeholder groups, the time devoted to each respondent was limited. Therefore, a focus group study may make it possible to assess the interactions among the groups and could help to examine the interactive discussion on reasons and solutions to fraud.

Logistic regression was used in the quantitative part of this study. Given that most of the fraud studies in the not-for-profit sector aimed to identify the characteristics of the victims and perpetrators of fraud, little work has been done on the governance determinants of fraudulent not-for-profit organisations. This study utilised variables that are linked with the governance determinants of the charity sector. Some variables have been used for the first time. Therefore, new models can be built up and new variables can be developed, or other existing variables can be tested to provide a better understanding.

Furthermore, given the identified importance of 'outcome reporting', future research can focus on the impacts and effectiveness on such reporting and how it is perceived by the stakeholders. A study on outcome reporting can also examine the insight of the Charity Commission and auditors, as 'outcome reporting' was especially stressed by the auditors.

Using Mitchell et al.'s (1997) stakeholder salience theory, the study found that donors are the primary stakeholder if not the definitive one, whereas beneficiaries clearly lacked power. As the study was limited to a relatively small number of respondents, a fuller stakeholder salience map for the charity sector and not-for-profit sector in general can be derived by assessing more charity stakeholder views.

The study found, by using Cressey's (1953) fraud triangle theory, that the most important component of the triangle by a large margin is opportunity, compared with pressure and rationalisation. As the study was limited to a number of respondents, a new study may assess the views of a larger number of charity stakeholders regarding the fraud triangle. Also other fraud theories such as the fraud scale (Albrecht et al., 1984), fraud diamond (Wolfe and Hermanson, 2004), A.B.C. analysis (Ramamoorti et al., 2009) may also be examined by assessing stakeholder views in future studies.

As explained in Chapter 4, the psychological traits of the fraudster were not examined in detail in this study. However, the respondents highlighted a need for 'moral people' to be employed, as people with integrity are less inclined to commit fraud. Further studies could usefully evaluate the psychological traits of the fraudster.

This study examined the governance determinants of both large and small charities in terms of income. Although the charity sector has many common problems that lead to fraud, the study also found that reasons and solutions for fraud in small and larger charities may have some differences. Therefore, studies which examine and specialise in small or in larger charities and assess the reasons and solutions of fraud for both categories of charities may provide insightful findings and contribute to the literature.

Excessive trust, both inside charities and trust towards the charities, was found to be an important reason for fraud in the charity sector. Due to the broader coverage of the fraud issue in the charity sector, this study did not explore in depth the reasons for the excessive trust towards the charity sector. Therefore, psychological and sociological reasons and possible solutions to this problem may be addressed by future studies.

This study focused more on identifying the reasons and examining the preventive and deterrent measures of the fraud problem. Fraud detection was not assessed in detail by the study. Therefore, a continuation of this study may also examine effective ways of detecting fraud which may include other variety of stakeholders such as Action Fraud or the police department that tackles with fraud.

As the size of samples is limited in the quantitative section of the study, a sample with a more number of events is believed to provide better and more accurate results. This is important because as a grant is provided along with a long-term and regular oversight of how money is being used by the charity, a future assessment that examines the differences of grant and restricted

income and their effects may be useful in also being able to formulate an efficient donor oversight mechanism that can be used to tackle fraud.

10.6 Conclusion

The charity sector's importance to society and the economy goes beyond the numbers. However, the sector is prone to questionable, illegal and unethical practice, of which fraud and financial misconduct are important parts. This thesis has developed a comprehensive framework for understanding charity fraud. It sheds light on a little-investigated area by assessing stakeholders' perceptions of fraud in charities and by examining charity fraud cases. The findings of the thesis suggest that the fraud problem in the charity sector has unique aspects, and therefore the solutions to the problem should be specific to the charity sector. Enhancing charity stakeholder oversight and requiring charity boards to be larger are only some of the solutions that this thesis suggests. The thesis provides important contributions to literature, theory and methodology. However, there is much to be further explored.

REFERENCES

1853. *Charitable Trusts Act 1853* [Online]. UK. Available: https://api.parliament.uk/historic-hansard/acts/charitable-trusts-act-1853 [Accessed 12.09.2019].

1891. *Income Tax Special Purposes Commissioners v Pemsel* [Online]. House of Lords. Available: https://library.croneri.co.uk/cch_uk/btc/3-tc-53 [Accessed 11.09.2019.

1960. *Charities Act 1960* [Online]. UK: UK Parliement. Available: http://www.legislation.gov.uk/ukpga/1960/58/pdfs/ukpga_19600058_en.pdf [Accessed 15.09.2019].

1992. *Charities Act 1992* [Online]. UK. Available: http://www.legislation.gov.uk/ukpga/1992/41/contents [Accessed 13.09.2019].

1993. *Charities Act 1993* [Online]. UK. Available: http://www.legislation.gov.uk/ukpga/1993/10/contents [Accessed 11.09.2019].

2000. *Trustee Act 2000* [Online]. UK. Available: http://www.legislation.gov.uk/ukpga/2000/29/contents [Accessed 10.04.2020].

2006. *Charities Act 2006* [Online]. UK. Available: http://www.legislation.gov.uk/ukpga/2006/50/contents [Accessed 12.09.2019].

2011. *Charities Act 2011* [Online]. UK: Uk Parliament. Available: https://www.legislation.gov.uk/ukpga/2011/25/contents [Accessed 13.09.2019].

2016a. *The Charities (Protection and Social Investment) Act 2016* [Online]. UK. Available: http://www.legislation.gov.uk/ukpga/2016/4/introduction/enacted [Accessed 12.09.2019].

2016b. *Corporate Governance Code* [Online]. Available: https://www.slc.co.uk/media/5268/uk-corporate-governance-code-september-2012.pdf [Accessed 21.08.2019 2019].

2018. *UK Corporate Governance Code* [Online]. Available: https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF [Accessed 13.09.2019 2019].

AB MAJID, R., MOHAMED, N., HARON, R., OMAR, N. B. & JOMITIN, B. 2014. Misappropriation of assets in local authorities: A challenge to good governance. *Procedia-Social and Behavioral Sciences,* 164**,** 345-350.

ABBOTT, L. J., PARK, Y. & PARKER, S. 2000. The effects of audit committee activity and independence on corporate fraud. *Managerial Finance,* 26 (11)**,** 55-68.

ABBOTT, L. J., PARKER, S. & PETERS, G. F. 2004. Audit committee characteristics and restatements. *Auditing: A Journal of Practice & Theory,* 23 (1), 69-87.
ABDULLAHI, R. & MANSOR, N. 2018. Fraud prevention initiatives in the Nigerian public sector: understanding the relationship of fraud incidences and the elements of fraud triangle theory. *Journal of Financial Crime,* 25 (2), 527-544.
ABRAHAMSON, E. & PARK, C. 1994. Concealment of negative organizational outcomes: An agency theory perspective. *Academy of management journal,* 37 (5), 1302-1334.
ABZUG, R. & GALASKIEWICZ, J. (2001). 'Nonprofit boards: crucibles of expertise or symbols of local identities?'. Nonprofit and Voluntary Sector Quarterly, 30, 51–73.
ABZUG, R. & WEBB, N. J. 1999. Relationships between nonprofit and for-profit organizations: a stakeholder perspective. *Nonprofit and voluntary sector quarterly,* 28 (4), 416-431.
ACFE. 2019. *The Fraud Tree - classification of occupational fraud* [Online]. Available: https://www.acfe.com/fraud-tree.aspx [Accessed 17.06.2019 2019].
ACT, F. 2006. *Fraud Act 2006* [Online]. UK. Available: https://www.legislation.gov.uk/ukpga/2006/35/contents [Accessed 15.09.2019 2019].
ADAMS, R. B., HAAN, J., TERJESEN, S. & EES, H. 2015. Board diversity: Moving the field forward. *Corporate Governance: An International Review,* 23 (2), 77-82.
AGGARWAL, R. K., EVANS, M. E. & NANDA, D. 2012. Nonprofit boards: Size, performance and managerial incentives. *Journal of Accounting and Economics,* 53 (1), 466-487.
AGLE, B. R., MITCHELL, R. K. & SONNENFELD, J. A. 1999. Who matters to Ceos? An investigation of stakeholder attributes and salience, corpate performance, and Ceo values. *Academy of management journal,* 42 (5), 507-525.
AGRAWAL, A. & CHADHA, S. 2005. Corporate governance and accounting scandals. *The Journal of Law and Economics,* 48 (2), 371-406.
AGUILERA, R. V. & JACKSON, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of management Review,* 28 (3), 447-465.
AGYEI-MENSAH, B. K. 2017. The relationship between corporate governance, corruption and forward-looking information disclosure: a comparative study. *Corporate Governance: The International Journal of Business in Society,* 17 (2), 284-304.
AGYEMANG, G., O'DWYER, B., UNERMAN, J. & AWUMBILA, M. 2017. Seeking "conversations for accountability" Mediating the impact of non-governmental organization (NGO) upward accountability

processes. *Accounting, Auditing & Accountability Journal,* 30 (5), 982-1007.
AHRENS, T. & CHAPMAN, C. S. 2006. Doing qualitative field research in management accounting: Positioning data to contribute to theory. *In:* CHRISTOPHER S. CHAPMAN, A. G. H. A. M. D. S. (ed.) *Handbooks of Management Accounting Research.* Elsevier Ltd., 299-318.
ALASUUTARI, P., BICKMAN, L. & BRANNEN, J. 2008. *The SAGE handbook of social research methods,* Sage.
ALBASHRAWI, M. 2016. Detecting Financial Fraud Using Data Mining Techniques: A Decade Review from 2004 to 2015. *Journal of Data Science,* 14 (3), 553-569.
ALBRECHT, C., HOLLAND, D., MALAGUEÑO, R., DOLAN, S. & TZAFRIR, S. 2015. The role of power in financial statement fraud schemes. *Journal of Business Ethics,* 131 (4), 803-813.
ALBRECHT, C., TURNBULL, C., ZHANG, Y. & SKOUSEN, C. J. 2010. The relationship between South Korean chaebols and fraud. *Management Research Review,* 33 (3), 257-268.
ALBRECHT, W., ROMNEY, M. B., CHERRINGTON, D., PAYNE, I., ROE, A. & ROMNEY, M. 1986. Red-flagging management fraud: A validation. *Advances in Accounting,* 3, 323-333.
ALBRECHT, W. S., ALBRECHT, C. & ALBRECHT, C. C. 2008. Current trends in fraud and its detection. *Information Security Journal: A Global Perspective,* 17 (1), 2-12.
ALBRECHT, W. S., ALBRECHT, C. C. & ALBRECHT, C. O. 2004. Fraud and corporate executives: Agency, stewardship and broken trust. *Journal of Forensic Accounting,* 5 (1), 109-130.
ALBRECHT, W. S., HOWE, K. R. & ROMNEY, M. B. 1984. Deterring fraud: the internal auditor's perspective. *Institute of Internal Auditors Research Foundation*, 1-42.
ALEXANDER, C. R. & COHEN, M. A. 1999. Why do corporations become criminals? Ownership, hidden actions, and crime as an agency cost. *Journal of Corporate Finance,* 5 (1), 1-34.
ALISE, M. A. & TEDDLIE, C. 2010. A continuation of the paradigm wars? Prevalence rates of methodological approaches across the social/behavioral sciences. *Journal of Mixed Methods Research,* 4 (2), 103-126.
ALLEGRINI, M. & GRECO, G. 2013. Corporate boards, audit committees and voluntary disclosure: Evidence from Italian listed companies. *Journal of Management & Governance,* 17 (1), 187-216.
ALT, J. E. & LASSEN, D. D. 2012. Enforcement and public corruption: Evidence from the American states. *The Journal of Law, Economics, and Organization,* 30 (2), 306-338.
ALTMAN, D. G. & ROYSTON, P. 2006. The cost of dichotomising continuous variables. *Bmj,* 332 (7549), 1080.

ALTMAN, E. I. 1968. Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The Journal of Finance,* 23 (4), 589-609.
ALVESSON, M. & ASHCRAFT, K. 2012. Interviews. *In:* SYMON, G. & CASSELL, C. (eds.) *Qualitative organizational research: core methods and current challenges.* Sage, 239-257.
AMARA, I., AMAR, A. B. & JARBOUI, A. 2013. Detection of fraud in financial statements: French companies as a case study. *International Journal of Academic Research in Accounting, Finance and Management Sciences,* 3 (3), 40-51.
AMBLER, T. & WILSON, A. 1995. Problems of stakeholder theory. *Business Ethics: A European Review,* 4 (1), 30-35.
ANDERSON, R. C., MANSI, S. A. & REEB, D. M. 2004. Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics,* 37 (3), 315-342.
ANDREAUS, M. & COSTA, E. 2014. Toward an integrated accountability model for nonprofit organizations. *Accountability and social accounting for social and non-profit organizations,* 17, 153-176.
ANDREONI, J. 1990. Impure altruism and donations to public goods: A theory of warm-glow giving. *The economic journal,* 100 (401), 464-477.
ANDREWS, R. 2009. Organizational task environments and performance: an empirical analysis. *International Public Management Journal,* 12 (1), 1-23.
ANGRIST, J. D. & PISCHKE, J.-S. 2008. *Mostly harmless econometrics: An empiricist's companion,* 1st ed., Princeton University Press.
APOSTOLOU, B. A., HASSELL, J. M., WEBBER, S. A. & SUMNERS, G. E. 2001. The relative importance of management fraud risk factors. *Behavioral Research in Accounting,* 13 (1), 1-24.
ARCHAMBEAULT, D. S., DEZOORT, F. T. & HOLT, T. P. 2008. The need for an internal auditor report to external stakeholders to improve governance transparency. *Accounting Horizons,* 22 (4), 375-388.
ARCHAMBEAULT, D. S. & WEBBER, S. 2018. Fraud survival in nonprofit organizations: Empirical evidence. *Nonprofit Management and Leadership,* 29 (1), 29-46.
ARCHAMBEAULT, D. S., WEBBER, S. & GREENLEE, J. 2015. Fraud and Corruption in US Nonprofit Entities: A Summary of Press Reports 2008-2011. *Nonprofit and Voluntary Sector Quarterly,* 44 (6), 1194-1224.
ARENS, A. A., ELDER, R. J. & MARK, B. 2012. *Auditing and assurance services: an integrated approach,* 14th ed., Boston: Prentice Hall.
ARGENTI, J. 1983. *Predicting corporate failure,* Technical Directorate of the Institute of Chartered Accountants in England and Wales.

ARMSTRONG, C. S., CORE, J. E. & GUAY, W. R. 2014. Do independent directors cause improvements in firm transparency? *Journal of Financial Economics,* 113 (3), 383-403.
ARMSTRONG, C. S., JAGOLINZER, A. D. & LARCKER, D. F. 2010. Chief executive officer equity incentives and accounting irregularities. *Journal of Accounting Research,* 48 (2), 225-271.
ARMSTRONG, A. & SWEENEY, M., 2002. Corporate governance disclosure: Demonstrating corporate social responsibility through social reporting. New Academy Review, 1(2), pp.33-51.
ARSHAD, R., ASYIQIN, W. A., RAZALI, W. M. & BAKAR, N. A. 2015. Catch the "Warning Signals": The Fight against Fraud and Abuse in Non-Profit Organisations. *Procedia Economics and Finance,* 28, 114-120.
ARVIDSSON, S. 2010. Communication of corporate social responsibility: A study of the views of management teams in large companies. *Journal of Business Ethics,* 96 (3), 339-354.
ARYA, A. & MITTENDORF, B. 2015. Career concerns and accounting performance measures in nonprofit organizations. *Accounting, Organizations and Society,* 40, 1-12.
ASHFORD, J. K. 1989. Charity Accounts, in L.C.L. . *In:* TONKIN, D. & SKERRATT, L. C. (eds.) *Financial Reporting 1988-89: a Survey of UK Reporting Practice.* London: Institute of Chartered Accountants in England and Wales (ICAEW)
ASHFORD, K. & CLARKE, J., 1996. Grant monitoring by charities: The process of grant-making and evaluation. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 7(3), 279-299.
ASHKANASY, N. M., WINDSOR, C. A. & TREVIÑO, L. K. 2006. Bad apples in bad barrels revisited: Cognitive moral development, just world beliefs, rewards, and ethical decision-making. *Business Ethics Quarterly,* 16 (4), 449-473.
ATA, H. A. & SEYREK, I. H. 2009. The use of data mining techniques in detecting fraudulent financial statements: An application on manufacturing firms. *Süleyman Demirel Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi,* 14 (2), 157-170.
ATAN, R., ZAINON, S. & WAH, Y. B. 2013. Empirical evidence of governance and disclosure in charity organizations. *Journal of Basic and Applied Scientific Research,* 3 (1), 533-542.
ATHANASAKOU, V., STRONG, N. C. & WALKER, M. 2011. The market reward for achieving analyst earnings expectations: does managing expectations or earnings matter? *Journal of Business Finance & Accounting,* 38 (1‐2), 58-94.
ATKINSON, P. & COFFEY, A. 2004. Analysing documentary realities. *Qualitative research,* 56, 77-92.
BABER, W. R., DANIEL, P. L. & ROBERTS, A. A. 2002. Compensation to managers of charitable organizations: An empirical study of the

role of accounting measures of program activities. *The accounting review,* 77 (3), 679-693.
BAC, M., 2002. Restricted charitable donations and the "cy pres" doctrine. *European Journal of Law and Economics,* 14(1), 15-25.
BACKER, L. 2007. Engaging stakeholders in corporate environmental governance. *Business and Society Review,* 112 (1), 29-54.
BACQ, S. & EDDLESTON, K. A. 2018. A resource-based view of social entrepreneurship: how stewardship culture benefits scale of social impact. *Journal of Business Ethics,* 152 (3), 589-611.
BAI, G. 2013. How do board size and occupational background of directors influence social performance in for-profit and non-profit organizations? Evidence from California hospitals. *Journal of Business Ethics,* 118 (1), 171-187.
BAKER, L., HARRIS, M., MORAN, R. & MORGAN, G. 2012. The impact of the public benefit requirement in the Charities Act 2006: Perceptions, knowledge and experience. Liverpool, UK Charity Commission.
BANKS, N., HULME, D. & EDWARDS, M. 2015. NGOs, states, and donors revisited: Still too close for comfort? *World Development,* 66, 707-718.
BARNETT, M. L. 2014. Why stakeholders ignore firm misconduct: A cognitive view. *Journal of Management,* 40 (3), 676-702.
BAUCUS, M. S. & NEAR, J. P. 1991. Can illegal corporate behavior be predicted? An event history analysis. *Academy of Management Journal,* 34 (1), 9-36.
BAUMÜLLER, J. Audits in the Nonprofit Sector: Current Challenges from the Perspective of German-Speaking Countries. International Conference on Accounting and Finance (AT). Proceedings, 2013. Global Science and Technology Forum, 163.
BEASLEY, M. S. 1996. An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting review,* 71 (4), 443-465.
BEASLEY, M. S., CARCELLO, J. V. & HERMANSON, D. R. 1999. Fraudulent financial reporting: 1987-1997: An analysis of US public companies. . *Committee of Sponsoring Organizations of the Treadway Commission*.
BEASLEY, M. S., CARCELLO, J. V. & HERMANSON, D. R. 2001. Top 10 audit deficiencies. *Journal of Accountancy,* 191 (4), 63.
BEASLEY, M. S., CARCELLO, J. V., HERMANSON, D. R. & LAPIDES, P. D. 2000. Fraudulent financial reporting: Consideration of industry traits and corporate governance mechanisms. *Accounting Horizons,* 14 (4), 441-454.
BEATTIE, V. 2014. Accounting narratives and the narrative turn in accounting research: Issues, theory, methodology, methods and a research framework. *The British Accounting Review,* 46 (2), 111-134.

