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VOLUME 2

CITY UNIVERSITY

EXTERNAL REGULATION AND INTERNAL CONTROL IN THE CHARITY  
SECTOR.

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of Doctor of Philosophy in March 1995 .

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## CHAPTER FIVE - EMPOWERING TRUSTEES - INTERNAL CONTROL FUNCTIONS.

In this chapter we review the regulatory environment's focus - the charity trustee. We critically appraise the practicality of this role, in particular focusing on the literature on the role of trustees. Who is setting the trustees' agenda? We look at minimalist trustee roles and the 'ideal' trustee as depicted by Drucker and Handy. How do they deal with liability and risk? Our conclusion is that the new regulatory environment, which the larger charities are subjected to, will stimulate the trustees to consider the introduction of control functions. For the largest charities with incomes greater than one million pounds, we suggest that an internal audit function will increasingly be adopted as the only practical way trustees can manage in this new environment. We critically review what is internal control and auditing. The deficiency in knowledge of internal audit in charities and why a survey was required are examined. A management commentary based on the survey's findings is then presented.

### 5.1 THE TRUSTEE AGENDA

Trustees of charities in Britain face a plethora of ideas on the performance of their roles, of warnings on the degree and nature of their responsibilities, and of prescriptions for measuring their effectiveness and contribution to their charities. An ambiguous picture of current trustee knowledge is suggested (NCVO 1992, Ford 1992) of some trustees apparently unaware of their acute and potentially vulnerable situations as final decision makers in the charity, while others have awareness that is leading them to seek job descriptions and targeted training both to improve their charity's work and to

safeguard their own positions. This ambiguity is a reflection, in turn, of the complex nature of the variously defined 'voluntary', 'charity', 'non-profit or independent sectors, which we reviewed in Chapter 1.

Trustees may be seen not simply as an example of the voluntary impulse, but as its epitome. Thus Hedley(1992) notes that:

"...some would argue that Britain's voluntary sector is voluntary only by virtue of its volunteer management committee, who receive no financial regard or profit." (Hedley, 1992 p93)

Harris(1992) reinforces this perspective, with her emphasis that:

"...in law, a voluntary agency is its governing body...the very survival of voluntary agencies depends on the work done by the governing bodies."(Harris, 1992 p135)

As explained by Barrister and former Deputy Charity Commissioner Francesca Quint:

"...the expression 'trustee' means everyone who is part of a governing body of a charity, however named, whether known as trustees, a committee or council, or by names more esoteric."(Quint, 1993)

Just as charities in Britain do not, however, represent a homogeneous group of organisations, so trustees should be seen as a heterogenous grouping, with a limited number of shared concerns and varying measures of organisational commitment and organisational results. This 'management' perspective which distinguishes roles of charity trustees according to a personal criteria of background, why they

have become trustees (Palmer and Harrow 1994), size of charity and the employment of staff, is at odds with the legal perspective that makes no differentiation between trustees and charities irrespective of commitment and size. A view outlined by the Charity Commission:

" The charity trustees are the people responsible under the charity's governing document for controlling the management and administration of the charity, regardless of what they are called....The general rule is that trustees must act in person and decisions concerning the charity must be taken by the trustees acting together." (Charity Commission, 1992)

Trustees of UK charities, therefore, face a shifting agenda affecting their trusteeship. New or restated legal demands being made on trustees, via the 1992/3 Charities Act, (see chapter 3) are encouraging them to understand the nature and extent of their legal obligations - to become professionals. The 'professionalising' developments have been accompanied by or pushed along by the expansion of the 'how to do it' literature for trustees. For example, Cagney (1991) in asserting that boards of trustees "must assume an activist role" in defining their organisation's identity, purpose and aspirations, and "understand, articulate and stand behind" that organisational identity, comments that "it is terrifying to consider how seldom this occurs." (Cagney, 1993 p93)

Other literature, predominately originating from the US, reflects the drive of the self-improving trustee, who recognises the power of volunteering in this form; an example is O'Connell's (1985) 'The Board Members Book' with its subtitle 'Making a difference in voluntary organisations'. In the United Kingdom to these approaches should be added the part cautionary, part advisory literature which has been prompted by external

environmental change(for example, legal regulation and contracting) and internal sector willingness to exchange information on organisational practice(for example, the NCVO Trustees Unit literature, and Harrow,Hind and Palmer, 1993).

Another force has been to seek trustees and charities to review their moral obligations as well.Who are the trustees there to serve? Accountability has become a buzz word since Leat's(1988) study with Day(1992 p17) drawing a correlation of charities obligations to their beneficiaries with "the Government exhortations on citizens rights." A critical appraisal by Taylor(1994) with the title "Empowerment: Does The Voluntary Sector Really Empower Users? argues that there has been an over-emphasis of the voluntary sector role. The sector's strength has been in its advocacy and campaigning role but she warns that the move towards contracting could further prejudice such roles by the demands of the purchaser. Trustees will be faced with a choice between government-financed contracts and a limitation on campaigning, or refusing any conditions on such activities and possibly losing the prospect of that source of finance and therefore a potential loss of services to their beneficiaries.

The 'trustee agenda' is therefore a complex mix of concerns about publicising trustee responsibilities and duties; about assessing their rights, expectations and proper roles in their charities' development and change;about reviewing the motivations of trustees; about establishing public expectations about trustee behaviour and performance; and about establishing benchmarks for assessing the quality of that performance. Who, then, is setting this complex agenda? Of these concerns, the predominant ones are what trustees should and should not be doing and why, and how evaluation of their voluntary

work may be incorporated into the regulation of the charity sector. The following main agenda-setters or stakeholders may thus be identified:

1. The public policy-makers, legislators and public regulators.
2. The managers and other professionals employed in charities, and the external consultants and other advisers to the charity sector academic analysts.
3. The 'umbrella' or coordinating voluntary bodies.

We now consider each in turn.

## **5.2 THE AGENDA SETTERS.**

### **5.2.1 The Policy and Regulators Agendas.**

In examining the agendas of the relevant groupings, set out above, that of the public policy-makers, legislators and regulators seems the clearest - as embodied in the changing role of the Charity Commission, after the 1992 Charities Act, as a regulatory organisation (see chapter 3). The 1989 White Paper from which the legislation has developed noted that its proposals were:

"...designed to produce a stronger and more modern framework of supervision which will equip the Charity Commission for a more active role, narrow the scope for abuse, encourage trustees to shoulder their responsibilities and ensure continuing confidence in the sector." (Home Office, 1989 p18)

It appeared to criticise trustees implicitly, and to equate public satisfaction with improved or 'policed' trustee behaviour. Against this background, it is difficult to see how the Charity Commission can continue to incorporate easily its regulating and its supporting

functions. The joint working party with the NCVO on trustee training is an example of the latter, but as its commissioned research paper recognised, the work here is only at the early stages and the findings may be taken out of context. The findings about the extent to which trustee training and support is in fact a core issue at all for charities are also not clear. Thus while a number of specific ideas arose (for example on mentors for trustees and on induction programmes):

" just under half the trustees felt that while training was "a good thing" there was no obvious or immediate needs relating to their own organisations." (Ford, 1992 p9)

The Commission's agenda on behalf of the public would therefore seem to be one in which trustees are demonstrably 'trained', whether formally or informally, through their trustee networks and external professional and working contexts; where those trustees have a clear picture of their legal and financial duties; and where those duties lead them to preside over organisations where documentary material on their progress is 'fed upwards' for (by implication) some sort of public acceptability. Given the pressure on the Charity Commission which we explored in chapter 3 to scrutinise those incoming documents and accounts, it is likely that it will in the foreseeable future play a more pro-active role - for example, in encouraging charity collaboration and where appropriate merger (see Cornforth, 1994 for a perspective on mergers). Though, as our interview with the Chief Charity Commissioner (Fries, 1994) identified, such encouragement would be very discreet.

A concerned and donating public may look to the Commission for a once-and-for all set of performance indicators for trustees, identifying what precisely these

should be - beyond the easily measurable and thus relatively uninformative (for example, trustee attendance at a certain percentage of meetings) - is highly problematic. (see Fenton, Golding and Radley, 1993 for a survey of public opinion on charity).

The Commission's own assessment of its core task - "to enhance the charitable sector and public confidence in it" (Charity Commission, 1993b p1) is demanding, emphasising the developmental rather than the regulatory aspects of its work. Its commissioning of a videotape, publicising the charity trustees role is an example of the former with some degree of down playing of the constraints faced by charity trustees. (Charity Commission, 1993c)

Regarding the regulatory 'label' as by itself misleading, the Commission has identified an 'ultimate test' of its contribution, "the existence of a flourishing charitable sector in which the public have confidence and trust" (Charity Commission, 1993a p2). Is it looking to its support mechanisms rather than its supervision systems to progress this? The interviews and daily contact with Commission staff indicated that perhaps the Commission had gone too far with its 'regulator' image and needed to give emphasis to its 'adviser' and 'friend' role. A perspective identified in the Commission's last report:

" The 1993 Act creates the framework for a new 'interactive' relationship between the Commission and registered charities, through the process of registration, submission of returns and support and supervisory work... The new framework which will come into operation when the provision of the 1993 Act are finally brought into force will be the basis for the Charity Commission monitoring. This will transform the way in which the Commission operates in relation to the sector ... to take the initiative in intervening to support the sector... we recognise that if we are to fulfil successfully our general function of promoting

the effective use of charity resources, we must work ever more closely with charities. We need to understand the problems which charities face...members of our staff have also held 'surgeries' in a number of towns throughout the Country. Each surgery is usually held over two days and advanced publicity is given by local umbrella organisations which also make appointments for trustees of local charities who wish to discuss any matters of concern with commission staff." (Charity Commission, 1994 p1-5)

The Commission's focus on ensuring the integrity and the efficiency of charities, is problematic, for it gives no definitions or working understandings of these terms.

The investigatory side of its work is reported, in its 1992 Annual Report, as expanding while an increased public awareness of charity activity and its own monitoring activity grows. The 761 inquiry cases in progress at the end of the year(a 17 per cent increase over 1991) fell into the following categories:

Maladministration	54%
Malpractice	22%
Tax related abuse	8%
Fund-raising abuse	10%
Political activities	6%

(Charity Commission, 1993a p23)

For these figures, no breakdown is given concerning the organisational actors in the charities investigated - whether they were the trustees, charity staff or other charity volunteers.

It is implicit in the Commission's literature that the reports of its investigatory work are intended to guide and help trustees and charity staff; it must, however, remain uncertain whether this can happen in practice, as



trustees may look to the particular context of their charities and consider that their situations must be different from everyone else's. The extent to which the outcomes of the Commission's investigations and reports are known among trustees is also uncertain. In the case of its inquiry into the Royal British Legion during 1991, the Commission has stated that some of the key findings to which it drew attention should be seen:

" as a warning to other charity trustees who may be faced with a similar situation in the future." (Charity Commission, 1993a p26)

However, it is very much left to those trustees - at least, to those who know about the report - to interpret the results of the investigations and to draw the relevant lessons. In this particular instance, for example, the situation under investigation has been:

"exacerbated by weak administrative structures and practices...problems tended to be addressed by personal networking rather than through proper management structures." (Charity Commission, 1993b p25)

On the assumption that most trustees 'network' in a variety of ways with their fellows and with their charities' staff, and that networking is a much encouraged activity, it is difficult to tease out more precisely the nature of the problem here. Much hinges on the notion of what 'proper management structures' were. The Commission's decision to publish summaries of its key decisions twice yearly is very welcome, but its style of documentation omits what might be called specific 'learning points' for charity trustees and charity staffs.

In agenda setting, the Commission has a most complex task

-getting a more 'hands-on' approach by virtue of its growing knowledge through the annual returns and expertise through staff secondment to charities (Charity Commission, 1994 p5) and investigations; but maintaining a 'hands-off' approach in light of the fact that charity trusteeship and charity direction is a matter of personal individual responsibility.

#### **5.2.2 Managers' and Staff Agendas**

The trustee agenda for managers, including professionally qualified staff employed in the charity sector, is by contrast a more dynamic and challenging one. In some managerially oriented texts, the major responsibility for ensuring harmonious, focused and successful trustee contributions does not lie predominately with the trustees but with the charity's most senior manager or chief executive. This approach is typified by Herman and Heimovics(1991 p89), who point out that a chief executive's critical skills include those of being "the integrator, the developer and the sustainer of the board"(of trustees). For these authors, "six requisite skills of the Board-Centred Chief Executive" are identifiable, including those of " promoting board accomplishments and productivity" and "initiating and maintaining a structure for board work" as well as what might be seen as the more traditional roles of "providing helpful information" for and "facilitating interaction" of the board of trustees(Herman and Heimovics, 1991 p117).

In a more grass-roots-style publication, Adirondack(1989 p3) recognises the potential for inherent tension between trustees and staff - the former may regard staff as primarily interested in their careers and the latter may experience what they consider to be interference in their

work - and identifies as a critical problem "confusion between the boundaries and relationships" between the organisation's staff and management committees, without identifying which group should take on the removal of those confusions. A key part of the trustee agenda for Adirondack is trustee knowledge - she states that:

" Management Committee members often know remarkably little about the organisations for which they are responsible." (Adirondack, 1989 p3)

and identifies fifteen areas of organisational knowledge without which those members are likely not to be able to cope (Adirondack, 1989 p6).

When senior charity managers speak more directly, the extent of trustee responsibility(not simply to 'know a lot' about their charity) becomes more clear, begging the question of the extent to which trustees, as they perform alongside and yet also, ultimately, direct professional staff, should 'professionalise'.

Randall's (1990) examination of the situation where senior employees continue to remain on an unequal footing with the trustees despite the regularly expressed concerns about trustees' lack of detailed knowledge or expertise, is presented in order to ask whether too much is being asked of those trustees. He writes:

" It came as something of a shock when I first realised that, as the finance director of a leading charity, I was not responsible for the actions of those charities" (Randall, 1990 p9).

The situation in which charity trustees' responsibilities and duties are greater in law than those of the charity's officers leads, he argues to:

" far too great a responsibility on the trustees and not enough on the employees"(Randall, 1990 p9).

His view of the position of trustees as being not unlike that of non-executive directors in private firms (except that of course the latter can be paid much more than just reimbursement of expenses) leads him to propose a change in current legislative framework, in which a charity's senior employees become the equivalent of the executive directors in business firms and thus "fully responsible in charity law for their own actions."(Randall, 1990 p9)

The comparison of trustees with non-executive directors of private firms is taken further by Hind (Hind and Charlton, 1993), in the case made for pointing the charity sector towards learning lessons from the recommendations on the role of non-executive directors in the 1992 Cadbury Report on corporate governance. The report(Cadbury, 1992) is seen by Hind as 'neglected' by the charity sector and containing valuable models for charity sector emulation; for example, in having a formal schedule of matters reserved for board(that is trustee) decisions and in having board members as fixed-term appointments. In a trustee-senior manager dialogue, Hind and Charlton(1993) examine the nature of the 'dynamic' between senior managers and trustees, and in particular that between a charity's honorary treasurer and its chief finance officer. The importance of sustaining this working relationship, in particular, is stressed with reference back to the 'lessons' of Cadbury, as is the case for clear divisions of responsibility at the head of organisations, with a balance of power and authority rather than a concentration. Hind regards this issue as a challenge for charities:

" ...those charities which are successful are those which are continually pushing at the

status quo, asking awkward questions and taking action themselves; to do this they need hugely talented but also difficult people." (Hind and Charlton, 1993 p24)

The presumption here is that both charity senior managers and trustees may, necessarily be 'difficult'. The attractive but never quite defined case for the need to achieve 'balance' between trustees and staff is a continuing theme in the texts which set out to prescribe trustee behaviour. Conrad and Glenn (1983, chapter 10), for example, examine the healthy, creative tension between board members and staff, and the keeping of a 'delicate balance' by a mutual recognition of trust and need. They describe the developments during the late affluent 1960s in the US voluntary sector of 'over professionalism', where volunteer board members became squeezed out of their organisations affairs. The implied return to 'balance' is attributed not to a lessening of the recruitment of professional staff, but to external pressures - including demands that trustee groups should be better represented on the communities they serve, and the proliferation of voluntary organisations, growing "much faster than their contributors ability or desire to give" (Conrad and Glenn, 1983 p113). For Conrad and Glenn, voluntary organisations which are deemed to be in trouble, usually because they cannot raise money, are likely to have developed a malaise because of 'the deterioration of board volunteer/staff relationships'.

### **5.2.3 The Professional Advisers' Agendas.**

For the professional advisers of charities, the trustee agenda is one in which the daunting role of the trustee needs to be faced up to, and where the proper choice and use of professional help may be a key to trustee survival. From an audit perspective, for example,

Callaghan (1990), comments that if a business client asked advice on whether to accept a trusteeship, it would not be surprising if the answer were 'No'. His list of factors to support this decision includes the unpaid nature of the time given, the lack of specific training, the likelihood of being inhibited by archaic trust deeds, and the possibility that the client would be unaware of all of his or her duties. Importantly a further block to trusteeship relates back to the relationship with the charity's professional staff, and is presented bluntly as follows:

"Their presence may well be resented by full-time executives for whose actions they are legally responsible."(Callaghan, 1990 p11)

Callaghan's case for 'audit health checks' in charities is based on the professional independence of this kind of advice, and the reassurance thus afforded to trustees. Would-be trustees might speculate whether to seek such a 'health check' for a charity which they have been invited to join, in the same way as housebuyers may consider whether to commission a survey of a house which they intend buying.

In relation to specific trustee responsibility, the trustee agenda is one in which the trustee need is to be able to choose, understand and make best use of professional advice; to know when to ask for it, whom to ask (rather than simply being dependent on one of the trustees who 'knows someone') and how to set the parameters within which the hired professionals are to work. Harrison's (1993, 1994) approach on issues of charity investment provides a model.

A major example he provides and discusses is the extent to which trustees are willing to make explicit,

understand and if necessary defend their policy on the financial reserves which the charity holds - an area where a 'safety-first' policy may appeal to the instincts of most trustees but where public(or other grant-giving charities) perception of an 'over-reserved' charity may cause long-term problems. The Charity Commission's stated view in this area - that a failure to consider the matter of reserves, simply allowing income to accumulate without good reason, amounts to a breach of trust by trustees - has been accompanied by what may be interpreted as another warning:

" we shall seek explanations from the trustees and will then take appropriate action if we are not satisfied by the responses received." (Charity Commission, 1993a p26)

This in turn provides more support for the case that professional advisers for charity trustees have a key role to play, not in directing their policies and strategies but in ensuring that they address the issues of what their policies and strategies are and how they may be interpreted by other interested parties.

The professional's role has also been given statutory authority in the area of property transactions for sale:

"...trustees must instruct a qualified surveyor who acts for them alone to report to them in writing and must follow his advice on the marketing of the property."  
(Charity Commission, 1992 p13)

and for borrowing against assets. Previously for such matters the trustees needed to seek the permission of the Charity Commission. Now while they can make the decision, the Commission advises:

" ...before they mortgage the charity's property trustees

must obtain advice from a person with ability in, and experience of financial matters who has no personal interest in the proposed loan." (Charity Commission, 1992 p14)

While that person may be a trustee or an employee of the charity, there is an implied threat at the end of the Commissions advice that inevitably means all but the most 'professional' of trustees will not want to seek 'independent' professional advice:

" Trustees who do not seek advice on matters on which they are not themselves experts could be regarded as having acted imprudently and may be personally liable for the consequences." (Charity Commission, 1992 p14)

To some extent implicit in the professional adviser's approach to trusteeship questions is the understanding that many, if not most, trustees will be 'professional people', often recruited for their specific professional skills, whether or not they are called on or are willing to use them on the charity's behalf. Of the 221 trustees constituting the research sample of the NCVO/ Charity Commission-sponsored research on trustee needs, the occupations of two thirds were cited as 'professional/managerial' (Ford, 1992 p5) and this would seem to help to explain the perception of the majority of those trustees that training was not needed for them. It would appear to be assumed by charities deliberately recruiting among professionals that they have the necessary skills for such work as well as the professional knowledge which they are prepared to use. Charlton (1993) speaking from the strong perspective of the professional in the role of honorary treasurer, stresses the extent to which judgements about the quality of performance of a trustee will relate, importantly, to "the known background and skills that a particular



trustee brings to the trust"; and asserts that trustees should exercise their responsibilities " in accordance with the general(public) perception of the skills they bring with them to the role." (Hind and Charlton, 1993 p20)

#### **5.2.4 Academics' Agendas.**

Academic perspectives on the trustee agenda include those which seek to understand, categorise and predict charity and trustee behaviour, and in so doing provide trustees and charity staff with a base point from which to reflect on and assess the contributions which they are making and the directions in which their charities are moving. Batsleer and Randall(1992), for example, in examining the ways in which voluntary organisations may develop and use inter-agency relationships, alliances and coalitions for helping advance a common cause, provide a series of theoretical frameworks from which to review the ways in which voluntary organisations manage their external relations. In examining, for example, the 'entrepreneurial' approach, they consider the option for organisations of 'adopting fiercely competitive strategies', including the case that the:

" voluntary organisations should manage their external relations in exactly the same way as discreet commercial enterprises manage their affairs in complex and uncertain operating environments." (Batsleer and Randall, 1992 p201)

Such an approach may provoke thought, particularly among those trustees who have cross-charity links and who view their organisation's future as not wholly open to self-determination but a matter - as with other types of organisation - of building and maintaining organisational alliances.

It is also from within the academic perspective that the limitations of trying to separate out the roles and purposes of trustees and charity staff are considered, and the practicality of viewing them as a conjoint operation highlighted. Harris(1991 p3) - working from the premise that relations between staff and management committees, as well as being "interdependent" tend to be "unstable and unequal" for example - moves the debate away from a prescriptive approach, which will say what both groups ought to do. She provides an analytical approach which focuses not on delineating respective roles but on asking 'What activities have to be done by the agency to achieve its goals'? All the key actors, trustees and staff are involved with assumptions of function sharing as well as of separation.

A 'total activities'(TA) analysis model is provided, offering an intentionally systematic framework in which all those key actors may ask and answer questions - on what their organisation's functions are, how they are perceived, how they are shared and with what implications for working practice. The importance of this approach lies in Harris's account of the deployment of TA in a variety of organisations and its value in a range of different settings; some organisations find perceptions muddled, others use it to identify functions which were 'always being left', and others use it to explore the resulting opportunities for change.

Using a TA approach would seem to raise further concerns, not least involving the extent to which it should be facilitator-led or a 'self-help' exercise; the degree of availability of the relevant individual and the ways in which their respective views and perceptions of 'what we do' should count and be weighted; and the possible ways out for the organisation if wider rifts than had been expected are thus brought into the open. Harris's case is

that its use is: "...in keeping with the operating style of many voluntary organisations where there is a wish to avoid conflict" (Harris, 1991, p11) and is important. She stresses its 'tailor-made' nature; but points out that not only conflict in its use surface, but conflict avoidance itself may be detrimental to establishing a full picture of what a particular charity's functions are.

As a non-prescriptive approach, its major advantages include its valuing of what the participants in the organisation see and experience (as opposed to setting them in the context of a definitive checklist of required experiences, against which their practice may be criticised). At a conceptual level, Harris's assertion that: "...the governing body role is not susceptible to analysis or implementation in isolation from other organisational roles" (Harris, 1991 p13) puts any single and definitive set of statements about trustee role and purpose into contention.

#### **5.2.5 Coordinating Voluntary Organisations' Agendas.**

The 'internal' stance from within the voluntary sector represents a concern that the nature and direction of the trustee agenda should be set from within rather than externally to the sector -that self-regulation and self-improvement should be the motive force for change, rather than sets of external judgements. Thus the NCVO's joint working party with the Charity Commission on increasing the effectiveness of trustees was based on the premise that charities should regulate themselves in an open and publicly accountable way.

The Working Party's 'On Trust' report (NCVO, 1992) contained practice examples from other umbrella organisations; for example, from the Association for

Community Trusts and Foundations, which has allied itself to the movement for identifying organisational and managerial competencies that has been a feature of management education in Britain from the mid-1980s. The association is reported as identifying 'competency areas' for both staff and individual trustees which are assessed on the basis of a series of highly demanding questions in six key areas - those of community leadership, fund-raising, governance, grant-giving, investment management, and public relations.

Given the internal variations within the charity sector, it is also important to recognise(although difficult to track the real impact of) the existence of cross-organisational pressures. Thus, for example, Walker(1993) describes the operation of 'leading philanthropists'(that is grant giving trusts), who are starting to insist that the voluntary organisations they support must change their management as a condition for getting grants; and goes on to cite trusts which have set up panels of consultants to help charities to re-structure and re-work the key role of trustees. But recent empirical research by Ashford and Clarke(1994) undertaking a survey of grant monitoring in 170 UK charities has challenged the widespread adoption of such direct activity by grant givers. They discovered that only a few trusts undertook extensive and regular monitoring.

Some in this stakeholder group may be especially motivated by concern that although calls to make charity activity and behaviour more businesslike seem to be growing(Bruce 1994) not all models of business practice are ones which value-based - or simply successful - organisations would wish to emulate. Thus, for example, it is predominately from within the sector that the questions of widening community participation and ensuring active equal opportunity and anti-discriminatory

policy as part of the trustees' core responsibility are raised. At the very least the stakeholders will be seeking to ensure that if such practice is in existence, it can safely be regarded as of the 'best'. Billis(1993) for example in examining the question of non-profits and businesses learning from each other and assuming that genuine exchange is possible and fruitful looks also at what he describes as the problems of the for-profit enterprise.

The response of the NCVO in establishing a trustees unit is a response both to the importance of self regulation and to the potential size of the 'trustee market'.

#### **5.2.6 Charity Trustees as Agenda-Setters.**

The above groups omit trustees themselves as an identifiable group of agenda-setters, implying a degree of passivity on their part. This is in part because trustees themselves, wearing 'other hats', are also represented in all the above groupings, whilst not existing as a unified body - whether for lobbying, educational or professional purposes. This is despite some (professionally led) pressure for formalisation, for example Radcliffe's (1990, p8) proposal for the creation of an institute of charity trustees. The rather indirect movement toward trustee professionalisation, which may be beginning with the recruitment of trustees by specialist organisations, as opposed to the individual charities, may be a catalyst for change here. The Charity Appointments Agency is reported (Charity Magazine, June 1993) as announcing that alongside its executive recruitment work, it will be continuing research and possible development of a trustee appointments service for traditional charities, the new trust hospitals and other voluntary organisations who need to strengthen their governing or trustee boards.

For trustees to have their own voice, however, one that is stronger than the cross-charity networking which appears to take place for some trustees, it would be necessary to identify them more definitely. Whilst charities will be required to list their names in their annual returns to the Charity Commission and thereby a list could be compiled, the Charity Commission data-base is not designed to be a trustees register. If it were designed to be, such a register could act as a catalyst for an organisation of charity trustees, make for more certainty in the uncertain field of how many trustees there are in Britain and identify the extent to which the phenomenon of 'trustee overlap' -where individuals are trustees of a number of charities exists.

The case for such a register - that it would confer an openness on the charity sector which has not always been its hallmark - appears stronger than the case against it - that it would be a creature of bureaucracy, the existence of which might encourage some to cease to be trustees, on the assumption that some people prefer to do good in secret.

Information technology developments would seem to be able to ensure that the maintenance of an effective register of charities by the Charity Commission could extend to a register of charity trustees. It is possible that such a register might be a valuable prompt for the more active consideration of charity cooperation and even merger, although a downside might be the extent to which it could also be used as a more obvious means of trustee 'poaching' with effective trustees being sought out and invited to join or transfer allegiance and commitment from elsewhere. Most particularly, it would be a practical and publicly oriented response to the question which can for the present only be partially answered in Britain - who are the charity trustees?

Finally, it would demonstrate the commitment of the Charity Commission itself to promoting effective self regulation in the sector. History to date has shown that beyond the efforts of the Charity Organisation Society(COS) in the latter half of the 19th Century there has been no movement within the sector for a self regulatory authority. The failure of the COS(Owen 1965), particularly its attacks on Dr Barnardo, illustrated how problematic the imposition of a fellow voluntary organisation to promote 'best' practice has been. The lack of a viable sector alternative was one of the reasons why the Charity Commission was so empowered(Fries, 1994). If a body of trustees representing those 'entrusted' with the sector cannot be formed, then the prospects of any organisation emerging within the sector with any authority must be questioned.

#### **5.2.7 Summary.**

This section has identified a variety of important and distinct sources of pressure which are shaping the managerial, legal, social and moral agendas of charity trustees. Public and charity interests coincide in the requirement for trustees to discharge their responsibility effectively, but may diverge when attempts are made to model a single template for that effectiveness. At the same time to argue that 'all charities are different' and that each must develop its own criteria, may for some seem an argument for a great deal of wheel re-invention, as well as a legitimisation of an ongoing 'gravy train' for the consultants who may see a particular niche for their facilitative services.

One interpretation of these agendas, particularly if they are merged to make a package of demands on trustees, is that they demand a continuing, perhaps publicly funded training or accreditation programme for charity trustees,

but that implies an associated evaluation of the effects of training. This in turn would require a degree of trustee monitoring as well as charity monitoring that would be well beyond the scope of any existing public or voluntary body, and would be likely to invade the voluntary principle that is central to trusteeship.

The agenda is complex but three themes are identified for this thesis which we now turn to, these are:

i) The charity sector for supervision and monitoring has been effectively segmented by size which means that relatively few charities against the total number but large in terms of income/assets will be subjected to attention by the Charity Commission.

ii) For the trustees of these 'monitored' charities a different rationale for the discharge of their duties will emerge. Such an agenda will focus on effective control and the minimisation of their liability. To do so will mean the facilitation of control functions. In the very large charities this may mean a professional internal audit function.

iii) How prepared are these major charities for these challenges? How many charities currently have or are planning control functions? What is the characteristic profile of these control functions?

### **5.3. MINIMALIST MODEL TO ACTIVE AGENDA**

This section reviews the importance of legal liability for trustees, against a benchmark of discussion concerning a 'minimalist' or 'maximalist' model of trusteeship. There are a number of options open to trustees in how they manage their charities. Legal



liability for breach of trust cannot, however, be avoided. The legal liability consideration must therefore be the minimum position for charity trustees.

Liability of trustees falls into two distinct groups. The first group is in essence the same as for the owners or directors of any business. In this group falls liability to third parties in contract and tort, liability under the 1986 Insolvency Act and vicarious liability. Initial protection for trustees can be by incorporation, though for wrongful trading or breach of trust which makes up the second group, the trustee can be personally and jointly liable. If the charity is unincorporated the trustee who is sued in name should be able to claim against the charity if she or he is not in breach of trust. Insurance against liability may be taken out and the Charity Commission has given approval for charities to pay the premiums for their trustees. Insurance will not, however, cover deliberate wrongful trading or breach of trust.

The catalyst for trustee awareness has been the 1992/93 Charities Acts which while they have not increased the liabilities of trustees, the Acts have focused on their responsibilities. As we reviewed in chapter 3, the new Act has substantially increased both the focus and the power of the Charity Commission to take on a more active role. The initial concept of the Act was to apply to charities with incomes over £1,000, however, following the De-regulation Task Force Report (Baring, 1994) which raised the threshold for an annual return to £10,000, the full focus of the Charity Commission supervision and monitoring structure will apply to approximately 8,000 charities (Aston, 1994) with incomes over £100,000 with particular focus on the top 1,000 charities. The Commission now has a designated staff approaching 100 devoted to monitoring and investigation (Mitchell, 1994).

There is therefore a greater increase in risk for trustees of larger charities being detected, if they are not carrying out their responsibilities, by a more active Charity Commission. The Charity Commission has taken an active profile in public meetings to reassure trustees and explain that there is no increase in personal liability. In part this has been due to the fear of 'trustee flight' - when trustees have had their responsibilities explained to them they resign from the charity. The fear of overburdening trustees was of course at the heart of the De-regulation Task Force:

" The danger is that volunteers are beginning to say: " it's not worth the hassle" - a phrase that could be the death knell of voluntary activity in this country."  
(Baring, 1994 p1)

The Charity Commission staff in public meetings assure trustees that they have no fear of financial penalties if things go wrong, providing they are prudent and have organised the charity reasonably. As the Charity Commission publication 'Responsibility of Charity Trustees', explains:

" Trustees must act reasonably and prudently in all matters relating to the charity and must always bear in mind the interests of the charity. They should not let their personal views or prejudices affect their conduct as trustees. They should exercise the same degree of care in dealing with the administration of their charity as a prudent businessman would exercise in managing his own affairs or those of someone else for whom he was responsible."  
(Charity Commission, 1992a)

As everyone has a different interpretation of these words, it would be useful to explore what this means if a charity goes wrong. In 1992, the Charity Commission's investigation of the Royal British Legion was published. The inquirer reported:

" I have to say that in my view in the light of my inquiries those members had no real understanding of the legal obligations which they had undertaken as trustees." (Charity Commission, 1992b p51)

Despite substantial losses on their subsidiary - Legion Leasehold Housing Association - the trustees did not incur personal financial loss. The rationale for not pursuing the trustees was because the trustees did not in any way benefit financially and they believed they were acting in the best interests of the charity. As the inquirer comments:

" I have found no evidence that anyone has acted for personal gain, and I am satisfied that even if decisions were misguided or wrong they were taken in the bona fide belief that they were in the best interests of the Royal British Legion." (Charity Commission, 1992b p87)

The trustees were actively involved in decision making and had taken professional advice. The Charity Commission has, however, sought recompense from trustees on subsidiaries trading losses in other cases (Charity Commission, 1990 p10). Other trustees have repaid money to their charity even where the mistake was genuine:

" ...salaries amounting to some £160,000 were drawn by trustees. Our investigation showed that this arose not from fraud but due to a genuine belief that the trustees could be paid and the trustees have now repaid those moneys to the charity." (Charity Commission, 1990 p10)

The Commission has no fixed policy on publicising individual cases of failure, abuse or fraud, taking each case on its particular merit (Fries, 1994). The desire by the Commission to 'protect' trustees who may have made genuine mistakes is quite understandable, as equally not to overstate charity malpractice. Inevitably it will be the few cases that would 'hit the headlines'. This

policy, however, must be balanced by an equal concern that in the longer term the Commission may be tempted for a variety of reasons - including a quiet life - to make not publishing, the norm. A clear statement of policy on disclosure with published guidelines may be more preferable than a 'trust us' attitude. While the Commission could still retain the final decision on what investigations to make public or not according to particular circumstances, it would be able to provide a comparable and evaluative statistic.

The Commission has began to publish in its annual reports statistics on its monitoring and investigation work, as the following extract from the 1993 report illustrates:

7,310 charity accounts looked at with annual incomes over £25,000;

864 Investigations opened - increase of 10% over 1992 - 300 of these arose from charity monitoring and other internal Commission operations, 564 from external sources including public companies and police referrals;

Cases arising from monitoring showed an increase of 26% over 1992;

628 investigations completed against target of 600

In 286 cases(46%) we were satisfied as a result of our inquiries that no significant cause for concern existed in fact;

Of the 342 cases in 1993 where the cause for concern was substantiated:

206(60%) were concerned with maladministration

59(17%) revealed evidence of deliberate malpractice

- 62 (18%) were concerned with fund-raising abuse
- 2 (1%) were concerned with tax abuse
- 10 (3%) identified improper political activities by charities
- 3 (1%) were concerned with other matters

The publication of these statistics means that using comparative statistics of other sectors, an opinion can be formed to the extent or the susceptibility of charity organisations over other types of organisations for abuse. Is the 'trust' characteristic associated with charities substantiated by empirical evidence.

The attitude of the Commission to an investigation is:

" As a matter of practice we make no assumption that there has been deliberate malpractice and where there appeared to be a genuine misunderstanding we took no further remedial action." (Charity Commission, 1993a p16)

A policy that was conveyed in respective interviews with the Chief Charity Commissioner (Fries, 1994) and the Director of Operations (Mitchell, 1994), who respectively stressed that the monitoring activity was a support to trustees and not a weapon against them.

While still relatively early and therefore no trend can yet be commented on, the Commission seems to have been actively using their new pro-active powers, as the 1993 Report informs:

" ... Charities Act 1993 confers on us a number of protective powers. In the course of our investigations we took the following actions:

- 1 receiver and manager was appointed [now 4, Mitchell 1994]
- 51 bank accounts were frozen;
- 23 orders were made restricting charity transactions;
- 145 orders or directions were made to obtain information or documents;

3 trustees were removed; and  
23 trustees were appointed." (Charity  
Commission, 1993 p15).

The receiver had been appointed in the 'Fellowship'  
charity after the Commission reported:

" A "follow up" monitoring visit by our staff found that  
the recommendations arising from the inquiry had not been  
fully implemented." (Charity Commission, 1993 p17)

The Commission's pro-activity has also extended to  
concerns about the managerial ability of the many new  
charities that have been formed to provide assistance to  
Eastern European countries. As the comment on Health Aid  
UK proves, the Commission will undertake foreign travel  
if necessary:

" A Commission investigator travelled to  
Romania to examine and investigate the  
situation at first hand. As a result of the  
investigation, we proposed and supervised the  
appointment of a Chief Executive and Finance  
Officer; advised on the necessary changes to  
the charity constitution and on necessary  
changes to the charity's internal controls."  
(Charity Commission, 1993 p17)

From the 'minimalist' perspective, trustees who ensure  
that they have no financial gain and that they act in the  
perceived best interests of the charity should have no  
fear of a more active Charity Commission. The problem  
with such an approach is that it in no way embraces the  
concept of charity trusteeship as depicted in the Charity  
Acts 1992/93.

However, the 'minimalist' position may not be an adequate  
defence by trustees of larger charities in the future.  
The Charity Commission is placing a great emphasis by  
trustees and future trustee liability may be judged  
against this criterion:

" We impressed upon the trustees their responsibilities to put in place proper internal controls." (Charity Commission, 1993 p16)

It is also possible that the conduct of trustees of a small local charity may be viewed quite differently from that of trustees of a large charity. As Quint explains:

" When trustees are in difficulty, then they will tend to have a defence from criminal prosecution where they can show that they have acted reasonably. Thus, for example, the level of financial management competence sought is unlikely to be the same for the trustees of a village hall as for those of a major national charity." (Quint, 1993 p54)

The Commission has started to comment on wider aspects of charity affairs in accordance with the core mission of promoting best practice that was discussed in chapter 3. A new section on 'Good Management' has appeared in the Commissioners 1993 Annual Report which made the following comment:

" comparatively few of the charities we looked at in 1993 had prepared spending plans and budgets at the beginning of the year." (Charity Commission, 1993 p22)

It is against this more active agenda, correlated to the changes discussed in social policy in Chapters 2 and 3 that charity trustees should be 'benchmarking' themselves rather than the 'minimalist' legal criteria.

#### **5.4 TOWARDS THE ACTIVE TRUSTEE - DRUCKER AND HANDY.**

In this section we critically appraise the work of management writers Peter Drucker and Charles Handy who in their respective books provide an ideal role for trusteeship.

Peter Drucker has been one of the most dynamic influences on management action in the second half of the 20th Century( Pugh, Hickson and Hinings, 1983). His long association with non-profit organisations has included founding his own foundation to improve management in the field of non-profits and a major book - Managing the Non-profit Organisation(1990). Like much of his work, this book is strong on action and has a practical framework. Based upon his personal experiences and philosophy as well as on face-to-face interviews with successful non-profit leaders, it provides a number of key statements on how to manage a non-profit organisation successfully.

Drucker's management philosophy has been categorised as one that focuses upon visionary leaders. In charities he firmly believes that it should be the trustees who fulfil this role. In large well-established charities with staff, Drucker believes that eventually - as with all large organisations - there is a tendency towards bureaucracy and the organisation becoming reactive. As staff livelihoods depend on the organisation, those who work for it will become increasingly conservative in their approach. It is therefore the responsibility of the trustees to ensure that the organisation continues to meet its criteria for existence. He argues as follows:

"Non-profits are prone to become inward looking. People are so convinced that they are doing the right thing, and are so committed to their cause, that they see the institution as an end in itself. But that's a bureaucracy. Soon people in the organisation no longer ask: Does it service our mission? They ask: Does it fit our rules? And that not only inhibits performance, it destroys vision and dedication." (Drucker, 1990 p88)

To maintain vitality among trustees, Drucker believes that two terms of three years are the maximum that a trustee should spend on the board. After that he or she should leave, although return is possible later.



Drucker maintains his leadership theme with views on what to look for in the chief executive, suggesting that you should not look for weaknesses but for strengths. Those in chief executive positions, Drucker argues, must regard as a priority keeping their boards informed. Chief executives must tell their boards not only the good news but also the bad.

Like most management gurus, Drucker is not too strong on empirical evidence to support his theories and prone to take the high ground when faced with difficult problems. A good example of his approach is when tackling the problem of the relationship between branches and central office. His answer is one of mutual respect for the other's position:

" And the people in the central organisation must remind themselves all the time: we are the servants of the local chapter...It is part of our job to make sure they have standards; but we are their servants. They do the work. We are not their bosses; we are their conscience.

And the people in the local chapter...must remind themselves all the time: we represent the larger institution. What we do or not do and how we do it, is seen by all our constituents as the deeds, the standards, the personality of the organisation."  
(Drucker, 1990 p91)

This answer is somewhat ingenuous given the emotion that is usually associated with such debates. Far from respect, 'a state of civil war' can erupt. Current major weaknesses of the managerial literature on voluntary organisations has been the absence of examples of resolving conflict. Drucker is therefore disappointing as central to his philosophy is dynamic action and leadership. A clearer statement of his position would have been helpful. It is possible that this is absent because he believes that centres should not be subordinate to branches. In his interview with the chief

executive of the American Girl Guides Association, he gives considerable support to her position in introducing the 'Daisy Scouts', an initiative that revitalised the organisation. This initiative was, however, carried out despite opposition from local branches.

Drucker is extremely forthright on fund-raising strategies arguing that the trustees in the first instance must take the lead if they are wealthy people themselves. He poses a question to anyone who makes a personal approach to him: 'How much have you given?' Drucker is concerned that the desire to raise funds by voluntary organisations may come to dominate the organisation's existence and become their rationale. A concern that has been expressed over the impact of the contract culture (Smith and Lipsky, 1993). For Drucker, it is about who is determining the mission of the organisation:

" The purpose of a strategy for raising money is precisely to enable the non-profit institution to carry out its mission without subordinating that mission to fund raising."  
(Drucker 1990, p41)

Drucker sees the future successful voluntary organisation raising funds and developing - through the contributions of people supporting the organisation over time - participation.

Charles Handy wrote one of the seminal texts in management literature - Understanding Organisations (1976). Like Drucker, Handy has had a long association with voluntary organisations, including being the Chairman of the Advisory panel of the Management Development Unit of the NCVO. In 1988, his book on the voluntary sector, Understanding Voluntary Organisations, was published.

