The Academy of Social Sciences is the national academy of academics, learned societies and practitioners in the social sciences. Its Campaign for Social Science was launched to raise the profile of social science in the public, media and Parliament.

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www.acss.org.uk | www.campaignforsocialscience.org.uk

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http://bafa.ac.uk

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MAKING THE CASE
FOR THE SOCIAL SCIENCES

No.13 ACCOUNTING & FINANCE

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THE BRITISH ACCOUNTING REVIEW

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FOR THE SOCIAL SCIENCES

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Preface

The aim of this short volume is to showcase the important contribution that research in accounting and finance makes to our society. Accounting and finance practices affect every aspect of our lives in ways both big and small. They impact on the decisions made about provision of the goods and services that we use each day and provide particular characterisations of the world around us.

Accounting and Finance might be caricatured as 'boring', provoking an ambivalent view of accountants and the use of financial and accounting information. Indeed, the worlds of accounting and finance can at times be viewed as inaccessible and a place where decisions are seen to be made on financial grounds in areas where the practices that are accounted for are seen to be more important. Recent controversial public debates about matters such as health, social care, and defence are just a few examples. Yet resources are limited and we need to know where we use them to help us make good decisions about our preferences.

Challenging this ambivalence, we demonstrate the positive influence of accounting and finance research, where researchers have worked with practitioners and policy makers, professional bodies and commercial enterprises, governments, NGOs and charities in order to understand the information requirements that will make a difference to the decisions we make. The field is active, broad and exciting, encompassing a wide range of issues beyond its traditional 'bean counting' depictions.

This volume highlights the breadth and responsiveness of accounting and finance research to contemporary issues across diverse sectors.

In an era of financial constraint, accounting and finance researchers have pioneered solutions to concerns about how society provides public services - for example, the risks when private partners fail, or how we provide health and social care. Accounting and finance has been at the forefront of understanding and documenting how financiers deal with risk, and how we develop financial models that have led to constructive collaborations with city firms and regulators alike. Improving transparency through supply chains is another area where accounting and finance research has played a leading and pivotal role, especially when considering the impact of scandals relating to food fraud and issues related to the distribution and access to vital public services.

Yet, the research that is highlighted here is only a small snapshot of the work that has been undertaken. Space precludes a variety of research that is perhaps so broad it is difficult to encapsulate in a few words, such as social and environmental accounting, or the effects of accounting information on the pricing of financial markets. These are just two examples that demonstrate the breadth of accounting research and its application to advancing understanding to both existing and emerging fields of inquiry.

Most of all we hope that this volume will stimulate interest and understanding in such an important and impactful social science discipline.

Professor Roger Goodman FAcSS
Chair, Academy of Social Sciences

Professor Shamit Saggar
Chair of Campaign for Social Science

Professor Lisa Jack
President of the British Accounting and Finance Association

Professor Nathan L Joseph
Joint-editor of The British Accounting Review

Professor Alan Lowe
Joint-editor of The British Accounting Review

The shortcomings of Public Private Partnerships (PPPs) and Private Finance Initiative (PFI)

In the UK, over 700 PFI projects have delivered some £60bn of capital expenditure, mainly for hospitals, roads and schools, with expected future payments between now and 2050 totalling around £200bn. PFI was intended to transfer construction and operating risks to the private sector, which in turn would operate more efficiently than the public sector and therefore be cost-effective. However, the government is the risk holder of last resort – when projects hit problems and private companies walk away or go bust, the government must stand in to keep services operating at a cost to the taxpayer, as demonstrated by the recent Carillion case.

Professors Anne Stafford, Pamela Stapleton and **Jean Shaoul** of the University of Manchester, showed how financial analysis can be used to critique economic and political theories such as market forces and private sector efficiency. Prior to their research, policy making failed to account for the additional long-term costs to the taxpayer that PFI projects would incur, especially private sector borrowing costs.

Their research provided some of the first independent accounting evidence through examining the relevant private sector financial statements for PFI hospitals and calculating the return on capital made.

The researchers quantified the substantial additional costs of finance that arise over a thirty year project lifetime, challenging government's view of these costs. Their financial statement examination also uncovered government guarantees provided to private sector partners which mitigated the private sector risk. Investors therefore saw PFI as a low risk investment, but these guarantees were generally invisible in public sector financial statements and consequently not widely understood. Through interviews with finance directors and project managers they were able to present concrete examples where risk did not transfer due to poorly specific contracts or the failure by the public sector to impose performance penalties amongst other reasons.

