

Financial reporting timeliness and its determinants in UK charities

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ARTICLE INFO

Editor: Craig Sisneros

JEL classifications:

M41

M48

Keywords:

Donation

Financial reporting

Timeliness

UK charity sector

ABSTRACT

This study empirically examines the timeliness of financial reporting as an important qualitative characteristic of useful financial information within the context of United Kingdom (UK) charities. Using 8490 UK charitable companies (67,014 observations) during 2007–2018, we find that charities relying more on donation income take a shorter time to file accounts. Moreover, we observe that charities operating in more competitive donation markets are more inclined to provide timely financial disclosures. Similar to for-profit organizations, charities tend to delay their financial statements filings when reporting deficit, negative equity, low liquidity, and high leverage. In addition, our analysis shows that charities with higher accruals quality, unqualified audit opinions, and subject to audits by industry-specialized auditors publish their annual accounts earlier. Our findings have important implications for charities, donors as critical stakeholders, regulators, and scholars.

1. Introduction

The United Kingdom (UK) has a heterogeneous charity sector comprising over 180,000 organizations working across numerous geographies, beneficiary groups, and charitable purposes. This sector makes a significant contribution to the UK's economy and society. In 2023, charities are estimated to employ more than a million paid workers and more than six million volunteers, have a total income of almost £90 billion, and have spent more than £85 billion on charitable activities expenditures (Charity Commission, 2023). Based on the UK Civil Society Almanac 2022 by the National Council for voluntary Organisations (2022), the voluntary sector has contributed about £20 billion to the UK's economy, which equals 1 % of the gross domestic product (GDP). According to the Community Life Survey in 2023, over 2 billion hours are spent volunteering each year in the UK, which is equivalent to 1.25 million full-time employees, similar to the total employment across the manufacturing, construction, and real estate sectors combined (Department for Culture Media & Support, 2023).

Despite the economic and social impacts, the UK charity sector has suffered a contamination problem, whereby the reputation of legitimate, ethical charities is tarnished by the misbehaviour of a handful of charities (McDonnell & Rutherford, 2018). Kids Company charity is one of the recent high-profile scandals in the UK charity sector. The charity served vulnerable children and young people and received support from

the central government and private donors through governmental grants or donations. However, Kids Company collapsed in 2015 after financial difficulties due to financial mismanagement, according to the Charity Commission investigation (Charity Commission, 2022b). The Olive Cook case in 2015 is another well-publicized charity scandal that used intrusive requests to fundraise. These two failures occurred in the wake of a series of highly publicized scandals in 2015 when public trust in UK charities had fallen to the lowest recorded level since monitoring began in 2005. Given this history of underperformance, UK charitable organizations have recently received greater attention from the public, government, and regulatory bodies, triggering calls for good accounting and reporting (Connolly & Hyndman, 2013a).

Scandals of this nature have the potential to inflict significant damage on the entire charity sector, as public trust plays a pivotal role in its continued existence. Building trust needs good accountability, which is underpinned by good accounting and timely reporting (Connolly & Hyndman, 2000). In other words, appropriate accounting and timely reporting are necessary to build and maintain stakeholders' confidence, legitimize charities' operations, and provide a basis for stability and growth in the flow of funding (Connolly & Hyndman, 2013b).

Previous studies suggest that timely disclosure of financial information is helpful to a range of stakeholders, including donors, creditors, government, the public, regulators, and beneficiaries (Behn, DeVries, & Lin, 2010; Reheul, Van Caneghem, & Verbruggen, 2014). Charity

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¹ We wish to thank the anonymous reviewers for all their suggestions. This paper is part of the corresponding author's PhD thesis at University of Otago. The PhD is financially supported by the Indonesia Education Scholarship (*Beasiswa Pendidikan Indonesia*).

Commission, the registrar of UK charities, requires charities to file financial statements within ten months after the financial year-end. These disclosures are then published online through the charity register website for public consumption. Submitting accounts is an essential way for UK charitable organizations to remain accountable and trustworthy to the public. It is also a great way to publicize charitable works by demonstrating transparency and efficiency to current and prospective donors and other funders. Furthermore, charities data are essential as a regulatory tool for the Charity Commission in identifying potential risks in the sector early, taking effective enforcement action where needed, and reaching individual trustees with information in a way and at a time that best helps them (Charity Commission, 2022a).

If a charity does not submit its accounts on time, then its profile on the charity register website will feature a red flag indicating it is late. A red flag for late filing on a charity's register could put off potential and current donors from donating. Research commissioned by the Charity Commission and the Fundraising Standards Board in 2012 reported that 76% of adults will not donate to a charity that had failed to submit its annual returns on time. As such, most donors, especially large and institutional donors, check on charity details before donating to a particular charity (Connolly & Hyndman, 2013a; Khumawala & Shroff, 2023).

Moreover, during the recent UK economic recession, charities had to deal with the early impacts of economic and social shifts, such as cuts to institutional donations or trusts and foundations reducing their grant-making capacity, indirectly impacting charities performance (Charities Aid Foundation, 2023; Hyndman, 2020). The Charities Aid Foundation 2022 report highlights that one in 12 people chose not to donate, while one in eight said they would likely cut back charitable donations. This economic pressure means that competition among charities for donation income has increased dramatically. In such an environment, higher accountability and transparency are essential for charities to enhance their attractiveness to existing and prospective donors.

While a general consensus exists that high-quality financial reporting in the charity sector is essential (Felix, Gaynor, Pevzner, & Williams, 2017; Hyndman & McKillop, 2018), there has been very little empirical work undertaken to investigate the timeliness aspect of financial reporting in the UK context. Our study aims to fill this void by empirically examining the determinants of financial reporting timeliness for UK charities. Reheul et al. (2014) is the only study investigating the financial reporting timeliness of the non-profit sector. Their study contributes to understanding the determinants of financial reporting timeliness of Belgian non-profit organizations. However, the use of Belgian (a code-law country) non-profits during 2006–2008 raises a concern about the generalizability of their findings to charity sectors in the UK, a country governed by the common law system. In this study, we complement their findings by documenting important new determinants of financial reporting timeliness in charities underlying resource dependence and signalling theories. More specifically, we include donations market competition that sheds more light on how pressure within the donations market affects financial reporting by charities. Further, we assess the consequence of reporting quality on financial reporting timeliness in charitable organizations, proxied by auditor industry specialists, audit opinions, and accruals quality. We also consider the unique legal structures of UK charities by focusing on charitable companies that are subject to dual regulations of the UK Charity Commission and Companies House. These regulators have different filing deadline regulations. Our research, therefore, enables us to examine how the unique legal structure in charitable companies affects their financial reporting behaviour. We also incorporate other commonly used charity characteristics, governance, audit, and reporting quality-related variables as control variables. The analysis draws on a large sample of UK charitable companies from 2007 to 2018 to identify and investigate the determinants of charity financial reporting timeliness.

Utilizing 8490 UK charitable companies (67,014 observations) during 2007–2018, we find that charities relying more on donations take a

shorter time to file accounts. We also note that charities exposed to very competitive donation markets report a higher likelihood of more timely financial statements publications when compared to those in less competitive donation markets. In addition, our results show that charities with unfavourable news in their financial statements represented by deficits, negative equity, low liquidity, and high leverage tend to lag their filings. Furthermore, we find that charities audited by auditor industry specialists that receive unqualified opinions and record high accruals quality are likely to submit their financial statements to the regulator more quickly.

Our study makes several key contributions. First, this work adds to the extant literature investigating charity sector financial reporting behaviour by examining UK charity financial reporting timeliness. Despite the social and economic significance of accounting to the UK charity sector, very little is known about the financial reporting behaviour in charitable organizations (Hyndman, 2020). As Connolly, Hyndman, and McConville (2013) note, the charity sector is quite different from either the private or the public sectors in terms of its orientation and motivation, the nature of activities, its resource availability and the manner of its contribution to the public good. Therefore, understanding financial reporting behaviour in this sector is important.

Second, this is the first comprehensive study concerning financial reporting timeliness in the UK charity sector. In doing so, we identify new timeliness determinants related to the charity funding source (i.e., donation market competition) and reporting quality measures (i.e., auditor industry specialists, audit opinion, and accruals quality) in addition to those used to explain reporting timeliness in prior for-profit and non-profit studies. Moreover, compared to prior research examining trends in charity reporting timeliness, we employ a much larger sample of UK charitable companies over a substantially more extended period.

Finally, this study has important policy implications. We note that reliance on donations and donations market competition are both associated with earlier financial statements dissemination. These findings suggest that large and institutional donors, as the key stakeholders, can play a significant role in disciplining charitable organizations to produce financial statements on time. Moreover, charities exposed to greater donations competition will be pressured into earlier financial statements filings. Hence, disclosure policy may wish to address the late reporting behaviour of charities with less reliance on donations and less competitive funding pressure. Given that bad news disclosures are associated with later submissions, there may be a need for charity stakeholders, especially funders and regulators, to monitor the charity's financial health to mitigate financial collapse. Finally, regulators may wish to promote best practices by encouraging the use of auditor industry specialists and acknowledging those charities with high-quality accruals and favourable audit opinions, given that these behaviours support accelerated filings and accountability.

The remainder of this paper is organized as follows. The next section is about regulatory background in the UK charity sector and hypotheses development, where we briefly discuss relevant previous studies and develop the hypotheses. Section 3 introduces the sample and method used in investigating the determinants of financial reporting timeliness for charities. The empirical results are analyzed in Section 4, and the main findings and their implications are summarized in Section 5.

