Accountability and narrative disclosure by Muslim charity organisations in the UK

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Abstract

Purpose – This paper aims to explore a narrative disclosure by Muslim charity organisations (MCOs) in the UK.

Design/methodology/approach – Using content analysis, this study assesses disclosure in MCOs' trustee annual reports against the Statement of Recommended Reporting Practices (SORP) for charities using perspectives from accountability including the Islamic concept of accountability.

Findings – The findings suggest disclosure to be limited in showing how transactions and activities comply with the mandatory reporting requirements. Hence, MCOs need to increase their awareness of regulatory and sector challenges, as well as self-scrutiny of their current narrative reporting practices, especially in showing their mandatory reporting and hence religious accountability.

Originality/value – The paper provides important empirical data on the status quo of reporting practice by this important sub-sector. The paper provides a systematic analysis of the way trustee annual reports (TARs) are presented by MCOs and also provides a comprehensive framework for a better understanding of the minimum accountability requirements incumbent upon all charity organisations.

Keywords Accountability, Muslim charities, Non-profit organisations, SORP, Trustees report

Paper type Research paper

Introduction

Registered faith-based charities operating in England and Wales are regulated by the Charity Commission[1], and these have to abide by the Charities Act 2011 and the Statement of Recommended Practice for Charities [SORP] (2005)[2] as part of the accountability mechanism. Because these charities often handle large amounts of funds, the SORP ensures that information disclosure on their accounting and reporting addresses both financial matters and performance and governance issues (Hyndman and McMahon, 2011) within the trustee's annual report (TAR). These include information on the deployment of resources, organisational structure, policies, priorities, activities and achievements which are deemed important in showing accountability to their stakeholders and for their long-term sustainability.

Muslim charity organisations (MCOs) in the UK play an important role in providing a medium for Muslims to channel their charitable donations that take the form of *sadaqah* (voluntary charity for good causes), *waqf* (Islamic endowments) and *zakah* (obligatory religious donations). Because there are only general guidelines for the recording and reporting of transactions (Lewis, 2001; Haniffa and Hudaib, 2011) and no legal obligation upon MCOs to have their accounts religiously audited, the onus is on the charities themselves

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to explain how they have managed the various donations and activities, to achieve their stated goals and mission within the Islamic concept of accountability. The SORP framework can serve as an important vehicle for MCOs to show their accountability and performance, as it provides general themes and items that should be covered but at the same time giving room for these charities to decide on the extent of information disclosure for those items. This is especially important given that Muslim charities make up around 5 per cent of the sector, with an income of approximately £275m, yet they make up 11 per cent of all investigative action taken by the Charity Commission for England and Wales since 2005 (Charity Commission, 2012). In addition, a vast array of Legislative Acts introduced over recent years (i.e. Anti-Money Laundering Act, Anti-terrorism Act, Anti-bribery Act) has had a significant effect on the way MCOs should manage their activities and their internal funds. By complying with the narrative aspects of the SORP, MCOs would be better able to legitimise and restore stakeholder confidence in their activities.

Because little is known about the disclosure practices of MCOs, the main aim of this paper is to provide a broad study of perceived accountability by MCOs using their narrative disclosure in the TARs as a vehicle for discerning this. To achieve this aim, we examine the extent of narrative disclosure in MCO TARs for the years 2008 and 2010 in relation to the SORP. Given the variety of MCOs registered with the Charity Commission, this paper also splits the analysis according to the charity objectives and charity size, as prior research (Connolly and Hyndman, 2003, 2004) has shown such factors to be an important factor in charity disclosure practice.

Our study makes a number of contributions to the field. In terms of contribution to the literature, our focus and analysis on narrative disclosure of MCOs provide important empirical data on the status quo of reporting practice by this important sub-sector. Furthermore, our study provides a systematic analysis of the way TARs are presented by MCOs, an area which has been neglected, even though annual reports are an important medium through which organisations can discharge their accountability (Steccolini, 2004).

In terms of methodology, by using the SORP framework as a benchmark in understanding baseline accountability, our study provides a comprehensive framework for a better understanding of the minimum accountability requirements incumbent upon all charity organisations and also in improving the quality of non-financial reporting. In addition, by also using a socio-religious perspective, i.e. that of the Islamic theoretical framework, the study aims to better understand the disclosure practices of MCOs in relation to these socio-religious-guided accountability requirements. This theoretically guided understanding can be of particular interest to regulators when initiating further charity reform and guidance. Furthermore, the guiding accountability framework and findings from this study have implications beyond the UK given the number of Muslim-specific organisations that operate in the West.

The remainder of the paper is organised as follows. The second section provides a review of prior published literature on disclosure within charity organisations including MCOs, followed by a discussion on the Islamic concept of accountability to aid our assessment of narrative disclosures by MCOs in the third section. The research method and results of findings are presented in the fourth and fifth sections, respectively. The paper ends with the conclusions in the sixth section.