Their early research on the cost of finance meant that over time it became widely understood that using private finance for public infrastructure is expensive. They contributed to a growing body of independent evidence on the high cost of using PFI. Only recently the National Audit Office has confirmed that operational efficiencies are the same or higher using PFI as compared to conventional procurement. The Treasury has improved standard contracts and sought to renegotiate existing contacts, and, in its policy shift to a new approach from PFI with PF2, reduced the risk transfer from the public to the private sector and provided more transparency of government guarantees.

The social science approach used highlights the need for continuing research in this area as more complex forms of organisational structure are being used to compromise the clarity of control and cost. The problems at Carillion illustrate that private contracting can lead to public problems.

Investigating food fraud in food supply networks

Food supply networks are characterised by short-term, shifting and fragmentary supply relationships that challenge accountants and managers.

Professor Lisa Jack and colleagues of the University of Portsmouth have been researching management control in food supply chains and, in particular, fraud in the food and drinks industry.

Their research, funded by the Chartered Institute of Management Accountants, showed an over reliance on marginal costing and pricing leaving many suppliers (over 90% of whom are small and medium-sized enterprises) juggling cashflow and personal debt to manage overheads. Under these challenges and pressures in the industry, food fraud has emerged as a very real problem. Mis-labelling of products, substitution of ingredients, adulteration and counterfeiting of food and drink have triggered a search for preventative measures.

In 2013, with the horsemeat scandal in UK and Europe, the researchers realised that the issue needed more than scientific testing and production risk assessment. While the risk to human health must be kept in mind, food fraud is essentially profit-driven, and recent cases have revealed falsified accounting records and systems over-rides as key to the fraud.

The University of Portsmouth contributed to the 2014 Elliott Review into the Integrity and Assurance of Food Supply Networks: Final Report demonstrating that the problem is as much about accounting and management control systems as about the substitution of food products.

Forensic accounting and counter fraud control measures are part of the solution.

Several engagements to speak at food industry conferences, workshops for suppliers and technical quality managers, and to the media followed. In addition, the researchers have given advice and information to many researchers and producers in TV, radio and newsprint.

The work has led to on-going projects with industry partners to examine traceability challenges, consumer returns fraud and calculation of losses. One team of counter fraud practitioners has gone on to develop its own tools and publications, drawing on the research on food fraud that the researchers provided.

Supply network, audit and forensic accounting expertise are being brought together to enhance traceability and performance measurement systems, and to tackle the vulnerabilities in the sector.

Delivering cost effective healthcare

Facing financial challenges in meeting rising demand, the National Health Service (NHS) initiated the costing transformation programme aimed at shifting cost analysis towards the patient, resulting in Patient Level Information and Costing Systems (PLICS). PLICS identify the patient cost by the activities (such as ward stay, theatre usage, laboratory tests and x-rays) each patient consumes.

Professors Chris Chapman and **Sheila Ellwood** of the University of Bristol have both been studying the technical and organisational challenges surrounding PLICS, in particular legacy concerns about past forms of costing. Traditional costing based on service line (such as orthopaedics) or a clinical intervention (such as hip replacement) produced poor quality information that led to damaging decisions, failed to engage clinicians, and failed to clearly achieve benefits across the NHS.

Both researchers have been involved in longitudinal fieldwork in the NHS, including surveys of healthcare providers and case studies as part of a National Institute for Health Research (NIHR) funded project and a study published by the European Observatory on Health Systems and Policy.

Their research collected a broad data set of experiences and perceptions of the past, present and potential of costing information to drive cost effective healthcare decisions.

PLICS assists in the removal of waste and duplication through comparison of individual patient costs by clinician and diagnoses and is frequently used in business cases for service development.

The NIHR project found PLICS information to be regarded as commercially sensitive. Healthcare providers are wary of sharing information with healthcare commissioners, in case their work is cherry-picked by alternative providers or services are re-configured inappropriately. This lack of trust hinders service transformation, such as the redesign of services for elderly people ensuring the 'right care in the right place'.

Activity based costing systems such as PLICS require a far more diverse set of information than early costing approaches. The more granular PLICS information engages and empowers healthcare professionals to use scarce resources more effectively to treat more patients, without cutting clinical corners, but getting the right level of information requires careful positioning of how it can be of use in various decisions.

