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DISCLOSURE BY ENGLISH FURTHER EDUCATION COLLEGES: A STUDY OF ANNUAL REPORTS IN AN ERA OF CHANGING GOVERNANCE

LYNN AVISON

A thesis submitted to the University of Huddersfield in partial fulfilment of the requirements for the degree of Doctor of Philosophy

The University of Huddersfield

APRIL 2019

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Abstract

English General Further Education (FE) colleges have experienced many changes in recent decades including declining government funding and successive governments' reforms. The 2011 Education Act, the publication of the Foundation Code of Governance and the New Challenges New Chances policy reform programme introduced the opportunity for new freedoms in governance as well as increased focus on accountability. Using a multi-theoretical lens, this thesis aims to investigate the accountability of, and extent of disclosure made by, FE colleges in their annual reports for the period 2011-2013 following these reforms. In particular, the study aims to identify the extent of disclosure during the period and whether any observable patterns and trends emerge. In addition, it investigates what factors explain the variation in both general disclosure and disclosure about governance.

A self-constructed disclosure index of 143 items grouped into 24 categories was created and used to conduct content analysis of the narrative sections of annual reports, to measure the extent of disclosure for a sample of 101 colleges. The final sample size was arrived at following a Freedom of Information (FOI) request. Correlation and multiple regression analysis were used to test the hypotheses proposed to explore the association between disclosure scores (total and governance) for 2013 and factors that could influence disclose for example, size, number of board meetings and use of co-opted members.

A major initial finding is that many FE colleges were not making their annual reports accessible on their website and some did not provide them even after a FOI request, indicating a lack of accountability. The results also suggest variability in the extent of disclosure. However, no observable patterns or trends emerged over the three-year period, suggesting no apparent impact on disclosure due to changes and reforms.

The findings of the statistical analysis identified only one factor; co-opted members, as having a positive and statistically significant association with both the total and governance index scores. Size, leverage, auditors, number of governors, number of governor and audit committee meetings, HE provision and corporate governance code adopted were shown to have no significant effect on disclosure.

The study contributes to the limited literature on accountability and disclosure in the education sector. It is the first such study in the FE sector, previous studies having focused on higher education. The findings suggest, *inter alia*, that the requirement in the 2017-18 college account guidance that FE colleges publish their full annual report on their websites by 31 January 2019 is a useful one. Future research could check whether this is taking place and, with this study as a benchmark, track whether FE colleges' disclosure changes over time.

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Dedication

In loving memory of my Mum, Joan Murray.

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List of abbreviations

AAA	Audit and Accountability Annex
ADH	Accounts Direction Handbook
AoC	Association of Colleges
AoCGC	Association of Colleges Governors' Council
BIS	Department of Business, Innovation and Skills
CEO	Chief Executive Officer
CVCP	Committee of Vice-Chancellors and Principals
DfE	Department for Education
DfES	Department for Education and Skills
EFA	Education Funding Agency
FCG	The English Colleges Foundation Code of Governance
FE	Further Education
FEFC	Further Education Funding Council
FEI	Further Education Institutions
FOI	Freedom of Information
FTE	Full Time Equivalents
GFEC	General Further Education Colleges
HE	Higher Education
HEI	Higher Education Institutions
HEFCE	Higher Education Funding Council for England
ILA	Individual Learning Accounts
JACOP	Joint Audit Code of Practice
LEA	Local Education Authority
LEP	Local Enterprise Partnership
LSC	Learning and Skills Council
LSIS	Learning and Skills Improvement Service
MAD	Modified Accountability Disclosure
NCNC	New Challenges, New Chances
NEDs	Non-Executive Directors
NGDOs	Non-Governmental Development Organisations
NPM	New Public Management
NZ	New Zealand
OFR	Operating and Financial Review
PAI	Public Accountability Index
PATI	Public Accountability and Transparency Index

QAA	Quality Assurance Agency for Higher Education
SEA	Service Efforts and Accomplishments
SSC	Skills Sector Councils
SFA	Skills Funding Agency
SORP	Statement of Recommended Practice
StAR	Strategic Area Reviews
TEC	Training and Enterprise Council
US	United States of America
UK	United Kingdom
UKCG	UK Corporate Governance Code
YPLA	Young Peoples Learning Agency

Chapter One Introduction

1.1 Introduction

Further Education (FE) in the UK refers to education at any level above compulsory secondary education, including higher education provision, and provides a mix of academic and vocational education at various levels and to all types of people. In the UK the FE college sector includes: general further education colleges (GFEC); sixth form colleges; land-based colleges; art, design and performing arts colleges; and specialist designated institutions. GFEC provide technical and professional education and training (vocational) for young people, adults and employers covering the basic skills to postgraduate degrees (AoC, 2016a). They offer a wide range of qualifications ranging including entry level training, apprenticeships, A levels, vocational qualifications and higher education (HE). According to the Association of Colleges (AoC), at 30 June 2016 there were 244 colleges providing undergraduate and postgraduate level courses and 86% of colleges teach foundation degrees (AoC, 2016a). Sixth form colleges provide education specifically for 16-18 years old, which will allow young people to progress to HE or higher-level vocation education. They focus mainly on A level and BTEC type qualifications which are in vocational subjects. Land based, art, design and performing arts specialise in those areas suggested by their names, whilst specialist designated institutions include, for example, those catering to disabled young people and those with special educational needs.

The AoC reported in August 2013 that there were 391 colleges in the UK with 339 in England. Of those English colleges there were 218 GFEC (AoC, 2013a). This study will focus only on English general further education colleges as they are the largest and most diverse in terms of provision and size. It is a sector which has been affected by a barrage of regulatory reforms and undergone wide reaching changes since the passing of the 1992 Further and Higher Education Act and is one which is still having to deal with reforms, policies, declining 16-19 years-old population, funding restrictions and corporatisation. All of these have had an impact on the governance and accountability of the sector. These have resulted the requirement for more from the governing body including dealing with reductions in, and changes to, funding as well as the pressure from government which may result in more mergers, demergers, federations, shared services and other structural changes (AoC, 2016b). In 2015 the government's updated guidance on its national programme of area reviews for colleges suggested that these reviews are:

> likely to result in rationalised curriculum; fewer, larger and more financially resilient organisations; and, where practicable, shared back office functions and curriculum delivery systems. (BIS, 2015, p.6).

The catalyst for this study, is the Education Act 2011 a significant recent reform, which allowed 'new freedoms' for FE colleges in terms of governance and how a college conducts its business.

The outcome as a result of government policy is a sector which is shrinking in terms of the number of colleges, with general FE provision moving into the hands of fewer and fewer colleges. As allowed by the Act more mergers are taking place due to increased marketization or government pressure. Consequently, some colleges have become much larger in size. Colleges, as recipients of public (and often shrinking/reducing) funds, have to be accountable to various stakeholders. Accountability is one responsibility of the college governing body under the current regulatory framework. FE colleges have to demonstrate accountability to their stakeholders through a variety of means, including regulatory returns required by funding bodies, to ensure compliance with the 'funding rules' as specified in the Financial Memorandum (SFA, 2012). One requirement of the Financial Memorandum is that colleges must appoint external auditors to audit the financial statements each year and produce an annual report including the financial statements. The annual report and financial statements should be in the format recommended by the Accounts Direction Handbook (ADH). The ADH is a document produced by the AoC in partnership with the College Finance Directors Group which provides advice to colleges and their external auditors on the way in which they can complete the annual report and financial statements.

In the FE sector governance has moved to the forefront, as a result of changes enabled by the legislation, with more focus on accountability and the creation of sector specific best practice governance codes. Developments in FE college governance have paralleled those taking place in the corporate/for profit sector, particularly with requirement for FE colleges to have an audit committee. Colleges and the governing body have faced challenges dealing with the opportunity for new 'freedoms' for governance alongside those challenges brought about by the severe financial pressure the sector has been under in recent years.

The aim of this research is to investigate the extent of accountability and disclosure of English general FE colleges in their annual reports. This study will focus on the period immediately after the introduction of the one of these far-reaching reforms: – *New Challenges, New Chances: a government policy reform plan for the Further Education and Skills sector* (NCNC) introduced in December 2011 (BIS, 2011) which was made possible by the Education Act 2011. Moreover, during the period of the study the FE sector responded to the need to create excellence in college governance and increased focus on accountability by issuing a sector-specific governance code.

The study aims to investigate how colleges have responded to reform, regulatory and governance code changes, and their impact on FE college annual report disclosure and accessibility. In addition, the study aims to identify whether there are any college-specific or governance factors that influence the extent of disclosure in the annual report.

To achieve this the research will investigate the extent of overall disclosure as well as specific governance disclosure to determine whether there are any contributory influencing factors. The study recognises that colleges have best practice guidance and specific reporting requirements to comply with, and aims to identify any differences in disclosure practice and accountability during the year immediately preceding the reforms and the subsequent two years. The 'new freedoms' introduced allowed colleges the flexibility to amend their Instruments and Articles including governance arrangements and this study will investigate whether colleges have actually seized the opportunity to change – through choice or circumstance.

1.2 Research context

The passing of the 1992 Further and Higher Education Act, referred to above, had a profound effect on the FE and HE sector. It allowed the incorporation of all FE colleges with the legal responsibilities of colleges being set out in Instruments and Articles of Government, which were virtually standard for all colleges. Since then there have been numerous reforms and other regulatory changes which have impacted on the FE sector. These changes have taken place alongside the rise in importance of, interest in and developments in the role of governance and accountability. This has resulted in the not-for-profit sector, including FE colleges, adopting and adapting 'best' corporate governance practice.

The most significant reform since the 1992 Further and Higher Education Act is the Education Act 2011, the implications of which affect the period of this study. It allows the governing bodies of colleges the so-called new freedoms and flexibilities to change many parts of its Instruments and Articles of Government. These new freedoms allow a governing body to make changes to the governance arrangements and models if it wishes in order for it 'pursue the College's individual mission and meet the needs of the community(s) it serves' (AoC, 2013b). The governing body of a college is also known as 'the corporation'.

Colleges are recipients of funding from the 'public purse'. Consequently, the governing body has to perform in order to meet funding body requirements and in addition, to demonstrate how they meet those requirements: financially and educationally. Firstly, financially to ensure the safeguarding of college assets as well as the solvency and effective and efficient use of resources. Secondly, educationally by demonstrating how it meets its mission in terms of the performance of its key activities (teaching, learning and assessment). Accountability for that performance, as expected by such a complex sector, is to a number of different stakeholders, for example the government, funding bodies such as the Skills Funding Agency (SFA), Ofsted, students, employers and the local and wider community. The Learning and Skills Improvement Service (LSIS) (2012) states that

under the New Challenges, New Chances opportunities colleges face a number of challenges and one of those being the challenge of switching from 'vertical accountability' (to government, Ofsted and funders) to 'horizontal accountability' (to local stakeholders) and that the latter is in most cases more 'around service provision than external reporting and accountability'. LSIS (2012) state:

> Although there are excellent examples, the college sector is still at the early days of finding suitable horizontal accountability to match the aspirations in becoming a dynamic nucleus at the heart of the community. Boards need to establish clarity about the role of the board in engagement. It is the board's role to ensure engagement is taking place and hear the results of that engagement to inform strategic thinking and planning. (p.6)

Accountability is widely defined (for example, Sinclair, 1995; Ebrahim, 2003; Brennan & Solomon, 2008; Koppell, 2014) as taking responsibility for one's actions and being transparent with regard to the disclosure of those actions. However, it is a concept for which there is no accepted universal definition and one which depends on context. Nevertheless, one basic way that entities demonstrate their accountability is through their financial statements; a legally required document produced annually that should be publicly available. The financial statements are the core minimum of accountability for stewardship and performance management to stakeholders, indicating accountability of the financial soundness of the past, present and to an extent the future.

The current UK Corporate Governance Code (UKCG) main principle C1 *Accountability* states that 'The board should present a fair, balanced and understandable assessment of the company's position and prospects' (FRC, 2016, p.16). This applies also to FE colleges, as incorporated entities. They have a statutory requirement to produce annual financial statements, demonstrating their public accountability and in addition they have to demonstrate accountability to the funding bodies, who have their own reporting requirements. The governing body is also accountable to other, varied, stakeholders as stewards and agents managing those funds to ensure quality of provision and to meet the education, training and skills needs of the local community. Accountability is, therefore, a key component of good governance. Governance is the act of governing – not managing; therefore, in a college there needs to be an appropriate division of responsibilities between the strategic governance provided by the governing body and the operational management, performed by a college's senior management team. Accountability and compliance are the primary purposes of governance (AoCGC, 2013, p.16). The Association of College Governors' Council (AoCGC) 2013 report recognises that there is 'lack of agreement about how governors should demonstrate accountability' (p.31) and it sets out an action plan to produce a 'single overall Operating/Accountability Framework similar in nature to the document just produced by HEFCE for HE but tailored and relevant for FE' (p.31). However, to date there is no evidence of such a framework being published.

For the purposes of this study, the annual financial statements, which are variously referred to by colleges for example, ‘the report and financial statements’ or ‘annual report’ will be the vehicle used to investigate the extent of disclosure and factors that influence disclosure. The annual report is a document that all colleges are statutorily required to produce and one which should be available and accessible. Some studies have used additional information sources to determine the level of disclosure, for example websites or other ‘promotional’ material or returns, but the standard and comparability of information presented in other formats for FE colleges is inconsistent, therefore the annual report will be the only document used.

College governing bodies have had to adapt to changes introduced during the period since incorporation and these are discussed further in Chapter Two, but one constant has been the requirement for an audit committee. The governing body is comprised of: external members who are volunteers and should be independent; student governors, who are usually nominated and elected by students, at the college, to represent them on the governing body; staff governors who represent their staff colleagues on the governing body; and the Principal/Chief Executive (CEO). In addition, a college may choose to use the services of co-opted members who are specifically appointed for their expertise and generally provide additional expertise on committees such as the audit committee. They are not elected for a term of office but appointed on an annual basis as the need arises. The external members are the equivalent of non-executive directors (NEDs) on a private sector corporate board, albeit unpaid. This is recognised in the annual statement of corporate governance and internal control (section of annual report) which states ‘the corporation has a strong and independent non-executive element’ (AoC, 2014d). From the external members a Chair is appointed. As with all good governance practices there is a clear division of duties and responsibilities between the Chair and the Principal/CEO and this fact is also reported in the statement of corporate governance and internal control. The duties and responsibilities of the corporation are, as in the private/corporate sector, usually conducted through a series of committees, one of which is the audit committee. The audit committee is seen as an essential component of good governance in the profit and not-for-profit entities as recognised by the UKCG and its previous iterations. Interestingly, under the new freedoms allowed by the 2011 Act, the audit committee is the only committee that an FE college is required to have. This is a requirement of the funding body’s Financial Memorandum. Other than the requirement for an audit committee the governing body can organise itself in any way it chooses. The audit committee membership is comprised only of external governors and excludes the Chair of Governors and the Principal. As the audit committee has such a pivotal role, its impact on accountability and diligence, including the disclosure of its responsibilities will be investigated in this study.

This study takes place during the introduction of the opportunity for colleges to adopt new freedoms and covers a three-year period 2011 to 2013 following the passing of the Education Act 2011.

1.3 Research motivation

The FE sector and further education colleges is very under researched, in the areas of governance, disclosure and accountability, when compared to other not-for-profit sectors such as higher education, charities, NHS and local government (Ntim, Soobaroyen & Broad, 2017; Tooley & Hooks, 2009; Nelson, Banks & Fisher, 2003; Coy & Dixon, 2003; Banks, Fisher & Nelson, 1997; Gray & Haslam, 1990; Gordon & Fischer, 2008; Connolly, Hyndman & McConville, 2011; Gray, Bebbington & Collison, 2006; Unerman & O'Dwyer, 2006; Zumeta, 2011; Samkin & Schneider, 2010; Collier, 2008; Shattock, 2008).

The extant research into governance and accountability in FE colleges is sparse with what little research being generally commissioned by government departments, for example BIS and its predecessors or funding bodies, for example SFA or the AoC, a members' association. The academic literature therefore focusses more on the impact of policy on the sector or is descriptive or illustrative using case studies of individual colleges and is hence very qualitative (Gleeson & Shain, 1999; Hill, 2014; Gleeson, Abbott & Hill, 2009; Gleeson, Abbott & Hill, 2011; Hill, Downs & Drake, 2012; Panchamia, 2012; Hill & James, 2013; Avis, 2009a; Avis, 2009b; Avis, 2010).

There has not been any previous empirical research into FE college annual report disclosure nor has a disclosure index been constructed or used to measure the extent of disclosure in the FE sector. Neither has there been any previous empirical research into how governing bodies in FE colleges demonstrate accountability either horizontally or vertically, nor have there been any previous studies investigating what factors influence and impact the level of disclosure in FE colleges. One vehicle for demonstrating accountability is through information in the annual report, a legal requirement for all colleges. The annual report contains the financial statements, the operating and financial review and the statement of corporate governance and internal control. It is a public document which should be available and made accessible by colleges. Although the Foundation Code does not make specific reference to the annual report, it states that 'it should take steps to ensure that information on the activities of the College is made widely available' (AoC, 2011b, section 1.8). The ADH, for the study period, does not make any reference to the availability of the annual report but interestingly, the ADH 2013/14 does. It states that 'all colleges must make their Annual Reports and Accounts promptly available on their websites' (AoC, 2014d, section 1.9).

FE colleges play an important role in providing the skills and training required in the workforce in addition to providing alternative educational opportunities to those of Sixth form colleges and universities. Due to the breadth and range of provision they provide an interesting focus for study. Total college income for 2013-14 was £7.5 billion, with 79% of income coming from funding bodies, 2% from HEFCE and 11% from tuition fees and education contracts (AoC, 2016d). The sector educates and trains 2.9 million people. It is therefore not an insubstantial sector and with its contribution to the future of the economy the FE sector is worthy of study.

In 2013 the AoCGC recognised that determining a research programme was a key part of creating excellence in college governance and state in their report *Creating Excellence in College Governance* that there was;

- No agreed research and evaluation programmes therefore no up-to-date information on the make-up of boards - plan to tackle this through a board composition survey
- No authoritative research on FE governance - plan with other interested parties to set up a research programme

(AoCGC, 2013, p.34)

In 2014 the AoC published the results of its board composition survey with data collected via a questionnaire sent to Clerks of governing bodies of all types of colleges in the sector. Descriptive statistics are available as at October 2013 which will provide an opportunity for comparison and additional context for this study's findings. The survey reports that 51% of the sample have used, or have decided to use the new freedoms to amend their Instruments and Articles of Governance and 29% said that they may make changes during the 2014/15 academic year (AoC, 2014e).

In 2017 Professor David Greatbatch was appointed by the DfE to 'conduct a rapid evidence review to synthesis available evidence of teaching, leadership and governance' (DfE, 2018, p.11) in FE with specific focus on FE colleges. One important finding of the review was the importance of having governors with financial experience and expertise and that governors with these skills were the most difficult to recruit (p.63). Hence, the need for and importance of co-opting members with such expertise to the governing board and audit committee.

An FE college governing body has very wide-ranging roles and responsibilities, including responsibility for monitoring the financial probity as well as the integrity of the financial statements. FE governance has not arisen as a result of crisis or scandals in the sector. There have been 'bad' episodes in the past and isolated frauds but these have never developed into major scandals for the sector. Governance in colleges has developed over time, incorporating corporate 'best practices', in order to enable them to do their core business better – thereby helping the operations

of the college. The governors are operating in a complex, diverse and ever-changing arena. This study is interested in how the corporation is demonstrating its accountability and transparency through the level of disclosure in the annual report and what factors or characteristics influence the level of disclosure in the annual report. College governance has during the period, risen in prominence and focus, featuring prominently on the AoC and government agenda. Therefore, following the introduction of the 'new freedoms' are there any differences between colleges and over time, that could be attributable to governance characteristics: size of audit committee, number of meetings and use of co-opted members. This study will make an authoritative contribution to and add to the existing knowledge of governance in the FE sector.

FE colleges, as recipients of public funds, have to demonstrate public accountability. They are corporations but do not have any shareholders to be directly accountable to but they have to satisfy the accountability requirements of funding bodies. They do this, in the main, by means of specific annual regulatory reports. However, as will be discussed in later chapters FE colleges have numerous stakeholders including the local community. The Foundation Code developed and owned by the sector aims to be a flexible governance framework that promotes the development of effective governance with the intention to make colleges more locally accountable for colleges adopting it (AoC, 2011b). This study is investigating the extent of disclosure and accountability to these stakeholders, through the disclosure of information in the narrative sections of the annual report, and whether the extent of disclosure by colleges has changed and been influenced by reforms, governance and other factors during the period post NCNC.

The current study has identified a gap in the disclosure and accountability literature. Prior studies have looked at the quantity and quality of disclosure, accountability and the factors that influence disclosure in the annual report in sectors other than FE. Some existing studies in Higher Education Institutions (HEI) focus on disclosure and public accountability and include some also taking place during a period of change for that sector (for example, Gray & Haslam, 1990), encompassing periods of growth in student numbers, cuts in funding and other reforms, often as a result of government policy. Parallels can be drawn for FE. However, the majority of the Higher Education (HE) studies are not UK studies: largely antipodean or US. Some of the UK studies took place prior to the introduction of current reporting regulation, i.e. adoption of the Statement of Recommended Practice (SORP) and corporate governance codes/best practice.

The current FE funding, governance and legislation reforms have brought greater demand for accountability and transparency, through disclosure in the annual report, and as a highly regulated sector it is one which has been neglected in terms of research. Therefore, this study will look at

what and how much colleges disclose and whether there are any observable trends and changes in levels of accountability and what factors may influence levels of disclosure.

The study will also contribute to the disclosure studies academic literature, as it employs a more extensive self-constructed disclosure index than previous studies (see Section 4.3.2). The total index comprises of 143 items. It is also different as focuses only on disclosure in the narrative sections of the annual report. Previous disclosure studies (for example, Ntim et al., 2017; Eng & Mak, 2003; Dixon et al., 1991) have included financial statement disclosure items, for example auditors' report or statement of accounting policies. Furthermore, by creating a sub-index of 34 governance items, the study also investigates factors that could influence the level of governance disclosure for example, governance practices or college-specific factors and whether governance disclosure has changed over time.

In addition, the size of the sample is larger than in some other previous HEI disclosure studies capturing a wide breath of items. Data is collected for a three-year period rather than focussing on one year, as in the recent study by Ntim et al., (2017). This study is also different, as it concentrates on one sector and one type of institution FE colleges, while other studies have compared types of institutions within a sector, for example pre and post-92 HEIs in the UK or public or private colleges and universities in the US.

1.4 Research aims and objectives

To recap, the two-fold aim of this research is, first, to ascertain accountability of, and extent of disclosure made by, English general FE colleges in their annual reports for the period 2011-2013 following the 'new freedoms' introduced by the Education Act 2011, and, second, to identify factors that influence the extent of disclosure.

In order to achieve the above aim the objectives of the research are:

1. To ascertain the extent of disclosure in English general FE colleges' annual reports 2011-2013.
2. To identify any observable patterns and trends in disclosure of English general FE colleges.
3. To assess the influence of various factors in explaining variations in disclosure in the annual reports of English general FE colleges.