2. Literature review and hypotheses development

2.1. Regulatory background

This study focuses on the timeliness of financial reporting of UK charities to the Charity Commission. The Charity Commission, established in 1853, is an independent, non-ministerial department that registers and regulates charities in England and Wales. To increase public trust, the Charity Commission promotes compliance and enhances accountability through its legal obligations.

All registered charities in the UK must send annual information to the

Charity Commission. The regulations differ depending on the charity's legal structure and size. Charitable companies and unincorporated organizations with: (i) income up to £10,000 only need to report their income and spending; (ii) with income between £10,000 and £25,000 must prepare an annual return; (iii) with income over £25,000 must prepare an annual return, trustees annual reports, accounts, and an independent examiners report (or a full audit for those that qualify as large charities²). While charitable incorporated organizations (CIOs) need to submit an annual return, trustees annual report and accounts (including the independent examiner's report for those whose income exceeds £25,000 or a full audit for large charities). All these documents must be submitted within ten months after the financial year-end.

Despite a legal obligation, late or no accounts filing with the Charity Commission attracts no financial penalty. However, charities face substantial reputational risk as late or no filings do appear permanently on public records. The Charity Commission marks in red on the charities register website as '*In default*' for the charities failing to submit accounts and changes to '*Documents submitted late*' once late filers send their accounts after their reporting deadline. These actions allow stakeholders to identify that the charity is non-compliant.

The Charity Commission has several formal powers under Sections 46, 52, 75 A, and 84 of the Charities Act 2011 to ensure timely receipt of annual documents from the charities. Section 46 of the Charities Act 2011 allows the Charity Commission to open a statutory inquiry when a particular charity fails to submit annual accounts within the statutory deadline.³ Under Section 52, the Charity Commission can obtain banking information concerning the missing annual documents.⁴

Section 75A⁵ empowers the Charity Commission to issue official warnings when it considers a breach of trust, duty, other misconduct, or mismanagement in a charity. The Charity Commission does not need to open a statutory inquiry before it can issue a warning. However, it needs to notify the charity of its intention to do so.⁶

Exercising its power under Section 84, the Charity Commission directs the concerned charity trustees to provide the missing information within a specified period (usually 30 days after the charity was placed into inquiry). The Charity Commission may also initiate investigations into charities that did not submit their accounts within the regulatory period. Furthermore, the Charity Commission may release a public statement regarding a statutory inquiry into a charity and link it to its entry on the charity public register.

On 20 September 2013, the Charity Commission opened a statutory class inquiry to investigate the charities in default of their statutory obligations to file reports and accounts for two or more years in the last five years and met specific criteria, namely (i) the charities were recently (or in the case of charities that would become part of the class inquiry in

due course, would be) given final warnings⁷ to comply by a specified date; (ii) on the first working day after the specified date the charities were still in default (partially or otherwise).⁸ The inquiry periodically identifies and adds charities that meet the criteria and have a last known annual income over a certain threshold. In 2013, the last known annual income threshold was '>£500,000'. Over time, the class inquiry has widened its scope by reducing the last known income threshold to identify other non-compliant charities.⁹ Indeed, the Charity Commission has been adding charities to the defaulters' class inquiry more frequently and using its powers more quickly as part of the inquiry, resulting in fewer charities in the class inquiry and timely dissemination of financial information.

These regulations seem to be working in the UK. In 2009, about 20% of UK charities failed to submit their accounts on time. According to the 19 January 2016 press release of the Charity Commission, statutory class inquiry has resulted in over £68 million of funds being transparently accounted for on the charities register and providing outstanding accounting information.¹⁰ According to the Charity Commission annual report and accounts 2021–2022, 92% of charities had an up-to-date annual return on the Charity Commission register.

2.2. Hypotheses development

Resource dependence theory by Pfeffer and Salancik (1978) postulates that the environment provides "critical" resources to the organization. Therefore, organizations will attempt to manage constraints and uncertainties resulting from the need to secure critical resources from the environment to ensure survival (Greenwood & Tao, 2021). As dependence increases with the concentration and importance of resources, organizations that depend heavily on a few key resource providers are likely to experience stronger constraining influences from their environment (Froelich, 1999).

In the context of charitable organizations, the critical resource is donations, and the most important external stakeholder for any charity is its group of donors (Connolly & Hyndman, 2013b). Donations are different from other forms of economic transactions since the donor does not provide resources in return for some direct benefit. However, the donor requires that the resources transferred to the charity be used to benefit some other individual, group of individuals or the environment. Since donors are interested in the use of donated funds, there will be a greater degree of external monitoring, perhaps expressed in the form of an enhanced degree of accountability (Hyndman & Jones, 2011).

Trust and accountability are interrelated. Good accountability supports the building of trust, and trust is essential to ensure the continuing health of charitable organizations. Donors will continue to place trust in and support charities when they exhibit greater accountability (Felix et al., 2017; Hyndman & McKillop, 2018). In contrast, weak accountability damages trust, and damaged trust can inflict considerable costs on charities. Therefore, charities need to have sound systems of accountability to build and maintain trust from their stakeholders, especially donors.

According to the Charity Commission (2004), accountability is a

² Charities with income over £1 million or gross assets over £3.26 million and income over £250,000.

³ In the public interest, the Charity Commission usually releases a public statement (press release) whenever it opens a statutory inquiry into a charity. All the public statements are available at: <https://www.gov.uk/government/collections/statements-on-live-cases-charity-commission>. After concluding an inquiry, the Charity Commission's policy is to publish a report detailing what issues the inquiry looked at, what actions were undertaken as part of the inquiry and what the outcomes were. The inquiry reports are publicly available at <https://www.gov.uk/government/collections/inquiry-reports-charity-commission>.

⁴ The Charity Commission used the information gathering power 49 times between April 2021 and March 2022.

⁵ Section 75 A of the Charities Act 2011 was inserted on 1 November 2016 by the Charities (Protection and Social Investment) Act 2016.

⁶ Between April 2021 and March 2022, three charities were issued with notice of the Charity Commission's intention to give them an Official Warning. Two charities filed their outstanding documents following receipt of the notice. The remaining charity was issued with an Official Warning (Charity Inquiry Report 2022).

⁷ The Charity Commission issues a final warning to charities that they will be placed into an inquiry if they fail to submit outstanding annual documents (e.g., annual returns, reports, and accounts) by a specified date.

⁸ To ensure the inquiry's strategy continued to be risk-based and proportionate, the Charity Commission revised the strategy by including additional criteria on 1 November 2019.

⁹ For example, in early 2016, the inquiry started looking at charities with a last known income of less than £200,000.

¹⁰ Between April 2021 and March 2022, 27 charities were subject to the class inquiry. Out of these 21 charities submitted their annual documents and continue to operate as charities. This has resulted in over £35 million of charitable income being accounted for (Charity Inquiry Report 2022).

charity's response to the legitimate information needs of its stakeholders. It is generally made through financial statements, which should provide adequate information to allow stakeholders to assess the overall performance of the charity. Prior studies reveal that donors rely on charities' financial information to ensure that donations are used appropriately (Hyndman, 1991). Following prior studies, large and institutional donors are the stakeholders who mainly use annual reports in their funding decision-making process (Chen, 2009; Connolly & Hyndman, 2013a, 2013b; Hyndman, 2017). They are also more likely to make contributions to charities when they receive adequate financial information (Khumawala & Gordon, 1997; Parsons, 2003, 2007).

In a financial reporting context, resource dependence theory predicts that charities will orient themselves to demonstrate alignment with the stakeholders, especially large and institutional donors, by delivering high-quality financial reporting and a reputation for sound financial management (Greenwood & Tao, 2021). Calabrese (2011) and Reheul et al. (2014) find that charities with a high proportion of donations are likely to take a short time to prepare financial statements compared to charities that rely more on non-donation sources. Therefore, we expect charities that depend heavily on donations will likely have a short time lag in filing financial statements to the regulator.

H1. Charities relying more on donations are more timely in filing financial statements.

According to the literature, large and institutional donors utilize financial and non-financial information presented in annual reports when making funding decisions (Connolly & Hyndman, 2000, 2004, 2013a, 2013b; Hyndman, 1991). Increasingly, public information is used as a tool to differentiate relative efficiency among competing charitable organizations and guide donation decisions. Once a donor has decided to give a certain amount to a particular cause, financial statements may be used to select a particular charity. Therefore, sound accounting and reporting practices can lead to greater confidence in the charity sector, which in turn can lead to donors' willingness to donate to a particular charity.

Competition supports economic efficiency (Shleifer & Vishny, 1997). At the organizational level, competition leads to higher efficiency as organizations are pressured to perform well to avoid the threat of being forced out of the market. The survival of charitable organizations in a competitive market requires them to operate effectively and be more accountable. These qualities help to build and maintain trust from donors and other stakeholders and protect their public reputations. Following prior literature, market competition can be an effective governance mechanism that encourages managers to provide high-quality financial reporting (Laksmanna & Yang, 2014). Given these findings, we investigate how donations market competitiveness affects the relationship between resource dependence and charities' financial reporting behaviour, including filing behaviour.

Signalling theory describes the behaviour when two parties (individuals or organizations) have access different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, while the receiver must choose how to interpret the signal. Signalling theory primarily focuses on deliberately communicating positive information to convey positive organizational attributes (Connolly, Certo, Ireland, & Reutzel, 2011).

In line with signalling theory, by reporting financial information more quickly than other charities, a charity can signal its efficiency, credibility, and accountability to current and prospective donors (Reheul et al., 2014). Providing financial information in a more timely manner can also be used to differentiate charitable organizations to attract donations from current and potential donors. Given the arguments relying on resource dependence and signalling theories, we present the following hypothesis stating that donations market competition is associated with financial reporting timeliness.