The researchers have fed back findings directly to the NHS Regulator and the Healthcare Financial Management Association (HFMA) as well as through publications and events.

Insights from the research have fed into emerging training programmes for finance professionals.

The new HFMA training programmes to which the research contributes seek to address these issues. The highlighting of commercial sensitivity problems surrounding PLICS data supports recent developments in pooling resources in 'accountable care organisations'. The research has promoted the delivery of effective as well as efficient healthcare both within organisations and across NHS organisations.

www.journalslibrary.nihr.ac.uk/hsdr/volume-4/issue-31#abstract

Testing the prevalence and nature of auditor clauses in private lending agreements

Pension funds, insurance companies and other investment funds depend on the independent verification of large companies' financial statements by auditors, to ensure the efficient and effective allocation of capital. Regulators have expressed concern about the dominance of the Big 4 firms, who control around 99% of the audit market for the largest public companies. Such market concentration represents a threat to competition and creates a serious risk of under-capacity if one of the Big 4 audit firm were to fail.

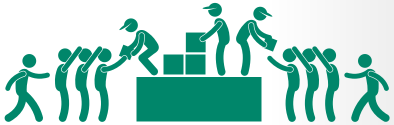
One of the reasons for this concentration is that the 'Mid-Tier' audit firms often face high barriers to entry, such as 'Big 4' auditor clauses in private lending agreements where banks require borrowers to have their financial statements audited exclusively by a Big 4 firm. The House of Lords Economic Affairs Committee Report noted that such restrictive clauses, not visible in the public domain, have the potential to distort the audit market by limiting competition. Recognising the lack of reliable evidence, the Committee recommended that a market study of restrictive auditor clauses should be conducted.

To test for the prevalence and nature of these clauses, **Professor Mark Clatworthy** at the University of Bristol and colleagues from Cardiff University and University of Nottingham conducted an empirical study for the Competition Commission audit market investigation. They retrieved a sample of lending agreements for large public companies in the US, which has similar capital and audit market characteristics to the UK. The Competition Commission also obtained examples of loan agreement documents from various capital market participants, including banks and law firms.

Their findings revealed that private lending agreements did sometimes include clauses requiring borrowers to have their financial statements audited by one of the Big 4 firms, potentially creating a barrier to entry to the Mid-Tier auditors and reinforcing Big 4 dominance. In some cases, the loan agreement documentation referred to the Big 4 audit firm that was already being employed by the borrower. The clauses occasionally required borrowers to use one of the Mid-Tier audit firms. In some respects, the clauses were more benign than expected and in many cases supported the banks, who were often lending very large amounts, to ensure the borrower did not switch from a reputable auditor to an unknown one. Nonetheless, the investigation demonstrated that auditor clauses are prevalent and may threaten the ability of the Mid-Tier to compete.

Based on the findings, and after seeking the views of various stakeholders, including Big 4 and Mid-Tier audit firms, the Competition Commission prohibited clauses in leading agreements that restrict a company's choice of auditor.

They noted that such clauses may have contributed to the high proportion of large companies employing one of the Big 4 audit firms. They also reported that these clauses may reinforce perceptions of differences in the quality of the services provided by Big 4 and Mid-Tier audit firms. This prohibition was also adopted in the EU Directive on statutory audits.



Improving aid effectiveness

With global levels of official development assistance reaching a record US$142.6 billion in 2016, improving the effectiveness with which these resources are distributed in developing countries can make a major difference to the lives of those living in poverty.

Accounting and accountability tools play a major role in governance mechanisms, ensuring aid funds go to where they are intended. These tools require aid workers spending resources on the ground to provide formal quantified accounts of spending upwards to funders. However, recent conceptual thinking has questioned the effectiveness of these formal upward accountability processes and suggested that two-way accountability processes could ensure greater effectiveness of aid delivery.

Research led by **Professors Gloria Agyemang** and **Jeffrey Unerman** of Royal Holloway University of London, together with **Professor Mariama Awumbila** from University of Ghana and **Professor Brendan O'Dwyer** from University of Amsterdam, undertook fieldwork among development non-governmental organisations (NGOs) at the grassroots level in Ghana. Using in-depth analyses of the actual experiences of those involved in delivering NGO services at the grassroots level, they examined the potential of upward accountability processes.