BEATTIE, V., GOODACRE, A. & MASOCHA, W. The determinants of auditor changes in the voluntary sector: Evidence from UK charities. National Auditing Conference, University of Manchester, 2006.
BEATTIE, V., GOODACRE, A., PRATT, K. & STEVENSON, J. 2001. The determinants of audit fees—Evidence from the voluntary sector. *Accounting and Business Research,* 31 (4), 243-274.
BEAVER, W. H. 1966. Financial ratios as predictors of failure. *Journal of accounting research,* 4, 71-111.
BEBBINGTON, J., BROWN, J. & FRAME, B. 2007. Accounting technologies and sustainability assessment models. *Ecological economics,* 61 (2-3), 224-236.
BEBCHUK, L. A., CREMERS, K. M. & PEYER, U. C. 2011. The CEO pay slice. *Journal of Financial Economics,* 102 (1), 199-221.
BEBCHUK, L. A., FRIED, J. M. & WALKER, D. I. 2002. Managerial power and rent extraction in the design of executive compensation. *National bureau of economic research (Working Paper)*, 1-98.
BECKER, G. S. & STIGLER, G. J. 1974. Law enforcement, malfeasance, and compensation of enforcers. *The Journal of Legal Studies,* 3 (1), 1-18.
BEHN, B. K., DEVRIES, D. D. & LIN, J. 2010. The determinants of transparency in nonprofit organizations: An exploratory study. *Advances in Accounting,* 26 (1), 6-12.
BELAL, A. R. 2002. Stakeholder accountability or stakeholder management: a review of UK firms' social and ethical accounting, auditing and reporting (SEAAR) practices. *Corporate Social Responsibility and Environmental Management,* 9 (1), 8-25.
BELL, T., SZYKOWNY, S. & WILLINGHAM, J. J. 1991. Assessing the likelihood of fraudulent financial reporting: A cascaded logit approach. *Unpublished Manuscript, April*.
BELL, T. B. & CARCELLO, J. V. 2000. A decision aid for assessing the likelihood of fraudulent financial reporting. *Auditing: A Journal of Practice & Theory,* 19 (1), 169-184.
BELLANTE, G., BERARDI, L., EYNAUD, P., NISSI, E. & REA, M.A., 2016. NPO's governance and accountability practices. A comparative analysis between Italy and France. I*l governo aziendale tra tradizioneed innovazione. Atti convegno Sidrea*
BEN-NER, A., REN, T. & PAULSON, D. F. 2011. A sectoral comparison of wage levels and wage inequality in human services industries. *Nonprofit and Voluntary Sector Quarterly,* 40 (4), 608-633.
BENDEL, R. B. & AFIFI, A. A. 1977. Comparison of stopping rules in forward "stepwise" regression. *Journal of the American Statistical association,* 72 (357), 46-53.
BENJAMIN, L. M. 2008. Account space: How accountability requirements shape nonprofit practice. *Nonprofit and Voluntary Sector Quarterly,* 37 (2), 201-223.

BENJAMIN, L. M. 2010. Funders as principals. *Nonprofit Management and Leadership,* 20 (4), 383-403.
BENSON, M. L., MADENSEN, T. D. & ECK, J. E. 2009. White-collar crime from an opportunity perspective. *The criminology of white-collar crime,* 3, 175-193.
BERGER, B., 2009. Political theory, political science and the end of civic engagement. Perspectives on politics, 7(2), pp.335-350.
BERGSTRESSER, D. & PHILIPPON, T. 2006. CEO incentives and earnings management. *Journal of financial economics,* 80 (3), 511-529.
BERLE, A. & MEANS, G. 1932. The Modern Corporation and Private Property Macmillan. *New York*.
BERMAN, G. & DAVIDSON, S. 2003. Do donors care? Some Australian evidence. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 14 (4), 421-429.
BERNSTEIN, R., BUSE, K. & BILIMORIA, D. 2016. Revisiting agency and stewardship theories. *Nonprofit Management and Leadership,* 26 (4), 489-498.
BIRD, P. & MORGAN-JONES, P. 1981. *Financial Reporting by Charities: Report of a Research Study Supported by the Research Sub-Committee of the Institute of Chartered Accountants in England & Wales,* Institute of Chartered Accountants in England and Wales.
BLUMBERG, B. F., COOPER, D. R. & SCHINDLER, P. S. 2014. *Business research methods,* 4th ed., McGraw-Hill education.
BOATENG, A., AKAMAVI, R. K. & NDORO, G. 2016. Measuring performance of non - profit organisations: evidence from large charities. *Business Ethics: A European Review,* 25 (1), 59-74.
BORIS, E. T., DE LEON, E., ROEGER, K. L. & NIKOLOVA, M. 2010. Human service nonprofits and government collaboration. *Washington, DC: Urban Institute*, 1-37.
BOSSE, D. A. & PHILLIPS, R. A. 2016. Agency theory and bounded self-interest. *Academy of Management Review,* 41 (2), 276-297.
BOURGEOIS III, L. J. 1980. Strategy and environment: A conceptual integration. *Academy of management review,* 5 (1), 25-39.
BOVENS, M. 2007. Analysing and assessing accountability: A conceptual framework. *European law journal,* 13 (4), 447-468.
BOVENS, M. A. 2006. Analysing and Assessing Public Accountability. A Conceptual Framework. *European Governance Papers (EUROGOV)*.
BOWEN, R. M., CALL, A. C. & RAJGOPAL, S. 2010. Whistle-blowing: Target firm characteristics and economic consequences. *The Accounting Review,* 85 (4), 1239-1271.
BRADLEY, J. M. 2014. Empowering employees to prevent fraud in nonprofit organizations. *Cardozo: Public Law, Policy and Ethics Journal,* 13, 711-738.

BRADLEY, B., JANSEN, P. & SILVERMAN, L., 2003. The nonprofit sector's $100 billion opportunity. *Harvard business review*, 81(5), 94-103.

BRADSHAW, P., MURRAY, V. AND WOLPIN, J., 1992. Do nonprofit boards make a difference? An exploration of the relationships among board structure, process, and effectiveness. *Nonprofit and voluntary sector quarterly*, 21(3), 227-249.

BRAMMER, S. & MILLINGTON, A. 2004. Stakeholder pressure, organizational size, and the allocation of departmental responsibility for the management of corporate charitable giving. *Business & Society,* 43 (3)**,** 268-295.

BRAZEL, J. F., JONES, K. & ZIMBELMAN, M. F. 2006. What can nonfinancial measures tell us about the likelihood of fraud. *Unpublished working paper*.

BRAZEL, J. F., JONES, K. L., THAYER, J. & WARNE, R. C. 2015. Understanding investor perceptions of financial statement fraud and their use of red flags: evidence from the field. *Review of Accounting Studies,* 20 (4)**,** 1373-1406.

BRAZEL, J. F., JONES, K. L. & ZIMBELMAN, M. F. 2009. Using nonfinancial measures to assess fraud risk. *Journal of Accounting Research,* 47 (5)**,** 1135-1166.

BREAKWELL, G. M. 1993. *Integrating paradigms, methodological implications,* New York, NY, US, Clarendon Press/Oxford University Press.

BREEN, O. B. 2013. The disclosure panacea: a comparative perspective on charity financial reporting. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 24 (3)**,** 852-880.

BRENNAN, N. M. & SOLOMON, J. 2008. Corporate governance, accountability and mechanisms of accountability: an overview. *Accounting, Auditing & Accountability Journal,* 21 (7)**,** 885-906.

BRICKLEY, J. A. & VAN HORN, R. L. 2002. Managerial incentives in nonprofit organizations: Evidence from hospitals. *The Journal of Law and Economics,* 45 (1)**,** 227-249.

BRIGHAM, E.F. & DAVES, P.R. 2004, Intermediate Financial Management, 8th ed., Thomson South

BRITTON, R. A. 2008. Making disclosure regulation work in the nonprofit sector. *University of Illinois Law Review 2008(1)***,** 437-458.

BROADBENT, J., DIETRICH, M. & LAUGHLIN, R. 1996. The development of principal–agent, contracting and accountability relationships in the public sector: Conceptual and cultural problems. *Critical perspectives on accounting,* 7 (3)**,** 259-284.

BROADBENT, J. & LAUGHLIN, R. 2013. *Accounting control and controlling accounting: Interdisciplinary and critical perspectives,* London, UK, Emerald Group Publishing.

BROADBENT, J. & UNERMAN, J. 2011. Developing the relevance of the accounting academy: The importance of drawing from the diversity of research approaches. *Meditari accountancy research,* 19 (1/2), 7-21.
BRODY, E. 2002. Accountability and public trust. *In:* SALAMON, L. M. (ed.) *The state of nonprofit America.* Washington, DC, 471-498.
BROMLEY, P. & ORCHARD, C. D. 2016. Managed morality: The rise of professional codes of conduct in the US nonprofit sector. *Nonprofit and Voluntary Sector Quarterly,* 45 (2), 351-374.
BROWN, W. A. 2002. Inclusive governance practices in nonprofit organizations and implications for practice. *Nonprofit Management and Leadership,* 12 (4), 369-385.
BROWN, W. A. 2005. Exploring the association between board and organizational performance in nonprofit organizations. *Nonprofit Management and Leadership,* 15 (3), 317-339.
BROWN, W. A. & GUO, C. 2010. Exploring the key roles for nonprofit boards. *Nonprofit and Voluntary Sector Quarterly,* 39 (3), 536-546.
BROWN, W. A., HILLMAN, A. J. & OKUN, M. A. 2012. Factors that influence monitoring and resource provision among nonprofit board members. *Nonprofit and voluntary sector quarterly,* 41 (1), 145-156.
BRUCE, I. AND CHEW, C. 2011. The marketization of the voluntary sector. *Public Money & Management*, 31(3), 155–157.
BRYANT, P. & DAVIS, C. 2012. Regulated change effects on boards of directors: A look at agency theory and resource dependency theory. *Academy of Strategic Management Journal,* 11 (2), 1.
BRYMAN, A. 2015. *Social Research Methods,* 5th ed. UK, Oxford University Press.
BRYMAN, A. & BELL, E. 2015. *Business Research Methods,* 4th ed. UK, Oxford University Press.
BRYSON, J. M. 2004. What to do when stakeholders matter: stakeholder identification and analysis techniques. *Public management review,* 6 (1), 21-53.
BURGER, R. & OWENS, T. 2011. Receive grants or perish? The survival prospects of African nongovernmental organizations. *CREDIT Research Paper,* 11 (7), 1-34.
BURGER, R., 2012. Reconsidering the case for enhancing accountability via regulation. VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 23(1), pp.85-108.
BURKE, D. D. & SANNEY, K. J. 2018. Applying the Fraud Triangle to Higher Education: Ethical Implications. *Journal of Legal Studies Education,* 35 (1), 5-43.
BURNS, N. & KEDIA, S. 2006. The impact of performance-based compensation on misreporting. *Journal of financial economics,* 79 (1), 35-67.

BURRELL, G. & MORGAN, G. 1979. *Sociological Paradigms and Organisational Analysis,* 1st ed. London, UK, Heinemann.
BUSE, K., BERNSTEIN, R. S. & BILIMORIA, D. 2016. The influence of board diversity, board diversity policies and practices, and board inclusion behaviors on nonprofit governance practices. *Journal of Business Ethics,* 133 (1), 179-191.
BUTTON, M., LEWIS, C., SHEPHERD, D., BROOKS, G. & WAKEFIELD, A. 2012. Fraud and punishment: enhancing deterrence through more effective sanctions: main report.
BYRD, J. W. & HICKMAN, K. A. 1992. Do outside directors monitor managers?: Evidence from tender offer bids. *Journal of financial economics,* 32 (2), 195-221.
CADBURY, A., 1992. The code of best practice. Report of the Committee on the Financial Aspects of Corporate Governance, Gee and Co Ltd, 27.
CAERS, R., BOIS, C. D., JEGERS, M., GIETER, S. D., SCHEPERS, C. & PEPERMANS, R. 2006. Principal‐agent relationships on the stewardship‐agency axis. *Nonprofit Management and Leadership,* 17 (1), 25-47.
CAERS, R., DU BOIS, C., JEGERS, M., DE GIETER, S., DE COOMAN, R. & PEPERMANS, R. 2009. A micro-economic perspective on manager selection in nonprofit organizations. *European Journal of Operational Research,* 192 (1), 173-197.
CALLEN, J. L. & FALK, H. 1993. Agency and efficiency in nonprofit organizations: The case of" specific health focus" charities. *Accounting Review,* 68 (1), 48-65.
CALLEN, J. L., KLEIN, A. & TINKELMAN, D. 2003. Board composition, committees, and organizational efficiency: The case of nonprofits. *Nonprofit and voluntary sector quarterly,* 32 (4), 493-520.
CALLEN, J. L., KLEIN, A. & TINKELMAN, D. 2010. The contextual impact of nonprofit board composition and structure on organizational performance: Agency and resource dependence perspectives. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 21 (1), 101-125.
CAMPOS, J. E. & PRADHAN, S. 2007. *The many faces of corruption: tracking vulnerabilities at the sector level,* World Bank Publications.
CANDLER, G. & DUMONT, G. 2010. A non‐profit accountability framework. *Canadian Public Administration,* 53 (2), 259-279.
CANTONI, E., D'SILVA, K. E. & ISAACS, M. 2011. The determinants of audit fees. Further evidence from the UK charity sector. *Center for International Business Studies (CIBS) Working Paper, (2-10)*, 3-42.

CARACELLI, V. J. & GREENE, J. C. 1997. Crafting mixed - method evaluation designs. *New directions for evaluation,* 1997 (74), 19-32.
CARBERRY, E. J., ENGELEN, P.-J. & VAN ESSEN, M. 2018. Which firms get punished for unethical behavior? Explaining variation in stock market reactions to corporate misconduct. *Business Ethics Quarterly,* 28 (2), 119-151.
CARCELLO, J. V. & NAGY, A. L. 2004. Audit firm tenure and fraudulent financial reporting. *Auditing: A Journal of Practice & Theory,* 23 (2), 55-69.
CARMAN, J. G. 2010. The accountability movement: What's wrong with this theory of change? *Nonprofit and Voluntary Sector Quarterly,* 39 (2), 256-274.
CARMAN, J. G. 2011. Understanding evaluation in nonprofit organizations. *Public Performance & Management Review,* 34 (3), 350-377.
CARSON, T. L. 2003. Self–interest and business ethics: Some lessons of the recent corporate scandals. *Journal of Business Ethics,* 43 (4), 389-394.
CASKEY, J. & HANLON, M. 2013. Dividend policy at firms accused of accounting fraud. *Contemporary Accounting Research,* 30 (2), 818-850.
CASSELL, C. 2005. Creating the interviewer: identity work in the management research process. *Qualitative research,* 5 (2), 167-179.
CASTROGIOVANNI, G. J. 2002. Organization task environments: Have they changed fundamentally over time? *Journal of Management,* 28 (2), 129-150.
CHAMBERS, A. D. & ODAR, M. 2015. A new vision for internal audit. *Managerial Auditing Journal,* 30 (1), 34-55.
CHANDLER, D. 2015. Why institutions matter: Stakeholder attention to organizational ethics commitments. *Institutions and Ideals: Philip Selznick's Legacy for Organizational Studies.* Emerald Group Publishing Limited, 199-233.
CHANG, Y. K., OH, W.-Y., PARK, J. H. & JANG, M. G. 2017. Exploring the relationship between board characteristics and CSR: Empirical evidence from Korea. *Journal of Business Ethics,* 140 (2), 225-242.
CHARLTON, B. 2002. Audit, accountability, quality and all that: The growth of managerial technologies in UK universities. *In:* ERSKINE-HILL, S. P. P. (ed.) *Education! education! education!—Managerial ethics and the law of unintended consequences.* Thorverton, UK: Imprint Academic, 13-28.
CHAU, L. L.-F. & SIU, W.-S. 2000. Ethical decision-making in corporate entrepreneurial organizations. *Journal of Business Ethics,* 23 (4), 365-375.

CHEN, G., 2009. Does meeting standards affect charitable giving? An empirical study of New York metropolitan area charities. *Nonprofit Management and Leadership*, 19(3), 349-365.
CHEN, J., CUMMING, D., HOU, W. & LEE, E. 2016. CEO accountability for corporate fraud: Evidence from the split share structure reform in China. *Journal of Business Ethics,* 138 (4)**,** 787-806.
CHEN, Q. 2016. Director Monitoring of Expense Misreporting in Nonprofit Organizations: The Effects of Expense Disclosure Transparency, Donor Evaluation Focus and Organization Performance. *Contemporary Accounting Research,* 33 (4)**,** 1601-1624.
CHEN, X., REN, T. & KNOKE, D. 2014. Do Nonprofits Treat Their Employees Differently? Incentive Pay and Health Benefits. *Nonprofit Management and Leadership,* 24 (3)**,** 285-306.
CHET MILLER, C., OGILVIE, D. & GLICK, W. H. 2006. Assessing the external environment: an enrichment of the archival tradition. *Research methodology in strategy and management.* Emerald Group Publishing Limited**,** 97-122.
CHOO, F. & TAN, K. 2007. An "American Dream" theory of corporate executive Fraud. *Accounting forum,* 31 (2)**,** 203-215.
CHRISTENSEN, R. A. & EBRAHIM, A. 2006. How does accountability affect mission? The case of a nonprofit serving immigrants and refugees. *Nonprofit Management and Leadership,* 17 (2)**,** 195-209.
CLIFFORD, D. & MOHAN, J. 2016. The sources of income of English and Welsh charities: an organisation-level perspective. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 27 (1)**,** 487-508.
COFFEE, J. C. 2006. *Gatekeepers: The professions and corporate governance,* 1st ed., Oxford University Press on Demand.
COHEN, J., COHEN, P., WEST, S. G. & AIKEN, L. S. 2013. *Applied multiple regression/correlation analysis for the behavioral sciences,* Routledge.
COHEN, J., DING, Y., LESAGE, C. & STOLOWY, H. 2012. Corporate fraud and managers' behavior: Evidence from the press. *In:* CRESSY R., C. D., MALLIN C. (ed.) *Entrepreneurship, governance and ethics.* 1 ed.: Springer**,** 271-315.
COLES, J. L., DANIEL, N. D. & NAVEEN, L. 2008. Boards: Does one size fit all? *Journal of financial economics,* 87 (2)**,** 329-356.
COLLIER, P. M. 2008. Stakeholder accountability: A field study of the implementation of a governance improvement plan. *Accounting, Auditing & Accountability Journal,* 21 (7)**,** 933-954.
COLLIS, J. & HUSSEY, R. 2013. *Business Research: A Practical Guide for Undergraduate and Postgraduate Students,* 4th ed., Palgrave Macmillan.

COLVIN, M., CULLEN, F. T. & VEN, T. V. 2002. Coercion, social support, and crime: An emerging theoretical consensus. *Criminology,* 40 (1), 19-42.
COMMISION, C. 2019. *Charity Setup* [Online]. Available: https://www.gov.uk/setting-up-charity/register-your-charity [Accessed 14.09.2019 2019].
COMMISSION, C. 2013a. *Fraud, Financial crime, Financial Abuse (2013)* [Online]. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/422600/Fraud_strategy.pdf [Accessed 19.08.2019 2019].
COMMISSION, C. 2013b. *Payments to charity trustees: what the rules are* [Online]. Available: https://www.gov.uk/guidance/payments-to-charity-trustees-what-the-rules-are [Accessed 09.08.2019 2019].
COMMISSION, C. 2013c. *Protecting charities from harm: compliance toolkit* [Online]. Available: https://www.gov.uk/government/collections/protecting-charities-from-harm-compliance-toolkit [Accessed 23.08.2019 2019].
COMMISSION, C. 2014a. *Charity types: how to choose a structure (CC22a)* [Online]. Available: https://www.gov.uk/guidance/charity-types-how-to-choose-a-structure [Accessed 13.09.2019 2019].
COMMISSION, C. 2014b. *Trustee Board* [Online]. Available: https://www.gov.uk/guidance/trustee-board-people-and-skills [Accessed 18 August 2019 2019].
COMMISSION, C. 2014c. How to write your charity's governing document (CC22b) https://www.gov.uk/guidance/how-to-write-your-charitys-governing-document [Accessed 18 March 2020 2020]
COMMISSION, C. 2014-15. *Tackling Abuse and Mismanagement, (2014-15)* [Online]. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486755/Tackling_abuse_and_mismanagement_PDF_master_web.pdf [Accessed 13.09.2019 2019].
COMMISSION, C. 2015-16. *Charity Commission Annual Report. (2015-16)* [Online]. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537713/Charity_Commission_Annual_Report_and_Accounts_2015_16.pdf [Accessed 12.09.2019 2019].
COMMISSION, C. 2016a. *Charity Reporting and Accounting. (2016)* [Online]. Available: https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d/charity-reporting-and-accounting-the-essentials-november-2016-cc15d--2 [Accessed 13.09.2019 2019].

COMMISSION, C. 2016b. *Official warnings to charities and trustees: Q and A* [Online]. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576625/Official_warnings_to_charities_and_trustees_Q_and_A.pdf [Accessed 27.08.2019 2019].

COMMISSION, C. 2017. *Independent examination of charity accounts* [Online]. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672779/CC32_-_Independent_examination_of_charity_accounts.pdf [Accessed 13.09.2019 2019].

COMMISSION, C. 2018a. *Annex 1: The Charity Commission's approach to tackling abuse and mismanagement 2017* [Online]. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/677395/Annex_1_The_CC_approach_to_tackling_abuse_and_mismanagement.pdf [Accessed 13.09.2019 2019].