Empirical studies of faith-based charity disclosure and accountability

While *accountability*, in general, refers to a relationship in which people explain and take responsibility for their actions (Roberts and Scapens, 1985), it is often confined to fulfilling the demands of primary stakeholders who are directly linked to the organisations in terms of resources expended. In the case of charity organisations, accountability is important to attract grants and donations and also in meeting the needs of the beneficiaries; hence, there is a greater demand for credible disclosure of narrative information to ensure achievements of their goals and for their sustainability.

However, compared to disclosure studies on profit organisations, there is only a small body of literature that actually examines disclosure by the entire charity sector. Such literature largely argues that traditional financial statements provide a limited role in discharging accountability as they do not provide information on aspects such as success, performance and impact (Torres and Pina, 2003). Gambling *et al.* (1993, p. 204) also note that although narrative reporting is softer than financial reporting in a technical sense, it is much harder in the moral sense. This has led to scholarly attention shifting in recent years toward examining narrative information discharged by charities.

These UK-based studies have concentrated primarily on exploring issues of performance disclosure (Crawford *et al.*, 2009; Connolly and Hyndman, 2003, 2004), while other studies have looked at the overall charity disclosure practices and policies (Jetty and Beattie, 2009) and examined how charity disclosure helps improve charity accountability (Connolly and Dhanani, 2009; Dhanani, 2009). A recent study undertaken by Morgan and Fletcher (2013) examined the accounts of over 1,400 charity organisations to explore the levels of mandatory public benefit reporting. Their findings suggest considerable shortcomings in compliance, with the charities that were complying having found a new sense of accountability, allowing them to better focus on their mission. However, a lack of sanctions for non-compliance was noted as a cause for concern. Of the two studies conducted on disclosure and reporting within religious charity sector in the UK, one focused primarily on financial reporting within Christian churches (Morgan, 2009) and the other undertook a comparative study on the communicated accountability of MCOs and Christian charity organisations (Yasmin *et al.*, 2014). Other studies looking at religious charities in particular have examined if the behaviour of managers can be considered religious (Yaaghie, 2009), the value of contributions to urban religious congregations to assess their societal value (Cnaan, 2009), how corporate accounting practices have been institutionalised in Australian religious charitable organisations (Irvine, 2000) and the role of financial control in religious charities (Wooten *et al.*, 2003).

The literature is however largely silent on issues of accountability, especially within MCOs. A notable exception to this was an in-depth ethnographic study by Abdul-Rahman and Goddard (1998) which looked at the accounting and accountability practices of two *zakah* organisations in Malaysia. They found a complex interrelationship between personal, religious and organisational accountabilities and the role of accounting.

However, there are a number of studies that have examined accountability and disclosure practices in Islamic banks. In a study looking at social disclosure of Islamic banks, Maali *et al.* (2006) concluded that disclosure of social issues was not a major concern for Islamic banks. Haniffa and Hudaib (2007) conducted a study on the portrayal of ethical identity in the annual reports of several Islamic banks over a period of three years based on the Islamic theoretical framework and Balmer and Soenen's (1999) ACID (actual, communicated, ideal and desired) identity framework. They found a disparity exists between the *communicated* (i.e. based on actual reported information) and *ideal* (i.e. based on what should ideally be reported to fulfil the objectives of *Shari'ah*) ethical identities for the majority of Islamic banks they surveyed.

This suggests that although religious teachings may impinge on how people should ideally behave, it does not in fact affect the way people actually behave (Sulaiman and Willett, 2001). In other words, despite Islamic religious teachings giving great importance to accountability, the practices of accountability in Muslim organisations may in reality be different. Therefore, the issue of accountability and disclosure needs further investigation, especially in the context of MCOs.

Islam, accountability and the SORP framework

For Muslims, the concept of accountability is not limited to personal and spiritual aspects, but it extends to all dealings one undertakes in this world, i.e. all social, business and contractual dealings. This is due to the principles which underlie Islamic theology, in particular, the concepts of *tawhid* (the unity of *Allah*), *amanah* (trust) and *khalifah* (vicegerency). These principles have been at the core of the normative literature on Islamic accountability. Haniffa and Hudaib (2011) discuss the concepts of vicegerency, trust and responsibility as forming the cornerstones of accountability in Islam. Similarly, Nahar and Yacoub (2011) conceptualised the Islamic role of accounting, reporting and accountability to be related to three specific areas; the spiritual context, the sacred context and the strategic context. They make a distinction between the spiritual and sacred contexts by arguing that the latter is connected to notions of sacred accountability and the "religious spirit" or "*taklif*" and hence, accounting and reporting should be seen as tools to help achieve Islamic accountability or *taklif*. On the other hand, the spiritual aspect of accountability is related to observing accountability as an act of worship (*ibadah*).