Handy begins his book by justifying the role of management in voluntary organisations:

"Voluntary organisations, however, would be foolish to throw the baby out with the managerial bath-water. While renouncing many of the assumptions which underlie the management of business they should not ignore the fact that they themselves are organisations made up of people and that there are things known about the way people interact with each other or with organisations which are likely to hold true in their world as well as that of business. It may not feel good to be managed but it is still better to be organised than disorganised.

Similarly, voluntary organisations are not businesses, but they do have clients, they provide services and they have to finance themselves in one way or another. It makes just as much sense to ask a voluntary organisation what its strategy is as it does to ask a business. It is not sinful to be businesslike."  
(Handy, 1988 p4)

Handy is synonymous in management literature with the 'culture of organisations' (Child, 1986). He applies the theoretical models he has developed to voluntary organisations, describing a number of cultures - for example, club, role and person - and gives some practical examples of why someone can be successful in one organisation and a failure in another. For trustees, who appoint the senior managers and particularly the chief executive, this is of fundamental importance. A charismatic figure who is primarily used to being serviced by the organisation as he or she delivers the message could cause serious problems in an organisation that expects its chief executive to spend most of his or her time on operational activities.

Handy challenges the issue of whether committees should be like teams and teams like committees, and questions the fashionable preference that all interests should be represented in a team. For example, the following answer

to how many trustees should a board have supplied by the Trustee Service Unit of the NCVO:

" Your board should also reflect your organisation's different communities and stakeholders." (Gill, 1994 p9)

Handy provides clear advice on how a voluntary organisation should be structured:

" voluntary organisations need to be as informal as possible, as participative as is practical and, in their shape, the flatter the better." (Handy, 1988 p103)

Power in organisations, unlike Drucker, is not an issue that Handy avoids. He describes various sources of power - resource power, position power, expert power, personal power - how they come from different sources and how what counts as power in one place may not count in another; for example, someone may be a parent at home but a junior employee at work. Handy believes that power is a forbidden topic in organisations, and particularly so in voluntary organisations. Yet power exists and is a key aspect of organisational life. In all disputes between trustees and chief executive, senior management and staff, branches and head office, there is the question of power. Handy believes that rather than sweeping such issues under the carpet, they need to be debated openly and continually.

Drucker proposed that trustee tenures be limited; Handy is equally clear on this issue:

" People ought not to be encouraged or allowed to acquire the rights of statutory tenants to any part of an organisation. In the voluntary world this applies particularly to management and executive committees which have a preference for the re-election of their existing members, for co-option and for committee nomination for new members. Such ways

encourage vested rights, and while there is a lot to be said for retaining wisdom and experience in the organisation it need not sit always in the same place. Fixed terms of office should be mandatory for all committees." (Handy, 1988 p149)

An active trusteeship of leading and directing the charity as opposed to 'minimalist' activities are advocated by both Drucker and Handy. A perspective that is promoted by the Charity Commission:

" Trustees must be active in carrying out their duties. They must involve themselves in the running of the charity. They cannot be trustees in name only and leave the running of the charity to others. They can employ staff or obtain professional help paid for by the charity but the responsibility for the proper administration of the charity remains with the charity trustees." (Charity Commission, 1989)

Trustees as the Commission also point out are: "responsible jointly to meet any liability incurred by them or on their behalf." (Charity Commission, 1992a)

#### **5.5. THE ACTIVE TRUSTEE.**

The majority of management texts (primarily US) on board membership adopt a prescriptive approach (Widmer, 1993) of what the ideal board/trustee should be. Trustees are encouraged to view one another as a complementary team. Do they as a group have sufficient skills to lead the charity? Ideally the trustee group should have the balance of business skills, you would expect to see on any board of directors, combined with expertise in what the charity is set up to do. However, it should not be assumed that simply having an accountant, a solicitor, a business person and so on will lead to having the ideal board, as Harris questions:

" First the question of the appropriate mix of people on a governing body remains debatable. On the one hand, many handbooks advise voluntary agencies to aim for a broad mix of skills and interests. On the other hand, there is research evidence that governing bodies are most effective in their decision making if they are able to develop a coherent approach and identity. North American research indicates that where individual committee members have different 'welfare ideologies' and the composition of the committee is mixed, major conflicts can arise and the ability of the committee to make decisions effectively can be threatened. Thus a simplistic approach to injecting business skills in to governing bodies by the recruitment of business people, may have negative rather than positive organisational implications.

Second,...the long term continuity of governing bodies, and the very survival of voluntary agencies themselves, can be closely linked to their ability to remain in touch with the 'roots' of the agency - whether these be philanthropic, community-based or entrepreneurial. In recruiting people with 'business skills', or in moving to a more 'business like approach' therefore voluntary agencies may need to give special attention to preserving their roots."(Harris, 1993 p6)

A corporate rather than individual perspective of the active trustee role has been developed by Conrad and Glenn (1983) who argue for the existence of an 'involvement/contribution ratio:

"...[whereby]... the boards volunteer's contribution to a voluntary organisation will increase in direct proportion to his/her involvement."( Conrad and Glenn, 1983 p196-7)

In examining how a board volunteer(trustee) may be encouraged to 'do more' for his or her organisation, Conrad and Glenn provide a staged view of increasing involvement from affiliation to observation through participation to the sought-for stage of 'commitment'

where involvement is high.

Designed as a tool to use in considering how board members develop, this idea may help individuals to locate their positions in relation to the time and effort which they expend on the organisation's behalf; but, importantly, it cannot address the question of the quality and nature of the commitment that is being generated. As happens with services offered by any volunteer, fellow trustees may find it hard to refuse individual trustees' generous offers, even when they may be thought inappropriate or are perhaps a duplication of effort elsewhere in the organisation. From a managerial perspective, misplaced efforts by trustees make for organisational difficulty and managerial confusion.

The growing literature on managerial work, behaviour, and results in the voluntary sector (Paton, 1993) emphasises the complexity of managing in an environment with a multiplicity of stakeholders. For larger charities this means paid professional staff. Harris (1992) demonstrates the possible range in attitudes and relationships between paid staff and management committee members/trustees in her research into the Citizens' Advice Bureau service. For example, she cites one committee chairman who saw his paid managerial staff as honorary volunteers, deserving the 'gratitude' accorded to volunteers; the corollary was that he did not see his committee as the employer (Harris, 1992 p137). She found that where committee members were regarded as sympathetic and caring for staff, this could mean that they were over-ready to agree to staff initiatives and suggestions.

Harris's conclusion - that to search for clear and permanent boundaries for the governing body role in relation to the manager may be to search for a chimera - is a helpful antidote to the 'one solution' or 'one

model' response. In searching for the boundaries of the trustee-manager relationship, however, evidence can be found that whilst some trustees take on - or feel obliged to become - the managers themselves, interfering with or effectively demoting their paid staff, other trustees may be so relaxed with managers in post that they deliberately cultivate a stand-back attitude to the organisation and its workings, avoiding direct involvement in many key issues and leaving the managers too much alone. Given that trustees cannot delegate their legal responsibility for the charity's meeting the terms of its trust, leaving managers to manage carries major risks. But so does the pattern of heavy trustee involvement in areas where managers are expected to make - and are paid to make - the decisions. Setterberg and Schulman (1991) make their views very clear in relation to the responsibility of trustees to 'ensure sound management':

" As a board member the least effective way to promote good management is to do it yourself."( Setterberg and Schulman 1991,p32)

Rodney Buse, the Chair of Action Aid, provides a personal endorsement and illustration of this view of the relationship between staff and trustees regarding decision making:

" Trustees are there to make sure that the management team - who are the paid professionals - make the right decision, and not make decisions for them. Two examples can be drawn from Action Aid's experience, the first where a contract was being entered into with an agency in India, and one trustee asked to see the contract, to check its contents; and my response was 'if you are satisfied with the management process, satisfied that the lawyers have seen it, and that a key director has signed it off, then your responsibility is to ensure that the processes are right and not to oversee the contract itself. Another example



was a situation where a trustee asked for the fund rising results of every fund raiser in the UK, to make sure that they are cost effective. My response to that was if you believe that there are mechanisms in place that will manage that, in the same way that an audit committee manages the audit affairs of an organisation, than an individual trustee should not be required to review the detail." (Buse, 1993 p46)

Buse's position both strengthens the trustee role - in this instance as 'overseer' of the paid professional staff - but also sets managerial limits to the trustee role. The seminar from which his statement derived was one of a series of six held in 1993 and subsequently published by the NCVO (Harrow, Hind and Palmer 1993) as part of their trustee training initiative. The governance issues raised by the seminars led to the reporting of a range of trustee/manager relationships:

"Some, for example, reported trustees who saw themselves as marginal characters, lacking authority and thus not giving firm direction to the charity. Others experienced trustees who sought far too great a 'hands-on' role in the charity and thus were handicapped in giving a more 'standback' and considered assessment of the charity's activity. Examples were also cited of staff either deliberately or mistakenly misunderstanding their relationship vis-a-vis their trustees, creating information overload for trustees and calling on them for decisions that belonged properly at managerial level.

No one standard formula for the trustee/senior manager relationship was identifiable. While it could be argued that some senior managers preferred to work with trustees who 'knew their place', it was also recognised that passive trusteeship (however defined, though anecdotally understood), was a major risk for charities. This is especially the case where key senior managers - who may or may not have filled a directional vacuum - leave, and the trustees lack the capacity for decisive action. An important - and ideally, shared - task in any charity was thus that of clarifying the respective roles and relationships of trustees and senior staff" (Harrow, Hind and Palmer



Harrow and Palmer (1994, p105-6) have suggested a typology to describe various individual characteristics of trustee membership and motivation who can be placed on this continuum:

**Realists** Those interested in the work and scope of that charity, and who recognise aspects of the charity's work to which they can contribute.

**Refugees** Who use the charity as an alternative or adjunct to their own career, in which they are unfulfilled.

**Revolutionaries** Who are politicians or social actors who see the charity as an instrument for change.

**Royals** Who join for social cachet.

**Reprobates** Who joined for a variety of uncertain reasons but now cannot leave and rarely attend.

**Reluctants** Those appointed by a funding/monitoring body, or brought in by more enthusiastic trustees who have now left.

**Responsibles** Realists whose trusteeship is primarily motivated by feelings of stewardship.

It is their contention that the emphasis on trustee liability should mean that trustees who fit the 'Realists' and 'Responsibles' descriptions, by implication the most active trustees will be drawn towards the custodian role.

There is a major conflict for trustees who follow the custodial path, if the charity is to prosper and survive.

The emerging UK 'success literature' of charity management (Bruce 1994; Bruce 1993; Otto 1994; Mullin 1994), indicates that charities which adopt strategies such as planning and anticipating change, finding new niches and markets for the charity - entrepreneurial activity - which are just as important for a charity as a commercial enterprise if it is to continue to provide services. While there is a debate as to the extent of the applicability of business management techniques to the voluntary sector (Acenvo, 1995) which Charles Handy has recently summarised:

" You do not have to be a business to be businesslike."  
(Handy 1995)

as a recent report on managing voluntary organisations states:

" There is at present a bad gap in the law. A charity which spends money on activities outside its Trust Deed will be in trouble, but no trouble is caused to a charity which does not do anything inside its Trust Deed." (Leat, 1993 p35)

We do not believe, as we have demonstrated in chapter three with our review of the 1992 Charity Act and the subsequent empowering of the Charity Commission, that this 'do nothing 'strategy is tenable for the trustees of larger charities.

#### **5.6. FROM RISK TO CONTROL.**

There is a considerable body of literature defining and understanding risk, the distinction between risk and uncertainty and risk analysis and risk management ( Weston and Copeland 1988; Miltz and Willekens 1990; Emery and Finnerty 1991; Brealey and Myers 1991; Colbert 1991;

Thursby 1991; Smith 1992; Kingma 1993). Risk, unlike uncertainty, can have parameters of probability, where alternative outcomes can be estimated. Various possible future outcomes may be assessed with degrees of confidence usually based on a knowledge of past or existing events. On the other hand, uncertainty occurs where the future outcome cannot be predicted with any degree of confidence. It is our contention that charities operate in both a risk and uncertain environment. Charities can therefore adopt strategies to reduce the risk aspect and identify the uncertainties. Liability can be reduced by planning that incorporates risk analysis. A charity finance example illustrates:

A charity is set up to provide hostel accommodation for recovering drug addicts. The charity will be primarily funded by the Department of Social Security on a per-bed-occupied basis. Assuming the hostel has ten beds, it will calculate its income by multiplying the number of beds by the number of nights, multiplied by the amount per night:

$10 \text{ beds} \times 365 \text{ nights} \times £25 = £91,250.$

The charity would, however, be foolish to assume that it will get an annual income of £91,250. This is because through planning it will know that for a variety of reasons it will not be full every night. It will therefore calculate what an average occupancy will be and work out its likely income on this basis. Let us assume that the average occupancy is 90%. Thus, the budgeted income will be:

$10 \text{ beds} \times 365 \text{ nights} \times £25 \times 90\% = £82,125.$

The difference of £9,125 is the risk that the charity is facing. The charity is estimating its likely shortfall in income. There is still uncertainty, however, if the

charity has planned and estimated prudently its calculations, this uncertainty should not be a problem.

Our drug charity has been operational for two years when it is informed that the government has decided to change the funding rules. Instead of automatic payment by the Department of Social Security, funding will be by local authorities under care contracts. This is again a situation of risk but not uncertainty. The charity can review its records and identify which clients came from which local authority. It can then contact that local authority and find out what are the chances of it funding future clients. It can estimate its future income on that basis with an allowance for risk of non-occupancy and payment.

At all times the charity can exercise some control, if it has planned appropriately and thereby reduced its risk. If when calculating its income the charity finds it cannot cover its operational costs, then it must either seek to raise additional income or reduce expenditure, or decide to offer its service no longer. Different charities will have different risk profiles; some will be 'riskier' than others. We can illustrate this by returning to our hostel example and giving two illustrations. The first is on cost profile and how risk can be reduced in this situation; the second is on the whole context of risk for the entire charity sector.

A major focus of attention in financial management is the fixed cost proportion or the ratio of fixed costs in total costs - the higher the fixed costs in total costs, the riskier the venture will be (Brockington 1987; Schall and Haley 1991). This is because the break-even level will be higher. In our hostel example, the higher the costs that cannot be easily changed - for example, cost of leasing buildings, salaries of permanent staff - then

the greater the risk will be to the charity operating that hostel, for it must have a higher occupancy rate to break even.

In our first example the charity was meeting its entire operating costs from one income source - hostel receipts based on bed occupancy. If the charity, however, were in receipt of a block sum of income - for example, a government grant or an investment income that was being applied to meet the fixed costs - then this would reduce the charity's risk profile as the break-even figure to meet costs would be lower. A further example illustrates:

Assume that two different charities operate identical hostels. In costs, profile, etc they are identical except for one difference. Charity A has one source of income, hostel receipts. To break-even it must achieve 90% occupancy. Charity B has a grant from the local authority on a roll-over contract that has a clause requiring one year's notice of withdrawal. Its break-even point with the grant applied to its fixed costs is 75%. Charity A has a greater risk of failure than Charity B.

Risk can be conceptualised into two distinct groups. These are referred to in investment appraisal theory as systematic risk and unsystematic risk (Griffiths 1990). Some risk can be diversified away, as we saw in our hostel example, by reducing the break-even level. This is referred to as unsystematic risk.

To some extent risk is unavoidable. All activities have some form of inherent risk characteristic that cannot be diversified away. This type is referred to as systematic risk. Even the largest charitable trust in the country has systematic risk. The Wellcome Trust's entire income derives from its own investments, in 1994 £199m from total funds of £5,361m (Henderson, 1994 p12). Assuming

that it could diversify its investments into a balanced portfolio of all the stocks and shares on the stock market, the Wellcome Trust will still be incurring systematic risk; in this case it would be equal to the average systematic risk in the stock market as a whole. From the perspective of the entire charity sector, in investment appraisal the Wellcome Trust has a different risk profile from a smaller charity with only £100,000 to invest. The smaller charity has a greater risk profile because it has insufficient funds to diversify investments into a balanced portfolio of stocks and shares.

A similar risk profile can be applied to the tax relief source of income gained with the development of Gift Aid. Before the introduction of Gift Aid, tax-efficient donations had to be covenanted. Most charities can assume that income from covenants will be the same as in the previous year - after allowing for those completing covenants and those renewing expired covenants and taking out new ones; these are identifiable trends. Covenants are a secure and stable source of income, allowing for medium-term planning. Gift Aid also allows tax-effective giving, but unlike covenants it takes the form of one-off payments. From a risk perspective it makes planning harder; estimates cannot be made with the same degree of precision as they can in relation to covenants. The charity can also be subject to more dramatic changes in its income stream, as for example a cause that becomes fashionable at short notice diverting donations to it.

For charity trustees, exposure to risk is different. The risk described so far is operational risk. Trustees are concerned as 'leaders' of the charity with this kind of risk, but operational risk is not as personally problematic as their joint and personal liability as charity trustees. Our hostel example illustrates. A



charity running a hostel could reduce its risk by having other sources of income to meet its fixed cost, thereby reducing the break-even level. If the charity was so well funded that no resident income was required to run the buildings and pay the staff than operational risk has been diversified away. However, if no residents are ever accommodated than the hostel has become redundant to need. The lack of effective supervision of the charity sector until recently, has meant that the trustees of this charity would have not been penalised for doing nothing. The new returns and the object of the Act is to encourage trustees not to allow such a situation to emerge. If they do then potentially they could be in breach of trust and the Charity Commission could intervene.

This example illustrates the additional risk of charity trusteeship and the now recognised contention that trustees have a wider span of responsibility, in effect a governance role (NCVO 1992; Leat 1993). The term 'Corporate Governance' has been defined by the Cadbury Committee as " Corporate governance is the system by which companies are run." (Cadbury, 1992 p7). But as Clarke (1993) points out " Corporate governance has developed a very elastic meaning." (Clarke, 1993 p3).

Clarke reviews definitions from the Financial Times: " Corporate Governance is all about finding ways to make companies run better" (p3) to that of Bob Tricker, the Editor of *Corporate Governance - An International Review*:

" The exercise of power over the direction of the enterprise. Literally, how corporate entities, particularly limited liability companies are governed. It concerns the supervision of executive actions, the duty to be accountable, and the regulation of the company within the laws of the land. Corporate governance concentrates upon the board of directors, its structures and style and

relationships with auditors and outside agencies." (Clarke, 1993 p3).

Through to Peter Drucker:

" Peter Drucker indicates that corporate governance is simply the development of, and adherence to, a set of principles and rules which guide and limit the conduct of those acting in the name of the corporation. In brief, corporate governance is the operation of the system of government of companies." (Clarke, 1993 p3).

Leat(1993) has summarised the governance issue in charities:

" The governance of charities by unpaid, independent, volunteer trustees is part of the legal definition of a charity and of the definition of a voluntary organisation. The way in which voluntary organisations are governed is intimately intertwined with the sector's ideology and raison d'etre: its responsiveness to the real needs of users, its provision of opportunities for participation, its contribution to the promotion of a democratic society." (Leat, 1993 p5-6)

Hind(1993) has reviewed the Cadbury Report(1992), which reported on financial aspects of corporate governance for the large private sector and sees clear parallels and lessons for the charity sector:

" The Cadbury Committee was asked to consider the responsibilities of executive and non-executive directors for reviewing and reporting on performance to shareholders and other financially interested parties; and the frequency, clarity and form in which information should be provided. These terms of reference would have been almost perfectly applicable to the Charity Commission Accounting Review Committee which worked on SORP2 if one substitutes the terms 'executive charity manager' for 'executive director', 'trustee' for 'non-executive director' and (stretching the point a little further) 'donor and/or beneficiary' for 'shareholder'." (Hind, 1993 p95).

Hind takes the Report's principal recommendations and makes observations on charity practice. For example, on the board meeting regularly and taking effective control he mirrors one of the questions that the Charity Commission will be asking on their annual return(Mitchell, 1994). On the issue of division of responsibilities and the balance of power and authority Hind(1993) declares:

" By their very nature, charities tend to attract highly charismatic and dynamic individuals as leaders. As a generality it is fair to say that a charity that does not have a dynamic director is unlikely to be as effective as it might be in its service provision, campaigning or educating role. But, too often, this results in charities being led by directors who are not fully accountable to their board of trustees. In the long run, this is to the detriment of the charity." (Hind, 1993 p96).

To resolve the twin problems of reducing their 'risk' on liability but also leading the charity to ensure it is effective we believe the trustees must delegate operational activity to staff within a framework of control. There is no need for operational and personal risk to be in conflict. If trustees are involved in strategic decision making having clearly delegated authority to staff within an effective monitoring system, there should be no personal liability. As Quint(1993, p54) points out, those trustees who make 'honest mistakes' are unlikely to be pursued, unless of course they continue to make these mistakes.

Earlier, in this section we explained that charities have different risk profiles which we illustrated by a practical example. As research on the financial management of charities develops, it is possible that in the future a risk profiling of charities, similar to the 'beta' services provided by commercial organisations and

the London Business School on the Stock Exchange could emerge. A potential buyer of such information would possibly be 'funders' considering entering into contracts or joint ventures with charities.

Individual charity trustee risk is not homogeneous either. Trustees of a larger charity with many different activities, perhaps employing thousands of staff and having a multi-million-pound investment portfolio, will have a greater risk of personal liability than trustees of a small charity employing no staff and distributing a few hundred pounds a year.

The concern of 'trustee flight' where trustees resign en masse when they are fully briefed on the Act need not occur. We described earlier how risk can be diversified or reduced in order to put charity trustee liability on the same level. The differences for trustees of the two sizes of charity can be levelled out by diversifying away the unsystematic risk, leaving an equivalent systematic risk for all charity trustees. A comprehensive system of control will enable both types of charity risk to be reduced down to a systematic level.

It could be argued that the explanation we have so far provided has not fully adopted the message of risk management, and that instead we have adopted the traditional management position of risk minimisation:

" Risk management has been defined as 'methods which aim to develop a comprehensive understanding and awareness of the risk associated with a particular variable of interest ( be it a pay off measure, a cash flow profile, or a macroeconomic forecast) in strategic decision'. For too long the management sciences have preached risk minimisation or even elimination. This is futile. Business often prospers by taking greater risks. Risk management not only aims to encourage business to take the right risk, but

sometimes also to take even greater risks than were envisaged. It is because risk management is comprehensive, and examines alternatives and a feasible range of possible outcomes, that it has such great potential. It is superior to the determination of the management sciences which sanctify technique at the expense of the dynamism and fluidity of the business situation". (Chambers, Selim and Vinten, 1988, p48).

We, however, would refute the view that we have not identified risk management perspectives. As evidenced by our reference to the 'success management literature' and our contention throughout this thesis that charity should be innovative, which by implication, means taking risks. It is our concern that charities, particularly trustees, worried by the 1992/93 Charities Acts will be drawn to a 'risk minimisation' strategy. Instead we have argued that charities should recognise risk and adopt strategies that will address that risk. However, it is pointless for charities to adopt innovative policies and practices if they cannot have a reasonable assurance that they will succeed and not bring the charity into a situation of potential insolvency. As the 'War on Want' Charity Commission inquirer reported:

"Many of those whose behaviour we have criticised believe that such criticism is unfair in the context we have described above. We understand the reasons for this belief. However, the reality is that the legal duties of company directors and charity trustees are onerous. Those who seek or accept such appointments with the object of contributing to the public good must understand what specific duties and obligations they are taking on. Those who give money for charitable purposes need to be satisfied that those charity trustees who receive their gifts will deal with those funds honestly and competently in accordance with the express wishes of the donors and that accurate accounts of their stewardship are produced by the charity trustees.

War on Want was potentially insolvent at the

date of our appointment. Its general funds had been intermingled with other funds either held on special trust or subject to contract. Its accounting systems failed to differentiate adequately between War on Want's own general funds and other funds. War on Want's audited accounts were materially misstated for each of the years ended 31 March 1985, 1986, 1987, 1988, 1989.

These difficulties and their consequences were avoidable. They could and should have been discovered long before they imperilled the solvency of War on Want. At crucial moments questions were not asked and inconsistencies were not spotted. They were left unresolved so that errors were allowed to become established in War on Want's accounting and other records. These errors were carried forward into subsequent years and their effects became magnified." (Charity Commission, 1991 p4).

The trustees of War on Want were saved from personal surcharge due to the accounts error being partly due to mistakes by the then external auditors who paid substantial damages. The charity continues due to its loyal support and covenant base. Support developed over the years from the 'risk' profile the charity followed on third world aid issues. Notably in challenging the traditional profile from 'overseas emergency relief' to sustainable development. If the charity had introduced a 'control' function then, all but the 'political discussion' problems identified in the inquirers report may have been avoided.

Identifying what is an 'acceptable risk' for the charity will be the key concern of many trustees. A model examining risk awareness and identifying what is 'acceptable risk' has been developed by Fischhoff, Lichtenstein and Slovic (1981). This approach contends that a scheme should be considered as an acceptable risk where it is:

\* comprehensive;

- \* legally sound;
- \* practical;
- \* open to evaluation;
- \* politically acceptable;
- \* compatible with the institution;
- \* conducive to learning.

While this approach implies extensive background knowledge, it does provide a useful model, from which trustees may examine their options and evaluate new developments. Where a new project does not satisfy these admittedly judgemental criteria, then further investigation is required. Such an approach does not, however, preclude trustee disagreement - notably on what is 'politically acceptable'.

We are still at a relative primary stage in understanding 'risk' in charity. In the United States (Kingma, 1993) a body of literature is developing focusing on non-profit financial risk. The focus has been on the predictability of finance with the American perception that government sources of finance provide more stability. How true this is for British charities, particularly with contracting, still waits to be researched.

From the auditing perspective, a recent research report by the Canadian Chartered Accountancy Institute (CICA 1993) on the 'Audit of Non-Profit Organisations', recognised that identification of voluntary sources of income in particular was a major problem. This problem was noted by the old Accounting Standards Committee, when it issued its Auditing Guideline on Charities in 1981. A new charity auditing guideline is expected from its successor the Auditing Practices Board. The problem for trustees is determining how much of the charity's resources to spend on control, which is seen as an administrative expense. A dilemma that has been explored

in a charity fraud case study by Collier, Dixon and Marston(1990) for a Chartered Management Accountants Research Report. Unfortunately, while they describe the problem, they do not provide any guidance on how trustees could determine an appropriate amount. There is clearly the need for further research into this complex area and 'outcome' guidance for charity trustees.

#### 5.7. CONTROL AND INTERNAL CONTROL FUNCTIONS.

In most standard management texts there is a chapter on control (Cole 1983; Child 1982; Eyre 1982; Koontz and Weihrich 1989), for it is one of the key tasks identified as part of management:

"Control was only one of the basic managerial activities that Henri Fayol identified back in 1916. Yet it has generally received the lion's share of attention." (Child 1982, p136).

Control is portrayed as one of the functions of management along with planning, organising, commanding and coordinating:

"The managerial function of **controlling** is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished." (Koontz and Weihrich 1989, p490).

Control is so basic to the management process that some writers have questioned whether it should be singled out as a separate managerial function(Koontz and Weihrich 1989; Chambers, Selim and Vinten 1987):

" Control pervades each of the other management functions: the *planning* process needs to be carefully controlled as does the *staffing* function, and so on. Even more than this, there



can be no control unless there is a plan to be controlled. Anthony believes that planning and control should be merged into one element of the management process. The organisation structure, the staffing arrangements and the calibre of direction and leadership are also means by which control is achieved. So it could be said of control, as well as of coordination, that it is the essence of management." (Chambers, Selim and Vinten, 1987 p46).

Koontz and Weihrich(1989) believe that control and planning are closely related and only separate them conceptually, noting that the two are like blades of a pair of scissors. As scissors cannot work without two blades so without objectives and plans, control is not possible. They describe the basic control purpose involving three stages:

- 1) establishing standards,
- 2) measuring performance against those standards, and
- 3) correcting variations from standards and plans.

Despite control being a vital part of the management process it has until recently had a rather negative image:

" Some directors clearly confuse internal control which has the purpose of assisting the organisation to achieve its objectives and goals, with 'bureaucracy' which in common usage means inflexible sets of detailed rules which stifle initiative and waste resources." (Izzard, 1994 p8)

In part this maybe because, with some notable exceptions(Child 1982), most management texts on control are prescriptive in nature. A prescriptive approach primarily describes what you are supposed to do. Control chapters in management texts tend to be very descriptive, involving a list of good practices. Child(1982) criticises this approach:

" Control in this respect may appear to be a neutral phenomenon which would be required in any co-operative activity. In circumstances where objectives are shared and there are no conflicts of interests, control becomes in principle only a matter of co-ordinating different people's contributions and adjusting these in the light of progress achieved and/or of changing circumstances. Under these conditions control can be regarded as a technical matter, in which an exercise of power is not necessarily involved as long as every person engaged in the co-operative undertaking pulls his or her weight equitably.

This is how many managers regard control, or at least would like to, and it is the perspective adopted in many writings for managers. It is not, however, an adequate perspective and is likely to be seriously misleading. For control is more than merely a technical matter. It is inherent in the social relationships of employing organisations. In so far as these relationships contain elements of conflict, then the standards which management sets for a control system are liable to be disputed."  
(Child 1982, p139)

A further dimension on the importance of control but also regulating it to the essential but technical field, depicted by Child above appears in the strategic management literature. While the importance of control as being essential to the welfare of the organisation is never questioned, it is equally never in the forefront in strategic management texts (Johnson and Scholes 1988) of why a business succeeds. As Vinten (1991) highlights, internal audit, a control function is not indispensable to the organisation and if it was not there, the organisation would not come to a halt.

The publication of the Cadbury Report (1992) and public statements by its Chairman on the importance of internal controls to the prosperity of business, has begun to change this image, as a recent publication from the Institute of Internal Auditors testifies:

"The following statements made by Sir Adrian Cadbury help to reinforce the point that internal control is an essential element of the management process:

"If you look at all the failures of quoted companies in the past, they have all been failures of internal controls",

"the issue of internal control is central to improved corporate governance";

and, in the Cadbury Report:

"an effective internal control system is an essential part of the efficient management of a company." (Izzard, 1994 p6).

Why is there now a focus on internal control functions? A rational explanation would be that it has been due to a number of inter-related key events. From the US, the reports of the National Commission on Fraudulent Financial Reporting (Treadway Commission, 1987) and deriving from this report in 1992 the Guidance on Internal Control - Committee of Sponsoring Organisations of the Treadway Commission (COSO 1992). These reports originate from the 'Watergate' scandal of the 1970s which brought down US President Richard Nixon. Following the discovery of the illegal use of corporate funds the US Congress passed the Foreign Corrupt Practices Act (1977) which imposed on public companies the requirement to maintain a system of internal accounting controls. Subsequently these reports have followed offering best practice on internal control which have been endorsed by the US regulatory authorities and accepted by top management (Schiff, 1990). These have had both a direct business effect for subsidiaries and UK companies doing business or seeking listings on US capital markets and an indirect influence on codes of conduct here, notably Cadbury (1992) and by UK professional institutes endorsing their definitions and

recommendations(Izzard,1989; 1994).

A second factor has been the number of spectacular corporate failures, eg: BCCI, Maxwell, that have called into question effective management by Boards. 'Governance' has become fashionable as it has been focused on by management studies as opposed to being treated and taught as a branch of company law(Tricker, 1994). In particular, dividing Governance as a concept from Management:

" By **corporate governance** I mean the process, structures, and relationships through which the board of directors oversees what its executives do. By **corporate management**, I mean what the executives do to define and achieve the objectives of the company."(Dayton, 1984, p10).

The responsibility of Boards of Directors to shareholders and the distinction between Governance and Management being the remit of the Cadbury Committee(1992). Included in the Cadbury Report's 'Code of Best Practice' is the recommendation that the directors should report on the effectiveness of the company's system of internal financial control(Cadbury 1992, paragraph 4.26). This initiative has been maintained, as a guidance pamphlet on Internal Control and Financial Reporting issued by the Chartered Accountants Institute on the Code of Best Practice illustrates, it also extends the reporting scope on internal control:

" Directors may wish to and are encouraged to extend the scope of their statement to cover their responsibility for the wider aspects of internal control (rather than just internal financial control), in which case their statement should be set out in a way which allows shareholders to understand the scope of their remarks."(ICAEW, 1994 p4).

Thirdly, there has been the drive towards 'quality assurance' by companies in the provision of services and

products. In ensuring that quality is being met, management has focused on obtaining recognition by registration with the British Standards Institution for BS 5750 or Internationally with the International Standards Organisation for ISO 9000. In 1994, the Canadian Institute of Chartered Accountants (CICA, 1994) linked the COSO(1992) report of the control element; risk assessment; control activities and monitoring to the United States criteria of quality in their exposure draft on control. A correlation between internal control and quality assurance is therefore emerging at the professional level.

Fourthly, there is a crisis in the external auditing profession (Humphrey, 1991) over what has been termed the 'expectations gap':

"There is a gap between the role expected of auditors and that performed by them to today. There is a demand for auditors to recognise the interests of a wider group than shareholders alone. There are perceived gaps in the scope of the audit, particularly regarding director's stewardship, future prospects and risks, fraud, internal controls and interim reporting." (Auditing Practices Board, 1992 p3).

An expectation, as the IIA.UK notes (Izzard, 1994 p10) of some company directors believing that internal control was the responsibility of their accountants and auditors. Focus on effective control has therefore become a key management issue with a recognition that good internal control is vital to business success. Internal control has been defined by the Institute of Internal Auditors as follows:

" Internal control is part of the management process. It is the actions taken by management to plan, organise and direct the performance of sufficient actions to provide reasonable assurance that the following objectives will be achieved:

- \* Accomplishment of established objectives and goals for operations and programmes;
- \* The economical and efficient use of resources;
- \* The safeguarding of resources;
- \* The reliability and integrity of information;
- \* Compliance with policies, plans, procedures, laws and regulations."(IIA.UK 1994 - Standard 300 p20).

In addition to these contemporary pressures there has also been an academic and professional recognition of the importance of internal control and independent control functions. Chambers, Selim and Vinten(1987) see the focus on internal control functions as being a long-overdue recognition of an important element of management activity. They suggest that Fayol's 'security function' was eclipsed for a generation by the concentration on the scientific management techniques of Taylor. They correlate this delay with the development of occupational groups and question:

" The whole pattern of auditing today might have been different if the importance of internal auditing had been as readily appreciated as was the importance of external auditing." (Chambers, Selim and Vinten, 1987 p49).

They suggest that the power and prestige of the external audit professional bodies in particular, meant that the focus of attention and study on internal control functions was initially inhibited. Internal audit was viewed as a subordinate, low key activity within a finance department(Sawyer 1983). By the 1980s, this image had changed with the American Accounting Profession defining a more expansive function:

" An effective internal auditing function can serve as a high-level organisational control,

as well as a constructive and protective link between policy- making levels and operating levels of an organisation." (Glazer and Jaenicka, 1980 p1).

An expansive role, whose independent recognition by the accounting profession can be partly attributed to the advent of the Institute of Internal Auditors in the United States in 1941 (IIA). This new body saw its role as being broader than the accounting profession (Brink and Witt, 1982), envisaging internal auditing as a management activity encompassing the whole organisation. To establish its distinct identity, the IIA developed a strategy to establish itself as a recognised professional body. An important part of that strategy was a research programme to map and identify the scope and practices of internal auditing (Vinten, 1993). However that body:

" Although it was interested in research it had neither the funds, numbers, nor expertise to be able to conduct it in its earlier days in more than a cursory function." (Vinten 1993, p6).

By the 1970s, the IIA was numerically a stronger professional body. It had established Professional Standards and created a distinctive 'internal auditing body of knowledge' (Brink and Witt 1982; Chambers Selim and Vinten 1987; Wood, Wilson and Holub 1989).

The IIA was funding an ambitious research programme (Vinten, 1993), which facilitated the study of control and gave 'internal control functions' a focus. In addition, through the expansion of the definition of internal auditing, the scope and objectives were widened to include not just the accounting and finance functions but other operational areas of an organisation as the Statement of Responsibilities of Internal Auditing's Objectives and Scope defines:

" Internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation.

The objective of internal auditing is to assist members of the organisation, including those in management and on the board, in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The objective includes promoting effective control at reasonable cost.

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditors should:

- \* Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

- \* Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organisation is in compliance.

- \* Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

- \* Appraise the economy and efficiency with which resources are employed.

- \* Review operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned." (Institute of Internal Auditors (IIA-UK), 1994 p3).

As the professional standard identifies, the role of the internal auditor is much wider than a person who is there to verify the accuracy of financial data and to check on compliance (Brink 1972). An expanded role of internal audit as appraisers of the adequacy of systems can be



rationally explained:

" Management quickly recognised that the establishment of a self-regulating internal control system, containing built in checks and balances and written procedures, was a more sufficient means of detecting fraud and error than the surprise audit." (Sherer and Kent, 1988 p102).

In the 1970s and 1980s through its own research foundation, the IIA published research reports incorporating practice guidelines. The scope of internal auditing, described above expanded into areas such as organisational control, defined as that part of the total management process which is:

" (1) the assignment of responsibilities to individuals and groups of individuals;  
(2) The definitive actions relating to the coordination and integration of these assignments." (Brink, 1972 p2)

Brink's 1972 research report concluded that Internal Audit can provide assistance to management in achieving effective organisational control by undertaking a review of the adequacy of existing organisational control and recommend ways for improving that organisational control. In addition, the report expanded internal auditing to:

"... be a valuable source of information and counsel when specific organisational changes are considered by management." (Brink, 1972 p21).

The question of ethics was researched where Dittenhofer and Klenm (1983) considered the narrow classical view of 'Business is about Business' but focused on a role for internal auditors which embraced a 'Kantian' perspective of social responsibility. Though on the issue of 'Whistleblowing' the Internal Auditors have taken a more 'reactionary' approach with leading US proponents of

internal auditing being against auditors being 'voluntary snitchers' (Vinten 1992,p9). In their later comparative research, Dittenhofer and Sennetti(1994) provide an explanation for this perspective with the assertion:

" In the present study the Institute of Internal Auditors, as a segment of professionalism has determined that those actions proscribed by its Code of Ethics are not moral and thus are not ethical." (Dittenhofer and Sennetti, 1994 p6)

The emerging internal auditing profession subjected itself to constant re-evaluation of its role, scope and relationship of internal audit in the organisation (Glazer and Jaenicka 1980). Child's (1982) concern over the resistance and dynamics to control in organisations are beginning to be addressed:

" If auditors become identified as the eyes and ears of management, or as head office spies, they will not achieve the co-operation so essential for successful audit work." (Vinten, 1991 p227)

Wood and Wilson (1989) researched the behavioural dynamics of internal auditing which recognise role conflicts:

" auditors are expected to be supportive, tactful, and even empathetic, while at the same they are expected to exhibit the objectivity and toughness required of 'fraud squad' members." (Wood and Wilson, 1989 p26).

To resolve these role conflicts, internal auditors are advised by the Institute of Internal Auditors to comply with the professional standards and maintain the 'independence' of the internal auditor.

The emergence of an Internal Audit Profession, focusing

on the management function of control can be compared to the similar development of human resource professionals. Internal auditors are experts on the integration of control systems, recognising their complexity and interaction:

" Controls do not exist in a vacuum, they must be designed to make sure that some management objective will be met."(Sawyer, 1983 p23). Internal auditors are not there as controllers but as advisors to management who are responsible for control. Similarly, the management of human resources is a responsibility of all management and personal policies are determined by the Board. However, the complexity of managing people has given rise to a separate distinct activity that has both an advisory, evaluative and operating function which goes beyond the prescriptive descriptions of personnel management (Legge, 1978) .

The responsibility of control rests with management but the recognition of its complexity has given rise to a distinct 'control function' whose role is to appraise and recommend changes to control systems within the organisation. The development of a distinct profession devoted to control meets the complexity of modern organisations and the role of control within it:

" Competitive pressures, which have steadily increased in the world economy and which oblige managers to exercise more stringent control in an attempt to reduce costs, increase productivity and respond more swiftly to market changes."(Child, 1982 p138) .

Management studies focusing on the growth in size of organisations in the 20th Century, the need for delegation and the criticisms of 'Weberian' Bureaucratic organisation re-focus attention on the nature of control (Pugh, Hickson and Hinings 1983). For Child,

control is a complex process and an ingredient for success, the style of control in an organisation must be compatible with the requirements of the operating situation:

" If, for example, a firm has to innovate and adapt its methods of working in order to compete in a rapidly changing environment, its management should not seek to impose controls that are exclusively oriented towards efficiency. Running a tight ship is no good if it is heading for the rocks and none of the crew dares, or is motivated, to do anything about it"(Child, 1982 p141).

The existence of internal audit functions whose focus is evaluating control enables the development of controls that will serve organisational needs. Thus, Wood and Wilson could write at the end of the 1980s:

" Internal Audit is in transition from a relatively simple number-counting and control checking orientation to a much richer and more complex role in modern organisational life" (Wood and Wilson, 1989 p1).

The focus on Internal Control and the emergence of a distinct function to evaluate control systems within an organisation is seen as emerging due to a combination of:

- \* intellectual leadership with the emergence of a distinct control profession - internal auditing;
- \* awareness of the complexity of 'control' in the modern organisation, both technically in system design and organisationally;
- \* control as an aid to increased profitability;
- \* recognition from the accountancy bodies on the

respective scope and limitations of external and internal auditing;

- \* the growth of a global economy involving increased competition and the need to address costs and competitive efficiency;

- \* legislation, for example in the US with the passage of the Foreign Corrupt Practices Act( Courtemanche, 1986), publications of reports(Treadway 1987;COSO 1992) and in the UK self regulating codes(Cadbury,1992) which compel/focus Boards to take responsibility for ensuring an adequate system of internal control exists.

A critique of the above explanation for the focus on control and Internal Audit developments, from two different perspectives can be made:

1. The current focus on internal control can be envisaged as a crisis in capitalism. The public exposure of fraud and greed(it has always been there) has caused a crisis in confidence. The traditional external audit mechanisms have failed to solve these problems. The decline in the competitiveness of mature western economies against emerging countries has meant a focus on cost cutting. Internal control is but the latest in a series of management techniques to be offered as the salvation to an inevitably flawed economic system. Recognition of internal auditing as a professional discipline reflects the 'Parsonian' belief in professions as stable institutions(Worsley, 1973). As 'professionals', internal auditors identify with senior management and will be more likely to keep the organisation in check. Evidence for this perception of its role can be found in the research reports of the Institute of Internal Auditors. As the following extracts from an Institute of Internal Auditors

research report on risk testifies:

" ...therefore top management must structure the control system to make the self interest behaviour of individual agents within the firm coincide as much as possible with the firms objectives...management control system designed to bring individual objectives and behaviour in harmony with the firms objectives.. The owners and top management use the Internal Audit department to aid in managing and controlling the firm." (Patton, Evans and Lewis, 1982 p3).