In order to achieve the above objectives this study aims to answer the following research questions.

1. Do English general FE colleges make their annual reports accessible?
2. What is the level of accountability disclosure in English general FE colleges' annual reports for the period 2011-2013?
3. What patterns and trends are observable from the accountability disclosure in English general FE colleges' annual reports for the period 2011-2013?
4. What impact do college-specific characteristics (e.g. size, financial position, auditors) have on the extent of accountability disclosure in the annual reports of English general FE colleges?
5. What impact do governance practices (e.g. size of corporation, number of corporation meetings, number of audit committee meetings) have on the extent of accountability disclosure?

1.5 Research method and process

This study will take a quantitative approach using secondary data. The accessibility and availability of college annual reports, publicly available documents, is investigated which resulted in freedom of information requests being made to a number of colleges and the results are discussed in Chapter Four. Content analysis is the method selected and it is used to look at the manifest and latent content and meaning of the operating and financial review, including the statement of corporate governance and internal control of FE College annual reports. Following from the content analysis, a self-constructed disclosure index was used to measure the extent of disclosure and produce units for analysis in order to determine the extent of college disclosure practices. The index was constructed based on the best practice guidelines for mandatory and optional (voluntary) disclosure as set out by the AoC in its annual ADH, and information from prior studies identified in the literature (for example, Gray & Haslam,1990; Banks, Fisher & Nelson,1997; Coy & Dixon 2004; Dixon & Coy, 2007; Gordon & Fischer, 2008) as well as including additional items identified from a sample of college annual reports. This study is investigating the extent of disclosure and is not evaluating quality of disclosure.

In addition, extensive governance and college-specific data, including financial data (from the financial statements) was collected for the sample colleges and was used for statistical analysis including correlation. The research model built takes, into account, the theoretical interest in accountability and previous similar disclosure studies, for example, Gordon et al., (2002) and Ntim

et al., (2017) and is used to determine any relationship between disclosure and identified independent variables which could impact and influence the level of disclosure.

1.6 Thesis structure

This thesis is organised into seven chapters. This chapter, Chapter One, is an introduction providing a background to the study, the motivation for the study, research aims and questions.

Chapter Two provides more detailed context of the study with regard to governance, reforms, regulation and funding, as it tells the FE story detailing how the sector has got to where it is today. The chapter sets out the historical context and background to current FE college accountability and governance and the requirement for an audit committee. The FE sector has ‘survived’ a series of significant political reforms and changes particularly since 1992 when the Further and Higher Education Act was introduced which removed colleges from local authority control and set them up as independent corporations. The most recent changes were introduced by the 2011 Education Act which allowed new freedoms for colleges and consequently a potential impact on governance and accountability.

Chapter Three presents an overview of the theoretical and empirical literature which has underpinned previous research into governance and accountability. The chapter starts with a review of the theories which frame this study and have been used to underpin the empirical accountability and disclosure literature reviewed. It then continues with a detailed review of the empirical literature in the area of accountability, disclosure and factors, including governance practices which influence disclosure and hypotheses development. There is specific focus on the literature for not-for-profit and non-corporate sectors, including HEIs and charities.

Chapter Four describes the research methodology and research strategy adopted and discusses the research philosophy and methods as well as the research design approach and the construction of the disclosure index.

Chapter Five is a descriptive chapter which addresses the study’s first two objectives with regard to accountability. Firstly, it presents research analysis, descriptive statistics of the accessibility of FE college annual reports and secondly, the analysis of the extent of disclosure using the self-constructed disclosure, analysing disclosure and patterns and trends, and discusses the findings.

Chapter Six addresses the third research objective, which is to determine which factors may be associated with variability in disclosure. It presents descriptive statistics and discusses the results

and findings of the statistical analysis using correlation, non-parametric statistics, t-tests and regression analysis.

Chapter Seven presents a detailed discussion of the findings of Chapters Five and Six, the conclusions, and provides recommendations for future research as well as recognising the limitations of this study.

1.7 Conclusion

This chapter, introduces the research study by outlining the research context, the motivation for the study and research contribution and in addition sets out the study's research aims and objectives and the methods and processes to be used to achieve those objectives and the structure of the thesis. The following chapter will provide a detailed overview of the further education context with regard to governance, reforms, regulation, funding and accounting.

Chapter Two Further Education Context: Governance, Reforms, Regulations, Funding and Accounting

2.1 Introduction

The objective of this chapter is to provide an overview of the complex environment within which FE colleges operate. Specifically, the chapter will offer an overview of the FE context, and where appropriate or applicable discuss issues relating to governance, reforms, regulation and accounting.

The rest of this chapter is divided as follows. Section 2.2 discusses the FE context. Section 2.3 provides a brief background prior to the 1992 Further and Higher Education Act. Section 2.4 will outline the major reforms (funding, governance, legislation and regulation) that the sector has faced since 1992 and Section 2.5 will discuss the current governance models. Finally, Section 2.6 will summarise the issues covered in the chapter.

2.2 Further Education Context

FE is a unique, diverse, complex and poorly defined and understood sector (Panchamia, 2012). It is generally defined as any study after secondary school that is not delivered in higher education institutions and as Panchamia (2012) states 'it has been characterised as the everything else sector because of the breadth of its provision' (p.1). There are currently five main types of FE college: (i) general further education; (ii) sixth form; (iii) land based; (iv) art, design and performing arts; and (v) generalist designation institutions (AoC, 2014a). General FE colleges are the focus of this research and as the name indicates they are general and provide a diverse offering which can include basic skills, 16-19 education, adult education, vocational courses as well as HE provision. The AoC key facts for 2013/14 report that the college sector (all types) educates and trains three million people every year as well as employing 139,000 full-time equivalent (FTE) staff, (74,000 who are teaching staff) and running 1,300 businesses which are open to the public, for example restaurants, hair and beauty salons and nurseries. This sector, as will be discussed further in Sections 2.3 and 2.4, is one which has been affected in recent years by cultural shifts as well the impacts of many national government "reforms" and changes. It is a sector which is still going through a turbulent period as indicated by the AoC Key Facts for 15/16 which report a decline in number of students to 2.9 million, a fall in the number of FTE staff employed to 133,000 and a reduction in teaching staff to 68,000 (AoC, 2016d).

The FE sector has seen many changes and has been affected by successive governments' attempts to educate and provide the skills required to meet the future demand of the economy.

These successive changes, identified by successive governments as 'reforms', have impacted the provision, funding and governance structures of FE colleges and the sector is currently adjusting after the introduction of the 'new freedoms' by the Coalition government in 2011. The espoused intention of the new freedoms 'reforms' was to create a new relationship between Government and the sector which the government sees as freeing colleges from central government control and putting 'responsibility firmly on the shoulders of colleges themselves' (BIS, 2011, p.19). However, this freedom could be interpreted as opportunity for autonomy, but with a caveat of compliance with central funding demands and inspection, or the freedom to fail or merge (as a consequence of failure). The 'new freedoms' will be discussed further in Section 2.4.3.2. The following sections will provide a background to those changes as well as the impact of reforms on the funding and governance structures in the sector. The complexity of the current arrangements and the resulting impact on the sector will also be discussed.

2.3 Background

Prior to the Second World War FE provision was chaotic, with a school leaving age of fourteen, and just one in six students going on to further training on their own initiative (AoC, 2017). After six years of conflict it was recognised that something needed to be done to address the training and skills needs of industry. Local Education Authorities (LEAs) were tasked with providing facilities for technical, commercial and art colleges to offer full or part time study for anyone over the compulsory school leaving age who wanted to apply. This was at a time of severe austerity for the country with LEAs, influenced by local business needs, required to fund these institutions. Most of the new colleges established were faced with very tight budgets and limited resources. The situation for FE changed to some extent during the 1950s-early 1970s as the economy recovered. There was emphasis on industry-specific training and apprenticeships and colleges responding to employer needs through their curricula. However, this was to change during the 1970s, as the UK economy was affected by the erosion of manufacturing and the reduction in demand for apprenticeships and skills training which resulted in FE colleges having to refocus with a move from skills training to A levels and BTEC qualifications. The FE sector continued to be hit hard by the economy during the 1980s and 1990s as unemployment increased particularly among young people, which impacted as falling student numbers and a further decline in apprenticeships. This led the government to believe that the sector was ripe for reform as colleges would be better run and governed by giving them greater independence and if there was more competition in the sector (AoC, 2017).

The outcome of this was the introduction of the Further and Higher Education Act 1992 which allowed for the establishment of the Further Education Funding Council for England (FEFC) and

Training and Enterprise Councils (TECs). Under the 1992 Act, further education colleges became autonomous bodies organised by a variety of delivery models with a variety of stakeholders. The 1992 Act also awarded self–governing status to the FE sector which empowered the governing body to decide on the future strategy of the college including the level and type of provision it provided. This allowed for flexibility and the opportunity, for colleges, to tailor their provision to local needs and improve competition, which was part of the government's strategy at the time. The 1992 Act removed colleges from local authority control and set them up as independent corporations. The 1992 Act was significant also in changing the face of the UK higher education sector as it also enabled polytechnics, which had also been under local authority control, to become universities (Shattock, 2006).

Subsequent changes in government as well as policy changes since 1992 have impacted the sector, recognising the crucial role FE plays in governments' ambitions for 'economic and social success through its development of the skills and talents to young people and adults' (DIUS, 2008, p.7). However, it is not the task of this study to evaluate the success or otherwise of recent government initiatives and reforms. The reforms and initiatives since 1992 to date are discussed further below.

2.4 Reforms – 1992 to date

The complexity of provision in FE is matched with the complexity of funding arrangements. Since 1992 there has been a multitude of changes which have affected the sector, resulting in the Education Act 2011 being introduced, which provides the overarching context for the period of this study.

2.4.1 Funding: 1992-2011

The Further and Higher Education Act 1992 changed the funding system for FE. It was also seen as the first of many attempts to introduce competition into the sector. The 1992 reforms created two funding streams for 16-19 and adult further education, with FEFC funding the FE sector and local TECs funding work-based training programmes. Both of these were based on highly complex output-based funding models (Panchamia, 2012). The intention was to encourage an increase in student numbers as well as maximising retention and achievement which was one of the government's key objectives at the time. It can be argued that little changed with regard to this, but policy changes were introduced. There was much criticism of the FEFC and TEC systems as Felstead and Unwin (2001) identify in their retrospective analysis of the systems which they argue resulted in 'supporting financially provision which does not necessarily meet quality standards or

the skills agenda at the local, regional or national level' (p.109). Cases of fraudulent claims for achievements of non-existent learners were also uncovered (Panchamia, 2012).

In 2000 the FEFC and TECs were abolished following two new major reforms; the Learning and Skills Act (2000) which provided for the establishment of the Learning and Skills Council (LSC) and at the same time Individual Learning Accounts (ILAs) were introduced. The LSC was given the responsibility to 'plan, fund and regulate all post-16 education and training' with the exception of the HE sector (Panchamia, 2012). The emphasis was very much on a more strategic planned approach to the FE sector, whilst addressing the country's skills needs and it attempted to create for the first time an integrated single learning and skills sector.

ILAs aimed to give individuals more choice and control over the type of provision that was available, allowing individuals to take responsibility for their learning. It was aimed at widening participation and helping to overcome financial barriers to education. However, there were serious issues with the ILA scheme with many criticisms of its design, quality assurance, and that ILAs financed low quality and irrelevant courses. There were also instances of fraud and, as reported by the National Audit Office, there were concerns about abuse of the system and the quality of some courses being offered. In November 2001, the Department for Education and Skills (DfES) closed the scheme following evidence of significant potential fraud and abuse (NAO, 2016). The system was seen as a failure and Panchamia (2012) argues that this failure played a significant role in the encouragement of the DfES to take an increasingly centralised approach to the development of the sector. During the period to 2006 attempts were made by the LSC to raise the standards of 16-19 education by linking funding to performance. In 2002 three-year funding agreements were introduced which tied performance to targets set by the local Learning and Skills Council (LLSC) and which formed part of strategic area reviews (StARs), which aimed to ensure each provider was responsive to the needs of local stakeholders. Funding was determined by performance against these targets. Again, it was a period of change and flux as StARs were dropped and annual funding was then allocated by DfES to LSCs, who specified where the local budget was to be spent and what qualifications it was to fund. Consequently, there was lack of incentive and appetite for delivering relevant local provision.

Two significant reviews were commissioned during the mid-2000s in an attempt to drive improvements in 14-19 and adult education which recognised that FE was the cornerstone of providing the required skills training; the Foster Review in 2005 and the Leitch Review in 2006. Alongside these, attempts were also made during the mid-2000s to implement a new model for the funding of adult education; an employer-led model.

This model involved the government funded scheme Train2Gain. The scheme was nationally introduced in 2006 and provided work-based training to adult learners. Central government input to this was through the Sector Skills Councils (SSCs). The SSCs provided the LSC with details of approved courses to be publicly funded. Again, it was viewed that this restricted colleges, in their ability to react to local needs and demands by limiting choice and courses offered, and that this was an attempt by government to control and interfere in the sector in order to ensure provision met the skills policy. They were closed following the election of the coalition government in 2010.

The LSCs were abolished in 2010 after it was acknowledged, by the then government, that they had failed to achieve their goals and objectives and having faced criticism for 'catastrophic mismanagement' of its college building programme. They were replaced by two successor organisations; the Young People's Learning Agency (YPLA) for 16-19 provision and the Skills Funding Agency (SFA) for 19+ provision. The SFA was an agency of the Department for Business, Innovation and Skills (BIS) and YPLA was a non-department public body of the Department for Education (DfE). The complexity of funding arrangements for colleges continued with reporting requirements and accountability not getting any simpler despite the previous governments' intentions.

When the coalition (Conservative-Liberal Democrat) government came to power in 2010, changes were soon made with the closure of the YPLA in April 2012 and its replacement by the Education Funding Agency (EFA) (YPLA, 2016). The EFA has a much larger remit and is responsible for the funding of education from three to nineteen years.

2.4.2 Governance and New Public Management: 1992-2011

As well as the multitude of policy changes during this period, resulting in the creation and disbanding of funding agencies, FE colleges have had to deal concurrently with other government reforms. These have provided colleges with new opportunities and challenges that could potentially impact on their business and governance models and their managerial cultures (Gleeson & Shain,1999). The introduction of the Further and Higher Education Act 1992, as discussed in Section 2.2, had a significant impact on the governance and managerial cultures of FE colleges as they were now run on corporate lines (Gleeson & Shain,1999), albeit corporations with charitable status.

In addition to sector specific policy changes during this period, The Committee on Standards in Public Life was established in 1994 to examine concerns about standards of conduct by holders of public office, and to make recommendations for any required changes to ensure the highest

standards of propriety in public life. The Committee was chaired by Lord Nolan. The Committee's first report was published in May 1995 which established the Seven Principles of Public Life known as the 'Nolan Principles'. The seven principles are the basis of the ethical standards expected of public office holders (Nolan,1995). There have been several reviews of the Committee's terms of reference over the years and amendments to the wording but the principles remain as:

1. Selflessness
2. Integrity
3. Objectivity
4. Accountability
5. Openness
6. Honesty
7. Leadership

First and briefly, selflessness suggests that public office holders should act solely in terms of public interest. Second, the integrity principle expects that public office holders avoid placing themselves under the obligations and undue influence of others which may influence their decisions and their acts or decisions should not be taken in order to gain benefits for themselves or others with a close relationship. Third, objectivity requires that public office holders must act and take decisions using best evidence and without discrimination and bias. Fourth, the accountability principle expects that holders of public office are accountable to the public for their decisions and actions and in doing so submit themselves to scrutiny. Fifth, openness requires the actions and decision making to public office holders to be open and transparent. Sixth, the principle of honesty requires holders of public office to be truthful and the seventh principle of leadership expects that public office holders exhibit these principles in their own behaviour as well as supporting and promoting the principles in others and challenging poor behaviour (Nolan, 1995). The principles of integrity, objectivity, accountability, openness and honesty can be linked directly to the need of public office holders to engage in good governance, accounting and accountability as well as disclosure and transparency. These principles continue to underpin ethical codes and standards in the public sector and are an integral part of Government transparency and accountability policy (Nolan, 1995).

As holders of public office, governors and members of FE college corporations are expected to follow these principles and act solely in terms of public interest as they are entrusted with public funds. These standards of behaviour in public life have been adopted by the AoC in that they require governors to follow a Code of Conduct that has regard to these accepted standards in public life (AoC, 2016e). Some FE colleges refer specifically to the seven principles in their

corporate governance report and such a statement is recommended as good practice by the ADH. (AoC, 2014d, p.30)

Around this time the education sector, including higher and further education, was affected by the influence of the then government's adoption and implementation of 'new public management' (NPM) approaches to reforming the public sector (Shattock, 2008). Shattock (2008) states that NPM had three main themes: modernisation, marketization, and minimisation – 'outsourcing or 'hollowing-out', pushing decision making downwards to smaller units under the semblance of giving them greater autonomy' (p.190). Each theme resulting in cost cutting and the requirement to do more for less resulting in the introduction of a new corporate climate for the sector. This had consequences for college governing bodies as they had to change in composition and style to match this corporate climate (Hill, 2014). In the early years 1993-1997 following independence from local authority control, business governors dominated the culture of governing bodies. Subsequent policy changes during the period were reflected in changes to college governance with more community dominated governors and stakeholders returning to boards as colleges moved to new forms of stakeholder-market governance (Gleeson et al., 2011). The corporations were often large, larger than corporate boards, with some having upwards of 25 members, meeting three or four times a year and operating 'with extensive committee systems reporting to the main board' (Schofield, 2009, p.3 Appendix C). The corporation comprised of a majority of external members in addition to staff and student members. The number of each type of member were as allowed by the college's Instruments and Articles of Government. Schofield et al. reported in their 2009 review of governance and strategic leadership in FE that there was a greater interest and awareness of the need for good governance in both the private and public sector. This had resulted in more innovation in college governance, including the move to reduce corporation size and number of committees as well as the adoption of new approaches or systems of governance. Some of the change in college governance was made possible by the increased flexibility permitted by the 2008 review of the Instruments and Articles of Governance (Schofield et al., 2009). Schofield et al. (2009) review considered whether further increased flexibility and reduced prescription would encourage more effective governance. This was taken up by the Conservative and Liberal Democrat coalition government, formed following the 2010 general election, which saw the continuity of policies introduced by New Labour including new professionalism, but with greater emphasis on marketization and user choice (Avis, 2010). This is discussed further below.

2.4.3 Acts, New Freedoms, Regulations, Mergers and Accounting: 2011-present

This period has seen the introduction of new reforms and has led to tumultuous and far reaching changes to, and impact on, the sector with regard to funding, governance and the introduction of

new freedoms which follow from the Education Act 2011. The new reforms have had significant impact on FE college governance, both directly and indirectly, as governing bodies have had to adapt to implement required changes to cope with the reforms and for survival.

2.4.3.1 The Education Act 2011

Following the formation of the coalition government in 2010 a review was carried out of the FE sector resulting in the Education Act 2011. The 2011 Act allowed for greater freedoms and flexibilities for college corporations. These were offered to FE colleges under 'New Challenges, New Chances' (NCNC) reform programme (LSIS, 2013). These new freedoms have the potential to have significant impact on individual colleges and the sector as a whole and the implications for the sector could potentially be as wide reaching as the 1992 Act. Only time will tell what the impact has been.

At the time of the drafting of the Act, the Office for National Statistics required colleges to be reclassified as being 'in the private sector', which would have required a revised financial memorandum and a qualification of SFA's accounts. However, this has been revised, as it was the government's intention that colleges should be part of the not-for-profit/charitable part of the private sector rather than the public sector (Eversheds, 2012). The changes introduced by the Act have created new opportunities for FE, and consequently challenges, and have led to the sector undergoing a significant upheaval and change. The Act requires college governing bodies to address three areas under the new freedoms and it is these areas, discussed below, which are likely to have had most impact on the sector and individual colleges.

1. Instruments and Articles

To allow the new freedoms, a modification order amending FE college Instruments and Articles of Association took effect on 31 March 2012 (Eversheds, 2012). The definitive statement of what a college's Instruments and Articles must contain is Schedule 4 of the Further and Higher Education Act 1992 as substituted by the 2011 Act. Prior to the 2011 Act the corporation of a FE college only had the power to amend the college's Instruments and Articles subject to the consent of the Secretary of State, but subsequent to the Act the corporation has the power to modify and replace the college's Instrument and Articles as it sees fit subject to compliance with the amended Schedule 4.

2. Merger and dissolution

In addition to the power to amend the Articles, the corporation or governing body of each college has the power to dissolve the corporation and to transfer its assets and liabilities to another body

(SGH Martineau, 2012). This power and the amendment to Articles has enabled the merger of several colleges in the sector and was pushed by Area Reviews (BIS, 2016); this will be discussed further in Section 2.4.3.4.

3. Power of intervention

Under the Act the power to intervene in a college by removing some or all of the governors, appointing new ones or giving direction is transferred to the Secretary of State, previously the SFA. The Secretary of State also has the power to give direction to a corporation and require it to pass a resolution to dissolve the corporation and transfer its assets and liabilities to a third party (SGH Martineau, 2012).

Although the Act introduced the opportunity for significant changes and new freedoms a college does not have to do anything at all if it does not choose to do so. This research is interested in the period immediately subsequent to the Act and what, if any, changes have been implemented and the impact these may have had on governance and accountability.

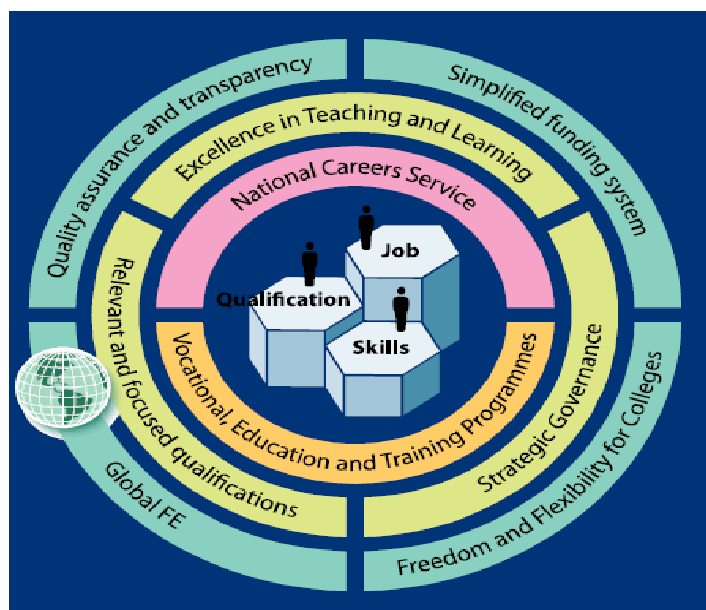
2.4.3.2 New Challenges, New Chances reform programme

The NCNC was a four-year reform plan for the further education and skills system, produced by BIS in December 2011 with the intention of improving the nation's skills base and building a world class skills system, as advocated by the Leitch Review (Leitch, 2006). Interestingly, the term system is used rather than sector and this term was originally suggested by Sir Andrew Foster in his 2005 review (Foster, 2005). In 2010 the government set out its vision for skills and how the FE and skills system would need to reform. This was based on the principles of and informed by the views set out in Baroness Sharp's *Skills for Sustainable Growth* report and the New Challenges, New Chances consultation document of 2010. John Hayes, Minister of State for Further Education, Skills and Lifelong Learning at BIS, in his introduction to New Challenges, New Chances (BIS, 2011) stated;

> At present, our national skills level stands somewhere in the middle of the international rankings. I don't think this is good enough, we have the potential to do even better.
>
> We place our trust in the power of learning to bring economic and social renewal for individuals and families. And we place our trust in those who provide further education and skills…to the welfare of the communities of which they are such an integral part (BIS, 2011, p.2).