H2. Charities operating in competitive donation markets are more

timely in filing financial statements.

Public and private information affects the decision-making process used by individuals and organizations. Information asymmetries arise between insiders who hold private information and outsiders who could potentially make better decisions with private information access. After obtaining private information (containing positive or negative news), insiders decide if it will be communicated to outside parties. Insiders are careful and deliberately avoid sending negative information to reduce information asymmetry, which helps organizations reach their ultimate goal of positively influencing desired outcomes. Although signalling theory focuses mainly on how organizations communicate positive information to affect outsiders, some scholars have examined actions taken by insiders that communicate negative information about organizational attributes (Taj, 2016).

While profit generation is not the primary goal of charities, reporting financial statement deficits may be viewed as negative information for charities, similar to reporting losses in the profit sector (Reheul et al., 2014). According to Nguyen and Soobaroyen (2019), charities prefer to report a zero bottom line to reflect that they have utilized all incoming resources provided by stakeholders. However, generating a surplus of income over expenditures is generally considered good practice in the charity sector (Australian Charities and Not-for-profits Commission, 2022). A surplus is essential for the financial viability of a charity and can help account for expected and unexpected expenses in the future.

Besides getting funding from donors, charities can get funding from creditors similar to for-profit companies. Financial distress, which results from a mismatch between liabilities and assets, therefore, can also be associated with bad news for charities (Reheul et al., 2014). Regulators may force charities to liquidate because of their inability to cover their liabilities (Nguyen & Soobaroyen, 2019). Following the SORP FRS 102, charities must disclose uncertainties about their ability to continue as a going concern and explain the nature of these uncertainties, including their debt levels.

Given signalling theory and the findings of extant studies, organizations tend to disclose favourable information more quickly than unfavourable information (Bryan, 1997; Whittred & Zimmer, 1984). This is because organizations tend to minimize unfavourable reactions by key stakeholders to bad news by avoiding publishing financial statements early (Dye & Sridhar, 1995). In addition, Kothari, Shu, and Wusocki (2009) find that the stock market is likely to be more reactive to bad versus good news disclosures. Consequently, managers tend to accumulate and withhold bad news relative to good news (Kim, Li, Lu, & Yu, 2016). Hence, following for-profit organizations' argumentation, we expect that charities are likely to publish unfavourable news more slowly, and this affects the timeliness of their filings.

H3. Charities reporting unfavourable news in financial statements make less timely account filings.

Simunic (1980) argues that stakeholders perceive the auditing services provided by different accounting firms to be different in quality, with brand name and industry expertise perceived as being more credible among auditors. In line with this argument, prior studies posit that due to superior auditor knowledge and reputation capital within an industry, auditors with industry specializations conduct higher-quality audits that support higher-quality financial reporting (Solomon, Shields, & Whittington, 1999). Therefore, financial statements audited by industry specialist auditors are often associated with high financial reporting quality. Regarding signalling theory, the presence of auditor industry specialists increases stakeholder transparency and accountability and is viewed as a good signal. In addition, specialist auditors are likely to issue audit reports sooner than non-specialists so that organizations can send their audit reports to the regulator earlier compared to their counterparts. Previous studies examining the association between audit firm industry specialization and the reporting lag find that the reporting lag is shorter for organizations audited by industry specialist

Table 1
Sample selection.

Procedure	Details	Total
Step 1	All registered charitable companies with income for that year exceeding £500,000 in the UK (i.e., England and Wales) during the period 2007–2018	86,027
Step 2	Less: Observations with unaudited financial statements during the period 2007–2018	6428
Step 3	Less: Observations with reporting lags of less than seven days and >450 days	901
Step 4	Less: Observations with missing values for necessary variables	11,684
Step 5	Sample size (charity-year)	67,014

auditors (Dao & Pham, 2014; Habib & Bhuiyan, 2011).

Previous studies highlight that types of audit opinions are important for all stakeholders because they publicly authenticate the information presented in the financial statements (Gray & Ratzinger, 2010; Simamora & Hendarjatno, 2019). In particular, audit opinions are related to the quality of financial reporting. Auditors must carefully examine the financial statements to form an opinion on whether the financial statements conform with the accounting standards and to identify those circumstances where the standards have not been consistently compiled with the preparation of financial statements for the current period in relation to those in the previous period. An unqualified opinion is associated with good quality financial reporting since this audit opinion is given for financial statements that are fairly and appropriately presented, without any exceptions, and in compliance with the accounting standards. Moreover, previous findings show that receiving unqualified audit opinions is associated with more timely financial reporting (Chan, Luo, & Mo, 2016; Durand, 2019).

Financial statements users are interested in achieving a high-quality of financial information, and this quality can be derived from having a high quality of accruals. Accruals quality has a vital role in decision usefulness. The lower the accruals quality, the lower the reliability of financial information. Previous studies find that greater trust is associated with higher financial reporting quality, as indicated by higher accruals quality (Cannon, Lamboy-Ruiz, & Watanabe, 2022; Felix et al., 2017; Hope, Thomas, & Vyas, 2013).

According to signalling theory, due to the information asymmetry problem, organizations signal certain information to stakeholders to show that they are better than others in the market to enhance a favourable reputation (Verrecchia, 1983). Signalling theory suggests that organizations with superior information use financial information to send signals to the market (Ross, 1977). Given this theoretical framework and previous literature, we expect that charities with high financial reporting quality are likely to show their accountability and transparency to donors and other stakeholders by publishing financial statements that are audited by industry specialist auditors, receiving unqualified opinions, and having higher accrual quality earlier compared to those with low financial reporting quality.

H4. Charities with high reporting quality are more timely in filing their accounts.

3. Methodology

3.1. Sample

Since UK charities with annual income exceeding £500,000 are required to submit the annual return, part B,¹¹ which includes the financial details necessary for this study. Our initial sample comprises all

¹¹ Charities with annual income up to £500,000 only need to submit the annual return part A, which includes limited financial information. For example, these charities only publish annual total gross income and gross expenditure. In contrast, annual return part B includes information on the amount of income (expenditure) arising from different sources such as income from donations and legacies, income from charitable activities, income from other trading activities, investment income and so on.

registered charitable companies¹² submitting annual return part B in England and Wales from 2007 to 2018. The sample begins in 2007, as this is the earliest year the information is available from the Charity Commission dataset¹³ using the Wayback Machine. Our sample ends in 2018 to avoid the impact of the COVID-19 pandemic on financial reporting timeliness since the Charity Commission extended the reporting deadline during that time.

Using the above criteria, we start with 11,875 registered charitable companies (86,027 charity-year observations) from 2007 to 2018. We exclude unaudited charitable companies (6428 observations) from our sample. In addition, we impose a minimum value of seven days for the reporting lag and a maximum value of 450 days to mitigate the influence of outliers and potential scanning errors (Clatworthy & Peel, 2016). This reduces the sample by 901 observations. We further exclude 11,684 observations with missing filing dates financial, audit, board, and charity-related data. Our final sample consists of 67,014 charity-year observations (8490 unique charitable companies) between 2007 and 2018 (as shown in Table 1).

Data were collected from four sources. Information related to the filing date and financial and charity-specific characteristics are sourced from the charity datasets¹⁴ built by the Charity Commission. We obtain additional financial, governance, and audit information (i.e., the board of trustees, audit firm, and opinion) from the formerly known as Bureau van Dijk's (a Moody's Analytics Company) Financial Analysis Made Easy (FAME) database and the ORBIS database.¹⁵ Missing information on filing date to the Charity Commission, audit, and board-related variables are hand-collected from the charity annual reports available on the Charity Commission and Companies House register websites.

3.2. Variable measurements

3.2.1. Measurement of financial reporting timeliness

In line with prior studies, we define our dependent variable (*REPORTLAG*) as the number of days between the charity's financial year-end date and the day it filed its annual accounts with the Charity Commission (Clatworthy & Peel, 2016; Owusu-Ansah & Leventis, 2006; Reheul et al., 2014; Singh, Sultana, Islam, & Singh, 2022). The greater the number of days in lag, the poorer the timeliness of financial reporting.

3.2.2. Measurement of reliance upon donations and/or grants

To test H1, we measure reliance upon donations (*RELDON*), as the ratio of voluntary income and charitable activities income over total

¹² Charitable companies are charities established as private companies limited by guarantees and registered with the Charity Commission and Companies House.

¹³ The Charity Commission dataset includes data relating to the most recent five annual accounts and is updated daily.

¹⁴ The charity dataset comprises of data related to: (i) charity overview, (ii) annual return history, (iii) annual return part A (charity information), (iv) annual return part B (financial information), (v) area of operation, (vi) classification, (vii) event history, (viii) governing document, and (ix) other names.

¹⁵ The web version of FAME database updates daily and only contains records for the latest filing date. Therefore, we used the annual FAME database historical disks to construct our filing date dataset.

incoming resources (Reheul et al., 2014). A ratio closer to one indicates a charity heavily depends on donation income. A ratio closer to zero means the charity relies less on donations.

3.2.3. Measurement of donation market competition

We use the Hirschman-Herfindahl Index (HHI) to estimate the extent to which the donation market is concentrated. For each year, we calculate the HHI by summing up the squared market shares in terms of donations of all charities in a given industry. We classify industries according to the International Classification of Non-Profit Organizations (ICNPO)¹⁶ provided by the United Nations Statistics Division (UNSD). We then multiply the HHI scores with a negative one so that a higher HHI value represents a more competitive market for charities in getting donations. This measurement is adopted from previous studies which use the HHI to calculate product market competition and they generally find a positive impact of product market competition on financial reporting quality (Dhaliwal, Huang, Khurana, & Pereira, 2014; Lakshmana & Yang, 2014, 2015; Trussel & Parsons, 2007).