Their study indicated that providing a voice for the experiences of grassroots workers, and channelling this voice into adjustments of funders' project criteria and funding decisions, can considerably improve effectiveness of aid spending.

This work provided examples of how these mechanisms can work, and how they make important contributions to delivering rights based approaches to development. For example, informal mechanisms were considered more effective in helping funders appreciate the real issues preventing effective development interventions.

The research demonstrated a desire from both funders and fieldworkers for improvements in the accountability processes. The findings have been shared with NGO policy makers and are informing improvements to the way aid is delivered, thereby making more effective use of funding.

www.st-andrews.ac.uk/csear/

Investigating risk culture in financial organisations

In the aftermath of the financial crisis and other large scale corporate scandals, several public inquires, along with regulators, consulting firms and professional associations, drew attention to something that needs fixing: the risk culture of financial sector organisations.

Professor Michael Power and **Dr Tommaso Palermo** of the London School of Economics, and **Dr Simon Ashby** of Plymouth University, investigated how people in financial sector organisations think about and act on their organisations' risk culture(s), via extended contacts with senior managers and members of staff of banks and insurance companies, consultants and regulators.

Their research shows how many definitions of risk culture have some common elements, namely a focus on the norms and traditions of behaviour, the habits and the routines which are relevant to risk taking and its mitigation.

Many of these norms, habits and routines are not readily visible, even to organisational participants themselves, let alone researchers and regulators. And yet it is this problem of visibility, of unmasking risk culture, that is at the heart of current regulatory and organisational focus. The risk culture debate is symptomatic of a desire to make risk and risk management a more prominent and visible feature of organisational decision-making and governance. The researchers observed at least three interrelated dimensions of this shift: the creation of new risk oversight units and capabilities; the use of diagnostic tools, such as surveys, as a way to measure internal attitudes towards risk-taking and control; and increased attention to risk information consolidation and aggregation.

The research documented a number of specific organisational 'hot spots', which define and are fundamental to the way organisations think about, and seek to act upon, their risk cultures. For example, risk managers find it difficult to position themselves as trusted advisers and to engage the business in risk-awareness initiatives, while maintaining a degree of structural independence. Regulatory requirements for tangible evidence of 'strong' risk cultures can crowd out attention to softer dimensions such as the quality of internal interactions.

The research also found that it is difficult to define clear points of intervention, with strong behavioural leverage as part of corporate change programs that focus mainly on ethical change and increased respect for internal control processes.

For each of these risk culture 'hotspots', the research identified a set of diagnostic questions that are instrumental to developing awareness about the inevitable tensions that accompany attempts to 'fix' risk culture. In recent years these questions, and related possible answers, have been discussed with senior managers of financial institutions, regulators and consultants as part of our research project's follow up meetings. For example, at the time of writing, one of the researchers is collaborating with members of the Group Internal Audit of a large multinational financial services company, who aim to explore ways to refine their approach to assess 'risk and control culture' within their periodic audits of the business.

www.lse.ac.uk/accounting/CARR/pdf/Final-Risk-Culture-Report.pdf

Progress in measuring financial inclusion

The Year of the Microcredit (2005) plus the increasing interest of policy makers, gave new impetus, to gaining better data on financial inclusion – the access by households to reasonably priced and appropriate formal financial services that meet their needs. Policy makers increasingly realised that broadening access to financial services can help economies develop faster. Financial inclusion is now at the top of the G20 agenda, with the Department for International Development (DFID) co-chairing the sub-group on regulation and standard-setting bodies.

Professor Thorsten Beck, now at Cass Business School, University of London, and researchers in the financial sector group of the World Bank's Development Research Group (DECG) started collecting proxy indicators in 2004 of access to financial services – the number of branches/ATMs in a country relative to population and area as well as the number of deposit and loan accounts. This has transformed into the Financial Access Survey (FAS), collected by the IMF with support by the Netherlands' Ministry of Foreign Affairs and the Bill & Melinda Gates Foundation.

A second data collection effort focused on the barriers to access, through a bank-level survey across 62 countries which documented high variation in fees and documentation requirements that potential bank customers face across countries.

To focus more directly on the share of households with access to different formal financial services, the Global Findex survey was launched in 2011, with a second survey in 2014, and a third round in 2017 to be published in April 2018. The survey is part of the Gallup survey, supported by the Bill & Melinda Gates Foundation, and captures access to and use of financial services as well as demand-side constraints, allowing detailed analysis across socio-economic segments of each country's population.