2. The emergence of internal auditing as an important control is recognised. It should not be seen, however, as an emergent and independent discipline. It is a control exercised by senior management for monitoring the performance of junior managers. Adopting an agency cost perspective(Jensen and Meckling,1976), the costs of internal audit are borne by senior managers in order to satisfy demands for accountability made by external participants, especially shareholders, of the organisation. Adams(1994) adopting this perspective offers an explanation for research findings on the amount of external auditing undertaken by internal auditors:

" Agency theorists could interpret the employment of internal auditors on the statutory audit as a ploy by managers to reduce the monitoring costs of the statutory audit but at the same time signal to owners that the coverage of the audit is not reduced. In addition, the executive decision to involve internal auditors in the external audit may be driven by self interest motives. For instance, managers may wish to draw internal auditors away from operational assignments if there is a likelihood that evidence of managerial inefficiency and/or incompetence will be uncovered. In turn, internal auditors may dislike the switch in assignment, and become dissatisfied with their subordinated role in the statutory audit"(Adams,1994 p11).

For Sherer and Kent, the issue is much simpler:

"... Internal Audit is simply a basic part of the traditional external audit function - the difference being the cost of Internal Audit is incurred directly by management." (Sherer and Kent, 1988 p99)

Furthermore, even this difference has been questioned as is evidenced by the number of external audit firms that now undertake internal audit work. Such activity also raises the issue of how much internal auditing can be said to be an independent profession. The failure of the Institute of Internal Auditors to achieve professional status was recognised by its own research study:

" Judged by the attributes presented in the previous chapter, internal auditors cannot be said to have fully achieved professional status under traditional criteria."

Though the report continues:

"However, there are clear signs of progress toward this objective, and a number of formal criteria appear to have been met." (Wood, Wilson and Holub 1989, p37).

The current focus of internal control and functions may be in part explained as an idea whose time has come. As Vinten suggests:

" In the wake of the Financial Services Act 1986 and not unrelated legislation such as the Building Societies Act 1986 and the Banking Act 1987, internal audit is a natural way to comply with requirements as to internal control, and is virtually ubiquitous." (Vinten, 1991 p225).

Within the internal auditing profession there is disquiet as to whether internal auditing can meet this challenge. A clear illustration of this doubt was made public by Gordon Smith (1993), President of the Canadian Institute of Internal Auditors. Smith identified the following

problems:

- \* Excessively long audits;
- \* Extensive verification of the size of the problem, instead of resolving the problem;
- \* Too much emphasis on financial applications at the expense of core business processes;
- \* Reluctance on the part of internal auditors to take on broad new ideas;
- \* Predictability of audit findings, often addressing issues which management are aware of and which they are unable or unwilling to correct - including such issues as separation of duties, lack of documentation, and lack of evidence of management review.

An earlier article from a finance controller on what he needed from Internal Audit (Pendred 1990) had identified five key services:

1. Assurance
2. Professional Quality
3. Service to Management
4. Efficiency and Brevity
5. Advice and Help

Pendred believed that internal audit in his organisation, the British Council, was meeting these needs but believed improvement in communication with managers as to what audit is all about was required. In essence, despite internal auditing effectively fulfilling these roles, there was an 'understanding gap' of what is internal auditing.

The image of internal auditing is both its strength and weakness. On one side is a 'conservative' safe image with some powerful statements offering senior management reassurance. On the other, is the 'dull pen pusher' who



found accountancy too exciting. As one former internal auditor, now an academic who commented on this sentence noted, "dull and duller"(Lower 1995). The image of the internal auditor and internal auditing featured considerably in the professional literature in the early 1990s(Hughes 1989; Grierson 1990; Hoffman 1991; Schofield 1991) with acknowledgement of its poor image and a recommended strategy based on education and public relations to counter this negative profile. Following the appointment of PR consultants, research was commissioned by the IIA.UK on the image of internal auditing(Rocklin 1992). The research findings do not make encouraging reading with a lack of consensus about the role of internal auditing and confirmation that its image was still that of a dull policeman. In the style of public relations research, an interesting question asked respondents to liken the image of internal auditing to a brand of car. The answer was that of a Ford because of its blandness and reliability.

Recent professional articles( Cottell 1994; Harbord 1994; Haselip 1994;Ridley 1994;) focusing on the quality of service that internal auditors provide to auditees, have argued for a service that satisfies their 'customers'. These articles provide some evidence that within the internal audit profession, at a leadership level a more dynamic form of internal auditing exists. It may well be that the image of internal auditing where such departments exist is changing. A major concern, however, must be that where internal auditing does not currently exist, or where the experience of internal audit has not been progressive, the old image problem remains. As Saxby(1994) has recently written the problem continues particularly at the member level in local authorities. Her comments on member apathy towards internal audit provide a sobering reflection if internal auditing is to develop in charities.

The time for internal auditing's 'role upon the stage' has probably arrived. The focus on 'internal control' and appropriate functions have not been restricted just to the private sector. In the public sector, the concept of internal control and the recognition of internal audit in particular has received encouragement in recent years(Vinten, 1991). With the problems of public sector finance and expenditure cutbacks there has been an intensive focus on internal control to ensure value for money at the operational level is being achieved.(Glynn 1993; Buttery,Hurford and Simpson 1993).

The charity sector does not exist in a vacuum, the developments we have described in chapters two and three increasingly mean that charities will have to focus on internal control. It is our contention that trustees of the larger charities will have to focus on Internal Control if they are to both minimise their liability, ensure charities are competitive in obtaining funds and can deliver services. In focusing on the adequacy of internal control systems charity trustees will be seeking comfort and reassurance that such systems are effective, economic and efficient. Senior paid charity managers will also be seeking the same reassurance for the same strategic reasons and in addition for their own respective personal benefits, particularly interference by trustees in 'operational matters' will be wishing to reassure their trustees that 'everything is satisfactory'. From both external governmental and commercial pressures and a theoretical managerial agency cost perspective(Jensen and Meckling 1976), there should be a clear consensus of interest for the establishment of internal audit functions.

## **5.8 INTERNAL AUDIT IN CHARITIES.**

The year 1987 saw the publication of reports on the

monitoring and control of charities commissioned by the Government - the National Audit Office 'Monitoring and Control of Charities in England and Wales' (NAO, 1987) and the 'Efficiency Scrutiny of the Supervision of Charities' carried out by Sir Philip Woodfield. (Woodfield, 1987). Both reports looked at the external supervision of charities by the Charity Commission. From a different perspective, the Institute of Internal Auditors, UK in 1985 commissioned research looking at controls in charities from the perspective of what contribution internal audit could make to improving control in the charitable sector (Ridley, 1985). The commissioned research was undertaken by the 'Portvac' Unit of Brunel University (Programme of Research and Training into Voluntary Action), now the Centre for Voluntary Organisations at the London School of Economics. The report was published in the Institute's Journal in two parts in 1987 (Billis and Harris 1987a; 1987b). The methodological approach taken was as follows:

" We approached these issues by utilising a qualitative research methodology. In stage one we conducted interviews in three large charities employing internal auditors. In stage two, to appear next month, we examined the position in three charities that do not employ internal auditors." (Billis and Harris 1987a, p195).

The aim of the stage one research, on the charities employing internal auditors, was to ascertain:

1. Their motivation for employing internal auditors;
2. What contribution internal auditors are perceived to make; and
3. The relationship of the internal auditor's role to wider voluntary sector activity.

The stage two research, which examined the position in charities not at present employing internal auditors, was

to ascertain:

1. Whether the agencies are aware of the possible contribution that could be made by internal auditors, and;
2. Whether they feel that there is a role in their organisation for internal audit. (Billis and Harris, 1987a).

The research conclusions were:

"1. On the face of it, there would appear to be little scope for the introduction of internal auditors into charity other than the big battalions.

2. It would be recalled that several of the participants claimed that such functions were already being performed in their organisations, although they did not carry the internal audit label. It was well beyond the resources of this research to test the validity of these claims.

3. It also seems that there are a number of niggling problems being experienced in the charitable sector which are not, up to now, being regarded as matters to be tackled by internal auditors, for example, control over computer use, regional offices and local fund raisers.

4. Finance is the more knotty problem, and a distinct internal audit role would not be financially feasible for the overwhelming majority of small charities, however, we are not convinced that lack of funds or value for money considerations are necessarily the overriding factor but they appear to be for the larger and more complex agencies...additional research might reveal that directors, and possibly the governing bodies of charities might be more sympathetic to the role of internal audit than the more traditional finance and accountancy sections. This is perhaps to be expected in view of the fact that governing bodies and senior managers of charities are becoming increasingly conscious of demands for public accountability in the voluntary sector. They are therefore likely to

be more open to suggestions about measures, such as internal audit, which are intended to improve accountability and control." (Billis and Harris, 1987b).

There are a number of obvious methodological problems to the Billis and Harris research, for example, the sample size and its representativeness. Problems, which as experienced researchers, Billis and Harris acknowledged but which did not detract from their research objective:

" Whilst qualitative research cannot provide the apparent range of results produced by quantitative methods such as surveys, it can provide a deeper quality of understanding of the real issues. In new areas, such as the position of internal auditing in charities, even a quite small sample can prove invaluable in pointing the way to further action." (Billis and Harris, 1987a p195).

The period during which research was undertaken was in part unfortunate, the publication of the NAO(1987) and Woodfield(1987) reports occurring after the field work. Would the attitudes in the three charities without internal audit have been different: In particular, the comment by the research on finance and accounting sections not being sympathetic to internal audit?

As excellent investigative and pioneering research, their report opened a number of issues and topics to stimulate further action. There were two comments in their research report, however, which were left unanswered and perhaps they should have addressed. These were the 'niggling problems' and the question of definition of the 'big battalions'.

The first issue of the 'niggling problems' may in part be due to the 'active debate' on the research conclusions held between the researchers and the Institute of Internal Auditors Charities Panel which questioned some of the conclusions. The then IIA.UK Charities Panel

Chairman(Ridley, 1990), while not going into detail, praised the 'integrity of the researchers who would not change one word of their report'. In a later conversation with one of the researchers (Billis, 1990) there was equally a comment on the real jobs that internal auditors were doing - while their professional literature described high level activity, their actual jobs were relatively low key and in traditional finance areas. We are therefore left with speculation as to whether the charity internal audit functions reviewed were more similar to the old checking image of internal auditing than the more dynamic perception we have reviewed. As Sawyer comments:

" Internal auditing....was created and it has prevailed because owners and managers needed certain assurances. They were afraid that their employers or their suppliers and dealers would make errors or cheat them, so they employed internal checkers to verify all transactions in order to detect any errors and cheating.

Unfortunately, even today this idea of verification being the be-all and end-all of the internal auditor's job still persists."  
(Sawyer, 1983 p1).

Thus an area of research which would have detailed actual roles of Charity Internal Auditors is left unanswered. A more serious criticism on the research is the lack of definition of what is meant by a 'Big Battalion'? There is no conceptual or quantitative definition offered.

Following the publication of the IIA.UK Internal Audit in Charities Research Report, Ridley and Palmer(1988)and Finlayson and Palmer(1989) highlighted a charity which had an income of £2 million but which had introduced an internal audit function. The charity was primarily funded by the then Department of Health and Social Security payments for residential drug rehabilitation provision and employed seventy staff. Not viewed as a member of the

'Big Battalions' it, however, had a number of features that the Portvac research identified as likely to give cause for an internal audit function to be introduced, notably:

1. Regional Organisation;
2. Growth;
3. External Auditors;
4. Accountable image.

In determining a criteria as to why an internal audit function in a charity might be introduced no model was offered by the Billis and Harris research, for example no recommendation on size of income or portfolio, operational activity or number of employees. Instead the individualistic nature of that type of organisation and its current management situation were stressed. The research had raised many issues and questions, not surprising as the researchers had commented:

"... the lack of any previous research in this area."  
(Billis and Harris, 1987 p195).

Beyond prescriptive accountancy reports on best practice (Sams 1978; Dale 1985) the only other research into internal audit in charities was by another IIA.UK research project. This was a major national survey of internal auditing in the UK and Eire in 1985 undertaken by Marplan which also included the top 200 charities, however, only ten charities had responded and of these ten, only one had an internal audit department (IIA.UK 1985). There was therefore not even the simplest of data available of how many charity internal audit functions existed.

Major questions remained unanswered such as why an internal audit function might be introduced? - for

example, rapid growth of an organisation and diversified sources of funding? or 'knee jerk' reactions following a crisis such as a fraud? Would the impending regulatory changes in the charity sector following the Government White Paper(Home Department, 1989) be a catalyst for the introduction of internal audit functions?

Was internal audit more likely to be introduced into a particular type of charity? Are there certain common denominators relating to, for example, activity; staff establishment; financial size and sources of finance; geographic coverage; number of volunteers? Could a profile of a charity with an internal audit function be developed?

There were also a host of operational issues on charity internal audit - questions that needed to be investigated. Ranging from relationships with external auditors to the scope and authority of internal audit functions. Are there specific problems for internal auditors in charities which you would not find in the public or private sectors? Volunteers and voluntary committee members?

How were internal audit/control functions organised? Were they:

1. An 'in-house' function where the charity employs the internal audit staff.
2. Use of a firm of external auditors on a consultancy basis.
3. A consortium arrangement, sharing an 'in-house function' with other charities.

It became obvious that there was a need for some



quantitative research that could attempt to provide some rationale and perhaps answers to some of these questions.

## **5.9 INTERNAL AUDIT IN CHARITIES - SURVEY COMMENTARY.**

This section is a narrative summary of the survey undertaken for this thesis in 1991. The full tabulated results are provided in the Appendix. The research data was obtained through postal questionnaires (the questionnaires and the research methodology is also in the appendix). Two questionnaires were designed. The first was sent to members of the Charity Finance Directors Group (CFDG 211 organisations). The second was sent to the Institute of Internal Auditors' Charities Discussion Group. (IIACDG 19 Organisations). All but two of the IIACDG organisations are members of the CFDG.

Usable returned questionnaires for data analysis were:- CFDG 139 responses were received out of 211 (66%) and from IIACDG 14 out of 19 (73%). Of the 139 CFDG respondents, 29 had an internal audit function.

Both questionnaires were designed to obtain a profile of charities by classification and method of incorporation, operational area, sources of finance, staffing, volunteers and existing external audit and control functions. The questionnaires then became specifically oriented to those charities that had an internal audit function. Some questions were common to both questionnaires to enable comparisons to be made, others were specific to the respective respondents reviewing attitudes and current working practice.

### **5.9.1 Profile.**

The profile of a 'typical' charity with an internal audit function appears to be a national or international charity, with many sources of income, including trading income, with more than one operating entity (usually the main charity supported by a trading subsidiary). The introduction of an internal audit function is a relatively new phenomenon. More than half of charities who replied to the survey had only introduced the function in the previous four years. An in-house function will normally be made up of one main auditor, with an assistant. The research findings showed, as one might expect, that as charities become larger and more complex, the justification for introducing an internal audit function becomes much clearer. The cut-off point in terms of size appears to be the £1 million income level.

There appears to be considerable scope to introduce the function on this criteria because although 90% of the sample met this benchmark, only 21% had introduced an internal audit function. Risk and improving accountability were cited as the principal reasons for introducing internal audit. The role of external auditors is also mentioned, not as a dominant reason but as a consideration in introducing an internal audit function, particularly by internal auditors who also cite the size of the organisation. Finance Directors gave a greater prominence to growth. Although the research found that cost was often given as the reason why an internal audit function had not been introduced, there was also a lack of awareness of the potential benefits. There was the complete absence of any consortium arrangement. A consortium arrangement is where a number of organisations pool their resources and share an internal audit function. Such arrangements exist in the National Health Service, the Universities and between the London Museums. There was little evidence of the use of volunteers in internal audit.

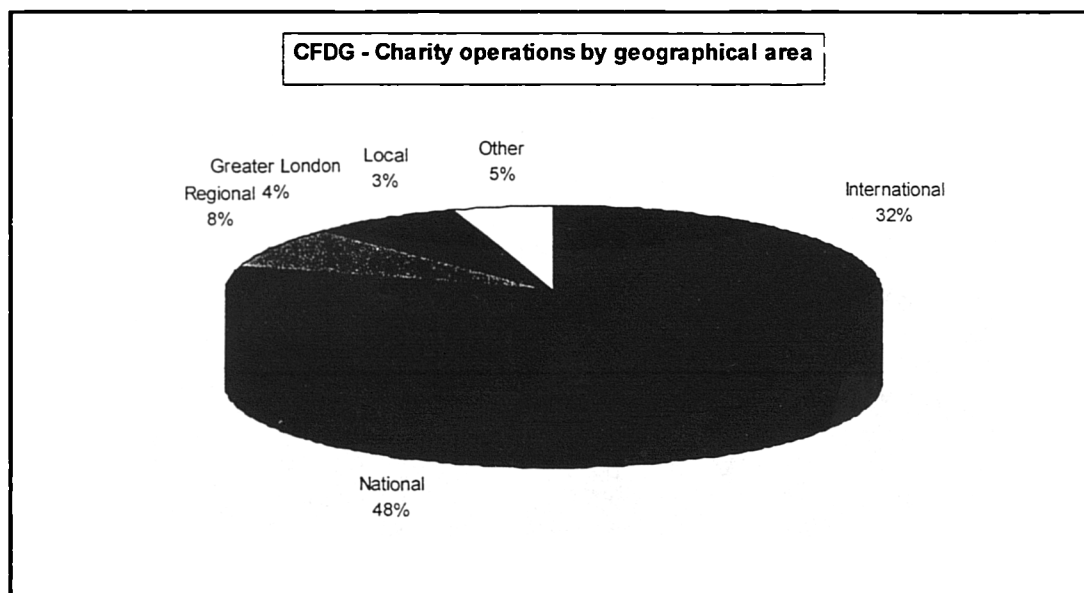
### 5.9.2. What sort of charities have an internal audit function?

As Table 1 illustrates most internal audit functions will be found in international or national charities, with London as a special case:

Table 1

Charity operation by geographic area	IACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
International	5	35.7	44	31.7	9	31.0
National	7	50.0	66	47.5	13	44.8
Regional (more than one country)	0	0	11	7.9	1	3.4
Greater London	1	7.1	6	4.3	4	13.8
Local (within one country)	0	0	4	2.9	0	0
Other	1	7.1	7	5.0	1	3.4
No response	0	0	1	0.7	1	3.4
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

Figure 1

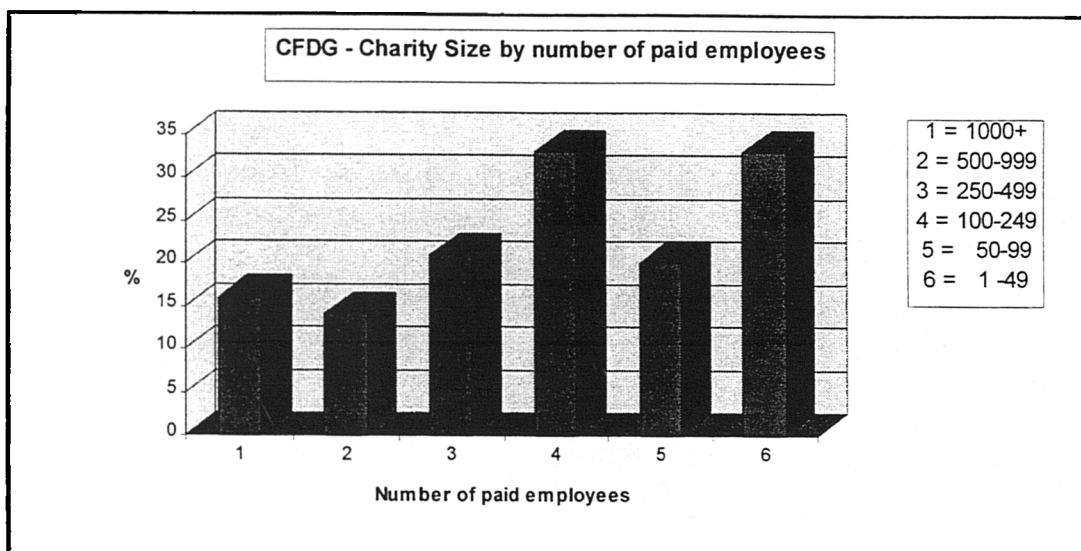


The majority of internal audit functions are in charities with 500+ employees (table 2):

Table 2

Charity size by number of paid Employees	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
1000+	9	64.3	16	11.5	11	37.9
500 - 999	4	28.6	14	10.1	7	24.1
250 - 499	0	0	21	15.1	3	10.3
100 - 249	1	7.1	33	23.7	4	13.8
50 - 99	0	0	20	14.4	1	3.4
1 - 49	0	0	33	23.7	2	6.9
No response	0	0	2	1.4	1	3.4
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

Figure 2



Unfortunately, the question on how many volunteers assist the charity and a related question on volunteer hours received a very low response rate. Within these limitations it would suggest that charities with a large number of volunteers are more likely to have an internal audit function (Table 3):

Table 3

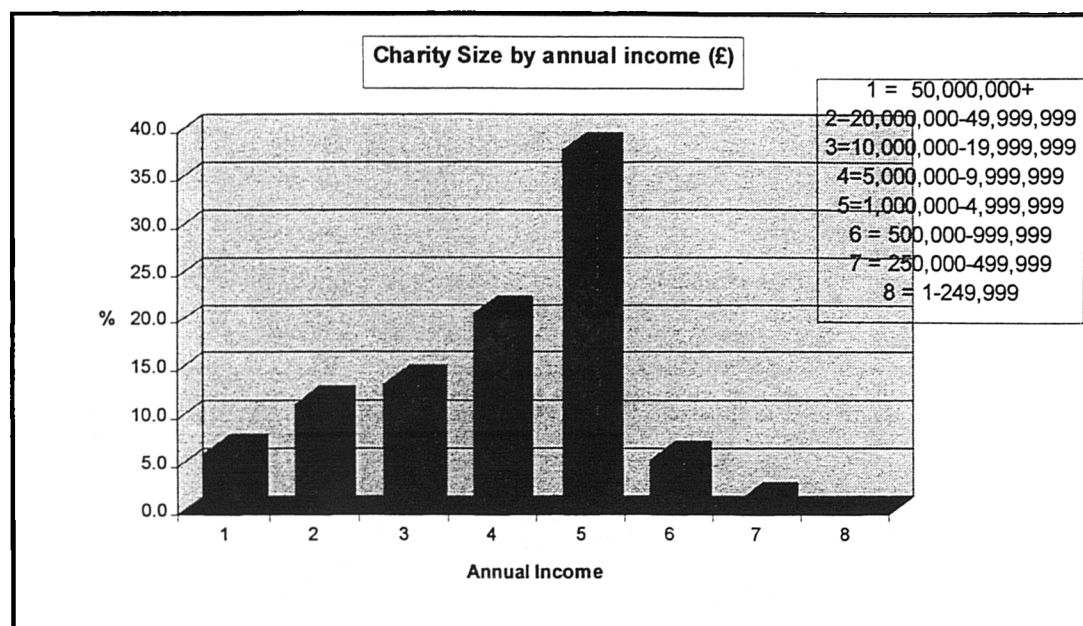
Charity size by number of volunteers	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
10000+	3	21.4	11	7.9	4	14
5000 - 9999	1	7.1	4	2.9	1	3.4
1000 - 4,999	0	0	10	7.2	4	14
500 - 999	0	0	7	5.0	2	6.9
250 - 499	0	0	7	5.0	0	0
100 - 249	0	0	5	3.6	0	0
50 - 99	0	0	6	4.3	1	3.4
1 - 49	0	0	25	18.0	4	14
No response	10	71.4	64	46.0	13	45
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

No charity in the sample had an income of less than £250,000 (Table 4) :

Table 4

Charity size by annual income	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
50,000,000+	6	42.9	9	6.5	7	24.1
20,000,000 - 49,999,999	5	35.7	16	11.5	4	13.8
10000000 - 19,999,999	1	7.1	19	13.7	9	31.0
5,000,000 - 9,999,999	1	7.1	29	20.9	4	13.8
1,000,000 - 4,999,999	1	7.1	53	38.1	4	13.8
500,000 - 999,999	0	0	8	5.8	0	0
250,000 - 499,999	0	0	2	1.4	0	0
1 - 249,999	0	0	0	0	0	0
No response	0	0	3	2.2	1	3.4
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

Figure 4

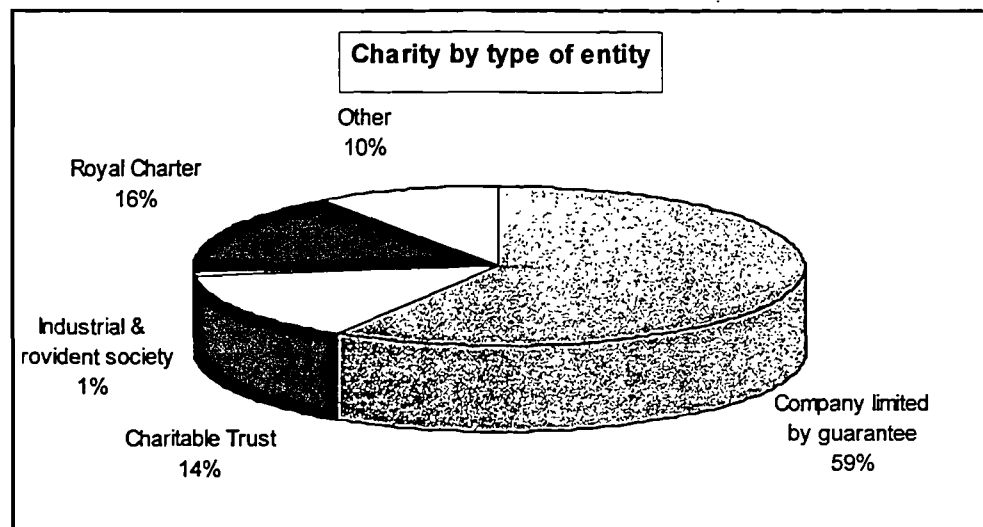


Charities with internal audit functions all had an income in excess of £1 million. Using the Charities Aid Foundation source of income categories, no single source of income was more likely to suggest an internal audit function over another. There was some correlation between the group of income categories fund-raising, trading and sales, which were in total greater than £1 million and the charity having an internal audit function (Table 5):

Table 5

Charity by type of entity	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
Company limited by Guarantee	10	71.4	79	56.8	17	58.6
Charitable Trust	0	0	19	13.7	2	6.9
Industrial and Provident society	1	7.1	1	0.7	1	3.4
Royal Charter	2	14.3	22	15.8	2	6.9
Other	1	7.1	13	9.4	4	13.8
No response	0	0	5	3.6	3	10.3
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

Figure 5



Charities that were incorporated as companies limited by guarantee were most likely to have an internal audit function (Table 6) :

Table 6

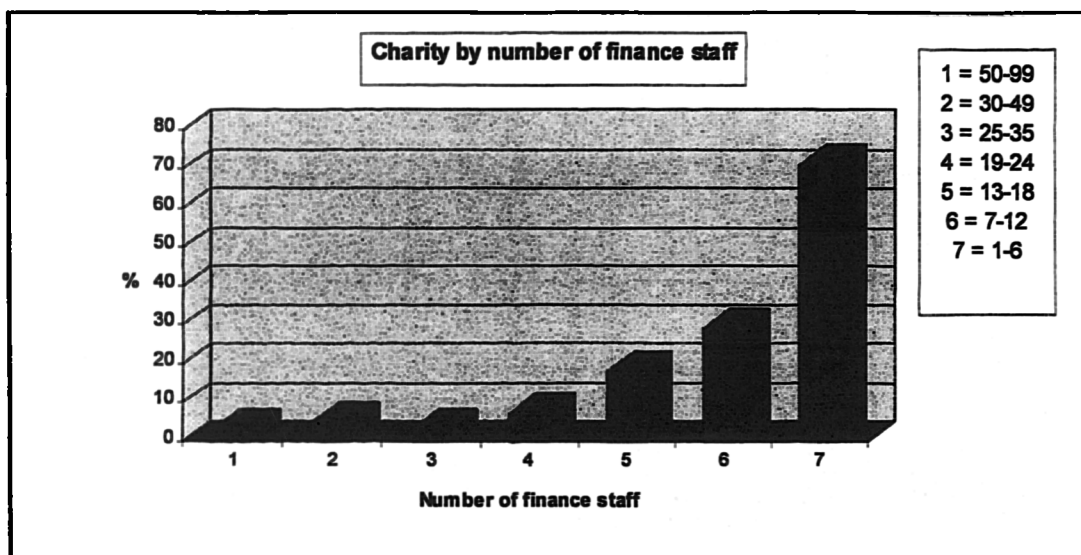
Charity by number of entities	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
Main Charity only	5	35.7	93	66.9	12	41.4
Main Charity & Trading Company	3	21.4	36	25.9	12	41.4
Main Charity plus Trust	0	0	1	0.7	1	3.4
Main Charity & Trading Company & Trust	1	7.1	3	2.2	1	3.4
Charity Greater than 3 Organisations	1	7.1	0	0	0	0
No response	4	28.6	6	4.3	3	10.3
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

and were also likely to have a subsidiary trading company (Table 7) :

Table 7

Charity by number of finance department staff	CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%
50 - 99	3	2.2	3	10.3
30 - 49	5	3.6	4	13.8
25 - 30	3	2.2	1	3.4
19 - 24	7	5.0	3	10.3
13 - 18	18	12.9	7	24.1
7 - 12	29	20.9	4	13.8
1 - 6	71	51.1	5	17.2
No response	3	2.2	2	6.9
<b>TOTAL</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

Figure 7



Charities with large finance department staff were most likely to have an internal audit function (Table 8):



Table 8

Year Internal Audit Function established	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
1991	2	14.3	5	17.2
1990	0	0	3	10.3
1989	2	14.3	4	13.8
1988	3	21.4	2	6.9
1984 - 1987	1	7.1	5	17.2
1980 - 1983	0	0	3	10.3
1970 - 1979	4	28.6	2	6.9
Pre 1970	1	7.1	2	6.9
No response	1	7.1	3	10.3
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>29</b>	<b>100</b>

Internal audit functions are relatively new in charity with nearly half being established between 1988-1991 (Table 9):

Table 9

Number of internal audit staff in charities	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
6+	1	7.1	3	10.3
5	1	7.1	0	0
4	0	0	0	0
3	0	0	3	10.3
2	2	14.3	7	24.1
1	1	7.1	12	41.4
No response	9	64.3	4	13.8
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>29</b>	<b>100</b>

Most internal audit functions consisted of a single person with an assistant being the next largest category (Table 10):

Table 10

Number of charities using volunteers in Internal Audit	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
6+	2	14.2	2	6.9
1 - 5	1	7.1	0	0
No response	11	78.6	27	93.1
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>29</b>	<b>100</b>

There was little evidence of external auditors undertaking internal audit work or the use of volunteers (Table 11):

Table 11

Operational scope by Area	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
Accounting/Finance	14	100	27	93.1
MIS	13	92.9	15	51.7
Management effectiveness	12	85.7	11	37.9
Personnel/administration	9	64.3	10	34.5
Commercial operation	8	57.1	11	37.9
Investment	6	42.9	10	34.5
Charitable objectives	4	28.6	6	20.7
Other	2	14.3	1	3.4

### 5.9.3 Why Does a Charity Introduce an Internal Audit Function?

As we noted in the previous section, Billis and Harris(1987a;1987b) had produced a set of factors that might prompt a charity to introduce an internal audit function. These factors were assembled into one question (Table 12):

Table 12

Operational scope by activity	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
Internal consultancy	10	71.4	12	41.4
Computer systems development	9	64.3	12	41.4
Other	5	35.7	4	13.8
Training	5	35.7	4	13.8
Accounting	4	28.6	10	34.5
End of year accounts preparation	4	28.6	5	17.2

Improving accountability and risk were cited as the major cause. Finance directors also cited growth as a major reason, while the size of organisation was the third most important reason for internal auditors. External auditors were given a prominence in promoting internal audit.

#### 4.9.4 Principal operational areas of internal audit

The purpose of the internal audit function is to provide an objective reassurance to management that a continuous appraisal of the adequacy of controls will occur. All the internal auditors who replied to the survey said they undertook reviews evaluating the effectiveness of the organisation's system of control. All but one followed reviews based on value for money concepts. The main areas covered were finance and accounting and management information systems (Table 13):

Table 13

Size of Chartered Accountancy firm	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
1 - 6	4	28.6	51	36.7	8	28
7 - 12	4	28.6	28	20.1	11	38
13 - 18	2	14.3	7	5.0	2	6.9
19 - 24	0	0	1	0.7	0	0
25 - 30	0	0	7	5.0	0	0
50 - 99	0	0	8	5.8	1	3.4
100+	1	7.1	33	23.7	7	24
No response	3	21.4	4	2.9	0	0
<b>TOTAL</b>	<b>14</b>	<b>100</b>	<b>139</b>	<b>100</b>	<b>29</b>	<b>100</b>

The concentration of attention was in the managerial areas rather than on the wider charitable objectives. In this area, only 25% of internal auditors were involved.

The Billis and Harris(1987a;1987b) identification of specific characteristics and management problems of charity was asked. For the finance directors, the problems received equal recognition as problems with no individual problem standing out as more or less problematic than others (Table 14):

Table 14

Effect on the External Audit relationship when L.A. introduced	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
Greater use of IA reports	7	50.0	15	51.7
Reduction in time & scope	5	35.7	12	41.4
Greater co-operation	5	35.7	8	27.6
No increase/reduction in fees	5	35.7	6	20.7
No effect	1	7.1	8	27.6
Other	3	21.4	2	6.9

Three quarters of the internal auditors noted that they were undertaking internal consultancy. However, less than 50% of the finance directors said their internal auditors were involved in such activity. There was also a sizeable variation between the two groups on involvement with computer system development with 64% of the internal auditors saying they were involved but just over 40% of the finance directors. While there was some discrepancy between the two with internal auditors perhaps having a tendency to 'claim' more activity, these results are not too dissimilar to suggest that internal auditors while involved in the finance and accounting area have a wider span of operational freedom. It was noteworthy that less than a third were involved in accounting, including end of year work (Table 15):

Table 15

External Auditors roles may undertake with Internal Audit	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
Approve programmes & procedures	14	100	5	17.2
Suggest areas for review & evaluation	3	21.4	10	34.5
Recommend changes programmes & p	1	7.1	7	24.1
Assist in programmes & procedures	1	7.1	3	10.3
Provide training to IA staff	1	7.1	2	6.9
Other	14	100	0	100

Most internal auditors said they took part in the development of computer applications. Using computer assisted techniques themselves though was limited to less than a quarter. Most internal auditors prepared an audit plan with short and long term goals with detailed audit programmes to address the areas covered by the audit plan. Just over half prepared time budgets and schedules for the entire year.

#### 5.9.5 External Audit.

All the charities had a professional external audit. Just over half the sample were companies limited by guarantee who are legally required to have an external audit. The rest, therefore, voluntarily chose to have an annual external audit, though many may have done so because either their trust deed or a funder (such as local government) require such an audit. Although the research sample was purposely selected, it is surprising to discover that every charity had an audit given the diversity of charities in the sample.

The charities were asked to identify which firm of external auditors audited them. None were audited by certified accountants, two were audited by the Audit Commission. The names of the chartered firms were then matched against the 1991 Accountancy Age ICC audit firm

rankings. The majority of charities with internal audit functions are audited by the top 18 external audit firms. This should be read in conjunction with the response to factors that led to internal audit being introduced. The large external audit firms would seem to be positively encouraging internal audit functions in charities (Table 16) :

Table 16

Joint activity between External and Internal Audit	IIACDG		CFDG (with internal audit)	
	Freq	%	Freq	%
No joint programme	7	50.0	17	58.6
Select/Special projects	3	21.4	8	27.6
On a regular basis	14	100	4	13.8
IA relies in EA working papers	1	7.1	2	6.9
Entire audit programme	14	100	2	6.9
Other	2	14.3	3	10.3
Scope is divided	2	14.3	4	13.8
IA does some EA work	4	28.6	9	31.0
Year end activities	14	100	7	24.1

Those charities which had an internal audit function reported on their relationships with their external auditors (Table 17) :

Table 17

Services requested by Charities from External Auditors	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
Quality assurance reviews	14	100	6	4.3	1	3.4
Tax preparation/advice	7	50.0	94	67.6	19	66
EDP review	5	35.7	25	18.0	7	24
Management advisory services	3	21.4	40	28.8	10	35
Other	2	14.3	17	12.2	4	14
Finance advice	1	7.1	48	34.5	7	24
Accounting services	1	7.1	48	34.5	11	38
Internal auditing	1	7.1	14	10.1	3	10
None	1	7.1	12	8.6	2	6.9
Training	1	7.1	4	2.9	2	6.9

The majority of internal auditors(85.7%) have access to the external audit plan and external auditors(71.4%) to the internal auditors plan. A minority of finance directors(41.4%) and internal auditors(21.4%) reported that external auditors did play an active role in developing internal audit work. These activities ranged from suggestions for reviews to providing training(Table 18) :

Table 18

Who do you think Internal Audit should report to	IIACDG		CFDG		CFDG (with internal audit)	
	Freq	%	Freq	%	Freq	%
Finance Director	6	42.9	27	19.4	5	17.2
Chief Executive	5	35.7	39	28.1	10	34.5
Audit/other committee	1	7.1	67	48.2	13	44.8
Other	2	14.3	4	2.9	1	3.4
No response	0	0	2	1.4	0	0
<b>TOTAL</b>	<b>8</b>	<b>57</b>	<b>112</b>	<b>81</b>	<b>24</b>	<b>100</b>

In relation to receiving each other's reports, 69% of finance directors and 71.4% of internal auditors circulated their reports to external auditors while over three quarters in turn received copies of the external

auditors reports. While half the respondents reported no joint programme activity with external auditors, a third reported that they undertook a portion of the external auditor's work programme (Table 19):

Table 19

Reason for no internal audit	Freq	%
I would like an internal audit function but no adequate financial resources	24	17.3
Internal audit function not appropriate	50	36.0
Internal audit best done by external auc	4	2.9
Other	8	5.8

When asked what services had been most requested from external auditors, tax advice was the largest category. Despite charities not paying corporation tax it is perhaps indicative of the VAT problems that charities face. Internal audit services were requested by 10% of the total sample of finance directors (Table 20):

#### 5.9.6 Reporting Responsibility of Internal Auditors.

Finance directors were asked who should internal auditors report to and the internal auditors were asked to whom did they report. Nearly half of the internal auditors reported to the finance director but a third reported to the Chief Executive. Only one internal auditor reported to an audit committee of trustees. However, nearly half the finance directors believed that internal auditors should report to an audit committee of trustees. Half the internal auditors reported their charity had an audit committee while a further third noted that the finance committee had an overview of internal audit activities. Three quarters of the internal auditors reported to a committee which discussed financial reports as their principal task (Table 21):



Internal auditors were asked if they had a 'charter' - a statement of purpose, authority, scope and responsibility of the internal audit department. 64.3% of the internal auditors said they had such a statement.

#### **5.9.7 Potential Expansion of Internal Audit.**

Internal audit functions are in a minority of the larger charities. However, ten charities declared they intended introducing a function with the next three years. There should be further scope for expansion, for many finance directors were unhappy with their current internal control arrangements. However when those same finance directors were asked why they did not have an internal audit function, over 60% ticked "I do not consider an internal audit function appropriate to the charity at present". A further 30% said they would like an internal audit function but did not have adequate financial resources. These replies were correlated with the size of finance departments and it was noted that these responses came from the smaller finance department staff (Table 22):

There was little hostility to internal audit, none ticked the box giving them this option and less than 5% believed external auditors could best do internal audit. The problem seems to be one of internal audit needing to justify itself over other pressing needs. For example, one finance director commented that a management accountant would be more beneficial to him.

Internal auditors were asked about scheduled changes, over two thirds cited 'expansion of the scope of operational audits'. Just under 60% mentioned expansion into internal management consultancy (see question 51 in Internal Audit Managers Survey).

#### **5.9.8 Education and Skills.**

Finance directors and internal auditors were both given a large list of educational qualifications and professional qualifications and asked what in their opinion was the preferred standard of qualification. The overwhelming preference were professional qualifications in accountancy, particularly chartered, over educational and other qualifications.

The type of skills an internal auditor required was from the core educational requirement of the IIA.UK and finance directors were asked to list which ones they considered important, if not them all. The majority believed that all of them were appropriate. The IIA.UK qualification, however, received a relatively low score from finance directors but the highest score from internal auditors. The internal auditors cannot be said to have been biased, because none had the MIIA or QICA qualification. The majority were chartered accountants. Our interpretation is that the internal auditors were more aware of the qualification than finance directors.

The internal auditors were asked to list their years of professional experience in a number of work categories. Nearly three quarters had spent over three years in internal auditing. Nearly 60% had spent over two years in external audit.

#### **5.10 RELEVANCE OF THE 1991 SURVEY IN 1995**

As explained in the research methods section, it was deemed inappropriate to re-survey in 1995. A new survey in 1997, once the full effects of the 1993 Charities Act are in force, will hopefully occur. As an interim consideration, it was decided to consider how appropriate

were the survey findings and whether any new issues for future research could be identified. An 'expert' group (see research methods) was compiled, and a group discussion was held using the questionnaire as the agenda.

The panel felt that fraud, as a reason for introducing internal audit, had not been given significant importance in the survey. A number of recent internal audit functions had been prompted by the discovery of fraud. The panel did not consider that trustees were taking the lead in introducing internal audit functions. Despite the attention placed on the trustee role, none reported trustees as taking the initiative. This lack of trustee action, however, was replaced once an internal audit function had been introduced. Trustees took an active interest in the function after it had been set up and when they were receiving reports. Obsession with administrative overheads, by trustees in particular, was identified as being a major problem preventing an internal audit function being established.

Consideration was given to the more prescriptive approach followed in the Housing Association sector. The Housing Corporation had given considerable prominence to large Housing Associations, ensuring they had adequate internal control systems with a recommendation for an internal audit function. The relatively small increase in the number of charity internal auditors, from twenty nine identified in the 1991 survey to currently forty in membership of the Internal Audit Charity Discussion Group, contrasted with the increase in numbers from twenty five to eighty in the Housing Association Internal Audit Group for the same period. If the Charity Commission were to undertake a more pro-active approach and issue a similar circular, this could be the dominating factor in introducing internal audit.