Accountability is ingrained in the believing Muslim through *Rukn Imaan* (pillars of the Islamic faith) which is related to the belief in the day of judgement (*yaum al qiyamah*) whereby all actions in this life will be accounted for. The *Qu'ran* explains that two angels record every deed of a person: one records all the good deeds, while the other records all the bad deeds. This consciousness of continually being recorded that will be judged in the hereafter leads to a strong sense of responsibility to do right and it is ingrained within all Muslims to keep a continual self-account of deeds and to repent as often as possible for sins committed either knowingly or unknowingly before the day of "final accountability". In other words, one form of accountability which is vital from an Islamic perspective is accountability to *Allah* (God). Although such accountability may not be directly observable, the discharge of true accountability in Islam involves transparency in recording and reporting as they form part of the act of fulfilling rights and obligations by trustees and ensuring that doubt and uncertainty are removed from inter-personal arrangements (Askary and Clarke, 1997). The emphasis on social accountability and full disclosure as a basis of discharging true accountability in Islam is underscored by Gambling and Karim (1991), Baydoun and Willett (1997) and Haniffa and Hudaib (2011). They highlighted that the *maqasid al-Sharia'h* (objectives of the *Sharia'h*) imposes obligations on organisations to truthfully record and provide transparent disclosure that are not misrepresented and biased, especially when affecting religious decision-making.

In the context of MCOs, disclosure and accountability is vital for their sustainability. MCOs deal with three main types of charity; *waqf* (endowment of property or money), *sadaqah* (voluntary charity) and *zakah* (compulsory charity, which forms one of the five pillars of Islam), and the bulk of the cash donations comes in the form of *sadaqah* and/or *zakah*. These different forms of charity have to be handled differently in accordance with prescribed religious rulings. *Sadaqah* can be considered a "normal" charitable donation and handled as other charity organisations manage their donations, within the remit of the charities objectives. *Zakah*, on the other hand, is considered a form of restricted donation, as it must only be spent in the ways outlined in the *Quran*. This means the management, distribution and subsequent reporting of *zakah* donations must be handled with sensitivity and with the utmost transparency.

The concept of full disclosure does not mean that every transaction of the organisation needs to be disclosed, as it is practically impossible or even undesirable. Napier (2007, p. 16) suggests that an Islamic organisation should disclose sufficient information to advise the society about its operations, even if such information works against the organisation itself. From an Islamic perspective, the *ummah* or society has the right to know the truth about the effects of the operations of the organisations on the well-being of the community (Baydoun and Willett, 1997). For this reason, information disclosure to meet the requirements of Islamic accountability needs to be *objective* (ensuring that all duties have been fulfilled properly and that the measures of charity are accurate), *material* (ensuring that the organisation explains how they have maintained Islamic principles in all charitable activities) and *relevant* (disclosing anything of importance to Islamic users for the purpose of serving *Allah*). It could therefore be argued that reporting and disclosure from the Islamic perspective are driven by social accountability concerns, as well as religious obligations. Similar concerns also underlie the development of the SORP guidelines, which have been heavily focused on stakeholder engagement for the effective management and good reporting by charities (Hyndman and McMahon, 2011).

To fulfil accountability demands, the charity organisation is held to account for information which satisfies the SORP requirements by the Charity Commission. It has been widely acknowledged that such information can satisfy a multitude of accountabilities. A recent study commissioned by the SORP committee of the Charity Commission (Connolly *et al.*, 2009) found evidence of greater appreciation of the SORP by stakeholders who view it as a driver for improving charity reporting and accountability. Hence, charities that adhere to the guidance encompassed within the SORP are better able to manage their performance reporting and, at the same time, meet regulatory requirements. In other words, adherence to the SORP is not only vital in terms of fulfilling legal obligations but also aiding a charity in discharging its accountability requirements. Furthermore, Islamic accountability requirements suggest that charity organisations should be fulfilling these requirements as a bare minimum of what they do. For the purpose of empirical examination, this paper uses the SORP requirements of the Charity Commission to assess how well MCOs are fulfilling their basic accountability obligations (please see Appendix for an outline of SORP disclosure requirements)[3].

Research method

The population for this study consists of MCOs registered in England and Wales. The SORP was introduced in 2005 and as it takes a couple of years for charities to fully implement regulatory changes (Connolly and Hyndman, 2004), reports which had a year-end between 31 March 2008 and 31 December 2008 were chosen as the base year for investigation. To ensure that the findings were not due to a lag in implementing reporting procedures or due to any adverse effects caused by the 2007 financial crisis, the reports for yearend 2010 were also examined for comparative purposes. Ongoing regulatory changes in 2009 meant this year was deemed unsuitable for selection. The SORP rules for the 2010 TARs and the changes meant that only those charities classified as either small or medium (see Table I for distinction) had comparative disclosure requirements with 2008 TARs. Large and very large TARs were required to provide full disclosure on all aspects of the SORP from 2010 rather than the respective mandatory and recommended items (Table II).