COMMISSION, C. 2018b. *Charity Commission Statement of Strategic Intent 2018-2023* [Online]. Available: https://www.gov.uk/government/publications/charity-commission-strategy-2018-2023/charity-commission-statement-of-strategic-intent-2018-2023 [Accessed 14.09.2019 2019].

COMMISSION, C. 2018c. *Facts on Charities* [Online]. Available: http://apps.charitycommission.gov.uk/showcharity/registerofcharities/SectorData/SectorOverview.aspx [Accessed 13.09.2019.

COMMISSION, C. 2018d. *Focus on insider fraud: research report* [Online]. Available: https://www.gov.uk/government/publications/focus-on-insider-fraud-in-charities/focus-on-insider-fraud-research-report [Accessed 15.09.2019 2019].

COMMISSION, C. 2018e. *Tackling abuse and mismanagement 2016-17* [Online]. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/679736/TAM_Annex_3_statistical_analysis_February_18_v1.1.pdf [Accessed 13.09.2019 2019].

COMMISSION, C. 2018-2019. *Charity Commission Annual Report 2018-2019* [Online]. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/814656/Charity_Commission_Annual_Report_2019_2019.pdf [Accessed 13.09.2019 2019].

COMMITTEE, P. A. 2013. *Third Report The role of the Charity Commission and "public benefit": Post-legislative scrutiny of the Charities Act 2006* [Online]. Available:

https://publications.parliament.uk/pa/cm201314/cmselect/cmpubadm/76/76.pdf [Accessed 13.09.2019 2019].
COMMITTEE, P. A. A. C. A. 2015-16. *The collapse of Kids Company* [Online]. Available: https://publications.parliament.uk/pa/cm201516/cmselect/cmpubadm/433/433.pdf [Accessed 14.09.2019 2019].
CONNOLLY, C. & DHANANI, A. 2009. Narrative Reporting by UK charities: Association of Chartered Certified Accountants. Research Report.
CONNOLLY, C., DHANANI, A. & HYNDMAN, N. 2013a. The accountability mechanisms and needs of external charity stakeholders. ACCA Report.
CONNOLLY, C. & DHANANI, A. V. 2006. Accounting narratives: The reporting practices of British charities. *Journal for Public and Nonprofit Services,* 35 (1), 39-62.
CONNOLLY, C. & HYNDMAN, N. 2000. Charity accounting: An empirical analysis of the impact of recent changes. *The British Accounting Review,* 32 (1), 77-100.
CONNOLLY, C. & HYNDMAN, N. 2001. A comparative study on the impact of revised SORP 2 on British and Irish charities. *Financial Accountability & Management,* 17 (1), 73-97.
CONNOLLY, C. & HYNDMAN, N. 2003. Performance reporting by UK charities: Approaches, difficulties and current practice. Institute of Chartered Accountants of Scotland Edinburgh.
CONNOLLY, C. & HYNDMAN, N. 2004. Performance reporting: a comparative study of British and Irish charities. *The British accounting review,* 36 (2), 127-154.
CONNOLLY, C. & HYNDMAN, N. 2013a. Charity accountability in the UK: through the eyes of the donor. *Qualitative Research in Accounting & Management,* 10 (3/4), 259-278.
CONNOLLY, C. & HYNDMAN, N. 2013b. Towards Charity Accountability: Narrowing the gap between provision and needs? *Public Management Review,* 15 (7), 945-968.
CONNOLLY, C. & HYNDMAN, N. 2017. The donor–beneficiary charity accountability paradox: a tale of two stakeholders. *Public Money & Management,* 37 (3), 157-164.
CONNOLLY, C., HYNDMAN, N. & MCCONVILLE, D. 2011. Research in charity accounting and reporting: A fertile field for exploration. *Irish Accounting Review,* 18 (2), 1-30.
CONNOLLY, C., HYNDMAN, N. & MCCONVILLE, D. 2013b. Conversion ratios, efficiency and obfuscation: a study of the impact of changed UK charity accounting requirements on external stakeholders. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 24 (3), 785-804.

CONNOLLY, C., HYNDMAN, N. & MCCONVILLE, D. 2013c. UK charity accounting: An exercise in widening stakeholder engagement. *The British Accounting Review,* 45 (1), 58-69.
CONNOLLY, C., HYNDMAN, N. & MCCONVILLE, D. 2015. UK Charity Accounting: Developments, Issues and Recent Research. *In:* HOQUE, Z. & PARKER, L. (eds.) *Performance management in nonprofit organizations: Global perspectives.* Routledge, 155-184.
CONTRAFATTO, M., THOMSON, I. & MONK, E. A. 2015. Peru, mountains and los niños: Dialogic action, accounting and sustainable transformation. *Critical Perspectives on Accounting,* 33, 117-136.
COOPER, S. M. & OWEN, D. L. 2007. Corporate social reporting and stakeholder accountability: The missing link. *Accounting, Organizations and Society,* 32 (7), 649-667.
CORAM, P., FERGUSON, C. & MORONEY, R. 2008. Internal audit, alternative internal audit structures and the level of misappropriation of assets fraud. *Accounting & Finance,* 48 (4), 543-559.
CORDERY, C., BELAL, A. R. & THOMSON, I. 2019. NGO accounting and accountability: past, present and future. Accounting Forum,. Taylor & Francis, 1-15.
CORDERY, C. J. & BASKERVILLE, R. F. 2005. Hegemony, stakeholder salience and the construction of accountability in the charity sector. *Centre for Accounting, Governance and Taxation Research Working Paper.* Victoria University.
CORDERY, C. J. & BASKERVILLE, R. F. 2007. Charity financial reporting regulation: a comparative study of the UK and New Zealand. *Accounting History,* 12 (1), 7-27.
CORDERY, C. J. & BASKERVILLE, R. F. 2011. Charity transgressions, trust and accountability. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 22 (2), 197-213.
CORDERY, C. J. & MORGAN, G. G. 2013. Special Issue on Charity Accounting, Reporting and Regulation. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 24 (3), 757-759.
CORDERY, C. J., SMITH, K. A. & BERGER, H. 2017. Future scenarios for the charity sector in 2045. *Public Money & Management,* 37 (3), 189-196.
CORNFORTH, C., 2001. What Makes Boards Effective? An examination of the relationships between board inputs, structures, processes and effectiveness in non - profit organisations. *Corporate Governance: An International Review*, 9(3), 217-227.
CORNFORTH, C. 2003. Contextualising non-profit governance: the influence of contextual factors on board characteristics and paradoxes. In: 19th European Group for Organizational Studies (EGOS) Colloquium: Organization Analysis Informing Social and Global Development, July 2003, Copenhagen,

CORNFORTH, C. 2014. Nonprofit governance research: The need for innovative perspectives and approaches. In C. Cornforth & W. A. Brown (Eds.), Nonprofit governance: Innovative perspectives and approaches. London and New York: Routledge.

CORNFORTH, C. 2012. Nonprofit governance research: Limitations of the focus on boards and suggestions for new directions. *Nonprofit and voluntary sector quarterly,* 41 (6), 1116-1135.

CORNFORTH, C. & SIMPSON, C. 2002. Change and continuity in the governance of nonprofit organizations in the United Kingdom: the impact of organizational size. *Nonprofit Management and Leadership,* 12 (4), 451-470.

CORNFORTH, C. & SIMPSON, C., 2003. The changing face of charity governance: the impact of organizational size. In: Cornforth, C.J. ed. The Governance of Public and Non-profit Organizations: what do boards do? Routledge Studies in the Management of Voluntary and Non-Profit Organizations. London: Routledge, 187–206.

CORNWALL, A., 2008. Unpacking 'Participation': models, meanings and practices. *Community development journal*, 43(3), pp.269-283.

COULE, T. M. 2015. Nonprofit governance and accountability: Broadening the theoretical perspective. *Nonprofit and Voluntary Sector Quarterly,* 44 (1), 75-97.

COUNCIL, S. 2014. *Fraud, Bribery and Money Laundering Offences Definitive Guideline* [Online]. Available: https://www.sentencingcouncil.org.uk/wp-content/uploads/Fraud-Bribery-and-Money-Laundering-offences-definitive-guideline-Web.pdf [Accessed 13.09.2019 2019].

COWEN, A. P. & MARCEL, J. J. 2011. Damaged goods: Board decisions to dismiss reputationally compromised directors. *Academy of Management Journal,* 54 (3), 509-527.

CRAWFORD, L., DUNNE, T., HANNAH, G. & STEVENSON, L. 2009. An exploration of Scottish charities' governance and accountability. *Edinburgh: Institute of Chartered Accountants in Scotland*.

CRAWFORD, L., MORGAN, G. G. & CORDERY, C. J. 2018. Accountability and not - for - profit organisations: Implications for developing international financial reporting standards. *Financial Accountability & Management,* 34 (2), 181-205.

CRAWFORD, R. L. & WEIRICH, T. R. 2011. Fraud guidance for corporate counsel reviewing financial statements and reports. *Journal of Financial Crime,* 18 (4), 347-360.

CRESSEY, D. R. 1953. *Other people's money; a study of the social psychology of embezzlement,* Glencoe, Ill, Free Press.

CRESWELL, J. W. 2013. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches,* 4th ed., SAGE Publications.

CRESWELL, J. W. & POTH, C. N. 2017. *Qualitative inquiry and research design: Choosing among five approaches,* 4th ed., Sage publications.
CROTTY, M. 1998. *The Foundations of Social Research: Meaning and Perspective in the Research Process,* SAGE Publications.
CUEVAS - RODRÍGUEZ, G., GOMEZ - MEJIA, L. R. & WISEMAN, R. M. 2012. Has agency theory run its course?: Making the theory more flexible to inform the management of reward systems. *Corporate Governance: An International Review,* 20 (6), 526-546.
CULLEN, F. T., HARTMAN, J. L. & JONSON, C. L. 2009. Bad guys: Why the public supports punishing white-collar offenders. *Crime, Law and Social Change,* 51 (1), 31-44.
CULLINAN, C. P. & SUTTON, S. G. 2002. Defrauding the public interest: a critical examination of reengineered audit processes and the likelihood of detecting fraud. *Critical Perspectives on Accounting,* 13 (3), 297-310.
CULPAN, R. & TRUSSEL, J. 2005. Applying the agency and stakeholder theories to the Enron debacle: An ethical perspective. *Business and Society Review,* 110 (1), 59-76.
CUMMING, D., LEUNG, T. Y. & RUI, O. 2015. Gender diversity and securities fraud. *Academy of management Journal,* 58 (5), 1572-1593.
CUTT, J. & MURRAY, V. 2002. *Accountability and effectiveness evaluation in nonprofit organizations,* 1st ed., Routledge.
DA SILVEIRA, A. D. M. 2015. Corporate Scandals of the 21st Century: limitations of mainstream corporate governance literature and the need for a new behavioral approach. *Available at SSRN 2181705*.
DAFT, R. L. 2015. *Organization theory and design,* Cengage learning.
DAINELLI, F., MANETTI, G. & SIBILIO, B. 2013. Web-based accountability practices in non-profit organizations: The case of national museums. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 24 (3), 649-665.
DALE, C. 2000. The UK tour-operating industry: A competitive analysis. *Journal of Vacation Marketing,* 6 (4), 357-367.
DAUDIGEOS, T., ROULET, T. & VALIORGUE, B. 2018. How scandals act as catalysts of fringe stakeholders' contentious actions against multinational corporations. *Business & Society*, 1-32.
DAVIS, G. F. 1996. The significance of board interlocks for corporate governance. *Corporate Governance: An International Review,* 4 (3), 154-159.
DAVIS, G. F. & THOMPSON, T. A. 1994. A social movement perspective on corporate control. *Administrative science quarterly,* 39 (1), 141-173.

DAVIS, J. H., SCHOORMAN, F. D. & DONALDSON, L. 1997. Toward a stewardship theory of management. *Academy of Management review,* 22 (1), 20-47.

DE ANDRÉS-ALONSO, P., CRUZ, N.M. AND ROMERO-MERINO, M.E., 2006. The governance of nonprofit organizations: Empirical evidence from nongovernmental development organizations in Spain. Nonprofit and Voluntary Sector Quarterly, 35(4), pp.588-604.

DE ANDRÉS-ALONSO, P., AZOFRA-PALENZUELA, V. & ROMERO-MERINO, M. E. 2009. Determinants of nonprofit board size and composition: The case of Spanish foundations. *Nonprofit and Voluntary Sector Quarterly,* 38 (5), 784-809.

DE COOMAN, R., DE GIETER, S., PEPERMANS, R. & JEGERS, M. 2011. A cross-sector comparison of motivation-related concepts in for-profit and not-for-profit service organizations. *Nonprofit and Voluntary Sector Quarterly,* 40 (2), 296-317.

DE LOO, I. & LOWE, A. 2011. Mixed methods research: don't–"just do it". *Qualitative Research in Accounting & Management,* 8 (1), 22-38.

DECHOW, P. M., SLOAN, R. G. & SWEENEY, A. P. 1996. Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the SEC. *Contemporary accounting research,* 13 (1), 1-36.

DEEGAN, C. 2002. Introduction: The legitimising effect of social and environmental disclosures–a theoretical foundation. *Accounting, Auditing & Accountability Journal,* 15 (3), 282-311.

DELLAPORTAS, S., LEUNG, P., COOPER, B.J., LARY, A.M. & TAYLOR, D.W., 2012. Governance characteristics and role effectiveness of audit committees. Managerial Auditing Journal. 27 (4), 336-354.

DELLAPORTAS, S. 2013. Conversations with inmate accountants: Motivation, opportunity and the fraud triangle. *Accounting forum,* 37 (1), 29-39.

DENEDO, M., THOMSON, I. & YONEKURA, A. 2019. Ecological damage, human rights and oil: local advocacy NGOs dialogic action and alternative accounting practices. *Accounting Forum,* 43 (1), 85-112.

DENZIN, N. K. & LINCOLN, Y. S. 2017. *The SAGE Handbook of Qualitative Research,* 1st ed., SAGE Publications.

DESAI, M. A. & YETMAN, R. J. 2005. Constraining managers without owners: Governance of the not-for-profit enterprise. National Bureau of Economic Research.

DESS, G. G. & BEARD, D. W. 1984. Dimensions of organizational task environments. *Administrative science quarterly*, 52-73.

DEVOS, E., PREVOST, A. & PUTHENPURACKAL, J. 2009. Are interlocked directors effective monitors? *Financial Management,* 38 (4), 861-887.

DHANANI, A. 2009. Accountability of UK charities. *Public Money & Management,* 29 (3), 183-190.
DHANANI, A. & CONNOLLY, C. 2012. Discharging not-for-profit accountability: UK charities and public discourse. *Accounting, Auditing & Accountability Journal,* 25 (7), 1140-1169.
DHANANI, A. & CONNOLLY, C. 2015. Non-governmental organizational accountability: Talking the talk and walking the walk? *Journal of Business Ethics,* 129 (3), 613-637.
DICKE, L. A. & OTT, J. S. 2002. A test: can stewardship theory serve as a second conceptual foundation for accountability methods in contracted human services? *International Journal of Public Administration,* 25 (4), 463-487.
DILL, W. R. 1958. Environment as an influence on managerial autonomy. *Administrative science quarterly,* 2 (4), 409-443.
DIMAGGIO, P. & POWELL, W. W. 1983. The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review,* 48 (2), 147-160.
DONALDSON, L. & DAVIS, J. H. 1991. Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of management,* 16 (1), 49-64.
DONALDSON, L. & DAVIS, J. H. 1994. Boards and company performance - research challenges the conventional wisdom. *Corporate governance: An international review,* 2 (3), 151-160.
DONALDSON, T. & PRESTON, L. E. 1995. The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of management Review,* 20 (1), 65-91.
DONELSON, D. C., EGE, M. S. & MCINNIS, J. M. 2016. Internal control weaknesses and financial reporting fraud. *Auditing: A Journal of Practice & Theory,* 36 (3), 45-69.
DONEY, P. M., CANNON, J. P. & MULLEN, M. R. 1998. Understanding the influence of national culture on the development of trust. *Academy of management review,* 23 (3), 601-620.
DORMANN, C. F., ELITH, J., BACHER, S., BUCHMANN, C., CARL, G., CARRÉ, G., MARQUÉZ, J. R. G., GRUBER, B., LAFOURCADE, B. & LEITÃO, P. J. 2013. Collinearity: a review of methods to deal with it and a simulation study evaluating their performance. *Ecography,* 36 (1), 27-46.
DORMINEY, J., FLEMING, A. S., KRANACHER, M.-J. & RILEY JR, R. A. 2012. The evolution of fraud theory. *Issues in Accounting Education,* 27 (2), 555-579.
DOYLE, J., GE, W. & MCVAY, S. 2007. Determinants of weaknesses in internal control over financial reporting. *Journal of accounting and Economics,* 44 (1), 193-223.

DREISEITL, S. & OHNO-MACHADO, L. 2002. Logistic regression and artificial neural network classification models: a methodology review. *Journal of biomedical informatics,* 35 (5), 352-359.
DRISKO, J. W. & MASCHI, T. 2015. *Content analysis,* 1st ed., Pocket Guides to Social Work Research Methods.
DU BOIS, C., CAERS, R., JEGERS, M., DE COOMAN, R., DE GIETER, S. & PEPERMANS, R. 2009. Agency conflicts between board and manager. *Nonprofit Management and Leadership,* 20 (2), 165-183.
DU JARDIN, P. 2015. Bankruptcy prediction using terminal failure processes. *European Journal of Operational Research,* 242 (1), 286-303.
DUBNICK, M.J., 2003. *Accountability through thick and thin: Preliminary explorations*. Institute of Governance Public Policy and Social Research, Queen's University: Belfast, UK.
DUNCAN, R. B. 1972. Characteristics of organizational environments and perceived environmental uncertainty. *Administrative science quarterly,* 17 (3), 313-327.
DUNN, P. 2010. Strategic responses by a nonprofit when a donor becomes tainted. *Nonprofit and Voluntary Sector Quarterly,* 39 (1), 102-123.
DURU, A., IYENGAR, R. J. & ZAMPELLI, E. M. 2016. The dynamic relationship between CEO duality and firm performance: The moderating role of board independence. *Journal of Business Research,* 69 (10), 4269-4277.
DUTTA, I., DUTTA, S. & RAAHEMI, B. 2017. Detecting financial restatements using data mining techniques. *Expert Systems with Applications,* 90, 374-393.
DUVANOVA, D. 2014. Economic regulations, red tape, and bureaucratic corruption in post-communist economies. *World Development,* 59, 298-312.
EBRAHIM, A. 2003a. Accountability in practice: Mechanisms for NGOs. *World development,* 31 (5), 813-829.
EBRAHIM, A. 2003b. Making sense of accountability: Conceptual perspectives for northern and southern nonprofits. *Nonprofit Management and Leadership,* 14 (2), 191-212.
EBRAHIM, A. 2005. Accountability myopia: Losing sight of organizational learning. *Nonprofit and voluntary sector quarterly,* 34 (1), 56-87.
EDMONDSON, A. C. & MCMANUS, S. E. 2007. Methodological fit in management field research. *Academy of management review,* 32 (4), 1246-1264.
EDWARDS, M. & HULME, D. 1995. *Non-governmental organisations: performance and accountability beyond the magic bullet: NGO Performance and Accountability in the Post Cold-War World,* 1 ed. London and West Hartford., Earthscan.