The key elements of the plan are represented by the following diagram:

Figure 1: NCNC – Key elements



Source: New Challenges, New Chances (BIS, 2011, p.3)

The following elements, identified in the diagram, are pertinent to this research and are directly quoted from NCNC (BIS, 2011).

> **Strategic Governance for a dynamic FE sector**: our removal of restrictions and controls on college corporations paves the way for new roles for governors working closely with other educational providers in post-14 learning, and local stakeholders such as Local Authorities and Local Enterprise Partnerships (LEPs) to take the lead in developing delivery models to meet the needs of their communities. (BIS, 2011, p.4)

NCNC sees the relationship between government and the sector changing and views the 'radical reform' programme as one which frees colleges from central government control and 'putting responsibility firmly on the colleges themselves' (BIS, 2011, p.19). An interesting point raised is that accountability is very much outward focussed to the 'college's' communities, learners and employers' (BIS, 2011, p.19) rather than inward to central government.

As previously mentioned the removal of a wide range of restrictions, and the opportunity to develop new business models e.g., setting up companies or trusts or mutualisation etc. are as the government proposes, all part of the plan for more strategic governance. However, taking a sceptical view, it could be argued that this was just an increased opportunity for government intervention. The requirement for further changes to the sector if colleges or new business models fail could be an opportunity for further government interference particularly if the sector - as recipients of public sector funding - is perceived as being unable to 'cope' with NCNC. What are the benefits to colleges themselves of these 'required' changes? Colleges are reminded via the

NCNC that they are operating in the open market. This should allow for new entrants offering greater choice and diversity, as well as providing accountability and transparency to their stakeholders (BIS, 2011). Thereby reinforcing the increasing marketization of the sector. Governors have had to address these issues and take up the challenge. As previously noted there have been quite a few changes in the sector in recent years with mergers, increased competition and the adoption of new business models, for example federations, lead or co-sponsors of academies and university technical colleges. BIS (2015a) reported that in the period 1993-2001 there had been five mergers, between 2001-2010 twelve and between 2010 -2014 there had been six. Jude Burke's analysis of 'the great college merger rush' in FE Week on 7th April 2016 reports the potential for sixteen mergers in 2016 involving 32 institutions, including one HEI (Burke, 2016). There were 11 mergers in 2016.These statistics relate to the FE sector as a whole rather than specifically to general FE colleges but as identified in The Guardian on 7th November 2013, 89 FE colleges have closed since 2000-2001 (Arnett, 2013). The AoC website (June 2016) reports that the number of FE and sixth form colleges has reduced from 500 in 1993, following incorporation, to 332 in 2016 (AoC, 2016b) and this had reduced further to 266 by 2018 (AoC, 2018).

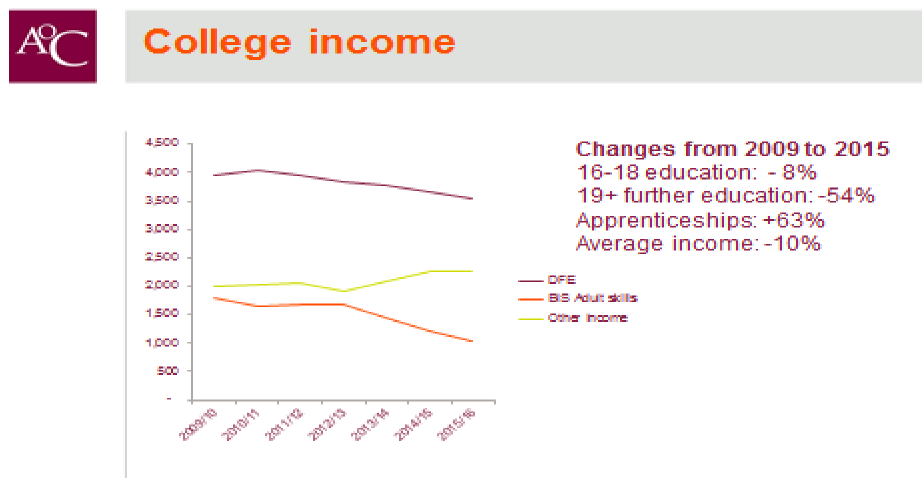
> **Freedoms and Flexibilities:** we are continuing our programme to free the FE system from central control building upon the success already achieved, including further work by the Skills Funding Agency with colleges to remove bureaucratic burdens. (BIS, 2011, p.4)

NCNC identified a three-strand approach to help colleges respond to the needs of learners, employers and communities, the main stakeholder groups. These strands are first, streamlining the landscape i.e., reducing (by various means) the number of government organisations that FE colleges have to interact with; second, simplifying systems and processes i.e., SFA is reducing its bureaucracy, and third, by virtue of the 2011 Act, burdensome duties of colleges are being removed and more powers are conferred on the corporation or governing body (BIS, 2011). An interesting quote from NCNC is 'The Government should not control the FE sector, it cannot impose unwanted change' (BIS, 2011, p.21). Therefore, it is for each individual college to reflect on the opportunities available and its own unique circumstances and how it can benefit from greater freedom and flexibilities in an ever competitive and customer-focussed market. However, the opportunity for such freedoms and flexibilities does appear to have come with increased government monitoring and marketization, and also perhaps the freedom to fail as well as succeed, thereby reducing the sector further.

> **Funding priorities through a simplified funding system**: to create a simple transparent funding system that is both robust in ensuring funding goes to high quality provision that delivers good value for money, while being innovative to respond to local circumstances. (BIS, 2011, p.4)

Learning for young adults was identified as a key priority of NCNC funding. Particular attention was focussed on those requiring English and Maths skills and those seeking work. Alongside these priorities a system of FE loans was introduced, for the 2013-14 academic year, for those wishing to learn at higher levels or those aged over 24. It was proposed that these loans would share many of the same features as those financing higher education students. In 2012-13 the budget for adult FE and skills investment was £3.8 billion with an expected decrease to £3.3 billion by 2014-15 (AoC, 2014f) although the decrease is expected to be supplemented by FE loans for adult learners and those on Level 3 or higher course. Funding for the sector continues to be complex and diverse: 16-18; 19+; and HE, with colleges still facing serious funding cuts and challenges (Gravatt, 2016).

Figure 2: College Income: Changes from 2009 to 2015



Source: Gravatt (2016, slide 14)

> **Empowered students making informed choices:** in the place of Government–based quality assurance systems we will empower students by providing better access to quality information. At the same time, we will take swift action in relation to failing provision, providing intensive support and, if necessary, intervening to ensure that alternative and innovative delivery approaches are secured for the future (BIS, 2011, p.4)

NCNC saw this as an opportunity to empower students to enable them to make informed choices (BIS, 2011, p.26). The information required to make such choices should be accessible and comparable, therefore the sector is being charged, amongst other things, with producing a 'common information set'(BIS, 2011, p.26) in addition to providing additional freedoms from existing quality assurance systems for those colleges achieving high quality, responsive provision

(a light touch – similar to that proposed for HE by the Quality Assurance Agency (QAA) - whilst securing minimum standards).

2.4.3.3 Rigour and responsiveness in skills

In 2013 BIS/DfE carried out a strategy review of the rigour and responsiveness in skills following the NCNC reform. This set out how to take forward the reform to ensure high quality skills provision by the sector. It identified accountability as a key component of ensuring high quality. The report recognised who FE colleges are accountable to: government, Ofsted and customers – employers and individuals. Also, in allowing FE colleges more freedoms there should also be greater transparency which would allow for more informed choices to be made. This to be achieved by the publication of 'wider and more granular performance data and learner and employers' views' (BIS/DfE, 2013, p.11). The strategy identified three performance indicators to be measured: Ofsted inspection rating; learner success rates; and financial health. If a college failed one of the measures, then the SFA would intervene. The report recognised the role of governors in meeting the performance measures:

> Governors are accountable for the quality of what is delivered. Effective governance and leadership are essential ingredients of a strong institution, and weak governance and leadership is almost always at the root of poor performance. So over the coming months the government will work with the sector to review the strength of FE governance, and to determine how we can better support and demand improved standards. (BIS/DfE, 2013, p.12)

The interventions included the creation of 'Administered college status' whereby some or all of the governing body could be replaced, with the SFA amending the funding agreement and implementing restrictions on its freedoms and flexibilities. Where financial mismanagement is identified a college will be required to provide more frequent financial reporting and the ultimate sanction would be dissolution.

2.4.3.4 Area Reviews

Area reviews are a recent government initiative with an aim of restructuring even further the post-16 education and training sector, including FE colleges, by addressing how local skills needs could be met while increasing efficiency and resilience (Burke, 2017). Thirty-seven area reviews involving provision providers, local government and business representatives took place in a series of 'waves', the first starting in September 2015 with the final wave commencing in November 2016. One of the consequences of area reviews is expected to be an increase in college mergers, which the policy document identified as the need 'to move towards fewer, often larger, more resilient and efficient providers' (BIS, 2015, p.3). Mergers have been taking place since the NCNC allowed the

sector ‘freedoms and flexibilities’ but it appears that government has intervened yet again to potentially change the face of the sector further, to enhance the number of mergers through area reviews. However, Jude Burke writing in FE Week, August 2017, stated that fewer mergers had been recommended than initially predicted and of the 52 proposed fifteen had substantially changed or had been scrapped or called off (Burke, 2017) and to date the final results have not been published but they are still taking place. The AoC reports that thirteen mergers are planned for 2018-2019 (AoC, 2018).

2.4.3.5 Regulatory Framework

The extant statutory and regulatory requirements that are relevant to college governing bodies are identified by the AoC in their September 2013 summary of statutory and regulatory requirements (AoC, 2013e). These are discussed below or have been discussed in previous sections of this chapter.

Charitable status – ‘all FE colleges, whatever their legal status, are either registered or exempt charities’ (AoC, 2013b, p.16). Generally, FE corporations are exempt not registered charities. That means they are not under the direct supervision of the Charities Commission, as they are considered to be adequately supervised by other bodies (AoC, 2013b, p.16). However, they are expected to follow governance standards set by the Charities Commission. The Secretary of State for BIS was appointed with effect from September 2013 as the principal regulator for FE (AoC, 2013b, p.17).

Finance, resources and audit - the FE sector is heavily regulated. Consequently, regulation regarding finance, resources and audit are directly relevant to governance, accounting and disclosure. Specifically, FE colleges are, through their board of governors, required/expected to prepare annual reports and financial statements espousing good governance (including compliance with the seven principles of public life as discussed in Section 2.4.2), accountability, transparency and disclosure.

The Education Act 2011 introduced changes in financial and resource management. Alongside the Act changes were also made to the SFA’s Financial Memorandum. The Act introduced the new freedoms for FE colleges which included the removal of a number of previous requirements. These included the requirement for consent, or the requirement for an Audit, Search or Remuneration Committee (AoC, 2013b, p.19). The removal of the requirement for these committees could potentially have a major impact on governance arrangements and the governance model selected by individual institutions. Governance models will be discussed further in Section 2.5.

The Financial Memorandum sets out the conditions upon which funding is provided to FE corporations (SFA, 2012). The governing body is responsible for the use of the annually allocated funds. On the proviso that the Chief Executive is satisfied with the college's financial viability and ability to deliver reasonable quality provision, that meets the needs of learners and employers (Financial Memorandum, para.11). The Act allows colleges to have less prescriptive Instruments and Articles thereby allowing more flexibility over governance arrangements. One example of this flexibility is that a college can decide how many, if any, committees it has and to adopt the most suitable governance arrangement to achieve its individual strategic plan (AoC, 2013b).

Although, the Act no longer requires an audit committee the Financial Memorandum 2012 does require the FE corporations to:

- Establish an audit committee
- Comply with the Joint Audit Code of Practice (JACOP)
- Comply with other SFA best practice guidance as a condition of funding (SFA, 2012, para. 20)

The JACOP is in two parts. Part 1, which came into effect from 1 April 2010, describes the framework that the funding bodies use to place reliance on each other's assurance work in order to avoid duplication (SFA, 2015a). Part 2, applicable from 1 August 2013, sets out the specific requirements for college accountability and audit arrangements for the funding agencies (SFA, 2015b). It provides specific guidance to corporations regarding the role, responsibilities/minimum duties of the audit committee and refers to the specific funding body requirements, as detailed in the annual ADH. It is a requirement of the Financial Memorandum, a condition of funding, that a college has its annual financial statements audited. This requirement along with the requirement for a regularity audit is set out in JACOP Part 2 (SFA, 2015b). A regularity audit requires the regularity auditors to 'form an opinion over the regularity and propriety of all college expenditure disbursed and income received, regardless of source' (SFA, 2015b, para.39) to ensure the 'public's expectations for good stewardship of public funds and safeguarding the college's assets' (JACOP Part 2, para.39) (SFA, 2015b). The Financial Memorandum requires that the financial statement auditors must be appointed by the college to undertake the regularity audit (SFA, 2015b, para.40). There are, therefore, two audit reports to be found in college financial statements: i) the financial statement audit report and ii) the regularity audit report.

The ADH, published by the AoC, advises colleges of the requirements for their audited financial statements to ensure compliance with the requirements of the Financial Memorandum Part 1. It is seen as a 'one-stop' guidance document that colleges can refer to when completing their financial

statements' (AoC, 2014d, p.1). The handbook is not mandatory but provides guidance for the completion of the members' report. It is also up dated for any changes in generally accepted accounting principles as issued by the Accounting Standards Board. It consolidates all previous accounting policies and supplements the 2007 SORP *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP), and other guidance issued by the SFA.

The ADH provides illustrative examples of specific areas of the financial statements and annual report. It states that these examples are not exhaustive and that individual colleges 'should prepare a statement that describes its own position whilst complying with the requirements of the 2007 HE and FE SORP' (AoC, 2014d, p.18). This applies in particular to the operating and financial review and the statement of corporate governance and internal control. The suggested headings of the illustrative example, for the operating and financial review and the statement of corporate governance and internal control will be used, for the construction of the disclosure index. As the content is only illustrative the study will investigate whether colleges deviate from or add to. Or whether they chose to disclose them as safe options rather than being more individualistic.

All FE and HE institutions have charitable status. Although not all are 'exempt' charities, 'they form a separate identifiable group with special characteristics and are therefore outside the scope of the charities SORP' (SORP, 2007, p.5). As discussed above, the annual ADH requires institutions to prepare their financial statements in accordance with the extant SORP. The SORP was first issued in 2003, and revised in 2007 by the FE/HE SORP Board. The 2007 SORP was revised again in 2014 to reflect recent changes in reporting standards and legislation. The 2007 SORP is the version relevant to this study. The SORP takes into consideration best accounting practice, including accounting and financial reporting standards, as well as the requirements of the funding bodies, accounting provisions of the Companies Act 2006, and other relevant legislation (SORP, 2007).

The SORP states that,

> the objective of *financial statements* and related reports is to provide information that gives a true and fair view of the financial performance and financial position of the reporting institution or *group* that is useful to a wide range of users for assessing the stewardship of the institution's management and for making economic decisions (SORP, 2007, p.10).

The wide range of users include:

(a) the governing body of the institution;

(b) the Funding Bodies;

(c) government departments, Parliament, and charity regulators;

(d) the institution's employees (past, present and future);

(e) the institution's students (past, present and future);
(f) lenders and creditors;
(g) other institutions, schools and industry;
(h) grant-awarding bodies, donors and benefactors; and
(i) the general public. (SORP, 2007, p.10)

The statement of corporate governance and internal control requires FE colleges to provide details of the corporate governance code used. Colleges are required to explain their compliance or non-compliance with best practice. Until 2011, colleges applied the principles of the UKCG 2010 (as far as applicable to FE), issued by the London Stock Exchange, or its earlier iterations. In 2011 the AoC issued the English Colleges Foundation Code of Governance (FCG), which was developed and owned by the English FE college sector. It is intended to establish 'a basis for a flexible governance framework' (AoC, 2011, n.p) allowing individual colleges scope, within the limits of their Instruments and Articles, to decide how best to discharge their duties to their stakeholders (AoC, 2013d). Rather than applying or adapting a code more relevant to the corporate sector, the FCG is specific to the FE sector. Colleges have the option to adopt the FCG or to continue to follow the UKCG. Appendix A summarises the key provisions of both codes. The introduction to the FCG allows 'governing bodies the freedom to decide for themselves how best to discharge their duties in the interests of their Colleges, and respond to the needs of their learners, the communities they serve and other stakeholders' (AoC, 2011, n.p.).

In March 2013, the AoC published the Audit and Accountability Annex (AAA) to the FCG. The AAA is optional but the AoC believes it to be 'integral' to the Code. It is only available to those colleges that have formally adopted the FCG. Some of the colleges, included in this study, have adopted the FCG, some have adopted the FCG and AAA and others are still following UKCG. This has resulted in the adoption of different codes during the period 2011-2013. A college must either comply with the FCG and its AAA or comply with the UKCG (in so far as it applies to the college sector) (AoC, 2013c). The AAA alongside the FCG provides an alternative to the UKCG, and a college must publish in its statement of corporate governance and internal control where its practices are not consistent with any particular provision of the AAA (AoC, 2011). There is no reference in the FCG to 'comply or explain' but to 'an explanation of inconsistency' where practices are not consistent with the provisions (AoC, 2011, np). Colleges adopting the FCG and AAA are not required to establish a nomination (search) committee nor a remuneration committee.

HE in FE

In addition to the complex funding and regulatory requirements for FE colleges, colleges with HE provision also have to comply with the additional burdens of satisfying the requirements of the Higher Education Funding Council for England (HEFCE) and the QAA.

HEIs are funded for both teaching and research but FE colleges are essentially teaching-only establishments drawing on a number of different funding streams to support the different areas of education and training (BIS, 2012, para.2.4.2). For the study period; direct funding from HEFCE was against the student numbers allocated to them by their partner institutions; and indirect funding was also available from HEFCE. At the time of the BIS 2012 research paper nearly all FE colleges were dependent on degree awarding HEIs or other awarding organisations, for example Edexcel. A few colleges had made applications for Foundation Degree awarding powers (BIS, 2012, p.55).

2.5 Current Governance models and reviews

Since the introduction of the new freedoms in 2011 governance in FE has moved from a policy afterthought to high on the research and policy agenda (Gleeson, Abbott & Hill, 2009). Much of FE research concentrates on leadership and management, although governance has come under scrutiny particularly with regard to the roles of the clerk and the chair of the corporation (Gleeson et al., 2011; James, Forrest, Goodall & Hill, 2015). For most boards the governance model adopted continues to follow that of the corporate board. The majority of the corporation membership being equivalent to independent NEDs on a corporate board. Governance has developed alongside the continued marketization of the sector, with corporations, mainly served by a number of committees with delegated responsibilities. However, some colleges have adopted an alternative model – the Carver Policy Governance model. Under this model delegation is eliminated, with the result that board committees are not required, as the board ‘speak with one voice’ (Carver, 2016). However, the Financial Memorandum’s requirement for the establishment of an audit committee has resulted in an adapted version of the model being adopted. A number of colleges have been identified as using this model as the information is disclosed in the statement of governance and internal control. Governance models will be discussed further in the literature review chapter.

Since 2013 BIS has produced two reports that focus on governance and accountability. This reinforces the importance and justification for the contribution of this study. In August 2014, ‘*College Governance: A Guide*’, was issued, followed in March 2015 with ‘*An assessment of the impact of governance reform in Further Education Colleges: A review of expectations*’. The 2014 report states that:

> Colleges are accountable in different ways to a number of different stakeholders: to learners for the quality of the education they provide; to employers for the relevance of their offer; to government and taxpayers for the effective use of the public money that they receive to deliver public services. Colleges are also accountable to their local communities and LEPs (BIS, 2014, p.9).

The report identifies how colleges are held to account:

1) Choice and diversity – includes the 'informed customer', responsiveness to local employers, LEPs & local authorities' and 'responsiveness to local communities' (BIS, 2014, p.4)
2) Government quality & assurance – by means of inspection and the requirement for formal performance measures (BIS, 2014, p.14)
3) Finance – via financial regulation & audit; intervention and regulation (Education Law, Charity Law and other regulation) (BIS, 2014, pp.17-18)

To be held account effectively, learners, employers and others need access, as informed customers, to 'high quality, timely information about the quality of provision…' (BIS, 2014b, p.10). This includes the FE Choices comparison site and a college's own performance management data and surveys. No reference is made to the annual report as a source of data for the 'informed customer'. The report also states that the 'informed customer' needs to be knowledgeable of and have easy access to robust information about the performance of colleges in order to determine whether FE colleges can deliver the required outcomes. The report outlines in general terms where information is available, for example the FE Choices website (BIS, 2014, p.10). Why no specific reference is made to the annual report as a source of reliable and relevant data for the 'informed customer' can be questioned. How and who informs the 'customers' that this data exists and where it can be found is not detailed in the report. Financial information and the financial stability of a college are key to its continuity in addition to the development of provision and its satisfactory delivery. The annual report is a key information source. In addition to the financial statements, the annual report includes the narrative operating and financial review, which includes performance and comparison data, and information about the governance of the corporation in the statement of corporate governance and internal control.

The 2014 report reiterated the funding agreement conditions relevant to accountability and this study. First, information contained in the financial statements to be as identified by the ADH (BIS, 2014, p.15). Second, a requirement to appoint an audit committee and third, a requirement to provide funding bodies copies of the audited financial statements within five months of the year end (BIS, 2014, p.15) and 'as a charity, the FE Corporation is expected to make its financial

statements available to members of the public on request' (BIS, 2014, p.15). Whether this is the case is one of the objectives of this study, but it is interesting to see that specific reference is now being made to the fact that they should be made available on request.

The 2015 BIS report assessed the impact of governance reform and concludes that governing bodies have responded to changes introduced since 2010 including; the changing pattern of governing body membership; using freedoms and flexibilities to advance strategy; and closer engagement with and accountability to employers, communities and students (BIS, 2015b). The report contained two areas of particular interest to this study. The first is accountability which the report acknowledged can take many forms and improvement was still required, particularly the way data is presented and shared;

> In practice, accountability of colleges to their communities is delivered in many ways. Of the numerous examples provided by colleges, public meetings, summaries of annual reports, published data on college performance, and mechanisms to encourage strong learner and stakeholder feedback are widely used. Many colleges recognise that improvements to the way performance data is presented and shared would make it easier for communities and potential students to interpret the data and make informed choices. They also acknowledge the benefits of face-to-face contact with students and employers to consult on and share strategies, and to provide information and feedback on changes, rather than relying on surveys and written communication (BIS, 2015, p.9).