The initial sample was selected based on the 2008 annual reports[4], and the same sample was used for 2010. Out of 1,551 MCOs registered with the Charity Commission for England and Wales in 2008, 341 were required to produce SORP-compliant accounts (per rules in 2008), as they had an income greater than £100,000. Of these, only 190 had submitted their

Table I. Final sample

Item	Size[a] (£)				Type				
	Small (100-250k)	Medium (250-500k)	Large (500-1m)	Very Large (>1m)	Educational	Welfare	Humanitarian	Mosque	Total
Total number of MCOs in 2008	69	30	12	12	59	27	9	28	*123*
Total number of MCOs in 2010	60	30	14	11	59	23	9	24	*115*
Total number of MCOs in sample	129	60	26	23	118	50	18	52	*238*
Mean age of charities in sample (2010)	15	16	15	15	16	11	11	21	*16*
Mean number of pages in 2008 TARs	4	6	6	16	6	6	14	4	*6*
Mean number of pages in 2010 TARs	5	6	7	24	7	6	17	4	*7*

Notes: 123 charities were sampled in 2008; however, some of these charities (8) failed to submit an annual report for yearend 2010, hence a difference in the total between 2008 and 2010 charities; [a]Following categories developed by Crawford *et al.* (2009)

Table II.
Data collection

Item	Comment	Measurement
PANEL A: Verification of TARs		
Expected verification	Expected verification of charity reports	1 – Independent Examination 2 – Audited*
Actual verification	Actual verification undertaken of charity reports	0 – No examination, 1 – Independent Examination 2 – Audited
Overall verification	Of those examined, an assessment of whether the actual verification was as expected, below expected or above expected.	0 – Below expected 1 – As expected 2 – Above expected
Panel B: Disclosure of TARs		
	Total number of items disclosed within the six themes based on total requirements of the SORP (total of 38 items). For all charities in 2008 and small/medium charities in 2010 the total requirements comprised of mandatory requirements (total 13 items) and recommended requirements (total 25 items). For large or very large charities in 2010 all items were considered mandatory	
THEME A: Admin. information	Four mandatory and six recommended items	Dichotomous scoring for each item
THEME B: Governance information	Five mandatory and five recommended items	
THEME C: Objectives and mission	One mandatory and five recommended items	
THEME D: Activities and achievement	One mandatory and four recommended items	
THEME E: Financial Review	Two mandatory and three recommended items	
THEME F: Future Plans	Two recommended items	

Notes: * Audit is required if income is 500k or above. Independent examination is required if income is <£250k; If income is between 250k and 500k, then an independent examiner must be qualified reports for the 2008 yearend, following the sample size table presented by Sekaran (2003), and 123 charities were sampled from this final population. It was decided that for a detailed understanding of narrative disclosure by MCOs, the results would be analysed according to size and type. Proportionate sampling was used to ensure that the different types and sizes of charities were present in the final sample. Based on information provided by the Charity Commission, MCOs fall under four broad ranging objectives, and each charity could therefore fit into one of the following four groups: *mosque*, *educational establishment*, *humanitarian organisation* or *welfare organisation*. The same charities were used in 2010. Table I presents the final sample comprising 238 MCOs' TARs.

Data were collected in two stages. The first stage captured the *verification* of TARs. This stage was deemed important, as it assessed whether the TARs had been subjected to independent scrutiny, and hence, if the disclosure of SORP items could be relied upon. The second stage captured the conformance to SORP (2005). This is presented in Table II and explained further below.

Verification

According to the Charities Act 1993, as amended by the Charities Act (2006), all charity TARs submitted to the Charity Commission have to be audited or independently externally examined. Those charities that have an income above £500,000 are required to have a full independent external audit conducted. However, those with an income below £500,000 only require an independent external examination. Although this is less than an independent external audit, it still requires an external review of the financial statements by a competent independent person[5]. The publication of annual accounts which have been subjected to independent scrutiny is a significant means by which charity trustees and management can show their accountability and assure stakeholders of the *verification* of the information they have provided. *Verification* will be examined on three fronts: the *expected verification*, the *actual verification* and the *overall verification* as explained in Table II.

The *disclosure* of the TARs was measured against compliance to the SORP framework, through the process of content analysis. The mandatory and recommended items for disclosure have been identified and a matrix of information identifying the incidence of accountability across six themes is developed. The final checklist consists of 38 accountability and governance related items of which 13 items were mandatory and 25 items were recommended. The Charities Commission (2004) regard mandatory SORP compliance as the minimum standard of accountability and as such, any disclosure above this reflects higher efforts in demonstrating accountability.