3.2.4. Measurement of the presence of unfavourable news in the financial statements

We use five variables to indicate the presence of unfavourable news in the financial statements relating to losses and financial distress. Companies incurring losses tend to delay financial statement publication because losses are seen as the embodiment of “bad news” (Song & Zhou, 2021). We employ a dummy variable that takes a value of one if the charity reports a deficit and zero otherwise (*DEFICIT*) (Abernathy, Kubick, & Masli, 2018; Clatworthy & Peel, 2016; Dong, Nash, & Xu, 2022). If the charity reported an extraordinary loss, the variable *EXLOSS* takes a value of one, and zero otherwise. An extraordinary loss is an additional measure of “bad news” (Abernathy et al., 2018; Reheul et al., 2014). Following Reheul et al. (2014) and Parsons (2003), we include a dummy variable (*NEGEQ*) that is coded one if the charity reported negative equity, and zero otherwise.

Unfavourable financial information in the financial statements can also be related to financial distress. According to Whittred and Zimmer (1984), financial distress can be measured using the current ratio. In line with Reheul et al. (2014), we consider a dummy variable (*CURRENT*) that takes a value of one if the current ratio is below the critical value of one. Finally, the analysis also includes leverage (*LEVERAGE*) as an indicator of financial distress (Clatworthy & Peel, 2016; Dong et al., 2022; Singh et al., 2022). We employ a dummy variable for *LEVERAGE* that equals one if the leverage ratio is within the top quartile (Q4) of the leverage distribution, and zero otherwise.¹⁷

3.2.5. Measurement of the reporting quality

We use three variables to proxy for the reporting quality of charities' financial statements. Entities audited by industry specialist auditors are likely to produce high-quality financial statements. Following prior literature, audit quality is higher for industry specialists since industry specialists have gained the accumulated specialized knowledge from providing audit services to many clients in the same industry (Gross &

¹⁶ International Classification of Non-profit Organizations (ICNPO) was designed by the US Centre for Civil Society Studies at Johns Hopkins University and has been adopted by the National Council for Voluntary Organizations for UK charity classification. The ICNPO system groups organizations into 12 major groups: (i) Culture, communication and recreation activities, (ii) Education services, (iii) Human health services, (iv) Social services, (v) Environmental protection and animal welfare activities, (vi) Community and economic development, and housing activities, (vii) Civic, advocacy, political and international activities, (viii) Philanthropic intermediaries and voluntarism promotion, (ix) Religious congregations and associations, (x) Business, professional and labour organizations, (xi) Professional, scientific, accounting and administrative services, and (xii) Other activities.

¹⁷ We thank the anonymous reviewer for this suggestion.

Table 2
Variable definitions.

Variable	Description
<i>REPORTLAG</i>	The number of days between the closing date of the accounting year and the date of filing the annual report with the Charity Commission
<i>RELDON</i>	The ratio of voluntary income and charitable activities income over total incoming resources
<i>HHIDONATION</i>	Donation market competition measured by the Herfindahl-Hirschman Index (HHI), the sum of squared market shares in terms of donations classified by industrial classification from ICNPO and then it is multiplied by minus one
<i>DEFICIT</i>	Dummy variable that is coded one if the organization reports a deficit, and zero otherwise
<i>EXLOSS</i>	Dummy variable that is coded one if the organization reports an extraordinary loss, and zero otherwise
<i>NEGEQ</i>	Dummy variable that is coded one if the organization reports a negative equity, and zero otherwise
<i>CURRENT</i>	Dummy variable that is coded one if the liquidity ratio falls below one, and zero otherwise
<i>LEVERAGE</i>	Dummy variable that is coded one if the leverage ratio within the fourth quartile, and zero otherwise
<i>TOP4INDUSTRY</i>	Dummy variable that is coded one if the audit firm is the top 4 audit firms in terms of total audit fees by industry and yearly basis.
<i>OPINION</i>	Dummy variable that is coded one if the organization receives an unqualified opinion, and zero otherwise
<i>ACCRUALSQUALITY</i>	The absolute value of discretionary accruals calculated using Jones Model (1991)
<i>LNBOB</i>	Natural log of the number of trustees
<i>WMNPCT</i>	The percentage of women trustees on board
<i>BODTENURE</i>	Dummy variable that is coded one if the average tenure of trustees on board is more than the median average tenure of sample.
<i>BODAGE</i>	The average age of trustees on board
<i>AUDFIRMCHANGE</i>	Dummy variable that is coded one if the organization changes the audit firm in that year, and zero otherwise
<i>LNINCT</i>	Natural logarithm of total incoming resources
<i>LNASSET</i>	Natural logarithm of total assets
<i>LNAGE</i>	Natural logarithm of the number of years the organization has been in existence
<i>RECEIVEINC</i>	Total of account receivables and inventories divided by total assets
<i>COMPLEX</i>	Dummy variable that is coded one if the organization has more than two purposes, and zero otherwise
<i>FOREIGN</i>	Dummy variable that is coded one if the organization has a foreign operation, and zero otherwise
<i>CONSACC</i>	Dummy variable that is coded one if the organization reports consolidated accounts, and zero otherwise
<i>MAKEGRANTS</i>	Dummy variable that is coded one if the organization makes grants to other organizations and/or individuals, and zero otherwise
<i>NORMAL</i>	Dummy variable that is coded one if the report lag is between 271 days and the filing deadline date, and zero if the report lag is within 270 days after the financial year end.
<i>REPORTORDER</i>	Categorical variable that is coded one if the report lag is between seven and 90 days, two if the report lag is between 91 and 180 days, three if the report lag is between 181 and 270 days, and four if the report lag is between 271 days and the regulatory deadline date.
<i>YEAR Dummies</i>	Dummy variables that denote the specific year (i.e., we include dummies for 2007–2018 are used as the year of reference)
<i>INDUSTRY Dummies</i>	Dummy variables that denote the specific industry classification by ICNPO (i.e., we include dummies for 12 industries are used as the industry of reference)

Neely, 2014; Li, Xie, & Zhou, 2010; Sun & Liu, 2013). Audit industry specialization is measured using the auditor's within-industry market share in terms of yearly total audit fees. We classify charity industries according to ICNPO by the UNSD. We rank them into the Top 4 audit firms and employ a dummy variable *TOP4INDUSTRY* that is coded of one if the audit firm is one of the Top 4 audit firms in that particular year, and zero otherwise. In addition, the variable *OPINION* takes a value of one if the financial statements get an unqualified opinion and zero otherwise. An unqualified opinion is associated with high-quality

financial reporting because this judgment means that the financial statements are presented fairly in compliance with accounting standards.

Financial reporting quality is also proxied by *ACCRUALSQUALITY*, measured by the absolute value of discretionary accruals. Following previous studies in the charity context, we estimate discretionary accruals, which are residuals from the Jones Model (1991) (Ballantine, Forker, & Greenwood, 2007; Cannon et al., 2022; Nguyen & Soobaroyen, 2019; Yetman & Yetman, 2012). This study adopts the Jones Model (1991) since it is not mandatory for charities to disclose cash flow information. In addition, the existence of accruals in relation to revenue and depreciation might be constructed as a strategy by large non-profit organizations (whose total income exceeds £500,000) to manage their bottom lines (Nguyen & Soobaroyen, 2019).

3.2.6. Measurement of control variables

We use four governance characteristics variables as control variables. First, *LNBO*D denotes the natural logarithm of the number of trustees on the charity's board of trustees (Singh et al., 2022). Second, *WMNPCT* measures the percentage of women trustees on the board and is a proxy for board gender diversity (Aksoy, Yilmaz, Topcu, & Uysal, 2021). Third, *BODTENURE* is a dummy variable that equals one if the average tenure of board trustees is more than the sample median, and 0 otherwise. Lastly, *BODAGE* refers to the average age of board trustees.

To control audit-related variables, we include the dummy variable *AUDFIRMCHANGE* which equals one if the audit firm changes in that particular year, and zero otherwise. Following the Charity Commission and previous studies, we use two measures of charity size: total incoming resources (*LNINCT*) and total assets (*LNASSET*) (Clatworthy & Peel, 2016; Dong et al., 2022; Reheul et al., 2014; Singh et al., 2022). We apply the logarithmic transform to both measures to mitigate the influence of extremely large observations and estimate the regressions via ordinary least squares. *LNAGE*, the natural logarithm of the number of years that a charity has existed (Clatworthy & Peel, 2016) measures the accumulation of organizational financial reporting experience. Regarding reporting quality, we employ *RECEIVINV* as a control variable which is calculated as the total account receivables and inventories divided by total assets.

To measure the complexity of a charity, we employ three dummy variables. In line with previous studies (Clatworthy & Peel, 2016; Dong et al., 2022; Hwang, No, & Kim, 2020; Impink, Lubberink, van Praag, & Veenman, 2012), the number of organizational activities is used to measure organizational complexity. Accordingly, the indicator variable *COMPLEX* takes a value of one if a charity identifies more than three charitable purposes¹⁸ in its governing document, and zero otherwise. In addition, operation complexity is measured using the dummy variable *FOREIGN*, which takes a value of one if the charity operates in a foreign country (i.e., outside the UK) (Abernathy et al., 2018; Hwang et al., 2020). Finally, organization complexity is also represented through its accounting complexity (Al-Ajmi, 2008; Hwang et al., 2020; Sengupta,

¹⁸ UK Charities Act 2011 identifies 13 types of charitable purposes that represent what charities do, and a charitable organization must have at least one charitable purpose to be registered as a charity. These charitable purposes include: (i) the prevention or relief of poverty; (ii) the advancement of education; (iii) the advancement of religion; (iv) the advancement of health or the saving of lives; (v) the advancement of citizenship or community development; (vi) the advancement of the arts, culture, heritage or science; (vii) the advancement of amateur sport; (viii) the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity; (ix) the advancement of environmental protection or improvement; (x) the relief of those in need, by reason of youth, age, ill-health, disability, financial hardship, or other disadvantage; (xi) the advancement of animal welfare; (xii) the promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services; and (xiii) any other charitable purposes.