EDWARDS, M. & HULME, D. 1996. Too close for comfort? The impact of official aid on nongovernmental organizations. *World development,* 24 (6), 961-973.
EFENDI, J., SRIVASTAVA, A. & SWANSON, E. P. 2007. Why do corporate managers misstate financial statements? The role of option compensation and other factors. *Journal of Financial Economics,* 85 (3), 667-708.
EGE, M. S. 2013. Does internal audit function quality deter management misconduct? *The Accounting Review,* 90 (2), 495-527.
EISENBERG, P. 2000. Why charities think they can regulate themselves. *Chronicle of Philanthropy*, 4, 45-7.
EISENHARDT, K. M. 1989. Agency theory: An assessment and review. *Academy of management review,* 14 (1), 57-74.
EKANAYAKE, S. 2004. Agency theory, national culture and management control systems. *Journal of American academy of business,* 4 (1/2), 49-54.
ENGDAHL, O. 2008. The role of money in economic crime. *The British Journal of Criminology,* 48 (2), 154-170.
ERBEN, G. S. & GÜNEŞER, A. B. 2008. The relationship between paternalistic leadership and organizational commitment: Investigating the role of climate regarding ethics. *Journal of Business Ethics,* 82 (4), 955-968.
ERICKSON, M., HANLON, M. & MAYDEW, E. L. 2006. Is there a link between executive equity incentives and accounting fraud? *Journal of Accounting Research,* 44 (1), 113-143.
FAMA, E. F. 1980. Agency Problems and the Theory of the Firm. *Journal of political economy,* 88 (2), 288-307.
FAMA, E. F. & JENSEN, M. C. 1983a. Agency problems and residual claims. *The Journal of Law and Economics,* 26 (2), 327-349.
FAMA, E. F. & JENSEN, M. C. 1983b. Separation of ownership and control. *The journal of law and Economics,* 26 (2), 301-325.
FANNING, K., COGGER, K. O. & SRIVASTAVA, R. 1995. Detection of management fraud: A neural network approach. *Intelligent Systems in Accounting, Finance and Management,* 4 (2), 113-126.
FANNING, K. M. & COGGER, K. O. 1998. Neural network detection of management fraud using published financial data. *International Journal of Intelligent Systems in Accounting, Finance & Management,* 7 (1), 21-41.
FARBER, D. B. 2005. Restoring trust after fraud: Does corporate governance matter? *The Accounting Review,* 80 (2), 539-561.
FASSIN, Y. 2008. Imperfections and shortcomings of the stakeholder model's graphical representation. *Journal of Business Ethics,* 80 (4), 879-888.
FASSIN, Y. 2012. Stakeholder management, reciprocity and stakeholder responsibility. *Journal of Business Ethics,* 109 (1), 83-96.

FERKINS, L. & SHILBURY, D. 2015. The stakeholder dilemma in sport governance: Toward the notion of "stakeowner". *Journal of sport management,* 29 (1), 93-108.
FERRIS, S. P., JAGANNATHAN, M. & PRITCHARD, A. C. 2003. Too busy to mind the business? Monitoring by directors with multiple board appointments. *The Journal of finance,* 58 (3), 1087-1111.
FIELD, A. 2009. *Discovering statistics using SPSS,* 3rd ed., Sage publications.
FIOL, C. M. 2001. Revisiting an identity-based view of sustainable competitive advantage. *Journal of Management,* 27 (6), 691-699.
FLACK, T. & RYAN, C. 2004. The role of the Annual Report in a Charitable Organisation: A'stakeholder'Perspective. *Brisbane, Queensland University of Technology*.
FLECKENSTEIN, M. P. & BOWES, J. C. 2000. When trust is betrayed: Religious institutions and white collar crime. *Journal of Business Ethics,* 23 (1), 111-115.
FOMBRUN, C. J., GARDBERG, N. A. & BARNETT, M. L. 2000. Opportunity platforms and safety nets: Corporate citizenship and reputational risk. *Business and society review,* 105 (1), 85-106.
FORSTER, N. 1994. The analysis of company documentation. *Qualitative methods in organizational research: a practical guide. London: Sage*, 147-66.
FOUNDATION, C. A. 2018. *Charities Aid Foundation (CAF) World Giving Index (2018)* [Online]. Available: https://www.cafonline.org/docs/default-source/about-us-publications/caf_wgi2018_report_webnopw_2379a_261018.pdf [Accessed 13.09.2019.
FOX, J. A. 2015. Social accountability: what does the evidence really say? *World Development,* 72, 346-361.
FRANKFORTER, S. A., BERMAN, S. L. & JONES, T. M. 2000. Boards of directors and shark repellents: Assessing the value of an agency theory perspective. *Journal of Management Studies,* 37 (3), 321-348.
FRAUD, C. F. C. 2017. *Annual Fraud Indicator Report* [Online]. University of Portsmouth, Centre for Counter Fraud Studies. Available: https://www.experian.co.uk/assets/identity-and-fraud/annual-fraud-indicator-report-2017.pdf [Accessed 11.09.2019 2019].
FREE, C. 2015. Looking through the fraud triangle: a review and call for new directions. *Meditari Accountancy Research,* 23 (2), 175-196.
FREE, C. & MURPHY, P. R. 2015. The Ties that Bind: The Decision to Co - Offend in Fraud. *Contemporary Accounting Research,* 32 (1), 18-54.
FREEMAN, R. 1984a. Stakeholder management: a strategic approach. *New York: Pitman*.
FREEMAN, R. E. 1984b. Stakeholder management: framework and philosophy. *Pitman, Mansfield, MA*.

FREEMAN, R. E. & REED, D. L. 1983. Stockholders and stakeholders: A new perspective on corporate governance. *California management review,* 25 (3), 88-106.
FREMONT-SMITH, M. R. 2004. Pillaging of charitable assets: Embezzlement and fraud. *Exempt Organization Tax Review,* 46 (33), 333-346.
FREMONT-SMITH, M. R. & KOSARAS, A. 2003. Wrongdoing by officers and directors of charities: A survey of press reports 1995-2002. *Hauser Center for Nonprofit Organizations Working Paper, (20).*
FRYDMAN, C. & JENTER, D. 2010. CEO compensation. *Annu. Rev. Financ. Econ.,* 2 (1), 75-102.
FURNEAUX, C. & WYMER, W. 2015. Public trust in Australian charities: Accounting for cause and effect. *Third Sector Review,* 21 (2), 99.
G20/OECD Principles of Governance, 2015 [Online]. OECD Library Available: https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf [Accessed] 11.03.2020 2020].
GABBIONETA, C., GREENWOOD, R., MAZZOLA, P. & MINOJA, M. 2013. The influence of the institutional context on corporate illegality. *Accounting, Organizations and Society,* 38 (6), 484-504.
GALES, L. M. & KESNER, I. F. 1994. An analysis of board of director size and composition in bankrupt organizations. *Journal of business research,* 30 (3), 271-282.
GALLE, B. & WALKER, D. I. 2016. Donor Reaction to Salient Disclosures of Nonprofit Executive Pay: A Regression-Discontinuity Approach. *Nonprofit and Voluntary Sector Quarterly,* 45 (4), 787-805.
GALLHOFER, S., HASLAM, J. & YONEKURA, A. 2015. Accounting as differentiated universal for emancipatory praxis: accounting delineation and mobilisation for emancipation (s) recognising democracy and difference. *Accounting, Auditing & Accountability Journal,* 28 (5), 846-874.
GAMBLING, T. & JONES, R. 1998. Corporate Governance Report: The financial governance of charities. *Corporate Governance: An International Review,* 6 (2), 119-120.
GAMBLING, T., JONES, R., KUNZ, C. & PENDLEBURY, M. 1990. Accounting by Charities: the Application of SORP 2. Chartered Association of Certified Accountants London.
GANDÍA, J. L. 2011. Internet disclosure by nonprofit organizations: Empirical evidence of nongovernmental organizations for development in Spain. *Nonprofit and voluntary sector quarterly,* 40 (1), 57-78.
GAO, Y., KIM, J.-B., TSANG, D. & WU, H. 2017. Go before the whistle blows: an empirical analysis of director turnover and financial fraud. *Review of Accounting Studies,* 22 (1), 320-360.

GARNER, J. L. & HARRISON, T. D. 2013. Boards, executive excess compensation, and shared power: Evidence from nonprofit firms. *Financial Review,* 48 (4), 617-643.
GEPHART, R. P. 2004. Qualitative research and the Academy of Management Journal. *Academy of Management Journal,* 47 (4), 454-462.
GHAFRAN, C. & O'SULLIVAN, N. 2013. The governance role of audit committees: reviewing a decade of evidence. *International Journal of Management Reviews,* 15 (4), 381-407.
GHAFRAN, C. & YASMIN, S., 2019. Ethical Governance: Insight from the Islamic perspective and an empirical enquiry. Journal of Business Ethics, 1-21.
GHAZALI, N. A. M. & WEETMAN, P. 2006. Perpetuating traditional influences: Voluntary disclosure in Malaysia following the economic crisis. *Journal of International Accounting, Auditing and Taxation,* 15 (2), 226-248.
GHOSH, D. 2008. Corporate values, workplace decisions and ethical standards of employees. *Journal of Managerial Issues*, 68-87.
GIBELMAN, M. & GELMAN, S. R. 2001. Very public scandals: Nongovernmental organizations in trouble. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 12 (1), 49-66.
GIBELMAN, M. & GELMAN, S. R. 2002. Should We Have Faith in Faith - Based Social Services? Rhetoric Versus Realistic Expectations. *Nonprofit Management and Leadership,* 13 (1), 49-65.
GIBELMAN, M. & GELMAN, S. R. 2004. A loss of credibility: Patterns of wrongdoing among nongovernmental organizations. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 15 (4), 355-381.
GIBELMAN, M., GELMAN, S. R. & POLLACK, D. 1997. The credibility of nonprofit boards: A view from the 1990s and beyond. *Administration in Social Work,* 21 (2), 21-40.
GISBERT, A. & NAVALLAS, B. 2013. The association between voluntary disclosure and corporate governance in the presence of severe agency conflicts. *Advances in Accounting,* 29 (2), 286-298.
GOH, B. W., LEE, J., NG, J. & OW YONG, K. 2016. The effect of board independence on information asymmetry. *European Accounting Review,* 25 (1), 155-182.
GOLDEN-BIDDLE, K. & RAO, H. 1997. Breaches in the boardroom: Organizational identity and conflicts of commitment in a nonprofit organization. *Organization Science,* 8 (6), 593-611.
GOMEZ - MEJIA, L. R. & WISEMAN, R. M. 2007. Does agency theory have universal relevance? A reply to Lubatkin, Lane, Collin, and Very. *Journal of Organizational Behavior,* 28 (1), 81-88.

GOODIN, R. E. 2003. Democratic accountability: The distinctiveness of the third sector. *European Journal of Sociology/Archives Européennes de Sociologie,* 44 (3), 359-396.
GORDON, E. A., HENRY, E., LOUWERS, T. J. & REED, B. J. 2007. Auditing related party transactions: A literature overview and research synthesis. *Accounting Horizons,* 21 (1), 81-102.
GOTTSCHALK, P. 2019. Organizational convenience for white-collar crime: opportunity expansion by offender behavior. *Criminal Justice Studies,* 32 (1), 50-60.
GOVERNANCE, C. 2017. *Charity Governance Code* [Online]. Available: https://www.charitygovernancecode.org/en [Accessed 13.09.2019 2019].
GRAFTON, J., LILLIS, A. M. & MAHAMA, H. 2011. Mixed methods research in accounting. *Qualitative Research in Accounting & Management,* 8 (1), 5-21.
GREATBANKS, R. & TAPP, D. 2007. The impact of balanced scorecards in a public sector environment: Empirical evidence from Dunedin City Council, New Zealand. *International Journal of Operations & Production Management,* 27 (8), 846-873.
GREENLEE, J., FISCHER, M., GORDON, T. & KEATING, E. 2007. An investigation of fraud in nonprofit organizations: Occurrences and deterrents. *Nonprofit and Voluntary Sector Quarterly,* 36 (4), 676-694.
GREVE, H. R., PALMER, D. & POZNER, J. E. 2010. Organizations gone wild: The causes, processes, and consequences of organizational misconduct. *Academy of Management Annals,* 4 (1), 53-107.
GROJEAN, M. W., RESICK, C. J., DICKSON, M. W. & SMITH, D. B. 2004. Leaders, values, and organizational climate: Examining leadership strategies for establishing an organizational climate regarding ethics. *Journal of business ethics,* 55 (3), 223-241.
GUEST, G., BUNCE, A. & JOHNSON, L. 2006. How many interviews are enough? An experiment with data saturation and variability. *Field methods,* 18 (1), 59-82.
GUO, C. & MUSSO, J. A. 2007. Representation in nonprofit and voluntary organizations: A conceptual framework. *Nonprofit and Voluntary Sector Quarterly,* 36 (2), 308-326.
GUO, C. & SAXTON, G. D. 2014. Tweeting social change: How social media are changing nonprofit advocacy. *Nonprofit and Voluntary Sector Quarterly,* 43 (1), 57-79.
GUTHRIE, J., PETTY, R., YONGVANICH, K. & RICCERI, F. 2004. Using content analysis as a research method to inquire into intellectual capital reporting. *Journal of intellectual capital,* 5 (2), 282-293.
HABERMAS, J. 1984. *The theory of communicative action, volume 1: reason and the rationalisation of society,* Trans: T. McCarthy. London: Heinemann Educational Books.

HAIR, J. F., BLACK, W. C. & BABIN, B. J. 2010. Multivariate data analysis: A global perspective. New Jersey, Pearson Prentice Hall,).
HANIFFA, R. M. & COOKE, T. E. 2002. Culture, corporate governance and disclosure in Malaysian corporations. *Abacus,* 38 (3), 317-349.
HANSMANN, H. 1987. Economic theories of nonprofit organizations. *The nonprofit sector: Research handbook*, 27-42.
HANSMANN, H. B. 1980. The role of nonprofit enterprise. *The Yale law journal,* 89 (5), 835-901.
HARJOTO, M. A. 2017. The Impact of Institutional and Technical Social Responsibilities on the Likelihood of Corporate Fraud. *Business and Professional Ethics Journal,* 36 (2), 197-228.
HARRELL JR, F. E. 2015. *Regression modeling strategies: with applications to linear models, logistic and ordinal regression, and survival analysis,* Springer.
HARRIS, E., PETROVITS, C. & YETMAN, M. H. 2015. Why Bad Things Happen to Good Organizations: The Link Between Governance and Asset Diversions in Public Charities. *Journal of Business Ethics,* 146 (1), 149-166.
HARRIS, J. & BROMILEY, P. 2007. Incentives to cheat: The influence of executive compensation and firm performance on financial misrepresentation. *Organization Science,* 18 (3), 350-367.
HARRIS, J. D. & WICKS, A. C. 2010. 'Public Trust'and Trust in Particular Firm–Stakeholder Interactions. *Corporate Reputation Review,* 13 (2), 142-154.
HARRIS, E. E. AND NEELY, D. 2018. 'Determinants and Consequences of Nonprofit Transparency', J*ournal of Accounting, Auditing & Finance*, 1-26
HARROW, J., PALMER, P. & VINCENT, J. 1999. Management information needs and perceptions in smaller charities: an exploratory study. *Financial Accountability & Management,* 15 (2), 155-172.
HAYES, T. 1996. *Management, control and accountability in nonprofit/voluntary organizations,* Avebury.
HEALY, P. M. & PALEPU, K. G. 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of accounting and economics,* 31 (1), 405-440.
HEATH, J. & NORMAN, W. 2004. Stakeholder theory, corporate governance and public management: what can the history of state-run enterprises teach us in the post-Enron era? *Journal of business ethics,* 53 (3), 247-265.
HELMIG, B., JEGERS, M. & LAPSLEY, I. 2004. Challenges in managing nonprofit organizations: A research overview. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 15 (2), 101-116.
HENDRY, J. 2005. Beyond self‐interest: Agency theory and the board in a satisficing world. *British Journal of Management,* 16, 55-63.

HENRIQUES, A. & RICHARDSON, J. 2013. *The Triple Bottom Line: Does It All Add Up,* Taylor & Francis.
HERACLEOUS, L. & MURRAY, J. 2001. Networks, interlocking directors and strategy: Toward a theoretical framework. *Asia Pacific Journal of Management,* 18 (2), 137-160.
HERMAN, E. S. 1981. *Corporate control, corporate power,* Cambridge University Press Cambridge.
HERMAN, R. D. & RENZ, D. O. 2008. Advancing nonprofit organizational effectiveness research and theory: Nine theses. *Nonprofit Management and Leadership,* 18 (4), 399-415.
HERNANDEZ, M. 2012. Toward an understanding of the psychology of stewardship. *Academy of Management Review,* 37 (2), 172-193.
HERZLINGER, R. E. 1996. Can public trust in nonprofits and governments be restored? *Harvard business review,* 74 (2), 97-107.
HILL, C. W. & JONES, T. M. 1992. Stakeholder - agency theory. *Journal of management studies,* 29 (2), 131-154.
HILLMAN, A. J. & DALZIEL, T. 2003. Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *Academy of Management review,* 28 (3), 383-396.
HILLMAN, A. J. & KEIM, G. D. 2001. Shareholder value, stakeholder management, and social issues: what's the bottom line? *Strategic management journal*, 125-139.
HILLMAN, A. J., NICHOLSON, G. & SHROPSHIRE, C. 2008. Directors' multiple identities, identification, and board monitoring and resource provision. *Organization Science,* 19 (3), 441-456.
HILLMAN, A. J., SHROPSHIRE, C., CERTO, S. T., DALTON, D. R. & DALTON, C. M. 2011. What I like about you: A multilevel study of shareholder discontent with director monitoring. *Organization Science,* 22 (3), 675-687.
HILLMAN, A. J., WITHERS, M. C. & COLLINS, B. J. 2009. Resource dependence theory: A review. *Journal of management,* 35 (6), 1404-1427.
HIMMELBERG, C. P., HUBBARD, R. G. & PALIA, D. 1999. Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of financial economics,* 53 (3), 353-384.
HIND, A. 2011. Increasing public trust and confidence in charities: on the side of the angels. *Public Money & Management*, 31(3), 201–205.
HINES, A. & JONES, M. J. 1992. The impact of SORP2 on the UK charitable sector: An empirical study. *Financial Accountability & Management,* 8 (1), 49-67.
HOBERG, G. & LEWIS, C. 2017. Do fraudulent firms produce abnormal disclosure? *Journal of Corporate Finance,* 43, 58-85.

HODDER, I. 1994. The interpretation of documents and material culture. *In:* GOODWIN, J. (ed.) *Sage biographical research : Volume I.* SAGE

HODGE, M. M. & PICOLLO, R. F. 2011. Nonprofit board effectiveness, private philanthropy, and financial vulnerability. *Public Administration Quarterly*, 520-550.

HOFF, K. 2010. Fairness in modern society. *Science,* 327 (5972), 1467-1468.

HOGAN, C. E., REZAEE, Z., RILEY JR, R. A. & VELURY, U. K. 2008. Financial statement fraud: Insights from the academic literature. *Auditing: A Journal of Practice & Theory,* 27 (2), 231-252.

HOLLAND, T. P. 2002. Board accountability: Lessons from the field. *Nonprofit Management and Leadership,* 12 (4), 409-428.

HOLLINGER, R. C. & CLARK, J. P. 1983. *Theft by employees,* Lexington Books Lexington, MA.

HOLTFRETER, K. 2008. Determinants of fraud losses in nonprofit organizations. *Nonprofit Management and Leadership,* 19 (1), 45-63.

HON, L. C. & GRUNIG, J. E. 1999. Guidelines for measuring relationships in public relations. *Institute for Public Relations* November 1999 (November 1999), 1-40.

HONG, B., LI, Z. & MINOR, D. 2016. Corporate governance and executive compensation for corporate social responsibility. *Journal of Business Ethics,* 136 (1), 199-213.

HOPKIN, J. & RODRIGUEZ-POSE, A. 2007. "Grabbing Hand" or "Helping Hand"?: corruption and the economic role of the state. *Governance,* 20 (2), 187-208.

HOPPER, T. & HOQUE, Z. 2006. Triangulation approaches to accounting research. *In:* HOQUE, Z. (ed.) *Methodological Issues in Accounting Research: Theories and Methods.* London: Spiramus, 477-486.

HOSMER JR, D. W., LEMESHOW, S. & MAY, S. 2008. *Applied survival analysis: regression modeling of time-to-event data,* Wiley-Interscience.

HOSMER JR, D. W., LEMESHOW, S. & STURDIVANT, R. X. 2013. *Applied logistic regression,* John Wiley & Sons.

HOUSTON, J. F., LEE, J. & SHAN, H. 2016. In Search of Board Independence: Former Employees, Shades of Gray and Director Classifications Revisited. *Conference Paper*.

HOWELL, K. E. 2012. *An Introduction to the Philosophy of Methodology*, SAGE Publications.

HUANG, S. Y., LIN, C.-C., CHIU, A.-A. & YEN, D. C. 2017. Fraud detection using fraud triangle risk factors. *Information Systems Frontiers,* 19 (6), 1343-1356.