The data from the Global Findex have shown that in many low-income countries, 20% or less of households have access to a formal financial account, related to an array of both supply side constraints (geographic access, high fees), regulatory constraints in the form of high documentation requirements, and also demand-side constraints (such as cultural barriers to accessing financial services and lack of financial literacy). There are striking correlations of financial inclusion with income, location but also gender.

> This evidence has been used to inform financial inclusion strategies in many countries and develop specific policies and programs.

For example, financial innovation, most prominently the use of mobile phones as delivery channels, has helped expand access to financial services in many countries. Rather than relying on expensive bricks-and-mortar branch infrastructure, using mobile phones is much cheaper for both providers and users of financial services and much more widespread in developing countries than bank accounts. Similarly, focusing on payment services as entry points for previously unbanked households has been shown to meet more immediate needs and help create trust in the financial system. Finally, there is evidence that broadening access to such services can help households smooth consumption and help firms expand access to supplier credit and thus production.

Understanding how financial anxieties worsen physical health

Since the 2008 financial crisis, government programmes of austerity and rising levels of household debt have led to an increase in financial strain in the UK. Higher levels of suicide, alcohol problems and mental health illness have been associated with increasing financial difficulties.

In a series of recent studies, **Dr Declan French** and colleagues at Queen's University Belfast have tried to understand how financial anxieties worsen physical health. In their first study, French and **Professor Donal McKillop** analysed data collected on low-income households in Northern Ireland experiencing varying degrees of financial strain – anxiety, worry or feelings of not coping created by economic or financial events. They found that the experience of feeling financially strained had a stronger relationship with most aspects of health than the size of the debt, the type of debt or the number of different lenders. Additionally, results indicated that the pathway from financial difficulties to poor health runs through worse diets and increased consumption of cigarettes and drugs.

Their second study with **Carla Prentice** analysed the pathways by which financial strain can affect health through unhealthy behaviours. Using Dutch data, the authors considered smoking, heavy drinking and being overweight as plausible behavioural responses to financial strain but found that only 4.9% of the response of self-reported health to financial strain is mediated by these behaviours. In explaining the link between financial strain and health, the biological response appear to be more important than changes in health behaviour. Interestingly, financial strain is also seen to make people more focused on the present, but this does not cause them to engage in more risky and unhealthy behaviours. Economic stresses therefore look to be distinct from other forms of stress in the relatively minor influence of changes in health behaviour on the worse health.

In a third project, using UK longitudinal household data, French found that the feeling of not being able to cope financially matters for individual mental health and general health status.

This highlights that shocks or worries to how we view our financial situation are more important for personal financial well-being than not having enough money.

The implication for policy of all three studies is that welfare reforms causing financial uncertainty for households, even if people are not made materially worse off, can exacerbate financial strain, thereby increasing mental health and physical health problems and increasing public healthcare costs.

https://sites.google.com/site/declanfrench22/research

Credit unions in a modern financial services industry

Credit unions are not-for-profit cooperative financial institutions which provide financial services to a membership defined on the basis of a common bond. In 2016, there were 68,800 credit unions across 109 countries with 236 million members. Credit unions are an integral part of the financial system of many countries, including Ireland where they deliver financial services to over 2.6 million individuals (63% of the adult population).

Professors John Wilson of the University of St Andrews and **Donal McKillop** of Queen's University Belfast have engaged intensively in research that centres around the core themes of industry structure, strategy, performance, risk and governance of credit unions. This research has produced valuable insights into credit unions in the UK, US and Ireland.

In the aftermath of the financial crisis, the Government in Ireland was obliged (under the terms of an international bailout) to overhaul the credit union industry. Consequently, the Irish Government established a Credit Union Commission to review the structural and regulatory landscape within which credit unions operate, and propose changes to the regulation, governance, business models of credit unions. Wilson and McKillop were full members of this Commission.

Following an interim report (October 2011), the recommendations in the Commission's final report (May 2012) formed the basis for new legislation (Credit Union and Co-operation with Overseas Regulators Act) passed in the Irish parliament in 2013. The final report contained over 60 recommendations, which covered corporate governance, prudential regulation, stabilisation policy and sector re-structuring. Many of these recommendations were implemented in full and overseen by the Registry of Credit Unions (within the Central Bank of Ireland).