The variety of ways that colleges deliver accountability is to be commended but, the annual report is as a minimum, core.

The second is changes made to governing body membership, including: limits set on the number of terms of office; assessment and re-evaluation of governors' skills and experience; and governors taking on more prominent strategic and monitoring (of senior leadership and executives) roles (BIS, 2015b). A number of such changes have been observed while collecting the data for the study - particularly the number of resignations and appointments – perhaps suggesting that FE colleges are reassessing and evaluating the corporation.

2.6 Conclusion

This chapter provides a background to the FE sector and as can be inferred from the above, the FE sector has undergone significant changes, reforms and challenges since the 1992 Act. These have impacted on funding and required often radical responses and actions from corporations, which has resulted in changes to governance practices and the recognition of the requirement for increased accountability and transparency from colleges and governing bodies. It can be argued that some of these have been adopted due to their mandatory nature whilst others appear to have

been adopted for symbolic purposes which is supported by some of the literature discussed in Chapter Three. The sector is still undergoing change: increased number of mergers; new collaborative/business arrangements; changes to types of funding, cuts in budgets and funding being squeezed even further and the proposed introduction of 24+ advanced learner loan; fall in student numbers, and changes in types of students; quality inspection; and types of provision as well as serving and being accountable to a wide range of users. All these factors have had a profound impact on the role, responsibility and accountability of the corporation. The impact of these recent changes and challenges to governance accountability and disclosure of colleges during the three-year period between 2011 and 2013 will be investigated in this study.

As the annual report is the core, minimum accountability mechanism the study will focus on any changes to accountability demonstrated through the extent of and any changes in disclosure in the annual report. The period 2011-2013 is selected, as any changes resulting from recent reforms and 'new freedoms' are expected to become apparent or evidenced. 2011 was the year the reforms were introduced (enacted) and this can be taken as the pre-reform 'benchmark' year, with 2012 and 2013 covering the post–Education Act 2011 period. Change initiated by the reform and new freedoms would be expected to start taking place and being evidenced and demonstrated in the annual report.

This is the first study in the FE sector investigating accountability and disclosure in an era of governance change which prompts a desire to think theoretically as well as identifying how previous researchers have dealt with such things. The following chapter will review the theoretical and empirical literature pivotal to this research.

Chapter Three Literature Review: Theoretical Framework, Accountability and Disclosure

3.1 Introduction

It is fundamental, to understand the theoretical perspectives and influences underpinning accountability, disclosure, factors influencing disclosure and disclosure index studies. Accountability is a nebulous concept, and this chapter discusses it generally, as well as, specifically in the context of not-for-profit entities. Governance, a key component of accountability, is reviewed in the context of its influence on disclosure alongside literature investigating any other contributory disclosure factors. Additionally, the literature is also extended to identify avenues for measuring disclosure and accountability.

Studies in corporate governance, accountability and disclosure are wide ranging, often taking a particular theoretical stance to underpin and explain arguments and findings; these include agency theory, stakeholder theory, stewardship theory, resource dependency theory, institutional theory and legitimacy theory. Some studies have concentrated on one theoretical stance whilst others argue for a mixed or multi-theoretical approach. The majority of the extant research in these areas relates to for-profit companies - usually those publicly quoted on a stock exchange - and consequently some of the theories discussed below could be seen as being more applicable to those entities, for example, agency theory which predominantly underpins research in these areas. Despite a corporate focus, agency theory does have applicability to other sectors; including education, as do the other theories identified and discussed below.

This chapter will identify, discuss and present the case that a mixed theoretical perspective is relevant and appropriate to frame the study. There are a number of theoretical perspectives, identified by the literature, pertinent to accountability and disclosure practices but there has not been one theory, which fully explains these practices and so at least to some extent they are complementary. Section 3.2 will seek to identify those theories and theoretical assumptions which provide a framework to underpin the literature, and relevance and applicability to FE colleges.

As a minimum accountability is to hold someone to account for their actions. However, it is a concept lacking consensus or a universal definition. Disclosure of information by organisations is one form of demonstrating accountability. The concept of, approaches to, and format of, accountability, including corporate and not-for-profit sector accountability; including charities, HE, FE and the public sector will be discussed in Section 3.3. There is much less prior research in

these areas for FE and the public sector (Goddard, 2005). Section 3.4 examines disclosure literature and prior disclosure index studies to provide guidance for FE, as there are no previous disclosure studies in this sector. As previously stated accountability, and hence disclosure as a form of accountability and transparency, is influenced by the context of an entity. Therefore, factors influencing disclosure, including those that are common to all economic entities: size; assets; debt (leverage); governance and auditor status (Gordon et al., 2002) are examined in Section 3.5, as well as those specific to FE (college-specific factors). The chapter is concluded in Section 3.6.

3.2 Disclosure and accountability theories

3.2.1 Agency theory

Agency theory is a fundamental theory underpinning much of the corporate governance, accountability and disclosure literature derived from Jensen and Meckling's (1976) paper on the Theory of the Firm. Jensen and Meckling's theory of the ownership structure of the firm was developed by drawing on a number of extant theories, examining the concept of agency costs and identifying their relationship with the 'separation and control' issue. This is a fundamental concept recognised through the development of corporate governance practices. They define an agency relationship as 'a contract under which one or more persons (the principals(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent' (Jensen & Meckling, 1976, p.308) and costs are incurred, including agency relationship costs. These agency costs comprise of three components: monitoring expenses incurred by the principal to limit and control the agent's behaviour; bonding expenditures incurred to ensure the agent does not undertake actions that are not in the principal's best interests; and finally residual loss, which is defined as the reduction in welfare experienced by the divergence between decisions of the agent and 'those decisions which would maximize the welfare of the principal' (p.308).

Jensen and Meckling (1976) concentrate on the analysis of agency costs generated by the contractual arrangements between the owners and top management. However, they recognise the generality of the agency problem and that it is not confined to companies but 'it exists in all organisations and in all cooperative efforts' (p.309). Universities and other non-profit making organisations are specifically referred to. Agency costs include the monitoring costs of the principal, which are costs associated with monitoring and other control activities. These include costs associated with good corporate governance mechanisms, for example independent NEDs, an audit committee, external auditors, formal control systems and the board of directors which are seen as an essential monitoring devise to ensure any principal-agency relationship problems are minimised (Mallin, 2016).

Disclosure of information is one way that entities demonstrate their accountability. This disclosure is associated with monitoring costs. Providing additional or voluntary information disclosures and communication to the market to enhance the value of the firm reduces agency costs (Barako, Hancock & Izan, 2006). Moreover, Ntim et al., (2017) state that 'agency theory posits that voluntary disclosures are a means to reduce information asymmetry between contractually-related partners' (p.8). In UK HEIs such disclosure helps minimise agency problems by improving the information flow between top management and their stakeholders (Soobaroyen, Broad & Ntim, 2014) and thus demonstrating accountability for institutional performance. This perspective is relevant to and applicable to the FE context as college management has to provide information to stakeholders, for example to funding agencies, students and the local community.

Although the organisational structure differs between profit and not-for-profit organisations monitoring costs are incurred by all organisations as they are essential components of good governance. Not-for-profit making organisations have adopted, implemented and followed, over time, these 'corporate governance best practices', resulting in the incurrence of agency and monitoring costs. The use of agency theory can be seen throughout the development of UK corporate governance practices and codes which have resulted in a clear separation of governance from management (Schofield, 2009). This was a fundamental outcome of the Higgs Review (2003) of the role and effectiveness of non-executive directors, which noted that board effectiveness was assumed to be a function of board independence from management. It also emphasised the importance of NEDs to good governance. This has been adopted by the not-for-profit sector, including FE, when developing current governance practices including the Foundation Code (FCG) and Annex.

Most FE colleges, as corporations, follow the 'traditional' governance model of committee formations 'with key corporate functions divided into committee silos' (Hill, 2014, p.979). Thus, they follow corporate governance best practices and, hence, a traditional agency theory perspective, i.e. controls through governance with a clear separation of governance from management (Schofield, 2009). However, FE colleges do exhibit different characteristics. These can have a 'substantial influence on how governance and strategic leadership is understood', in addition 'the "style" and general approach of the board is almost as important as the structure in which it operates' (Schofield, 2009, p.17).

Some FE colleges have adopted, in part, or are currently showing interest in, John Carver's Policy Governance® model of board effectiveness as an alternative to the 'traditional' governance model derived from an agency perspective, (Schofield, 2009; Hill, 2014). This model adopts some aspects of an agency theory approach.

> The approach, is based on the assumption that the owners (or shareholders) of organisations have different interests from managers, and as the owners do not have control over daily operations it is the role of a board to act in their best interests. This means a board being solely responsible for organisational 'ends' (mission), leaving a chief executive to concentrate on the 'means' to achieve them, with he or she being robustly held to account. (Schofield, 2009, p.18)

The Carver model is 'designed to empower boards of directors to fulfil their obligation of accountability' (Carver, 2016, n.p.) and in doing so it does not advocate the use of committees as the board effectively speaks with 'one voice' (Carver & Carver, 2001). This, however, contrasts with the Financial Memorandum which requires FE colleges to have an audit committee. According to Carver, the principals of community-based agencies, for example education, are their communities. It will be interesting to determine whether any FE colleges, in the study's sample, follow this model and whether the board's obligation of accountability, under this model, manifests in greater disclosure.

An agency theory perspective has been adopted by a significant number of corporate governance and disclosure studies. It is the 'theoretical mainstay of published papers in corporate governance' with many of these studies focussing on 'purely quantitative metrics' (Tricker, 2015, p.63) including board characteristics and other governance factors influence the level of corporate performance or disclosure. However, the theory is challenged with some critics arguing that it has a relatively narrow theoretical scope, is simplistic in practice and that board behaviour is more than a series of contractual relationships (Tricker, 2015). Despite these criticisms, agency theory points to important issues and is still the main theoretical perspective underpinning such research. However, there is now often more focus on other theories or on a multi- or mixed theoretical perspective. The applicability of agency theory to a not-for-profit organisation is often questioned, as it is unclear who the principals are, as there are no owners in terms of shareholders but various organisational stakeholders (Van Puyvelde, Caers, Du Bois & Jegers, 2012) or communities. Other theoretical perspectives are seen as more appropriate as they incorporate a wider set of social, political and institutional led motivations (Ntim et al., 2017). These are discussed in the following sub-sections.

3.2.2 Stakeholder theory

Stakeholder theory is generally credited to Freeman (1984) who argues that an organisation has a broad range of stakeholders whose needs should also be considered. In addition to shareholders, there are other internal and external stakeholders with legitimate interests in aspects of the corporation's activities and to whom there should corporate accountability.

Brennan and Solomon (2008) state that in considering corporate governance there has been a broadening of coverage and a change of ‘emphasis, away from the traditional shareholder-centric approach towards a more stakeholder-orientated approach’ (p.890) with companies ensuring that they are discharging accountability to all their stakeholders (Solomon, 2007, p.14). Brennan and Solomon (2008) also state that stakeholder theory is being used increasingly to offer a more inclusive approach to corporate governance as corporate governance research has started to examine a broader range of mechanisms of accountability (p.890). They identify these broad mechanisms as including governance regulations, boards of directors, transparency including financial reporting and accounting, audit committees and external auditors. These areas have been the focus of significant research in the past and Brennan and Solomon (2008) argue that research needs to broaden to include different mechanisms of accountability, as well as different sectors and contexts, for example, public sector bodies and charities. Solomon (2007) states that stakeholder theory can be viewed as a ‘conceptual cocktail’ which is more a broad research tradition rather than a formal unified theory as it is ‘concocted from a variety of disciplines’ (p.23), developed over time and used in a variety of contexts.

A stakeholder approach has been used by researchers into corporate governance and organizational theory, as well as, social responsibility and social performance (Freeman,1984; Donaldson & Preston, 1997; Mitchell, Agle & Wood,1997; Gray, Bebbington & Collison, 2006; Gray, Kouhy & Lavers,1995). There is, without a doubt, agreement that there is a two-way relationship – with the organisation affecting the stakeholder and the stakeholder affecting the organisation, in some way.

Donaldson and Preston (1995) propose that the theory has three distinct and mutually supportive aspects: normative, descriptive and instrumental. The theory is descriptive as it presents a model of what the corporation is, i.e. it is used to ‘describe, and sometimes explain’ (p.70), specific corporate characteristics and behaviours; and instrumental in that it is used to identify connections or lack of connections between the practice of stakeholder management and traditional corporate objectives. They argue that the fundamental basis of the theory is normative, in that stakeholders are identified by their interests and the interests of all stakeholders are of intrinsic value. Stakeholder theorists argue that there is no prima facie priority of one set of interests over another.

The Corporate Report issued in 1975 (ASSC, 1975) radically (at the time) suggested that companies should be accountable to a wider range of stakeholders than just shareholders Accountability to this wide range of stakeholders to be achieved through the disclosure of voluntary statements, in addition to the financial statements. These stakeholders would include shareholders, employees, suppliers, customers, creditors, communities in the vicinity of the

company's operations and the general public (Solomon, 2007). This wide range of users continues to be recognised and are included in the Accounting Standards Board (1999) Statement of Principles, from which the SORP is derived. Reference to stakeholders in the Statement of Principles comes with the caveat that information is needed for economic decisions, thereby taking a decision useful approach but recognising investors as the primary stakeholder.

> This analysis illustrates that, although those potentially interested in an entity's financial statements need that information for a variety of purposes, all the purposes involve taking informed economic decisions. (section 1.4)
>
> General purpose financial reports focus on this common interest of users. Their objective is therefore to provide information about the financial performance and financial position of an entity that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions (including those based on assessments of the stewardship of management (section 1.6) (ASB, 1999).

Some more extreme proponents argue that the definition of stakeholders should go even further than Freeman (1984) and include the environment as well as future generations as these 'stakeholders' also have an 'exchange' (two-way) relationship. This is in complete contrast to an agency paradigm, although Solomon (2007) argues that similarities between the theoretical standpoints are evident on closer examination. In the context of FE each college has a number of internal and external stakeholders that have legitimate interests requiring economic decisions. The 2014 ADH identifies examples of internal and external stakeholders and these are illustrated in Figure 3 below.

Figure 3 FE colleges external and internal stakeholders

External stakeholders	Internal stakeholders
Funding bodies	Students
Local community	Staff (including the Principal)
Other FE institutions	
Local employers (with specific links)	
Local authorities	
Government offices, Regional Development Agencies/LEPs	
Professional bodies	
Trade Unions	

Source: AoC (2014) Accounts Direction Handbook (p.26)

Interestingly, neither governors, local schools nor lenders or creditors are specifically identified as stakeholders in the ADH. Some FE colleges do identify other stakeholders in their operating review and it could be argued that all their needs are 'economic' and satisfied by annual reports. But others argue that other needs of stakeholders, such as corporate social and environmental responsibility and accountability, are not being met through traditional disclosure/reporting

mechanisms and therefore have used a stakeholder theoretical approach to underpin research into disclosure practices in these areas and by implication it is appropriate to FE colleges.

Although Donaldson and Preston (1995) refer specifically to the theory's applicability to investors they also identify that stakeholder concepts have been applied in other settings, e.g. social programmes. However, they argue that these settings are fundamentally different and the applicability is questioned as they propose that the theory is unique to the corporate setting – relating to the theory of the firm. 'The stakeholder theory is intended to both explain and to guide the structure and operation of the established corporation' (p.71). In the context, of explaining and stakeholder management, the theory has been applied to other sectors and used in disclosure studies to explain the targeting, in terms of importance, of disclosure in annual reports. It has been suggested, by prior studies, that disclosure in annual reports is not targeted at some stakeholders as they are seen as less important or communicated with via other means (Ntim et al., 2017). This fits with the concept of stakeholder salience developed by Mitchell et al. (1997).

Mitchell et al. (1997) use a stakeholder approach to develop a typology of stakeholders based on relationship attributes of power, legitimacy and urgency, arguing that these attributes must all be accounted for and that it is the principle of who and what that really counts. It could be argued that accountability by FE colleges to their stakeholders is based on those relationship attributes.

Collier (2008) states that economic pressure to only satisfy shareholders is short-term thinking. Organisations, in order to ensure survival and achieve success in the long-term, also need to satisfy their other stakeholders – the argument behind stakeholder theory (Collier, 2008). He proposes a model that develops a stakeholder–agency approach, applied in his field study of a quasi-public organisation attempting to improve structures and processes to improve decision–making, accountability and control at the top of the organisation. He recognises that an important role for governance is to assess the competing needs of stakeholders, and that the role of the, often unpaid, board of directors is an important area for study as well as governance in general. The adoption of governance codes of practice comparable to the extant corporate governance codes reflects the importance of governance for the FE sector. Stakeholder-agency theory was proposed by Hill and Jones (1992). They argue that both the principal-agent and the stakeholder relationships 'involve an implicit or explicit contract, the purpose of which is to try and reconcile divergence interests' (p.134) and that managers are the only group of stakeholders who enter into a contractual relationship with other stakeholders. Therefore, they can be seen as the agents of the other stakeholders 'and are policed by governance structures' (Hill and Jones, 1992, p.134).

It is recognised that an FE college has a wide range of stakeholders, all with information needs to be satisfied wholly (or partly) through information disclosed in the annual report, which justifies the consideration and relevance of a stakeholder perspective.

3.2.3 Stewardship theory

Stewardship theory reflects the original legal view of the corporation and the classical idea of corporate governance. The corporation is a separate legal entity that nominates and appoints directors and who then act as stewards for the interests of the corporation (Tricker, 2015). The directors then report on and are accountable for the results of that stewardship.

Davis, Schoorman and Donaldson (1997) state that 'stewardship theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals' (p.21). They argue that exclusive reliance on agency theory is undesirable as it ignores the complexities of an organisation. Davis et al. (1997) state that

> Stewardship theorists argue that the performance of a steward is affected by whether the structural situation in which he or she is located facilitates effective action. If the executive's motivations fit the model of man underlying stewardship theory, empowering governance structures and mechanisms are appropriate. Thus, a steward's autonomy should be deliberately extended to maximize the benefits of a steward, because he or she can be trusted (p.25)

A steward, therefore, is motivated to behave in a way that is consistent with the organisation's objectives, i.e. their interests are aligned rather than behaving in a way that would benefit the steward and hence some of the agency costs are diminished. If interests are aligned then there is less likely to be misrepresentation, as special interests are not served, thereby addressing the principles of truth and fairness (Coy et al., 2001).

Stewardship theory is often used in corporate governance and corporate organisational research in an attempt to look beyond the economic perspective of agency theory and to examine situations where stewards are motivated to act in the best interests of the principals (Donaldson & Davis, 1991). Some critics argue that stewardship theory is naïve in the modern investment world, with its complex ownership structures and powerful institutional investors. Many researchers argue for one theoretical perspective or another, but Davis et al. (1997) argue that these have often mixed results. Therefore, there is a need for both agency theory and stewardship theory explanations of management. Furthermore, the study by Davis et al. (1997) recognises an intrinsic motivation of the stewardship relationship as well as identification with an organisation. These factors could be

transferred from a corporate setting to that of a FE college with regard to the motivation for volunteering as governor by external and staff members.

Dixon and Coy's (2007) paper on university governance recognises that the main trend has been to follow public companies. Consequently, one of the roles of the governing body is to act as 'stewards for society and/or university principals to ensure that university participants stay true to the objects of the university' (Dixon & Coy, 2007, p.268). This can also be said to be true of the FE sector. The study also discusses the rationale for reporting. In the context of HE, they espouse that financial reporting should encompass stewardship and decision usefulness which are, they argue, part of a wider public accountability paradigm. This public accountability paradigm underpins much of the disclosure and accountability research in the HE sector (Coy et al., 2001; Ntim et al., 2017). Furthermore, Coy et al. (2001) also argue that disclosure of information in the annual report by a HEI is motivated by public accountability which is driven by good stewardship. This also resonates with the current study and FE.

A review of governance and strategic leadership in the English FE sector was carried out by Schofield (2009) who identified three general styles of governance and leadership applicable to the sector: the stewardship approach; control through governance – an agency approach as discussed above; and finally, a 'hands-on style' (with weak separation of governance from management). The stewardship approach is based on the premise that the interests of all those involved in an organisation are shared (p.18), and that the close working relationships in a college offer some control. Schofield (2009) argues that this approach has advantages and weaknesses including accountability and the risk may be excessive where public money is concerned, but despite this;

> For many governors and senior managers this is the preferred way of 'doing business', and FE is a culture where collaboration and partnership is espoused. Accordingly, governance structures in such an approach have tended to emphasise relatively large bodies with a range of membership, a substantial committee system to provide scrutiny (partly so as not to overload the workload on volunteer governors), and relatively weak forms of internal governance review and self-assessment.
>
> (Schofield, 2009, p.18)

Van Puyvelde et al. (2012), in their study of governance in not-for-profit organisations, argue that combining agency theory with stewardship theory perspectives presents a more comprehensive principal-agent theory of not-for-profit organisations. They do not regard stewardship theory as a separate theory competing with agency theory but one that complements it (p.437). This appears to be the case in most of the education or not-for-profit sector literature, with multiple or combined theoretical perspectives being advocated to explain accountability and disclosure practices.

3.2.4 Resource dependency theory

One of the central themes of Pfeffer and Salancik's (1978) *External Control of Organizations* is that organisations are embedded in networks of interdependencies and social relationships, including the need for financial and other resources. Organisations are dependent on these external sources and relationships and consequently, they are required to act strategically to manage their resource dependencies. A basic premise of the theory is that organisations are not autonomous but are constrained by networks of interdependencies (Ntim et al. 2017). A network of interdependencies could be applied to the FE sector for example, with financial dependencies on external sources - funding bodies. The governing body contains a network of internal resources and interdependencies, for example the composition of the corporation in terms of skills, expertise, diversity and the use of co-opted members.

Tricker (2015) when describing the resource dependency perspective, perceives the governing body of a corporate entity as 'the linchpin' between the company and the resources needed to achieve its objectives (p.68). The governance literature has used one aspect of this theory to explain the actions of boards of directors, with studies focussing on board size and composition as indicators of the ability to obtain resources. There are, however, fewer studies using a resource dependency perspective than those using an agency theory perspective (Hillman, Withers & Collins, 2009). The board of directors, including non-executives, can provide an organisation with resources, both practical and symbolic. The practical resources include their expertise and contacts/networks, whilst symbolic resources include to enhanced reputation or perceived legitimacy by association (Roberts & Young, 2006). This latter point may be particularly relevant to the governing body of an FE institution. Members of the corporation are volunteers, but it could be argued, that they are appointed on the basis of expertise or other resources that they bring to the role and, in addition, to the resources attached to their social networks. The independence of such relationships, for example, can cause threats to governance, but is being addressed by governance codes and other policies and processes.