Table 3
Sample distribution.

Year	N	Percentage	Cumulative percentage
2007	4533	6.76	6.76
2008	4993	7.45	14.21
2009	4956	7.40	21.61
2010	5117	7.64	29.25
2011	5386	8.04	37.28
2012	5584	8.33	45.62
2013	5806	8.66	54.28
2014	6141	9.16	63.44
2015	6026	8.99	72.44
2016	6096	9.10	81.53
2017	6143	9.17	90.70
2018	6233	9.30	100.00
Total	67,014	100.00	

Table 4
Distribution of reporting lags.

Reporting Lag	N	Percentage	Cumulative percentage
7–90	405	0.60	0.60
91–120	1938	2.89	3.50
121–150	3460	5.16	8.66
151–180	4960	7.40	16.06
181–210	7620	11.37	27.43
211–240	8218	12.26	39.69
241–270	12,988	19.38	59.08
271–300*	24,059	35.90	94.98
301–330	1663	2.48	97.46
331–360	814	1.21	98.67
361–450	889	1.33	100.00
Total	67,014	100.00	
Late Filing	3366	5.02	

* Not including late filings.

2004). We model this effect using a dummy variable (*CONSACC*) that equals one if the charity prepared a consolidated account and zero if it prepared only a charity account. In this study, we use the dummy variable *MAKEGRANTS* that takes a value of one if the charity makes grants, and zero otherwise.

3.3. Empirical model

We use the following regression model to test the determinants of financial reporting timeliness within UK charitable companies:

$$\begin{aligned}
 REPORTLAG_{i,t} = & \beta_0 + \beta_1 RELDON_{it} + \beta_2 HHIDONATION_{it} + \beta_3 DEFICIT_{it} \\
 & + \beta_4 EXLOSS_{it} + \beta_5 NEGEQ_{it} + \beta_6 CURRENT_{it} \\
 & + \beta_7 LEVERAGE_{it} + \beta_8 TOP4INDUSTRY_{it} + \beta_9 OPINION_{it} \\
 & + \beta_{10} ACCRUALSQUALITY_{it} + \beta_{11} LNBO_{it} \\
 & + \beta_{12} WMNPCT_{it} + \beta_{13} BODTENURE_{it} + \beta_{14} BODAGE_{it} \\
 & + \beta_{15} AUDFIRMCHANGE_{it} + \beta_{16} LNINCTOT_{it} + \beta_{17} LNNTA_{it} \\
 & + \beta_{18} LNAGE_{it} + \beta_{19} RECEIVINV_{it} + \beta_{20} COMPLEX_{it} \\
 & + \beta_{21} FOREIGN_{it} + \beta_{22} CONSACC_{it} + \beta_{23} MAKEGRANTS_{it} \\
 & + \beta_{24} YEARS_{it} + \beta_{25} INDUSTRIES_{it} + \epsilon_{it}
 \end{aligned} \tag{1}$$

Eq. (1) specifies the base regression model examining the determinants of financial reporting timeliness for charities. This model includes *YEAR* and *INDUSTRY* dummies as control variables. All continuous variables are winsorized at the 1% level to alleviate the effect of outliers. All variable definitions are given in Table 2.

4. Empirical results

4.1. Descriptive statistics

Table 3 provides sample distribution for our charity-year

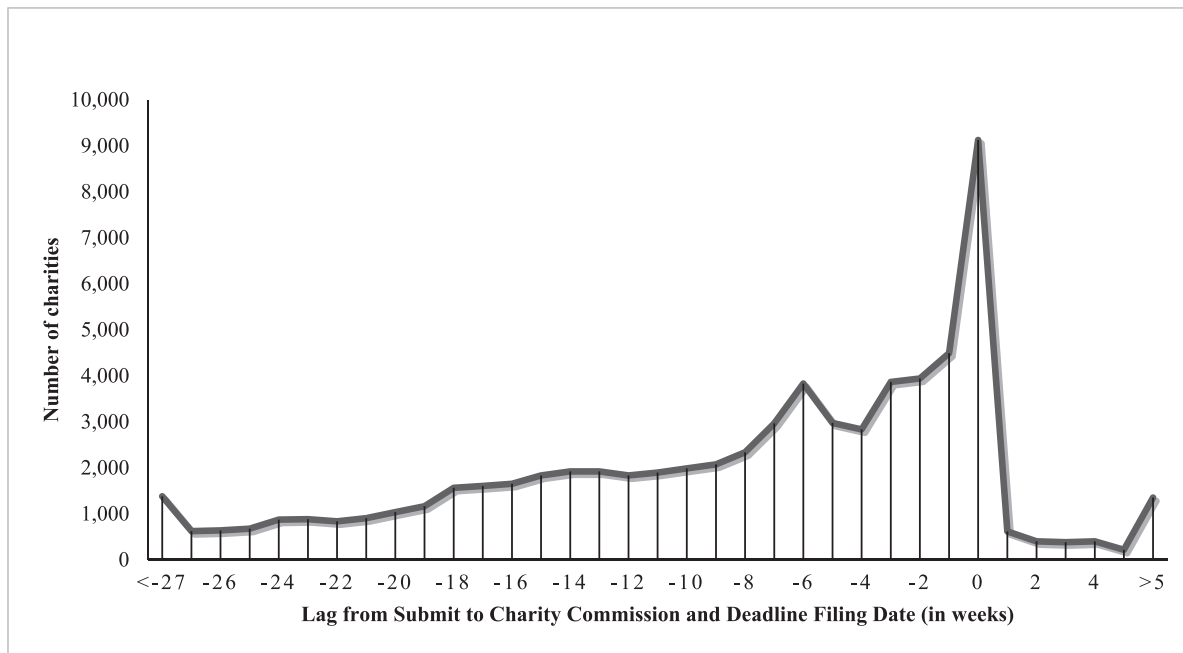


Fig. 1. Distribution of reporting lag to the Charity Commission from the deadline filing date. 0 means the charities submit their accounts within –6 days from the Charity Commission filing deadline date (day 0).

Table 5
Descriptive statistics.

Variables	N	Mean	SD	Median	Q1	Q3	Min	Max
REPORTLAG	67,014	245.02	59.81	259.00	205.00	292.00	42.00	450.00
RELDON	67,014	0.85	0.24	0.96	0.83	0.99	0.00	1.00
HHIDONATION	67,014	-0.04	0.05	-0.02	-0.03	-0.01	-0.66	-0.01
ACCRUALSQUALITY	67,014	0.12	0.18	0.05	0.02	0.14	0.00	3.08
LNBOB	67,014	2.13	0.48	2.20	1.79	2.40	0.00	4.62
WMNPCT	67,014	34.73	21.04	33.33	20.00	50.00	0.00	100.00
BODTENURE	67,014	0.52	0.50	1.00	0.00	1.00	0.00	1.00
BODAGE	67,014	58.63	6.72	58.87	54.50	63.08	22.00	88.00
LNINCTOT	67,014	14.65	1.12	14.41	13.77	15.31	9.05	20.78
LNTA	67,014	14.71	1.58	14.58	13.54	15.75	3.78	22.21
LNAGE	67,014	2.77	0.78	2.83	2.28	3.37	-2.47	4.06
RECEIVINC	67,014	-0.03	0.60	-0.02	-0.55	0.49	-1.83	1.00
NORMAL	63,648	0.38	-	-	-	-	0.00	1.00
REPORTORDER	63,648	3.20	-	-	-	-	1.00	4.00
DEFICIT	67,014	0.36	-	-	-	-	0.00	1.00
EXLOSS	67,014	0.16	-	-	-	-	0.00	1.00
NEGEQ	67,014	0.02	-	-	-	-	0.00	1.00
CURRENT	67,014	0.13	-	-	-	-	0.00	1.00
LEVERAGE	67,014	0.28	-	-	-	-	0.00	1.00
TOP4INDUSTRY	67,014	0.16	-	-	-	-	0.00	1.00
OPINION	67,014	1.00	-	-	-	-	0.00	1.00
AUDFIRMCHANGE	67,014	0.10	-	-	-	-	0.00	1.00
COMPLEX	67,014	0.46	-	-	-	-	0.00	1.00
FOREIGN	67,014	0.14	-	-	-	-	0.00	1.00
CONSACC	67,014	0.37	-	-	-	-	0.00	1.00
MAKEGRANTS	67,014	0.29	-	-	-	-	0.00	1.00

This table presents descriptive statistics for the variables used in the baseline regressions for overall sample. Q1 and Q3 represent first quartile and third quartile, respectively. Variable definitions are provided in Table 2.

observations. The number of charities ranges between 4533 organizations in 2007 and 6233 organizations in 2018, with an average of 5585 observations per year. The average percentage of sample distribution for every year is about 8%.

Table 4 presents the distribution of reporting lag in days for the sample. Table 4 shows a significant increase in accounts filing starting from around eight months after the financial year-end. The highest filing rate, which is around 36%, occurs within 30 days leading up to the reporting deadline date. Notably, the late filing proportion is relatively

low (i.e., 5.02%). This finding indicates that most charitable companies comply with the regulatory filing duty to the Charity Commission.