The suggested correlation between the size of finance departments and the existence of an internal audit function was reaffirmed. Indeed, the 'happiness' of the Finance Director was considered a major factor. From a practical consideration, this was seen as a major issue as internal audit should not get involved with accounts. Further 'qualitative' research should be undertaken to evaluate these 'organisational political' issues. Is there a correlation between overheads and charity finance departments' size which suggests that Finance Directors confronted with a choice between a 'management accountant' and an 'internal auditor' will always choose the former? Combining the two functions as one charity did (Finlayson and Palmer 1989), leads to potential compromise on the independence of internal auditing. The resource dilemma was regarded as being indicative of the immense ignorance that still existed with Finance Directors and Trustees about the positive value and contribution of internal audit. A major problem was considered to be the name 'internal auditor' which conveyed a very different image from the reality of modern internal auditing. The Institute of Internal Auditors was felt to have failed to date in combating this negative image. Considering the whole profession of internal auditing, it was felt that there needed to be strategies and investment in combating this negative perception - one suggestion was that the Journal of Internal Auditing should feature more technical articles describing the practice of internal auditing - while more radical thinking was required on perhaps devising a new title for internal auditors.

The issue of technology was discussed with the view that charities, as in 1991, were still at a developing stage in using technology tools to assist their audit work; for example, the use of on-line auditing of computer systems.

The possible reduction in external audit fees, through the introduction of internal audit, was felt not to be an issue. The Finance Directors believed the reduction in prices through competition for charity audits meant that concentration was on verification of the end-of-year accounts; visits to branches were now a rarity. External auditors were increasingly looking to rely on internal auditors and therefore the disclosure of internal audit plans to the external auditors was to be encouraged. The role of external auditors in encouraging internal audit in charities was considered to be a subject for a future research project. Such research may find that in the charity sector, external auditors are not in competition with internal audit, but instead are encouraging its introduction. The panel, with one exception, all believed their external auditors supported internal audit. None gave an example of external auditors trying to 'win' internal audit work.

A 'comfort' role was identified as being a natural development for internal audit, which could aid its development and prestige in charities. In particular, internal audit could play a role in the governance debate in charities by providing reassurance to trustees whom it was considered should not get involved in the day-to-day operation of the charity.

While wishing to avoid generalisation, support was voiced for the assertion that 'the best people to audit volunteers were volunteers'. The Oxfam experience of using volunteer internal auditors was cited. However, it was stressed that this should not be seen as a 'cheap' option. Volunteers required training, support and coordination, all of which carried considerable cost.

Consortium audit was debated with the view by some

members of the panel that the disadvantages of the consortium audit, particularly for the charity sector, needed to be recognised. One prominent view was that consortium audit had all the disadvantages of external auditors of not being 'internal' to the organisation and understanding fully the charity's cultural dynamics. The incredible diversity, for example, on overseas aid was cited as why it was too simplistic to assume that an internal auditor in, for example, the Salvation Army could also audit an Oxfam project in the same country. This was again an area for a future research project to examine.

The training and background of internal auditors was discussed with the view that the Institute of Internal Auditors had failed to date in making its qualification well known. It was also considered that having one professional qualification meant that someone was not so keen on acquiring another, or that the charity would be keen to support such training. A postgraduate course or succession of short training courses was considered more appropriate. This discussion was consistent with the 1991 survey findings and indicates the lack of progress on the profile of the MIIA qualification. Changes in the Institute of Internal Auditors (IIA.UK) professional examinations may counter some of these problems if appropriate exemptions for members of other Institutes makes it attractive for them to study.

The question of specific charity issues being a problem for operational internal audit was finally discussed. Reflecting the 1991 survey's findings and contradicting the emphasis in the Billis and Harris (1987) research, was that these problems were not seen as having any degree of individual significance or impact on operational audit.

A final comment was made by the panel for a future research project and for action by those who wish to see the growth of internal auditing in charities. A future question to be asked should be on the use of 'customer satisfaction surveys' and how many internal auditors use them. Education of employers as to the scope, nature and purpose of internal auditing was vital. It was considered that a knowledge deficiency and expectations gap existed. In the conclusion, we recommend that the Institute of Internal Auditors should seek to meet with the Charity Commission to explore an educational strategy on the benefits of internal auditing.

#### 5.11 CONCLUSION.

Charity trustees face a plethora of roles. Trustees of larger charities will be subject to much more scrutiny, from both the public and the Charity Commission. We still have an inadequacy of research on the motivations of trustees and how they really undertake their tasks. There is now an abundance of 'best practice' literature, but how much of this is 'realistic' given the voluntary nature of charity trusteeship. 'Partnership' is a term widely used to describe the sought-for 'ideal' relationship between trustees and their senior paid staff, but at the end of the day 'the buck stops with the trustees'.

It has been our contention that, inevitably trustees will move towards 'conservative' business strategies. However, this will have to be balanced against an increasing competitive pressure between charities for funds. Trustees and to satisfy them, their senior staff, will seek 'reassurance' that as reasonably as possible they have discharged their responsibilities.

Internal control functions - internal auditing - has become more sophisticated than its previous 'checking role'. Mirroring changes in the public and private sectors, charities should be looking to establish such functions. Internal Auditing provides the reassurance management is seeking. There is, however, little known about internal audit functions in charities. From the limited research of the survey it would imply that the best charity internal audit functions are meeting the wider concept of a management service. However, there is also evidence that many functions are small and still primarily finance-orientated. There is plenty of scope for the introduction of internal audit functions in the larger charities. However, among one key stakeholder, the finance director, there is some resistance to the introduction of such functions. This resistance may be linked to a reluctance to spend money on administration. The survey findings were considered to be relevant still in 1995 of the state of internal auditing in the charity sector. A major initiative and educational role is required if internal audit in charities is to expand. The two major disappointing findings for a sector that is supposed to represent 'sharing' and 'co-operation' has been the absence of charities developing some form of 'consortium' internal audit and the small number of charities using volunteers. For medium-sized charities which have all the problems of the 'big battalions' but not the resources, a consortium would seem to offer a viable alternative to an exclusive in-house function or the use of external auditors. The failure to deploy volunteers to assist control and audit functions in charities is a major resource failure and should be addressed.

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## CHAPTER 6 - CONCLUSION.

With each chapter ending with a conclusion, this final chapter provides a broad forward looking overview. The overall conclusions therefore divide into four parts. The first part deals with the wider charitable sector highlighting key issues and future areas for research. The second part features on the Charity Commission. The third part is on trustee issues, while the final part is on internal audit in charities.

### 6.1 CHARITY SECTOR ISSUES

This thesis has been both descriptive and explorative in describing and defining charity. We have identified key research problems that have to date held back authoritative studies. The lack of a precise definition continues to be both a theoretical and technical problem. The widespread adoption of the Johns Hopkins study definition has provided a consensus for academic study. Its adoption by policy makers and the general public is, however, much more problematic. The problem will partly be resolved if there is a modern legal definition of charity, which can also incorporate the wider voluntary sector. The proposed regulations exempting charities below £1,000 from registering and the new 'light touch' regime for charities with gross income of £10,000 (Home Office 1995) or less means that difficulties of overburdening both the Charity Commission and voluntary organisations should be avoided.

Unfortunately, this legal solution would still leave two major problems outstanding; these were discussed in chapters two and three and relate to the convergence issue and the political independence of charity:

i) The Convergence Issue:

The dramatic changes in social policy explored in chapter three, which have been enacted by the Conservative Government since 1979 have seen a major redefining of the government's role in the delivery of welfare services. The charity sector has been identified as a key player, along with the family and the individual by payment to the private sector. The Beveridge philosophy of universal statutory welfare services from the cradle to the grave has been systematically dismantled.

Alongside the charities have emerged new organisations previously running services in the 'public sector' - hospital trusts, grant-maintained schools - while commercial private organisations providing welfare services far from having a 'ranchmanite' image, are displaying management characteristics usually associated with charities. For example, the private sheltered housing management company Peverel has appointed David Hobman, formerly Director of Age Concern as its Ombudsman. This private company is precluded from joining the Housing Association Ombudsman Scheme to deal with tenants' complaints because of Housing Corporation funding. It has therefore taken the initiative itself in developing its own independent arbitration scheme with agreement to abide by the Ombudsman's decision. (HA Weekly 1995).

As these former public and new private organisations display characteristics normally associated with the charity sector, so at the same time have some charities adopted characteristics normally associated with businesses, while others have expanded bureaucracy and costs stereotypically associated with the public sector. In drafting new legislation this issue needs to be addressed, particularly if such legislation determines



tax privileges.

ii) The Political Issue.

The political freedom of charity has been subject to guidance from the Charity Commission. One powerful argument deployed against adopting a formal legal definition is, far from clarifying and extending the political freedom of charity, it would have the exact opposite effect. There is also the question of Europe and the jurisdiction of the European Court. As we discover more about the activity of the 'charitable sector' in Europe, it has been noted that in France, for example, there are no legal barriers to political, including party political activity. A new law would probably be challenged in the European Court if it were to include restrictions or guidelines on political activity. These problems are in addition to the principal argument against a new legal definition relating to case law.

Against this rather dismal picture there have also been major developments that will enhance charity research. The completion of the Charity Commission data base and funding by the Central Statistical Office means, for the first time that there will be reliable financial statistics on the true size and composition of the sector. In addition, the scope for research will be greatly expanded and legitimised with the ability to construct probability sampling frames. The opportunities for research are enhanced both by this resource and the network of Universities that are now researching the voluntary sector.

As charity research expands in the Universities it will both need to maintain a separate identity and draw upon other disciplines. For example, in exploring the history of charity we need to re-evaluate philanthropic behaviour

in a 1990s context and re-examine the roots of charity. In addition to the 'great people', what was the contribution of ordinary working class people? One suspects there is a history involving working women and perhaps from anthropological and cultural disciplines, voluntary charity movements. For example, the Chinese, Indian and Afro-Caribbean communities. Religious perspectives from the Jewish faith and the non-conformist churches also offer exciting possibilities for future research. While within these communities there is a literature, the growth of 'charity' studies in the Universities should hopefully facilitate to a wider audience the contribution of these different philanthropies.

Business schools can contribute considerably to charity study from applied disciplines such as finance and marketing through to management studies. Understanding risk management in charity and examining 'co-operative' as opposed to 'competitive' management strategies with co-operation in a competitive environment as a model for charities to develop are but two examples.

There is a broad range of policy issues that need to be explored if charity is to be at the forefront of delivering welfare services. For example, in financial terms at both the macro level of overall resourcing of welfare services as a percentage of GDP and how much goes to the voluntary sector, to the micro level of how voluntary organisations manage, particularly if resources are inadequate. As service providers funded by the state direct or through intermediaries, these charities will find their scope to be also at the forefront of advocacy restricted.

A relatively unexplored issue is the concept of class and charity. The major beneficiary of universal welfare

services has been the middle class. From within the limited knowledge of volunteering and donations they would also seem to be the major provider of such resources to charity. As former universal services are replaced by a two tier system of 'private' welfare agencies for those who can afford it, leaving the rest to rely upon voluntary organisations, donations to charity and volunteering will be subject to change.

For academic researchers charity is still a relatively unexplored concept. For the politicians of both the major parties the voluntary sector has been 'rediscovered' and features in their social welfare policies. But it is questionable as to how well they understand the voluntary sector. The Labour Party, through Alan Michael, MP has been making significant efforts in consultation with the sector. Whether this translates into action in a late 1990s Labour Government remains to be seen. The NCVO is establishing a Commission on the Voluntary Sector. The NCVO's' new director uses bold words to dismiss a Royal Commission as "outsiders". Confusing language as the membership of Royal Commission comprise experts within a field (Etherington 1994). Where is the agenda and thinking for the charity sector that takes it into a new millennium after the recent attempt by Knight(1993)? Knight's report was full of creative thinking, but was lost in the misdirected hype and ideas for discussion presented as policies, owing to its Home Office sponsorship. Hope may lie in the proposed ESRC programme or perhaps from a wealthy individual or organisation interested in the field willing to sponsor research.

## **6.2 THE CHARITY COMMISSION.**

The Charity Commission has been taking a more active role in understanding and giving direction to the sector. It

has promoted staff secondments to charities by inviting charities to apply to the Commission and provided direction, most recently on the issue of reserves (Fries, 1995). This new consultative document has the following intention:

" The Charity Commission proposes to issue guidance on the underlying principles relating to the holding of income reserves and the circumstances in which charity trustees may, and prudently should, maintain reserves and the approach they should adopt.

The guidance will seek to foster:

(i) a clear understanding within the charitable sector and between the Commission and the sector on acceptable reasons for, and levels of, income reserves;

(ii) a common recognition that it is the needs of charity beneficiaries which should dictate charities' policies on the application of income within their trusts;

(iii) common standards of communication and clarity in charities' accounts, fundraising appeals and other public statements;

(iv) assurance that charity trustees are making proper use of their charities' funds." (Fries, 1995 p2)

In addition, the Commission continues to perfect its annual return which will be its principal communication document with charity trustees. In essence it compels trustees to account to the Commission for their trusteeship. Yet according to our interviews with the Commission, it is intended as a management aid for charity trustees through its checklist format. The return will enable trustees to focus on their responsibilities while identifying for the Commission, problems in charity relatively early. Thus allowing the Commission to support the trustees if they have problems before they become too

serious.

The more 'user friendly', approach as opposed to an earlier more bellicose attitude, is probably the correct way to handle the 'voluntary' nature of the charity sector. We questioned the real understanding and knowledge of the charity world by politicians, a similar charge can be made against business people who believe that voluntary trustees can be treated in the same way as company directors. In our view this is a misconception, and displays ignorance of charity trusteeship.

Adopting a supportive regulatory approach will not be an easy path for the Commission to follow. They will be accused of either being too 'soft' or too 'hard' on trustees and charities by the media and critics. It is important for the Commission if it is to retain the public confidence in this role to be 'bigger' than immediate 'knee jerk' reactions from the media or politicians. Mr Peach's response to the 'Moonies' and 'Oxfam' cases is an excellent example of a 'bigger' response by the Commission.

The Commission must have the confidence and the support of the charity sector. The Commission and the government have in reality very little power over charities and their trustees. This is a perspective that neither the government nor the Labour Party, as it 'talks' to rather than 'listens', seems to comprehend. Despite sabre rattling over making charities effective, the reality, outside the charities who are totally financially dependent on government, is that the government gets a far better deal and value from charities than it returns in tax relief. People do not have to volunteer nor do they have to give. This was discovered by the Blood Transfusion Service when it was proposed to sell on excess blood to Europe. The Commission needs to

demonstrate to charities why it is there and what it is doing for them. Charities could easily say in the future we do not need the Commission. A perspective that could lead to a future government concluding the same.

Sir Philip Woodfield has recently completed an internal review of the Commission's management structure. Unlike his first report, this has not been published. I have seen the report which is primarily concerned with proposed internal reorganisation, but two parts of the report deserve comment with reference to my observation above about the Commission having the confidence and support of the charity sector:

i) The Role of the Chief Commissioner.

One of the recommendations of this research is to suggest that the role of the Chief Commissioner needs to be a high profile, ambassador role, both for and in the charity sector. The chief and indeed the other Commissioners need to be above the day-to-day administration. Indeed, if they are in the Commission offices more than three days a week then it is probably too long. My interpretation of the second Woodfield Report's recommendations is that it identifies a higher profile, less hands off role for the Chief Commissioner. Though not as "hands off" management as we suggest given the civil service responsibility of the Chief Commissioner as the accounting officer.

The report also focuses on the creation of a forward thinking 'policy unit' reporting direct to the Chief Commissioner. Again, a recommendation of this thesis.

ii) Secrecy.

A reference is made in the second Woodfield Report to a MORI survey on trustee attitudes to the Commission. This study was paid for by the Commission but has never been made public. If the survey has identified failings in the Commission, then it would be better for the Commission to release the results and say what steps it is taking to resolve them. From my interviews with the Chief Commissioner and senior staff, one found an openness to discuss issues. This must surely be the way forward for the Commission. We recommended in chapter three that the Commission should have clear written guidelines on what inquiries it would or would not publish. A similar policy should also apply to all reports Commissioned.

The negative image of the Commission, is a lesson to be learnt from 1987. The poor publicity of that year was in part because:

a) the Commission, despite the efforts of Mr Peach, did not enjoy widespread support from the charity sector.

b) much of the Commission was still working to the 1960s Charities Act agenda; it was reactive, as opposed to being in the forefront and pro-active to change.

While there are no immediate plans by the NAO to undertake a new inquiry (NAO, 1995), there will be one in the future, as part of the NAO's ongoing review of government departments and quangos. Initially, the driving force of NAO reviews had been resource led with the focus on the micro economic efficiency aspects rather than on wider policy issues. However, perhaps in part due to the wider briefs undertaken by the Audit Commission more policy based, strategic studies have emerged from the NAO. How prepared will the Commission be for say dealing with the big question, which Woodfield asked and justified in 1987, of - Do we need a Charity

Commission?

A new charity law and changes in the legal functions of the Commission could possibly remove one of the key benefits identified by Woodfield to government and indeed the sector. One aim in a wider review would be to test the esteem and confidence held by the wider charity sector on the value of the Commission.

Dismissed in one line by the first 'Woodfield Report(1987) were the respective recommendations of the Nathan(1952) and Goodman(1976) Reports regarding a wider board or advisory committee of lay persons for the Commission. Instead Woodfield, followed a more 'corporate' agenda and recommended using the power in the 1960s Charities Act to appoint two part-time Commissioners. The first two part-time Commissioners were gifted people and the 'success' of this reform must in part be attributed to the respective talents of the individuals. However, there are limitations to the 'outside' influence two part-time people can have, no matter how good they are. This is particularly so when they are also members of the Commission.

We would recommend that the Commission develops a number of consultation groups bringing together Commission staff, the charity sector, advisers, and academics to ensure it has a formal and regular communication forum. The trustees committee is one initiative, but other committees should be formed, including a strategic future directions group.

In an age of 'outcomes' we are perhaps reflecting back to a past age in calling for 'talking' forums that perhaps will not, most of the time, produce practical conclusions for immediate action. Equally such forums will involve 'costs', not just of staff time but also servicing such



forums if they are to be effective.

To describe this activity as 'costs' deploys a rather negative attitude. We instead would use the term 'investment' for the benefit of the charity sector and the Commission. Such an 'investment, would demonstrate and facilitate a dynamic forward-looking role for the Commission and not that of a residual regulatory body. In 1987 the Commission, against the late 1980s agenda, was seen as failing. One suspects against a 2000 agenda it would face a similar fate.

During my interviews at the Commission, one of the questions I asked was " who used the charity register?" The Commission was most helpful in advising that, in 1992, they conducted a survey to identify the requirements and priorities of users of the Central Register of Charities. The findings from a postal questionnaire survey of 5,000 users of the register, with a response rate of 22% found that the reasons for using the register were principally split between research purposes, seeking of grants from charities and trustees looking for information about particular charities. The current use of the register involves an average of 355 visitors and 4500 telephone calls per month. A new survey has been recommended which we would endorse. This is because the register is a major resource and investment and the Commission needs to be pro-active in appraising what user needs are and how the register meets them. The Commission needs to be in constant touch with its 'customers' even if they are not paying directly.

To conclude this section, the Commission particularly the Chief Commissioner, needs to have a pro-active high profile. The Commission should adopt a regulatory structure that supports and is valued by the charity sector. The Commission should consider developing

advisory forums to ensure it keeps in touch with the sector and its needs.

A final comment and recommendation relating to the Commission. The Commission, while a department of government, has also been given an independent role. That independence, derives from the 19th Century, reflecting the wise judgement of politicians of that age of the perceived nature of the charity sector. The Commission should not forget its 'independent' origins. If there was a 'royal commission' on the charity sector, the Charity Commission should consider perhaps suggesting a bolder role for itself in the charity sector and reviewing whether the current parliamentary reporting line through the Home Office is still appropriate.

### **6.3 TRUSTEE ISSUES.**

We are still at an early stage of understanding volunteering and altruistic behaviour. The concept of the voluntary trustee, which has been argued as being the essence of the charity sector, is little understood. Those who argue for a 'business criteria' to evaluate and appraise trustee behaviour are adopting a different agenda. It may be correct that the days of the voluntary trustee, certainly for major charities, is no longer viable. But before making such judgements, as some have already done, surely we should seek to know more. For some easy and questionable gain in managerial efficiency with a direct cost - the paid trustee - we may, to use an old saying, be 'throwing the baby out with the bath water'.

In essence the 'trustee' debate to date has been prescriptive and micro management centred. There should be another agenda to consider and evaluate trustee behaviour rather than of a commercial director. For

example, being aware of the charity constituency, who the charity is, who is it there to serve and the accountability of charity trustees.

A future appraisal of the charity sector may well conclude that segmenting the charity sector by size and thereby role of trustees is appropriate. In the larger charities, the paid Chief Executive, Finance Director and other senior staff are 'Executive' trustees with the unpaid trustees as 'non-executives'. The focus of the 'Non-Executive' trustees to be a supervisory role encompassing the accountability of the charity to its stakeholders and remuneration of the executives. For smaller charities, the current system of trusteeship would be retained but some changes would be required, for example, resolving the problem of unlimited liability. The proposed accounting and supervision regime by size, following the de-regulation task force, would indicate that such a scenario is possible. It is certainly an option that is persuasive and one which, as a former charity finance director, I would certainly support. As a 'step removed' academic, however, I would like to see more serious and evaluative consideration, before such a move was made.

For the immediate trustee agenda more pressing and urgent problems beckon. During my interview with Peter Mimpriss (partner of solicitors Allan and Overy and Chairman of the Charity Law Association) the issue of trustee liability was raised. As our nation becomes more like the US with increasing litigious behaviour, it is only a matter of time before some trustees with their personal liability will be sued.

A situation which we can comically illustrate with a quote from the 1960 House of Commons debate on the Charities Bill from Charles Fletcher-Cooke, describing a lecture from a Mr Augustine Birrell in 1890 of a trustee

who finds himself in a witness box, **but** which equally has a very serious consequence:

" There he stands ignorant for certain, pig-headed very likely, quarrelsome possibly, but honest, palpably honest and perspiring. He is charged with losses occasioned by his disregard of the strict language of a will he never understood, or for not having properly controlled the actions of his co-trustee, the principal attorney of his market town. It may be necessary to ruin such a man, to sell his horses and his cows, his gig and his carts, and to drive him from his own home but it cannot be done without a qualm" (Fletcher-Cooke 1960).

Trustee liability is a serious issue if we are not to see such a case arise and its outcome the much heralded 'trustee flight'. In my opinion, in the late 20th Century it is not appropriate to place such risks on unpaid trustees. The changes in the role charity is expected to play, which we have explored in this thesis makes the current system of unlimited liability untenable. The concession by the Charity Commission allowing trustees to indemnify themselves by insurance out of the funds of the charity is welcome. Problems remain, however, particularly over trustee awareness of this provision and have charities sufficient funds to pay for the insurances level required. If the insurance level is insufficient then the trustees personal liability becomes an issue, as they would be personally liable. The work being undertaken at Liverpool University to produce an incorporation form for trustees will hopefully solve this problem.

If the voluntary charity trustee model is to be retained then clearly it will require reform. Calls for training is good practice, but how realistic is it to expect volunteers to follow such courses? To pay trustees or offer them tax relief are again outcomes once their role has been determined. But what is that role once the legal

liability position is extended? Who are the trustees and what made them become trustees?

The responsibilities described by Charity Commission which we reviewed in chapter 5 hardly conform to the voluntary nature of trusteeship. Instead the responsibilities read more like an onerous job description for a paid company director. There really is a need for research to see if the responsibilities criteria described by the Commission are tenable. Despite the faith of the Commission in the annual return to focus charity trustees on management issues, I have doubts as to how effective it will be. My suspicion based on fifteen years working in charities is that the trustees will 'delegate' the job to the chair and treasurer or the staff. A problem will be, while liability may be proved, how committed would the Commission be to prosecute?

#### **6.4 INTERNAL AUDIT IN CHARITIES.**

The survey identified a growing interest in internal audit in charities. The Internal Audit Charity Discussion Group now attracts a membership in excess of fifty, with over half this number actual charity internal auditors. A significant growth from the less than ten members of the discussion group in the mid 1980s. However, against the potential number of charities which could have an internal auditor, still a very low number. Internal Auditors in Housing Associations formed their own group, the Housing Association Internal Audit Forum, in 1990 and now have a membership of just over one hundred. While both groups are independent of the IIA-UK they do maintain contact with the Institute providing technical support when required. The growth prospects for internal auditing in charities looks promising both through these forums and the number of charities that should consider introducing internal audit according to the criteria

developed in chapter 5.

The availability of a sampling frame and the identification of charities with incomes greater than £1 million provides an agenda for the Institute of Internal Auditors and the Charity Commission. Perhaps as a joint venture they should first seek to ascertain what is the current status of internal audit functions in charities with incomes greater than £1 million. Secondly, an active marketing strategy to those charities who do not have an internal audit function to explain to the trustees and senior managers the advantages of internal audit. An example would be the prescriptive circular by the Housing Corporation(HC 11/94) requiring Internal Auditing in Housing Associations which have more than 2000 units(£5 million).

The absence of consortium arrangements for internal audit in a sector that is supposed to be sharing is a major omission. Again, perhaps as a joint venture the IIA.UK and the Charity Commission should be seeking to promote flexible ways of internal audit provision to charities with incomes of say above £500,000.

To be successful in charities, internal audit must demonstrate its value to the charity. It is an administrative overhead, which quite rightly trustees should question do we need it? and keep under review. It should be more pro-active bringing added value to the organisation. The group discussion in 1995 indicated there was still a major problem for internal audit in overcoming resistance to its introduction. The IIA.UK needs to address this issue if it is to see growth of professional internal audit in charities. The operational problems identified by Smith(1993) discussed in chapter 5 need to be addressed if internal audit is to have a valued role in charities.

The absence, except in a few cases, of involving volunteers in internal auditing is again a major omission in the sector that should be addressed. The new draft guidance to trustees on the selection of independent examiners (Home Office, 1995) has already been described by one former Charity Finance Director as "audit through the back door" (Randall 1995). This is because the emphasis on liability insurance, in practice means that only 'audit professionals' will really have such insurance. A fear that the pool of volunteer labour for internal audits would have been lost to such work is therefore not likely to materialise, if indeed it was a serious threat anyway. There is a vast resource of people who would, maybe for the first time be prepared to get involved in charities undertaking such work. The Charity Commission through an intermediary should be seeking to promote such voluntary activity. A small qualitative research project looking at those charities who do use volunteers would be useful.

Future research projects into internal audit in charity should not be undertaken in isolation, or be simply prescriptive. Rather as this thesis has demonstrated internal audit research should also incorporate discussion and implications of wider policy and management issues.

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## APPENDICES

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APPENDIX 1 - LETTERS FROM JEAN WARBURTON AND FRANCESCA QUINT



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21st. October 1994.

Dear Paul,

Thank you for your letter of 18th October.

As Alice said, 'Curiouser and curiouser'. I was not aware of this definition of charity. I suspect it was not pursued because it is a very narrow and rigid definition, particularly in the fourth head. I doubt if some purposes recognised as charitable in 1960 would have come within the definition.

The Nathan Report, in fact, had recommended (p.36):

"We consider that a rewording of the definition of charity is needed and we favour a definition which would allow flexibility in interpretation" (my underlining)

I am afraid that I cannot help you any further but thank you for bringing this to my attention.

With best wishes,

Yours sincerely,

Jean Warburton  
Reader in Law

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Paul Palmer Esq  
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London SE1 0AA

20th October 1994

Dear Paul

Thank you for your letter of 18th October. I had not known of Lord Silkin's proposed amendment to the 1960 Bill and was interested to see it.

I consider that it would not have solved any problem if it had been accepted, since it more or less summarises the main principles of the existing law - adding 'sport' as such - without providing any guidance as to borderline cases. In other words, it would have had the effect that practitioners and the Commissioners would still have needed to rely on case law to clarify, and to define the limits of, what is charitable.

It would be interesting to collate all the various attempts at defining charity both here and in Commonwealth countries, and judge the success of those adopted by the legislatures. Perhaps this is already being done by the NCVO in connection with the work of its commission examining charitable status. There would be several attempts of greater boldness than this one!

Yours ever



Francesca Quint

## APPENDIX 2 - A THEORETICAL MODEL OF FISCAL ACCOUNTABILITY

# A THEORETICAL MODEL OF FISCAL ACCOUNTABILITY

Sarabajaya Kumar and Paul Palmer

## INTRODUCTION

This paper will explore the role and fiscal accountability of health and welfare contractors since the introduction of the 1990 NHS and Community Care Act. Its particular focus will be to examine the effect that contracting will have, given the 'purchaser/provider' split, on the voluntary, non profit and charity sector, with particular reference to their independence and autonomy.

The paper will argue that as a consequence of the increased fiscal accountability that will be required by the purchasers (government), of the providers (contractors), certain organisations will lose their independence and autonomy.

In order to both verify the above hypothesis and to stimulate debate, the paper will propose a theoretical model of fiscal accountability, of service delivery organisations to their funders. Contractors will be placed on the model - a fiscal accountability grid - in a 'weak' or 'strong' position, according to their income portfolio and the size of their public and private finance. It will be argued that, under the recently introduced funding system of contracting, due to the changed roles of the government and service delivery organisations, and the increased accountability that will be required as a result of this, organisations that rely upon government resources, will become 'agents' of the state.

## ACCOUNTABILITY AND GRANT-AID

In the past government both formulated and implemented policy. This meant that, under the previous system of grant-aid, government primarily provided public services, whilst the roles of the private, voluntary, non profit and charity sectors, were to compliment existing service provision.

Hence, organisations from other sectors, particularly those from the voluntary sector, would apply to government for grant-aid to finance their operations. In partnership with government, they would deliver services, according to priorities identified by them.

In this system, the accountability required (in keeping with the terms and conditions of the grant) was legal and fiscal in form, with particular emphasis on the verification of financial accounts. So, in the grant aid state voluntary organisations remained fairly independent of the state and autonomous in their strategic decision-making. The accountability required was limited. This relationship is shown in Figure 1 overleaf.

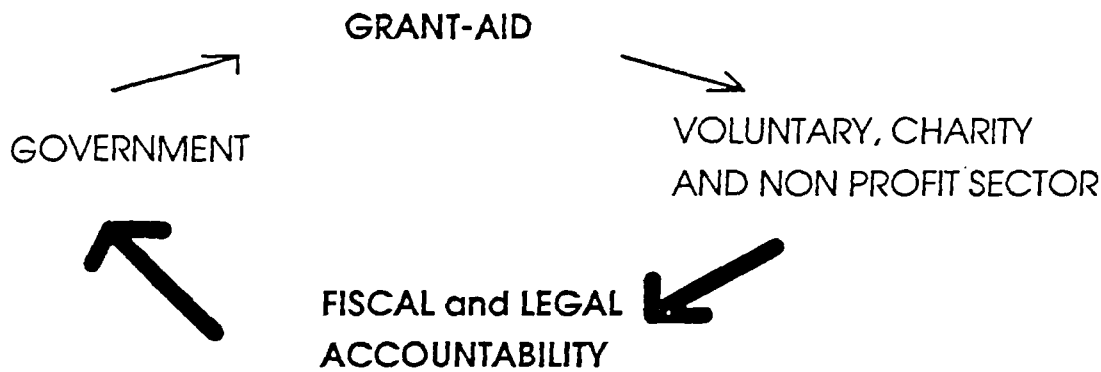
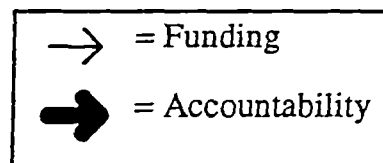


FIGURE 1

#### KEY



### ACCOUNTABILITY AND CONTRACTING

As the funding system of grant-aid is gradually withdrawn and the new system of contracting is implemented, the roles of government and the voluntary sector are changing.

For government, the key transformation is reflected in the separation of responsibility between funding and provision of services. Thus, whilst government continues to formulate policy, it will no longer implement it. Instead it will concentrate on 'purchasing' services from other sectors. As elected representatives continue to be answerable for the use of public money, whether providers are from the public or other sectors, the principal accountability issue for government will centre around the question of how to ensure congruence, between public policy and policy implementation.

"Accountability from this perspective cannot be separated from democratic processes: the fact that elected politicians are directly responsible [for service delivery] is seen as guaranteeing in itself accountability" (Day 1992:2).

For other sectors, particularly much of the voluntary sector, the key change is reflected in the fact that it will now become a government contractor, for at least part of, if not all of its activities. Thus, some voluntary organisations, particularly those that are financially vulnerable, due to their dependence on one revenue source (government), will no longer deliver services that add to existing public service provision. Instead such organisations

will have to tender competitively, to deliver services on behalf of government, via contracts or service level agreements. This will affect contractors as the “composition of funding structures provide the critical context within which ... decision making takes place” [Gronjberg (1990:4)].

In the contracting state, the purchasers (government) in order to remain publicly accountable will have to demand increased accountability in all its forms; “fiscal, legal, process<sup>1</sup> and programme<sup>2</sup>” (Robinson 1971). Thus, for many organisations delivering services via contract, this means that

“[their] strategy is [likely to be] constrained when money is received from state agencies which, justifiably from their perspective wish to see their financial support utilised in a manner congruent with their interests and which do not always coincide with the preferences of the voluntary organisation” (Butler and Wilson 1990:15).

Under the system of contracting the accountability required will be far more detailed and explicit, than was previously the case under the funding system of grant-aid. This relationship is reflected in Figure 2 overleaf.

---

<sup>1</sup> In this context, process accountability refers to whether programmes are managed **efficiently** and **economically**.

<sup>2</sup> The focus of the programme accountability, is whether programmes are **effective** in achieving their intended objectives.



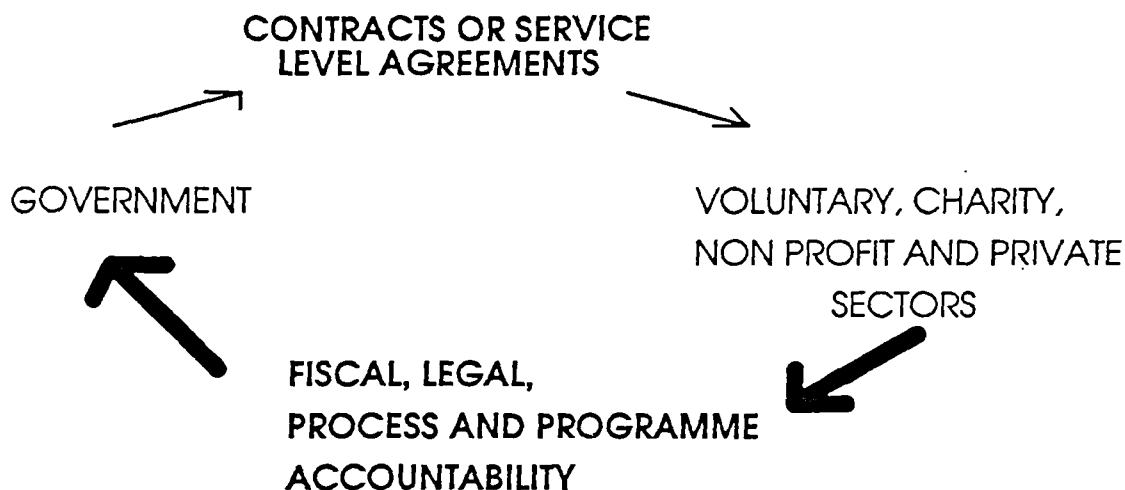


FIGURE 2

**KEY**

→	= Funding
→	= Accountability

Hence under the contract culture, financially vulnerable organisations will no longer be independent of the state, nor autonomous in their decision making.

Although the impact that contracting has on the voluntary sector, will vary in intensity, some organisations will return to a 'pre 1945 situation', where they will, due to the increased accountability required, begin to "... look like and act more and more like a public service" (Marshall 1975:208).

Moreover the increasing reliance of government on the voluntary sector, to deliver publicly funded services will lead to the situation where

"... voluntary bodies very easily become agents of government. In this symbiotic relationship, one may discern a factor ... where voluntary organisations energetically subscribe to the policies upon which finance is currently contingent" (Brenton 1985:85).

As noted by Saxon-Harold in her research,

"Voluntary organisations which receive funding from the government were obliged, often contractually, to cooperate with the wishes of the funding body. As the proportion of government funding grew bigger (as a proportion of total income) then the more the power balance shifted towards the funder" (Butler and Wilson 1990:15).

Thus contractors whose only income is from the state will become agents of it and will inevitably lose their independence and autonomy.

## THE FINANCIAL ACCOUNTABILITY GRID

The financial accountability grid shown in the following pages will identify four theoretical positions or domains that providers can occupy. Starting from the right hand corner of the grid and following a clockwise direction: the first domain has organisations that can be categorised as **strong-strong**; the second, **strong-weak**; the third, **weak-weak** and the fourth, **weak-strong**.

**Strong-strong** organisations in the first domain have a strong portfolio (ie a large diversity of income) and a **strong** size of income (ie a large total income<sup>3</sup> from public and private sources). They will retain their **independence and autonomy** in the 'contracting' state and **will continue to be a partner with government**.

In the second domain **strong-weak** organisations have a **strong** portfolio (ie a large diversity of income) and a **weak** size of income (ie a small total income from either private or public sources). These organisations will remain **independent and autonomous** and **will not become agents of the state**. Second domain organisations will also continue to be a partner with government.

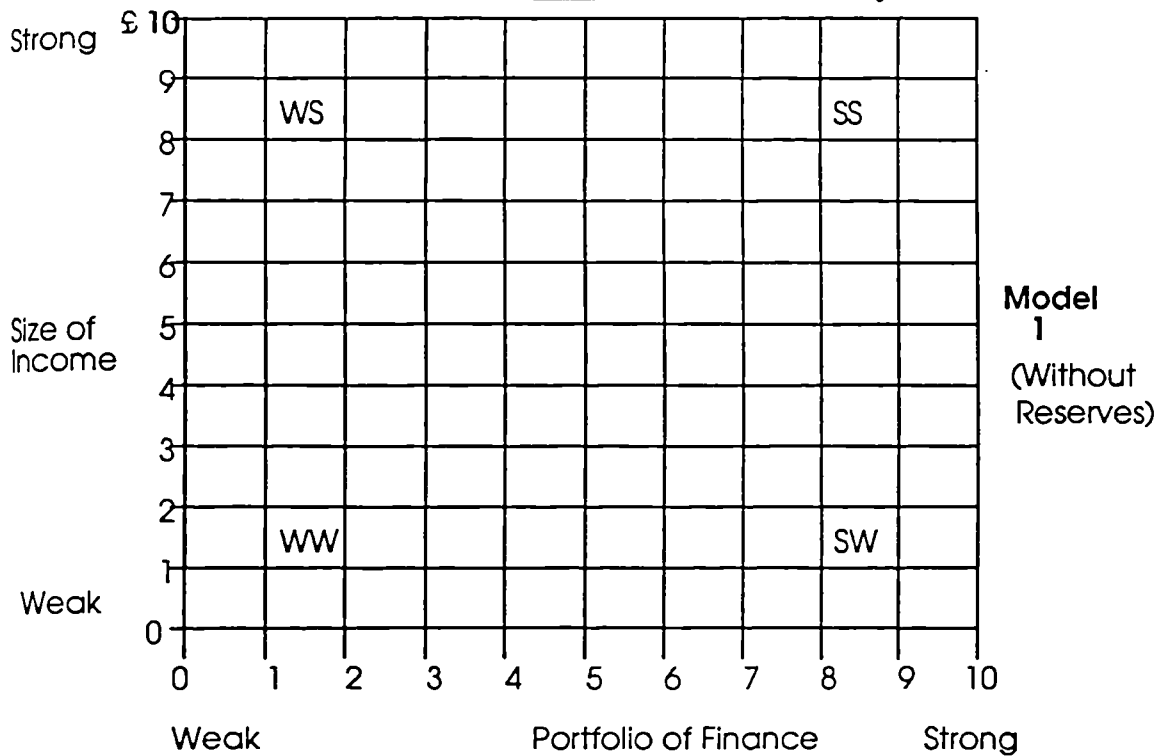
In the third domain organisations assume a **weak-weak** position, with a **weak** portfolio (ie little, if any diversity in their sources of finance) and a **weak** size of income (ie a low total income from one or two public sources). Such organisations **will become agents** of those they have contractual or service level agreements with.

Finally, in the fourth domain are the providers that are in an **weak-strong** position, with a **weak** portfolio (ie little diversity in their sources of funding) and a **strong** size of income (ie a large total income from between one to five public sources). They will have **very limited (if any) independence and autonomy** particularly when they are dependent upon one or two sources. Such 'providers' are **very likely to become agents** of the purchasing authority.

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<sup>3</sup> If private sources of income are of a sufficient size (ie they represent 50% or more of the total income), a greater degree of independence is ensured.