Boards are also resource providers, providing for example legitimacy, advice and counsel in addition to links to other organisations. Hillman and Dalziel (2003) identify this as board capital (human capital – expertise, experience, reputation) and relational capital (network of ties to other firms and external organisations). Studies have used resource dependency to explore the relationship between board capital and firm performance and have also integrated the agency and resource dependency perspectives. Hill and Dalziel (2003) argue that board capital affects both monitoring and the provision of resources. The FE corporation relies extensively on voluntary external governors to provide board capital (expertise, experience and reputation) as well as

developing relational capital through external relationships. How and what a FE college discloses and reports is possibly shaped and framed by these relationships. This could be, perhaps, to maintain or improve access to resources with resource providers responding positively to voluntary disclosure. Or entities only disclose what is considered necessary in order to avoid disrupting the balance of interdependencies (Ntim et al. 2017).

Pfeffer and Salancik (1978) use universities and the government as examples to illustrate that some organisations and resource providers have more power, and that they can use that power to force/enforce policies and decisions on other organisations. For example, FE colleges have a resource dependency on funding bodies – as they wield the power by controlling the resources relied on by a college for survival. They are able to withhold or grant funds, as well as stipulating how colleges account for those resources. Universities face similar issues but are not as reliant on just one source of income. They have a wider variety of income streams, for example, research and enterprise income and international students. Also, the FE funding memorandum requires colleges to have an audit committee – another example of an external influence on the organisational and power relations underlying the relationship between an FE college and the funding body.

As previously mentioned organisations are constrained by networks of interdependencies and power relations and are often, as is the case of the FE sector, operating within uncertain and changing times. When faced with frequent government policy and regulatory changes, organisations tend to react and become more proactive in managing these interdependencies (Ntim et al., 2017). One manifestation of this reaction could be the increase in information disclosure. Ntim et al. (2017) cite the works of Parker (2002; 2011; 2012; 2013), Nagy and Robb (2008) and Taylor (2013) in their study of UK HEIs and arrive at the view that the management of dependencies and interdependencies in the wake of decreased public funding and regulatory reform has led to 'the adoption of practices and strategies to ensure an alignment to external expectations rather than reflect resistance or autonomy' (p.12).

It can, therefore, be argued that the type and amount of disclosure of information by FE colleges in the annual report might be part of a strategy of managing their dependency on external resources. There are numerous reporting requirements to be met by FE colleges to satisfy funding bodies and it may be easier and more strategic to report only what is required; following a template (ADH Casterbridge College), than to demonstrate autonomy by providing more information and voluntary disclosure. An alternative perspective supported by Chen and Roberts (2010) is that resource providers are more likely to respond positively to voluntary disclosure but in providing voluntary disclosure the imbalance between interdependencies might be compromised. With regard the

current study that argument might be questioned particularly with regard to the current FE funding regime.

3.2.5 Institutional theory

Institutional theory has been used in governance and organisational behaviour studies when considering what makes organisations similar. DiMaggio and Powell (1983) contend that bureaucratisation and other forms of organisational change occur as the result of processes that make organisations more similar without necessarily making them more efficient. They describe this as institutional isomorphism. DiMaggio and Powell (1983) state that 'The concept of institutional isomorphism is a useful tool for understanding the politics and ceremony that pervade much modern organizational life' (p.150). Adopting governance best practices and codes are examples of practices and innovations which were originally seen as drivers to improve performance but, it can be argued, as the adoption and use of these practices spread they can be seen as providing legitimacy rather than improving performance. Until the English Colleges' Foundation Code of Governance was published in 2011 colleges just applied and adapted the UKCG as applicable to the sector – perhaps an example of institutional isomorphism. Interestingly, Spira (1999) also uses the term "ceremony" in her paper on audit committees. In particular, are governance practices and audit committees only part of the ceremony of an organisation? Is the requirement to have them, in not-for-profit/non-corporate organisations, the result of those entities being required to jump on the corporate model band wagon, therefore, ensuring institutional isomorphism?

Three mechanisms of institutional isomorphic change are identified by DiMaggio and Powell (1983). Firstly, coercive isomorphism which stems from political influence and legitimacy. This includes both formal and informal pressures exerted on dependent organisations by other organisations and by cultural expectations in the society in which they function. The adoption of the corporate model of governance being required/mandated by funding providers' e.g. The Financial Memorandum requires, even under the new freedoms, that FE colleges still maintain an audit committee. Additionally, it prescribes specific reporting requirements.

Secondly, DiMaggio and Powell (1983) state that mimetic processes are brought about where there is ambiguity or uncertainty. This results in organisations modelling themselves on other organisations with the modelled organisation serving, as a convenient source of practices, that the borrowing organising may use. This could be the case of the not-for-profit sector mimicking the corporate governance or disclosure practises of the corporate sector.

Thirdly, normative pressures stemming 'primarily from professionalization' (p.152); recognising that these mechanisms create a pool of almost interchangeable individuals who occupy similar positions across a range of organisation. Again, this can be seen as relevant to the governing body and audit committee members in FE. What is the background and experience of members of the corporation? Are there similarities in education and experience etc.? Are they isomorphic in terms of 'professionalization'? Consequently, it can be argued that governors have a common set of attributes, will view problems, see the same policies, procedures and structures as normatively sanctioned and legitimated and therefore approach decisions in much the same way.

The theory purports that organisations seek to ensure they provide the same benefits and services as their competitors leading to homogenization. This could be applied to the information that FE colleges disclose in their annual report. Are FE colleges choosing to provide the same standard of disclosure as other colleges because there is no perceived benefit of disclosing additional or other voluntary information? Homogeneity can also be caused by higher levels of institutional isomorphism due to pressures from resource suppliers particularly when there is reliance on a single supplier, i.e. funding body.

Meyer and Rowan (1977) state that formal organisational structures arise in highly institutionalised contexts, and that organisations are driven to incorporate the practices and procedures, defined by prevailing rationalised concepts of organisational work and institutionalised in society. The incorporation of these practices and procedures increases an organisation's legitimacy and survival prospects. This is, it can be argued, what has happened with regard to the adoption of governance practices in the not-for-profit sector and the wide up-take and adoption of audit committees. Perhaps this can also be applied to accountability and disclosure practices of FE colleges, as they are formal organisations in a highly institutionalised context. Accountability demonstrated through disclosure increases legitimacy and hence survival prospects. Meyer and Rowan (1977) further argue that these institutional practices and policies function as powerful myths that are adopted ceremonially by many organisations. As previously mentioned, the introduction of an audit committee, its prominence and extensive role in corporate governance and widespread adoption by the non-corporate sector is a case in point. Many governance practices can be argued to have been incorporated into organisations through institutionalisation. Meyer and Rowan (1977) also point out that 'incorporating external legitimated formal structures increases the commitment of internal participants and external constituents' (p.349). The audit committee is one such example; by creating these formal structures and institutionalised elements it protects the organisation from having its conduct questioned and the organisation becomes legitimate. Such legitimacy is used to strengthen its support and secure its survival, including funding, which links to Pfeffer and Salancik's (1978) resource dependency theory discussed above.

What impact would the new freedoms have on the legitimacy of FE institutions if they innovated and moved too far away from the institutionalised myths and norms? The audit committee could be substituted for Meyer and Rowan's (1977) ' highly professionalised consultants' who are difficult to justify in terms of productivity but may be very important in maintaining internal and external legitimacy. Audit committees are part of the ceremony of institutionalised organisations. Hence, even FE colleges adopting the Carver® Policy model of governance, still have an audit committee to comply with funding body requirements. There is, therefore, a need in these institutionalised organisations as well as conforming to the myths to maintain the appearance that these myths actually work. Providing information and disclosure in the annual report can be seen as one way of maintaining this appearance in the context of governance and accountability.

3.2.6 Legitimacy theory

Dowling and Pfeffer (1975) state that organisations seek congruence between the social values of their activities and the norms of accepted behaviour in the larger social system of which they are part (p.122). They seek organisation legitimacy through the process of legitimation - put simply, it is how an organisation justifies its right to exist and continue in the social system in which it is part. Legitimacy is therefore a constraint on organisational behaviour. It is a dynamic constraint that will be affected by norms and values prevalent at a point in time, and by social change in these norms and values, as well as competition between organisations and an organisation's output. Dowling and Pfeffer (1975) argue that 'organizational survival is enhanced by legitimacy' (p.125) and in their study provide a conceptual framework for the analysis of organisational legitimacy and how organisations act to increase their perceived legitimacy. They hypothesise that organisations receiving more political and social benefits would tend to engage in more legitimating behaviour. Communication of an organisation's activities is perceived as one these legitimating acts.

In the context of this study, legitimacy theory literature will be reviewed with regard to its role in explaining or underpinning disclosure: communication. Ashforth and Gibbs (1990) state that 'organizations require legitimacy to attract constituents' support' (p.177) and that 'organizations frequently pursue legitimacy through a variety of substantive and symbolic practices' (p.177). The conformance of practices with socially accepted norms and expectations is seen as legitimising an organisation and justifies an organisation's role in society as well as helping to attract resources (Ashforth & Gibbs, 1990). They state that there are two general means of achieving legitimacy. First, is substantive management which involves real change within an organisation. That is closely linked with coercive isomorphism which requires an organisation to alter resource dependencies and social institutionalized practices. Second, an organisation may choose to 'symbolically manage' (p.180) its behaviours so that they appear consistent with social expectations rather than

actually changing its ways. Whatever the method chosen, Ashforth and Gibbs (1990) argue that the intent is the same, that is, ‘to foster the belief among constituents that the organization’s activities and ends are congruent with the expectations, values and norms of the constituents’ (p.182) and that the intensity and mix of practices depends on whether management is attempting to extend, maintain or defend legitimacy. Providing disclosure in annual reports is one way of fostering that belief.

Legitimacy theory is used in the extant literature to explain why companies disclose information and why there has been an increase in disclosure in recent decades. This theory has been applied to voluntary disclosure, including social and environmental disclosure (for example, O’Donovan, 2002; Deegan, 2002). An organisation’s motivation for disclosure might be a consequence of its desire to legitimise its operations (Deegan, 2002). Guthrie and Parker (1989) state that ‘legitimacy theory posits that corporate disclosure reacts to environmental factors (economic, social, political) and that disclosures legitimise actions’ (p.344). As the theory is largely reactive in its orientation, corporate social disclosures may be seen as a reaction to legitimise corporate actions. Their study, however, failed to confirm legitimacy theory as the primary explanation for social reporting in the case studied. However, Patten (1991) in his study of voluntary social disclosure practices in corporate annual reports, uses legitimacy theory to examine whether these social disclosure practices are a function of profitability, market-based/economic legitimacy or public pressure, social legitimacy. The study found that profitability variables were not significantly associated with the extent of social disclosure.

Suchman (1995) argues that conforming to environments, is one of the strategies adopted by organisations to gain legitimacy and that the nature of conformism can vary depending on whether the organisation is seeking ‘primarily pragmatic, moral or cognitive legitimacy’ (p.587). Interestingly, he uses the example of managers cynically revising mission statements to give a false appearance of conformity to societal ideals. Mission statements are disclosed by colleges in their annual report. Suchman (1995) goes on to argue that organisations gain cognitive legitimacy by conforming to established models and standards – identified by institutional theory as mimetic isomorphism – that is mimicking the most secure and prominent organisation in their field. In the FE context, this has relevance to the extent of disclosure in the annual report. Do colleges slavishly disclose what is suggested in the illustrative ‘Casterbridge College’ annual report (both mandatory and optional information)? Are they guilty of ‘boiler-plate’ reporting? Do they disclose additional information or deviate from the wording used in the ADH? Suchman (1995) goes on the argue that organisations also employ strategies to maintain legitimacy (to guard against perceived challenges as well as protecting accomplishments) but these strategies should not attract overt attention as they could have a detrimental side effect and should use ‘matter of fact explanations’. This could

also be an argument applied to FE college disclosure, particularly for colleges facing challenges, for example financial or merger/dissolution, in that they do not 'overly' disclose as that might lead to questions being asked.

Chen and Roberts (2010) propose that legitimacy theory serves as an overarching concept to explain the relationship between and amongst theories. Moreover, there are overlapping perspectives between legitimacy, institutional, resource dependency and stakeholder theories which are not incompatible when interpreting business social phenomena and the 'application of these theories depends upon the focus of the study' (p.652). As can be seen from the discussion in the above sections there are many theoretical perspectives which are of interest to the various areas under consideration in this study which together provide a theoretical framework to consider accountability, disclosure and governance practices.

3.3 Accountability

3.3.1 Definitions and typologies

It is recognised that there is no standard, clear, one-size fits-all definition of accountability. As a concept accountability is widely used, and alluded to in numerous disciplines and contexts, but is a concept for which there is no universal definition and one which lacks consensus (Ebrahim, 2003; Goddard, 2005). It also depends very much on the organisational context and relationships both internal and external to an organisation - with multiple dimensions that are socially constructed and which also change over time (Ebrahim, 2003). As Sinclair (1995) states, 'Accountability is a cherished concept, sought after but elusive' (p.219) that is 'subjectively constructed and changes with context' (p.219). Different typologies of accountability are promulgated by the literature depending upon the context and these include both narrow and broad definitions. One such example is put forward by Koppell (2014) who identifies five categories of accountability: liability (being held to account), transparency (giving account), controllability, responsibility and responsiveness (taking account) to emphasise the 'virtues of accountability' rather than the mechanism constructed to achieve it. As Koppell (2014) acknowledges, these are sometimes incompatible with each other (p.58). Sinclair (1995), however, takes a different perspective to that of Koppell (2014), recognising five different forms of accountability: political, public, managerial, professional and personal. Other forms of accountability will be discussed later in this section.

Accountability, therefore, requires an account giver or accountor (the entity) and an account receiver (accountee) who receives the information and who is able to question the information or apply sanctions. In the private/corporate sector, the shareholder (account receiver) is through the capital markets, able to question and sanction (the entity) - a traditional view of one account giver

and one type of receiver. However, it is not so straightforward in the public or not-for-profit sector, as there are often multiple account-givers and receivers (Bovens 2005). Bovens (2005) writing in the context of public accountability identifies five different types of potential accountability relationships: organisational; political; legal; administrative and professional – a further typology or dimension of accountability. The accountability relationships implying that being accountable also means being responsible. The remainder of this section will discuss accountability literature applicable to different contexts: corporate, not-for-profit and finally HE and FE.

3.3.2 Corporate accountability

The accountability literature has predominantly focussed on corporate accountability (listed companies where there is divorce of ownership and control) to shareholders (Brennan & Solomon, 2008) following an agency theory perspective. Being held accountable is fundamental to the agent-principal relationship as defined by Jensen and Meckling (1976). Consequently, accountability is a key component of corporate governance. In its narrowest sense corporate accountability will be to the shareholders (agency theory) while in the widest sense accountability is to all stakeholders including society, future generation and the natural world (stakeholder theory) with each stakeholder, including shareholders, requiring different things in terms of accountability from an organisation.

Extensive past research has been carried on corporate governance mechanisms associated with accountability, for example, boards and their effectiveness (Beasley, 1996; Short, Keasey, Wright & Hull, 1999), the role of NEDs (Kakabadse, Ward, Korac-Kakabadse & Bowman, 2001; Brennan, Kirwan & Redmond, 2016) and board sub-committees (Avison & Cowton, 2012; Spira & Bender, 2004; Bedard & Gendron, 2010). The audit committee, in particular, as a mechanism for improving effectiveness and monitoring has been the focus of many of these prior studies. In addition, how companies discharge their accountability and transparency through annual reporting and voluntary disclosure is the focus of numerous past studies, (for example, Hossain & Hammami, 2009; Cooke 1989a; Cooke, 1989b; Deegan, 2002; Dixon & Coy, 1991; Gray & Haslam, 1990; Gisbert & Navallas, 2013). Some of these will be discussed further in later sections.

Traditionally, as stated above, accountability had a narrow focus, taking an agency theory perspective. This has now broadened to incorporate other theoretical perspective; particularly stakeholder theory; stewardship theory; and resource dependency theory. The annual report, as a mechanism for demonstrating accountability, now includes more than just the financial statements. It encompasses social, environmental and sustainability reporting and is therefore, accountable to a wider range of stakeholders (Brennan & Solomon, 2008). In essence it has become multi-faceted

(Shaoul, Stafford & Stapleton, 2012). The annual report (required by legislation) is seen as the vehicle most widely available and accessible to demonstrate accountability (in all its forms). Section C of the UK Corporate Governance Code (2016) addresses accountability with C.1 Financial and Business Reporting main principle stating that 'the board should present a fair, balanced and understandable assessment of the company's position and prospect' (p.16).

In addition, this is enhanced for FE colleges by the AoC's 2013 AAA which states:

> In its report to external stakeholders, funding agencies, and regulators, the governing body should present a balanced and understandable assessment of the College's performance and prospects (AoC, 2013, Section A.1).

This suggests that accountability is demonstrated via the annual report. The annual report is required of all corporate entities, including incorporated FE colleges.

3.3.3 Accountability in the not-for-profit sector

Accountability has an important role to play in not-for-profit and non-governmental private sector organisations and the term public accountability often features in accountability research in these sectors. Entities in the not-for-profit sector in addition to compulsory external accountability, to government or other agencies and regulators, also have accountability to their funders and other stakeholders. Furthermore, as Lee (2004) argues, not-for-profit entities can also increase confidence in their activities by pursuing more vigorous public reporting and hence becoming more publicly accountable.

Samkin and Schneider's (2009) study used legitimacy theory to show how formal accountability mechanisms along with informal reporting were used to justify the existence of a New Zealand public benefit entity. Interestingly, they used a longitudinal study with a detailed examination of the annual report narrative disclosures to establish whether impression management techniques included in the annual reports had a legitimising function. They found that the annual report could play an important legitimising role. Whether FE colleges use the annual report in the same way as a public benefit entity is debatable but both are in receipt of public funds and have to evidence their legitimacy.

Other studies have identified other theoretical perspectives underpinning accountability. This includes entities being pressurised to demonstrate upwardly accountably to resource providers – funders thereby focussing on functional accountability. O'Dwyer and Unerman (2007), in their case study of Irish Non-Governmental Development Organisations (NGDO), recognise functional accountability as being 'short term and focusing on accountability to funders for resources and their

use’ (p.449). They argue, that this largely results in an entity having to complete funder 'instigated evaluation and monitoring mechanisms' (p.449), which has given rise to the prominence of measurability and quantifiability to funding providers at the expense of broader social accountability. This resonates, to an extent, with FE college upward accountability to resource providers, for example, the SFA, as required by the Financial Memorandum. The study, citing Kilby (2004) and others, states that NGDOs’ accountability to other stakeholders seems quite weak and that many claimed that their values and mission are their primary point of accountability. This is interesting for the current study as it is a mandatory requirement that FE collegess provide a statement of their mission and values. It would make an interesting area for future research.

Dhanani and Connolly’s (2012) examine the accountability practices of large UK charities and how accountability is discharged through public discourse by way of disclosure within the annual report. They state that the annual report ‘occupies a prominent place as a textually mediated mass communication medium’ (p.1141) and is the principal means of discharging reporting responsibilities. Their study adopts models of stakeholder theory along with legitimacy theory as a way of contextualising accountability in the charity sector which they argue allows for a more inclusive perspective of accountability. This view is also shared by Ebrahim (2003). They seek to develop a more inclusive view of not-for-profit accountability than previous studies identifying four key accountability themes: strategic, fiduciary, financial and procedural. They provide examples of disclosure items under each of those themes (see Table 3.1 below).

Table 3.1 Not-for–profit accountability: examples of disclosure items

Strategic accountability	Procedural accountability

Aims and objectives
Charitable activities, programs and projects
Performance and achievements
    Program results/outcomes/impact
    Program efficiency
    Program effectiveness
	Ethical operational policies
	    Investment
	    Trading
	    Fund raising
	    Advocacy
	Staff
	Volunteers
	Downward stakeholders

Fiduciary accountability	**Financial accountability**

Governance
    Organizational structure and decision making
Risk management
Trustee recruitment policies
Financial policies
    Investment
    Reserves
	Financial position/stability
	    Income
	    Expenditure
	    Surplus/deficit levels
	    Trading activities
	Performance of financial policies
	    Investment
	    Reserves
	Organisational efficiency
	    Program spend
	    Fund raising

Source: Dhanani & Connolly (2012, p.1146)

The agent-principal relationship is not confined to the corporate sector and, as Ebrahim (2003) posits, the principal-agent theory has had a significant contribution in 'framing accountability' (p.196) in the not-for-profit sector. Issues arise when there is lack of congruence between the interests of the agent and those of the principal. Ebrahim (2003) argues that where incongruence is recognised it is addressed by either, firstly, performance-based compensation (payment, promotion or recognition), or secondly, by monitoring the agent (reporting or disclosure requirements) – monitoring being a concept of agency theory. A principal-agent relationship is applicable to FE with the principal being the funding bodies and the corporation being agents. Also, the governing body could be seen as the principal with the Principal/CEO as the agent. Ebrahim (2003) also argues that in the not-for-profit sector, selective reporting of what and how an item is reported may satisfy the funders, but failing to report on other factors leads to accountability through reporting being potentially skewed in favour of 'dominant actors' (p. 200). This is also the view of O'Dwyer and Unerman (2007).

In order to ensure meaningful engagement with their stakeholders regarding accounting, accountability and governance the charity sector is facing substantial challenges (Connolly, Hyndman & McConville, 2011). FE colleges, although outside the area of research for Connolly et al. (2011) study, are registered charities and face similar challenges. They also face additional

challenges due to the nature of the education sector and the reliance on public sector funding. Connolly et al. (2011) also recognise that accountability, although much discussed in literature, lacks a clear definition, has been studied from different theoretical perspectives including principal-agent, stakeholder and legitimacy - as well as in different contexts and is discharged through public discourse. From this Connolly et al. (2011) identify three themes of accountability, contrasting with Dhanani and Connolly's (2012) four themes. The first is financial managerial accountability which is disclosure of 'managerial success in financial terms' (p.5). The second is operational managerial accountability which is disclosure in 'non-financial, operational/societal terms' (p.5). The third theme is fiduciary accountability which requires good systems of compliance, control and governance to be in place to 'assure organisational stakeholders that the funds, assets and future of the organisation are safeguarded' (p.6). Connolly et al. (2011) regard this as being analogous to the stewardship function of financial accounting. The associated disclosures for each theme are illustrated in Table 3.2.

Table 3.2 Accountability themes and associated disclosures

Themes of accountability	Associated disclosure items
Fiduciary accountability	Organisation structure Trustee selection Reserves policy Financial investment policy Risk management statement
Financial managerial accountability	Financial status/position/stability (income, expenditure & surplus/deficit levels) Financial performance of investments and Reserves policies Fund raising efficiency Overall organisational efficiency
Operational managerial accountability	Organisational aims and objectives Organisational activities Direct charitable activities (inputs, with separate attention to volunteers, outputs, results, efficiency and effectiveness)

Source: Adapted from Connolly et al. (2011), p.6

Problems of multiple accountabilities exist and consequently difficulties are faced, by entities in this sector, in prioritising and reconciling different user needs, which may lead to weak accountability (Connolly et al., 2011). However, by being publicly accountable through their published annual reports, it is argued that an organisation can gain legitimacy both upward to fund providers and downward to beneficiaries or downward stakeholders (Connolly et al., 2011). This is consistent with the broader accountability paradigm (Coy, Fischer & Gordon, 2001). However, Connolly et al. (2011), in their review of the literature into charity accounting and reporting, found disclosure of information, other than that found in the financial statements (financial accountability), has become over time, more valuable to some users of the accounts. There has been more interest in (better) performance

and governance information as a basis for building trust and confidence. However, accountability has traditionally been discharged through the publication of financial reports and they are the main means of communicating information about activities to stakeholders (Banks, Fisher & Nelson, 1997; Connolly & Hyndman, 2004; Tooley & Hooks, 2009). An interesting point is raised by Banks et al. (1997) who state that poor quality reports can lead to lack of user interest.