Further analysis of the reporting timeliness relative to the filing deadline date distribution is given in Fig. 1. The graph of reporting lag during the period reveals a marked increase in the number of charities sending their financial statements in the weeks approaching the regulatory deadline date. We also note a more pronounced peak, consisting of around 9000 filings, immediately within one week before the reporting deadline date. However, the number of filings decreases

Table 6
Pearson's correlation analysis.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) <i>REPORTLAG</i>	1.000											
(2) <i>RELDON</i>	-0.044***	1.000										
(3) <i>HHIDONATION</i>	0.009***	0.011***	1.000									
(4) <i>DEFICIT</i>	0.056***	-0.054***	-0.001	1.000								
(5) <i>EXLOSS</i>	-0.022***	-0.079***	0.006*	0.014***	1.000							
(6) <i>NEGEQ</i>	0.058***	0.016***	0.011***	0.088***	0.067***	1.000						
(7) <i>CURRENT</i>	0.054***	-0.027***	0.028***	0.089***	0.019***	0.231***	1.000					
(8) <i>LEVERAGE</i>	0.075***	0.048***	0.001	0.054***	-0.044***	0.192***	0.206***	1.000				
(9) <i>TOP4INDUSTRY</i>	-0.066***	0.008**	-0.010***	-0.006*	0.079***	0.028***	0.065***	0.010***	1.000			
(10) <i>OPINION</i>	-0.034***	0.011***	0.000	-0.008**	-0.001	-0.017***	-0.018***	-0.013***	0.018***	1.000		
(11) <i>ACCRUALSQUALITY</i>	0.056***	0.067***	-0.017***	-0.024***	-0.079***	0.160***	-0.034***	0.183***	-0.052***	-0.007*	1.000	
(12) <i>LNBD</i>	-0.138***	0.034**	0.009**	0.014***	0.128***	-0.059***	0.012***	-0.089***	0.151***	0.031***	-0.120***	1.000
(13) <i>WMNPCT</i>	-0.001	0.093***	0.029***	0.008**	-0.030***	-0.028***	-0.071***	-0.028***	-0.025***	0.008**	0.024***	0.070***
(14) <i>BODTENURE</i>	0.006*	-0.034***	0.022***	-0.012***	-0.005	-0.039***	0.046***	-0.057***	-0.035***	-0.007*	-0.083***	-0.052***
(15) <i>BODAGE</i>	-0.035***	-0.073***	-0.011**	0.003	0.082***	-0.046***	-0.005	-0.091***	-0.012***	-0.015***	-0.090***	0.022***
(16) <i>AUDFIRMCHANGE</i>	0.036***	0.006*	-0.003	-0.004	-0.016***	0.009**	-0.002	0.014***	-0.006*	-0.018***	0.033***	-0.027***
(17) <i>LNINCTOT</i>	-0.053***	0.031***	0.016***	-0.092***	0.203***	0.033***	0.110***	0.085***	0.302***	0.022***	-0.106***	0.272***
(18) <i>LNTA</i>	-0.063***	-0.212***	0.003	-0.058***	0.244***	-0.116***	0.128***	-0.115***	0.256***	0.014***	-0.286***	0.274***
(19) <i>LNAGE</i>	-0.054***	0.004	0.019***	0.040***	0.074***	-0.078***	0.061***	-0.084***	0.056***	0.011***	-0.183***	0.226***
(20) <i>RECEIVINC</i>	0.017***	-0.063***	0.045***	0.028***	0.088***	0.037***	0.378***	-0.068***	0.072***	-0.021***	-0.262***	0.111***
(21) <i>COMPLEX</i>	0.047***	-0.030***	-0.025***	0.030***	-0.002	0.008**	-0.078***	0.023***	-0.043***	-0.002	0.049***	-0.093***
(22) <i>FOREIGN</i>	0.016***	-0.011***	-0.040***	0.020***	0.014***	-0.025***	-0.055***	0.012***	0.041***	0.002	0.051***	-0.076***
(23) <i>CONSACC</i>	0.015***	-0.176***	-0.002	0.023***	0.101***	0.001	0.042***	-0.006*	0.100***	-0.004	-0.075***	0.142***
(24) <i>MAKEGRANTS</i>	-0.001	-0.136***	-0.039***	0.009**	0.083***	-0.026***	0.001	-0.021***	0.080***	0.004	-0.005	-0.005

Variables	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
(13) <i>WMNPCT</i>	1.000											
(14) <i>BODTENURE</i>	-0.087***	1.000										
(15) <i>BODAGE</i>	-0.132***	0.300***	1.000									
(16) <i>AUDFIRMCHANGE</i>	0.010***	-0.046***	-0.032***	1.000								
(17) <i>LNINCTOT</i>	-0.080***	-0.018***	0.055***	-0.038***	1.000							
(18) <i>LNTA</i>	-0.136***	0.055***	0.148***	-0.048***	0.725***	1.000						
(19) <i>LNAGE</i>	0.029***	0.339***	0.149***	-0.072***	0.157***	0.217***	1.000					
(20) <i>RECEIVINC</i>	-0.098***	0.130***	0.110**	-0.013***	0.203***	0.453***	0.217***	1.000				
(21) <i>COMPLEX</i>	-0.010***	-0.045***	-0.044***	0.020***	-0.056***	-0.066***	-0.141***	-0.072***	1.000			
(22) <i>FOREIGN</i>	-0.090***	-0.025***	-0.078***	-0.012***	0.088***	0.041***	-0.048***	-0.170***	0.115***	1.000		
(23) <i>CONSACC</i>	-0.056***	-0.002	0.042***	-0.005	0.267***	0.246***	0.090***	0.110***	-0.002	0.010***	1.000	
(24) <i>MAKEGRANTS</i>	-0.126***	-0.026***	-0.023***	-0.005	0.125***	0.215***	-0.065***	-0.099***	0.103***	0.263***	0.021***	1.000

This table presents correlations among the variables. *, **, and *** represent statistical significance at the 10%, 5%, and 1% levels, respectively. All variables are defined in Table 2.

Table 7
The determinants of financial reporting timeliness.

Variables	Predicted Sign	Dependent variable: <i>REPORTLAG</i>		
		Coeff.	Std. Error.	<i>p</i> -value
<i>RELDON</i>	–	–10.665	1.835	0.000***
<i>HHIDONATION</i>	–	–22.685	8.190	0.006***
<i>DEFICIT</i>	+	5.006	0.611	0.000***
<i>EXLOSS</i>	+	0.347	0.849	0.683
<i>NEGEQ</i>	+	7.132	2.567	0.005***
<i>CURRENT</i>	+	4.746	1.347	0.000***
<i>LEVERAGE</i>	+	5.504	0.928	0.000***
<i>TOP4INDUSTRY</i>	–	–7.505	1.137	0.000***
<i>OPINION</i>	–	–18.861	4.269	0.000***
<i>ACCRUALSQUALITY</i>	+	10.381	1.626	0.000***
<i>LNBOB</i>	–	–13.335	1.074	0.000***
<i>WMNPCT</i>	–	0.050	0.021	0.019**
<i>BODTENURE</i>	–	3.233	0.826	0.000***
<i>BODAGE</i>	–	–0.260	0.070	0.000***
<i>AUDFIRMCHANGE</i>	+	3.732	0.726	0.000***
<i>LNINCTOT</i>	?	1.253	0.661	0.058*
<i>LNNTA</i>	?	–2.049	0.537	0.000***
<i>LNAGE</i>	–	–2.444	0.639	0.000***
<i>RECEIVEINV</i>	+	5.859	0.937	0.000***
<i>COMPLEX</i>	+	3.634	0.973	0.000***
<i>FOREIGN</i>	+	1.150	1.509	0.446
<i>CONSACC</i>	+	3.272	0.846	0.000***
<i>MAKEGRANTS</i>	–	0.033	1.163	0.977
Constant		326.375	10.273	0.000***
Year effects		Yes		
Industry effects		Yes		
Adj. R^2		0.061		
<i>F</i> -stat		48.626		
Observations		67,014		

This table reports the OLS regression results for the determinants of financial reporting timeliness. Standard errors are clustered at the charity level. *, **, *** denote statistical significance (two-tailed) at the 10%, 5%, and 1% level, respectively. All variables are defined in Table 2.

markedly after the statutory reporting deadline date. Fig. 1 illustrates the importance of regulations in influencing charities reporting behaviour.

Table 5 reports the descriptive statistics for the full sample. The mean of *REPORTLAG* is 245 days (i.e., on average, charities report around eight months after their fiscal year end), with a median of 259 days. The minimum (maximum) *REPORTLAG* amounts 42 (450) days for our dataset. As discussed earlier, the Charity Commission requires charities to file their financial statements within ten months (i.e., about 300 days) after the closing date of the fiscal year.

Based on Table 5, we also note that, on average, charitable companies in our sample rely on donations for 85% of their total incoming resources. Mean (median) *HHIDONATION* is – 0.04 (– 0.02) which is represented the level of market concentration in terms of donations. With respect to the existence of unfavourable news variables, we note that 36% of the sample report a deficit (*DEFICIT*), 16% report an extraordinary loss (*EXLOSS*), and a small percentage (i.e., 2%) report negative equity (*NEGEQ*). Based on *CURRENT*, only a few charities report liquidity problems (i.e., for approximately 13% of the sample, the current ratio falls below a critical value of one). Regarding high *LEVERAGE*, 28% of the sample has leverage ratios within the top quartile. Less than one in five organizations are audited by Top 4 audit firms (*TOP4INDUSTRY*), and a majority of the charities in our sample (i.e., 99%) received an unqualified (or favourable) audit opinion (*OPINION*). Finally, Table 5 reports sample mean (median) discretionary accruals (*ACCRUALSQUALITY*) of 0.12 (0.05).