### Kumar Palmer Financial Accountability Grid



#### KEY FOR X AXIS

#### PORTFOLIO OF FINANCE

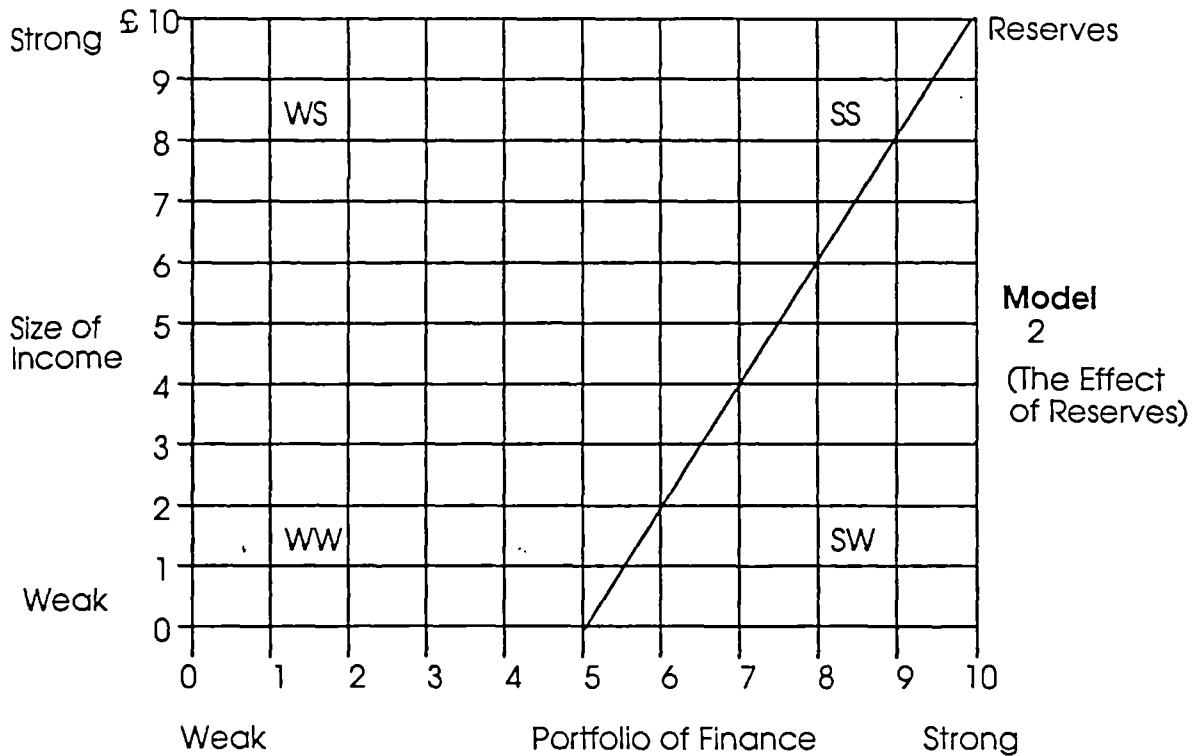
- 1 = LOCAL AUTHORITIES
- 2 = HEALTH AUTHORITIES
- 3 = CENTRAL GOVERNMENT
- 4 = QUANGOS
- 5 = INTERNATIONAL  
STATUTORY AGENCIES
- 6 = CORPORATE DONATIONS
- 7 = GRANT MAKING TRUSTS
- 8 = PUBLIC DONATIONS
- 9 = TRADING INCOME
- 10 = INVESTMENT INCOME

#### KEY FOR Y AXIS

#### SIZE OF INCOME

- Grids 1 and 2
- 1-10 - £10,000 = £100,000
- Grids 3 and 4
- 1-10 - £100,000 = £1,000,000
- Grids 5 and 6
- 1-10 - £1,000,000 = £10,000,000
- Grids 7 and 8
- 1-10 - £10,000,000 = £100,000,000

### Kumar Palmer Financial Accountability Grid



#### KEY FOR X AXIS

#### PORTFOLIO OF FINANCE

- 1 = LOCAL AUTHORITIES
- 2 = HEALTH AUTHORITIES
- 3 = CENTRAL GOVERNMENT
- 4 = QUANGOS
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STATUTORY AGENCIES
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#### KEY FOR Y AXIS

#### SIZE OF INCOME

- Grids 1 and 2
- 1-10 - £10,000 = £100,000
- Grids 3 and 4
- 1-10 - £100,000 = £1,000,000
- Grids 5 and 6
- 1-10 - £1,000,000 = £10,000,000
- Grids 7 and 8
- 1-10 - £10,000,000 = £100,000,000

Moreover, if organisations in the **strong-strong** or **strong-weak** domains have liquid reserves, and important degree of independence may exist, albeit limited and temporary. The organisation will shift to a stronger position, depending upon the size of the reserves. 'New' voluntary organisations that have been and continue to be primarily funded by the state, would not have built up such reserves, and even if they have limited reserves, these will not be of a sufficient size, to have an impact on their independence.

## **ACCOUNTABILITY AND THE FOUR DOMAINS**

As organisations in the first and second domain (ie strong-strong and strong-weak) are relatively independent and autonomous they will be able to choose whether or not to enter a contractual or service level agreement. They will also be in a better position to negotiate their accountability relationship with the purchaser.

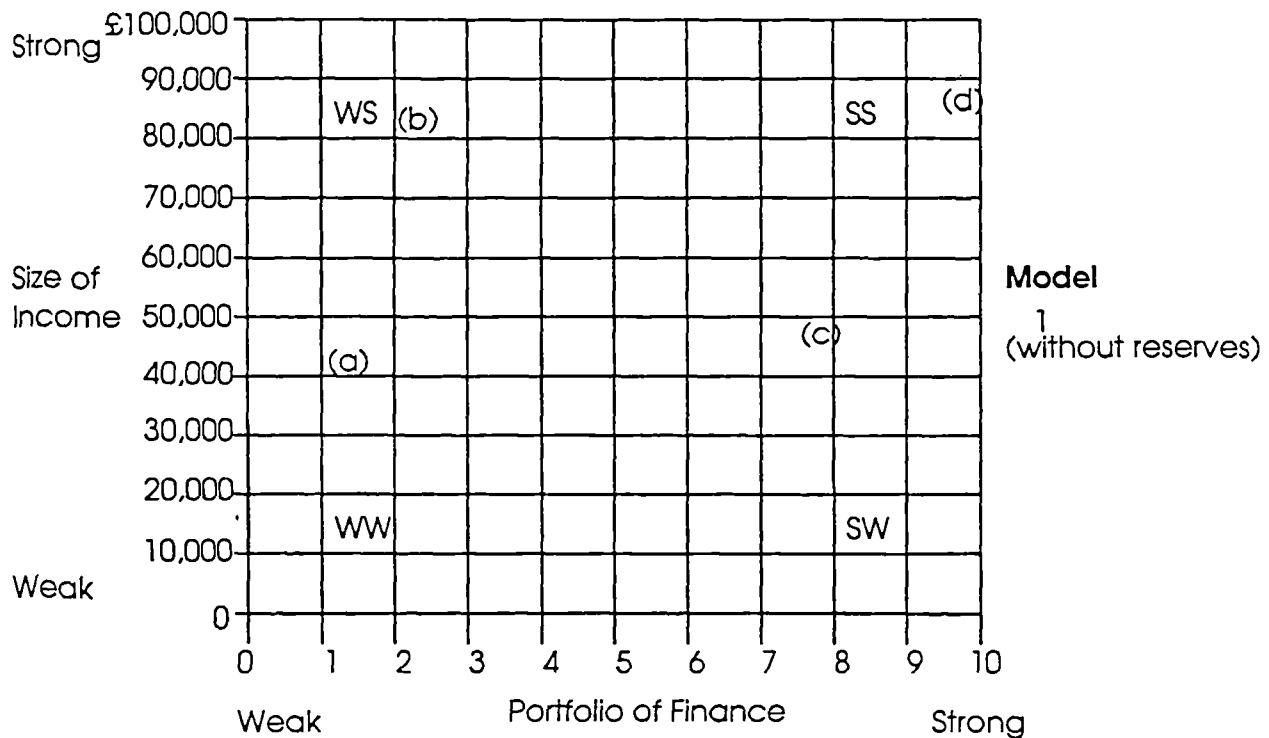
However, organisations in the third and fourth domains (ie weak-weak and weak-strong), dependent upon public sector resources will be 'more vulnerable to revenue downturn [as their] ... revenue sources are limited' (Chang and Tuckman 1991a:452). Hence they will be in a very weak position from which to negotiate, with reference to their accountability relationship. In order to win contracts, should organisations wish to survive, they will have little choice, in the short term, about whether or not to perform the functions and fulfil the accountability requirements demanded by the contract authority.

## **PLOTTING THE ORGANISATION ON THE GRID**

The eight grids on the following pages have been plotted to illustrate that the fiscal accountability model can be applied to all sizes of organisation involved in contracting. The grids currently have four dimensions for size of income. They range from: £10,000 to £100,000 (grids 1 and 2); £100,000 - £1,000,000 (grids 3 and 4); £1,000,000 to £10,000,000 (grids 5 and 6); and from £10,000,000 to £100,000,000 (grids 7 and 8).

Organisations are plotted according to the source(s) of finance ( $x$  axis) and the size of finance ( $y$  axis). The first five points along the  $x$  axis represent public sector income, whilst the latter five represent income from the private sector. Size of income does not guarantee independence. For example a large national voluntary organisation with an income of £6,000,000 solely from one government source, will have less autonomy and greater accountability to that source, than a small national voluntary organisation with an income of £60,000 from several sources (ie £10,000 from government sources and £50,000 from private sources such as membership subscriptions). This has been apparent recently, in the cases of drug abuse and HIV/AIDS organisations. A diverse portfolio of income however does guarantee independence, thus once approximately 50% of the sources of finance are private, the organisation will be more autonomous.

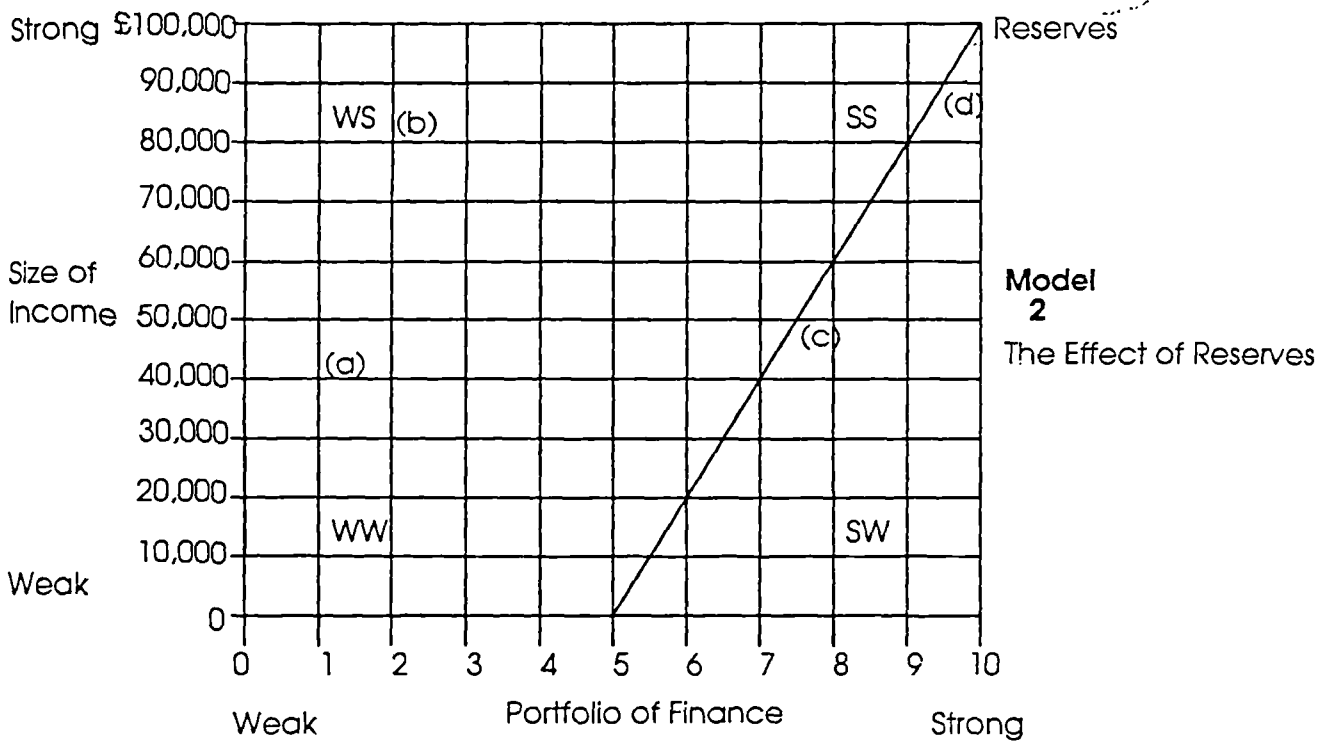
### Grid 1



## Examples

- Income from one public sector source of £40,000 in total.
- Income from two public sector sources totalling £80,000.
- Income from one public sector source of £20,000 and income from two private sector sources of £20,000, totalling £40,000.
- Income from one public sector source of £20,000 and four private sector sources of £60,000 totalling £80,000.

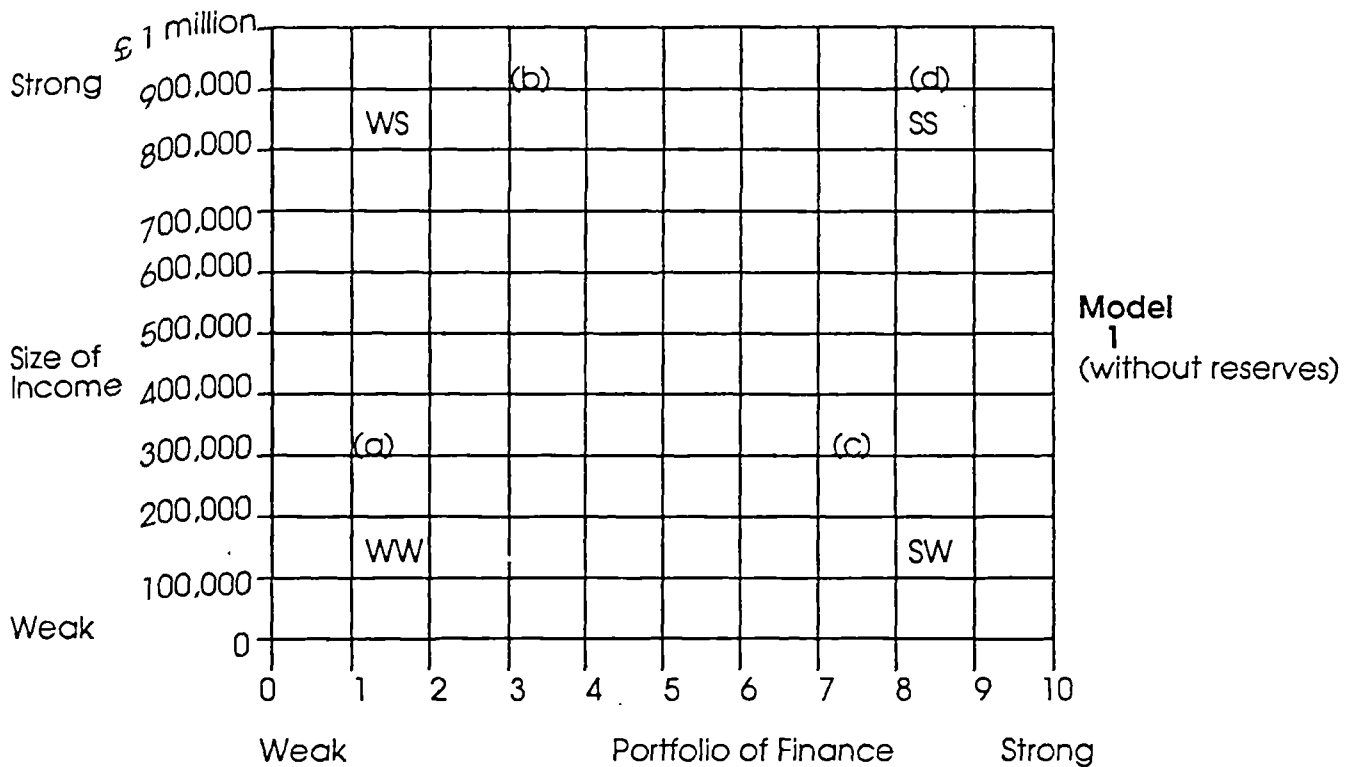
## Grid 2



### Examples

- (a) Income from one public sector source of £40,000 in total.
- (b) Income from two public sector sources totalling £80,000.
- (c) Income from one public sector source of £20,000 and income from two private sector sources of £20,000 totalling £40,000, plus £40,000 in liquid reserves.
- (d) Income from one public sector source of £20,000 and four private sector sources of £60,000 totalling £80,000, plus liquid reserves of £50,000.

### Grid 3

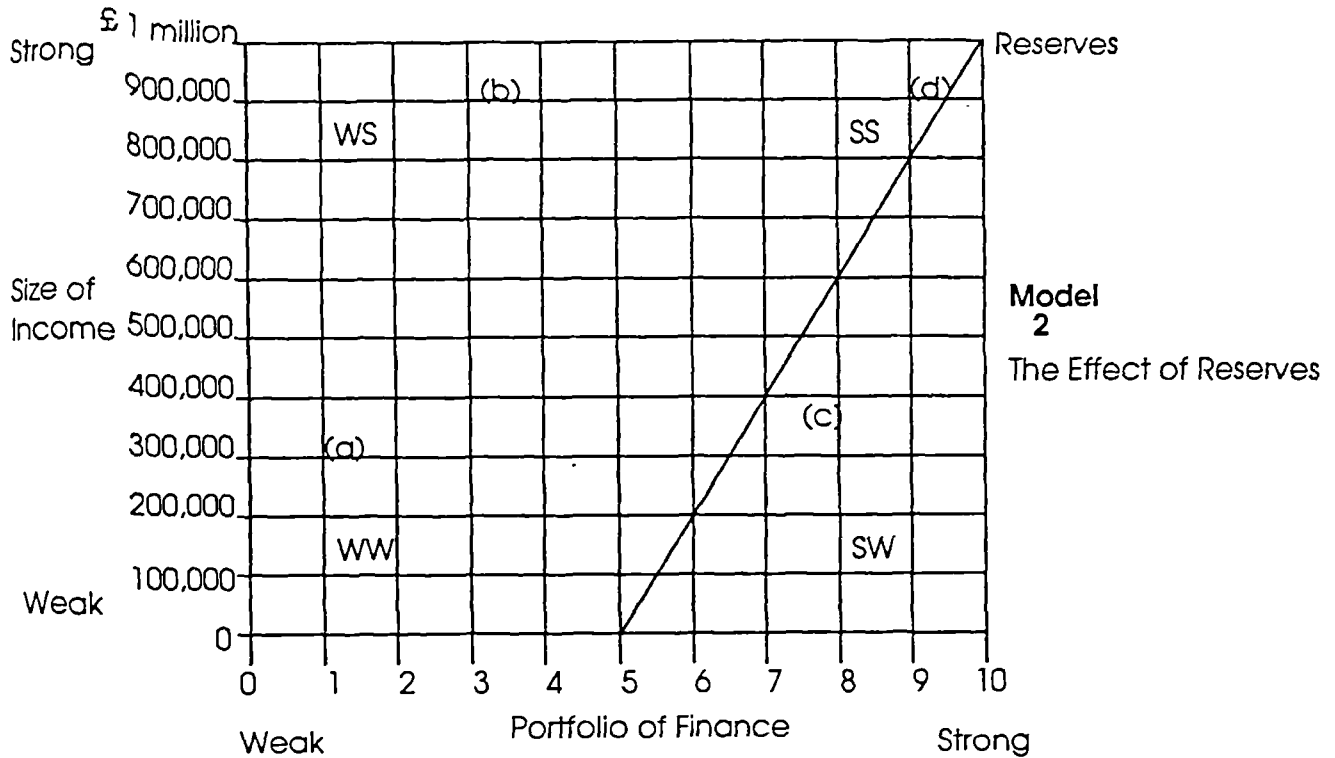


### Examples

- (a) Income from one public sector source of £300,000 in total.
- (b) Income from three public sector sources of £900,000 in total.
- (c) Income from one public sector source of £100,000 and two private sector sources of £200,000 totalling £300,000.
- (d) Income from two public sector sources of £400,000 and from three private sector sources of £500,000 totalling £900,000.



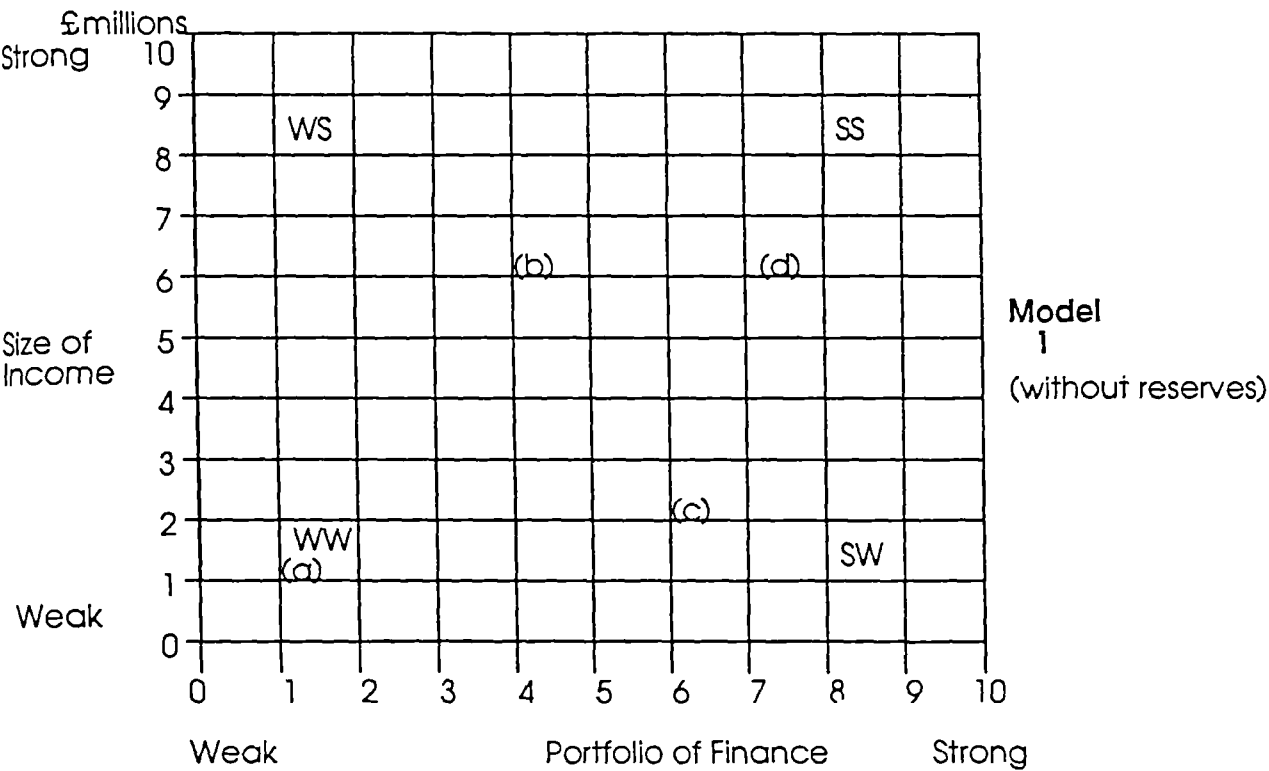
#### Grid 4



#### Examples

- (a) Income from one public sector source of £300,000 in total.
- (b) Income from three public sector sources of £900,000 in total.
- (c) Income from one public sector source of £100,000 and from two private sector sources of £200,000 giving a total income of £300,000, plus £150,000 in liquid reserves.
- (d) Income from two public sector sources of £400,000 and from three private sector sources of £500,000 totalling £900,000 plus £500,000 in liquid reserves.

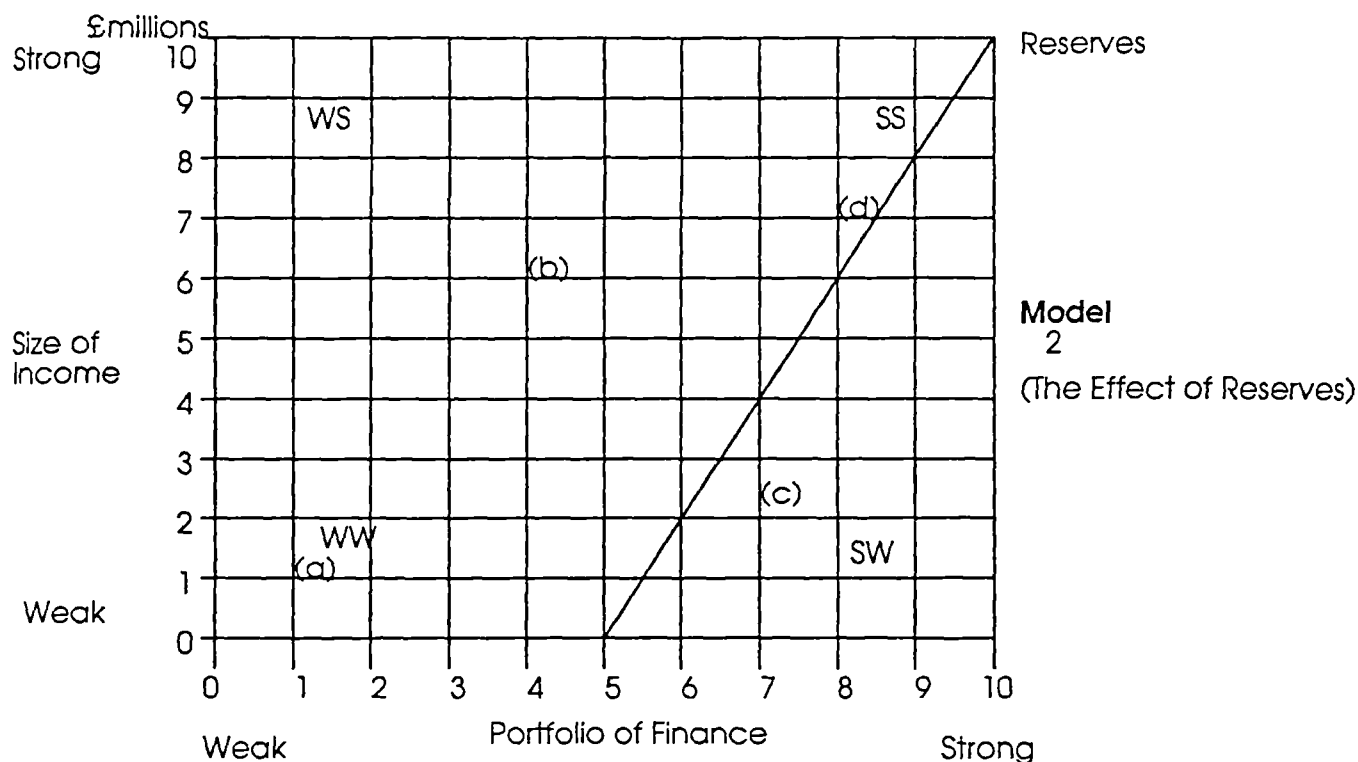
**Grid 5**



**Examples**

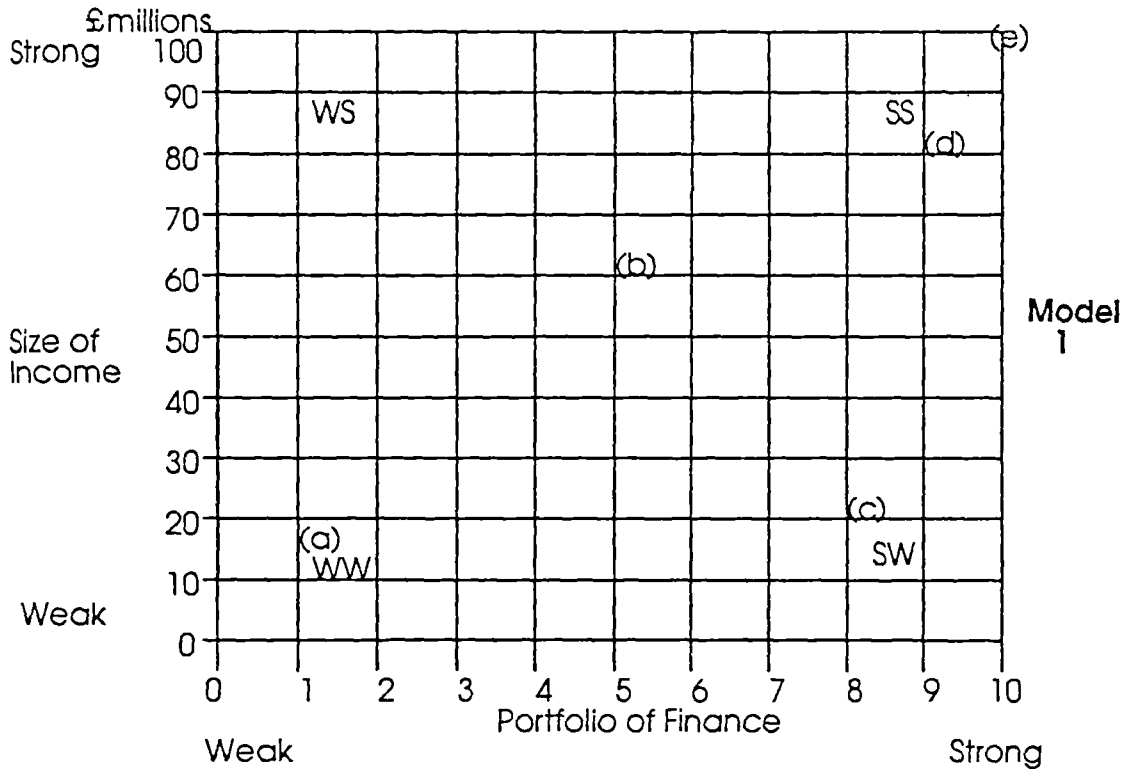
- (a) Income from one public sector source of £1 million and private sector source of £100,000 with a total income of £1,100,000.
- (b) Income from four public sector sources totalling £6 million and private sector income of £150,000 which amounts to £6,150,000.
- (c) Income from one public sector source of £400,000 and from one private sector source of £1,600,000, totalling £2 million.
- (d) Income from two public sector sources of £3 million and two private sector sources of £3 million totalling £6 million.

## Grid 6



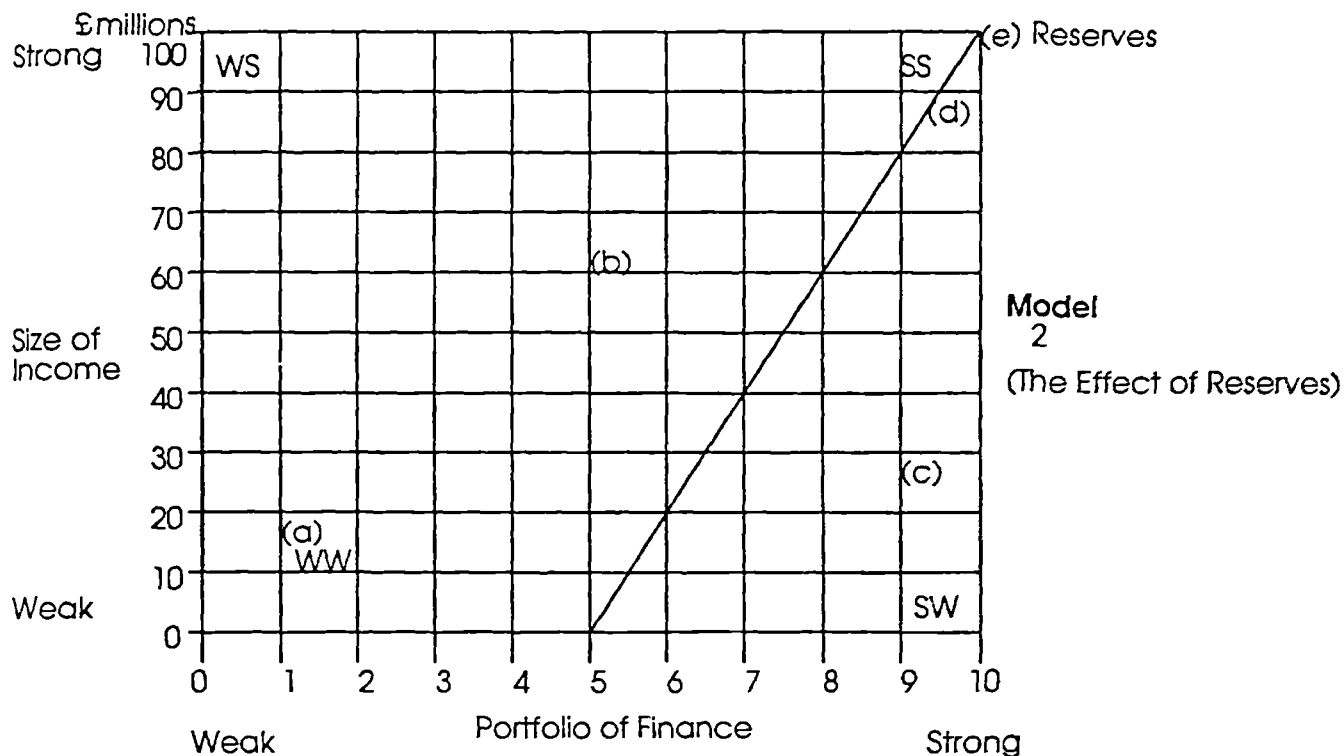
- (a) Income from one public sector source of £1 million and one private sector source of £100,000, plus liquid reserves of £30,000.
- (b) Income from four public sector sources of £6 million and private sector income of £150,000, plus liquid reserves of £200,000.
- (c) Income from one public sector source of £400,000 and income from private sector of £1,600,000 plus liquid reserves of £800,000.
- (d) Income from two public sector sources of £3 million and two private sector sources of £3 million plus liquid reserves of £2 million.

## Grid 7



- (a) Income from one public sector source of £20 million and private income of £300,000.
- (b) Income from five public sector sources of £60 million and private income of £3, million.
- (c) Income from one public sector source of £6 million and three private sector sources of £14 million.
- (d) Income from three public sector sources of £40 million and three private sector sources of £40 million.
- (e) Income from a sing private sector source (ie their own investments) of £100 million.

## Grid 8



- (a) Income from one public sector source of income of £20 million, private income of £300,000 and liquid reserves of £250,000.
- (b) Income from five public sector sources of £60 million, private income of £3, million and liquid reserves of £400,000.
- (c) Income from one public sector source of income of £6 million and three private sector sources of £14 million, plus liquid reserves of £2 million.
- (d) Income from three public sector sources of £40 million and three private sector sources of £40 million, plus liquid reserves of £6 million.
- (e) Income from own investments of £100 million.

## ISSUES

### Organisational Location on the Grid

The private sector sources of income have been drawn up hierarchically to what (from an autonomy and independence perspective) constitute the most desirable finance mix for an organisation. The public sector sources are non-hierarchical.

A possible problem that could be encountered with the grid, is the example of an organisation that has ten different local authority contracts or service level agreements. At present, this organisation would be plotted in a weaker position on the grid, than another organisation, for example with just one local authority and one health authority contract. In order to address this issue the authors would suggest the use of a micro grid for each income source. In spite of this mathematical issue of exact axis location, the overall quartile location on the grid is not affected. Thus the grid can still be used as a tool to aid strategic thinking.

### Reserves

The first grid (model 1) shows simple income. However, many voluntary organisations have substantial assets. Subject to the reserves being liquidable, without unduly affecting the operation of the organisation, they will have the affect of moving the organisation to a stronger position. Thus, if the organisation was to become involved in a dispute with a contract authority, the reserves would possibly be strategically important. Organisations that have always been funded from public sector sources have not been able to build up substantial liquid reserves, or where reserves do exist, unless they are of sufficient size to enable most operations to continue for at least one year, they will have little impact on the independence of the organisation. Having said this, reserves may in some cases have a disproportionate influence, if correlated with other factors.

## RESEARCH METHOD

The proposed research will be a longitudinal study involving both qualitative and quantitative methods. It will explore the application of the financial accountability grid. A sample of twenty purposively selected<sup>4</sup> voluntary sector or 'independent' organisations, ranging in size from small to very large, (measured according to local organisational income and the portfolio of income) will be used to test the model. The selected organisations will then be mapped onto this model into the four different domains (WW;WS;SW;SS) reflecting the different theoretical relationships of

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<sup>4</sup> Purposively selected refers to organisations that have been specifically and not randomly selected for the study.

accountability to and dependence on, their funders. The first stage of the research will be conducted as follows:

- ◊ Financial analysis of the organisation with reference to the portfolio of finance, preferred hierarchy of income and an assessment of the impact of reserves (i.e. funding applications, contracts).
- ◊ The use of micro-grids to observe whether the fact that an organisation contracting with ten different local authorities, plotted in a weaker position than a similar sized organisation with two different public sector funding sources, affects the overall quartile location.

Subsequent research would track the management strategies of particular organisations by using case studies of organisations taken from the four domains. This would be conducted as follows:

- ◊ Participant observation, involving attendance at board meetings and senior staff team meetings, staff meetings and meetings between the organisation and funders.
- ◊ Face to face in-depth interviews to be held with key 'informants' selected from staff, committee members and funders in both the independent and statutory sector(s) (in contract with one another).

## CONCLUSION

In the contracting state, this paper would argue that organisations in a weak-weak position and a weak-strong position, with resource dependency on the public sector will continue to exist, only if they surrender their independence and autonomy. The hypothesised reason for this, is that organisations in these third and fourth domains, will be financed exclusively from government sources (and have insignificant reserves). Thus there will be increased pressure for them to agree to implementation of the government (purchasers) agenda and accountability requirements. This may lead to the situation whereby contractors have to reflect changing governmental priorities, which in turn may interfere with internal strategic decision-making and may constrain the development of other functions. In the long term, such pressures will inevitably result in changes in the organisational structures of the contractors, as they will have to increase their bureaucracy, in order to comply with government fiscal accountability requirements (ie more information and better cost control systems).

Thus, if contractors in the third and fourth domains, do not strengthen their portfolio of finance to include more private sources, they will lose whatever independence and autonomy they currently have, and will become agents of the state.

Moreover, for government, over time, the advantages of contracting with independent organisations (due to their perceived distinctive characteristics of flexibility,

responsiveness, lack of bureaucracy and value for money, among other things) will become diluted and even disappear.

At present this is a theoretical model which we hope to subject to empirical testing and verification. We welcome all comments to help improve the model and/or the research methodology to test it.



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APPENDIX 3 - EUROPEAN AUDIT, ACCOUNTING AND REGULATION SURVEY

### **APPENDIX 3   EUROPEAN SURVEY**

- 3.1    Who sets the Accounting Standards and their status in the EC
- 3.2    Questionnaire sent to EC offices of Moores Rowland with illustrative answer.
- 3.3    Table 1 Auditing Practices
- 3.4    Table 2 Accounting Practices
- 3.5    Table 3 Supervision/Control Practices

## Appendix 3.1

## Who set the Accounting Standards and their status in the EC

	Laws on Accounting for Companys	Accounting Standards Committee	Do its Statements have legal standing
Portugal	Y	YG	I
Italy	Y	YG	I
Belgium	Y	YG	I
Ireland	Y	YG	N
France	Y	YP	I
Denmark	Y	YP	I
Germany	Y	YP	I
Netherlands	Y	YC	I
Greece	Y	YG	Y
Luxembourg	Y	N	N/A
Spain	Y	Y(1)	Y
England	Y	YP	I

## KEY

Y = Yes no = No

NA = Non Applicable G = Government P = Auditing Profession

C = Various interests groups I = Influence and Recommendation to statutory authority

Source: Accounting standards setting in the EC member states. Commission of the European Communities.

## APPENDIX 3.2 QUESTIONNAIRE

In this research we are attempting to collect the respective Auditing, Accounting and supervision regulations that apply to what in England are called 'charitable' organisations for each European community member state.

### DEFINITION

The term 'charity' is peculiarly English but similar types of organisations are common in each EC member country.

To identify the type of organisation we wish you to advise and provide information about, we have provided two definitions:

The first is a list of applicable legal entities that this type of organisation may be registered under, however this may not be comprehensive.

So we have also provided a second definition that is legal/management orientated of the characteristics that this type of organisation may have.

We also attach as an example the questionnaire completed for England by Moores Rowland member of staff, Neil Finlayson, (Croydon Office, Tel: 081 686 9281) who can also deal with enquiries.

### 1. LEGAL ENTITIES

#### - In Belgium

Not-for-profit associations and organisations recognised as being of public benefit coming under the Law of 25 October 1919 and the law of 27 June 1921

#### - In Denmark

Associations and foundations coming under the Law of 6 June 1984

#### - In Spain

Associations and foundations coming under, respectively, the Law of 24 December 1964 and under Articles 35 and following of the Civil Code

#### - In France

Not-for-profit associations coming under the Law of 1 July 1901 and paragraph 4 of Articles 21 to 79 of the Local Civil Code of Alsace and Moselle, and foundations coming under the Law of 23 July 1987, modified by the law of 4 July 1990

- In Greece

Associations and foundations coming under Article 78 of the Greek Civil Code.

- In Ireland

Companies limited by guarantee, organisations incorporated by Royal Charter or Act of Parliament, industrial and provident societies or friendly societies.

- In Italy

Associations and foundations coming under Articles 14 to 35 of the Italian Civil Code.

- In Luxembourg

Not-for-profit associations and organisations recognised as of public benefit coming under the Law of 21 April 1928.

- In the Netherlands

Associations and foundations coming under, respectively, Section II and Articles 286 to 304 of the Civil Code.

- In Portugal

Associations and foundations coming under Articles 167 to 194 of the Civil Code.

- In Germany

Associations and foundations coming under Articles 21 to 88 of the Civil Code (BGB).

- In the United Kingdom

Companies limited by guarantee, organisations incorporated by Royal Charter or Act of Parliament, industrial and provident societies or friendly societies, and all institutions established for exclusively charitable purposes.

NOTE: If in any state there is any class of organisation which possesses any one or more of the following characteristics but is not included within any of the legal entities described in the section above, we nevertheless would like information about that type of organisation.

## 2. LEGAL/MANAGEMENT CHARACTERISTICS

### - Public Benefit

This type of organisation is an institution which exists for purposes which benefit the whole public, or a sufficiently large section of the public. An institution which exists for the benefit of a single individual, or small number of individuals, or which contracts to benefit specific individuals 'such as members', is not this type of organisation.

### - Disinterested Management

The Board of Directors/Trustees of this type of organisation are disinterested in it: that is, they act voluntarily, (however, the organisation administration may have senior paid staff) they have no material stake in the organisation, and they are almost never permitted to derive any material benefit from it in consideration of their trusteeship (Management Board). They hold and apply its assets wholly for purposes which are of public benefit and not (except incidentally) of benefit to themselves.

### - No Profit Distribution

A charity is a non-profit-distributing organisation. Any surplus of income must be applied for the purposes of the charity and cannot be distributed to members, to shareholder or to other stakeholders.

### - Freedom of Establishment

For hundreds of years the law has allowed any individual citizen, group of citizens or corporate body to establish a charity without the need to secure the express permission of the state. No state official can prevent the establishment of such an organisation, nor can intervene in the lawful administration of the organisation by its trustees.

We would be grateful if you would identify when answering the questions for the above defined organisation(s). In particular is there:

- a) A specific auditing regulation for this type of organisation(s) or are these organisation(s) covered by more general auditing regulations, i.e. those covering companies.
- b) If there is a specific standard what are the principal differences between this standard and the respective standards applying to commercial companies and the government sector?
- c) Are these/or this specific standard discretionary or mandatory applied to these organisations? How does this differ from those applied to commercial and government organisations?
- d) Who has issued the audit regulation/s or guidelines for this type of organisation. Is it the same body that sets the commercial or government regulations - for

example, is it the accounting profession or a government department?

### 3. SUPERVISION

Do the organisations you have identified have to submit a report/return to a specific body?

If so, can you specify to whom such a report has to be sent, i.e. what status do they have, i.e. government department?

Where possible please submit a blank return form as an example, otherwise please indicate the type of information which has to be submitted.