Connolly et al. (2011) cite the work by Hyndman and McMahon (2011) which focuses on 'one highly salient stakeholder' – the government - and how government's influence on accounting and reporting has become more vigorous over time. This was seen as being both coercive, in developing the regulatory framework and as a disciplinary mechanism, as well as being persuasive, through encouraging greater prominence of performance reporting. This is interesting for the FE sector as the government is the major funder through the SFA. Therefore, government is the most salient stakeholder requiring FE colleges to give an account of themselves. Accountability of the not-for-profit sector, including FE, has been impacted by 'marketization', with charities encouraged to adopt management approaches and values of the private sector which can be seen in the imposition of private sector governance and reporting practices (Connolly et al., 2011). The requirement for colleges to include an operating review statement and a statement of governance and internal control are such examples.

3.3.4 Accountability in the education sector

Studies into accountability in the education sector have focussed on HE. HE and FE are both part of the education sector and studies in HE accountability will be considered as there is applicability to FE. Kearns (1998) writing in the context of Higher Education in the US identifies narrow accountability as compliance with internally or externally generated laws, regulations and codification of performance. While the broader definitions imply continuous monitoring of societal expectations, involving continuous and proactive efforts to anticipate and position the organisation in order to be ready for new standards of accountability. Accountability is, therefore, assumed to be a dynamic concept. He identifies three fundamental questions of accountability - for what, to whom and by what mechanism? These are complicated questions, particularly when discussing the non-profit sector due to its diversity. Both narrow and broad definitions of accountability can be applied to FE colleges.

Kearns' (1998) study examines the broader concept of institutional accountability, which he sees as referring to the myriad of expectations that are applied to colleges and universities by diverse stakeholders, each with their own demands. These are based on the premise that colleges and universities are public-serving organisations, engaged in the production of public goods with direct

or indirect financial support from the general public. Consequently, they are expected to follow practices that preserve the public trust and serve the public interest, with the result that accountability has become a catch-all term ‘referring to everything from cost control to professional ethics’ (p.141). He also recognises that, apart from governments, colleges and universities serve multiple constituencies to a greater extent than other types of institutions.

Interestingly, Kearns’ (1998) study took place during a time of increased interest in and public scrutiny of the sector, which was facing pressure at the time to justify its contributions and to account for its failures. This has resonance with the current climate of FE in the UK. In defining institutional accountability, he refers to both narrow and broad definitions; included within narrow definition are the core elements of any accountability system - a higher authority vested with the power of oversight, an explicit reporting mechanism to report to the higher authority and a measure used by the higher authority to assess compliance (p.144). The FE funding bodies with their particular reporting requirements could be Kearns’ ‘higher authority’. He argues that the broad definition of accountability encompasses responsiveness to and anticipation of societal demands. Therefore, accountability is more than following rules and formal reporting upwards as it should be proactive as well as reactive in its responses. This results in the standards of accountability being a dynamic component of any institution's strategic environment, which should be embedded in the institution’s strategic processes and continuously monitored (p.145). Kearns’ (1998) framework for analysing accountability identifies four dimensions of accountability: legal, negotiated, anticipatory and discretionary (see Table 3.3).

Table 3.3 Dimensions of Accountability

	Explicit Standards of Performance and Accountability	Implicit Standards of Performance and Accountability
Tactical response from the organisation	Legal accountability: Compliance	Negotiated accountability: Responsiveness
Strategic response from the organisation	Anticipatory accountability: Advocacy	Discretionary accountability: Judgement

Source: Adapted from Kearns (1998), p.147

These dimensions depend on explicit or implicit standards of performance and accountability generated by internal or external stakeholders with the consequence that the institution respond to those standards either tactically or strategically. This could also be the case for FE colleges.

Coy et al.’s (2001) study of US college and university annual reports introduces the view that the decision useful paradigm is not an adequate basis for considering external reporting. That by

providing comprehensive disclosures on the condition and performance, of institutions, this would move reporting beyond decision usefulness and towards 'true' public accountability and in doing so draw upon the older idea of stewardship. They argue that there has been a demand for improved accountability as a result of scandals, and loss of public confidence in public officials and HE institutions in recent decades. Coy et al. (2001) state that 'accountability and a public right of access to information are important ways of controlling power' (p.7) and go on to state that 'more accountability may limit the freedom of agents to act, as a consequence, they may seek ways to subvert, bypass, and control accountability systems that may be imposed upon them' (p.8).

They argue that 'public accountability refers to a public right to know about the condition and performance under the accountor's charge' (p.8). They cite Normanton (1971) who argues that the difference between 'accountability and public accountability is the difference between secrecy and openness' and is more than being accountable in the sense of stewardship in that it 'casts a spotlight upon institutions which are shy of the public's gaze' (p.9). It is wider than an entity just being accountable to those with 'primary economic decisions to make' (p.9) and consequently an organisation should report more comprehensive information about the condition, performance, activities and progress to those with social, economic and political interests (Coy & Dixon, 2004). A public accountability approach to annual reporting would provide a 'new lens' (Coy et al., 2001, p.26) which would extend the current perspectives of stakeholders beyond limited financial information hence taking a decision useful perspective. In the FE context, the college and corporation governors as recipients/users of public funds and stewards of those resources, should be publicly accountable through annual reporting to their various stakeholders. Coy et al. (2001) argue that there is little information in the annual reports of interest to other stakeholders including potential students, employees and the general public about specific areas of teaching, research and service. Therefore, what is the annual report's role in meeting accountability obligations, if there is little information of interest to those stakeholders. They recognise multiple accountability mechanisms are available to colleges and universities but state that,

> the value of an annual report rests in the provision of a wide range of summarized, relevant information in a single document, which enables all stakeholders to obtain a comprehensive understanding of a university's objectives and performance in financial and non-financial terms. No other single source of such information is available to all stakeholders on a routine basis (p.14)

Discharging accountability by way of discourse in the annual report is, therefore, accepted – a routine document produced annually by all FE colleges. Prior studies on why, what and how organisations disclose to demonstrate accountability, using the annual report, are reviewed in the following section.

In addition, Coy et al. (2001) discuss four factors that should be taken into consideration with regard public accountability: firstly, uniformity of reporting standards; secondly, reporting guidelines as they argue that the term financial report should be replaced by 'annual report' as financial report suggests limited focus with non-financial information being disclosed merely to support the financial information. Is this the case for the narrative sections of FE college annual reports and is the other 'glossy' annual report/review produced by some colleges a more appropriate vehicle for reporting public accountability per se? From a public accountability stance, Coy et al. (2001) argue that financial statements are an important part of a much boarder and comprehensive document that reports on an institution's objectives and its success in meeting those objectives. As only a small proportion of the statements contain financial information. Thirdly, cost-benefit considerations, and fourthly, creeping managerialism which, interestingly, includes reference to the adoption of the corporate model of governance by not-for-profit organisations (Bush,1992; Shattock,1999).

Coy et al. (2001) also discuss accessibility in the context of accountability. They define as 'the ease with which stakeholders are able to obtain copies of an entity's annual report' (p.21) and recognise one of the main dimensions of accessibility is the effort that is made to make stakeholders aware that an annual report is available. They argue that an institution that is fully supportive of being publicly accountable will make its reports highly accessible and widely distributed on a voluntary basis. This is very pertinent to the current study and the first two research questions.

3.4 Disclosure

3.4.1 Definition and types of disclosure

As discussed in Section 3.3 above, one way that entities demonstrate accountability is through public discourse and a vehicle for this public discourse is the annual financial statements (annual report: containing both financial and non-financial information). Disclosure of information in the annual report comprises mandatory information, in addition to voluntary information which is disclosed over and above that required by regulation (Cooke 1992). Cooke (1992) also describes corporate disclosure as 'consisting of both voluntary and mandatory information provided in its financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information' (p.231). For the purposes of this study FE college annual reports containing mandatory financial and non-financial information - governed by the SORP and extant accounting standards, as well the information required by the Financial Memorandum and detailed in the ADH - will be reviewed for both mandatory and voluntary disclosure, i.e. information disclosed over and above that mandated. In addition to the annual

report, disclosure can be provided in other formats and via other media mechanisms. For example, websites as well as the returns required to be submitted to regulatory/funding bodies. However, as this study is interested in the discharge of accountability and disclosure practices, the annual report will be the only reporting vehicle used. This enables comparison with other studies.

3.4.2 General disclosure literature

Disclosure of information, an accountability mechanism, has been identified as a fundamental element contributing to good corporate governance and a key component of reducing information asymmetry (Cheung, Jiang & Tang, 2010). This is not a new concept as there are numerous empirical studies on disclosure covering both the for-profit (for example, Ntim, Opong & Danbolt, 2012), often with regard to corporate and social responsibility accounting (for example, Gray, Kouhy & Lavers, 1995; Allegrini & Greco, 2013; Beattie, McInnes & Fearnley, 2004; Deegan, 2002) and since the 1980s in the not-for-profit sector (Gray & Haslam,1990; Healy & Palepu, 2001; Nelson, Banks & Fisher, 2003; Gordon, Fischer, Malone & Tower, 2002; Coy & Dixon, 2004; Coy, Fischer & Gordon, 2001; Dixon & Coy, 2006; Ntim et al., 2017). The majority of studies which have focussed on the corporate sector have an agency theory underpinning, arguing that more disclosure of information promotes accountability and transparency. Hence reducing information asymmetry between the agents and principals thereby, reducing monitoring costs for investors. Financial statements and annual reports are the mechanism most frequently investigated, with other studies looking at disclosure in a wider context including information on the entities' website and other publications.

Connolly et al. (2011) purport that detailed recommendations of the principal-agent theory of corporate governance is less relevant for use in a charity, for example aligning profit and pay. Although donors may have an interest in the amount of a charity's income that is distributed to beneficiaries - similar to maximising net cash flows for a company. If the principal-agent theory of governance is applied externally then a degree of monitoring by donors and possibly beneficiaries and regulators would be expected. Whilst internally (within the charity) the theory can be applied to the trustees who may steer or monitor the highest paid staff within the charity and so on. This description can also be applied to FE college governance.

In addition, Connolly et al. (2011) go on to state that themes emerging under the 'umbrella' of good governance include good accounting and comprehensive accountability - with accounting directed towards meeting users' information needs. For charity sector accounting, this led to the publication of the SORP and its subsequent iterations, which aimed to reduce the diversity of accounting

practices and provide more consistency in published financial statements and disclosure, therefore aiding users' understanding of the information provided (Ntim et al., 2017).

In addition, to the charity sector or not-for-profit or public sectors, there have been a number of studies on accountability disclosure of universities (Dixon & Coy, 1991; Gordon et al., 2002; Coy & Dixon, 2004; Coy et al., 2001; Ntims et al., 2017, Soobaroyen et al., 2014) largely in the US, New Zealand and Canada, albeit a limited number in the UK. These studies recognising the need for information and explanations to stakeholders over and above what is provided in the audited financial statements (Nelson et al. 2003). These studies will be discussed further in Section 3.4.3.

Gray et al. (1995a) observe in their review of CSR literature and social disclosures that the self–reporting of information entering the public domain tends to be reported via the annual report and that such reporting practices may be undertaken voluntarily or by way of legislation or as part of a code of practice. This is also the case for FE colleges' self-reporting practices. Their study used content analysis of UK company annual reports for a thirteen-year period looking at the mandated and voluntary disclosure of CSR. They found over the period a rise both in the proportion of companies disclosing as well as the range of disclosure and that these changes were not explained by a classical political economy perspective. They posit that the trends are better understood from a 'legitimacy theory and stakeholder theory perspective' (p.64). Their paper does not provide a detailed description of data collection and methodology and leaves that to an article by Gray et al. (1995b) but it does provide a description of categories of disclosure split between mandatory and voluntary items.

Healy and Palepu's (2001) review of the extant empirical disclosure literature in a capital market setting identify a number of research implications and questions. Several of the questions raised, particularly, with regard to managers' disclosure decisions have relevance to this study, albeit in a different sector context. Firstly, 'What factors affect management disclosure choices?' and secondly, 'What role do boards and audit committees play in the disclosure process?'. (Healy & Palepu, 2001, p.411). Their review identified that the literature on management reporting decisions has largely focussed on two areas. Firstly, positive accounting theory (Watts & Zimmerman, 1978) which focuses on management choices and the motives for those choices, including political considerations, including regulatory actions and secondly, voluntary disclosure literature which focuses on management disclosure decisions. They identify that one of the major limitations of studies on voluntary disclosure is the difficulty of measuring it with studies using proxies, or self-constructed measures of disclosure.

Studies with self-constructed measures of disclosure face a different set of problems. Because the authors have developed their own metric of voluntary disclosure, there is increased confidence that the measure truly captures what is intended. However, to the extent that construction of the metrics involves judgment on the part of the researcher, the findings may be difficult to replicate. In addition, these metrics typically rely on disclosures provided in the annual report or other such public documents. As a result, any disclosures that firms provide in analysts' meetings, conference calls, and other such venues are omitted from the analysis (Healy & Palepu, 2001, p.427).

Different aspects of disclosure have been investigated and continue to be investigated to address the questions asked by Healy and Palepu (2001) and others. These include studies investigating the impact of company characteristics or specific corporate governance factors on the level of disclosure, for example, Cooke (1992); Haniffa & Cooke (2002); Bozec & Bozec (2012). Studies including those of Cooke (1989b); Coy, Tower & Dixon (1993); Coy & Dixon (2004); Botosan (1997) have used self-constructed disclosure measures (discussed further in Section 3.4.3).

3.4.3 Disclosure and disclosure index

FE colleges are accountable and have to be seen to be accountable and one way of demonstrating this 'public' accountability is through disclosure in the annual report. Measuring the extent of disclosure and what factors may influence the extent of disclosure are areas that have not, as far as the researcher is aware, been previously investigated in an FE context. Therefore, the current study is addressing a research gap. The extant disclosure literature available is not specific to the FE sector however, there are, a number of studies which address accountability and disclosure in the HE as well as the not-for-profit/public sector arena and these will be discussed below.

Disclosure - HE

Early research into UK universities' external reporting practices, was carried out by Gray and Haslam (1990) covering the five-year period 1982-1987. This was identified as a period of 'stress and turbulence' for the sector featuring grant reductions and changes in the regulatory environment. Their study recognises that there is no one single, agreed framework within which to 'conceptualise, articulate and collect empirical evidence about the external reporting activity of an organisation' (p.53) but the required elements include - the organisation, an information flow (which can include the annual report) and recipients. External reports are a resource that management can seek to influence, therefore changes in reporting practices might be expected during periods of 'environmental stress and uncertainty' (p.54). The study investigates whether it would be reasonable to expect to see changes in reporting and disclosure practices during the period under review, and whether the categories of disclosure, particularly voluntary disclosure, increase over

the period. In addition, it investigates whether changes were associated with the new reporting requirements/recommendations introduced during the period. Their analysis of disclosure in the annual reports included categories of 'prompted ' disclosure (financial and performance) identified from the recommendations of several reports: CVCP, Jarratt as well as two categories of voluntary disclosure (financial and performance). This resonates with FE annual report disclosure in the form of the ADH and its illustrative Casterbridge College and check list of mandatory and 'optional' items. The analysis was based on 'the existence/absence of a category of disclosure' (p.56) as this captures the 'basic event of a change in reporting practice but makes no assessment of "quality" or "quantity" of disclosure' (p.56). The study was conducted pre-1992 when the university population was only 60 organisations. They attempted to collect at many reports as possible, and statistically tested whether the number collected (less than 100%) affected the representativeness of the sample. They found that whilst there were some significant changes in the areas of financial disclosure there were few significant changes in non-financial disclosure during the period, and that responsiveness to change was small and slow. Analysis of variance was used to test the extent of change. Their results identified that one of the CVCP reports had no effect on voluntary performance disclosure practice but developments in prompted disclosure were consistent with the report. The areas which showed the greatest voluntary increases were in finance, including a rise in importance of the treasurer's report, and the use of pictorial/graphical information. The reporting of research grants was another area which also showed an increased. This was seen by Gray and Haslam (1990) as an indicator of an organisation's reporting responding to its environment - a sensitive issue in the mid-1980s. Interestingly, they found a marked trend towards the production of thematic reports which gave a minimum of hard information - a 'move to more focused but less specific reporting' (p.65).

Gray and Haslam (1990) do suggest there is some evidence to support the idea that reporting is influenced by or responsive to disturbances in the environment, but that such relationships are more complex than implied by the literature. However, they do lend support to the recognition of reporting driven by policy. The period under review 2011-2013 is also a time change and uncertainty for the FE sector which might impact on the extent of disclosure by FE colleges. The FE sector is now significantly more highly regulated in terms of external reporting (financial and non-financial information) than was the case for Gray and Haslam's study. There is still the opportunity for voluntary disclosure by FE colleges to reflect more than reporting driven by policy as the extent of disclosure is also affected by the environment.

Coy et al.'s (2001) study of university and college annual reports in the US and other western-countries argue that a new paradigm – public accountability – is needed to address changes in 'society and the environment in higher education' (p.1) with widespread demands for improved

accountability – through access to information. They argue that adopting a public accountability paradigm would address both stewardship and decision useful perspectives. Coy et al. (2001) identify all stakeholders to be those with a legitimate economic, social or political interest in the organisation but articulating information needs, through annual reporting, is problematic and that they may conflict. Coy et al. (2001) cite Linkerman (1992, p.31) who identifies vicious circles arising from poor reporting and poor-quality reports which may cause lack of stakeholder interest. Linkerman (1992) also recognises that high quality reports act as a public relations vehicle – raising the image of an entity as well as educating stakeholders. This is interesting from a FE college perspective with the regard to the annual report and the 'other' annual report/review that is often produced. The annual review summarises a college's achievements, statistics and key financial data – perhaps this is merely a public relations document. Or a way to appeal to and inform some of the stakeholder groups e.g. students (current and potential), local partnerships and employers - who would not use the annual report for their information needs.

Coy et al. (2001) identify five forms of disclosure which they believe would advance public accountability: teaching, research, service efforts and accomplishments, and resource and overhead allocation. These forms of disclosure are, to some extent, specific to the HE sector, as not all are applicable to FE annual reports due to the nature of the provision. However, as some FE colleges also have HE provision it might be considered that those FE colleges should also disclose similar items.

Disclosure index

Dixon et al.'s (1991) study on the external reporting practices of New Zealand universities during the period 1985-1989 attempted to replicate Gray and Haslam's study. They created a disclosure index using items from Gray and Haslam's study (1990) alongside the requirements of the New Zealand accounting standard setting body (NZSA). The resulting index selected 52 items in nine categories. The New Zealand (NZ) tertiary education sector was undergoing, as was the UK, a period of change. Dixon et al. (1991) assigned the disclosure items an unweighted, dichotomous score and found that only two of the seven universities had made any significant change in reporting in line with NZSA during the period and there was little or no change by the other five.

Limitations of using unweighted, dichotomous scores was highlighted by Coy et al. (1993) in their study of 33 NZ tertiary education bodies during the period 1985-1990. They identify the shortcomings of using unweighted dichotomous scores including: the failure to discriminate the quality of disclosure; all items are treated with equal importance; and that there is no allowance for imbalance in reports. In order to address these issues, they craft an index which allows quantity and quality of disclosure to be measured using an accountability disclosure score (AD-Score)

involving the weighting of items. They compare the results with those of an unweighted dichotomous index. They found that both AD-scores and the unweighted scores show an improvement in disclosure over the period with a marked increase in 1990. However, the weighted scores were generally lower throughout suggesting that the AD-scores were more discriminatory when compared to the unweighted index. They argue that this is a major weakness of the simple disclosure index as it treats all items as being of equal value, which, will result in higher scores than a weighted index. However, a counter argument is that the more items that are included in the index the less the shortcomings of dichotomous items matter.

Banks et al. (1997) use a modified accountability disclosure (MAD) index developed by Coy et al. (1993) to investigate the quality and quantity of information disclosed by England, Wales and Northern Ireland universities for the period 1992-1994. The index is used to determine if there were any changes in accountability disclosures and also to compare the disclosure with previous studies of NZ and Canadian universities. The study period was also one of significant change for the UK HE sector as it was the period prior to the release of the Nolan Report in 1995 on standards in public life and post the Further and Higher Education Act 1992. Their index includes several key performance indicators and is divided into categories of overview, service performance, financial performance and physical and financial condition, which are similar to and adapted from those used by Gray and Haslam (1990) and Coy et al. (1993). They found, that despite the call by the sector, for further disclosure and accountability and the introduction in 1989 of SORP1 there was not a statistically significant difference in quality and quantity of disclosure. In addition, the more established 'universities' had better quality disclosure than the new (former polytechnics) in two categories i.e. service and financial performance which includes information on student numbers and student-faculty ratio. They also compared the UK with universities in NZ and Ontario, Canada and found that UK universities disclosure was below that of NZ institutions but above those in Ontario. Again, this research was carried out at a time of significant change within the sector. As former polytechnics and other institutions became universities, new funding bodies were introduced, as well as the granting of corporate status. There was a call for greater disclosure and accountability for actions and performance with an impact on accounting practices. The introduction of the Education Act 2011 and NCNC is similarly challenging for the FE sector, during 2011-2013, but to a lesser extent. Banks et al. (1997) used a weighted index - 1 (item present) or zero (if absent) which was then scored on an ordinal scale between one and five depending on the quality of information disclosed. The authors recognise the subjective nature of this is a limitation when moving away from a dichotomous score. But they argue that may be necessary to use such a method, if appropriate.

As mentioned above, Banks et al. (1997) applied a subjective weight for each item. The scores were aggregated to arrive at an overall MAD index score. The sample population was 84 UK universities and the audited financial statements and annual reports were obtained from 53 universities in 1992, 59 in 1993 and 73 in 1994 respectively. Interestingly, accessibility of annual reports still continues to be an issue for the education sector even today. There was a maximum score of 26 for quantity with mean scores of 11.7, 11.3 and 11.2 with the change in score between years not being statistically significant. As to be expected the items showing the highest levels of disclosure being those associated with the primary (financial) statements. Financial statement disclosure (primary statements and notes) for FE colleges is regulated by the SORP. The current study is not looking at the financial statement disclosure, as these items have to be reported, but focuses on the narrative (including the operating and financial review and the statement of corporate governance and internal control) section of the annual report. This distinguishes my study from previous studies which included financial statement items in the indices.