4.2. Correlations

Table 6 reports Pearson's correlation coefficients for the sample. We find significant correlations between our variable of interest and all our independent variables, supporting their inclusion in our multivariate

analyses. None of the correlations exceed the threshold of 0.8, suggesting that our study is not likely to have any multicollinearity concerns (Hair, 2009).

4.3. Main results

Table 7 reports the OLS regression results for the determinants of financial reporting timeliness proxied by *REPORTLAG*. The model is estimated with standard errors clustered at the charity level. It includes all charitable companies which are audited during 2007–2018. We also include year and industry dummies in the model as control variables.

From Table 7, *RELDON* has a significant negative association with *REPORTLAG* ($\beta = -10.665$, $p < 0.01$). This finding supports H1. Charities that rely more on donations are likely to submit their annual accounts to the regulator around ten days earlier. Consistent with resource dependence theory, the significant association between reporting lag and donation reliance is evidence that the external environment impacts charity disclosure decisions concerning critical funding resources. This is particularly true for large and institutional donors as the main stakeholders, who may use financial statements information when making donations decisions. Timely publication of financial data is one way that charities can demonstrate their accountability and operational effectiveness to stakeholders.

We find a significant negative association between donations market competition proxied by *HHIDONATION* and *REPORTLAG* ($\beta = -22.685$, $p < 0.01$). Charities facing greater competition for donations file their financial statements around three weeks earlier than charities funded from less competitive donations markets. Charities forced to compete for donations show their effectiveness and accountability to current and prospective donors, attracting them to make donations with more timely financial statements filings. This result is in line with the resource dependence theory arguing that the external environment related to the organization's critical resources affects organizational behaviour, including financial reporting disclosures. This result supports H2 and is also consistent with resource dependence theory.

With respect to the presence of unfavourable news in the financial statements, our results in Table 7 show that *DEFICIT*, *NEGEQ*, *CURRENT*, and *LEVERAGE* are significant determinants of reporting timeliness for charities. In contrast, *EXLOSS* has an insignificant association with *REPORTLAG*. We find that *DEFICIT*, *NEGEQ*, *CURRENT*, and *LEVERAGE* are positive and statistically significant at the 1% level ($\beta_{DEFICIT} = 5.006$, $\beta_{NEGEQ} = 7.132$, $\beta_{CURRENT} = 4.746$, and $\beta_{LEVERAGE} = 5.504$ respectively). Consistent with signalling theory and H3, information that contains bad news increases the reporting lag for charities.

From Table 7, charities that report negative net income (*DEFICIT*) tend to lag their filings around five days. This means that a deficit is seen as bad news for charities although they do not aim to generate profit. However, a deficit can be associated with the operational ineffectiveness and inefficiency. Negative equity (*NEGEQ*) disclosures are also viewed as bad news and indicate that charity liabilities exceed assets. From Table 7, charities with negative equity have a one week longer reporting lag. In addition, charities with liquidity ratios less than one (*CURRENT*) take an extra four days for annual account filings and charities with higher leverage (*LEVERAGE*) report average filing report lags of six days later.

To test H4, we include *TOP4INDUSTRY*, *OPINION*, and *ACCRUALSQUALITY* as proxies of reporting quality. Table 7 provides evidence that *TOP4INDUSTRY* is significantly associated with timelier financial reporting by around one week earlier compared to their counterparts ($\beta = -7.505$, $p < 0.01$). We also note that charities with unqualified opinions in their financial statements are likely to submit their financial statements, around 18 days earlier ($\beta = -18.861$, $p < 0.01$). We report a positive association between *ACCRUALSQUALITY* and *REPORTINGLAG* ($\beta = 10.381$, $p < 0.01$). Considering the *ACCRUALSQUALITY* variable that measures the absolute value of discretionary accruals, charities with lower accruals quality (i.e., higher absolute discretionary accruals) tend

Table 8

The determinants of financial reporting timeliness using *NORMAL* and *REPORTORDER* as dependent variables.

Variables	Predicted Sign	Dependent variable: <i>NORMAL</i>		Dependent variable: <i>REPORTORDER</i>	
		(1)		(2)	
		Coef.	Std. Error.	Coef.	Std. Error.
<i>RELDON</i>	–	–0.309***	0.060	–0.285***	0.061
<i>HHIDONATION</i>	–	–0.504	0.321	–0.595**	0.283
<i>DEFICIT</i>	+	0.108***	0.021	0.132***	0.020
<i>EXLOSS</i>	+	–0.006	0.029	0.002	0.028
<i>NEGEQ</i>	+	0.250***	0.087	0.214**	0.091
<i>CURRENT</i>	+	0.087**	0.041	0.079*	0.043
<i>LEVERAGE</i>	+	0.139***	0.030	0.134***	0.029
<i>TOP4INDUSTRY</i>	–	–0.179***	0.036	–0.220***	0.036
<i>OPINION</i>	–	–0.445***	0.164	–0.445***	0.153
<i>ACCURALSQUALITY</i>	+	0.315***	0.057	0.308***	0.054
<i>LNBD</i>	–	–0.375***	0.034	–0.376***	0.034
<i>WMNPCT</i>	–	0.000	0.001	0.001	0.001
<i>BODTENURE</i>	–	0.114***	0.028	0.100***	0.026
<i>BODAGE</i>	–	–0.009***	0.002	–0.007***	0.002
<i>AUDFIRMCHANGE</i>	+	0.095***	0.027	0.100***	0.025
<i>LNINCTOT</i>	?	0.075***	0.021	0.071***	0.021
<i>LNTA</i>	?	–0.045***	0.017	–0.056***	0.017
<i>LNAGE</i>	–	–0.094***	0.020	–0.090***	0.020
<i>RECEIVINV</i>	+	0.168***	0.031	0.164***	0.030
<i>COMPLEX</i>	+	0.065**	0.032	0.092***	0.031
<i>FOREIGN</i>	+	0.091*	0.049	0.068	0.049
<i>CONSACC</i>	+	0.105***	0.027	0.113***	0.027
<i>MAKEGRANTS</i>	–	0.017	0.036	0.010	0.036
Constant		1.191***	0.389		
Year effects		Yes		Yes	
Industry effects		Yes		Yes	
Pseudo- R^2		0.029		0.022	
Wald- χ^2		1327.050		1532.722	
Observations		63,648		63,648	

This table reports the logistic (Model 1) and ordered logit (Model 2) regressions results for the determinants of financial reporting timeliness. Standard errors are clustered at the charity level. *, **, *** denote statistical significance (two-tailed) at the 10%, 5%, and 1% level, respectively. All variables are defined in Table 2.

to file their financial statements, on average, ten days later to the regulator. These results confirm H4. Charities with better accountability and transparency, as determined by their audit firms, audit opinions, and accruals quality publish their accounts early to deliver a good signal to funders (i.e., donors, creditors, and governments). Overall, the results show that charities publish good news earlier than bad news.

We include governance-related (*LNBD*, *WMNPCT*, *BODTENURE*, and *BODAGE*), audit-related (*AUDFIRMCHANGE*), and organizational-related variables (*LNINCTOT*, *LNTA*, *LNAGE*, *RECEIVINC*, *COMPLEX*, *FOREIGN*, *CONSACC*, and *MAKEGRANTS*) as control variables in Table 7. The results show that charities with larger boards of trustees (*LNBD*) require less time to file accounts ($\beta = -13.335$, $p < 0.01$). Conversely, *WMNPCT* is positive and marginally significant at the 5% level on *REPORTLAG* ($\beta = 0.050$) suggesting that board gender diversity is associated with longer report lags. We also find a significant positive association between *REPORTLAG* and the average tenure of service by trustees on board ($\beta = 3.233$, $p < 0.01$). In addition, Table 7 shows that *BODAGE* has a negative and significant effect on reporting lag ($\beta = -0.260$, $p < 0.01$). Since we include *TOP4INDUSTRY* and *OPINION* as our primary variables, we employ *AUDFIRMCHANGE* as a control variable. Table 7 reports a positive and significant association between *AUDFIRMCHANGE* and *REPORTLAG* ($\beta = 3.732$, $p < 0.01$).

In terms of organizational-related variables, we find the control variables are statistically significant, except for *FOREIGN* and *MAKEGRANTS*. Table 7 shows that *LNINCT* has a positive and significant association with *REPORTLAG* ($\beta = 1.253$, $p < 0.10$). However, *LNTA* is negative and statistically significant on *REPORTLAG* ($\beta = -2.049$, $p <$

0.01). The significant negative association coefficient for *LNAGE* ($\beta = -2.444$, $p < 0.01$) suggests that older charities prepare financial statements more quickly. In terms of charity complexity, a review of the results for all charity complexity proxies (except for *FOREIGN*) indicates that organization complexity is associated with filing lags as shown in Table 7. The *RECEIVINV* coefficient ($\beta = 5.859$, $p < 0.01$) is positive and significant implying that charities with more accounts receivables and inventories are likely to submit their accounts six days later. The positive significant *COMPLEX* coefficient ($\beta = 3.634$, $p < 0.01$) indicates that having multi charitable purposes requires more financial statement preparation time yielding an average lag of four days. While our result in Table 7 shows no significant association of *FOREIGN* as another measure of organization complexity on reporting lag. *CONSACC* is positive and statistically significant ($\beta = 3.272$, $p < 0.01$) implying that charities preparing consolidated accounts have an average three-day lag compared to charities preparing only charity accounts. We also consider charity type (*MAKEGRANTS*) as a control variable and find that the coefficient of *MAKEGRANTS* on *REPORTLAG* is not statistically significant.