Following earlier studies on charity disclosure (Palmer *et al.*, 2001; Connolly and Dhanani, 2004; Dhanani 2009), compliance with the accountability checklist was assessed by dichotomous scoring to capture the broad accountability practice. An item scores one (1) if disclosed and zero (0) if not. The scores for each item were then added to derive a final score for that particular theme of disclosure for each TAR. Although dichotomous scoring does not differentiate between the levels of disclosure within categories, it provides a more objective basis for coding by giving less choice to the coders (Hackston and Milne, 1996, p. 88). To ensure reliability and validity, a set of basic coding rules was constructed, and both researchers were involved in the coding and re-coding processes. The coding process was consistent between both researchers.

Findings

Table III summarises the findings in relation to the verification of the TARs and highlights any changes in disclosure practices that have occurred from 2008 to 2010. Verification was

Table III. Verification of trustees' annual reports

Verification	A. Overall	B. Size of charity Small	Medium	Large	V.Large	C. Type of Charity Educat.	Welfare	Humani.	Mosque
Panel A – Verification for whole sample									
Expected Ind. Exam.	189 (79)	129 (100)	60 (100)	0	0	91 (77)	37 (74)	11 (61)	46 (88)
Expected Audit	49 (21)	0	0	26 (100)	23 (100)	27 (23)	13 (26)	7 (39)	9 (18)
Actual Ind. Exam.	125 (53)	89 (69)	33 (55)	3 (12)	0	63 (53)	25 (50)	7 (39)	30 (57)
Actual Audit	79 (33)	10 (8)	23 (38)	23 (88)	23 (100)	41 (35)	19 (38)	8 (44)	11 (21)
Overall Verification									
Below Expected	3 (1)	0	0	3 (12)	0	3 (3)	0	0	0
As Expected	172 (73)	92 (71)	34 (57)	23 (88)	23 (100)	84 (71)	38 (76)	14 (77)	36 (69)
Above Expected	29 (12)	7 (6)	22 (37)	0	0	17 (14)	6 (12)	1 (6)	5 (10)
None	34 (14)	30 (23)	4 (6)	0	0	14 (12)	6 (12)	3 (17)	11 (21)
Total	*238*	*129*	*60*	*26*	*23*	*118*	*50*	*18*	*52*
Panel B – Change over years									
Actual IE (%)	−0.67	−4.34	+16.67	−9.52	0	−1.69	+4.03	+11.11	−6.55
Actual Audit (%)	+1.39	+1.08	−10	+9.52	0	+1.69	+2.09	0	−0.60
None (%)	−0.72	+3.26	−6.67	0	0	0	−6.12	−11.11	+7.15
Overall Verification									
Below Expected (%)	−1.48	+3.26	−6.67	−9.52	0	−1.69	−6.12	−11.11	+7.15
As Expected (%)	−0.18	−8.69	+13.34	+9.52	0	0	+4.19	+22.22	−12.5
Above Expected (%)	+1.66	+5.43	−6.67	0	0	+1.69	+1.93	−11.11	+5.36

Notes: This table presents the verification of the charities sampled according to the number of charities and the percentage in brackets (where appropriate). Panel A shows the results for the combined sample and Panel B highlights changes that have happened over the two periods examined assessed through the expected, actual and overall verification of the charity TARs as explained in Table II.

From Panel A (overall verification), it can be seen that the verification of the majority of TARs (73 per cent) by an external party was as expected, with 12 per cent being above expectation and 14 per cent not having any form of verification. A closer examination (see Column B) reveals that 37 and 6 per cent of medium and small MCOs, respectively, had an audit conducted when an independent examination was only required. The preference for auditing in the case of medium-sized MCOs may be due to their income size being closer to the audit requirement threshold of £500,000. Smaller-sized MCOs made up the majority of those that do not have any form of external verification. Based on Column C, it can be seen that the three cases (3 per cent) below expectation in terms of verification involved educational charities. Similarly, the majority of cases (14 per cent) with above expected verification are also educational charities. Educational charities, usually *madrassahs* (religious schools), have only recently begun to get themselves registered due to recent government legislation. It seems they have not fully grasped the reporting requirements incumbent upon them. As for cases with no external verification at all, the majority comprised mosques (21 per cent). A possible reason for both small charities and mosques not having external verification is due to these types of organisations often having mostly private donors who are less likely to make formal reporting demands as the relationship is based on trust, leading to such charities not placing much emphasis on their external reporting.