Four of the items with the least disclosure were included in the service performance section (employment/education/destination of students, publications, student-faculty ratio & targets) and this section also scored lowest with regard to quality of information. These are key performance indicators of interest to stakeholders from an accountability perspective. Banks et al. (1997) concluded that the university sector had a long way to go if it is to extend public accountability 'beyond the minimum which is recommended accounting practice' (p.223). Also, that their failure to include adequate disclosure on important areas such as, for example, statement of objectives and student numbers would make it difficult for stakeholders to judge the success of the universities in meeting their objectives and state that,

> Universities function at the boundary of the public and private sectors and have considerable freedom to set their own priorities, yet their decisions are in many respects part of public policy. Their actions have a significant impact on the community beyond those directly involved in the organisation itself (p.224)

As annual reports provide a formal opportunity to articulate objectives and success in achieving those objectives, the study found it disappointing that a number of items were missing, for example 'employment/destination of students, student-faculty ratio, unit cost per student, publications and library facilities' (p.224). These items were often identified as key performance indicators by other studies which suggests that the recently introduced principles and recommendations for the sector were not being fully met - either in form or substance and major changes would be required in order to do so. The current study will be investigating whether similar items, as appropriate to the FE sector, are missing or being under reported and whether recommendations for the sector are not being fully met.

In addition to the extent of disclosure, research has also focussed on factors which influence the level and extent of disclosure. Gordon et al. (2002) constructed a disclosure index, for their study of the annual reports of 100 US higher education institutions, to identify factors associated with the extent of disclosure. Disclosure items from Engstrom's (1988) study were used and these were weighted. Regression analysis was used to test whether the identifiable and measurable factors had any impact on disclosure levels. They found, amongst other things, that the audit firm size was associated with a lower overall level of disclosure but the difference was not statistically different. Moreover, the leverage (debt/equity) ratio was not associated with higher levels of disclosure. Also, their hypothesis that institutions with more members on the governing boards would disclose more information than those with fewer members was not supported. Ntims et al.'s (2017) study into governance structures, voluntary disclosures and public accountability in UK HEI, using a modified version of Coy and Dixon's (2004) public accountability index, also found that audit firm size does not have an impact on voluntary disclosure.

A further study was carried out by Nelson et al. (2003) using a modified MAD index to track Canadian university disclosures during the period 1988-2000. In addition, interviews were used to investigate reasons for the identified significant annual improvements in accountability, particularly during the period 1997-2000. They concluded that the increase in scores was due to universities providing more overall information. This was as a result of pressure by the public and government for universities to be more accountable, rather than as the consequence of additional information being mandated by the accounting standards. One question posed to the interviewees was whether the board of governors played any role in the change of accountability and 67.7% indicated that their board of governors had played a role however this was due to requesting more information from administration (47.6%) and only 19.1% of the boards specifically requested 'performance indicators and accountability' (p.95).

Coy and Dixon (2004) continued to develop the use of their previous disclosure index and constructed a public accountability index (PAI) which was developed from a 'theoretically derived normative model' (p.94). They purport that this is a generic stakeholder approach that can be used for the development of disclosure indices taking further their previous MAD index (Coy et al., 1993). The broad objective of the PAI being to measure the quality of university annual reports from a public accountability perspective. In this context 'public accountability refers to the reporting of comprehensive information about the condition, performance, activities and progress to all those with social, economic and public interests' (p.81). Interestingly, the ephemeral nature of disclosure index and generic principles of construction and transferability are recognised by the authors and these aspects will be discussed further in Chapter Five. Their index includes 58 items over eight categories and adopts a polychotomous rather than a dichotomous scoring approach. A weighting

was applied to each category with a total weighting of 100 available. They suggest that the PAI could be used in other parts of the public sector and other countries - recognising the index would have to be constructed using disclosure items relevant to that particular sector. PAI items will be adopted/adapted, if appropriate, for the FEI sector as well as specific categories pertinent to this study, for example, governance and audit committee disclosures will be included.

Maingot and Zeghal (2008) used a disclosure index of 123 items over eighteen categories in their analysis of voluntary disclosure of performance indicators by Canadian universities. The findings show that the extent of voluntary disclosure is positively affected by university size and mission (category of institution, for example medical-doctoral, comprehensive or primarily undergraduate). The results are also consistent with disclosure theories, including legitimacy theory, and with the findings of corporate sector studies. They also state that voluntary disclosure is often affected in the not-for-profit sector by the interaction of factors, including regulatory oversight, organizational structure, and corporate governance. Factors which are also relevant to this study. Table 3.4 summarises the key disclosure index studies in the education sector (HE) that have been identified from the literature relevant to the current study. These will be used to underpin the methods adopted (Chapter Four) and also to compare with the analysis and findings (Chapter Seven) of this study as there are no comparative studies in FE.

Table 3.4 Key studies

Author	Country	Period	Number of items in index	Number of institutions	Method of analysis	Variables
Gray and Haslam (1990)	UK	1983-1987	32	No explicit statement	Analysis of variance	N/A
Dixon et al. (1991)	New Zealand	1985-1989	52	7	Regression	Timeliness
Coy et al. (1993)	New Zealand	1985-90	43	33	Descriptive	N/A
Banks et al. (1997)	UK	1992-1994	26	53, 59, 73	Descriptive	N/A
Nelson et al. (1997)	Australia	1993-1995	26	33	Descriptive	N/A
Gordon et al. (2002)	US	1994	76	100	Regression	Size, size of governing board, leverage, audit firm size
Nelson et al. (2003)	Canada	1988-2000	26	36-43 (out of 48)	Descriptive	N/A
Gordon and Fischer (2008)	US	2003			Regression	Size & leverage
Maingot and Zeghal (2008)	Canada	2006	123	44	Regression	Size
Ntim et al. (2017)	UK	2012	57	130	Regression	Governing board size, frequency of governor meetings, audit firm size, size, audit committee quality

In addition to studies in HE, disclosure indices are also used for the not-for-profit/public sector. Herawaty and Hoque (2007) carried out an empirical study, into the disclosure practices of the annual reports of Australian government departments, using content analysis. They analyse 47 mandatory and 20 voluntary disclosure items, based on governmental annual reporting practices, using a disclosure index with a dichotomous scoring system. Interestingly, the indices include six governance items in the voluntary disclosure index and two governance items in the mandatory disclosure index. Including governance items in the indices resonates with this study. They purport that their findings are consistent with stakeholder theory as voluntary disclosure level is higher than mandatory. Also that the mandatory requirement has less influence on the overall disclosure level

suggesting that ‘government departments are expected to be accountable to multiple stakeholders and to report a wide range of information including financial and non-financial’ (p.162).
Although in a different context, Wei, Davey and Coy (2008) carried out a study to develop a performance accountability disclosure index for a museum using a framework which draws on a balance scorecard to examine the quality of information disclosed. The study uses a MAD index modified from Coy et al. (1993) with a balanced scorecard structure for not-for-profit organisations as developed to measure the quality and quantity of disclosure. Examining the annual reporting of sixteen museums in NZ and the UK, the findings show that the reporting of internal processes and objectives are the strongest whilst the weakest are those dealing with learning and growth. The study recognises the annual report in both countries as having an accountability role and is thereby one means of discharging accountability. They argue that cost benefit considerations need to be considered with regard to the disclosure of information. As the provision of information, largely voluntary, imposes costs on organisations but there are counter arguments suggesting that voluntary disclosure of performance information might enhance an organisations attractiveness (to donors). In addition, the study recognises that museum's accountability obligations extend to a wide range of stakeholder (Coy et al., 2001).

Wei et al. (2008) due to lack of previous studies on disclosure in the museum sector, as well as potential scoring bias and scaling problems, decided to use an unweighted index to measure extent of disclosure and a six-point system to measure the quality. There are similarities to this study, as there are no previous studies in the FE sector and provides support for the justification of an unweighted index to measure extent of disclosure. Their findings show that larger museums attained high disclosure score and smaller ones having least disclosure. They also found that there was limited budget information disclosure and suggesting that this information is disclosed through other means rather than via the annual report - the key public accountability document. Comparability was limited between the UK and NZ museums due differences of performance indicators required to be disclosed by the country specific funding agreements, however, ‘the annual report is regarded as the main mechanism used to convey information on public entities and hence discharge their public accountability obligations’ (p.45).

Empirical studies, in all sectors, which construct indices to measure disclosure, use a variety of measures with theoretical justification for their selection; some select dichotomous scoring to measure the amount of disclosure, for example, Cooke (1989); Allegrini and Greco (2011); Haniffa and Cooke (2002) whilst others justify the use of a weighted score for the quality or quantity of disclosures or even a combination of both within one index (Cheung et al., 2010; Ntims et al., 2017; Coy et al.,1993; Coy & Dixon, 2004). However, an alternative to the use of disclosure index for analysing and evaluating narratives in annual reports is proposed by Beattie et al. (2004) who

argue that there is an 'urgent' need to develop disclosure metrics to facilitate research into voluntary disclosure and quality, as there are limitations and weaknesses in previous approaches adopted. They respond to this by introducing a four-dimensional framework for ‘the holistic content analysis of accounting narratives and quality’ (p.205) and explore ‘the complex concept of quality’ (p.205) by trying to identify some of the attributes of quality, including the relative amount of disclosure and topic spread. This is an area that other researchers recognise as problematic and one which is behest by subjectivity. They recognise that to serve the information needs of users and to provide transparency and accountability there is need for more information that is 'forward-looking and non-financial in nature' but an issue with this is that this type of narrative information could be either ‘unquantified or unquantifiable’ (Beattie et al., 2004, p.206). Although they are focussing, on the developments in financial reporting and increased narrative reporting and voluntary disclosure by the corporate sector, their comments have applicability to the FE sector and other not-for-profit entities that are adopting more corporate practices.

Researcher constructed disclosure indices are seen by Beattie et al. (2004) as having weaknesses and limitations. In that they often give a measure to the amount of disclosure but not necessarily the quality of disclosure, as the number of items that could be disclosed in very large studies tended to focus on a small sub-set of items and on inter-company or inter-country differences. This study will examine inter-institution differences as well as longitudinal differences in an institution with regard to extent of disclosure. Beattie et al.’s (2004) review of the extant literature, splits the literature into studies which use subjective ratings, usually analysts’ ratings and those using a semi-objective approach; the latter including disclosure index studies and those analysing text to score disclosure quality which is perceived to be the underlying construct of interest, although they recognise that what is being measured differs across approaches and they suggest their framework as an alternative method. They criticise the generality of previous studies that focus on classifying a topic or pre-selected sections or particular issues of the annual report narrative and state that there are no detailed studies of the entire narrative content of corporate annual reports (p.213). This study addresses that criticism as it examines all the narrative content (operating and financial review and statement of corporate governance and internal control) of the annual report.

Beattie et al. (2004) also argue that extant approaches to accounting analysis is one dimensional whereas disclosure is multi-faceted and complex hence the development of an alternative multi-dimensional framework. Interestingly, they exclude, amongst other sections of an annual report, the corporate governance statement. Their argument for exclusion is that those sections were ‘heavily subject to regulatory requirements or otherwise fairly standard in nature’ (p.215). This may be relevant to the corporate sector but if their view was applied to FE colleges annual report then it would suggest that there would be nothing of interest to analyse due to regulatory requirements

and standardisation. Beattie et al. (2004) recognise that some of the material being analysed was spread over more than one document. This study will only be using the annual report. They also state that amount of disclosure is a primary dimension of quality with another dimension being the spread of disclosure across topics with a degree of balancing seeming desirable. Although, this is proposed as an alternative to constructing disclosure index, there does not appear to have been much take up or adoption, as current studies are still using index to measure quantity and quality of disclosure and are an appropriate method for this study.

3.5 Factors influencing disclosure

This section will review studies which have investigated factors that influence the extent of disclosure. There are very few studies in the education sector that have looked at factors influencing disclosure and these will be reviewed in addition to relevant corporate sector studies. Haniffa and Cooke (2002) state that disclosure practices do not develop in a vacuum and hypothesise that different characteristics influence disclosure. They identify three types of characteristics (independent variables) in their study of Malaysian corporations that could influence disclosure. Firstly, corporate governance characteristics, secondly, culture and finally, firm-specific characteristics. The corporate governance variables, identified in the study, include board composition, role duality, family membership, the proportion of NEDs and non-executive chairperson. The firm-specific characteristics are identified as structure-related variables, for example, size (total assets) and gearing/borrowings (total debt to total assets), as well as profit and market-related variables such as type of auditor (Big 6 or non-Big 6). They obtained the English version of the 1995 annual reports for 167 non-financial companies - 83% of companies listed on the Kuala Lumpur Stock Exchange. Items were selected for the disclosure index based on previous research and applicability to the Malaysian context. Two of these types of characteristics: entity specific and governance will be investigated in the current study and are discussed below. Other studies, also investigate entity specific and governance factors that influence voluntary disclosure behaviour, for example that of Ntim, Opong, Danbolt and Thomas (2012). Ntim et al.'s (2012) study on voluntary corporate governance disclosures, of 169 listed South African corporations from 2002 to 2006, constructed a disclosure index of 50 items and used regression analysis to identify the main drivers of the disclosure. The variables selected included audit firm size and board size as well as control variables including firm size and gearing. They found that board size and audit firm size are positively related to voluntary corporate governance disclosure.

Entity specific or governance factors identified in previous studies, for example, size, leverage, board size and number of board meetings, audit firm size and number of audit committee meetings are also perceived as relevant to FE disclosure and these will be discussed further below.

However, the FE sector is unique, in a number of respects, as there are a number of characteristics, in addition, to those identified above, which could potentially contribute to the extent of disclosure. These have been mentioned previously in Chapter Two: HE provision in FE colleges, the use of co-opted members and CG code used. These factors have not been identified in any previous disclosure studies and will address a gap in the research literature. The extant literature, therefore, will be used to develop and propose hypotheses to answer the third research objective: To assess the influence of various factors in explaining variations in disclosure in the annual reports of English general FE colleges.

Size

Size is the explanatory variable most frequently associated with the extent of disclosure in the literature (Gordon et al., 2002). It is suggested by Gordon and Fischer (2008) that as size increases the level of disclosure will also increase as entities will desire to reduce political costs associated with increased visibility. As a result of increase in size, an entity will also benefit from economies of scale in the production of information, which will lead to increased disclosure (p. 222). Findings from the empirical corporate disclosure literature suggest that size has an important influence on the level of disclosure (Cooke, 1989; Cooke, 1992; Ntim et al., 2012). This suggests that as size increases there is more diversity and fewer dimensions where there is nothing, or nothing much to say.

In the corporate sector, size has been most frequently measured using either total assets, revenue or market capitalisation (Haniffa & Cooke, 2002; Ntim et al., 2012); the latter is not relevant to the FE sector. Therefore, size using some measure of total assets or revenue is seen as appropriate.

Measures of size have been adapted for the HE sector with Gordon et al. (2002) using adjusted gross assets in their study of the extent of disclosure of service efforts and accomplishments (SEAs) in US private and public colleges and universities. They recognise the issues of using fixed assets (non-current assets) in the college and university sector; particularly, the use of historical cost accounting leading to problems of comparability caused by the age of assets, and consequently the amount of depreciation. They therefore adjust total assets by adding back depreciation. They used a natural log of gross assets, to normalise the distribution and improve linearity as the original had a tendency towards a non-linear distribution. They found that the relationship between the extent of SEA disclosure and adjusted gross assets was significant ($r = 0.37$), therefore concluding that institution size is associated with the total extent of disclosure.

Two size related variables were examined by Gordon and Fischer (2008) in their study of performance reporting by US colleges and universities - total assets and wealth (total assets

divided by full-time equivalent fall enrolment). They find a clear size effect, consistent with Gordon et al. (2005), regarding the extent of disclosure of performance indicators. A further two size related factors were used by Maingot and Zeghal (2008) as determinants of voluntary disclosure, firstly the number of students and secondly, total revenue in their analysis of voluntary disclosure of performance indicators by Canadian universities. They found highly significant regression coefficients $R^2 = 0.49$ for number of students and $R^2 = 0.44$ for revenue thereby showing a strong relationship between these factors and the level of performance indicator disclosure.

Most of the prior empirical studies in both the corporate and HE sector, underpinned by the theories previously discussed, support a positive association between size and the extent of disclosure. Therefore, based on the previous discussion the following hypotheses are proposed:

H1a: There is a positive association between college size and the extent of total disclosure, and

H2a: There is a positive association between college size and the extent of governance disclosure.

Leverage

In corporate disclosure empirical literature leverage is often measured as total debt to total assets (for example, Barako et al., 2006) or ratio of total debt to market value of equity (Ntim et al., 2012). Studies hypothesise (for example, Gordon et al., 2002) that leverage is a factor which may contribute to the extent of/or quality of disclosure. Leverage is, also often also used as a control variable in disclosure studies. The assumption is that more highly leveraged organisations disclose more information. However, the findings from these studies have been mixed.

Leverage measures, used in corporate sector studies, have been adopted and adapted for research in the HE sector, for example, Gordon et al. (2002) in their study of public and private colleges and universities in the US. They use the ratio of debt to equity measured by long-term debt divided by total fund balance as a measure of leverage and use it to test the hypothesis that leverage is associated with a higher level of disclosure. Their analysis found that the hypothesis was not supported. This contrasts with the study by Gordon and Fischer (2008) who found that leverage, measured as debt to net assets, was positively associated with the extent of performance reporting. However, their disclosure index related only to performance reporting and was an unweighted index constructed from survey data about internal and external reporting of SEA indicators - hence a quite narrow focus.

Leverage measured as percentage of total debt to total assets was used as a control variable in Ntim et al.’s (2017) study of UK HEIs voluntary public accountability disclosures and their findings

concur with those of Gordon et al. (2002) and show that leverage has no significant impact on the extent of voluntary disclosures.

The period under review for this study has been a challenging one for the sector, for example, colleges merging as well as facing increased competition and marketisation. Therefore, the level of debt faced by a college could be a factor relevant to the extent of disclosure. Do institutions with higher levels of debt feel the need to disclose information to a greater extent than those with less debt? Although, the findings from the literature are mixed regarding leverage and the extent of disclosure, it is considered appropriate to propose, due to the turbulent and challenging times, the following hypotheses for the FE sector.

H1b: There is a positive association between leverage and the extent of total disclosure and,

H2b: There is a positive association between leverage and the extent of governance disclosure

The Board (size and number of meetings)
The composition of the board, including the number of and role of NEDs, and the impact of these board characteristics on disclosure is the focus of numerous empirical studies in the corporate sector. However, results are varied with some studies finding a positive association between extent of disclosure and board characteristics (Cheng & Courtney, 2006; Gisbert & Navallas, 2013; Beekes & Brown, 2006; Allegrini & Greco, 2013). Barako et al., 2006 found the proportion of NEDs on the board to be significantly negatively associated with the extent of voluntary disclosure others find a lack of or negative relationship. Eng & Mak (2003) also found that an increase in outside directors reduces corporate disclosure.

The size and composition of boards are seen as key corporate governance mechanisms and many of the studies are concerned with the number of and independence of NEDs on a board. Agency theory identifies NEDs as a monitoring device (Jensen & Meckling, 1976; Fama & Jensen, 1983). However, regarding the size of the board, it is suggested by some that that as board size increases there should be increased capacity to monitor. However, increasing board size can have detrimental effects, such as increased costs, poorer communication and decreased effectiveness. Decreased decision-making efficiencies are often associated with large groups (Lipton & Lorsch, 1992; Jensen, 1993). This view is supported by Cheng and Courtenay (2006) who found that board size was not associated with the level of voluntary disclosure but they did find that there was a positive association between board independence and voluntary disclosure and that those with a majority of independent directors disclosed more than those with a balanced board.

Eng and Mak (2003) examined the impact of board composition, proportion of outside directors, and the level of voluntary disclosure on Singapore listed companies at the end of 1995. They found that the presence of outside directors was associated with reduced disclosure, suggesting that external directors play a substitute-monitoring role to disclosure. This did not support the findings of Chen and Jaggi's (2000) Hong Kong study who found the opposite leading Eng and Mak to suggest in Hong Kong outside directors play a complementary role to disclosure.

Barako et al. (2006) in their longitudinal study of Kenyan companies between 1992-2001 found that the proportion of NEDs was significantly negatively associated with extent of voluntary disclosure and that liquidity, profitability and type of external audit firm do not have a significant influence on the level of voluntary disclosure.

There is little empirical research in the HE sector, regarding these factors other than Ntim et al.'s (2017) empirical study of UK HEIs which tested whether the presence of independent governors has a positive association on the extent of voluntary disclosure. The CUC 2009 guidance provided to universities requires that there is at least 50% representation by independent governors. They found that independent or lay governors are positively related to the extent of voluntary disclosure. However, in the FE sector, the composition of and balance of the board between executive and non-executives is not an issue. The majority of the governing body, is composed of external, voluntary, 'lay' members with the only internal members being the CEO/principal, and usually no more than two staff and two student governors. The composition of the corporation, in terms of membership, is included in a college's Instruments and Articles of Government.

Gordon et al. (2002) propose, in their study of US colleges and universities, that as members are added to the board there is a perceived need for higher levels of monitoring. This could include the need for more board meetings. Focussing on board size they hypothesis that institutions with more members on the governing board disclose information to a greater extent than those with fewer members. However, they found that this hypothesis was not supported by their analysis. The Pearson correlation analysis carried out by Gordon et al. (2002) found a 0.088 correlation between the extent of disclosure and number of members on governing body. Whether there is an association between governing board size and the extent of voluntary disclosure is investigated in Ntim et al.'s (2017) study of UK HE institutions using a public accountability and transparency index, modified from Coy and Dixon's (2004) public accountability index, and their findings support those of Gordon et al. (2002) in that there is a negative but statistically insignificant relationship between board size, as well as governing body meetings frequency, with disclosure.

FE colleges currently disclose all governors who have served during the year and up to the date of signing of the annual report. Therefore, for some colleges there are large numbers of governors disclosed/identified in the annual report, due to resignations and appointments etc. during the year. The number disclosed can therefore fluctuate immensely between colleges and may not show a true reflection of the influence of the members (number) on the level of disclosure and content of the annual report. Perhaps only those serving in the post year-end period up to the date of signing have any influence when the annual report is being written and approved. The number of corporation meetings held perhaps is a result of board changes during the year which may influence the extent of disclosure.

Information on the diversity of nature (racial, gender and experiential backgrounds) of the corporation is not obtainable from the annual report – it is impossible to determine ethnicity and experiential backgrounds and due to the ethnic mix of the corporation it is not possible to identify gender from names. Therefore, the current study will focus on board size and number of corporation meetings and will investigate whether FE colleges with more board members disclose information to a greater extent than those with fewer members and do those that meet more frequently disclose information to a greater extent than those meeting less frequently. Do larger FE college governing bodies, as proposed Gordon et al. (2002), suggest the need for more monitoring (more board meetings) hence leading to increased disclosure? Although, the empirical findings, from previous studies, are mixed with regard to board size, the number of board meetings and the extent of disclosure it is proposed that due to the specific FE context,

H1c: There is a positive association between governing board size and the extent of total disclosure and,

H2c: There is a positive association between governing board size and the extent of governance disclosure and in addition,

H1d: There is a positive association between the number of board meetings and the extent of total disclosure

H2d: There is a positive association between the number of board meetings and the extent of governance disclosure.