If accounts have to be sent in:

Do they have to be audited?

If so, by whom - does the auditor have to be qualified?

If there are different requirements according to the financial size of the charity?  
Please indicate how organisations are classified for the purpose of the requirements.



In accordance with any regulations that you have identified in Parts 1 and 2:

Who is responsible for sending in this return/report?

How soon does the return have to be sent in?

How are those responsible for managing the organisation

- a) appointed
- b) dismissed
- c) renumerated

We thank you for your time in completing this task. If you have any questions then please contact me (Telephone 071 815 7821, Fax 071 401 8581).

Paul Palmer  
Moores Rowland Reader  
in Charity Finance

## Illustrative Answer to Questionnaire on 'Charitable Organisations'

Prepared by: Neil Finlayson  
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Date: 18th March 1993

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### Legal Entities Definition

'Unincorporated associations or trusts established for exclusively charitable purposes' - A

'Companies limited by guarantee established for exclusively charitable purposes' - B

Note: Both A and B have four legal/management characteristics listed below, namely:

- public benefit
- disinterested management
- no profit management
- freedom of establishment

Answers to questionnaire in respect of:

A 'Unincorporated associations or trusts established for exclusively charitable purposes

1. Auditing

a) New audit regulations introduced under the Charities Act 1992 requires all charities with income or expenditure over £100,000 to be subject by a suitably qualified professional auditor (independent of government).

Before the Charities Act 1992, no audit was required unless the constitution or trust deed (the charity's governing instruction) required it. An audit could also be ordered by a monitoring body, the Charity Commission, under the Charities Act 1960 in certain circumstances.

If the charity's income and expenditure does not reach £100,000 then the trustees can elect for an independent examination rather than an audit.

- b-c) Generally speaking, auditing standards applied to these organisations are consistent with those applied to other types of organisations such as companies. The audit report is in terms of 'true and fair'. Regulations about to be issued under the Charities Act 1992 may make more detailed requirements. Auditing requirements derive from case law which assists in the interpretation of 'true and fair'.
- d) Auditing requirements and guidelines are issued by the Auditing Practices Board (APB) which is part of the accounting profession and independent of government. The only specific guidance on charity auditing was issued in 1981 by the Auditing Practices Committee (the APB predecessor).

## 2. Accounting

- a-c) General accounting principles apply. Most Statements of Standards Accounting Practice and Financial Reporting Statements are issued by the independent accounting bodies, namely the Accounting Standards Committee and the newer Accounting Standards Board Limited (ASB).

Charities are also encouraged to comply with Statement of Recommended Practice No 2 (SORP2) Accounting by Charities in May 1988. This is discretionary but is currently being revised and will become part of the accounting regulations under the Charities Act 1992 and so become mandatory. The requirements under these new rules are likely to be more onerous than those currently imposed on companies because of the detailed required.

- d) SORP2 is being revised by a working party, made up of people involved in the charity sector under the chairmanship of the Charity Commission (see later). It will be approved by the ASB and is then expected to be adopted by the government as a basis for the new charity accounting regulations under the Charities Act 1992.

## 3. Supervision

Supervision is carried out by the Charity Commission which is a statutory body made of mainly civil servants and legal advisors and is independent of the government.

Under the Charities Act 1992 all registered charities, except for certain specifically excluded, exempt and incorporated charities (see later), must prepare and submit annually to the Charity Commission the following:

- i) audited accounts (or independently examined accounts if below the appropriate financial limits). These must be prepared in the prescribed format set out in the Charities Act 1992 regulations.
- ii) an annual report
- iii) an annual return

These documents must be submitted within ten months of the end of the financial year. If this is not done a fine may be imposed.

This type of charity is managed by appointed 'trustees' under the policy laid down in the trust deed or constitution. Dismissal is also governed by the trust deed although the Charity Commission also have the statutory power to remove trustees. Trustees cannot receive any benefit from their trusteeship (except for certain professional trustees). The trustees can appoint paid employees to run the charity.

**B 'Companies limited by guarantee established for exclusively charitable purposes'**

**1. Auditing**

a) These are companies even though they have limited liability by guarantee rather than through having share capital. The audit requirements come primarily from the Companies Act legislation - principally Companies Act 1985. All companies are required to be subject to external audit by a registered (independent) auditor. Registered auditors in this context means a member of one of the accounting profession's bodies and not a government auditor.

b-c) The auditing standards which apply are the normal commercial auditing standards with reporting in terms of 'true and fair' and certain other statutory requirements. The auditing guideline 'charities' also applies.

d) the same bodies issue audit regulations or guidelines as noted under A1(d).

**2. Accounting**

As for A2 except that the new accounting regulations under the Charities Act, which will be based on the revised SORP2, will not apply to this type of charitable organisation. For accounting purposes they are legally treated as commercial companies and are subject only to Companies Act accounting requirements. (This may change).

**3. Supervision**

These organisations come under the supervision of the Charity Commission and the Department of Trade and Industry.

They must file audited accounts and an Annual Return with Companies House and the Charity Commission within ten months of the end of the financial year. There are fines for failure to submit accounts.

Trustees in these organisations are directors and are appointed and dismissed according to the organisation's constitution called the Memorandum and Articles of Association. Trustees cannot receive remuneration but can hire paid employees to run the charity.

Appendix 3.3  
Detailed Results of Survey  
Table 1 Auditing Practices

	England	Spain	Portugal	Italy	Belguim	Ireland
Specific Audit Requirement for Charities	Y	N	N	N(4)	N(5)	N
Is this Mandatory	Y(1)	-	NA	NA	N(5)	N
Do General Auditing Standard Apply	Y	Y	-	-	N(5)	Y
Specific Audit Guide for Charities	Y(2)	N	N	N	N	Y(6)
Is this Guide Mandatory	N	NA	NA	NA	NA	N
Who issues Standard	P(3)	G	-	-	-	P(6)

KEY AND NOTES

Y =Yes N = No

NA = Non Applicable G =Government P = Auditing Profession C = Interest groups

- (1) Full Professional Audit for Income and Expenditure over £100,000. Independent Examination £0 - £100,000.
- (2) Secific guidance ion Charity auditing was issued in 1981 by the Accounting Profession.
- (3) Auditing requirements and guidelines are issued in 1982 by the Accounting profession.
- (4) Could be at individual regional level.
- (5) However, specific regulations exist for a number of activities, carried out under the legal form of a "not-for-profit" association: There are particular rules for Hospitals, rest homes etc. In most of these cases a specific legislation prescribes an audit to be carried out by a professional auditor.
- (6) See (2) and (3) above.

(Continuation of Table 1)

	France	Denmark	Germany	Nether-lands	Greece	Lux
Specific Audit Requirement for Charities	Y(7)	Y(9)	Y(10)	N		N
Is this Mandatory	Y(7)	Y(9)	Y(10)	NA		NA
Do General Auditing Standard Apply	Y	Y	Y	N		N
Specific Audit Guide for Charities	Y(8)	N	N	N		N
Is this Guide Mandatory	Y	NA	NA	NA		NA
Who issues Standard	G	P	G	C		-

## NOTES

- (7) For registered associations, if they meet two out of three of the following criteria: more than 50 employees, income above FF20 million, balance sheet FF10 million.
- (8) Audit to meet the specific rules which apply to associations.
- (9) Charitable organisations have the same audit requirements as companies. Additionally if they wish to receive Government funds it is usually necessary to provide a declaration by a public accountant about the use of the money.
- (10) If an association carries on trade or fulfils at least one of the following features:
- Turnover exceeds 500,000DM in a calendar year
  - Operational assets exceed 125,000DM
  - Profit exceeds 36,000DM in an accounting period

## Appendix 3.4

Table 2

### Accounting Practices

	England	Spain	Portugal	Italy	Belguim	Ireland
Do General Accounting Principles apply	Y	Y	Y	-	Y(2)	Y
Specific Accounting Standard for Charities	Y	N	Y	N	N(2)	Y(3)
Is this Standard Mandatory	Y(1)	NA	Y	NA	N(2)	N(3)
Who issues Standard's	P/G	G	G	G	G	P

### KEY AND NOTES

Y = Yes N = No

NA = Non Applicable G = Government P = Accpunting Profession C = Interest Groups

- (1) Will effectively become so when new SORP is issued.
- (2) See also comments on audit specific accounting regulations exist for number of activities.
- (3) Charities are encouraged to comply with SORP2 issued in May 1988. SORP2 is being revised in England. It is not clear whether this revised SORP", when issued will be applicable to Ireland , as we have no equivalent legislation to the Charities Act 1992 in England and there is no sign of such legislation in the imminent future.

(Continuation of Table 2)

# Accounting Practices

	France	Denmark	Germany	Nether-lands	Greece	Lux
Do General Accounting Principles apply	Y	Y	Y	N		N
Specific Accounting Standard for Charities	Y(4)	N	N	N(5)		N
Is this Standard Mandatory	Y(4)	NA	NA	N		NA
Who issues Standard's	P/G	P	NA	C		-

## NOTES

4. Associations that meet two criterion (more than 300 employees, income greater than FF20 million) have to publish an annual report, a half yearly status of the liquid assets and current liabilities, atatement of osource and applictaioon of funds, a financing plan as well as an estimated income statement. Commercial accounting principals and chart of accounts apply subject to adptation needed by nature of the activity namely:
  - the accounting of the association plan and the determination of the allocation of the trading result
  - the capital account
  - the valuation of the free voluntary contributions
  - the list of the accounts
5. In 1988 the central organisation of charitable organisations started a form of self-regulation by means of a draft guideline regarding accounting principles.



## Appendix 3.5

Table 3

### Supervision/Control Practices

	England	Spain	Portugal	Italy	Belguim	Ireland
Is there a separate Control body from Government	Y	N	N	N	N(6)	Y(7)
Is this control a statutory authority	Y	NA	NA	NA	NA	Y
Does an annual return have to be submitted	Y	Y	NA	NA	N	Y(7)
Does an annual return have to a) to be submitted to Government	Y	Y(2)	N(4)	N(5)	N(6)	Y(7)
b) contain accounts Penalty for non submission	Y	Y(2)	N(4)	N(5)	N(6)	Y(7)
Penalty for non submission	Y	Y(3)	-	-	N(6)	Y(7)
Is a report by qualified auditor required	Y(1)	Y	N	N(5)	N(6)	Y(7)

### KEY AND NOTES

Y = Yes N = No - No answer supplied

NA = Non Applicable G = Government P = Auditing Profession

- (1) For £100,000 income or expenditure. Below £100,000 an independent examination for all registered charities.
- (2) No specific obligation to send the audited information, except when established by specific agreements. The control organisation established the additional information which must be submitted.
- (3) There is no standardised penalty for not submitting the statements.
- (4) In special cases accounts may have to be submitted to the ministry exercising the control over that type of body.

- (5) As per (6) below.
- (6) Specific rules for specific activities. For example a municipal regional council has the right to examine the books of municipal not for profit associations. A professional audit and additional information will be determined by the controlling body.
- (7) Supervision carried out by the Commission of Charitable Donations and Bequests for Ireland, for charities which are affiliated to it. However, there is no obligation on any charity to be an affiliate and no register is kept. The control practices relate to affiliates only.

Continuation of Table 3

Supervision/Control Practices

	France	Denmark	Germany	Nether-lands	Greece	Lux
Is there a separate Control body from Government	N	N	N	N		N
Is this control body a statutory authority	NA	NA	NA	NA		NA
Does an annual return have to be submitted	NA	NA	NA	NA		NA
Does an annual return have to	Y	Y	Y	NA		Y
a) to be submitted to Government						
b) contain accounts	Y	Y	Y(8)	NA		Y
Penalty for non submission	-	Y	-	NA		Y
Is a report by a qualified auditor required	Y	Y	Y	NA		N(9)

- (8) Depending on the size of organisation (see note 10 on auditing table).
- (9) The accounts of these organisations normally have 2 statutory auditors which do not need to be qualified. This is not compulsory.

APPENDIX 4 - EXTRACT FROM CROTCHET CASTLE

morning at breakfast, 'if my old reading, and my early gymnastics (for as the great Hermann says, before I was demulced by the Muses, I was *ferocis ingenii puer, et ad arma quam ad literas paratior*),<sup>6</sup> had not imbued me indelibly with some of the holy rage of *Frère Jean des Entom-neures*,<sup>7</sup> I should be, at this moment, lying on the table of some flinty-hearted anatomist, who would have sliced and disjointed me as unscrupulously as I do these remnants of the capon and chine, wherewith you consoled yourself yesterday for my absence at dinner. Phew! I have a noble thirst upon me, which I will quench with floods of tea.'

The reverend gentleman was interrupted by a messenger, who informed him that the Charity Commissioners<sup>8</sup> requested his presence at the inn, where they were holding a sitting.

'The Charity Commissioners!' exclaimed the reverend gentleman, 'who on earth are they?'

The messenger could not inform him, and the reverend gentleman took his hat and stick, and proceeded to the inn.

On entering the best parlour, he saw three well-dressed and bulky gentlemen sitting at a table, and a fourth officiating as clerk, with an open book before him, and a pen in his hand. The churchwardens, who had been also summoned, were already in attendance.

The chief commissioner politely requested the Reverend Doctor Follott to be seated; and after the usual meteorological preliminaries had been settled by a resolution, *nem. con.*, that it was a fine day but very hot, the chief commissioner stated, that in virtue of the commission of Parliament, which they had the honour to hold, they were now to inquire into the state of the public charities of this village.

THE REV DE FOLLIOTT

The state of the public charities, sir, is exceedingly simple. There are none. The charities here are all private, and so private, that I for one know nothing of them.

FIRST COMMISSIONER

We have been informed, sir, that there is an annual rent charged on the land of Hautbois, for the endowment and repair of an almshouse.

THE REV DE FOLLIOTT

Hautbois! Hautbois!

FIRST COMMISSIONER

The manorial farm of Hautbois, now occupied by Farmer Seedling, is charged with the endowment and maintenance of an almshouse.

THE REV DE FOLLIOTT (to the Churchwarden)

How is this, Mr Bluenose?

FIRST CHURCHWARDEN

I really do not know, sir. What say you, Mr Appletwig?

MR APPLETWIG (*parish-clerk and schoolmaster; an old man*)

I do remember, gentlemen, to have been informed, that there did stand at the end of the village a ruined cottage, which had once been an almshouse, which was endowed and maintained, by an annual revenue of a mark and a half, or one pound sterling, charged some centuries ago on the farm of Hautbois; but the means, by the progress of time, having become inadequate to the end, the almshouse tumbled to pieces.

FIRST COMMISSIONER

But this is a right which cannot be abrogated by desuetude, and the sum of one pound per annum is still chargeable for charitable purposes on the manorial farm of Hautbois.

THE REV DE FOLLIOTT

Very well, sir.



APPENDIX 5 - EXTRACT FROM THE BROUGHAM COMMISSION RECORD  
OF THE MEER HOSPITAL ENQUIRY

Waddington.  
 Swift's Charity,  
 continued.

With respect to the 3*l.* per annum appointed for the apprenticing of boys, it has been practice to retain the payments until they should amount to about 15*l.*, that sum necessary to pay fees and other expenses. In this way a fresh boy is apprenticed generally once in five years. There are at present two boys apprenticed on the charity. The selection of the children is left to the discretion of the parish officers.

The distribution of bread takes place every Sunday, in terms of the directions of the testator.

The sum of 1*l.* had also been paid by the parish officers to a schoolmistress, who gave elementary education to four children belonging to the parish, but about three years since died; and it is now proposed to pay the money in future to the master of a subscription daily school, established in the parish, at which about 80 poor children are taught reading, writing, and arithmetic.

#### CHARITIES OF RICHARD SMITH, M.D., AND OTHERS.

Charities of  
 Richard Smith and  
 others.

*Richard Smith, M.D., Unknown Benefactor, Peter Richier, M.D., John Lobsey, Edward Holland, John Hooton, Richard Barker, Sir Thomas White, Sir Nicholas Raynton, the corporation and dean and chapter of Lincoln, The corporation, Henry Stone.*

With respect to the 12 preceding charities, information will be collected from the general Corporation Report, page .

### THE LIBERTY OF THE CITY OF LINCOLN.

#### THE MEER HOSPITAL,

Meer Hospital.

Founded by *Simon de Roppell* in 1244 (formerly in the County of the City of Lincoln).

The dean and chapter of Lincoln having refused access to the records in their possession respecting this ancient foundation, the information contained in the following report has necessarily been derived from other sources.

It appears by the Testa de Neville, that the manor of Meer was held of the King in chief (temp. Henry III.) by William Albinac deBeuver, under whom it is also stated that Simon de Roppell "tenuit qñdā qñtā pte ani feodi in Mera et dedit illud quibusdam fratribus elemosynam." Tanner, in his Notitia Monastica, has the following passage:—"An hospital in or near the parish of Dunstan, founded by Simon de Roppell before A.D. 1246. The manorship was in the gift of the Bishop of Lincoln, and, when the see was vacant, of the dean and chapter. It appears to have been spared at the general suppression, and to be yet in being.—*Vide* Cartam Foundationis in Bibliotheca publica Academiæ Cantabrigiensiæ. MS. D. d. X. 28 f. 77."

Taking advantage of this reference, a search was made in the public library at Cambridge, from whose records the instrument has been extracted, of which the following is a copy:

#### *Fundatio Hospitalis de Mera.*

Omnibus Christi fidelibus ad quos præsens scriptum pervenerit Simon de Roppell salutem in Domino. Noverit universitas vestra me divinæ caritatis intuitu et pro salute animæ meæ et Aliciæ uxoris meæ et Hugonis filii mei et animarum patris et matris meæ et predecessorum et successorum meorum dedisse concessisse et hæc præsentī Cartā meā confirmasse in puram liberam et perpetuam elemosynam Deo et Beatæ Mariæ et Hospitali Sancti Johannis Baptistæ quod construxi in curia mea de Mere ad perpetuam sustentationem tredecim pauperum tam in grabatis et cibis quam in vestimentis et aliis ad victum et vestitum competentem pertinentibus et capellani ibidem ministrantis et familiæ suæ totam terram meam quam habui in Mera cum omnibus pertinentibus tam in servitiis liberorum quam servorum in pratis percuis boscis et mariscis (excepta advocacione ecclesiæ de Mere) et totum boscum meum cum pertinentibus in Branston in mariscis et aliis quæ solent pertinere ad dictum boscum de Branston et totam libertatem quam habui in communa marisci de Hanworth in bosco et plano mariscis et pratis sicut unquam libere tenui et omnia servitia et consuetudines quas homines de Waddington mihi facere consueverunt excepto redditu quem dedi Hospitali Sancti Sepulchri Lincoln videlicet, de qualibet acra quam habui in dicta villa de Waddington duos denarios et unam culturam quæ vocatur Filpol Wong cum pertinentibus in territorio de Branston. Dedi etiam et concessi Episcopo Lincoln, et successoribus suis jus patronatûs dicti hospitalis ita quod Episcopus Lincoln, quicumque pro tempore fuerit creatus capellanum dicti hospitalis custodem præficiet idoneum qui aliquem habitum religionis secundum dispositionem episcopi gerat et pro salute animæ meæ et Aliciæ uxoris meæ et patris et matris meæ et predecessorum et successorum meorum et Hugonis filii mei ibidem divina celebrabit. Ita tamen quod (sede vacante Lincoln) si contingat dictum capellanum custodem decedere ne dicta Domus Domini tam in spiritualibus quam in temporalibus patiat læsionem decanus et capitulum Lincoln vice episcopi alium capellanum ibidem præficiant idoneum quem (capellanum) superveniens episcopus non poterit amovere nisi causa rationabili accedente. Volo etiam ut capellanus custos semel in anno reddat computum Episcopo Lincoln vel ejus attornato aut (sede vacante) decano et capitulo Lincoln vel eorum attornato. Et si forte contingat quod per me aut successores meos aut per quemcunque alium bona dicti hospitalis fuerint augmentata aut diminutione episcopi et successorum suorum aut decani et capituli (sede vacante) numerus pauperum prædictorum augmentetur secundum quantitatem doni benefactorum concessi etiam quod Episcopus Lincoln indemnitati matricis ecclesiæ et vicinarum ecclesiarum secundum quod viderit expedire provideat. Volo insuper quod si dictus capellanus custos dicti hospitalis non gerat se tam in spiritualibus quam in temporalibus sicut decet ut amoveatur per episcopum vel per decanum et capitulum Lincoln (sede vacante) et alius capellanus custos idoneus

substituatur. Volo etiam quod quando contingat aliquem prædictorum pauperum decedere intra quindecim dies alius per prædictum capellanum (de consensu episcopi vel alterius episcopi) loco dicti defuncti substituatur. Et ego Simon et hæredes mei omnia prædicta prædicto hospitali contra omnes homines et in omnibus warrantizabimus adquietabimus et defendemus. Et ut hæc mea donatio rata et stabilis permaneat præsentis scripto sigillum meum apposui. His testibus, Johanne, Northampton, Johanne Oxon Archidiaconis, Magistro Roberto de Cadenay, Magistro Rogero de Ravenburgh, Domino Johanne de Grackehale, Magistro Leonardo rectore ecclesiæ de Boothby, Magistro Ricardo rectore ecclesiæ de Hane-  
worth, Domino Johanne filio Hugonis de Repinghale, Johanne de Grupton, Gulielmo Lunneth, Gulielmo de Remeville et aliis multis.

Precor etiam decanum et capitulum Lincoln ut (caritatis intuitu) secundum tenorem istius Cartæ omnia ista (si placeat) efficaciter exsequantur.\*

The date of this charter does not appear from the instrument itself: but it is sufficiently established by the above extract from the Testa de Neville, and by the authorities referred to in the "Notitia Monastica," which describe Simon de Roppell as flourishing in the time of Henry III., and as having founded this hospital in the earlier part of that monarch's reign, 30 years before the 3d of Edward I., which would have been exactly 1244. For three centuries thereafter nothing is known regarding it; but in the 26th of Henry VIII. (1534) the hospital of Meer is thus returned in the "Valor Ecclesiasticus:"—

Hospit<sup>l</sup> de Mera de Simon Gren al Foderby ib<sup>m</sup> valet per annum clare £5 6 8

"Valo<sup>r</sup> clā<sup>r</sup> . . . . . £5 6 8

"Inde pro X<sup>m</sup> . . . . . 0 10 8"

The annual value, therefore, of the property was then estimated at 5*l.* 6*s.* 8*d.*, subject to a deduction of 10*s.* 8*d.* for tenths, leaving a clear annual produce of 4*l.* 16*s.* The person denominated Simon Gren al Foderby was probably the warden of the time.

The next evidence in point of date is the following record or memorandum of a lease preserved in the archives of the dean and chapter of Lincoln, and communicated by a gentleman of that city examined in the course of this Inquiry:—

"Mere Hospital, 20th September 1553.—Chancellor John Pope, warden or keeper of the hospital of St. John Baptist, of Mere, leased and let to ferme to Thomas Grantham, of St. Catherine's without Lincoln, esq., all the manor and hospital of Mere, &c., &c., with the Mere Wood, or Mere Okes, containing 52 acres, within the parish of Braunston, abutting upon Braunston Wood north, and Hanworth Common south; reserving to the said keeper or warden for the time being one honest chamber, with a chimney in the same, for the lodging of the said warden and one servant, with stable room for two horses, and litter for the same horses, all time and times when and as often and as long as he or his successors shall be resident, &c.; except always the chapel there for three poor men during all the term of the present lease, the said three poor men to be put in by the warden. The lease to begin at the feast of St. Philip and James, 1557, to hold for 60 years, at a rent of 5*l.* 6*s.* 8*d.* per annum. The lessee to furnish always to the said three poor men meat and drink, fuel, bedding, clothes, and other necessities; also to find yearly one honest priest to maintain divine service there at all times convenient during the said term. The manor-house and buildings to be maintained by the lessee. Court-lete to be held at Easter and Michaelmas.

The above lease confirmed by the bishop and also by the dean and chapter."

To all the faithful in Christ to whom this present writing shall come, health in the Lord: Be it known to your corporation that, under the influence of Divine grace, for the salvation of my soul and the souls of my wife Alice, my son Hugh, my father and mother, and my predecessors, and successors, I, Simon de Roppell, have given, granted, and by this my present charter have confirmed, in pure, free, and perpetual alms to God and the Blessed Mary, and the hospital of St. John the Baptist, which I have erected in my manor of Meer for the support in all time to come, of thirteen poor persons, as well at bed and board as in clothing and other things necessary for the sufficient sustenance and apparelling of them, of the chaplain therein officiating, and of his family; all my lands which I have in Meer, with all the appurtenances, as well the services of free men as of villeins in the fields, pastures, woods, and marshes, except the advowson of the church of Meer; and all my wood, with its appurtenances in Branston in the Marshes, and others, which by custom belong to the said wood of Branston; and all the privileges which I possess in the common marsh of Hanworth in wood and field, marsh and meadow, as fully as I at any time have enjoyed the same; and all services and customs which the people of Waddington have ordinarily rendered to me, except the rent of a certain sum which I have in the village of Waddington, namely, two denarii which I have given to the hospital of the Holy Sepulchre at Lincoln, and a piece of cultivated ground, called Filpol Wong, together with the appurtenances in Branston aforesaid. I have also given and granted to the Bishop of Lincoln and his successors the right of patronage of the said Hospital, so that the Bishop of Lincoln, for the time being, shall appoint a fit person to be chaplain-warden of the said hospital, who shall wear a certain religious habit, as the said Bishop may direct; and who, for the salvation of my soul, the souls of Alice my wife, of my father and mother, and of my predecessors, and successors, as well as my said son Hugh, shall perform Divine service in the said hospital: provided always, however, (in the event of a vacancy in the see of Lincoln,) if the said chaplain-warden should die, then in order that the said religious house shall suffer injury in its spiritual or temporal concerns, I desire that the dean and chapter of Lincoln (in lieu of the bishop) shall select a fit chaplain-warden whom the succeeding Bishop shall not have power to remove, except upon reasonable cause assigned. It is likewise my desire that the chaplain-warden shall, once a year, render an account to the Bishop of Lincoln or his attorney, or (the see being vacant) to the dean and chapter or their attorney; and moreover if it happen that the revenues of the said hospital shall be augmented by myself or my successors, or by any other person, or if peradventure the number of the said poor persons shall be increased proportionably to the amount of the gifts of benefactors by the direction of the Bishop and his successors, or (the see being vacant) of the said dean and chapter; I have granted that the Bishop of Lincoln shall take such measures as shall seem expedient for protecting the interests of the mother church and the neighbouring churches. And if the said chaplain-warden of the said hospital fail to conduct himself as becometh in spiritual or temporal matters, I further desire that he be removed by the bishop, or (the see being vacant) by the dean and chapter, and I direct that another fit chaplain-warden be appointed in his place; and when any of the aforesaid poor men shall die, I appoint that within fifteen days thereafter another person shall be substituted in place of such defunct, by the said chaplain with the consent of the Bishop or of others in his stead; and I, Simon and my heirs shall warrant, maintain, and defend the premises aforesaid against all mortals. And that this my benefaction may remain stable and sure, I have hereunto affixed my seal in presence of my witnesses, &c.; and, finally, I implore the dean and chapter of Lincoln, in the name of Christian charity, that they actually and effectually follow up and abide by the directions of this charter in all particulars.



In this lease the subject of the demise is called the Manor and Hospital of Mere, with appurtenances, and the rent reserved is the precise sum (5*l.* 6*s.* 8*d.*) specified as the true value of the property in the ecclesiastical survey above referred to. The warden, however, further reserved a chamber with a chimney, for lodging, to himself and his servant, a stable room and litter for two horses, at all times when he or his successors should be absent; and it is to be observed that the lessee is not only bound to maintain a court-leet, and keep the premises in repair, but he is also subjected to the remarkable obligation of "finding always to the said three poor men meat and drink, fuel, bedding, clothes, and other necessities, and of finding yearly an honest priest to maintain divine service there at times convenient during the said term." The money rent of 5*l.* 6*s.* 8*d.*, therefore, gives an indication of the true annual value of the property.

It seems probable that the building called the Chapel was in fact the hospital itself, which the poor men resided. If the hospital had been distinct from the chapel, it would, like the chapel, have been excepted from the demise.

From this lease it further appears that whatever may have been the state of the institution at an earlier period of its history, the persons who had the control of it in 1553 placed it in a position very different from that contemplated and prescribed by the founder. The number of bedesmen was reduced from thirteen to three persons; and the warden (whose duties indeed were chiefly of a superstitious character) performed by delegation the religious services required of him. This state of things must have continued till 1617, the term of the lease being for 60 years from 1557.

No account can be given of the management for nearly half a century after 1617.

In 1665 it appears that King Charles II. issued instructions to the Archbishop of Canterbury, directing him to procure a return from the suffragan bishops of all hospitals throughout the kingdom, with a detail of their foundations, revenues, and management. The return applicable to the hospital of Meer has been found in the Archiepiscopal Library at Lambeth, and is in these terms:—"Mere Hospital 1665.—Bishop of Lincoln appoints the master, who is said to be Dr. Crofts, and he puts in some poor men. The revenues are considerable, but said to be perverted."\*—Codicum Manucriptorum, Vol. xxxix. p. 422, Lincoln Diocesan No. 17, per Dominum Edmund<sup>m</sup> Lake Domini Episcopi Lincoln<sup>m</sup> Cancellarium.

The only attainable information regarding the management from the date of the return thus made to King Charles II., to the date of the Parliamentary Returns of 1786, has been collected from a series of instruments of lease of the hospital lands granted by the successive wardens; of which the earliest is an indenture, bearing date the 10th February 1680, whereby William Holder, then warden, demised the hospital lands to Francis Manby for a term of 21 years; "the said Francis Manby yielding and paying therefor yearly to the said warden, and his successors, the sum of 8*l.*, at the feast of St. Michael the Archangel, and of the Annunciation of the Blessed Virgin, by even and equal portions; and also yielding and paying yearly during the said term, to and among six poor men belonging or to belong to the said hospital, the full and just sum of four and twenty pounds, that is to say, to every of them four pounds thereof at the feasts aforesaid, by even and equal portions."

On comparing this lease with that of 20th September 1553 above recited, it appears that the establishment had undergone a great change in the course of 133 years. The hospital was by this time no longer in existence. Indeed, it must have fallen into decay ages ago, there being now scarce any trace remaining of the foundation of the building, although the locality is still pointed out by the name of the "*Chapel Close*." The poor men formerly inmates of the hospital were converted into out-door pensioners, with fixed annual stipends of 4*l.* each, but without provision for board, lodging, fuel, clothing, religious service, or other accommodation of any sort.

It appears probable, indeed certain, that instead of repairing the old fabric when it had fallen into decay, or erecting a new one in its place, the persons who had then the management of the charity were contented to adopt the simpler plan of dividing the annual rent between the warden and the bedesmen, in the following proportions, which have been continued from that time to the present, viz.,—

	£.	s.	d.
To the warden . . . . .	8	0	0
And to the six poor persons 4 <i>l.</i> each . . . . .	24	0	0
	£32	0	0

The principle, however, on which this apportionment was founded appears to have been not long adhered to, or adhered to only so far as regarded the small annual rent of 32*l.*, which is still continued, and of which the bedesmen still enjoy their respective shares, 4*l.* per annum, the warden receiving the residue, 8*l.* per annum; but of late years the true source of his income has been the fines on renewals of leases. Some of these are specified in the sequel. In the mean time, however, it may be stated that they are extremely profitable; and from the date of the above arrangement to the present day have gone exclusively into the pocket of the warden.

The subsequent leases, for about a century, have all been for terms of 21 years, the rent

\* This return appears to have been made by the then chancellor of Lincoln, *ex-officio* one of the patrons (*sede vacante*) of the hospital. His imperfect information regarding the subject of the return is remarkable, but not more so than that of a member of the same body, in the present day, the very Rev. Dr. Gordon, dean of Lincoln, who, on being asked in course of examination, whether the warden performed the duties of his office, answered that "as he did not know what those duties were, he could not undertake to say whether they were performed or not."

erved being uniformly the same sum of 32*l.* per annum, payable in the manner specified in the above-mentioned lease of 10th February 1680. So far as ascertained, these leases are as follows:—

- 31st May 1695.—William Holder, warden, to Sir Thomas Manby.
- 15th April 1710.—John Curtis, warden, to Sir Thomas Manby.
- 30th May 1750.—Dr. Booth, dean of Windsor, warden, to Francis Manby.
- 11th August 1755.—Dr. Booth, dean of Windsor, warden, to Francis Manby.
- 6th January 1778.—Bishop of St. David's, warden, to Francis Manby.
- 6th January 1785.—Bishop of Ely, warden, to Francis Manby.

The next evidence in point of date is found in the Parliamentary Returns of 1786, from which it appears that the minister and churchwardens of the parish of St. Benedict, in the city of Lincoln, made the following return:—"Simon Roppell, of unknown date, founded Mere Hospital, near Lincoln, for six poor brethren, of which the citizens of Lincoln, in conjunction with other citizens, may be partakers. A warden is at the head of these, who has 8*l.* for his stipend, and the six brethren 24*l.* equally amongst them. The Bishop of Ely is the present warden; and no parish in England has any claim upon the charity that the minister of this parish knows, as people from various counties are put into it, and their places are vacant places for life. This estate is here named, because it was thought possible that some poor person of the parish might at some time be benefited by it. The Bishop of Lincoln is patron, and presents the warden."

The Bishop of Ely was succeeded as warden by the Rev. Frogmere Cumming, of Cardington, near Bedford, by whom it appears that a lease was granted to Mr. John Manby of the hospital lands, by indenture, bearing date the 2d day of February 1805, for a term of 21 years, at the old reserved rent of 32*l.* per annum, payable in the same manner as specified in the lease of the 10th February 1680 above mentioned. A fine of 300*l.* was then received by the warden.

The following letter of Mr. Cumming to Mr. Richard Dawson, of Withcall, near Louth, appointing him his agent, is incorporated in this Report, as showing Mr. Cumming's understanding of his duties as warden, and of the character and objects of the charity itself:—

SIR,

*Cardington, 8th August 1811.*

"When Mr. Gardner delivered to me your letter containing the information of the death of Mr. Alderman Gibbison, he accompanied it with a recommendation of you to be appointed his successor in the office of agent to the warden of the hospital of the Mere, near Lincoln, which recommendation has been strengthened since by that of Mr. Burcham likewise, in consequence whereof I do hereby nominate and appoint you to be my agent in transacting the affairs of that hospital, the principal of which are as follows, viz., to receive of Mr. Manby, the lessee, the annual reserved rents, and pay them to the warden and six brethren, 8*l.* the sum of 8*l.* to the former, and 4*l.* to each of the latter; and upon any vacancy happening by death of any of the brethren, to recommend a proper person to be by me nominated in his room. The qualifications which I wish to have chiefly regarded in the recommendation of any one, are his being advanced in age, labouring under his infirmities, of an honest and sober conversation, and a member of the Church of England, and not receiving parochial relief. I believe the payments are made half-yearly to the brethren, at Michaelmas and Lady-day, of 2*l.* to each; the payment to the warden you may remit yearly, with an account of the year's receipt, stating the names of the brethren to whom the half-yearly payments have been made, taking a receipt of every one of them, to be kept for mine and Mr. Manby's satisfaction that the payments are regularly made. The agent deducts 1*l.* for his trouble from the annual rent paid to the warden, which leaves 7*l.* to be annually remitted to me. These are all the instructions which at present occur to me to be given for the regulating your conduct as agent to the warden; to which I have to add a request that you will satisfy every inquiry made by either Mr. Gardner or Mr. Burcham, whenever they may have occasion to inspect the estate belonging to the hospital, and wishing you health and happiness,

"I remain, your humble servant,

(Signed)

"F. CUMMING.

"Warden of the Hospital of Mere.

If you are ignorant of the names of the present brethren, they shall be made known to you upon application, by letter, either to me or Mr. Gardner."

The leases of this property appear since 1680 to have been, invariably, for terms of 21 years, customarily renewable, occasionally every 14 years, but more frequently, and especially of late, every seven years. Accordingly in 1812 (seven years after the date of the lease last above mentioned) an application was made for a fresh renewal, upon which a fine of 4,412*l.* was demanded by Mr. Cumming. This demand was deemed so exorbitant as virtually to amount to a refusal to renew, and the former lease was consequently suffered to run on.

Mr. Cumming, having been presented to another living by Dr. Pretymann Tomline, then Bishop of Lincoln, resigned the wardenship of this hospital, which was thereupon conferred by the bishop on his son, the Rev. Richard Pretymann, who was collated on the 16th May 1816, and inducted on the 23d June 1817. This gentleman is still the warden, and is also precentor of Lincoln Cathedral, and in that character a member of the dean and chapter.\*

It appears that in July 1817 an application was made to Mr. Pretymann by the agent of Mr. Manby, the lessee, for a renewal of the lease, 522 which application an answer was returned in these terms:—

" SIR,

Humbleton, near Stamford, 20th July 1817.

In answer to your letter which has been forwarded to me, I beg to inform you that I must decline renewing Mr. Manby's lease of Mere Hall lands, but I am ready to enter into a treaty for the purchase of Mr. Manby's interest in them.

I am, Sir, your obedient servant,

R. PRETYMAN.

On the death of Mr. John Manby the lease devolved to Major William Colegrave (formerly Manby), the present lessee; and it appears that that gentleman succeeded in procuring what had previously been refused to Mr. Manby. The lease was in 1819 renewed for the old term of 21 years, and at the old rent of 32*l.*, payable as formerly.

On this renewal a fine was paid by Major Colegrave to Mr. Pretyman, amounting to . . . . .	9,247	0	0
Interest thereon (from what date does not appear) . . . . .	281	4	1
Total fine . . . . .	9,528	4	1
There was a similar renewal in 1825, and a fine paid thereon of . . . . .	2,300	0	0
And upon a renewal in 1834 a fine of . . . . .	1,600	0	0
Making in all . . . . .	£13,428	4	1

Having traced the history of the hospital for so long a period (as far as information can be collected regarding it) to the present time, a very few words will suffice to explain the present state of the management. Mr. Dawson, who was the agent of Mr. Cumming, is also the agent of Mr. Pretyman, and by direction of that gentleman pays at two periods of the year, viz., the last Friday in April and the last Friday in November, respectively, to each of six poor persons, appointed brethren of the hospital, the sum of 2*l.*, amounting yearly in all to . . . . . £24 0 0

To the warden himself each half-year, on the same days respectively, 3 <i>l.</i> 10 <i>s.</i> , in all . . . . .	7	0	0
Reserving for his own trouble yearly . . . . .	1	0	0
Total . . . . .	£32	0	0

The following is a copy of the appointment of one of the poor brethren (now deceased):—

" I do hereby nominate and appoint John Simms, of the parish of Swinderby, in the county of Lincoln, aged 57 years, to be one of the number of poor brethren of the hospital of the Meer, founded by Simon Roppell, near Lincoln, and to have during his natural life the annual allowance of 4*l.*, in the room of Robert Bottamley, deceased, lately one of the poor brethren of the said hospital. As witness my hand this 24th day of September 1817.  
(Signed) R. PRETYMAN, Warden of Meer Hospital."

The present brethren are Thomas Curtis, residing at Lincoln, Richard Brown at Branstons, Robert Pridgeon at Spalding, Thomas Brown at Welton-le-Wold, and Thomas Hollingsworth and Michael Metcalfe at Withcall, near Louth.

Mr. Dawson stated that his instructions were, on the death of a poor brother, to apprise the warden, and to recommend as successor some deserving person, of sober life, a member of the Church of England, bringing up a large family, and not receiving parochial relief.

The estate belonging to this hospital is situated four miles south of the city of Lincoln, and is said to be extra-parochial and tithe-free. It comprises 874*A.* 2*R.* 29*P.*, lying within a ring fence, and is remarkably adapted to form one large agricultural farm, though at present in the occupation of four tenants, the chief of whom is Mr. William Mackinder, a substantial farmer, who holds of Major Colegrave for a term of 21 years (from Lady-day 1831) on a lease which comprises a large portion of the charity estate, and along therewith certain adjoining freehold lands belonging to Major Colegrave. The farm-house was built by Mr. Mackinder, and is very substantially completed. The offices and out-buildings are in a fair state of repair, and Mr. Mackinder stated that he was in the course of making some important improvements and materially adding to the value of the charity property, when hearing of the investigation under the present commission, he became doubtful of the validity of his lease, and his operations were consequently suspended. It appeared in particular that this apprehension had arrested his progress in erecting a thrashing-mill on an extensive scale, which, if completed, would have proved an important addition to the value of the farm. It was stated that the tenants of Major Colegrave are bound to erect all buildings required on the freehold estate, and it is supposed (with every appearance of probability) that the charity estate is in many respects less favourably cultivated than the freehold. These and other considerations suggest the propriety of letting the hospital property by itself as a separate occupation.

In consequence of some encroachments which were made, and which were likely to be continued, on the estate of this hospital, and with the view of ascertaining authentically the true extent and value of the property, it was deemed expedient to employ a surveyor to examine and to report upon the same. A map of the estate and an estimate of the annual value, prepared by the gentleman employed on that occasion, will be found at the close of this Report.

It may be added that a select committee of the House of Commons appointed in 1818, on the motion of Lord Brougham, to inquire into charities, had their attention directed to this hospital, and Mr. Dawson (the agent of the warden) was summoned to give evidence. The points with respect to which he was examined related chiefly to the extent and value

of the estate, but no material information was collected from his evidence, and a prorogation of Parliament prevented the committee from then prosecuting their inquiry, which they never afterwards resumed.

In 1836 the investigation forming the subject of this Report was commenced at Lincoln, but it was soon discovered that the ecclesiastical authorities of that place were not much disposed to assist the Commissioner in the proposed investigation. At this period the deed of foundation above recited had not been found, and the only information available was the statement in the Parliamentary Returns of 1786, and the evidence of Mr. Dawson before referred to.

In these circumstances, a gentleman of Lincoln having sworn upon examination that there was contained in the archives of the dean and chapter an exemplification of the charter of foundation, it was determined to call for production of that document, and the Dean of Lincoln, Dr. Gordon, being then (May 1836) the only member of the dean and chapter on the spot, was requested to give access to their records. The dean, before giving the necessary authority for production or inspection of the document required, said he should wish to consult the other members of the dean and chapter, and especially Mr. Pretyman, who was then in London, and that, in the event of Mr. Pretyman consenting (as he was the party chiefly interested), the dean would allow the document to be produced without waiting for an answer from the chancellor and sub-dean. The dean attended a few days afterwards, and stated that he had had a letter from Mr. Pretyman, advising him to *refuse* production of the document. It was, nevertheless, thought proper to serve a formal precept on the dean, requiring him to produce, or cause to be produced, "a certain document, being an exemplification of the ordination of the hospital of St. John the Baptist at Mere, contained in the registry of the dean and chapter of Lincoln."