Based on Panel B, which looked at the change in verification between 2008 and 2010, the number of MCOs being audited increased by 1.39 per cent and those not externally verified at all dropped by 0.72 per cent. Column B suggests that the number of medium-sized MCOs being audited fell by 10 per cent and small MCOs not being externally verified at all increased by 3.26 per cent. Very large MCOs have the most consistent reports when it comes to verification, as no changes have been found over the two years. With regards to Column C, it can be seen that the majority (11 per cent) of humanitarian MCOs that were not being externally verified have dropped in 2010, but mosques (7 per cent) have had an increase in reports not being externally verified. These findings could be due to the financial pressures placed on charities by the financial crisis, causing them to forgo the more expensive audit in favour of the less expensive independent examination.

In addition to these findings, a number of observations in relation to verification are worth highlighting. We found, 19 of the MCOs failed to submit their TARs with their annual reports, 24 failed to provide their trustee signature/date on the reports and 32 failed to provide a signature or date on the verification report. These findings are similar to Morgan and Fletcher (2013), who found only 54 per cent of charities submitting a TAR which had clearly been approved by the trustees within the timescales. Accountants and examiners have greater responsibilities for MCOs due to the emphasis placed in *Shari'ah* on refraining from *khiyana*[6] (Alam, 1998). However, the fact that so many non-compliant reports were prepared[7] and signed suggests that MCOs need to have examiners/preparers who are aware of how they operate and are familiar with the nuances of religious charity reporting.

Detailed analysis was undertaken on these findings by comparing disclosure to specific items on the SORP framework (Appendix), and it was found that the items that were disclosed by the majority (i.e. greater than 50 per cent) of MCOs were related to providing information on trustees, advisors and administration[8]. This is probably because the majority of MCOs provided a one-page report outlining their "legal and administrative information" which contained the majority of disclosure required within this theme. However, only a third of MCOs provided voluntary related disclosure within these themes, with the majority providing descriptive information pertaining to mandatory items within Theme A. Within Theme B, MCOs disclose information on the nature of their governing document, how they were constituted, methods for recruitment and appointment of trustees and a statement of risk assessment. Within the remainder of the themes, the majority of MCOs disclose information related to a summary of the objectives of the charity, aims of the charity, a review of charitable activities undertaken and policy on reserves. All these items pertain to basic descriptive "background" information (Connolly and Hyndman, 2003, 2004, Dhanani, 2009) which is easily disclosed.

In contrast, there was evidence that MCOs were providing less disclosure in relation to more performance-oriented objects, namely, lack of information on objectives and public benefit and poor explanation of activities and spending. In relation to disclosure on objectives and mission, it was found that 84 per cent of MCOs provided a summary of their objectives, but only 53 per cent provided further details on how this makes a difference; however, significantly more MCOs provide this detail in 2010 compared to 2008, which is understandable given the extra requirements placed upon large/very large charities. In addition, only 27 per cent of MCOs provided an explanation of how their activities benefit the public. Despite the subsequent SORP (2008) showing public benefit of disclosure related to such information, the low level of incidence of disclosure on these items was disappointing. However, it was not surprising, as similar findings were also found by Morgan and Fletcher (2013). Items in relation to activities and achievement and financial review were least disclosed by MCOs, although significant improvements have been made in the 2010 reports related to the number of MCOs disclosing voluntary items, especially in relation to how expenditure has helped meet their objectives, impact on future income generation and details of performance against fundraising activities. These items were mostly disclosed by large or very large MCOs.

The lack of disclosure on more performance-related items could be linked to ignorance of the regulations surrounding charity reporting on the part of both the trustees and preparers. This could also be evidence of MCOs not knowing exactly what they do and how they actually plan to achieve their objectives, suggestive of poor strategic planning on the part of the trustees. Thus, a disregard of more judgement-based disclosure (Stewart, 1984) suggest MCOs either prefer providing less judgement-based information which they cannot be held to account for in the future and which is more cost-effective, or they have inadequate resources/expertise or knowledge to fully cover all the accountability requirements.

In addition, larger MCOs are relatively more accountable compared to their smaller counterparts, with the latter providing the least instances of disclosure across the themes, a finding similar with prior studies. There could be a number of reasons for this: first, and most importantly, the reporting requirements for large and very large charities are greater than those for smaller charities, causing them to take their responsibilities more seriously. The nature of larger organisations means that there are more upward accountability demands on them due to the level of funds they handle, especially in the case of institutional funders who demand detailed reports of where and how their funds have been spent. This larger and wider donor base means such organisations need to work harder to keep donors fully informed of their activities, and hence, disclosure becomes linked to their income maintenance strategy. Second, larger organisations have more resources available, in terms of personnel to prepare reports and compile performance figures for disclosure. They are therefore able to place more emphasis on strategy and strategic planning and introduce better governance procedures, performance management and measurement systems, which is then reflected in the quality of their disclosure. Because of these additional resources, larger organisations also have in-house account preparers who are more familiar with how the organisation operates and who work solely on recording and collating data for the annual reports. This makes their reports much more comprehensive than those organisations which rely on external preparers who only visit the organisation once a year. Given that all of these items became mandatory after 2008, the findings do not indicate significant change in recommended disclosure for large and very large MCOs. Smaller- and medium-sized MCOs often employ external parties to prepare and verify reports, as they do not have the resources to prepare reports in house. This means the majority of charities have preparers and verifiers who predominantly deal with the business world and only prepare one-off charity reports. This could explain the lack of compliance and transparency found in the reports and the subsequent willingness of verifiers to sign off un-compliant reports.