HUANG, Y.-C., RAHMAN, S., WU, Y.-C. J. & HUANG, C.-J. 2015. Salient task environment, reverse logistics and performance. *International*

Journal of Physical Distribution & Logistics Management, 45 (9/10), 979-1006.
HUBER, W. D., MUI, G. & MAILLEY, J. 2015. A tale of two triangles: comparing the Fraud Triangle with criminology's Crime Triangle. *Accounting Research Journal,* 28 (1), 45-58.
HYNDMAN, N. 1990. Charity accounting—an empirical study of the information needs of contributors to UK fund raising charities. *Financial Accountability & Management,* 6 (4), 295-307.
HYNDMAN, N. 1991. Contributors to charities—A comparison of their information needs and the perceptions of such by the providers of information. *Financial Accountability & Management,* 7 (2), 69-82.
HYNDMAN, N. 2017. Editorial: The charity sector— changing times, changing challenges. *Public Money & Management,* 37 (3), 149-153.
HYNDMAN, N. 2018. The Charities SORP: an 'engine'for good? *Public Money & Management,* 38 (4), 247-250.
HYNDMAN, N., & JONES, R. 2011. Editorial: Good governance in charities—some key issues. *Public Money & Management*, 31(3), 151–155.
HYNDMAN, N. & MCCONVILLE, D. 2016. Transparency in reporting on charities' efficiency: a framework for analysis. *Nonprofit and Voluntary Sector Quarterly,* 45 (4), 844-865.
HYNDMAN, N. & MCDONNELL, P. 2009. Governance and charities: An exploration of key themes and the development of a research agenda. *Financial Accountability & Management,* 25 (1), 5-31.
HYNDMAN, N. & MCMAHON, D. 2010. The evolution of the UK charity Statement of Recommended Practice: The influence of key stakeholders. *European Management Journal,* 28 (6), 455-466.
HYNDMAN, N. & MCMAHON, D. 2011. The hand of government in shaping accounting and reporting in the UK charity sector. *Public Money & Management,* 31 (3), 167-174.
IHSAN, H., SULAIMAN, M., ALWI, N. M. & ADNAN, M. A. 2016. Waqf accountability from the stakeholder salience theory: A case study. *Journal of Islamic Monetary Economics and Finance,* 2 (1), 1-40.
JAMES, K. L. 2003. The effects of internal audit structure on perceived financial statement fraud prevention. *Accounting Horizons,* 17 (4), 315-327.
JAWAHAR, I. & MCLAUGHLIN, G. L. 2001. Toward a descriptive stakeholder theory: An organizational life cycle approach. *Academy of management review,* 26 (3), 397-414.
JEGERS, M. 2008. *Managerial economics of non-profit organizations,* Routledge.
JEGERS, M. 2009. "Corporate" governance in nonprofit organizations. *Nonprofit Management and Leadership,* 20 (2), 143-164.

JENSEN, M. C. 1983. Organization theory and methodology. *Accounting review,* 58 (2), 319-339.
JENSEN, M. C. 1993. The modern industrial revolution, exit, and the failure of internal control systems. *the Journal of Finance,* 48 (3), 831-880.
JENSEN, M. C. & MECKLING, W. H. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics,* 3 (4), 305-360.
JEPSON, P., 2005. Governance and accountability of environmental NGOs. *Environmental Science & Policy*, 8(5), 515-524.
JETTY, J. & BEATTIE, V. 2009. Disclosure practices and policies of UK charities. ACCA Research Report.
JETTY, J. & BEATTIE, V. 2012. The determinants of audit committees: evidence from the charity sector. *Public Money & Management,* 32 (5), 371-378.
JIRAPORN, P., KIM, Y. S. & DAVIDSON, W. N. 2008. Multiple directorships and corporate diversification. *Journal of Empirical Finance,* 15 (3), 418-435.
JOBOME, G. O. 2006. Management pay, governance and performance: The case of large UK nonprofits. *Financial Accountability & Management,* 22 (4), 331-358.
JOHNSON, J. L., DAILY, C. M. & ELLSTRAND, A. E. 1996. Boards of directors: A review and research agenda. *Journal of management,* 22 (3), 409-438.
JOHNSON, P. & DUBERLEY, J. 2000. *Understanding Management Research: An Introduction to Epistemology,* SAGE Publications.
JOHNSON, R. B., ONWUEGBUZIE, A. J. & TURNER, L. A. 2007. Toward a definition of mixed methods research. *Journal of mixed methods research,* 1 (2), 112-133.
JOHNSON, S. A., RYAN, H. E. & TIAN, Y. S. 2003. Executive compensation and corporate fraud. *Unpublished paper (Lousiana State University, Baton Rouge, LA)*.
JOKIPII, A. 2010. Determinants and consequences of internal control in firms: a contingency theory based analysis. *Journal of Management & Governance,* 14 (2), 115-144.
KAMINSKI, K. A., STERLING WETZEL, T. & GUAN, L. 2004. Can financial ratios detect fraudulent financial reporting? *Managerial Auditing Journal,* 19 (1), 15-28.
KANG, H., CHENG, M. & GRAY, S. J. 2007. Corporate governance and board composition: Diversity and independence of Australian boards. *Corporate Governance: An International Review,* 15 (2), 194-207.
KAPTEIN, M. 2008. Developing a measure of unethical behavior in the workplace: A stakeholder perspective. *Journal of Management,* 34 (5), 978-1008.

KAPTEIN, M. 2011a. From inaction to external whistleblowing: The influence of the ethical culture of organizations on employee responses to observed wrongdoing. *Journal of Business Ethics,* 98 (3), 513-530.
KAPTEIN, M. 2011b. Toward effective codes: Testing the relationship with unethical behavior. *Journal of Business Ethics,* 99 (2), 233-251.
KARNS, G. L. 2011. Stewardship: a new vision for the purpose of business. *Corporate Governance: The international journal of business in society,* 11 (4), 337-347.
KASSEM, R. & HIGSON, A. 2012. The new fraud triangle model. *Journal of Emerging Trends in Economics and Management Sciences,* 3 (3), 191.
KEARNS, K. P. 1994. The strategic management of accountability in nonprofit organizations: An analytical framework. *Public administration review,* 54 (2), 185-192.
KEARNS, K. P. 1996. *Managing for accountability: Preserving the public trust in public and nonprofit organizations,* ed., Jossey-Bass.
KEATING, E. K., FISCHER, M., GORDON, T. P. & GREENLEE, J. S. 2005. Assessing financial vulnerability in the nonprofit sector. *Unpublished paper*.
KEATING, E. K. & FRUMKIN, P. 2003. Reengineering nonprofit financial accountability: Toward a more reliable foundation for regulation. *Public Administration Review,* 63 (1), 3-15.
KEETON, W. P. 1936. Fraud--Concealment and Non-Disclosure. *Tex. L. Rev.,* 15, 1.
KELLY, K. S. 2001. Stewardship: The fifth step in the public relations process. *In:* HEATH, R. L. (ed.) *Handbook of public relations.* 279-289.
KEMP, J. H. & MORGAN, G. G. 2019. Incidence and perceptions of "qualified" accounts filed by small charities. *Accounting forum,* 43 (1), 62-84.
KETCHEN, D. J. J. & BERGH, D. D. 2009. *Research Methodology in Strategy and Management*, Emerald Group Publishing Limited.
KIDS. 2015. *Kids Company Charity Inquiry* [Online]. Available: https://www.gov.uk/government/news/new-charity-investigation-kids-company [Accessed 12.09.2019.
KING, N. & HORROCKS, C. 2010. *Interviews in qualitative research,* Sage.
KIRKLAND, K., & SARGANT, N. 1995. *Building on Trust: Results of a Survey of Charity Trustees.* London: National Council for Voluntary Organizations,
KIRSH, D. 1996. Adapting the environment instead of oneself. *Adaptive Behavior,* 4 (3-4), 415-452.
KITCHING, K. 2009. Audit value and charitable organizations. *Journal of Accounting and Public Policy,* 28 (6), 510-524.

KLUVERS, R. & TIPPETT, J. An exploration of stewardship theory in a Not-for-Profit organisation. Accounting Forum, 2011. Elsevier, 275-284.
KNAPP, C. A. & KNAPP, M. C. 2001. The effects of experience and explicit fraud risk assessment in detecting fraud with analytical procedures. *Accounting, Organizations and Society,* 26 (1), 25-37.
KNIGHT, B. 1993. *'Voluntary Action'*, Home Office, London.
KNOX, S. & GRUAR, C. 2007. The application of stakeholder theory to relationship marketing strategy development in a non-profit organization. *Journal of Business Ethics,* 75 (2), 115-135.
KOERBER, C. P. & NECK, C. P. 2006. Religion in the workplace: Implications for financial fraud and organizational decision making. *Journal of Management, Spirituality & Religion,* 3 (4), 305-318.
KOLK, A. & PINKSE, J. 2006. Stakeholder mismanagement and corporate social responsibility crises. *European Management Journal,* 24 (1), 59-72.
KOSTOVA, T., NELL, P. C. & HOENEN, A. K. 2018. Understanding agency problems in headquarters-subsidiary relationships in multinational corporations: A contextualized model. *Journal of Management,* 44 (7), 2611-2637.
KOTSIANTIS, S., KOUMANAKOS, E., TZELEPIS, D. & TAMPAKAS, V. 2006. Forecasting fraudulent financial statements using data mining. *International Journal of Computational Intelligence,* 3 (2), 104-110.
KRISHNAN, R., YETMAN, M. H. & YETMAN, R. J. 2006. Expense misreporting in nonprofit organizations. *The Accounting Review,* 81 (2), 399-420.
KRUMMECK, S. 2000. The role of ethics in fraud prevention: a practitioner's perspective. *Business Ethics: A European Review,* 9 (4), 268-272.
KUMMER, T.-F., SINGH, K. & BEST, P. 2015. The effectiveness of fraud detection instruments in not-for-profit organizations. *Managerial Auditing Journal,* 30 (4/5), 435-455.
KUMMER, T., SINGH, K. & BEST, P. 2014. The Effect of Fraud on Risk Management in Not-For-Profit organizations. *Corporate Ownership & Control,* 12 (1), 641-655.
KURUPPU, N., LASWAD, F. & OYELERE, P. 2003. The efficacy of liquidation and bankruptcy prediction models for assessing going concern. *Managerial auditing journal,* 18 (6/7), 577-590.
KVALE, S. 1996. *InterViews: An Introduction to Qualitative Research Interviewing, 1st* ed., SAGE Publications.
LA PORTA, R., LOPEZ-DE-SILANES, F., SHLEIFER, A. & VISHNY, R. 1999. The quality of government. *The Journal of Law, Economics, and Organization,* 15 (1), 222-279.

LACOMB, C., INTERRANTE, J. & AGGOUR, K. S. 2007. Monitoring key company events through deliberative learning. *Information Systems and e-Business Management,* 5 (4), 295-317.
LAKSMANA, I. 2008. Corporate board governance and voluntary disclosure of executive compensation practices. *Contemporary Accounting Research,* 25 (4), 1147-1182.
LAMBERT, V., & LAPSLEY, I. 2010. Leadership and governance. *In Third Sector Research*, 139-149. Springer, New York, NY.
LAMBERT, V. & LAPSLEY, I., 2011. Bringing Business Expertise to the Governance of Non Profit Organisations. *In Perspektiven des Verbandsmanagements*, 29-45. Gabler.
LANDSBERG, B.E., 2004. The nonprofit paradox: For-profit business models in the third sector. T*he International Journal of Not-for-Profit Law*, 6(2), 304-315.
LAPALOMBARA, J. 1994. Structural and institutional aspects of corruption. *Social research,* 61 (2), 325-350.
LASALLE, R. E. 2007. Effects of the fraud triangle on students' risk assessments. *Journal of Accounting Education,* 25 (1), 74-87.
LAUCK, J. & BROZOVSKY, J. A. 2018. Fraud in The Nonprofit Sector: Rebuilding a Charitable Image. *Journal of Accounting, Ethics and Public Policy,* 19 (2), 1-42.
LAUGHLIN, R. C. 1990. A model of financial accountability and the Church of England. *Financial Accountability & Management,* 6 (2), 93-114.
LAW, P. 2011. Corporate governance and no fraud occurrence in organizations: Hong Kong evidence. *Managerial Auditing Journal,* 26 (6), 501-518.
LEE, B. 2012. Using Documents in Organizational Research. *In:* SYMON, G. & CASSELL, C. (eds.) *Qualitative organizational research: core methods and current challenges.* Sage, 389-407.
LEE, M. 2004. Public reporting: A neglected aspect of nonprofit accountability. *Nonprofit Management and Leadership,* 15 (2), 169-185.
LEE, T., CLARKE, F. & DEAN, G. 2008. The dominant senior manager and the reasonably careful, skilful, and cautious auditor. *Critical Perspectives on Accounting,* 19 (5), 677-711.
LEHN, K. M., PATRO, S. & ZHAO, M. 2009. Determinants of the size and composition of US corporate boards: 1935 - 2000. *Financial Management,* 38 (4), 747-780.
LENNOX, C. & PITTMAN, J. A. 2010. Big Five audits and accounting fraud. *Contemporary Accounting Research,* 27 (1), 209-247.
LEROUX, K. & WRIGHT, N.S., 2010. Does performance measurement improve strategic decision making? Findings from a national survey of nonprofit social service agencies. *Nonprofit and Voluntary Sector Quarterly*, 39(4), 571-587.

LI, J., PIKE, R. & HANIFFA, R. 2008. Intellectual capital disclosure and corporate governance structure in UK firms. *Accounting and Business Research,* 38 (2), 137-159.
LI, N. & WAHID, A. S. 2018. Director tenure diversity and board monitoring effectiveness. *Contemporary Accounting Research,* 35 (3), 1363-1394.
LIE, E. 2005. On the timing of CEO stock option awards. *Management Science,* 51 (5), 802-812.
LIN, C.-C., CHIU, A.-A., HUANG, S. Y. & YEN, D. C. 2015. Detecting the financial statement fraud: The analysis of the differences between data mining techniques and experts' judgments. *Knowledge-Based Systems,* 89, 459-470.
LINNA, P., PEKKOLA, S., UKKO, J. & MELKAS, H. 2010. Defining and measuring productivity in the public sector: managerial perceptions. *International Journal of Public Sector Management,* 23 (5), 479-499.
LIPTON, M. & LORSCH, J. W. 1992. A modest proposal for improved corporate governance. *The business lawyer,* 48 (1), 59-77.
LLEWELYN, S. 2003. What counts as "theory" in qualitative management and accounting research? Introducing five levels of theorizing. *Accounting, Auditing & Accountability Journal,* 16 (4), 662-708.
LOEBBECKE, J. & WILLINGHAM, J. 1988. Review of SEC accounting and auditing enforcement releases. *Unpublished working paper*.
LOEBBECKE, J. K., EINING, M. M. & WILLINGHAM, J. J. 1989. Auditors experience with material irregularities-frequency, nature, and detectability. *Auditing-A Journal of Practice & Theory,* 9 (1), 1-28.
LOKANAN, M. E. 2015. Challenges to the fraud triangle: Questions on its usefulness. *Accounting Forum,* 39 (3), 201-224.
LOUGHRAN, T. & MCDONALD, B. 2016. Textual analysis in accounting and finance: A survey. *Journal of Accounting Research,* 54 (4), 1187-1230.
LOVEJOY, K. & SAXTON, G. D. 2012. Information, community, and action: How nonprofit organizations use social media. *Journal of Computer‐Mediated Communication,* 17 (3), 337-353.
LUBATKIN, M., LANE, P. J., COLLIN, S. & VERY, P. 2007. An embeddedness framing of governance and opportunism: towards a cross‐nationally accommodating theory of agency. *Journal of Organizational Behavior,* 28 (1), 43-58.
MACCALLUM, R. C., ZHANG, S., PREACHER, K. J. & RUCKER, D. D. 2002. On the practice of dichotomization of quantitative variables. *Psychological methods,* 7 (1), 19-40.
MACEY, J. R. 1991. Agency theory and the criminal liability of organizations. *BUL Rev.,* 71, 315-340.

MACHADO, M. R. R. & GARTNER, I. R. 2014. The Agency Theory And The Identification Of Corporate Fraud: A Study Applied To Brazilian Banks. *Business and Management Review,* 4 (3).
MACK, J., MORGAN, G. G., BREEN, O. B. & CORDERY, C. J. 2017. Financial reporting by charities: a matched case study analysis from four countries. *Public Money & Management,* 37 (3), 165-172.
MAGNESS, V. 2008. Who are the stakeholders now? An empirical examination of the Mitchell, Agle, and Wood theory of stakeholder salience. *Journal of business ethics,* 83 (2), 177-192.
MAITLIS, S. 2012. Narrative analysis. *In:* G., S. & C., C. (eds.) *Qualitative organizational research.* London: Sage, 231-254.
MALATESTA, D. & SMITH, C. R. 2014. Lessons from resource dependence theory for contemporary public and nonprofit management. *Public Administration Review,* 74 (1), 14-25.
MANETTI, G. & TOCCAFONDI, S. 2014. Defining the content of sustainability reports in nonprofit organizations: Do stakeholders really matter? *Journal of Nonprofit & Public Sector Marketing,* 26 (1), 35-61.
MANNE, G. A. 1999. Agency costs and the oversight of charitable organizations. *Wisconsin Law Review,* Year 1999, 227-273.
MARKS, J. 2009. Playing offense in a high-risk environment. *Crowe Horwath, New York*.
MASON, D. P. 2015. Advocacy in Nonprofit Organizations: A Leadership Perspective. *Nonprofit Policy Forum,* 6 (3), 297-324.
MASON, D. S., THIBAULT, L. & MISENER, L. 2006. An agency theory perspective on corruption in sport: The case of the International Olympic Committee. *Journal of Sport Management,* 20 (1), 52-73.
MATOUSSI, H. & GHARBI, I. 2011. Board independence and corporate fraud: The case of Tunisian firms. *Politics and Economic Development,* Working Paper 620, 2-24.
MAXWELL, S. R. & GRAY, M. K. 2000. Deterrence: Testing the effects of perceived sanction certainty on probation violations. *Sociological Inquiry,* 70 (2), 117-136.
MAYNARD, M. L. 2001. Policing transnational commerce: Global awareness in the margins of morality. *Journal of Business Ethics,* 30 (1), 17-27.
MCADAM, R., HAZLETT, S.-A. & CASEY, C. 2005. Performance management in the UK public sector: addressing multiple stakeholder complexity. *International Journal of Public Sector Management,* 18 (3), 256-273.
MCBARNET, D. 2006. After Enron will 'whiter than white collar crime'still wash? *British Journal of Criminology,* 46 (6), 1091-1109.
MCCOLGAN, P. 2001. Agency theory and corporate governance: a review of the literature from a UK perspective. *Department of Accounting and Finance Working Paper,* 6, 1-76.

MCCONVILLE, D. 2017. New development: Transparent impact reporting in charity annual reports—benefits, challenges and areas for development. *Public Money & Management,* 37 (3), 211-216.
MCCONVILLE, D. & CORDERY, C. 2018. Charity performance reporting, regulatory approaches and standard-setting. *Journal of Accounting and Public Policy,* 37 (4), 300-314.
MCDONNELL, D. 2017. Improving Charity Accountability: Lessons From the Scottish Experience. *Nonprofit and Voluntary Sector Quarterly,* 46 (4), 725-746.
MCDONNELL, D. & RUTHERFORD, A. C. 2018. The Determinants of Charity Misconduct. *Nonprofit and Voluntary Sector Quarterly,* 47 (1), 107-125.
MCDONNELL, D. & RUTHERFORD, A. C. 2019. Promoting charity accountability: Understanding disclosure of serious incidents. *Accounting forum,* 43 (1), 42-61.
MCMULLEN, D.A., 1996. Audit committee performance: An investigation of the consequences associated with audit committees. *Auditing*, 15(1), 87.
MCWILLIAMS, A. & SIEGEL, D. 2001. Corporate social responsibility: A theory of the firm perspective. *Academy of management review,* 26 (1), 117-127.
MEIJER, M.-M. 2009. The effects of charity reputation on charitable giving. *Corporate Reputation Review,* 12 (1), 33-42.
MERRIAM-WEBSTER, I. 1996. *Merriam-Webster's Dictionary of Law,* Merriam-Webster.
MERTENS, D. M. 2003. Mixed methods and the politics of human research: The transformative-emancipatory perspective. *In:* TEDDLIE, A. T. C. (ed.) *Handbook of mixed methods in social and behavioral research.* Thousand Oaks, CA: Sage., 135-164.
MERTENS, D. M. 2007. Transformative paradigm: Mixed methods and social justice. *Journal of mixed methods research,* 1 (3), 212-225.
MERTENS, D. M. 2010. Transformative mixed methods research. *Qualitative inquiry,* 16 (6), 469-474.
MESMER-MAGNUS, J. R. & VISWESVARAN, C. 2005. Whistleblowing in organizations: An examination of correlates of whistleblowing intentions, actions, and retaliation. *Journal of Business Ethics,* 62 (3), 277-297.
MEYER, J. W. & ROWAN, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American journal of sociology,* 83 (2), 340-363.
MICHELON, G., PILONATO, S. & RICCERI, F. 2015. CSR reporting practices and the quality of disclosure: An empirical analysis. *Critical perspectives on accounting,* 33, 59-78.