Wilson and McKillop's research influenced many of the findings and recommendations, including the basic governance and regulatory requirements and the benchmarks that credit unions should meet if they are to be registered to operate.

Since 2012, there have been changes in regulatory requirements, corporate governance, and restructuring. Specifically, a new framework for regulatory requirements in respect of reserves, liquidity, borrowing, lending, savings, operations and risk management was enacted. A new governance framework has been introduced and a stabilisation fund (funded by credit unions) was established to support viable, but undercapitalised credit unions.

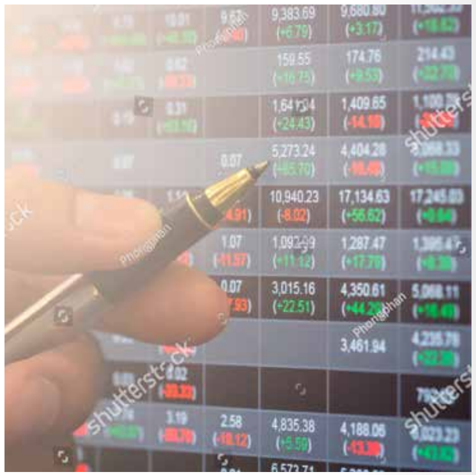
A Credit Union Restructuring Board (ReBo) was also established in 2013 to facilitate industry consolidation via credit union mergers and amalgamations. In March 2017, the Minister of Finance was satisfied that ReBo had completed the performance of its function under the 2012 Act. Over its three-year life, ReBo facilitated 82 restructuring projects which involved 156 credit unions with assets of €7.9 billion (50% of the total assets of the sector). The number of credit unions was reduced by 127 from 395 to 268 with 55 of these credit unions having assets in excess of €100 million. This is quite a remarkable change in a three-year period. Although credit unions are now more stable, the consolidation process will continue as credit unions seek to improve their operations particularly in information technology and human resources.

Identifying the portfolio balance channel in the operation of monetary policy

Following the financial crisis of 2008, central banks in advanced economies adopted nonstandard monetary policies typically involving large-scale asset purchases. These policies are often referred to as quantitative easing (QE). Policy makers have become increasingly focused on the behaviour of financial institutions, such as banks and institutional investors, for the stability of the financial system, and the way that they respond to the QE policies.

Monetary policy makers have emphasised the operation of the 'portfolio balance channel' by institutional investors as a key channel through which QE policies work. The portfolio balance channel provides a means for central bank asset purchases to affect the real economy. According to this mechanism, purchases of financial assets financed by central bank money increase liquidity and push up asset prices, as those who have sold assets rebalance their portfolios into riskier assets. This stimulates expenditure by increasing wealth and lowering borrowing costs for households and companies.

Research by **Professor Ian Tonks** and colleagues has demonstrated how institutional investors changed their asset allocation behaviour in response to the Bank of England's QE programmes. The research used macro and micro data to assess whether the investment behaviour of insurance companies and pension funds (ICPFs) in the UK during the global financial crisis was consistent with the portfolio balance channel.



The researchers investigated the impact of QE on ICPF investment behaviour, by comparing model predictions for net investment with and without QE, and showed clearly that net investment in gilts fell as a result of QE. Moreover, there was evidence of rebalancing into corporate bonds.

The results suggest QE led to institutional investors shifting their portfolios away from government bonds towards corporate bonds, demonstrating the existence of the portfolio balance channel. But portfolio rebalancing seems to have been limited to corporate bonds and did not extend to equities.

This research is important because it identifies the channel through which non-standard monetary policy operates, and enables policy makers to adopt such measures with the confidence that they work.

This evidence on how the portfolio balance channel works for large-scale asset purchase programmes allowed the European Central Bank (covering a population of 340 million people) to adopt its own asset purchase programme worth €1.1 trillion in January 2015. The European Central Bank was able to proceed with their versions of QE in the knowledge that this research had identified a channel through which QE operated. The President of the European Central Bank, Mario Draghi, cited Professor Tonks' work in justifying the ECB's expanded asset purchase programme. The work has also been cited in other central bank publications, as central banks around the world have attempted to understand and implement QE policies.

Helping the charity sector succeed

The charity sector differs from private or public sectors in terms of orientation, motivation, activities, sources of funding and contribution to the public good. With an annual income of £80 billion in the UK, it is a sector where trust and confidence by the general public is crucial. Trust underpins the necessary flow of support from volunteers and donors; support that is absolutely essential to ensure the sector's long-term development and growth.