Although size seems to play an important part in the differences in the incidence of disclosure, the type of charity does not have a major effect. This is especially true in relation to recommended disclosure items where all types of MCOs provide almost similar types of disclosure. By and large, humanitarian MCOs provided the most comprehensive disclosure across the themes, with mosques providing the least.

These poor findings indicate that MCOs' trustees are failing to adequately fulfil their role as custodians of public money by not providing even basic disclosure of transactions and activities of the organisation as required by the SORP. However, our findings suggest that this issue has been taken more seriously in 2010 compared to 2008, possibly due to the effects of the difficult economic climate on MCOs in 2008. Although larger MCOs have begun to concentrate on providing more of the previously recommended (in 2008) and now mandatory accountability information in 2010, they still fall far short of providing full disclosure on all items.

Looking at the findings from an Islamic accountability perspective, there was lack of information on religious activities and expenditure, especially on *zakah*. The absence of information on *zakah* spending and lack of accountability found in this study could be due to deeper organisational reasons and a reflection on the internal practices of the charity (Lumley *et al.*, 2005; Dhanani, 2009). For instance, this could be attributed to their accounting systems not capable of capturing and distinguishing the various activities based on the various sources of charities or due to lack of expertise and manpower to adequately collate and report the detailed breakdown of expenditure. In other words, the absence of is not due to an unwillingness to disclose but rather because of deficiencies in the organisations' internal reporting systems.

Another consideration could be linked to the individual nature of charitable giving in Islam. The duties of *zakah* apply to individual Muslims and once they have given their donations to an MCO, they trust that the donations will be used for the appropriate purposes and do not demand for detailed information. On the part of the MCOs, they may feel it unnecessary to provide detailed disclosure if they are already complying with all the basic requirements of charity law. In other words, MCOs may not be viewing accounting and disclosure requirements as part of their religious duty and may be trying to keep the "sacred" separate from the "secular" (Laughlin, 1990), by using the "secular" annual report primarily for the purpose of fulfilling the UK legal requirements rather than conveying religious accountability. The lack of disclosure and accountability may suggest that MCOs are viewing their "secular" reporting activities as peripheral and unimportant, and thus failing to comply with the disclosure requirements of the SORP. This suggests that educating MCOs on the religious merits of accounting and reporting may help improve disclosure requirements.

Conclusion

Charities need to protect their reputation to attract grants and donations. Credible disclosure of narrative information is therefore expected of charities as evidence that their affairs are run properly (Gambling *et al.*, 1993). For MCOs, the issue of accountability is even more paramount, as they have to manage obligatory religious charity on behalf of the UK's Muslim community who chooses to donate to them. It is therefore important for MCOs to be more transparent in relation to their activities, which, at the bare minimum, includes adhering to disclosure requirements as recommended by the SORP.

Our findings highlighted a number of causes of concerns such as the complacency of external examiners in signing off non-compliant accounts, MCOs providing only descriptive information and not the whole range of accountability information as required by the SORP framework and the absence of disclosure in relation to how the religious donations have been distributed.

One way forward in improving the reporting practices by MCOs would be for the Charity Commission to provide a customised SORP framework for MCOs. However, such tailored help from the Charity Commission is unlikely in the current climate of public sector cuts, especially given the recent disbanding of the Faith and Social Cohesion unit which was specifically set up to help faith-based charities. Therefore, the alternative way forward for improvements lies with the MCOs themselves. Self-scrutiny can provide an internal regulation mechanism for MCOs to better understand what they are doing wrong, how they can improve and what they need to do to improve.

As suggested by Gambling *et al.* (1993), it is imperative that ethically funded organisations (such as charities) have external regulations which are always re-enforced by internal self-regulation to justify public interest. The external regulation is linked to the work of the Charity Commission in guiding, informing and ensuring compliance to regulatory requirements. Self-regulation must stem from the MCOs themselves, and this is recently evident in bodies such as the Muslim Charities Forum which was set up in 2007 by four of the larger MCOs in the UK, namely, Islamic Relief, Muslim Hands, Human Relief Foundation and Human Appeal International, as an umbrella organisation for MCOs. They meet every few months, initiate various training and development programmes for their members and working closely with the Charity Commission. A transparency and governance subcommittee was also recently set up to help members strengthen their reporting and accountability procedures. Although this forum is still at an early stage of development, it can play an instrumental role in helping to strengthen the internal control and governance procedures of MCOs and thereby help in increasing transparency and accountability. Such a forum can also be important in educating MCOs on the religious obligations to report.