MIDI, H., SARKAR, S. K. & RANA, S. 2010. Collinearity diagnostics of binary logistic regression model. *Journal of Interdisciplinary Mathematics,* 13 (3), 253-267.
MILLER-MILLESEN, J. L. 2003. Understanding the behavior of nonprofit boards of directors: A theory-based approach. *Nonprofit and voluntary sector quarterly,* 32 (4), 521-547.
MILLER, D. L. & THOMAS, S. 2005. The impact of relative position and relational closeness on the reporting of unethical acts. *Journal of Business Ethics,* 61 (4), 315-328.
MILLER, G. J. 2005. The political evolution of principal-agent models. *Annual Review of Political Science,* 8, 203-225.
MILLER, J. & GLASSNER, B. 1997. The 'inside'and the 'outside': Finding realities in interviews. *In:* SILVERMAN, D. (ed.) *Qualitative Research: Theory, Method and Practice.* London: Sage, 99-112.
MILLER, J. L. 2002. The board as a monitor of organizational activity: The applicability of agency theory to nonprofit boards. *Nonprofit Management and Leadership,* 12 (4), 429-450.
MITCHELL, R. K., AGLE, B. R. & WOOD, D. J. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management review,* 22 (4), 853-886.
MODELL, S. 2005. Triangulation between case study and survey methods in management accounting research: An assessment of validity implications. *Management accounting research,* 16 (2), 231-254.
MODELL, S. 2009. In defence of triangulation: a critical realist approach to mixed methods research in management accounting. *Management Accounting Research,* 20 (3), 208-221.
MODELL, S. 2010. Bridging the paradigm divide in management accounting research: The role of mixed methods approaches. *Management Accounting Research,* 21 (2), 124-129.
MON, W.-T. 2002. Causal factors of corporate crime in Taiwan: qualitative and quantitative findings. *International journal of offender therapy and comparative criminology,* 46 (2), 183-205.
MONTEDURO, F., HINNA, A. & MOI, S. 2016. Governance and Corruption in the Public Sector: An Extended Literature Review. *Studies in Public and Non-Profit Governance, Vol. 5.* Emerald Group Publishing Limited, 31-51.
MOORE, D. A., TETLOCK, P. E., TANLU, L. & BAZERMAN, M. H. 2006. Conflicts of interest and the case of auditor independence: Moral seduction and strategic issue cycling. *Academy of Management Review,* 31 (1), 10-29.
MORALES, J., GENDRON, Y. & GUÉNIN-PARACINI, H. 2014. The construction of the risky individual and vigilant organization: A genealogy of the fraud triangle. *Accounting, Organizations and Society,* 39 (3), 170-194.

MORGAN, D. L. 2007. Paradigms lost and pragmatism regained: Methodological implications of combining qualitative and quantitative methods. *Journal of mixed methods research,* 1 (1), 48-76.
MORGAN, G. G. 2011. The role of independent examiners in the accountability of UK charities. *Public Money & Management,* 31 (3), 183-192.
MORGAN, G. G. 2017. *The charity treasurer's handbook*, Directory of Social Change London.
MORGAN, G. G. & FLETCHER, N. J. 2013. Mandatory public benefit reporting as a basis for charity accountability: Findings from England and Wales. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 24 (3), 805-830.
MORRISON, J. B. & SALIPANTE, P. 2007. Governance for broadened accountability: Blending deliberate and emergent strategizing. *Nonprofit and Voluntary Sector Quarterly,* 36 (2), 195-217.
MULGAN, R. 2000. ‘Accountability’: An Ever‐Expanding Concept? *Public administration,* 78 (3), 555-573.
MULLIGAN, L. N. 2007. What's good for the goose is not good for the gander: Sarbanes-Oxley-style nonprofit reforms. *Michigan Law Review,* 105, 1981-2009.
MURPHY, K. 2005. Regulating more effectively: The relationship between procedural justice, legitimacy, and tax non‐compliance. *Journal of law and Society,* 32 (4), 562-589.
MURPHY, P. R. & FREE, C. 2015. Broadening the fraud triangle: Instrumental climate and fraud. *Behavioral Research in Accounting,* 28 (1), 41-56.
NAH, S. & SAXTON, G. D. 2013. Modeling the adoption and use of social media by nonprofit organizations. *New Media & Society,* 15 (2), 294-313.
NAJAM, A. 1996. NGO accountability: A conceptual framework. *Development Policy Review,* 14 (4), 339-354.
NAPIER, C. J. 1998. Intersections of law and accountancy: Unlimited auditor liability in the United Kingdom. *Accounting, Organizations and Society,* 23 (1), 105-128.
NDOFOR, H. A., WESLEY, C. & PRIEM, R. L. 2015. Providing CEOs with opportunities to cheat: The effects of complexity-based information asymmetries on financial reporting fraud. *Journal of Management,* 41 (6), 1774-1797.
NEGANDHI, A. R. & REIMANN, B. C. 1973. Task environment, decentralization and organizational effectiveness. *Human Relations,* 26 (2), 203-214.
NGAI, E., HU, Y., WONG, Y., CHEN, Y. & SUN, X. 2011. The application of data mining techniques in financial fraud detection: A classification framework and an academic review of literature. *Decision Support Systems,* 50 (3), 559-569.

NGUYEN, T. & SOOBAROYEN, T. 2019. Earnings Management by Non - profit Organisations: Evidence from UK Charities. *Australian Accounting Review,* 29 (1), 124-142.
NGUYEN, T. & SOOBAROYEN, T., 2020. How do board and chief executive characteristics influence executive compensation in non-profit organizations? The case of UK charities. Nottingham Repository
NIELSEN, S. & HUSE, M. 2010. The contribution of women on boards of directors: Going beyond the surface. *Corporate Governance: An International Review,* 18 (2), 136-148.
NIKOLOVA, M. 2014. Principals and agents: An investigation of executive compensation in human service nonprofits. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 25 (3), 679-706.
NTIM, C. G. 2015. Board diversity and organizational valuation: unravelling the effects of ethnicity and gender. *Journal of Management & Governance,* 19 (1), 167-195.
NTIM, C. G., NTIM, C. G., SOOBAROYEN, T., SOOBAROYEN, T., BROAD, M. J. & BROAD, M. J. 2017. Governance structures, voluntary disclosures and public accountability: The case of UK higher education institutions. *Accounting, Auditing & Accountability Journal,* 30 (1), 65-118.
O'DWYER, B. & UNERMAN, J. 2007. From functional to social accountability: Transforming the accountability relationship between funders and non-governmental development organisations. *Accounting, Auditing & Accountability Journal,* 20 (3), 446-471.
O'REGAN, K. & OSTER, S. M. 2005. Does the structure and composition of the board matter? The case of nonprofit organizations. *Journal of Law, Economics, and Organization,* 21 (1), 205-227.
O'DWYER, B. & UNERMAN, J. 2008. The paradox of greater NGO accountability: A case study of Amnesty Ireland. *Accounting, Organizations and Society,* 33 (7), 801-824.
OGREN, R. W. 1972. The ineffectiveness of the criminal sanction in fraud and corruption cases: losing the battle against white-collar crime. *American Criminal Law Review,* 11, 959-988.
OHALEHI, P. 2019. Fraud in small charities: evidence from England and Wales. *Journal of Financial Crime,* 26 (1), 211-222.
OLDROYD, D. 1995. The role of accounting in public expenditure and monetary policy in the first century AD Roman Empire. *Accounting Historians Journal,* 22 (2), 117-129.
OLIVER, C. 1997. The influence of institutional and task environment relationships on organizational performance: The Canadian construction industry. *Journal of management studies,* 34 (1), 99-124.

OLSON, D. E. 2000. Agency theory in the not-for-profit sector: Its role at independent colleges. *Nonprofit and Voluntary Sector Quarterly,* 29 (2), 280-296.
OMAR, N., ARSHAD, R. & RAZALI, W. 2013. Assessment of Risk Using Financial Ratios in Non-Profit Organisations. *Journal of Energy Technologies and Policy,* 3 (11), 382-389.
ORTS, E. W. & STRUDLER, A. 2009. Putting a stake in stakeholder theory. *Journal of Business Ethics,* 88 (4), 605-615.
OSTROWER, F. 2007. *Nonprofit governance in the United States: Findings on performance and accountability from the first national representative study*, The Urban Institute.
OSTROWER, F. & STONE, M.M., 2006. *Governance: Research trends, gaps, and future prospects.* In The nonprofit sector: A research handbook, 612-628. Yale University Press.
OSTROWER, F. & STONE, M. M. 2010. Moving governance research forward: A contingency-based framework and data application. *Nonprofit and Voluntary Sector Quarterly,* 39 (5), 901-924.
OVERBECK, J. R. & PARK, B. 2001. When power does not corrupt: superior individuation processes among powerful perceivers. *Journal of personality and social psychology,* 81 (4), 549.
OXFORD DICTIONARY, O. E. 2003. Oxford English Dictionary. JSTOR.
PALMER, P., ISAACS, M. & D'SILVA, K. 2001. Charity SORP compliance–findings of a research study. *Managerial Auditing Journal,* 16 (5), 255-262.
PALMER, P. & RANDALL, A., 2001. Financial management in the voluntary sector: New challenges. Routledge.
PARLIAMENT, T. U. 2017. *Stronger charities for a stronger society* [Online]. Available: https://publications.parliament.uk/pa/ld201617/ldselect/ldchar/133/133.pdf [Accessed 05.04.2019.
PARMAR, B. L., FREEMAN, R. E., HARRISON, J. S., WICKS, A. C., PURNELL, L. & DE COLLE, S. 2010. Stakeholder theory: The state of the art. *Academy of Management Annals,* 4 (1), 403-445.
PARSONS, L. M. 2007. The impact of financial information and voluntary disclosures on contributions to not-for-profit organizations. *Behavioral research in accounting,* 19 (1), 179-196.
PATTERSON, E. & NOEL, J. 2003. Audit strategies and multiple fraud opportunities of misreporting and defalcation. *Contemporary Accounting Research,* 20 (3), 519-549.
PEDUZZI, P., CONCATO, J., KEMPER, E., HOLFORD, T. R. & FEINSTEIN, A. R. 1996. A simulation study of the number of events per variable in logistic regression analysis. *Journal of clinical epidemiology,* 49 (12), 1373-1379.
PEPPER, A. & GORE, J. 2015. Behavioral agency theory: New foundations for theorizing about executive compensation. *Journal of management,* 41 (4), 1045-1068.

PEREGO, P. & VERBEETEN, F. 2015. Do 'good governance'codes enhance financial accountability? Evidence from managerial pay in Dutch charities. *Financial Accountability & Management,* 31 (3), 316-344.
PETROVITS, C., SHAKESPEARE, C. & SHIH, A. 2011. The causes and consequences of internal control problems in nonprofit organizations. *The Accounting Review,* 86 (1), 325-357.
PEZALLA, A. E., PETTIGREW, J. & MILLER-DAY, M. 2012. Researching the researcher-as-instrument: An exercise in interviewer self-reflexivity. *Qualitative Research,* 12 (2), 165-185.
PHUA, C., LEE, V., SMITH, K. & GAYLER, R. 2010. A comprehensive survey of data mining-based fraud detection research. *arXiv preprint arXiv:1009.6119*, 1-14.
PI, L. & TIMME, S. G. 1993. Corporate control and bank efficiency. *Journal of Banking & Finance,* 17 (2), 515-530.
PINTO, J., LEANA, C. R. & PIL, F. K. 2008. Corrupt organizations or organizations of corrupt individuals? Two types of organization-level corruption. *Academy of Management Review,* 33 (3), 685-709.
POLLITT, C. & HUPE, P. 2011. Talking about government: The role of magic concepts. *Public Management Review,* 13 (5), 641-658.
POWER, M. 1997. *The audit society: Rituals of verification, 1st* ed., OUP Oxford.
POWER, M. 2013. The apparatus of fraud risk. *Accounting, Organizations and Society,* 38 (6), 525-543.
PRAKASH, A. & GUGERTY, M. K. 2010. Trust but verify? Voluntary regulation programs in the nonprofit sector. *Regulation & Governance,* 4 (1), 22-47.
PRESTON, A. E. 1989. The nonprofit worker in a for-profit world. *Journal of labor economics,* 7 (4), 438-463.
PRIDGEN, A. & WANG, K. J. 2012. Audit committees and internal control quality: Evidence from nonprofit hospitals subject to the Single Audit Act. *international Journal of Auditing,* 16 (2), 165-183.
PRIOR, L. 2003. *Using documents in social research, 1st* ed., Sage.
PURDA, L. & SKILLICORN, D. 2015. Accounting variables, deception, and a bag of words: assessing the tools of fraud detection. *Contemporary Accounting Research,* 32 (3), 1193-1223.
RAELIN, J. D. & BONDY, K. 2013. Putting the Good Back in Good Corporate Governance: The Presence and Problems of Double - Layered Agency Theory. *Corporate Governance: An International Review,* 21 (5), 420-435.
RAMAMOORTI, S. 2008. The psychology and sociology of fraud: Integrating the behavioral sciences component into fraud and forensic accounting curricula. *Issues in Accounting Education,* 23 (4), 521-533.

RAMAMOORTI, S., MORRISON, D. & KOLETAR, J. 2009. Bringing freud to fraud: Understanding the state-of-mind of the C-Level suite/white collar offender through "ABC" analysis. *The Institute for Fraud Prevention*, 1-35.
RAVAL, V. 2016. A disposition-based fraud model: Theoretical integration and research agenda. *Journal of Business Ethics,* 150 (3), 741-763.
RAZALI, N. M. & WAH, Y. B. 2011. Power comparisons of shapiro-wilk, kolmogorov-smirnov, lilliefors and anderson-darling tests. *Journal of statistical modeling and analytics,* 2 (1), 21-33.
REED, G. E. & YEAGER, P. C. 1996. Organizational offending and neoclassical criminology: Challenging the reach of a general theory of crime. *Criminology,* 34 (3), 357-382.
REHEUL, A.-M., VAN CANEGHEM, T. & VERBRUGGEN, S. 2014. Financial reporting lags in the non-profit sector: An empirical analysis. *Voluntas: International Journal of Voluntary and Nonprofit Organizations,* 25 (2), 352-377.
REISSMAN, C. 2008. Narrative methods for the social sciences. California: Thousand Oaks, California: Sage Publications Inc.
REZAEE, Z. 2005. Causes, consequences, and deterence of financial statement fraud. *Critical Perspectives on Accounting,* 16 (3), 277-298.
RHODEN, L., 2014. The capacity of NGOs to become sustainable by creating social enterprises. *Journal of Small Business and Entrepreneurship Development*, 2(2), 1-36.
ROBERTS, J. 1991. The possibilities of accountability. *Accounting, Organizations and Society,* 16 (4), 355-368.
ROBERTS, J. 1996. From discipline to dialogue: individualizing and socializing forms of accountability. *In:* MOURITSEN, R. M. J. (ed.) *Accountability: Power, ethos and the technologies of managing.* London: Chapman Hall, 40-61.
RODEN, D. M., COX, S. R. & KIM, J. Y. 2016. The fraud triangle as a predictor of corporate fraud. *Academy of Accounting and Financial Studies Journal,* 20 (1), 80.
ROSAIR, M. & TAYLOR, D. W. 2000. The effects of participating parties, the public and size on government departments' accountability disclosures in annual reports. *Accounting, Accountability & Performance,* 6 (1), 77.
ROSE-ACKERMAN, S. 1996. Altruism, nonprofits, and economic theory. *Journal of economic literature,* 34 (2), 701-728.
ROSE-ACKERMAN, S. & PALIFKA, B. J. 2016. *Corruption and government: Causes, consequences, and reform,* 2 ed., Cambridge university press.
ROSSOUW, J., 2006. Accounting requirements for donor-imposed restrictions and the restricted funds of not-for-profit

organisations. Meditari: *Research Journal of the School of Accounting Sciences*, 14(2), 33-49.
ROTHSCHILD, J. 2013. The fate of whistleblowers in nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly,* 42 (5), 886-901.
ROULSTON, K. 2010. Considering quality in qualitative interviewing. *Qualitative Research,* 10 (2), 199-228.
ROYSTON, P., ALTMAN, D. G. & SAUERBREI, W. 2006. Dichotomizing continuous predictors in multiple regression: a bad idea. *Statistics in medicine,* 25 (1), 127-141.
RUBENSTEIN, J. 2007. Accountability in an unequal world. *The Journal of Politics,* 69 (3), 616-632.
RUGGIANO, N. & TALIAFERRO, J. D. 2012. Resource Dependency and Agent Theories: A Framework for Exploring Nonprofit Leaders' Resistance to Lobbying. *Journal of Policy Practice,* 11 (4), 219-235.
RYAN, C., MACK, J., TOOLEY, S., & IRVINE, H. 2014. Do not-for-profits need their own conceptual framework?. Financial Accountability & Management, 30(4), 383-402.
RYAN, C. & IRVINE, H. 2012. Not - For - Profit Ratios for Financial Resilience and Internal Accountability: A Study of Australian International Aid Organisations. *Australian Accounting Review,* 22 (2), 177-194.
RYAN, H. E. & WIGGINS, R. A. 2004. Who is in whose pocket? Director compensation, board independence, and barriers to effective monitoring. *Journal of Financial Economics,* 73 (3), 497-524.
SAAM, N. J. 2007. Asymmetry in information versus asymmetry in power: Implicit assumptions of agency theory? *The Journal of Socio-Economics,* 36 (6), 825-840.
SAKSENA, P. 2001. The relationship between environmental factors and management fraud: An empirical analysis. *International Journal of Commerce and Management,* 11 (1), 120-139.
SALAMON, L. M., HEMS, L. C. & CHINNOCK, K. 2000. The nonprofit sector: for what and for whom? : Johns Hopkins University Institute for Policy Studies.
SAMKIN, G. & SCHNEIDER, A. 2010. Accountability, narrative reporting and legitimation: the case of a New Zealand public benefit entity. *Accounting, Auditing & Accountability Journal,* 23 (2), 256-289.
SANDERS, W. G. & HAMBRICK, D. C. 2007. Swinging for the fences: The effects of CEO stock options on company risk taking and performance. *Academy of Management Journal,* 50 (5), 1055-1078.
SASSEN, S. 2013. Before Method: Analytic Tactics to Decipher the Global—An Argument and Its Responses, Part I. *the pluralist,* 8 (3), 79-82.

SAUNDERS, M., LEWIS, P. & THORNHILL, A. 2016. *Research Methods for Business Students,* 7th ed., Pearson Education.
SAXTON, G. D. & GUO, C. 2011. Accountability online: Understanding the web-based accountability practices of nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly,* 40 (2), 270-295.
SAXTON, G. D., KUO, J.-S. & HO, Y.-C. 2012. The determinants of voluntary financial disclosure by nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly,* 41 (6), 1051-1071.
SAXTON, G. D. & WANG, L. 2014. The social network effect: The determinants of giving through social media. *Nonprofit and Voluntary Sector Quarterly,* 43 (5), 850-868.
SAXTON, G. D. & WATERS, R. D. 2014. What do stakeholders like on Facebook? Examining public reactions to nonprofit organizations' informational, promotional, and community-building messages. *Journal of Public Relations Research,* 26 (3), 280-299.
SCHEDLER, A., DIAMOND, L. J. & PLATTNER, M. F. 1999. *The self-restraining state: power and accountability in new democracies,* 1st ed., Lynne Rienner Publishers.
SCHEIN, E. H. 1996. Culture: The missing concept in organization studies. *Administrative science quarterly,* 41 (2), 229-240.
SCHILLEMANS, T. & BJURSTRØM, K. H. 2019. Trust and Verification: Balancing Agency and Stewardship Theory in the Governance of Agencies. *International Public Management Journal*, 1-35.
SCHNAKE, M. E. & WILLIAMS, R. J. 2008. Multiple directorships and corporate misconduct: The moderating influences of board size and outside directors. *Journal of Business Strategies,* 25 (1), 1.
SCHNATTERLY, K., GANGLOFF, K. A. & TUSCHKE, A. 2018. CEO wrongdoing: A review of pressure, opportunity, and rationalization. *Journal of Management,* 44 (6), 2405-2432.
SCHUCHTER, A. & LEVI, M. 2015. Beyond the fraud triangle: Swiss and Austrian elite fraudsters. *Accounting Forum,* 39 (3), 176-187.
SCHUCHTER, A. & LEVI, M. 2016. The fraud triangle revisited. *Security Journal,* 29 (2), 107-121.
SCHWARTZ, M. S., DUNFEE, T. W. & KLINE, M. J. 2005. Tone at the top: An ethics code for directors? *Journal of Business Ethics,* 58 (1-3), 79.
SCOTT, J. 1990. *A Matter of Record: Documentary Sources in Social Research, 1st* ed. Cambridge, Polity Press.
SCOTT, S. G. & LANE, V. R. 2000. A stakeholder approach to organizational identity. *Academy of Management review,* 25 (1), 43-62.
SEARCH, C. 2019. *Charity Advanced Search Engine* [Online]. Available: http://apps.charitycommission.gov.uk/ShowCharity/RegisterOfCharities/AdvancedSearch.aspx [Accessed 14.09.2019 2019].