Good accounting and reporting underpin good accountability, which aids the building of trust and establishes legitimacy, and is vital to the continuing health of the sector. For over a decade, research led by **Professors Noel Hyndman** and **Ciaran Connolly** at Queen's University Belfast has been focusing on accounting, reporting frameworks, stakeholder engagement and governance in the charity sector. The focus of their work has been on ensuring accounting information not only helps donors and regulators develop trust in the sector, but also steers management to focus on issues that are of central importance to key stakeholders, including the general public.

Working with the Charity Commission and Office of the Scottish Charity Regulator (OSCR) their research considered the needs of donors, funders and other charity support groups. The research involved generating, collecting and analysing qualitative data from interviews and questionnaires from approximately 1,000 stakeholders, providing a platform for them to shape accounting and reporting by charities.

The research has had a major influence on charity accounting, reporting and legislative frameworks within the UK and Ireland.

Their work formed the basis for discussions on the future of charity accounting and reporting, and was instrumental in the form and content of the 2015 Statement of Recommended Practice (SORP) for charities (something acknowledged by both the Charity Commission and OSCR). The 2015 SORP, the first major revision of charity reporting requirements for over a decade, sought to sharpen accounting and reporting. This required charities to tell both their 'financial' and 'performance' stories more effectively (and in very different ways from companies).

The research provided understandings to enable a more legitimate, better managed and more accountable charity sector.

The knowledge gained by the researchers also led to their direct input into the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 legislation. This was a development following the establishment of a charity regulator for the first time in Northern Ireland (active from 2011). As a consequence of these regulations, the 2015 SORP became mandatory for large non-company Northern Ireland charities This was viewed as improving the regulatory and accounting basis for the Northern Ireland charity sector, and placing it on a similar footing to other parts of the UK.

Professors Noel Hyndman and Ciaran Connolly continue to work with policymakers to highlight their research and the importance of regulation and good accountability processes, through collaboration, conferences and direct input.

Examining Social Impact Bonds to address social policy issues

Social Impact Bonds (SIBs) are a form of government payment by results contract in which payment is made on achievement of improved social outcomes. Charities are paid if they can achieve certain performance outcomes for particular individuals. For instance, a service for reintegrating ex-prisoners into society might be paid based on specified reductions in an individual's reoffending. Proponents claim that SIBs promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants.

Since charities may not be paid for several months or even years (depending on the contract), the initial funding comes from 'social investors'. If the charity meets its SIB outcomes, it will receive payment, from the government, which will be used to repay investors with interest.

Professors Christine Cooper of the University of Edinburgh, previously at the University of Strathclyde, **Cameron Graham** of the Schulich School of Business and **Darlene Himick**, of the Telfer School of Management, investigated the operation of SIBs, in order to understand the accounting and legal mechanisms. The researchers specifically examined the Entrenched Rough Sleepers SIB awarded to St Mungo's, a homelessness charity.

They conducted multiple interviews with the key stakeholders involved in the development and operation of the SIB and analysed extensive documentary evidence on St Mungo's, SIBs and the London Homeless SIB.

The research considered the possibility that SIBs monetarise the most vulnerable in society making them a source of monetary return for 'social investors', since investor returns are contingent on the activities of the vulnerable. Furthermore, the research was concerned that the use of SIBs changes the relationship between providers and recipients of service. Performance systems that provide financial incentives to achieve particular outcomes are vulnerable to manipulation. This raised questions about the potential for unethical behaviour by investors driven to profit from the vulnerable individuals in society.

Their research found accounting for SIBs is flawed because complex human activities cannot be adequately reduced to numerical metrics.

The research highlighted how SIBs place great emphasis on individuals and their personal trajectories, rather than tackling social problems which impact on individuals.

The findings of this research have been used by politicians, policy makers and providers to engage with the contracting process and moderate the potential for unethical behaviour. For example, the research was used by Medecins du Monde (Joel le Corre) when considering entering into a SIB with the French government and the research has informed Labour Party policy discussions.

Other titles in the series are:

1. Wellbeing
2. Ageing
3. Sustainability and Climate Change
4. Crime
5. Sport and Leisure
6. Management
7. Scotland
8. Longitudinal Studies
9. Mental Wellbeing
10. Wales
11. Dementia
12. Education

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