This study is without its limitations. The study examined the disclosure practices of Muslim charities registered with the Charity Commission in England and Wales and as such the findings may not be generalised to other religious groupings or types of charities both in the UK and in other countries. Future research could build on this study by extending the sample to include other religious charities and assessing if the situation is similar across the religious denominations both in the UK and in other countries. Furthermore, as this study finds a lack of compliance to regulatory reporting requirements, future research could use qualitative research methods, such as interviews, to gain a deeper understanding of the actual practice of accountability within MCOs, as reporting practice is often a reflection of internal organisational practice.

Notes

1. Each region of the UK has a separate body regulating its charity sector. Charities in Scotland are regulated by the Office of the Scottish Charity Regulator (OSCR) and charities in Northern Ireland are regulated by the Charities Commission for Northern Ireland. Furthermore, not all charities operating in England and Wales are regulated by the Charities Commission for England and Wales as some are exempted or excepted from registration, and there are also many "foreign" charities operating in England and Wales which are not subject to the Charities Commission at all.

2. The present SORP has evolved from a number of earlier SORPs introduced in 1988, 1995 and 2000. The SORP requirements are derived from the Charities Commission, the Charities Act 2011, Charities (Accounts and Reports) Regulations 2005 (and 2008) for non-company charities and the requirement under company law for the accounts of companies to show a true and fair view complying with relevant accounting standards.
3. It was the original intention of the authors to also assess levels of compliance to religious rulings by exploring the amount and content of *zakah* disclosure. However, upon initial inspection of the reports, it was found that none of the MCOs disclose such information and therefore the remit of the research was narrowed to SORP reporting and basic accountability disclosure.
4. Data were collected from the trustees' annual reports (TARs) of the charities, as it is considered to be a primary medium of accountability (Taylor and Rosair, 2000; Coy and Fischer, 2001). In fact, a significant body of research within the charity sector has analysed both voluntary and mandatory disclosure using charity TARs (see literature review section). Although there are other methods of communication that can be used by MCOs, such as websites and brochures, etc., these types of communication media are only likely to be used by larger MCOs that have the resources. Therefore, it was decided that the main media that would be used by all those in the sample would be the mandatory trustees' annual report. Furthermore, this is the only vehicle through which the SORP requirements can be met.
5. For a comprehensive discussion of the difference between and independent examination and audit, please see Morgan (2009).
6. This includes all types of fraud, embezzlement, falsification of accounts, bogus claims, *zakat* evasion, misstatement of accounts, window dressing, etc.
7. It is often the accountant who is responsible for the preparation of the trustee's annual report in charities.
8. The detailed tables are available from the authors upon request.
9. Items followed by an (M) are mandatory and those followed by a (V) are voluntary.

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Appendix

Final disclosure checklist based on SORP 2005[9]

(1) *Theme A*: details of trustees, advisors and administration:
- Registered name of charity (M)
- Charity registration number/company reg. number (M)
- Address of principal office/registered office (M)
- Names of all trustees at date of report (M)
- Name of chief executive (V)
- Name and address of auditors/independent examiner (V)
- Name and address of bankers (V)
- Name and address of solicitors (V)
- Name and address of any other principal advisors (V)
- Reasons for non-disclosure provided (V)

(2) *Theme B*: information of structure, governance and management:
- Nature of governing document (M)
- How charity is constituted (M)

- Methods for recruitment and appointment of trustees (M)
- Details of constitutional provisions relating to appointments (M)
- Explanation of other bodies authorised to appoint trustees (M)
- Procedure for induction and training of trustees (V)
- Organizational structure of charity (V)
- Relationship with other affiliated charities (V)
- Relationship between charity and any subsidiaries/collaborators (V)
- Statement of risk assessment (V)

(3) *Theme C*: outline its objectives and mission:

- Summary of objectives of charity (M)
- Aims of charity and how it seeks to make a difference (V)
- Explanation of charities strategies for achieving objectives (V)
- Explanation of how these activities benefit the public (V)
- Statement on grant-making policies (if app) (V)
- Detailed role of volunteers (V)

(4) *Theme D*: information on achievements and performance:

- Review of charitable activities undertaken (M)
- Summary of measures used to assess performance (V)
- Details of performance against fundraising activities (if app) (V)
- Explanation of impact on future income generation (V)
- Details of material investments held (V)

(5) *Theme E*: the financial review:

- Policy on reserves (M)
- Details of any deficits (M)
- Principal funding sources (V)
- How expenditure has helped charity meet objectives (V)
- Investment policy and objectives including social, ethical and environmental considerations (if app) (V)

(6) *Theme F*: plans for future period:

- Future plans and objectives (V)
- Details of planned activities (V)

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