SECTOR, T. 2018. *Public trust in charities 'at lowest level since 2005', commission figures show* [Online]. Available: https://www.thirdsector.co.uk/public-trust-charities-at-lowest-level-2005-commission-figures-show/communications/article/1487493 [Accessed 11.09.2019 2019].

SEGAL, L. & LEHRER, M. 2012. The institutionalization of stewardship: Theory, propositions, and insights from change in the Edmonton Public Schools. *Organization Studies,* 33 (2), 169-201.

SEIFERT, D. L., SWEENEY, J. T., JOIREMAN, J. & THORNTON, J. M. 2010. The influence of organizational justice on accountant whistleblowing. *Accounting, Organizations and Society,* 35 (7), 707-717.

SEYAMA, S. M. 2015. Amenable performance management in higher education: integrating principles of agency and stewardship theories. *Africa Education Review,* 12 (4), 664-679.

SHANNON-BAKER, P. 2016. Making paradigms meaningful in mixed methods research. *Journal of Mixed Methods Research,* 10 (4), 319-334.

SHARMA, A. & PANIGRAHI, P. K. 2013. A review of financial accounting fraud detection based on data mining techniques. *International Journal of Computer Applications,* 39 (1), 38-47.

SHLEIFER, A. & VISHNY, R. W. 1993. Corruption. *The quarterly journal of economics,* 108 (3), 599-617.

SHOCKLEY, R. A. 1981. Perceptions of auditors' independence: An empirical analysis. *Accounting Review,* 56 (4), 785-800.

SICILIANO, J. I. 1996. The relationship of board member diversity to organizational performance. *Journal of Business Ethics,* 15 (12), 1313-1320.

SIMNETT, R. 1987. Determinants of Financial Information Published by Private Not - For - Profit Organisations. *Accounting & Finance,* 27 (2), 53-71.

SIMPSON, S. S. 2013. White-collar crime: A review of recent developments and promising directions for future research. *Annual Review of Sociology,* 39, 309-331.

SINCLAIR, A. 1995. The chameleon of accountability: Forms and discourses. *Accounting, organizations and Society,* 20 (2-3), 219-237.

SINCLAIR, R. 2010. Understandability and transparency of the financial statements of charities. School of business. Auckland: Auckland University of Technology.

SINCLAIR, R., HOOPER, K., AYOUB, S., FINANCE, P. & ESSCA, G. Perspectives of accountability in charities. 6th Asia Pacific Interdisciplinary Research in Accounting Conference, Sydney July, 2010. 1-19.

SKOUSEN, C. J., SMITH, K. R. & WRIGHT, C. J. 2009. Detecting and predicting financial statement fraud: The effectiveness of the fraud triangle and SAS No. 99. *Corporate Governance and Firm Performance,* 13**,** 53-81.

SOCIETY, C. 2018. *Top 100 charities see longest fall in voluntary income for 20 years* [Online]. Available: https://www.civilsociety.co.uk/news/most-sustained-fall-in-donations-to-largest-100-charities-for-20-years.html [Accessed 09.09.2019 2019].

SOLOMON, J. 2013. *Corporate Governance and Accountability,* 4th edition. ed. Chichester, West Sussex, United Kingdom : John Wiley and Sons, Inc.,

SOLOMON, J. & SOLOMON, A., 2004. The role of transparency in corporate governance. *Corporate Governance and Accountability*, 119-143.

SOLTANI, B. 2014. The anatomy of corporate fraud: A comparative analysis of high profile American and European corporate scandals. *Journal of Business Ethics,* 120 (2)**,** 251-274.

SORP, C. 2005. *Statement of Recommended Practice* [Online]. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/354885/sorp05textcolour.pdf [Accessed 13.09.2019 2019].

SORP, C. 2015. *Statement of Recommended Practice (FRS 102)* [Online]. Available: http://www.charitysorp.org/media/619101/frs102_complete.pdf [Accessed 13.09.2019 2019].

SORUNKE, O. A. 2016. Personal ethics and fraudster motivation: The missing link in fraud triangle and fraud diamond theories. *International Journal of Academic Research in Business and Social Sciences,* 6 (2)**,** 159-165.

SPECKBACHER, G. 2008. Nonprofit versus corporate governance: An economic approach. *Nonprofit management and leadership,* 18 (3)**,** 295-320.

SPECKBACHER, G. 2013. The use of incentives in nonprofit organizations. *Nonprofit and Voluntary Sector Quarterly,* 42 (5)**,** 1006-1025.

STALEBRINK, O. J. & SACCO, J. F. 2007. Rationalization of financial statement fraud in government: An Austrian perspective. *Critical Perspectives on Accounting,* 18 (4)**,** 489-507.

STAW, B. M. & SZWAJKOWSKI, E. 1975. The scarcity-munificence component of organizational environments and the commission of illegal acts. *Administrative Science Quarterly,* 20 (3)**,** 345-354.

STEANE, P. & CHRISTIE, M. 2001. Nonprofit boards in Australia: A distinctive governance approach. *Corporate Governance: An International Review,* 9 (1)**,** 48-58.

STEINBERG, R. & GRAY, B. H. 1993. " The Role of Nonprofit Enterprise" in 1993: Hansmann Revisited. *Nonprofit and Voluntary Sector Quarterly,* 22 (4), 297-316.
STEMLER, S. 2001. An overview of content analysis. *Practical assessment, research & evaluation,* 7 (17), 137-146.
STEWART, J. D. 1984. The role of information in public accountability. *In:* TOMKINS, A. H. C. (ed.) *Issues in public sector accounting.* Oxford: Philip Allen., 13-34.
STONE, M. M. & OSTROWER, F. 2007. Acting in the public interest? Another look at research on nonprofit governance. *Nonprofit and Voluntary Sector Quarterly,* 36 (3), 416-438.
STONEY, C. & WINSTANLEY, D. 2001. Stakeholding: confusion or utopia? Mapping the conceptual terrain. *Journal of Management studies,* 38 (5), 603-626.
SUNDARAMURTHY, C. & LEWIS, M. 2003. Control and collaboration: Paradoxes of governance. *Academy of management review,* 28 (3), 397-415.
SUTHERLAND, E. H. 1940. White-collar criminality. *American sociological review,* 5 (1), 1-12.
SUTHERLAND, E. H. 1949. White Collar Crime (New York: Holt, Rinehart and Winston). *Sutherland, EH (1947) Principles of criminology. Fourth Edition. Philadelphia*.
SUTHERLAND, E. H., CRESSEY, D. R. & LUCKENBILL, D. F. 1992. *Principles of criminology,* 11th ed., Rowman & Littlefield.
SZE, T. W. & TALIB, A. 2018. Fraud in Non-profit Organisations: Cases in Singapore. *International Journal For Research In Business, Management And Accounting (ISSN: 2455-6114),* 4 (1), 23-27.
SZPER, R. & PRAKASH, A. 2011. Charity watchdogs and the limits of information-based regulation. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 22 (1), 112-141.
TABACHNICK, B. G. & FIDELL, L. S. 2013. *Using Multivariate Statistics,* 6th ed., Pearson.
THEMUDO, N. S. 2014. Government size, nonprofit sector strength, and corruption: a cross-national examination. *The American Review of Public Administration,* 44 (3), 309-323.
TILLYER, M. S. & ECK, J. E. 2011. Getting a handle on crime: A further extension of routine activities theory. *Security Journal,* 24 (2), 179-193.
TIMOFEYEV, Y. 2015. Analysis of predictors of organizational losses due to occupational corruption. *International Business Review,* 24 (4), 630-641.
TOOTHILL, A., 2018. Marketisation of the UK charity sector: implications for governance and legitimacy. In: 22nd International Research Society for Public Management Conference (IRSPM 2018), Center for Service Excellence,

University of Edinburgh Business School, Edinburgh, Scotland, 11-13 April 2018.
TOSI, H. L., BROWNLEE, A. L., SILVA, P. & KATZ, J. P. 2003. An Empirical Exploration of Decision - making Under Agency Controls and Stewardship Structure. *Journal of Management Studies,* 40 (8), 2053-2071.
TOSI, H. L., WERNER, S., KATZ, J. P. & GOMEZ-MEJIA, L. R. 2000. How much does performance matter? A meta-analysis of CEO pay studies. *Journal of Management,* 26 (2), 301-339.
TOWER, G. 1993. A public accountability model of accounting regulation. *The British Accounting Review,* 25 (1), 61-85.
TREISMAN, D. 2000. The causes of corruption: a cross-national study. *Journal of public economics,* 76 (3), 399-457.
TREMBLAY-BOIRE, J. & PRAKASH, A. 2015. Accountability. org: Online disclosures by US nonprofits. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations,* 26 (2), 693-719.
TRICKER, R.I., 1984. Corporate Governance: Practices. *Procedures and Powers in British Companies and Their Boards of Directors,* Gower, London.
TRICKER, R. B. & TRICKER, R. I. 2015. *Corporate governance: Principles, policies, and practices,* 3rd ed., Oxford University Press, USA.
TROMPETER, G. M., CARPENTER, T. D., DESAI, N., JONES, K. L. & RILEY JR, R. A. 2012. A synthesis of fraud-related research. *Auditing: A Journal of Practice & Theory,* 32 (sp1), 287-321.
TROMPETER, G. M., CARPENTER, T. D., JONES, K. L. & RILEY JR, R. A. 2014. Insights for research and practice: What we learn about fraud from other disciplines. *Accounting Horizons,* 28 (4), 769-804.
TRUSSEL, J.M. & PARSONS, L.M., 2007. Financial reporting factors affecting donations to charitable organizations. *Advances in Accounting*, 23, 263-285.
TSENG, F.-C. & FAN, Y.-J. 2011. Exploring the influence of organizational ethical climate on knowledge management. *Journal of business ethics,* 101 (2), 325-342.
TU, J. V. 1996. Advantages and disadvantages of using artificial neural networks versus logistic regression for predicting medical outcomes. *Journal of clinical epidemiology,* 49 (11), 1225-1231.
TUCKMAN, H. P. & CHANG, C. F. 1991. A methodology for measuring the financial vulnerability of charitable nonprofit organizations. *Nonprofit and voluntary sector quarterly,* 20 (4), 445-460.
TUGGLE, C. S., SIRMON, D. G., REUTZEL, C. R. & BIERMAN, L. 2010. Commanding board of director attention: investigating how organizational performance and CEO duality affect board members' attention to monitoring. *Strategic Management Journal,* 31 (9), 946-968.

TURLEY, S. & ZAMAN, M., 2004. The corporate governance effects of audit committees. *Journal of management and governance*, 8(3), 305-332./4/5

UDDIN, M. M. & BELAL, A. R. 2019. Donors' influence strategies and beneficiary accountability: an NGO case study. *Accounting Forum,* 43 (1), 113-134.

UZUN, H., SZEWCZYK, S. H. & VARMA, R. 2004. Board composition and corporate fraud. *Financial Analysts Journal,* 60 (3), 33-43.

VAFEAS, N. 1999. Board meeting frequency and firm performance. *Journal of financial economics,* 53 (1), 113-142.

VAFEAS, N. 2003. Length of board tenure and outside director independence. *Journal of Business Finance & Accounting,* 30 (7 - 8), 1043-1064.

VALEAU, P., EYNAUD, P., CHATELAIN-PONROY, S. & SPONEM, S. 2019. Toward a Reassessment of the Role of Rank-and-File Stakeholders in Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly,* 48 (1), 146-172.

VALENTINOV, V. & ILIOPOULOS, C. 2013. Economic theories of nonprofits and agricultural cooperatives compared: New perspectives for nonprofit scholars. *Nonprofit and Voluntary Sector Quarterly,* 42 (1), 109-126.

VAN IWAARDEN, J., VAN DER WIELE, T., WILLIAMS, R. & MOXHAM, C. 2009. Charities: how important is performance to donors? *International Journal of Quality & Reliability Management,* 26 (1), 5-22.

VAN PUYVELDE, S., CAERS, R., DU BOIS, C. & JEGERS, M. 2012. The governance of nonprofit organizations: Integrating agency theory with stakeholder and stewardship theories. *Nonprofit and voluntary sector quarterly,* 41 (3), 431-451.

VAN PUYVELDE, S., CAERS, R., DU BOIS, C. & JEGERS, M. 2013. Agency problems between managers and employees in nonprofit organizations: A discrete choice experiment. *Nonprofit Management and Leadership,* 24 (1), 63-85.

VAN PUYVELDE, S., CAERS, R., DU BOIS, C. & JEGERS, M. 2016. Managerial objectives and the governance of public and non-profit organizations. *Public management review,* 18 (2), 221-237.

VAN SLYKE, D. M. 2006. Agents or stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory,* 17 (2), 157-187.

VANDEKERCKHOVE, W. & COMMERS, M. R. 2004. Whistle blowing and rational loyalty. *Journal of Business Ethics,* 53 (1), 225-233.

VAUGHAN, D. 1999. The dark side of organizations: Mistake, misconduct, and disaster. *Annual review of sociology,* 25 (1), 271-305.

VERBRUGGEN, S., CHRISTIAENS, J. & MILIS, K., 2011. Can resource dependence and coercive isomorphism explain nonprofit organizations' compliance with reporting standards?. *Nonprofit and Voluntary Sector Quarterly*, 40(1), 5-32.

VERBRUGGEN, S., CHRISTIAENS, J., REHEUL, A.-M. & VAN CANEGHEM, T. 2015. Analysis of audit fees for nonprofits: Resource dependence and agency theory approaches. *Nonprofit and Voluntary Sector Quarterly,* 44 (4), 734-754.

VERMEER, T.E., RAGHUNANDAN, K. & FORGIONE, D.A., 2006. The composition of nonprofit audit committees. *Accounting Horizons*, 20(1), 75-90.

VIADER, A. & ESPINA, M. 2014. Are not-for-profits learning from for-profit-organizations? A look into governance. *Corporate Governance,* 14 (1), 1-14.

VINTEN, G. 1997. Corporate governance in a charity. *Corporate Governance: An International Review,* 5 (1), 24-28.

VINTEN, G. 2001. Shareholder versus stakeholder–is there a governance dilemma? *Corporate Governance: An International Review,* 9 (1), 36-47.

VINTEN, G. 2002. 'The Corporate Governance Lessons of Enron' , *Corporate Governance,* 2, 16–19 .

VITTINGHOFF, E. & MCCULLOCH, C. E. 2007. Relaxing the rule of ten events per variable in logistic and Cox regression. *American journal of epidemiology,* 165 (6), 710-718.

VIVEROS, H. 2016. Managerial perceptions of stakeholder salience in mining. *The Extractive Industries and Society,* 3 (4), 987-996.

WALLIMAN, N. 2006. *Social Research Methods,* 1st ed. London, SAGE Publications.

WALT, N. & INGLEY, C. 2003. Board dynamics and the influence of professional background, gender and ethnic diversity of directors. *Corporate Governance: An International Review,* 11 (3), 218-234.

WATERS, R. D. 2009. Measuring stewardship in public relations: A test exploring impact on the fundraising relationship. *Public Relations Review,* 35 (2), 113-119.

WATTS, R. L. & ZIMMERMAN, J. L. 1983. Agency problems, auditing, and the theory of the firm: Some evidence. *The Journal of Law and Economics,* 26 (3), 613-633.

WELLENS, L. & JEGERS, M. 2011. Beneficiaries' participation in nonprofit organizations: a theory-based approach. *Public Money & Management,* 31 (3), 175-182.

WELLENS, L. & JEGERS, M. 2014a. Beneficiary participation as an instrument of downward accountability: A multiple case study. *European Management Journal,* 32 (6), 938-949.

WELLENS, L. AND JEGERS, M., 2014b. Effective governance in nonprofit organizations: A literature based multiple stakeholder approach. European Management Journal, 32(2), 223-243.
WELLENS, L. & JEGERS, M. 2016. From Consultation to Participation. *Nonprofit Management and Leadership,* 26 (3), 295-312.
WESLEY LANE, S. 2010. Fraud in London local authorities: a comparative appraisal. *Journal of Financial Crime,* 17 (4), 387-403.
WESTPHAL, J. D. 1999. Collaboration in the boardroom: Behavioral and performance consequences of CEO-board social ties. *Academy of management Journal,* 42 (1), 7-24.
WESTPHAL, J. D. & KHANNA, P. 2003. Keeping directors in line: Social distancing as a control mechanism in the corporate elite. *Administrative Science Quarterly,* 48 (3), 361-398.
WESTPHAL, J. D. & ZAJAC, E. J. 1997. Defections from the inner circle: Social exchange, reciprocity, and the diffusion of board independence in US corporations. *Administrative science quarterly,* 42 (1), 161-183.
WILKE, BURKHARD; GENERAL, Secretary. 2003. Monitoring charitable organizations: Criteria and assessment methods. In: Paper Presented at the OECD/DAC Workshop Development Partners in Evaluation.
WILLIAMS, R. J., FADIL, P. A. & ARMSTRONG, R. W. 2005. Top management team tenure and corporate illegal activity: The moderating influence of board size. *Journal of Managerial Issues,* 17 (4), 479-493.
WILLIAMS, S. & PALMER, P. 1998. The state of charity accounting–developments, improvements and continuing problems. *Financial Accountability & Management,* 14 (4), 265-279.
WILLIAMSON, O. E. 1983. Organizational Form, Residual Claimants, and Corporate Control. *Journal of Law and Economics*, 26, 351–366.
WILSON-JONES, LINDSAY. 2017. Sharing Leadership in Top Teams: A Qualitative Case Study of One Governing Board in the Nonprofit Sector. The Open University.
WISE, D., 2001. Would the payment of market rates for non-executive directors strengthen charity governance?. *International Journal of Nonprofit and Voluntary Sector Marketing*, 6(1), 49-60.
WISEMAN, R. M., CUEVAS - RODRÍGUEZ, G. & GOMEZ - MEJIA, L. R. 2012. Towards a social theory of agency. *Journal of Management Studies,* 49 (1), 202-222.
WOLFE, D. T. & HERMANSON, D. R. 2004. The fraud diamond: Considering the four elements of fraud. *The CPA Journal,* 74 (12), 38-42.
WOWAK, A. J., GOMEZ-MEJIA, L. R. & STEINBACH, A. L. 2017. Inducements and motives at the top: A holistic perspective on

the drivers of executive behavior. *Academy of Management Annals,* 11 (2), 669-702.
WRY, T., COBB, J. A. & ALDRICH, H. E. 2013. More than a metaphor: Assessing the historical legacy of resource dependence and its contemporary promise as a theory of environmental complexity. *Academy of Management Annals,* 7 (1), 441-488.
XU, Y., ZHANG, L. & CHEN, H. 2017. Board age and corporate financial fraud: An interactionist view. *Long Range Planning,* 51 (6), 815-830.
YANG, C., NORTHCOTT, D. & SINCLAIR, R. 2017. The accountability information needs of key charity funders. *Public Money & Management,* 37 (3), 173-180.
YASMIN, S. & HANIFFA, R. 2017. Accountability and narrative disclosure by Muslim charity organisations in the UK. *Journal of Islamic Accounting and Business Research,* 8 (1), 70-86.
YEO, A.C., CHONG, C.Y. & CARTER, S., 2017. Governance practices and disclosure by not-for-profit organizations: effect on the individual donating decision. In Empowering 21st Century Learners Through Holistic and Enterprising Learning, 243-254. Springer, Singapore.
YERMACK, D. 1996. Higher market valuation of companies with a small board of directors. *Journal of financial economics,* 40 (2), 185-211.
YERMACK, D., 2017. Donor governance and financial management in prominent US art museums. *Journal of Cultural Economics*, 41(3), 215-235.
YETMAN, M. H. & YETMAN, R. J. 2012. The effects of governance on the accuracy of charitable expenses reported by nonprofit organizations. *Contemporary Accounting Research,* 29 (3), 738-767.
YÜKSEL, İ. 2012. Developing a multi-criteria decision making model for PESTEL analysis. *International Journal of Business and Management,* 7 (24), 52.
ZACK, G. M. 2003. *Fraud and abuse in nonprofit organizations: A guide to prevention and detection,* 1st ed., Wiley.
ZAHRA, S. A., PRIEM, R. L. & RASHEED, A. A. 2005. The antecedents and consequences of top management fraud. *Journal of Management,* 31 (6), 803-828.
ZAJAC, E. J. & WESTPHAL, J. D. 1996. Director reputation, ceo/board power, and the dynamics of board interlocks. *Academy of Management Proceedings,* 1 (3), 507-529.
ZAMAN, M., HUDAIB, M. & HANIFFA, R. 2011. Corporate governance quality, audit fees and non - audit services fees. *Journal of Business Finance & Accounting,* 38 (1 - 2), 165-197.
ZHAO, Y. & CHEN, K. H. 2008. Staggered boards and earnings management. *The Accounting Review,* 83 (5), 1347-1381.