On the appointed day the dean attended the Board, and stated that he declined production of the document required, giving in at the same time the following statement in writing:— "It appearing to the dean and chapter of Lincoln, from the Charity Commissioners own showing, that the Mere Hospital charity is one of those with the control and superintendence of which they are materially connected, they are of opinion that this is a case to which the 16th clause in the Act 5 and 6 Will. IV., c. 71, is strictly applicable, and, therefore, considering themselves as entitled to claim the immunity which that clause of the Act affords them, they hereby make that claim accordingly."

This resolution of the dean and chapter is certainly to be regretted, as it is understood that they are possessed of evidence to which it would have been extremely desirable to have had access.

The following is a Copy of the Statement of Mr. John Hood, surveyor, who was employed by the Commissioner to survey and value the Estate:—

" 22d July 1836.

" This day I looked over the leasehold property on the Mere Hall estate, in the occupation of Messrs. Mackinder, Dixon, and Turner, and am of opinion it is worth 25s. per acre.

" 22d February 1837.

" Since the improvement of the times it is worth 30s. I also viewed the six small closes in the occupation of William Robinson (known by the name of the Mere Oaks Land), in the parish of Branston. It is stated to be subject to tithe. It is of indifferent quality, but in a good state of management, and is worth 16s. per acre—28A. 3R. 34P.—23l. 3s. 4d.

" N.B. There have been 11 oak trees cut down this last spring, supposed to contain 15 feet each, and worth 2s. a-foot—16l. 10s.; and one ton and six cwt. of bark, at 6l.—7l. 16s.

" I am informed the oak wood is considered the property of the precentor, and the young and brushwood the property of Major Colegrave. I also went through about 50 acres of woodland, eight acres of which have been cut down this spring, the precentor taking the timber, and Major Colegrave the small and brushwood.

" About the same quantity was cut down three years ago, and there may be eight acres taken down for three more successive years."

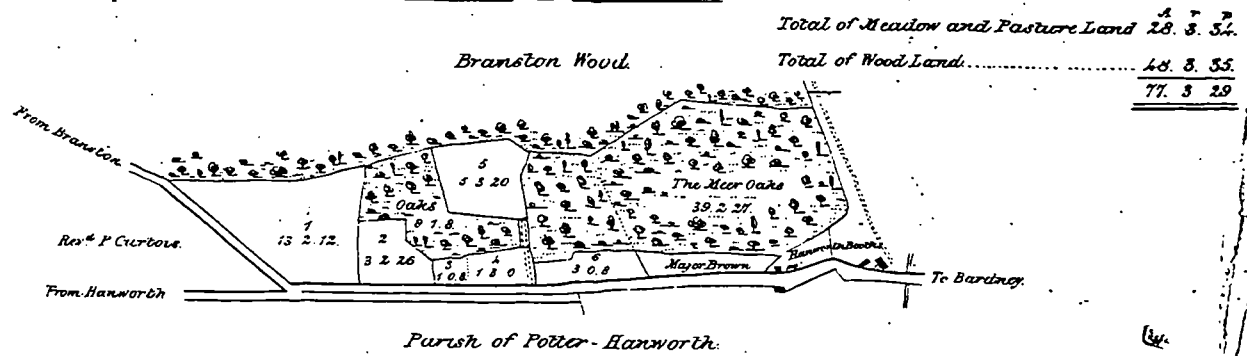
Notwithstanding the obstacles thrown in the way of this Inquiry by the Cathedral dignitaries, sufficient materials have been collected to render it indispensable that the case of the Meer Hospital, under all its circumstances, should be certified to the Attorney-General, and the same having been submitted to a General Board of the Charity Commissioners, has been so certified accordingly

JOHN MACQUEEN.

City of Lincoln.

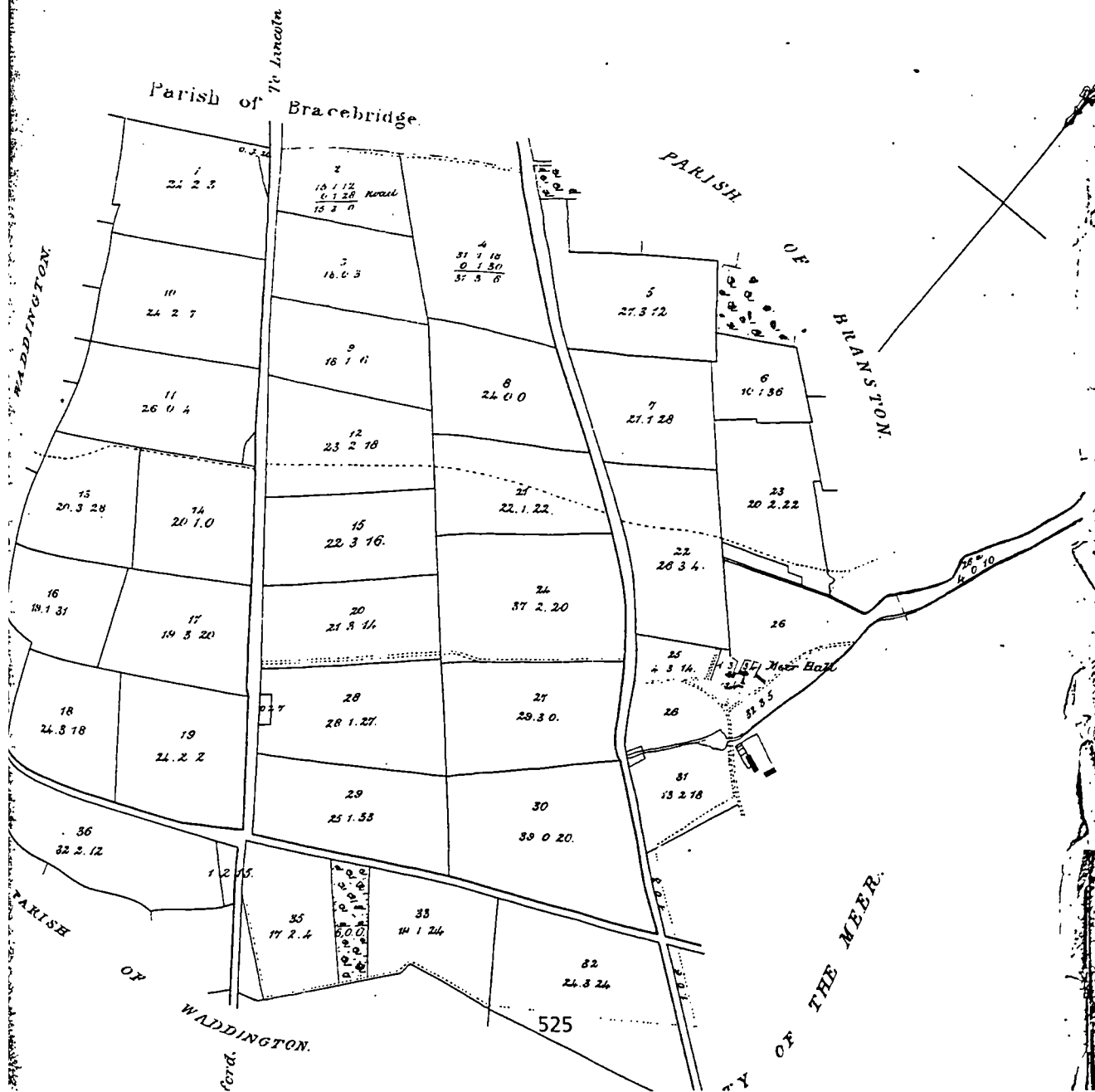
Meer Hospital,  
*continued.*

# THE MEER OAKS LAND in the Parish of Branston.



Total of Meadow and Pasture Land	190. 3. 0.
Total of Wood Land	6. 0. 0.
	<u>196. 3. 0.</u>
The Meer Oaks &c. above.	77. 3. 29.
Total	874. 2. 29.

## MAP OF THE Meer Hospital Estates.



APPENDIX 6 - FINANCE DIRECTORS POSTAL SURVEY QUESTIONNAIRE

## RESEARCH QUESTIONNAIRE

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### Introduction

This questionnaire is designed to find out:

- a) The extent, quality and problems of audit and controls currently used in Charities.
- b) where an Internal Audit or control function exists the type of relationship and interaction with external audit.
- c) the potential for Internal Audit development in Charities.
- d) the personal perception of the respondent to the desirability and problems of Internal Audit and the type of skills required for Charity Internal Auditors.

### Confidentiality

- a) Your personal participation in the research and responses will be kept totally confidential.
- b) No names of Charities will be divulged and no piece of information supplied, will be attributed to any individual charity, or be identifiable.

### Questionnaire completion

Instructions are provided in the questionnaire, however please do not hesitate to contact me, Paul Palmer by telephone (071-928 8989 ext. 2834) if you have any problems.

Please note the times at which you start and finish the questionnaire by filling in the box below and on the last page.

***Please return your completed questionnaire in the attached stamped addressed envelope as soon as possible.***

**Thank you once again for assisting in this research.**

**Paul Palmer**

MOORES ROWLAND READER IN CHARITY FINANCE  
SOUTH BANK POLYTECHNIC  
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Charity Finance Directors Group  
and the Institute of Internal Auditors. UK

# CHARITY FINANCE DIRECTORS SURVEY

1. What category best describes your organisation (please see Appendix 1) (Please tick only one)

- Animals ☐ 1
- Arts ☐ 2
- Community Improvement ☐ 3
- Education ☐ 4
- Employment ☐ 5
- General Welfare ☐ 6
- Housing ☐ 7
- International Aid ☐ 8
- Medicine and Health ☐ 9
- Preservation or Heritage and Environment ☐ 10
- Recreation and leisure ☐ 11
- Religion and Spiritual Development ☐ 12
- Youth development ☐ 13
- Other ☐ 14

2. Geographic Area Operations (Please tick one only)

- International ☐ 1
- National ☐ 2
- Regional (more than one county) ☐ 3
- Greater London ☐ 4
- Local (within one county) ☐ 5
- Other (specify) ☐ 6

3. What is the size of your organisation in terms of number of staff? (Please state number)

- Total employees \_\_\_\_\_ 1
- Full time equivalent \_\_\_\_\_ 2
- Estimated number of volunteers \_\_\_\_\_ 3
- Estimated average hours per volunteer per month \_\_\_\_\_ 4

4. What is the size of your total organisation in terms of annual voluntary or budget allocation for the current financial year?

Please state £ \_\_\_\_\_

5. What are your forms of Incorporation (please list by main charities and subsidiaries. i.e. company limited by guarantee - main charity, or trust - main charity.

6. Sources of Finance (enter amounts to total as per question 4)

£

- Covenants \_\_\_\_\_ 1
- Legacies \_\_\_\_\_ 2
- Other gifts \_\_\_\_\_ 3
- Voluntary Fund Raising \_\_\_\_\_ 4
- Trading \_\_\_\_\_ 5
- Sales of Goods and Services \_\_\_\_\_ 6
- Central Government Grants and Fees \_\_\_\_\_ 7
- Rent and Investments \_\_\_\_\_ 8
- Health Authorities Grants and Fees \_\_\_\_\_ 9
- Housing corporation \_\_\_\_\_ 10
- Local Authority Grants and Fees \_\_\_\_\_ 11
- Other (please state) \_\_\_\_\_ 12

7. Size of Finance Department (not including IA Staff) (Give numbers)

- Total employees \_\_\_\_\_ 1
- Full time equivalent \_\_\_\_\_ 2

8. Do you contract out aspects of Finance Function? (eg payroll)

- No ☐ 1 Yes ☐ 2

If Yes, please give details



# CHARITY FINANCE DIRECTORS SURVEY

Please answer questions that are relevant to your charity even if you do not have an internal Audit Function.

9. Do you have an annual external audit

Yes ☐ 1 No ☐ 2

Status of External Auditor

Chartered ☐ 1 Certified ☐ 2  
Other please state ☐ 3

Please state Name of Firm if chartered.

10. Does your organisation at present have an internal audit function? Yes ☐ 1 No ☐ 2

If Yes (Go to question 14)

If No (Go to question 11)

11. In the absence of an Internal Audit function Do you have a member of staff who overviews controls.

No ☐ 1 Yes ☐ 2

Name of Post

=

NOTE: If you have answered Yes to 11 please assume this is IA function as per questions.

12. If you have answered "No" to Question 11, do you envisage the establishment of an Internal Audit function in the next 1-3 years? (please tick one)

Yes ☐ 1 No ☐ 2

Don't know ☐ 3

13. If you do not have internal audit function is it because of: (please tick one)

I would like an Internal Audit Function, but do not have adequate Financial resources ☐ 1

I do not consider an Internal Audit Function appropriate to the charity at present ☐ 2

I do not believe Internal Audit has a contribution to make in charities ☐ 3

Internal Audit is best done by External auditors ☐ 4

Other (please specify) ☐ 5

Now go to question 23

14. In what year was the Internal Audit Function established

15. Who does the Internal Audit Function report to

State Position:

16. Staff size of Internal Audit Department

Give Numbers:

Total employees \_\_\_\_\_ 1  
Full time equivalent \_\_\_\_\_ 2  
Number of volunteers \_\_\_\_\_ 3  
Estimates hours per volunteer per month \_\_\_\_\_ 4

17. Does the internal auditor have access to the External Audit plan?

Yes ☐ 1 No ☐ 2

18. Does the External Auditor have access to the internal audit plan?

Yes ☐ 1 No ☐ 2

19. To what extent are audits conducted with external auditors? (Tick as many as apply)

No joint programme ☐ 1  
Select/special projects ☐ 2  
Entire audit programme ☐ 3  
Internal audit complete a portion of the external auditors work programme ☐ 4  
Internal audit relies on External Audit working papers ☐ 5  
Year end activities ☐ 6  
On a regular basis ☐ 7  
Scope is divided ☐ 8  
Other (specify) ☐ 9

# CHARITY FINANCE DIRECTORS SURVEY

20. Are copies Of Internal Audit reports circulated to the External Auditors?

Yes [ ] 1 No [ ] 2

21. Do Internal Auditors receive copies of the External Auditors Reports?

Yes [ ] 1 No [ ] 2

22. How has the development of the charities internal audit department affected the character and extent of reviews by your external auditors? (Please tick as many as apply)

- It has had no effect ☐ 1
- There has been a reduction/no increase in external audit fees ☐ 2
- There has been a reduction in time or scope ☐ 3
- External auditors have made greater use of internal audit reports and working papers ☐ 4
- There has been greater co-operation and co-ordination in scheduling work between internal and external auditing ☐ 5
- Other (specify) ☐ 6

23. Do your external auditors play an active role in developing your internal audit work

No [ ] 1 Yes [ ] 2

If YES, to what extent? Please tick as many as apply.

- Assist in setting up programmes and procedures ☐ 1
- Recommend changes to programme and procedures ☐ 2
- Suggest areas for review and evaluation ☐ 3
- Approve programmes and procedures ☐ 4
- Provide training to internal audit staff ☐ 5
- Other (specify) ☐ 6

24. What services have you requested your external auditors to provide in the last three years?

(Tick as many as apply)

- Internal Auditing ☐ 1
- Management Advisory services ☐ 2
- Training ☐ 3
- External/quality assurance reviews ☐ 4
- EDP review/evaluation ☐ 5
- Tax preparation/advice ☐ 6
- Financial Advice ☐ 7
- Accounting Services ☐ 8
- None ☐ 9
- Other (please specify) ☐ 10

**Perceptions of Internal Audit** (ignoring your own organisation give your personal views on an ideal Internal Audit Function in the following questions.)

25. Which of the following best fits your understanding of the internal audit function (please tick as many of the following that apply)

- Examination and evaluation of the adequacy and effectiveness of the organisations system of internal control and the quality of performance in carrying out assigned responsibilities. ☐ 1
- Reliability and Integrity of Information ☐ 2
- Compliance with policies, plans, procedures, laws and regulations ☐ 3
- Safeguarding of Assets ☐ 4
- Economical and Efficient use of resources ☐ 5
- Accomplishment of Established objectives and goals for operations or programme. ☐ 6
- Detection of Fraud ☐ 7
- All of the above ☐ 8
- Other (Please specify) ☐ 9

# CHARITY FINANCE DIRECTORS SURVEY

26. In your view what type of skills are required to fulfil the internal audit function (please tick as many of the following that apply)

- Proficiency in applying internal audit standards, procedures and techniques ☐ 1
- Proficiency in accounting principles and techniques ☐ 2
- An understanding of management principles ☐ 3
- An appreciation is required of the fundamentals of such subjects as accounting, economics, law, taxation, finance qualitative methods and computerised information systems. ☐ 4
- Human relations and communication ☐ 5
- All of the above ☐ 6

27. In your view an effective internal audit function should report to: (please tick one)

- The Chief Executive ☐ 1
- An audit committee of the board of trustees ☐ 2
- Finance Director ☐ 3
- Other (please state) - ☐ 4

If you do not have an internal Audit/control function please go to question 35

## Current Position

28. What are the main areas covered by the charities internal audit function at present? (Please tick as many as apply)

- Accounting/finance ☐ 1
- Personnel/administration ☐ 2
- Charitable objectives ☐ 3
- Commercial operation ☐ 4
- Investment ☐ 5
- Management information systems ☐ 6
- Management effectiveness ☐ 7
- Other (please specify) ☐ 8

29. Which of the following other activities besides Internal Audit does the charities Internal Audit Function become involved in (please tick as many as apply)

- Internal Consultancy ☐ 1
- Computer Systems Development ☐ 2
- Training ☐ 3
- Accounting ☐ 4
- End of year accounts preparation ☐ 5
- Other (please specify) ☐ 6

30. In your opinion why has Internal Audit been introduced into your organisation (please tick as many as apply on a scale of 1-5 with 1 being of least importance to 5 being of most importance)

- |                                          | 1                        | 2                        | 3                        | 4                        | 5                           |
|------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------------|
| Size of organisation                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 1  |
| Growth                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 2  |
| Pressure from External Auditors          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 3  |
| Funding sources                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 4  |
| Internal Problems in charity             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 5  |
| To promote a good public image           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 6  |
| To improve accountability                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 7  |
| Growth of Regional organisation/branches | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 8  |
| Control of Fund Raising                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 9  |
| Reduce Risk                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 10 |
| Other (please specify)                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 11 |

31. What changes are scheduled for the charities internal auditing department? (tick as many as apply)

- Expansion of internal audit staff ☐ 1
- Expand scope of EDP audits ☐ 2
- Expand scope of financial audits ☐ 3
- Expand scope of operational audits ☐ 4
- Expansion into internal management consulting ☐ 5
- Other (please specify) ☐ 6

# CHARITY FINANCE DIRECTORS SURVEY

**32. Is the charities internal audit department receiving more management recognition now than five years ago?**

Yes [ ] 1 Go to question 33  
No [ ] 2 Go to question 34

**33. If YES; why is that? (tick as many as apply on a scale of 1-5 with 1 being of least importance to 5 being of most importance)**

	1	2	3	4	5
Management acceptance and response to audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 1
More capable staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 2
Reorganisations of the management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 3
Increase in staff and activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 4
Increase due to growth of charity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 5
Increased government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 6
No internal audit function five years ago	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 7
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 8

**34. If NO: why not? (Please tick as many as apply)**

Always had high recognition	<input type="checkbox"/> 1
No effort to expand	<input type="checkbox"/> 2
Management has not responded	<input type="checkbox"/> 3
Internal auditing too new to evaluate	<input type="checkbox"/> 4
Other (please specify)	<input type="checkbox"/> 5

## 35. Training and Education Needs

What in your opinion is the preferred standard of qualifications for internal audit staff (please tick as many as apply on a scale of 1-5 1 being the least importance to 5 being of most importance)

	1	2	3	4	5
Post Graduate Degree	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 1
1st Degree	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 2
ACCA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 3
CIMA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 4
CIPFA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 5
ICAEW/S/I	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 6
ICSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 7
MIIA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 8
QICA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 9
AAT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 10
HND	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 11
HNC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 12
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 13

**36. Does your organisation support the concept of training and professional development for internal audit staff (please tick one)**

Yes [ ] 1 No [ ] 2

**37. If you answered "no" to Question 36, it is because of: (please tick one or more)**

Inadequate financial resources	<input type="checkbox"/> 1
Difficulty in releasing staff	<input type="checkbox"/> 2
Sufficient well-trained staff	<input type="checkbox"/> 3
Other (please specify)	<input type="checkbox"/> 4

If Yes:

**38. What training do you provide (please tick as many as apply)**

ACCA	<input type="checkbox"/> 1
CIMA	<input type="checkbox"/> 2
CIPFA	<input type="checkbox"/> 3
ICAEW/S/I	<input type="checkbox"/> 4
MIIA	<input type="checkbox"/> 5
QICA	<input type="checkbox"/> 6
ICSA	<input type="checkbox"/> 7
AAT	<input type="checkbox"/> 8
Post Graduate Degree	<input type="checkbox"/> 9
1st Degree	<input type="checkbox"/> 10
HND	<input type="checkbox"/> 11
HNC	<input type="checkbox"/> 12
Short Courses	<input type="checkbox"/> 13
Other (please specify)	<input type="checkbox"/> 14

# CHARITY FINANCE DIRECTORS SURVEY

39. Are you satisfied with the charities internal Audit Function

Yes [ ] 1 No [ ] 2

If no please give reasons

40. In your opinion do you view any of the following as problems to Internal Audit in voluntary organisations (please tick one or more on a scale 1-5 with 5 being the most problematic)

	1	2	3	4	5
The role of volunteer fund raisers - they are paying our wages.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 1
The position of governing bodies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 2
The absence of boundaries to roles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 3
The absence of career opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 4
The difficulties of auditing many voluntary agency activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 5
The maintenance of internal audits independence in a small agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 6
The need for Professional Management in the charity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 7
Loyalty to a Profession versus Commitment to the charity and its clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 8

41. Are there any other comments on any aspects of the internal audit in your charity, or as a discipline, or for charities generally? Please continue on a separate sheet of paper if required.

*Thank you for completing this questionnaire.  
Please return it in the envelope provided.  
Enquiries or problems please contact:*

**Paul Palmer**

Moore's Rowland Reader in Charity Finance  
Department of Finance and Information Studies  
South Bank Polytechnic  
103 Borough Road  
London SE1 0AA

Tel: 071 928 8989 ext: 2834

COMMENTS:

TIME

## CLASSIFICATION OF VOLUNTARY ORGANISATIONS AND CHARITIES

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In the absence of a national classification system for voluntary organisation. The Charities Aid Foundation has developed its own classification of voluntary organisations, and whilst no classification system is perfect, it is a serious attempt to collect data and produce figures on a consistent basis. The following categories classify voluntary organisations according to primary purpose and not by type of recipient.

**Animals** - includes all organisations whose activities focus on animals or are animal related.

**Arts** - includes all organisations whose primary activities promote, enhance or increase the understanding of the arts, culture and the humanities. For humanities: language, literature, history, philosophy, etc. For arts: theatre, opera, music, dance, etc.

**Community Improvement** - (including inner cities) - includes all organisations whose primary activities focus on strengthening, unifying and building community spirit (in rural and inner city areas), to increase the capacity of various community organisations, to improve the quality of life for all.

**Education** - (including research, science technology) - includes all organisations whose primary activities focus on the provision of formal/academic (degree/diploma/certificate) educational opportunities, e.g. schools, colleges, polytechnics, universities. Also includes, organisations which support, promote and continue to education in a less formal setting, e.g. playgroups, remedial education for the mentally handicapped. Also used to classify organisations whose primary activities focus on conducting general research, planning and evaluation, e.g. public policy institutes. Organisations conducting special research, and/or planning in particular fields, health, housing, arts, etc. should be classified under the respective organisation/industry heading.

**Employment** - includes all organisations whose primary activities focus on employment initiative - job creation, training and assistance in finding jobs, providing financial/technical assistance to start up a business.

**General Welfare** - includes all organisations whose activities focus on personal social services, welfare of offenders, rescue services. Multi purpose organisations are classified here as well as those that provide a variety of different social services.

**Housing** - includes all organisations which provide individuals, families and communities with housing associations, etc. Special housing, involving medical care or social services, should be classified under general welfare.

**International Aid** - includes all organisations whose primary activities involve or concern foreign nations and people.

**Medicine and Health** - includes all organisations whose activities focus on the prevention or treatment of specific diseases, research for a cure of those diseases, the treatment/prevention of diseases generally and/or health problems, mental illness, mental handicap and rehabilitation of disabled individuals. Health organisations with a general broad purpose are classified here.

**Preservation of Heritage and Environment** - includes all organisation whose primary activities are the preservation, conservation and enhancement of our heritage and environment.

**Recreation and Leisure** - includes all organisations whose activities focus on meeting the recreational needs of individuals and communities

**Religion and Spiritual Development** - includes all organisations whose activities focus on religious doctrine or spiritual development of their members or others. Social services organisations working under religion are classified under general welfare. Churches, synagogues, missions, etc. are classified here.

**Youth development** - includes all organisations focus is to work with young people. Primarily, to build up character, personality and leadership qualities.

**Other** - those that focus on grant making and the promotion and advocacy of voluntary action, initiative or volunteering, and any other organisations with do not fit into other categories.

APPENDIX 7 - RESULTS OF THE FINANCE DIRECTORS SURVEY:

APPENDIX 7.1 - ALL FINANCE DIRECTORS



## Finance Directors Survey: General Questions Analysis.

### Q1.Type of Charity. 99.3% response rate.

Animals	4.3%
Arts	4.3%
Community Improvement	.2%
Education	10.1%
Employment	1.4%
General Welfare	13.7%
Housing	3.6%
International Aid	7.2%
Medicine & Health	19.4%
Preservation	4.3%
Religion	9.4%
Youth Development	2.9%
Other	16.5%

### Q2 Geographic area. 99.7% response rate.

International	31.7%
National	47.5%
Regional	7.9%
Greater London	4.3%
Local	2.9%
Other	5.0%

### Q3 Staff size of Organisation

#### Q3(1) Total employees.

#### Q3(2) FT Equivalent.

1-49	23.7%	18.7%
50-99	14.4%	15.1%
100-249	23.7%	20.1%
250-499	15.1%	11.5%
500-999	10.1%	7.9%
1000+	11.5%	8.6%
Total Response rate	98.6%	82.0%

### Q3(3) Number of Volunteers. 54% response rate.

1-49	18.0%
50-99	4.3%
100-249	3.6%
250-499	5.0%
500-999	5.0%
1000-4999	7.2%
5000-9999	2.9%
10000+	7.9%

### Q3(4) Hours per volunteer per month. 43.2% response rate.

1-9	14.4%
10-19	13.7%
20-29	5.8%
30-39	3.6%
40-49	2.2%
50+	3.6%

Q4 Annual Budget. 97.8% response rate.

0-249,000	0%
250,-499,999	1.4%
500,-999,999	5.8%
1m-4,999,999	38.1%
5m-9,999,999	20.9%
10m-19,999,999	13.7%
20m-49,999,999	11.5%
50m+	6.5%

Q5 Forms of incorporation.

Q5(1) Response rate 96.4%

Company limited by Guarantee	56.8%
Charitable Trust	13.7%
Industrial and Provident	.7%
Royal Charter	15.8%
other	9.4%

Q5(2) Number of legal incorporations. 95.7% response rate.

Main Charity only	66.9%
Main Charity plus Trading CO	25.9%
Main Charity plus Trust	.7%
Main Charity, trust and CO	2.2%

Q6 Sources of income.

KEY

1=1-249,999
2=250,000-499,999
3=500,000-999,999
4=1,000,000-4,999,999
5=5,000,000-9,999,999
6=10,000,000-19,999,999
7=20,000,000-49,999,999
8=50,000,000+

	TR	1	2	3	4	5	6	7	8
1 Covenants.	59.7	36.7	3.6	7.2	9.4	0	2.2	.7	0
2 Legacies.	59.0	17.3	7.9	8.6	16.5	4.3	3.6	.7	0
3 Other Gifts	54.7	25.2	5.8	8.6	10.8	2.2	1.4	.7	0
4 Fund Raising.	49.6	12.2	7.2	5.8	15.8	5.8	2.2	.7	0
5 Trading.	43.2	18.7	7.9	5.0	7.9	0.7	2.2	.7	0
6 Sales.	35.3	9.4	4.3	7.9	11.5	0.7	0.7	0	.7
7 Cen Government	47.5	15.8	3.6	5.0	12.9	2.9	6.5	0	.7
8 Rent/Invest	68.3	25.2	7.9	8.6	21.6	3.6	0.7	0	.7
9 Health Auths	10.8	3.6	2.2	0	2.2	1.4	1.4	0	0
10 Housing Corp	5.0	1.4	0	0	0.7	2.2	0	.7	0
11 Local Governt	23.7	7.2	2.9	3.6	5.8	2.2	.7	1.4	0
12 other	51.1	15.8	5.0	6.5	18.0	2.2	2.9	0	.7

Note: wide spread of income. But some charities heavily dependent on one single source, ie one charity in the sample equals .7 and quite a few of these feature on their own in the £20m+ categories.

Q7 Size of Finance Dept.

7(1) Total Employees. %	7(2) FT Equivalent %
1-6	45.3
7-12	18.7
13-18	10.1
19-24	4.3
25-29	1.4
30-49	2.9
50-99	2.2
Total Response	84.9

Q8 Finance Functions Contracted Out. 99.3% response rate. 59% do not contract out 43.3% (56) do.

Of those 56 charities that contract out all but one charity provided details. 47 of the 55 contract out payroll, 2 internal audit and 6 other services.

Q9 External Audit.

Q9(1) do you have an external Audit. 100% response rate, all have an external audit.

Q9(2) Who provides the audit. 100% response rate.

Chartered Accountants.	98.6%
Certified Accountants.	0.0%
other(audit commission).	1.4%

Q9(3) By size of CA Firm. 97.8% response rate (one charity did not answer of those audited by CAs)

1-6	36.7%
7-12	20.8%
13-18	5.0%
19-24	0.7%
25-30	5.0%
31-49	0.0%
50-99	5.8%
100+	23.7%

Q10 Internal Audit Function. 97.8% response rate.

Had an internal audit function.	20.9%
Did not have an internal audit function.	77.0%

Q11 A control function?

After allowing for the above who had an internal audit function one charity did not reply of the 109 who did 69.7% (76) said they did. Combined with charities who have an internal audit function 105 charities or 75.5% of the sample have an appreciation of control.

Q11(1) When asked to name the control post 74 charities did so. 33 finance directors said it was themselves, 4 their deputy and 37 cited another using the term accountant or treasurer.

Q12 Those who did not have an internal audit or specified a control function were asked if they envisaged the establishment of one within the next three years. 53 charities answered which is 20 more than should have done as only 33 had answered no in Q11. Therefore some of those who identified themselves as having a control function may have assumed that it was a question to whether they were going to change their current arrangements and establish an internal audit function. 34 charities said no, 9 did not know and 10 said they did envisage an internal audit function being established.

Q13 Asked all those charities with out an internal audit function (110) why they did not have one. 86 (78.1%) responded 24 said they would like an internal audit function but they do not have adequate financial resources. 50 said they did not consider internal audit appropriate to the charity at present. None were negative in considering " I do not believe Internal Audit has a contribution to make in charities" however 4 finance directors believed IA is best done by external auditors. 8 cited other.

Note Finance as a limiting factor was not viewed as a major problem by the Billis research, here it is by 21.8% a fifth of the 110 charities who do not have an internal audit function. If IA were to be seen as a priority then the potential growth could be much higher in these top charities.

Q23 Do External Auditors play an active role in developing your internal audit work. 88.5% response rate.

No	52.5%
Yes	36.0%

Q23 further went on to ask those who had said yes to what extent.

Assist in setting up programs and systems.	15.8%
Recommended changes to programmes and procedures.	25.9%
Suggest areas for review and evaluation.	31.7%
Approved programmes and procedures.	10.8%
Provide training to IA staff.	2.2%
Other.	1.7%

Q24 What services have charities requested from their External Auditors in the last three years.

Internal Auditing.	10.1%
Management Advisory Services.	28.8%
Training	2.9%
Quality Assurance reviews	4.3%
EDP review evaluation.	18.0%
Tax preparation/advice	67.6%
Financial Advice	34.5%
Accounting Services	34.5%
None	8.6%
Other	12.2%

# **Personal perception of Intrnal Audit by Charity Finance Directors.**

Q25 Definitions of Internal audit; 90.7% response rate.

1	Reviewing Internal Controls	50.4%
2	Reliability of Information	31.7%
3	Compliance	41.7%
4	Safeguarding of Assets	34.5%
5	Economic & Efficient use of resources	30.2%
6	Accomplishment of Goals.	7.9%
7	Fraud Detection	33.8%
8	All of the above	41.7%
9	Other	4.3%

Q26 Skills required for IAs 90% response rate.

1	Proficiency in Internal Audit.	28.1%
2	Proficiency in Accounting	25.9%
3	Understanding Management Principles	23.7%
4	Fundamental Business Subjects	13.7%
5	Human Relations and communication	21.6%
6	All of the above	61.9%

Q27 Who Should IAs report to.98.6% response rate.

1	The Chief Executive	28.1%
2	Audit Committee	48.2%
3	Finance Director	19.4%
4	Other	2.9%

Q35 Preferred Qualifications For Internal Audit Staff.

This question was also graded with 1 least importance to 5 of most importance.

Qualification	TR	1	2	3	4	5
PG Degree	26.6%	17.3%	2.2%	4.3%	1.4%	1.4%
1st Degree	36.0%	9.4%	5.8%	8.6%	6.5%	5.8%
ACCA	60.4%	4.3%	4.3%	15.1%	17.3%	19.4%
CIMA	46.0%	2.9%	5.8%	12.2%	14.4%	10.8%
CIPFA	41.0%	3.6%	7.9%	12.2%	7.2%	10.1%
ICAEW/S/I	61.2%	7.2%	4.3%	7.9%	14.4%	27.3%
ICSA	25.9%	5.0%	9.4%	6.5%	2.9%	2.2%
MIIA	30.2%	5.8%	5.0%	7.9%	3.6%	7.9%
QICA	20.9%	8.6%	5.0%	4.3%	1.4%	1.4%
AAT	36.0%	7.9%	8.6%	11.5%	5.8%	2.2%
HND	25.3%	9.4%	8.6%	2.9%	3.6%	2.9%
HNC	25.9%	10.8%	7.9%	2.9%	2.2%	2.2%
Other	9.4%	2.2%	0.7%	0.7%	1.4%	4.3%

Q40 What in the opinion of Finance Directors were problems to internal audit in charities. The questions were placed on a scale of 1-5 with 5 being the most problematic

Question	TR	1	2	3	4	5
Volunteers	46.0%	16.5%	7.9%	14.4%	5.8%	1.4%
Committees	45.3%	20.1%	7.9%	7.2%	4.3%	5.8%
Role Boundaries	51.1%	12.2%	5.0%	15.1%	10.1%	8.6%
Career Opps	55.4%	11.5%	9.4%	10.8%	12.9%	10.8%
Activity Audit	54.7%	10.8%	8.6%	7.9%	15.1%	12.2%
Independence	60.4%	10.8%	3.6%	10.8%	14.4%	20.9%
Prof Management	50.4%	10.8%	5.8%	8.6%	12.9%	12.2%
Prof V Charity	41.0%	18.7%	7.9%	5.8%	3.6%	5.0%

APPENDIX 7.2 - FINANCE DIRECTORS WITH INTERNAL AUDIT  
FUNCTIONS: GENERAL QUESTIONS

**Finance Directors Survey: General Questions Analysis of those 29 charities with an internal audit function.**

**Q1.Type of Charity. 96.6% response rate.**

Animals	3.4%
Arts	3.4%
Community Improvement	0.4%
Education	0.0%
Employment	6.9%
General Welfare	17.2%
Housing	10.3%
International Aid	13.8%
Medicine & Health	17.2%
Preservation	3.4%
Religion	17.2%
Youth Development	0.0%
Other	17.2%

**Q2 Geographic area. 96.6% response rate.**

International	31.0%
National	44.8%
Regional	3.4%
Greater London	13.8%
Local	0.0%
Other	3.4%

**Q3 Staff size of Organisation**

**Q3(1) Total employees.**

**Q3(2) FT Equivalent.**

1-49	6.9%	6.9%
50-99	3.4%	0.0 %
100-249	13.8%	17.2%
250-499	10.3%	6.9%
500-999	24.1%	24.1%
1000+	37.9%	27.6%
Total Response rate	96.6%	82.8%

**Q3(3) Number of Volunteers. 55.2% response rate.**

1-49	13.8%
50-99	3.4%
100-249	0.0%
250-499	0.0%
500-999	6.9%
1000-4999	13.8%
5000-9999	3.4%
10000+	13.8%

**Q3(4) Hours per volunteer per month. 48.3% response rate.**

1-9	13.8%
10-19	24.1%
20-29	10.3%
30-39	0.0 %
40-49	0.0%



Q4 Annual Budget. 96.6% response rate.

0-249,000	0%
250,-499,999	0%
500,-999,999	0%
1m-4,999,999	13.8%
5m-9,999,999	13.8%
10m-19,999,999	31.0%
20m-49,999,999	13.8%
50m+	24.1%

Q5 Forms of incorporation.

Q5(1) Response rate 89.7%

Company limited by Guarantee	58.6%
Charitable Trust	6.9%
Industrial and Provident	3.4%
Royal Charter	6.9%
other	13.8%

Q5(2) Number of legal incorporations. 89.7% response rate.

Main Charity only	41.4%
Main Charity plus Trading CO.	41.4%
Main Charity plus Trust	3.4%
Main Charity, trust and CO	3.4%

Q6 Sources of income.%

KEY

1=1-249,999
2=250,000-499,999
3=500,000-999,999
4=1,000,000-4,999,999
5=5,000,000-9,999,999
6=10,000,000-19,999,999
7=20,000,000-49,999,999
8=50,000,000+

	TR	1	2	3	4	5	6	7
1 Covenants.	65.5	20.7	0	13.8	27.6	0	3.4	0
2 Legacies.	65.5	6.9	6.9	10.3	13.8	13.8	13.8	0
3 Other Gifts	48.3	10.3	3.4	13.8	6.9	3.4	6.9	3.40
4 Fund Raising.	58.6	6.9	6.9	0	24.1	10.3	6.9	3.40
5 Trading.	55.2	10.3	13.8	10.3	6.9	3.4	6.9	3.40
6 Sales.	34.5	3.4	6.9	3.4	13.8	3.4	3.4	0
7 Cen Government	62.1	17.2	0	0	20.7	0	17.2	0
8 Rent/Invest	65.5	3.4	6.9	6.9	41.4	6.9	0	0
9 Health Auths	17.2	0	6.9	0	3.4	6.9	0	0
10 Housing Corp	10.3	0	0	0	3.4	3.4	0	3.40
11 Local Governt	34.5	0	6.9	3.4	13.8	3.4	0	6.90
12 other	44.8	3.4	0	3.4	24.1	3.4	6.9	0

There were two sources of income 50,000,000+ : Sales and Other.

Q7 Size of Finance Dept.

7(1) Total Employees.	%	7(2) FT Equivalent	%
1-6	17.2		20.7
7-12	13.8		10.3
13-18	24.1		24.1
19-24	10.3		6.9
25-29	3.4		3.4
30-49	13.8		10.3
50-99	10.3		10.3
Total Response	93.1		86.2

Q8 Finance Functions Contracted Out. 100% response rate.

Do not contract out	58.6%
Do contract out	41.4%

Of those 12 charities that contract out all but one charity provided details. 8 of the 11 contract out payroll, 1 internal audit and 2 other services.

Q9 External Audit.

Q9(1) do you have an External Audit. 100% response rate, all have.

Q9(2) Who provides the audit. 100% response rate.

Chartered. 100%

Q9(3) By size of CA Firm. 100% response rate.

1-6	27.6%
7-12	37.9%
13-18	6.9%
19-24	0%
25-30	0%
31-49	0%
50-99	3.4%
100+	24.1%

Q23 Do your external auditors play an active role in developing your internal audit work.

93.1% response rate.

No	51.7%
Yes	41.4%

Q23 further went on to ask those who had said yes to what extent;

Assist in setting up programs and systems.	10.3%
Recommended changes to programmes and procedures.	24.1%
Suggest areas for review and evaluation.	34.5%
Approved programmes and procedures.	17.2
Provide training to IA staff.	6.9%
Other.	0%

**Q24 What services have charities requested from their External Auditors in the last three years.**

1) Internal Auditing.	10.3%
2) Management Advisory Services.	34.5%
3) Training	6.9%
4) Quality Assurance reviews	3.4%
5) EDP review evaluation.	24.1%
6) Tax preparation/advice	65.5%
7) Financial Advice	24.1%
8) Accounting Services	37.9%
9) None	6.9%
10) Other	13.8%

**Personal perception of internal auditing by charity Finance Directors.**

<b>Q25 Definitions of Internal audit;</b>	<b>NO IA</b>	<b>with IA</b>
1 Reviewing Internal Controls	50.4%	48.3%
2 Reliability of Information	31.7%	34.5%
3 Compliance	41.7%	48.3%
4 Safeguarding of Assets	34.5%	41.4%
5 Economic & Efficient use of resources	30.2%	44.8%
6 Accomplishment of Goals.	7.9%	3.4%
7 Fraud Detection	33.8%	27.6%
8 All of the above	41.7%	44.8%
9 Other	4.3%	6.9%

**Q26 Skills required for IAs.**

	<b>NO IA</b>	<b>with IA</b>
1 Proficiency in Internal Audit.	28.1%	27.6%
2 Proficiency in Accounting	25.9%	20.7%
3 Understanding Management Principles	23.7%	27.6%
4 Fundamental Business Subjects	13.7%	10.3%
5 Human Relations and communication	21.6%	17.2%
6 All of the above	61.9%	65.5%

**Q27 Who Should IAs report to.**

	<b>NO IA</b>	<b>with IA</b>
1 The Chief Executive	28.1%	34.5%
2 Audit Committee	48.2%	44.8%
3 Finance Director	19.4%	17.2%
4 Other	2.9%	3.4%
Total	98.6%	100.0%

### Q35 Preferred Qualifications For Internal Audit Staff.

This question was also graded with 1 least importance to 5 of most importance.