4.4. Additional analyses

As an additional analysis, we run a logistic regression to investigate the determinants of the propensity to file accounts within nine months after the financial year end date and the filing deadline date. We create a dummy variable (*NORMAL*) that equals one if the report lag is between 271 days and the filing deadline date, and zero if the report lag is within seven days and 270 days after the financial year end date (~ 9 months). In addition, we apply an ordered logistic approach by employing *REPORTORDER* as a dependent variable. We categorize and order the reporting lag in *REPORTORDER* into four groups: (1) one if the report lag is between seven and 90 days; (2) two if the report lag is between 91 and 180 days; (3) three if the report lag is between 181 and 270 days; and (4) four if the report lag is between 271 days and the regulatory deadline date. Both models exclude late filings from the observations to only focus on investigating the determinants of charity financial reporting behaviour in filing accounts earlier within the regulatory deadline period compared to others. Table 8 reports the logistic regression results in Model 1 and the ordered logistic regression results in Model 2 by showing the coefficients and standard errors.

From Model 1, *RELDON* is negative and statistically significant at the 1% level ($\beta = -0.309$). Charities with high dependence on donations tend to file their financial statements within nine months of their fiscal year end. This result supports for H1. However, we do not observe any significant effect on *HHIDONATION* as the proxy of donations market competition in Model 1.

Most of the unfavourable news variables (except for *EXLOSS*) are statistically significantly associated with filings delays within the last 30 days before the regulatory deadline date ($\beta_{DEFICIT} = 0.108$; $\beta_{NEGEQ} = 0.250$; $\beta_{CURRENT} = 0.087$; $\beta_{LEVERAGE} = 0.139$). We interpret these findings to mean that charities delay reporting bad news as suggested by signalling theory and H3. We also report that the key reporting quality variables are statistically significant at the 1% level ($\beta_{TOP4INDUSTRY} = -0.179$; $\beta_{OPINION} = -0.445$; $\beta_{ACCURALSQUALITY} = 0.315$). Charities that are audited by audit industry specialists, receive unqualified opinions, and have high (low) accruals quality (discretionary accruals) are associated with annual report filings within the last 30 days of the filing deadline. The importance of reporting quality and financial reporting timeliness is consistent with H4 and signalling theory. The evidence confirms that reporting quality is a good signal of organizational effectiveness and accountability to stakeholders, especially donors, creditors, and governments.

The ordered logistic regression results are reported in Model 2, Table 8. Using *REPORTORDER* to measure financial reporting timeliness, the *RELDON* coefficient is negative and highly significant ($\beta = -0.285$, $p < 0.01$). Consistent with H1, dependence on donations

Table 9

The determinants of financial reporting timeliness: Subsample analysis by the accounting standards regimes.

Variables	Predicted Sign	Dependent variable: <i>REPORTLAG</i>				Test of equality in coefficients (1)–(2)
		Old Accounting Standards Regime		New Accounting Standard Regime		
		(1)	(2)	(1)	(2)	
		Coef.	Std. Error.	Coef.	Std. Error.	
<i>RELDON</i>	–	–11.320***	2.132	–7.414***	2.591	2.06
<i>HHIDONATION</i>	–	–9.138	12.510	–34.251**	14.317	1.74
<i>DEFICIT</i>	+	5.395***	0.725	3.488***	1.046	2.65
<i>EXLOSS</i>	+	0.459	1.053	0.692	1.356	0.02
<i>NEGEQ</i>	+	6.598**	3.105	7.253*	3.836	0.02
<i>CURRENT</i>	+	5.775***	1.554	1.874	1.958	3.40*
<i>LEVERAGE</i>	+	5.785***	1.091	4.812***	1.332	0.44
<i>TOP4INDUSTRY</i>	–	–9.205***	1.366	–4.031**	1.603	8.03***
<i>OPINION</i>	–	–18.594***	5.150	–20.156***	5.110	0.05
<i>ACCRUALSQUALITY</i>	+	10.730***	1.852	6.985**	3.344	1.04
Constant		335.878***	12.191	294.099***	17.628	
Control variables		Yes		Yes		
Year effects		Yes		Yes		
Industry effects		Yes		Yes		
Adj. R ²		0.053		0.040		
F-stat		28.377		11.097		
Observations		47,385		13,396		

This table reports the OLS regressions for the determinants of financial reporting timeliness in the old and new accounting standards regimes. Standard errors are clustered at the charity level. *, **, *** denote statistical significance (two-tailed) at the 10%, 5%, and 1% level, respectively. All variables are defined in Table 2.

increases the timeliness of charity financial statements filings. Moreover, donations market competition, measured by *HHIDONATION*, is negative and significant ($\beta = -0.595$, $p < 0.05$). This adds to the robustness of our results and provides further support for H2. Greater donations market competition is associated with more timely account disclosures.

From Model 2, the positive significant coefficients for unfavourable news ($\beta_{DEFICIT} = 0.132$; $\beta_{NEGEQ} = 0.214$; $\beta_{CURRENT} = 0.079$; $\beta_{LEVERAGE} = 0.134$) give further support to H3. Charities are likely to delay publishing their financial statements if they contain bad news. Reporting quality is also significantly associated with *REPORTORDER* ($\beta_{TOP4INDUSTRY} = -0.220$; $\beta_{OPINION} = -0.445$; $\beta_{ACCRUALSQUALITY} = 0.308$). These findings provide additional evidence for H4 and signalling theory.

Following the 2016 changes to the UK charities accounting standards, we re-run our baseline model for the two subsamples: (1) charities under the old accounting standards regime and (2) charities under the new accounting standard regime.¹⁹ The estimated regressions are reported in Table 9. Model 1 refers to the old accounting standard regime (i.e., 2007–2016) and Model 2 is the new accounting standards regime (i.e., 2017–2018).

From Models 1 and 2, the key variables associated with *REPORTLAG* are significant for the old and new accounting standards regimes.²⁰ We also test the equality in coefficients between those two subsamples and find that *CURRENT* and *TOP4INDUSTRY* are significantly different at the 10 and 1% levels, respectively. Overall, the results are consistent with the main findings and provide further support for our hypotheses.²¹

Following prior literature, we also re-estimate our baseline model using an alternative measure of reporting lag, which is *LNREPORTLAG*, to overcome any normality issues in the distribution of our dependent variable (Ashton, Graul, & Newton, 1989; Clatworthy & Peel, 2016;

Habib, 2015). Untabulated results show that the baseline results remain consistent when using *LNREPORTLAG* as the dependent variable.

5. Conclusion

UK charities make a significant societal contribution by generating millions of dollars in paid employment and helping people in need without any profit motive. Charity accounts are a key source of information for stakeholders. They communicate details about charity spending from donated funds. Research examining the timeliness of UK charity financial reporting gives attention to the efficiency of these important disclosures. This is the first comprehensive empirical study of UK charity reporting timeliness. Our analysis draws on a large sample of UK charities over the 12 years from 2007 to 2018 and includes an extensive set of independent variables to examine the determinants of UK charity financial reporting timeliness.

We report that charities reliance on donations and the competitive nature of the donations environment are associated with earlier filing of financial statements. This action is viewed as a way to demonstrate effectiveness and accountability to current and prospective donors. We find that the information content of disclosures is important to reporting lags. Charities with negative net income and equity, low liquidity, and high leverage tend to delay the publication of financial statements similar to for-profit organizations. In addition, reporting quality as determined by auditor industry specialist, audit opinion, and accruals quality significantly affect the reporting lag of charities.

This study has important implications for charitable organizations, donors and other primary funders, regulators, and academics. In terms of ensuring their survival, it is essential for charities to show their accountability to stakeholders by delivering high-quality financial reporting in a timely manner. Public trust is essential to the ongoing success of charities and continued public donations depend critically on reputation and approval in the public domain. Furthermore, donors and other primary funders of charities as key stakeholders, can play an important role in enhancing charity accountability and transparency. This study also provides useful input to discussion by regulators and policymakers in promoting good accountability to charitable organizations that promotes public confidence in the ongoing support of charities. Specifically, this study promotes the importance of timely reporting. The Charity Commission views financial disclosures as a regulatory tool to disseminate information required by the charities,

¹⁹ We thank the anonymous reviewer for this suggestion.

²⁰ *HHIDONATION* and *EXLOSS* are not statistically significant in Model 1. *HHIDONATION* is marginally significant, *EXLOSS* is not statistically significant, and the coefficient on *CURRENT* becomes not statistically significant in Model 2.

²¹ We also explore the disclosure tendencies of education and health charities compared to other charities as an additional analysis (untabulated results). We find that they are likely to have the same determinants of financial reporting timeliness (except for *NEGEQ* and *OPINION* in education and health charities).

donors and other funders, the public, and policy makers across local and national governments in the UK. Filing annual accounts early can help the Charity Commission as the regulator to identify potential risks in the UK charity sector early, take effective enforcement action when needed, and ensure that individual trustees receive information effectively, that can inform decisions and promote good governance. In addition, our findings are relevant given the Charity Commission's ongoing reassessment of the questions in the annual return and development of a new annual return filing service in efforts to increase the compliance rate of annual return submissions. Finally, given that the UK is a common law country and many countries in the world adhere to this legal system, our results could be generalized to other legal jurisdictions with similar legal frameworks including Australia, Canada, and New Zealand.

Declaration of competing interest

None.

Data availability

Data will be made available on request.

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