ZAINON, S., RUHAYA, A., BEE WAH, Y., & ZARINA, A. B. 2012. A comparative analysis of financial performance of funded and non-funded charity organizations. *World Academy of Science, Engineering and Technology (WASET)*, 68, 1202-1207.

ZONA, F., MINOJA, M. & CODA, V. 2013. Antecedents of corporate scandals: CEOs' personal traits, stakeholders' cohesion, managerial fraud, and imbalanced corporate strategy. *Journal of Business Ethics,* 113 (2)**,** 265-283.

ZYGLIDOPOULOS, S. C. & FLEMING, P. J. 2008. Ethical distance in corrupt firms: How do innocent bystanders become guilty perpetrators? *Journal of Business Ethics,* 78 (1)**,** 265-274.

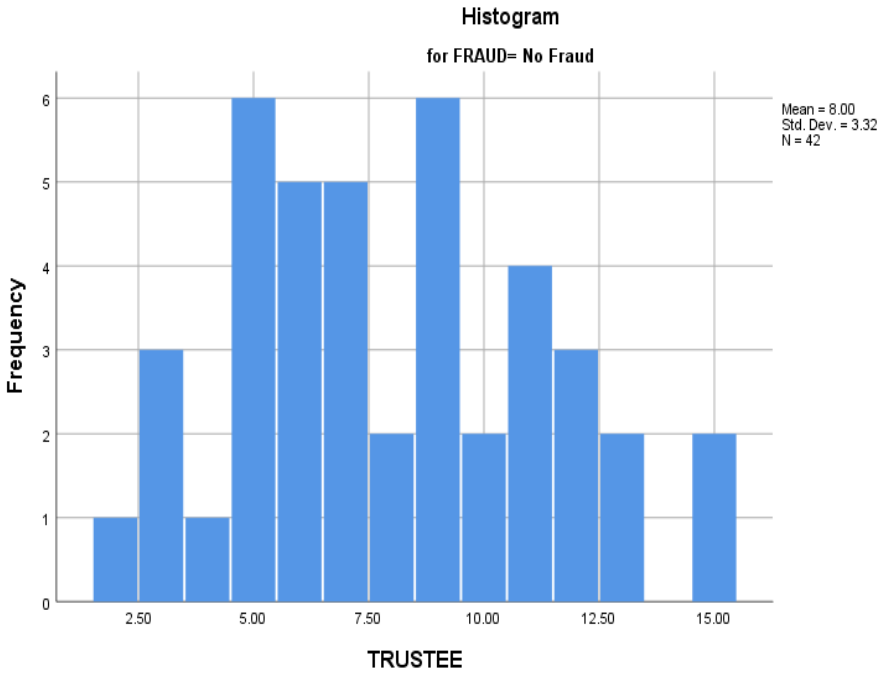
APPENDICES

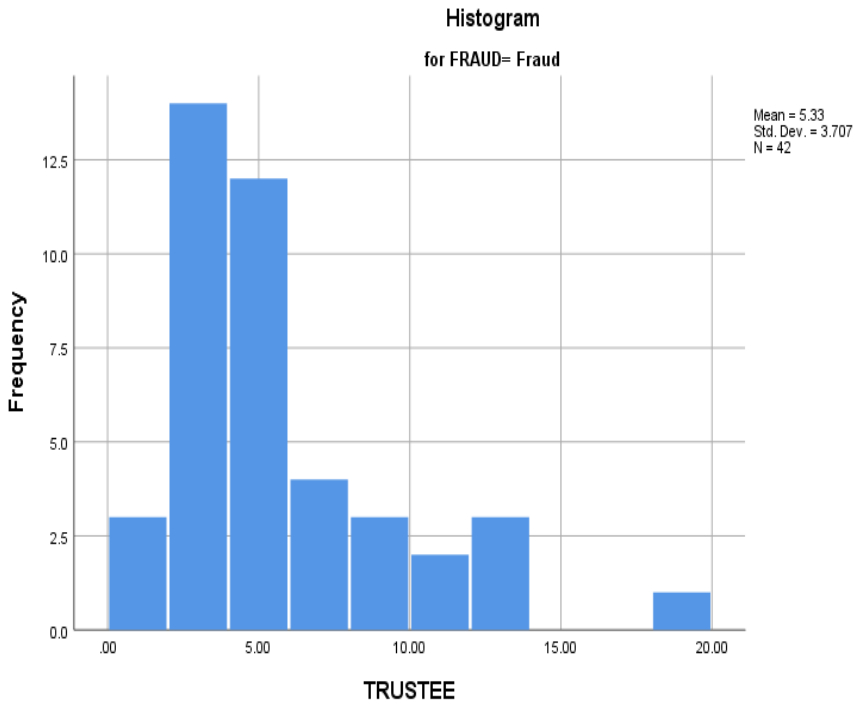
APPENDIX A - NORMALITY TEST

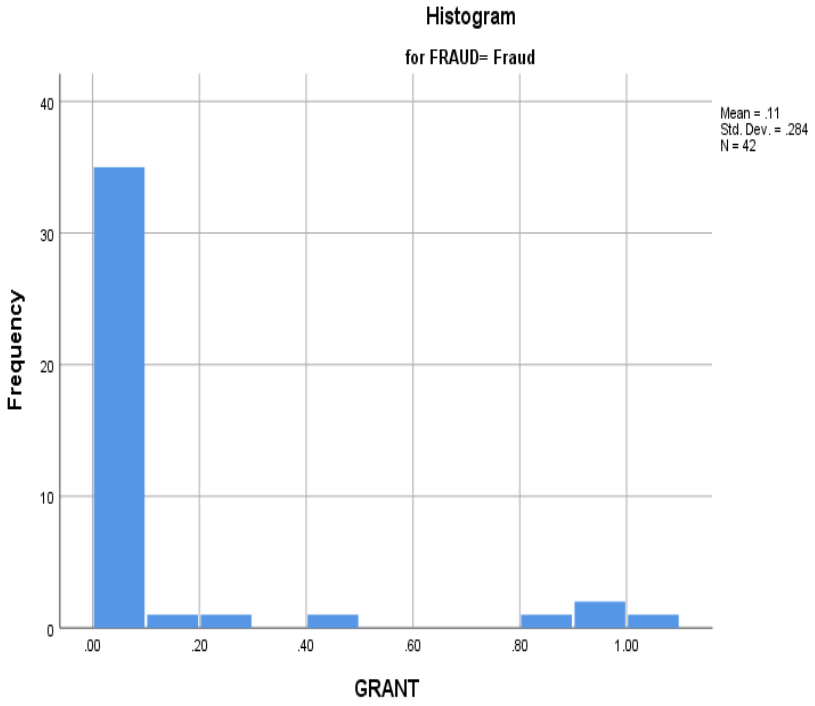
		Fraud Z-Score Sig.	No Fraud Z-Score Sig.
ASSURANCE	Skewness	1.696	9.460
	Kurtosis	-2.372	14.527
	Shapiro-Wilk	0.000	0.000
COMMITTEE	Skewness	7.838	2.696
	Kurtosis	9.054	-1.513
	Shapiro-Wilk	0.000	0.000
LOSS	Skewness	1.696	-1.104
	Kurtosis	-2.372	-2.695
	Shapiro-Wilk	0.000	0.000
SURNAME	Skewness	2.011	4.479
	Kurtosis	-2.144	0.985
	Shapiro-Wilk	0.000	0.000
REMUNERATION	Skewness	-0.819	3.496
	Kurtosis	-2.801	-0.548
	Shapiro-Wilk	0.000	0.000
GRANT	Skewness	7.205	2.351

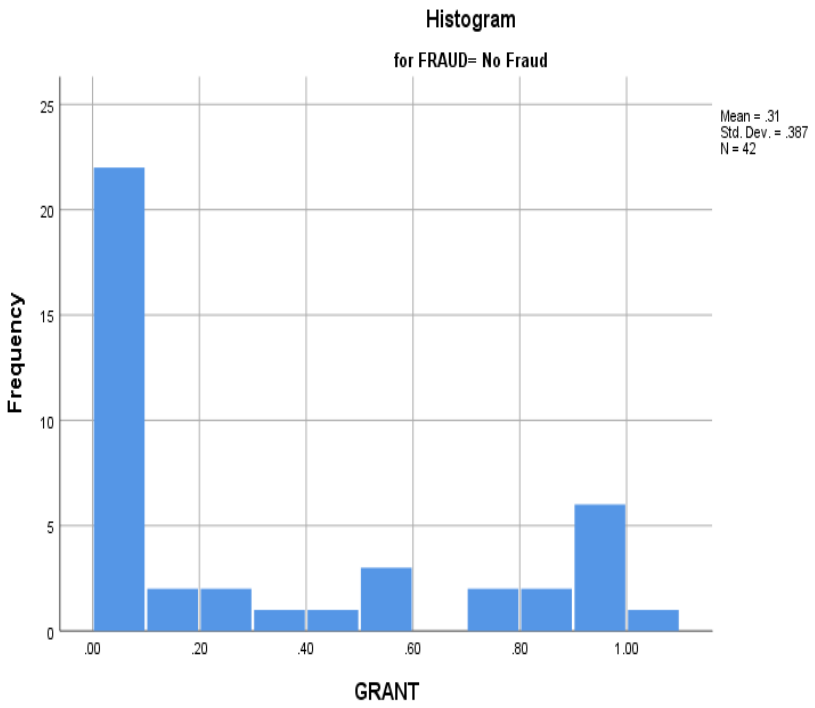
	Kurtosis	7.884	-1.432
	Shapiro-Wilk	0.000	0.000
TRUSTEE	Skewness	4.077	0.773
	Kurtosis	3.022	-0.932
	Shapiro-Wilk	0.000	0.253
RESTRICTED	Skewness	4.599	2.929
	Kurtosis	3.022	-0.314
	Shapiro-Wilk	0.000	0.000

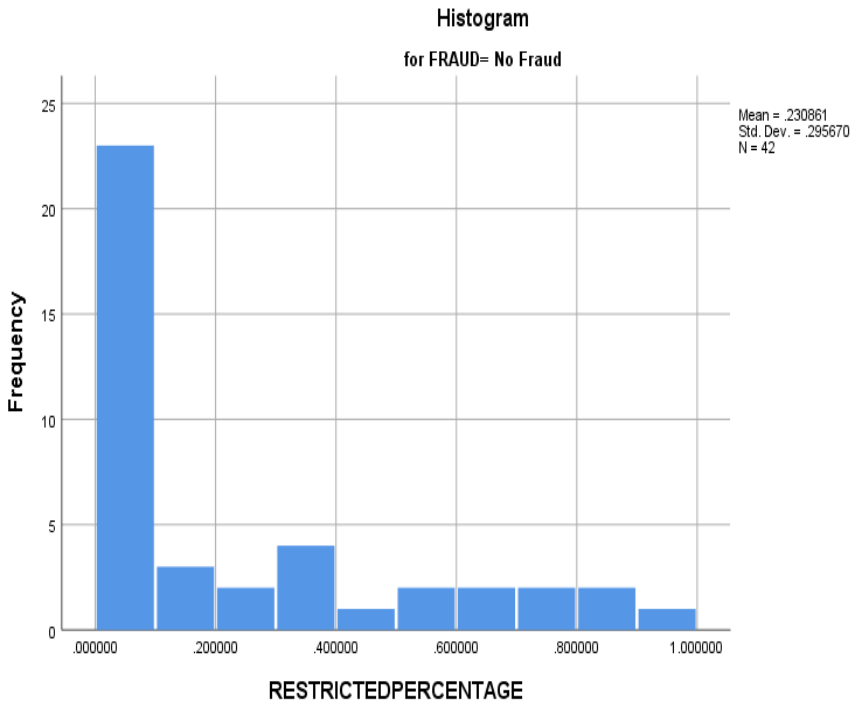
APPENDIX B – DISTRIBUTION HISTOGRAMS OF VARIABLES TO TEST HYPOTHESIS

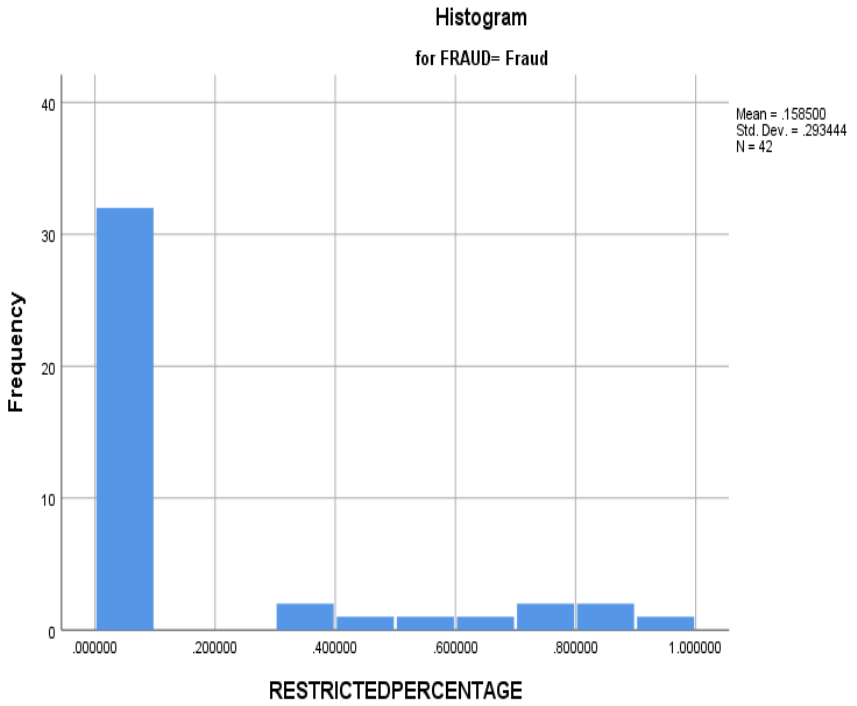



Histogram
for FRAUD= Fraud
Mean = 5.33
Std. Dev. = 3.707
N = 42
Frequency
12.5
10.0
7.5
5.0
2.5
0.0
.00
5.00
10.00
15.00
20.00
TRUSTEE


Histogram
for FRAUD= Fraud
Mean = .11
Std. Dev. = .284
N = 42
Frequency
40
30
20
10
0
.00
.20
.40
.60
.80
1.00
GRANT


Histogram
for FRAUD= No Fraud
Mean = .31
Std. Dev. = .387
N = 42
Frequency
25
20
15
10
5
0
.00
.20
.40
.60
.80
1.00
GRANT


Histogram
for FRAUD= No Fraud
Mean = .230861
Std. Dev. = .295670
N = 42
Frequency
25
20
15
10
5
0
.000000
.200000
.400000
.600000
.800000
1.000000
RESTRICTEDPERCENTAGE


Histogram
for FRAUD= Fraud
Mean = .158500
Std. Dev. = .293444
N = 42
Frequency
40
30
20
10
0
.000000
.200000
.400000
.600000
.800000
1.000000
RESTRICTEDPERCENTAGE

APPENDIX C – CROSS VALIDATION PER CASEWISE

			Predicted Group	P(D>d | G=g)		P(G=g | D=d)	Squared Mahalanobis Distance to Centroid
				p	df		
	Fraud Charities						
	1	1	1	0.188	5	0.876	7.475
	2	1	1	0.502	5	0.865	4.335
	3	1	0**	0.645	5	0.884	3.360
	4	1	0**	0.677	5	0.819	3.146
	5	1	1	0.513	5	0.800	4.256
	6	1	0**	0.107	5	0.756	9.049
	7	1	1	0.564	5	0.633	3.903
	8	1	1	0.781	5	0.568	2.473
	9	1	1	0.781	5	0.568	2.473
	10	1	1	0.454	5	0.772	4.697
	11	1	1	0.689	5	0.602	3.068
	12	1	1	0.834	5	0.533	2.106
	13	1	0**	0.174	5	0.875	7.688
	14	1	0**	0.220	5	0.850	7.006
	15	1	1	0.294	5	0.838	6.126
	16	1	1	0.834	5	0.533	2.106
	17	1	1	0.781	5	0.568	2.473
	18	1	1	0.323	5	0.816	5.827
	19	1	1	0.324	5	0.807	5.819
	20	1	1	0.538	5	0.846	4.076
	21	1	1	0.538	5	0.846	4.076
	22	1	0**	0.106	5	0.641	9.087
	23	1	1	0.216	5	0.695	7.061
	24	1	1	0.437	5	0.882	4.830
	25	1	0**	0.930	5	0.612	1.346
	26	1	1	0.513	5	0.800	4.256
	27	1	1	0.538	5	0.846	4.076
	28	1	0**	0.015	5	0.624	14.067
	29	1	1	0.371	5	0.741	5.381
	30	1	0**	0.888	5	0.542	1.705
	31	1	1	0.799	5	0.524	2.350
	32	1	0**	0.858	5	0.503	1.934

	33	1	0**	0.433	5	0.909	4.863
	34	1	0**	0.000	5	0.797	25.750
	35	1	1	0.246	5	0.858	6.673
	36	1	1	0.564	5	0.633	3.903
	37	1	1	0.542	5	0.824	4.050
	38	1	1	0.542	5	0.824	4.050
	39	1	1	0.246	5	0.858	6.673
	40	1	1	0.781	5	0.568	2.473
	41	1	0**	0.867	5	0.621	1.871
	42	1	1	0.329	5	0.790	5.770
	No- Fraud Charities						
	1	0	0	0.018	5	0.791	13.682
	2	0	1**	0.871	5	0.525	1.840
	3	0	0	0.043	5	0.910	11.474
	4	0	1**	0.254	5	0.761	6.579
	5	0	1**	0.800	5	0.610	2.343
	6	0	1**	0.545	5	0.893	4.030
	7	0	0	0.139	5	0.915	8.338
	8	0	1**	0.302	5	0.900	6.049
	9	0	1**	0.870	5	0.526	1.848
	10	0	0	0.980	5	0.665	0.757
	11	0	0	0.555	5	0.849	3.963
	12	0	0	0.786	5	0.735	2.439
	13	0	0	0.207	5	0.764	7.192
	14	0	0	0.217	5	0.629	7.047
	15	0	0	0.410	5	0.711	5.051
	16	0	0	0.879	5	0.551	1.780
	17	0	1**	0.526	5	0.855	4.165
	18	0	0	0.875	5	0.513	1.808
	19	0	0	0.579	5	0.811	3.797
	20	0	1**	0.015	5	0.649	14.077
	21	0	0	0.031	5	0.725	12.296
	22	0	0	0.932	5	0.576	1.328
	23	0	0	0.807	5	0.726	2.297
	24	0	0	0.794	5	0.621	2.386
	25	0	0	0.229	5	0.705	6.892
	26	0	0	0.879	5	0.551	1.780
	27	0	0	0.164	5	0.790	7.854
	28	0	0	0.237	5	0.882	6.791

	29	0	0	0.329	5	0.790	5.771
	30	0	1**	0.506	5	0.910	4.308
	31	0	0	0.572	5	0.832	3.847
	32	0	1**	0.870	5	0.526	1.848
	33	0	0	0.695	5	0.653	3.029
	34	0	0	0.938	5	0.647	1.275
	35	0	0	0.668	5	0.803	3.207
	36	0	0	0.504	5	0.720	4.325
	37	0	0	0.794	5	0.621	2.386
	38	0	0	0.910	5	0.657	1.528
	39	0	0	0.268	5	0.749	6.410
	40	0	1**	0.800	5	0.610	2.343
	41	0	0	0.237	5	0.735	6.785
	42	0	0	0.875	5	0.513	1.808

For the original data, squared Mahalanobis distance is based on canonical functions. For the cross-validated data, squared Mahalanobis distance is based on observations.
**. Misclassified case

b. Cross validation is done only for those cases in the analysis. In cross validation, each case is classified by the functions derived from all cases other than that case.