Qualification	TR	1	2	3	4	5
PG Degree	27.6%	20.7%	0%	3.4%	0%	3.4%
1st Degree	41.4%	3.4%	10.3%	13.8%	3.4%	10.3%
ACCA	69.0%	0%	0%	24.1%	20.7%	24.1%
CIMA	55.2%	3.4%	3.4%	3.4%	27.6%	17.2%
CIPFA	55.2%	3.4%	6.9%	10.3%	13.8%	20.7%
ICAEW/S/I	72.4%	10.3%	0%	3.4%	24.1%	34.5%
ICSA	31.0%	6.9%	6.9%	10.3%	3.4%	3.4%
MIIA	37.9%	0%	6.9%	13.8%	6.9%	10.3%
QICA	31.0%	6.9%	6.9%	13.8%	3.4%	0%
AAT	41.4%	6.9%	13.8%	13.8%	3.4%	3.4%
HND	27.6%	13.8%	10.3%	0%	3.4%	0%
HNC	31.0%	17.2%	10.3%	3.4%	0%	0%
Other	10.3%	0%	0%	0%	0%	10.3%

Q40 What in the opinion of FDs were problems to internal audit in charities. The questions were placed on a scale of 1-5 with 5 being the most problematic

Question	TR	1	2	3	4	5
Volunteers	51.7%	27.6%	6.9%	17.2%	0%	0%
Committees	51.7%	24.1%	13.8%	0%	6.9%	6.9%
Role Boundaries	51.7%	13.8%	6.9%	10.3%	10.3%	10.3%
Career Opps	58.6%	10.3%	10.3%	3.4%	20.7%	13.8%
Activity Audit	51.7%	13.8%	10.3%	10.3%	6.9%	10.3%
Independence	58.6%	27.6%	0%	10.3%	6.9%	13.8%
Prof Management	58.6%	10.3%	6.9%	6.9%	13.8%	20.7%
Prof v Charity	51.7%	20.7%	6.9%	6.9%	6.9%	10.3%

APPENDIX 7.3 - FINANCE DIRECTORS WITH INTERNAL AUDIT  
FUNCTIONS: SPECIALIST QUESTIONS

**Finance Directors Survey: Specialist Questions Analysis of the 29 charities with an internal audit function.**

**Q14 Year IA established.**

	%
Not Given	10.3
1991	17.2
1990	10.3
1989	13.8
1988	6.9
1984-87	17.2
1980-83	10.3
1970-79	6.9
Pre 1970	6.9

**Q15 Who IA reports to.**

	%
Not Given	3.4
Chief Executive	17.2
Finance Director	27.6
other not in Fin Dept	6.9
other in Fin Dept	13.8
Audit/other cttee	17.2
other	13.8

**Q16 Staff size of IA dept.**

	Total Employees	F T Equiv
	%	%
Not Given	13.8	41.4
1	41.4	27.6
2	24.1	17.2
3	10.3	6.9
6+	10.3	6.9

**Q16 Volunteers in internal audit.**

	Number of Vols	Hrs per mth
	%	%
Not Given	93.1	89.7
6+	6.9	10.3

**Q17 IA access to external audit plan.**

	%
Not Given	6.9
Yes	41.4
No	51.7

**Q18 External audit access to internal audit plan.**

	%
Not Given	6.9
Yes	82.8
No	10.3

Q19 To what extent are audits conducted with external auditors.

	%
No joint Programme	58.6
Select/special projects	27.6
Entire audit programmes	6.9
I does some EA programme	31.0
I relies on EA work papers	6.9
Year End Activities	24.1
On a regular basis	13.8
Scope is divided	13.8
Other	10.3

Q20 Are internal audit reports circulated to external auditors.

	%
Not Given	10.3
Yes	69.0
No	20.7

Q21 Does internal audit receive copies of external auditors reports.

	%
Not Given	3.4
Yes	75.9
No	20.7

Q22 Effect of internal audit on the external audit.

	%
No effect	27.6
No reduction in Audit fees	20.7
Reduction in time & scope	41.4
EAs greater use of I papers	51.7
Greater Co-operation	27.6
Other	6.9

Q28 What are the main areas covered by the charities internal audit function at present.

	%
Accounting/Finance	93.1
Personnel/administration	34.5
Charitable objectives	20.7
Commercial operation	37.9
Investment	34.5
Mgt Information Systems	51.7
Mgt Effectiveness	37.9
Other	3.4

Q29 Which other activities does IA become involved in.

	%
Internal Consultancy	41.4
Computer Systems Development	41.4
Training	13.8
Accounting	34.5
End of yrs account prep	17.2
Other	13.8

Q30 Why Has I been introduced. Rated on a scale 1-5 to 5 being most important.

	TR	1	2	3	4	5
Size of Organisation	64.5	3.4	3.4	10.3	31.0	17.2
Growth	72.4	10.3	10.3	6.9	34.5	10.3
Pressure from EAs	64.5	34.5	6.9	10.3	6.9	6.9
Funding Sources	44.8	27.6	6.9	10.3	0	0
Internal Problems	64.5	13.8	13.8	13.8	10.3	13.8
Promote Public Image	55.2	20.7	13.8	13.8	0	6.9
Improve Accountability	79.3	3.4	6.9	20.7	10.3	37.9
Growth of Branches/reg	58.6	10.3	10.3	3.4	10.3	24.1
Control of Fund Raising	48.3	17.2	6.9	10.3	3.4	10.3
Reduce Risk	75.9	6.9	3.4	13.8	17.2	34.5
Other	17.2	3.4	0	0	3.4	10.3

Q31 What changes are scheduled for the charities internal audit dept.

	%
Expansion of internal audit staff	13.8
Expand Scope of EDP audits	27.6
Expand Scope of Financial Audits	31.0
Expand Scope of operational audits	48.3
Expansion into Internal Mgt Cons	13.8
Other	6.9

Q32 Is the charities internal audit department receiving more management recognition now than five years ago.

	%
Yes	75.9
No	13.8
No Answer	10.3

Q33 If Yes Why is that? Placed on a scale 1-5 with 5 being the most important.

	TR	1	2	3	4	5
Mgt acceptance & response to audits	51.7	0	0	10.3	13.8	27.6
More capable staff	41.4	0	0	6.9	13.8	20.7
Reorganisation of the management	34.5	10.3	3.4	6.9	3.4	10.3
Increase in staff & activities	44.8	10.3	3.4	10.3	17.2	3.4
Increase due to growth of charity	37.9	6.9	0	10.3	17.2	3.4
Increased Govt regulations	27.6	10.3	6.9	0	3.4	6.9
No IA five yrs ago	48.3	3.4	0	0	0	44.8
Other	0	0	0	0	0	0



Q34 If No why not?

	%
Always had high recognition	0
No effort to expand	3.4
Mgt has not responded	3.4
Internal audit too new to evaluate	6.9
Other	6.9

Q36 Does your organisation support the concept of training and professional development for internal audit staff.

	%
Yes	79.3
No	13.8
No response	6.9

Q37 If No to Q36, is it because of;

	%
Inadequate financial resources	0
Difficulty in releasing staff	3.4
Sufficient well trained staff	6.9
other	3.4

Q 38 What training do you provide.

	%
ACCA	24.1
CIMA	10.3
CIPFA	0
ICAEW/S/I	6.9
MIIA	3.4
QICA	6.9
ICSA	0
AAT	6.9
Post Grad Degree	0
First Degree	0
HND	0
HNC	0
Short Courses	69.0
Other	3.4

Q39 Are you satisfied with the charities Internal Audit Function.

	%
Yes	72.4
No	24.1
No response	3.4

APPENDIX 8 - INTERNAL AUDIT MANAGER POSTAL SURVEY  
QUESTIONNAIRE

## RESEARCH QUESTIONNAIRE

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### Introduction

This questionnaire is designed to find out:

- a) The extent, quality and problems of audit and controls currently used in Charities.
- b) where an Internal Audit or control function exists the type of relationship and interaction with external audit.
- c) the potential for Internal Audit development in Charities.
- d) the personal perception of the respondent to the desirability and problems of Internal Audit and the type of skills required for Charity Internal Auditors.

### Confidentiality

- a) Your personal participation in the research and responses will be kept totally confidential.
- b) No names of Charities will be divulged and no piece of information supplied, will be attributed to any individual charity, or be identifiable.

### Questionnaire completion

Instructions are provided in the questionnaire, however please do not hesitate to contact me, Paul Palmer by telephone (071-928 8989 ext. 2834) if you have any problems.

Please note the times at which you start and finish the questionnaire by filling in the box below and on the last page.

*Please return your completed questionnaire in the attached stamped addressed envelope as soon as possible.*

**Thank you once again for assisting in this research.**

**Paul Palmer**

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Charity Finance Directors Group  
and the Institute of Internal Auditors. UK

# INTERNAL AUDIT MANAGER SURVEY

1. What category best describes your organisation (please see Appendix 1) (Please tick only one)

- |                                          |                             |
|------------------------------------------|-----------------------------|
| Animals                                  | <input type="checkbox"/> 1  |
| Arts                                     | <input type="checkbox"/> 2  |
| Community Improvement                    | <input type="checkbox"/> 3  |
| Education                                | <input type="checkbox"/> 4  |
| Employment                               | <input type="checkbox"/> 5  |
| General Welfare                          | <input type="checkbox"/> 6  |
| Housing                                  | <input type="checkbox"/> 7  |
| International Aid                        | <input type="checkbox"/> 8  |
| Medicine and Health                      | <input type="checkbox"/> 9  |
| Preservation or Heritage and Environment | <input type="checkbox"/> 10 |
| Recreation and leisure                   | <input type="checkbox"/> 11 |
| Religion and Spiritual Development       | <input type="checkbox"/> 12 |
| Youth development                        | <input type="checkbox"/> 13 |
| Other                                    | <input type="checkbox"/> 14 |

2. Geographic Area of Operations (Please tick one)

- |                                 |                            |
|---------------------------------|----------------------------|
| International                   | <input type="checkbox"/> 1 |
| National                        | <input type="checkbox"/> 2 |
| Regional (more than one county) | <input type="checkbox"/> 3 |
| Greater London                  | <input type="checkbox"/> 4 |
| Local (within one county)       | <input type="checkbox"/> 5 |
| Other (specify)                 | <input type="checkbox"/> 6 |

3. What is the size of your organisation in terms of number of staff? (Please state number)

- |                                                 |         |
|-------------------------------------------------|---------|
| Total employees                                 | _____ 1 |
| Full time equivalent                            | _____ 2 |
| Estimated number of volunteers                  | _____ 3 |
| Estimated average hours per volunteer per month | _____ 4 |

4. What is the size of your total organisation in terms of annual voluntary income or budget allocation for the current financial year?

Please state £ \_\_\_\_\_

5. What are your forms of Incorporation (please list by main charities and subsidiaries. i.e company limited by guarantee - main charity or Trust main charity)

6. Sources of Finance (enter amounts to total as per question 4)

	£
Covenants	_____ 1
Legacies	_____ 2
Other gifts	_____ 3
Voluntary Fund Raising	_____ 4
Trading	_____ 5
Sales of Goods and Services	_____ 6
Central Government Grants and Fees	_____ 7
Rent and Investments	_____ 8
Health Authorities Grants and Fees	_____ 9
Housing corporation	_____ 10
Local Authority Grants and Fees	_____ 11
Other (please state)	_____ 12

## External Audit

7. Do you have an annual external audit?

Yes ☐ 1 No ☐ 2

Status of External Auditor:

- |                      |                            |
|----------------------|----------------------------|
| Chartered            | <input type="checkbox"/> 1 |
| Certified            | <input type="checkbox"/> 2 |
| Other (Please state) | <input type="checkbox"/> 3 |

Please give name of the firm if chartered.

8. Do you have access to the External Audit plan?

Yes ☐ 1 No ☐ 2

9. Does the external auditor have access to the internal audit plan?

Yes ☐ 1 No ☐ 2

10. To what extent are audits conducted with external auditors? (tick as many as apply)

- No joint programme ☐ 1
- Select/special projects ☐ 2
- Entire audit programme ☐ 3
- Internal audit complete a portion of the external auditors work programme ☐ 4
- Internal audit relies on External Audit working papers ☐ 5
- Year end activities ☐ 6
- On a regular basis ☐ 7
- Scope is divided ☐ 8
- Other (specify) ☐ 9

11. Are copies Of Internal Audit reports circulated to the External Auditors?

Yes ☐ 1 No ☐ 2

12. Do Internal Auditors receive copies of the External Auditors Reports?

Yes ☐ 1 No ☐ 2

13. How has the development of your internal audit department affected the character and extent of reviews by your external auditors? (Please tick as many as apply)

- It has had no effect ☐ 1
- There has been no increase/reduction in external audit fees ☐ 2
- There has been a reduction in time or scope ☐ 3
- External auditors have made greater use of internal audit reports and working papers ☐ 4
- There has been greater co-operation and co-ordination in scheduling work between internal and external auditing ☐ 5
- Other (specify) ☐ 6

14. Do your external auditors play an active role in developing your audit work?

Yes ☐ 1 No ☐ 2

If YES, to what extent? (Please tick as many as apply)

- Assist in setting up programmes and procedures ☐ 1
- Recommend changes to programme and procedures ☐ 2
- Suggest areas for review and evaluation ☐ 3
- Approve programmes and procedures ☐ 4
- Provide training to internal audit staff ☐ 5
- Other (specify) ☐ 6

15. What services have you requested your external auditors to provide in the last three years? (Please tick as many as apply)

- Internal Auditing ☐ 1
- Management Advisory services ☐ 2
- Training ☐ 3
- External/quality assurance reviews ☐ 4
- EDP review/evaluation ☐ 5
- Tax preparation/advice ☐ 6
- Financial advice ☐ 7
- Accounting services ☐ 8
- None ☐ 9
- Other (please specify) ☐ 10

16. In what year was the Internal Audit Function established? \_\_\_\_\_

17. In your opinion why has Internal Audit been introduced into your organisation. (Please tick as many as apply on a scale 1-5 with 1 being of least importance to 5 being of most importance)

	1	2	3	4	5
Size of organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 1
General growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 2
Pressure from external auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 3
Funding sources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 4
Internal problems in charities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 5
To promote a good public image	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 6
To improve accountability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 7
Growth of regional organisation (branches)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 8
Control of fund raising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 9
Reduce risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 10
Other (specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> 11

18. What is the highest level of Formal education you have obtained. (Please tick as many as apply.)

ICAEW/S/I	<input type="checkbox"/> 1
ACCA	<input type="checkbox"/> 2
CIPFA	<input type="checkbox"/> 3
CIMA	<input type="checkbox"/> 4
MIIA	<input type="checkbox"/> 5
QICA	<input type="checkbox"/> 6
ICSA	<input type="checkbox"/> 7
AAT	<input type="checkbox"/> 8
HNC	<input type="checkbox"/> 9
HND	<input type="checkbox"/> 10
1st Degree	<input type="checkbox"/> 11
Post Graduate Degree	<input type="checkbox"/> 12
Other (specify)	<input type="checkbox"/> 13

19. Are you currently studying

Yes [ ] 1 No [ ] 2

State for which qualification

20. How many internal audit personnel are under your supervision? \_\_\_\_\_

(Give number of full time equivalent)

21. How many support staff? \_\_\_\_\_  
(Give number of full time equivalent)

22. How many volunteers work for internal Audit?

Give estimated hours per volunteer per month

23. Please draw an organisation chart for Internal Audit?

24. Please indicate your professional experience to date, in terms of years, against the following categories.

External Auditing	_____ 1
Financial Accounting	_____ 2
Management Accounting	_____ 3
Public Sector Accounting	_____ 4
Data Processing	_____ 5
General Administration	_____ 6
Internal Auditing	_____ 7
Other (please specify)	_____ 8

25. To whom do you report? (Please state position)

26. As per question 20 the number of existing/projected internal audit staff in your charity/ will be including yourself (please give numbers of full time equivalents.)

1990/1991 \_\_\_\_\_ 1991/1992 \_\_\_\_\_  
1992/1993 \_\_\_\_\_ 1993 \_\_\_\_\_

27. Please give the number of new internal staff recruited during the last 12 months (please give numbers of full time equivalents)

28. What are the intended sources of your recruitment of internal audit staff in the next 12 months? (Please tick as many as apply)

- |                                                              |                          |   |
|--------------------------------------------------------------|--------------------------|---|
| External auditors                                            | <input type="checkbox"/> | 1 |
| Internal promotions within charity (outside of finance dept) | <input type="checkbox"/> | 2 |
| From Finance Dept within charity                             | <input type="checkbox"/> | 3 |
| School leavers                                               | <input type="checkbox"/> | 4 |
| Graduates                                                    | <input type="checkbox"/> | 5 |
| Commerce & Industry staff                                    | <input type="checkbox"/> | 6 |
| Public Sector                                                | <input type="checkbox"/> | 7 |
| None                                                         | <input type="checkbox"/> | 8 |
| Other (please specify)                                       | <input type="checkbox"/> | 9 |

29. What in your opinion is the preferred standard of qualifications for internal audit staff? (Please tick as many as apply on a scale 1-5 1 being of least importance to 5 being of most importance)

	1	2	3	4	5
ICAEW/II/S	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CIPFA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CIMA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ACCA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Post Graduate Degree	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1st Degree	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ICSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MIIA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
QICA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
AAT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HND	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HNC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

30. What are the main areas covered by your internal audit function at present? (please tick as many as apply)

- |                                |                          |   |
|--------------------------------|--------------------------|---|
| Accounting/finance             | <input type="checkbox"/> | 1 |
| Personnel/administration       | <input type="checkbox"/> | 2 |
| Charitable objectives          | <input type="checkbox"/> | 3 |
| Commercial operation           | <input type="checkbox"/> | 4 |
| Investment                     | <input type="checkbox"/> | 5 |
| Management information systems | <input type="checkbox"/> | 6 |
| Management effectiveness       | <input type="checkbox"/> | 7 |
| Other (please specify)         | <input type="checkbox"/> | 8 |

31. Which of the following other activities besides Internal Audit does the charities Internal Audit Function become involved in (please tick as many as apply)

- |                              |                          |   |
|------------------------------|--------------------------|---|
| Internal Consultancy         | <input type="checkbox"/> | 1 |
| Computer Systems Development | <input type="checkbox"/> | 2 |
| Traning                      | <input type="checkbox"/> | 3 |
| Accounting                   | <input type="checkbox"/> | 4 |
| End of year Accounts         | <input type="checkbox"/> | 5 |
| Other (please specify)       | <input type="checkbox"/> | 6 |

32. Does your organisation prepare a statement of purpose authority, scope and responsibility for the internal audit dept (audit charter?)

Yes [ ] 1 No [ ] 2

If Yes what does your charter specifically require compliance with? (Please state)

If NO, please specify reason

## INTERNAL AUDIT MANAGER SURVEY

33. Does the internal audit dept prepare (Please tick as many as apply)

- An audit plan with long and short term goals ☐ 1  
 Detailed audit program to address the areas covered by the audit plan ☐ 2  
 Time budgets and schedules for the entire year ☐ 3

34. How would you classify the internal audit staff's access to the organisation information? (Please tick as many as apply)

- Free access ☐ 1  
 Some restriction ☐ 2  
 Total restriction in specific areas ☐ 3

35. Which of the following does your internal audit function review. (Please tick as many as apply)

- Examination and evaluation of the adequacy and effectiveness of the organisations system of internal control and the quality of performance in carrying out assigned responsibilities. ☐ 1  
 Reliability and Integrity of Information ☐ 2  
 Compliance with policies, plans, procedures, laws and regulations ☐ 3  
 Safeguarding of assets ☐ 4  
 Economical and efficient use of resources ☐ 5  
 Accomplishment of established objectives and goals for operations of programmes. ☐ 6

36. Do you have a manual, which provides operating instructions for the Internal Audit process?

Yes [ ] 1 No [ ] 2

37. Do you use any internal audit standards or guidelines of Professional Practice as the basis of the operation of your internal auditing function?

Yes [ ] 1 No [ ] 2  
 If Yes (please specify what you do use)

38. Do you know of the code of ethics of members of the Institute of Internal Auditors?

Yes [ ] 1 No [ ] 2

If yes answer question 39 then 41

If no go to 40 then to 41

39. How well do you consider the "code of ethics of members of the Institute of Internal Auditors" to be known among your internal audit staff?  
 (Please tick one)

- Very well known [ ] 1  
 Quite well known [ ] 2  
 Known [ ] 3  
 Little Know [ ] 4  
 Virtually unknown [ ] 5

40. Do you subscribe to a code of ethics followed by another institute?

No [ ] 1  
 Yes [ ] 2 (please specify)  
 Name:

41. Do you have an audit committee

Yes [ ] 1 No [ ] 2

If Yes go to question 43.

42. Do you have a committee that overviews the activities of IA

No [ ] 1  
 Yes [ ] 2

(if yes) Name:



43. Do the audit committee of the committee named discuss: (Please tick as many as apply)

- |                                                |                          |   |
|------------------------------------------------|--------------------------|---|
| The Audit Plan                                 | <input type="checkbox"/> | 1 |
| Major audit findings and recommendations       | <input type="checkbox"/> | 2 |
| Internal audit staffing                        | <input type="checkbox"/> | 3 |
| Follow up on audit findings                    | <input type="checkbox"/> | 4 |
| External auditors appointment and remuneration | <input type="checkbox"/> | 5 |
| Financial reports                              | <input type="checkbox"/> | 6 |
| Other (please specify)                         | <input type="checkbox"/> | 7 |

44. Have you established a quality assurance programme?

Yes [ ] 1      No [ ] 2

If Yes, answer 45

If No go to 46

45. At what level is this quality review conducted? (Please tick as many as apply)

- |                                          |                          |   |
|------------------------------------------|--------------------------|---|
| Self assessment                          | <input type="checkbox"/> | 1 |
| Supervision                              | <input type="checkbox"/> | 2 |
| Internal review in Dept                  | <input type="checkbox"/> | 3 |
| External review (by whom-please specify) | <input type="checkbox"/> | 4 |

46. What are the problem areas within the internal audit department (please tick on scale from 1 not a problem, to 5 a significant problem)

- |                                   | 1                        | 2                        | 3                        | 4                        | 5                        |   |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---|
| Independence                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1 |
| Inadequate resources              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 2 |
| Lack of training                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 3 |
| Human relations                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 4 |
| Employment of Competent personnel | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 5 |
| EDP auditing expertise            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 6 |
| Other (please specify)            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 7 |
|                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 8 |

47. In your opinion, do you view any of the following as problems to Internal Audit in Voluntary organisations. (Please tick as many as apply on a scale of 1-5 with 5 being the most problematic)

- |                                                                             | 1                        | 2                        | 3                        | 4                        | 5                        |   |
|-----------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---|
| The role of volunteer fund raisers - they are paying our wages.             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1 |
| The position of governing bodies                                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 2 |
| The absence of boundaries to roles                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 3 |
| The absence of career opportunities                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 4 |
| The difficulties of auditing many voluntary agency activities               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 5 |
| The maintenance of internal audits independence of a small agency           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 6 |
| The need for Professional management                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 7 |
| Loyalty to a professional versus commitment to the charity and its clients. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 8 |

## EDP Audit

48. Is there an EDP audit department specialist employed in your internal audit department?

Yes [ ] 1      No [ ] 2

49. Does your internal audit department take part in the development of computer application? (Please tick one)

- |              |       |
|--------------|-------|
| Frequently   | [ ] 1 |
| Occasionally | [ ] 2 |
| Never        | [ ] 3 |

**50. Do the internal audit staff use any of the following computer assisted audit techniques? (Please tick appropriate)**

- |                              |                          |   |
|------------------------------|--------------------------|---|
| Test Data                    | <input type="checkbox"/> | 1 |
| Generalised Written Software | <input type="checkbox"/> | 2 |
| Specially Written Software   | <input type="checkbox"/> | 3 |
| Integrated test facility     | <input type="checkbox"/> | 4 |
| Tracing and Mapping          | <input type="checkbox"/> | 5 |
| Parallel Simulation          | <input type="checkbox"/> | 6 |
| Code Comparison              | <input type="checkbox"/> | 7 |
| None                         | <input type="checkbox"/> | 8 |
| Other (please specify)       | <input type="checkbox"/> | 9 |

If you have answered None in question 50 please indicate the reason below (Please tick one)

- |                                                                                  |                          |   |
|----------------------------------------------------------------------------------|--------------------------|---|
| Do not possess adequate financial resources to implement an effective EDP audit? | <input type="checkbox"/> | 1 |
| Systems not computerised                                                         | <input type="checkbox"/> | 2 |
| Insufficient staff with the required experience                                  | <input type="checkbox"/> | 3 |
| Other (please specify)                                                           | <input type="checkbox"/> | 4 |

**51. What changes are scheduled for your internal auditing department? (Please tick as many as apply)**

- |                                               |                          |   |
|-----------------------------------------------|--------------------------|---|
| Expansion of internal audit staff             | <input type="checkbox"/> | 1 |
| Expand scope of EDP audits                    | <input type="checkbox"/> | 2 |
| Expand scope of Financial audits              | <input type="checkbox"/> | 3 |
| Expand scope of operational audits            | <input type="checkbox"/> | 4 |
| Expansion into internal management consulting | <input type="checkbox"/> | 5 |
| Other (please specify)                        | <input type="checkbox"/> | 6 |

**52. Is your internal audit department receiving more management recognition now than five years ago?**

Yes ☐ 1      No ☐ 2

If Yes answer question 53

If No answer question 54

**53. If YES: why is that? (tick as many as apply on a scale of 1-5 with 1 being of least importance to 5 being of most importance)**

- |                                              | 1                        | 2                        | 3                        | 4                        | 5                          |
|----------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| Management acceptance and response to audits | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 1 |
| More capable staff                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 2 |
| Recognition of the management                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 3 |
| Increase in staff and activities             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 4 |
| Increase due to growth of charity            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 5 |
| Increased government regulations             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 6 |
| No internal audit function five years ago    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 7 |
| Other (please specify)                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> 8 |

**54. If NO: why not? (Please tick as many as apply)**

- |                                       |                          |   |
|---------------------------------------|--------------------------|---|
| Always had high recognition           | <input type="checkbox"/> | 1 |
| No effort to expand                   | <input type="checkbox"/> | 2 |
| Management has not responded          | <input type="checkbox"/> | 3 |
| Internal auditing too new to evaluate | <input type="checkbox"/> | 4 |
| Other (please specify)                | <input type="checkbox"/> | 5 |

**55. Do you have any further suggestions or comments on internal audit practice in your organisation or the development of internal auditing in the Voluntary Sector. (Please continue on a separate sheet of paper)**

**Thank you for completing this questionnaire. Please return it in the envelope provided.**

Enquiries or problems please contact:  
**Paul Palmer**  
 Moores Rowland Reader in Charity Finance  
 Department of Finance and Information Studies  
 South Bank Polytechnic  
 103 Borough Road  
 London  
 SE1 0AA

If you have any enquiries please let me know by telephone - 071 928 8989 ext: 2834

TIME

APPENDIX 9 - RESULTS OF THE INTERNAL AUDIT MANAGER SURVEY

**Internal Audit Managers Survey: Questions Analysis of those 14 with an internal audit function.**

**Q1.Type of Charity. 100% response rate.**

Animals	0%
Arts	0%
Community Improvement.	0%
Education	7.1%
Employment	0%
General Welfare	14.3%
Housing	14.3%
International Aid	14.3%
Medicine & Health	14.3%
Preservation	7.1%
Religion	7.1%
Youth Development	0%
Other	21.4%

**Q2 Geographic area. 100% response rate.**

International	35.7%
National	50.0%
Regional	0%
Greater London	7.1%
Local	0%
Other	7.1%

**Q3 Staff size of Organisation.**

Q3(1) Total employees.		Q3(2) FT Equivalent
1-49	0%	0%
50-99	0%	0%
100-249	7.1%	0%
250-499	0%	0%
500-999	28.6%	28.6%
1000+	64.3%	28.6%
Total Response rate	100.0%	71.4%

**Q3(3) Number of Volunteers. 28.6% response rate.**

1-49	0%
50-99	0%
100-249	0%
250-499	0%
500-999	0%
1000-4999	0%
5000-9999	7.1%
10000+	21.4%

**Q3(4) Hours per volunteer per month. 21.4% response rate.**

1-9	0%
10-19	7.1%
20-29	7.1%
30-39	7.1%
40-49	0%
50+	0%

Q4 Annual Budget. 100% response rate.

0-249,000	0%
250,-499,999	0%
500,-999,999	0%
1m-4,999,999	7.1%
5m-9,999,999	7.1%
10m-19,999,999	7.1%
20m-49,999,999	35.7%
50m+	42.9%

Q5 Forms of incorporation.

Q5(1) Response rate 100%

Company limited by Guarantee	71.4%
Charitable Trust	0%
Industrial and Provident	7.1%
Royal Charter	14.3%
other	7.1%

Q5(2) Number of legal incorporations. 71.4% response rate.

Main Charity only	35.7%
Main Charity plus Trading CO.	21.4%
Main Charity plus Trust	7.1%
Main Charity, trust and CO	7.1%

Q6 Sources of income.%

KEY

1=1-249,999
2=250,000-499,999
3=500,000-999,999
4=1,000,000-4,999,999
5=5,000,000-9,999,999
6=10,000,000-19,999,999
7=20,000,000-49,999,999
8=50,000,000+

	TR	1	2	3	4	5	6	7
1 Covenants.	57.1	7.1	0	21.4	21.4	21.4	0	0
2 Legacies.	71.4	0	0	7.1	21.4	14.3	21.4	7.1
3 Other Gifts	50.0	0	0	7.1	28.6	7.1	7.1	0
4 Fund Raising.	42.9	0	0	7.1	7.1	7.1	21.4	0
5 Trading.	42.9	0	21.4	0	7.1	7.1	0	7.1
6 Sales.	21.4	0	7.1	0	7.1	0	7.1	0
7 Cen Government	42.9	7.1	0	7.1	14.3	14.3	0	0
8 Rent/Invest	85.7	0	0	0	50.0	14.3	7.1	7.1
9 Health Auths	21.4	7.1	7.1	0	7.1	0	0	0
10 Housing Corp	14.3	0	0	7.1	0	0	0	7.1
11 Local Governt	42.9	7.1	0	0	14.3	7.1	0	14.3
12 other	64.3	7.1	7.1	0	14.3	7.1	14.	37.1

50,000,000+ incomes were rent and investment and other only.

Q7 External Audit.

Q7(1) do you have an external Audit. 100% response rate, all have an external audit.

Q7(2) Who provides the audit. 92.9% response rate.

Chartered	85.7%
Other	7.1%

Q7(3) By size of CA Firm. 78.6% response rate.

1-6	28.6%
7-12	28.6%
13-18	14.3%
19-24	0%
25-30	0%
31-49	0%
50-99	0%
100+	7.1%

Q8 Access to external audit plan.

yes	85.7%
no	7.1%

Q9 EA access to internal audit plan.

yes	85.7%
no	7.1%

Q10 To what extent are audits conducted with external auditors.

	%
No joint programme	50.0
Select/special projects	21.4
Entire audit programmes	0
IA completes some EA programmes	28.6
IA relies on EA working papers	7.1
Year end activities	0
On a regular basis	0
Scope is divided	14.3
other	14.3

Q11 Are copies of internal audit reports circulated to external auditors.

yes	71.4%
no	28.6%

Q12 Do internal auditors receive copies of external audits reports.

yes	85.7%
no	14.3%

Q13 Development of internal audit effect on external audit.

	%
No effect	7.1
Reduction in EA fees	35.7
Reduction in time and scope	35.7
EAs have made greater use of IAs reports	50.0
Greater co-operation and co-ordination	35.7
other	21.4

Q14 Do your external auditors play an active role in developing internal audit's work.

yes	21.4%
no	71.4%

If yes, to what extent.

	%
Assist in setting up programmes and procedures	7.1
Recommend changes to programmes and procedures	7.1
Suggest areas for review and evaluation	21.4
Approve programmes and procedures	0
Provide training to IA staff	7.1
other	0

Q15 What services have charities requested from their external auditors in the last three years.

1) Internal Auditing.	7.1%
2) Management Advisory Services.	21.4%
3) Training	7.1%
4) Quality Assurance reviews	0%
5) EDP review evaluation.	35.7%
6) Tax preparation/advice	50.0%
7) Financial Advice	7.1%
8) Accounting Services	7.1%
9) None	7.1%
10) other	14.3%

Q16. Year internal audit established.

	%
Not Given	7.1
1991	14.3
1990	0
1989	14.3
1988	21.4
1984-87	7.1
1980-83	0
1970-79	28.6
Pre 1970	7.1

Q17. Why internal audit introduced into charity. Ranked 1-5 with 5 being most important.

	TR	1	2	3	4	5
Size of organisation	85.7	7.1	7.1	7.1	42.9	21.4
General Growth	57.1	7.1	0	21.4	14.3	14.3
Pressure from EAs	71.4	21.4	21.4	7.1	14.3	7.1
Funding Sources	50.0	28.6	7.1	14.3	0	0
Internal Probs in Charity	42.9	14.3	14.3	7.1	0	7.1
Promote Good Public image	57.1	0	7.1	28.6	0	21.4
Improve Accountability	92.9	0	7.1	21.4	35.7	28.6
Growth of regional org,s	71.4	7.1	14.3	7.1	14.3	28.6
Control of Fund raising	64.3	28.6	0	28.6	7.1	0
Reduce Risk	92.9	7.1	0	21.4	7.1	57.1
Other	14.3	0	0	0	7.1	7.1

Q18 What is the highest level of formal education you have obtained:

	%
ICAEW/S/I	35.7
ACCA	7.1
CIPFA	7.1
CIMA	0
MIIA	0
QICA	0
ICSA	0
AAT	0
HNC	0
HND	0
Ist DEGREE	28.6
PG DEGREE	7.1
OTHER	21.4

Q19. 14.3% currently studying.

MIIA.	7.1%
Not stated	7.1%

Q20 How many IA personnel under IA Manager.

	%
0	64.3
1	7.1
2	14.3
3	0
4	0
5	7.1
6+	7.1

Q21 Support Staff

	%
0	71.4
1	21.4
2	7.1



Q22 How many Volunteers work for internal audit.

	%
1-5	7.1
6-10	7.1
11-19	0
20+	7.1

Use of volunteers, hours per month.

1-9	7.1
10-19	14.3

Q24 Internal Audit Managers professional experience in years.

	% TR	1	2	3	4	5	6	7	8	9
External audit	57.1	0	7.1	7.1	0	21.4	14.3	0	7.1	0
Financial Acct	28.6	0	7.1	0	7.1	0	7.1	0	0	7.1
Management Acct	35.7	0	0	7.1	7.1	0	7.1	0	0	7.1
Public Acct	28.6	0	7.1	7.1	7.1	0	7.1	0	0	0
Data Processing	14.3	0	0	7.1	7.1	0	0	0	0	0
General Admin	42.9	0	0	14.3	7.1	0	0	0	0	21.4
Internal Audit	71.4	0	0	21.4	7.1	7.1	0	7.1	7.1	21.4
Other	28.6	0	0	0	0	0	7.1	7.1	0	14.3

Q25 Who internal audit reports to.

	%
Not Given	0
Chief Executive	35.7
Finance Director	42.9
other not in Fin Dept	0
other in Fin Dept	0
Audit/other cttee	7.1
other	14.3

Q26 Projected Staff size of internal audit department, including manager.

	1990/91 %	1991/92 %	1992/93 %	1993/94 %
1	35.7	35.7	21.4	14.3
2	7.1	14.3	21.4	28.6
3	21.4	21.4	21.4	14.3
4	7.1	0	7.1	14.3
5	7.1	7.1	7.1	0
6	7.1	14.3	14.3	14.3
7+	7.1	7.1	7.1	7.1

Q27 New internal audit staff recruited during last 12 months.

	%
1	14.3
2	7.1

Q28 Intended sources of recruitment of internal audit staff in next 12 months.

	%
External Auditors	21.4
Internal Promotions in charity	7.1
From FD in charity	28.6
School Leavers	0
Graduates	28.6
Commerce and Industry	7.1
Public Sector	28.6
None	28.6
Other	7.1

Q30 What are the main areas covered by the charities internal audit function at present.

	%
Accounting/Finance	100.0
Personnel/administration	64.3
Charitable objectives	28.6
Commercial operation	57.1
Investment	42.9
Management Information Systems	92.9
Management Effectiveness	85.7
Other	14.3

Q31 Which of the following other activities does internal audit become involved in.

	%
Internal Consultancy	71.4
Computer Systems Development	64.3
Training	35.7
Accounting	28.6
End of yrs account prep	28.6
Other	35.7

Q29 Preferred Qualifications For Internal Audit Staff.

This question was graded with 1 least importance to 5 of most importance.

Qualification	TR	1	2	3	4	5
PG Degree	35.7	21.4	7.1	7.1	0	0
1st Degree	50.0	7.1	0	14.3	14.3	14.3
ACCA	64.3	0	7.1	21.4	28.6	7.1
CIMA	64.3	7.1	14.3	7.1	28.6	7.1
CIPFA	57.1	7.1	7.1	14.3	14.3	14.3
ICAEW/S/I	57.1	7.1	7.1	7.1	21.4	14.3
ICSA	50.0	14.3	14.3	7.1	14.3	0
MIIA	71.4	0	7.1	14.3	21.4	28.6
QICA	50.0	7.1	14.3	14.3	14.3	0
AAT	64.3	7.1	28.6	21.4	7.1	0
HND	42.9	7.1	14.3	14.3	7.1	0
HNC	35.7	0	14.3	14.3	7.1	0
Other	14.3	0	0	0	14.3	0

Q32 Does organisation prepare a statement of purpose authority, scope and responsibility for IA dept.

Yes	64.3%
No	35.7%

If Yes what does it specifically require compliance with.

IIA	7.1%
other	21.4%

Q33 Does the internal audit department prepare.

An audit plan with long and short term goals	78.6%
Detailed audit program to address the areas covered by the audit plan	71.4%
Time budgets and schedules for the entire year	57.1%

Q34 How would you classify the internal audit staff access to the organisation information.

Free Access	92.9%
Some restriction	14.3%
Total restriction in specific areas	0%

Q35 Which of the following does your internal audit function review.

Examination and evaluation of system of control	100.0%
Reliability and integrity of information	92.9%
Compliance with policies, plans, etc	100.0%
Safeguarding of assets	92.9%
Economical and Efficient use of resources	92.9%
Accomplishment of established objectives etc	78.6%

Q36 Do you have a manual which provides operating instructions for the internal audit process.

yes	35.7%
no	64.3%

Q37 Do you use any internal audit standards or guidelines of professional practice as the basis of the operation of your internal auditing function.

yes	50%
no	50%

IF Yes, specify:

IIA	21.4%
CCAB	14.3%
other	7.1%

Q38 Do you know of the code of ethics of members of the IIA.

yes	50%
no	50%

Q39 Those who answer yes to Q38 asked how well do you consider the "code of ethics" of members of the IIA to be known among your internal audit staff.

Very well known	14.3%
Quite well known	14.3%
Known	14.3%
Little Known	7.1%
Virtually unknown	0%

Q40 Asked those who answered NO to Q38 Do you subscribe to a code of ethics followed by another institute:

NO	35.7%
Yes	35.7% of which 14.7% said a CCAB body.

Q41 Do you have an Audit committee:

Yes	50%
No	50%

Q42 asked those who said NO to Q41, Do you have a committee that overviews the activities of internal audit.

NO	21.4%
Yes	21.4% all said Finance Committee.

Q43 DO the audit committee or the committee named discuss:

	%
The audit plan	64.3
Major audit findings and recommendations	50.0
Internal audit staffing	42.9
Follow up on audit findings	42.9
EAs appointment & remuneration	71.4
Financial reports	78.6
other	7.1

Q44 Have you established a quality assurance programme.

yes	7.1%
no	92.9%

Q45 Of the one charity that answered yes this was by self assessment.

Q46 What are the problem areas within the internal department.(on a scale 1-5 with 5 being a significant problem).

	TR	1	2	3	4	5
Independence	92.9	71.4	7.1	7.1	0	7.1
Inadequate resources	92.9	14.3	7.1	42.9	14.3	14.3
Lack of training	85.7	28.6	0	42.9	14.3	0
Human relations	85.7	64.3	21.4	0	0	0
Competent personnel	64.3	35.7	21.4	7.1	0	0
EDP auditing expertise	64.3	14.3	0	42.9	7.1	0
Other	42.9	0	7.1	0	21.4	14.3

Q47 What in the opinion of IA Managers were problems to internal audit in charities. The questions were placed on a scale of 1-5 with 5 being the most problematic

Question	% TR	1	2	3	4	5
Volunteers	50.0	21.4	14.3	14.3	0	0
Committees	57.1	21.4	28.6	0	0	7.1
Role Boundaries	50.0	7.1	21.4	7.1	0	14.3
Career Opps	57.1	7.1	7.1	0	21.4	21.4
Activity Audit	57.1	7.1	7.1	21.4	14.3	7.1
Independence	57.1	21.4	7.1	7.1	14.3	7.1
Prof Management	57.1	0	7.1	21.4	7.1	21.4
Prof V Charity	57.1	42.9	7.1	7.1	0	0

#### EDP AUDIT.

Q48 Is there an EDP audit dept specialist employed in internal audit.

yes	7.1%
no	92.9%

Q49 Does your internal audit department take part in the development of computer application.

Frequently	0%
Occasionally	85.7%
Never	0%

Q50 Do the internal audit staff use any of the following computer assisted techniques.

	%
Test Data	7.1
Generalised written softwear	21.4
Specially written softwear	14.3
Integrated test facility	0
Tracing and Mapping	0
Parallel Simulation	14.3
Code comparison	0
None	50.0
Other	28.6

Those who answered none were asked.

Do not possess adequate financial resources to implement effective EDP audit 35.7%

Systems not computerised 0%

Insufficient staff with the required experience 42.9%

Other 0%

Q51 What changes are scheduled for your internal audit departmentt.

	%
Expansion of internal audit staff	35.7
Expand scope of EDP audits	28.6
Expand scope of financial audits	50.0
Expand scope of operational audits	64.3
Expansion into internal Mgt Cons	57.1
Other	7.1

Q52 Is your internal audit department receiving more management recognition now than five years ago.

Yes	92.9
no	7.1

Q53 If Yes why is that(on a scale 1-5 with 5 being most important).

	TR	1	2	3	4	5
Management acceptance and response to audits	64.3	0	0	21.4	28.6	14.3
More capable staff	42.9	0	0	21.4	14.3	7.1
Management Recognition	42.9	0	0	14.3	7.1	21.4
Increase in Staff/Activities	35.7	0	0	21.4	0	14.3
Growth of charity	28.6	0	0	21.4	7.1	0
Increase Govt regulation	28.6	7.1	0	14.3	7.1	0
No IA function 5 years ago	42.9	14.3	0	0	0	28.6
Other	7.1	0	0	0	0	7.1

Q54 If No why not.

Always had high recognition	0
No effort to expand	0
Management has not responded	0
Internal audit too new to evaluate	0
Other	0