Audit firm size

External auditors have a key role in governance, as recognised in corporate governance codes, ensuring that there is compliance with provisions, principles and regulation as well being a

monitoring mechanism. Hence, external auditors play a role in reinforcing and affirming the accountability of an entity through its governance and disclosure practices. In the context of disclosure studies, size of the audit firm is also seen as synonymous with audit quality as large audit firms, especially the Big 4, are perceived as having knowledge, experience, expertise and independence. Large audit firms for the purposes of this study are defined as the Big 4 (PwC, KPMG, EY and Deloitte). Therefore, larger audit firms have more ability to monitor the excesses of managers than smaller firms. The size of the audit firm as an independent variable, that could influence and impact disclosure, shows mixed results in the literature with Chen and Jaggi (2000) and Ntim et al. (2012) indicating a positive influence on disclosure while Barako et al. (2006) find a negative and insignificant influence between audit firm and the level of voluntary disclosure.

In addition, to the corporate sector, disclosure studies in the not-for-profit and HE sector have also investigated the effect of audit firm size. Gordon et al. (2002) in their study of US private college and universities postulated that those colleges and universities audited by the Big 6 firms would disclose financial information to a greater extent than those audited by smaller firms or those subject to state audit. However, this was not supported by their results. As they found that the larger firms were associated with lower levels of disclosure; although not statistically significant. This result was also supported by Ntim et al.'s (2017) study of internal governance structures and voluntary public accountability disclosure in UK HEIs which found that audit firm size did not have any significant impact on public accountability disclosure. Although, they did not hypothesise the direction of association. In comparison to large companies and HEIs the financial and accounting functions in FE colleges are smaller and the expertise on the corporation may be limited in these areas and there may perhaps be more opportunity for the external auditors influence the level of disclosure. As the related empirical evidence is mixed and given that this study is the first, to the best of my knowledge, to study this relationship in the FE sector it is proposed that:

H1e: There is a positive association between Big 4 audit firms and the extent of total disclosure and,

H2e: There is a positive association between Big 4 audit firms and the extent of governance disclosure.

Audit committee

The audit committee has been a key component of corporate governance in the UK since the 1990s (Cadbury, 1992; Smith, 2003; UK Corporate Governance Code, 2012). Its rise to prominence largely resulted from the many corporate collapses and scandals in the previous decades. An extensive amount of research attention has been carried out regarding audit

committees in the corporate sector including formation (Bradbury, 1990; Collier, 1996); effectiveness (DeZoort, Hermanson, Archambeault & Reed, 2002; Kalbers & Fogarty, 1993; Bédard & Gendron, 2010; Spira, 1998; Spira, 1999; Gendron & Bédard, 2006; Ghafran & O'Sullivan, 2012; Turley & Zaman, 2007; Wolnizer, 1995; Lary & Taylor, 2011); role (Menon & William, 1994; Kalbers & Fogarty, 1998; DeZoort, 1997; Turley & Zaman, 2004; Brennan & Kirwan, 2015; Beattie, Fearnley & Hines, 2014; Beasley, Carcello, Hermanson & Neal, 2009; Collier & Gregory, 1999); characteristics/composition (Carcello & Neal, 2003; Windram & Song, 2004; Abbott, Parker, Peters & Ragunandan, 2003; DeZoort & Salterio, 2001; Al-Najjar 2011; DeZoort, 1998; Iyer, Bamber & Griffin, 2013); and independence (Spira, 1999; Bronson, Carcello, Hollingsworth & Neal, 2009; Klein, 2002).

As the role and importance of the audit committee continued to grow in the corporate sector the practice of audit committee formation began to be adopted, as a good practice governance mechanism, by the non-for-profit sector (Jetty & Beattie, 2012; Dewing & Williams, 1995; Vermeer, Raghunandan & Forgione, 2006 and 2009). Jetty and Beatty (2012) use a multi theoretical perspective in their study of the determinants of audit committees in the charity sector. Despite the increased importance of the audit committee, the study recognises a gap in governance literature as there are few studies on the role of board sub-committees in the not-for-profit sector. Jetty and Beattie's (2012) study develop and test a model of charity characteristics associated with the publicly reported existence of the audit committee: based on Vermeer et al. (2006), but in UK context. Relating to the formation of audit committees by the charity sector Jetty and Beattie (2012) argue that a holistic theory of governance is still lacking even in the private sector.

The main theoretical perspective adopted with regard to the audit committee is agency theory. Alternatives proposed include institutional theory and resource dependency theory, the former having to be adapted to apply to the not-for-profit sector as wealth maximisation is not applicable. It is argued, in applying agency theory, that donors displace shareholders in monitoring management (Fama & Jensen, 1983). In the FE context the funding body is displacing the shareholders as principals and the governors act as agents monitored by the audit committee (the only board sub-committee colleges are still required to have).

Independence, size and number of meetings

As previously mentioned, the FE corporation is comprised of a majority of outside governors (equivalent to NEDs). The independence of NEDs is a paramount contributor to good corporate governance and an area that has attracted significant attention in recent years. In the FE sector the AoC (2013) AAA requires that the audit committee should comprise at least three independent governors, one of whom should be the Chair of the audit committee. While principle B.1.1 of the

2012 UKCG requires the board to determine whether a director is independent in character and judgement. Also, whether there are relationships or circumstances which are likely to or could appear to affect the director's judgement. These could include material business relationships, former employees and length of service on the board. The code recommends a period of not more than nine years from the date of first election while the Foundation Code for Governance for English Colleges (2015) states that governors should not normally serve for more than two terms (or a maximum of eight years) except where they subsequently take on a new or more senior role, for example, as Chair (AoC, 2015). As governors in FE colleges are volunteers it will be interesting to determine whether any independence issues arise as a result of length of service. If audit committee members are fulfilling their monitoring and scrutinising roles as well as ensuring the integrity and accountability of the financial statements, then it could be argued that this may result in increased disclosure levels.

Vermeer et al. (2006) carried out a study of the composition of not-for-profit audit committees in the US, using a resource dependency framework and found at the time that universities and hospitals were less likely to have solely independent directors on the audit committee. Dewing and William's (1995) study of audit committees in UK universities unfortunately did not investigate independence but that is probably to be expected given the date of the study – pre-Smith report - but it does however investigate size and meeting frequency and finds that there is general compliance with funding council guidance. This is supported by the Leadership Foundation for Higher Education 2014 report on the role and effectiveness of audit committees in UK HEIs (Ntim et al., 2014).

The number of audit committee meetings is frequently used as a proxy for diligence with regard to monitoring (Allegrini & Greco, 2013; Gendron, Bédard & Gosselin, 2004). Allegrini and Greco's (2013) study of voluntary disclosure of Italian listed companies' tests board and audit committee diligence by using the number of audit committee meetings as a proxy for delivering monitoring. Their findings indicate a positive relationship between board size and diligence and voluntary disclosure. They also found that audit committee meeting frequency had a positive impact on the amount of information disclosed. The number of audit committee meetings alongside composition and expertise are also factors associated with audit committee quality. There are very few studies in the HE sector investigating the impact of the audit committee on the extent of disclosure, but one study that does, is that of Ntim et al. (2017). They found that amongst other variables investigated the quality of the audit committee in UK HEIs was statistically significant and positively associated with their public accountability and transparency index disclosure. As previously mentioned, FE annual reports do not provide sufficient detailed information to be able to determine the expertise, or composition of the audit committee so number of audit committee meetings will act as a proxy

for diligence/quality. Therefore, on this basis and the findings of previous studies, it is proposed that,

H1f: There is a positive association between the number of audit committee meetings and the extent of total disclosure and,

H2f: There is a positive association between the number of audit committee meetings and the extent of governance disclosure.

FE college characteristics (Co-opted members, HE provision and CG code)

Co-opted members

The use of co-opted members to the corporation is, as previously mentioned, a college specific factor/characteristic. The audit committee is the committee to which these members are, generally, but not exclusively co-opted. There are no previous studies, as far as I have been able to ascertain, that investigate the use, contribution and influence of co-opted members to a governing body or board. From a theoretical perspective, for example agency theory, it is assumed that using co-opted members, provides an entity with additional expertise, monitoring capability and accountability and that this will have a positive effect on level of disclosure. As co-opted members are appointed for a one-year term and for a purpose, it is proposed that they will have an influence of the level of disclosure. Based, on that premise, the following hypotheses are proposed.

H1g: There is a positive association between the use of co-opted members and the extent of total disclosure and,

H2g: There is a positive association between the use of co-opted members and the extent of governance disclosure.

HE in FE

HE level qualifications are available in some FE colleges which widens the range of provision by these colleges. This, consequently, increases the number and type of stakeholders that a college is accountable to, for example government bodies and university partners. It is presumed that each of these HE stakeholders would expect disclosure of information that is specific to meet their needs. This would result in colleges demonstrating accountability, for HE provision, to the stakeholders through the extent of disclosure in the annual report. The following hypotheses are, therefore, formulated,

H1h: There is a positive association between a college with HE Provision and the extent of total disclosure and,

H2h: There is a positive association between a college with HE Provision and the extent of governance disclosure.

Code of governance

The opportunity to choose which governance code to follow is not relevant to corporate disclosure studies, but is a factor specific to this study. Companies, in the UK and elsewhere, adopt and follow the principles (rules) of the relevant version of the extant corporate governance code (legislation) and report/disclose on that in their annual report. However, the FE sector, although adopting UK CG best practices, did not until 2013 have a sector-specific code. Colleges adopted and adapted the UK corporate governance code as appropriate to the sector. It will be interesting to investigate, therefore, whether the CG code adopted has any influence on the extent of disclosure in the annual report and do colleges using the Foundation Code disclose more than those colleges choosing to using iterations of UKCG. The adoption of the Foundation Code is not compulsory and colleges can still choose follow the UKCG. As the Foundation Code is specific to the sector it is presumed that it may influence governance disclosures. New codes or iterations usually result in increased disclosure; evidenced by the increase in length of corporate governance statements in public company annual reports. Therefore, the following hypotheses are proposed,

H1i: There is a positive association between adopting the Foundation Code of Governance and the extent of total disclosure and,

H2i: There is a positive association between adopting the Foundation Code of Governance and the extent of governance disclosure.

To recap, the hypotheses are summarised in Table 3.5 below.

Table 3.5 Hypotheses

No.	Hypothesis	Previous studies (examples)
H1a H2a	There is a positive association between college size and the extent of total disclosure There is a positive association between college size and the extent of governance disclosure	Adelopo (2011) Cooke (1989) Gordon et al. (2002) Gordon & Fischer (2008) Maingot & Zeghal (2008)
H1b H2b	There is a positive association between leverage and the extent of total disclosure There is a positive association between leverage and the extent of governance disclosure	Gordon & Fischer (2008) Barako et al. (2006)
H1c H2c	There is a positive association between governing board size and the extent of total disclosure There is a positive association between governing board size and the extent of governance disclosure	Gordon et al. (2002) Allegrini & Greco (2013)
H1d H2d	There is a positive association between board meetings and the extent of total disclosure There is a positive association between board meetings and the extent of governance disclosure	Allegrini & Greco (2013)
H1e H2e	There is a positive association between Big 4 audit firms and the extent of total disclosure There is a positive association between Big 4 audit firms and the extent of governance disclosure	Gordon et al. (2002)
H1f H2f	There is a positive association between the number of audit committee meetings and the extent of total disclosure There is a positive association between the number of audit committee meetings and the extent of governance disclosure	Ntim et al. (2017)
H1g H2g	There is a positive association between the use of co-opted members and the extent of total disclosure There is a positive association between the use of co-opted members and the extent of governance disclosure	N/A
H1h H2h	There is a positive association between a college with HE Provision and the extent of total disclosure There is a positive association between a college with HE Provision and the extent of total disclosure	N/A
H1i H2i	There is a positive association between adopting the Foundation Code of Governance and the extent of total disclosure There is a positive association between adopting the Foundation Code of Governance and the extent of governance disclosure	N/A

3.6 Conclusion

This chapter has provided a review of the empirical accountability and disclosure index literature as well as providing a review of the theoretical perspectives underpinning empirical studies in

accountability, disclosure and factors influencing disclosure. In addition, to accountability and overall levels of disclosure this research is also focussing on the extent of governance disclosure. Therefore, relevant empirical corporate governance literature has also been reviewed.
Multiple theoretical perspectives have been identified as providing a framework for accountability and disclosure studies and no single theory has been identified to provide a comprehensive explanation of disclosure and accountability practices. Agency, stakeholder, stewardship (including public accountability), resource dependency, institutional and legitimacy theories each have their own perspectives and assumptions that can usefully be applied to accountability, disclosure index and disclosure practices studies in FE colleges. The assumptions often interrelate e.g. institutional, resource dependency and for the purposes of this study the analysis will be informed using a multi-theoretical perspective.

No literature has been identified as specifically addressing accountability and disclosure in FE colleges. Therefore, studies in other sectors and entity specific factors and governance practices identified in those studies have been used to develop and shape this study, including the hypotheses.

Chapter Four Research Methodology

4.1 Introduction

This chapter seeks to provide an over view of the research methodological approach adopted and to discuss in detail the research methods used and approach adopted in this study. Section 4.2 will review the research philosophy, strategy, design and methods used to achieve the objectives. It includes discussion of the study's methodological viewpoint, the tools used to collect the data (design approach) which is a self-constructed disclosure index. Data, data sources, sampling and the design approach will be identified in Section 4.3 while Section 4.4 discusses coding and the coding process. Section 4.5 identifies the research methods of analysis and finally Section 4.6 provides a summary of the chapter.

4.2 Research design and strategy

The research process requires the researcher to consider a number of questions, one of which is what methods and methodologies will be used and what is the justification for those choices (Crotty, 1998). This will involve the researcher in considering their theoretical perspective and research philosophy.

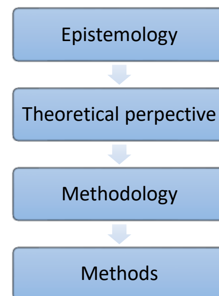
4.2.1 Research philosophy

The assumptions about the way in which a researcher views the world can be thought of as their research philosophy (Saunders, Lewis & Thornhill, 2012). The research philosophy adopted will be determined by a number of factors and assumptions which will influence the research strategies and methods chosen as part of that strategy (Saunders et al., 2012). This includes factors such as methodology, plan of action, process or design underlying the choice of particular method, which are the techniques and procedures used to gather and analyse the data related to the research question (Crotty, 1998). The assumptions made by the researcher at every stage of the research process, about human knowledge and the nature of realities, underpin the research questions and strategy.

Burrell and Morgan (1979) argue that there are four sets of assumptions related to the nature of the world which relate to ontology, epistemology, human nature and methodology (p.1), with the first three having direct implications and bearing on the methodology selected for a study.
One of the main issues that arise in discussing research philosophy is whether the social world and social reality can be studied according to the same principles as the natural sciences, for example physics and biology, is an ontological question. With the question of what is or should be regarded as acceptable knowledge in a discipline is an epistemological issue (Bryman & Bell, 2011).

Epistemology is defined by Crotty (1998) as 'the theory of knowledge embedded in the theoretical perspective and thereby in methodology' (p.3) as can be illustrated by Figure 4.

Figure 4 Basic elements of the research process



Source: Adapted from Crotty (1998, p.4).

Creswell (2014) uses the term philosophical worldview meaning a set of beliefs that guide action; others have referred to them as paradigms, ontologies or epistemologies and that these arise based on discipline orientations (p6). Ontology is identified by Crotty (1998) as 'the study of being' (p.10) and the nature of reality which will inform the way that the research thinks about knowledge.

Saunders et al. (2012) identify the research philosophy as the outer layer of the 'research onion' with four philosophies identified in this outer layer: positivism; realism; interpretivism and pragmatism. The other layers consist of approach, methodological choice, strategies, time horizon and data collection. There are a number of epistemological positions, the nature of knowledge and how it can be acquired, as identified in Saunders et al.'s (2012) outer layer and two of these; positivism and interpretivism will be discussed as they are important to the research methodology and method selected for this study. Positivism is largely associated with quantitative and interpretivism with qualitative research design. The differences between the two research strategies however are not always clear cut.

4.2.2 Positivism, deductivism and quantitative design

Positivism is an epistemology with the philosophical stance of a natural scientist, which is applied to the study of social reality (Bryman & Bell, 2011). Data will be collected about observable realities searching for regularities and causal relationships in the data to create law-like generalisations like those produced by scientists (Gill & Johnson, 2010 cited by Saunders et al., 2012). Crotty (1998) states that 'Positivism is objectivist through and through' with objectivism being an ontological position whereby social phenomena have an existence independent of social actors (Bryman & Bell, 2011). This is opposite to constructionism whereby social phenomena are created from the

actions of the social actors and that these actions are in a constant state of revision (Saunders et al., 2012, p.132).

Positivism is largely associated with a quantitative research strategy where hypotheses are developed using existing theory and then tested to confirm or disprove which can then provide an explanation of human behaviour (Bryman & Bell, 2011). The research strategy of this study is quantitative, with the collection of numerical data, by way of a disclosure index and governance and financial data. Bryman and Bell (2011) also recognise that theory can be used to frame the data and they state 'However, a great deal of quantitative research does not entail the specification of a hypothesis, and instead theory acts loosely as a set of concerns in relation to which the business researcher collects the data' (p.151).

This study will take a largely deductive approach as the methodological approach adopted, is in part deductive as conclusions are derived logically from a set of premises, and also abductive, as known premises are used to generate testable conclusions (Saunders et al., p.143). Deduction can involve the development of theory which is rigorously tested through a series of hypotheses, which seek to determine causal relationships between variables. Although as an approach it is synonymous with quantitative data it does not exclude the use of qualitative data (Saunders et al., 2012). What is important is the reliability of the study and that it is structured in such a way to ensure its replication.

The opposite of a deductive approach is an inductive approach and one in which a researcher aims to build theory from the meanings and patterns to emerge from the data collected (Saunders et al., 2012). Saunders et al. (2012) identify abductive reasoning as a third approach in research where 'data collection is used to explore a phenomenon, identify, themes and patterns' (p.144) which locates these in a conceptual framework and tests the phenomena through subsequent and additional data collection. This approach has applicability to this study as the data collected will be sufficiently detailed to allow the researcher to explore the phenomena, identify trends and patterns (Saunders et. al, 2012, p.147) resulting in a descriptive work in this under-researched area.

This study does not aim to build theory but will use the data collected to explore patterns and trends as well as testing hypotheses hence, in effect it takes an abductive approach, combining deduction and induction (Saunders et al., 2012). This is because the research strategy will be quantitative using content analysis of qualitative data; the narrative section of an FE college annual reports. The reports will be qualitatively analysed (e.g. searched, read and qualitatively judged as meeting the disclosure requirements) and, resulting qualitative and subjective judgements will be translated to objective tangible numbers (e.g., 0 and 1), which will subsequently be used,

quantitatively, in identifying trends, patterns and correlations. A self-constructed disclosure index is developed from the annual reports and financial statements with content analysis used in the construction of the disclosure index. This study, therefore, adopts a deductive/abductive approach, using a quantitative research strategy where hypotheses are deduced and then subjected to empirical scrutiny (Bryman & Bell, 2011, p.11). This approach is deemed to be more suitable to this study when considering the research questions and type of data and methods. This is supported by the disclosure and accountability literature reviewed in Chapter Three.

An alternative to this approach is discussed in Section 4.2.3 below and both approaches are summarised in Table 4.1.

Table 4.1 Fundamental difference between quantitative and qualitative research design

	Quantitative	Qualitative
Principal orientation to the role of theory in relation to research	Deductive: testing of theory	Inductive: generation of theory
Epistemological orientation	Natural science model, in particular positivism	Interpretivism
Ontological orientation	Objectivism	Constructionism

Source: Bryman and Bell (2011, p. 27).

4.2.3 Interpretivism, inductivism and qualitative design

Interpretivism will be discussed very briefly to distinguish it from the positivist approach adopted for this study. Interpretivism is based on the view that there are differences between people as social actors and the objects of the natural sciences (Saunders et al., 2012; Bryman & Bell, 2011) and that these social actions require interpretation with the researcher's own set of meanings to achieve an understanding of human behaviour (Saunders et al., 2012). It involves an exploration and understanding of the social world in a study through the perspectives of the participant as well as the researcher (Ritchie & Lewis, 2012). According to Crotty (1998) 'the interpretative approach… looks for culturally derived and historically situated interpretations of the social-life world.' (p.67). This approach is mostly associated with qualitative research.

The differences between the two research strategies are not always as clear cut as those illustrated in Table 4.1 and Saunders et al. (2012) state that the 'distinction is both problematic and narrow' (p.161) and some studies have adopted mixed-method or a multiple method research design - with complex research problems requiring answers in more than just numbers (quantitative) or words (qualitative) (Creswell & Plano Clark, 2011). However, a mixed-methods design is not considered appropriate to this study as triangulation of findings are not required as

the study will use the rich secondary data available in the annual reports to determine levels of accountability and any discernible patterns and trends and will not be using interviews or taking a more qualitative approach as that is an opportunity for future research - to understand the motivation and behavioural reasons for disclosure and accountability.

4.3 Research method: data and data sources

As indicated previously this study will be quantitative using qualitative data with quantitative analysis. It uses secondary data collected from the annual reports of FE colleges to develop a self-constructed disclosure index. Colleges are required to prepare financial statements and related reports for each financial year, including the operating and financial review and the statement of corporate governance and internal control. These reports are often variously described as for example, a members' report or report of the governing body. The ADH is produced annually by the AoC, the College Directors' Group and financial statement auditors, in consultation with the SFA and the EFA. It states that the college should prepare a report, 'describing what the corporation is trying to do and how it is going about it, including the legal and administrative status of the corporation' (AoC, 2014d, p.82) as well as showing whether the college has met its objectives during the year and explaining its plans for the future. It should also help the reader of the report understand how the 'numerical parts of the accounts relate to the activities of the college' (AoC, 2014d, p.83). The requirement to include an OFR was introduced by the 2007 SORP and it is recommended that the OFR follows best practice and specific reference is made to paragraphs 25, 26 and 27 of the SORP in the ADH (see Appendix B) requiring that the OFR analysis 'should provide a comprehensive and balanced analysis, consistent with the size and complexity of the institution' (AoC, 2014, p.82).

The OFR should set out an analysis of the institution from the perspective of the governing body and focus on matters and factors that are relevant to the 'funders and financial supporters' including an assessment of current and future performance (AoC, 2014, p.82-83). Paragraph 27 of the SORP recognises the key elements of the disclosure framework as:

- The nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies.
- The development and performance of the institution, both in the financial year under review and in the future
- The resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and

- The position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future (AoC, 2014, p.83).

These key elements have been included in the outline illustrative Casterbridge College annual report disclosure requirements included in the ADH. The Casterbridge example is recognised as illustrative only and, provided the mandatory requirements are included, colleges are then able to tailor the report to their own requirements. This outline has been used as the basis and starting point for creating this study's disclosure index (see Table 4.2) alongside the UKCG (in so far as it applies to the college sector) and The English College Foundation Code of Governance, including its AAA.

In addition, Appendix 1 to the 2012-13 ADH has been used regarding the minimum disclosure required by the funding agencies for the statement of corporate governance and internal control. This includes: -

- The governing body's assessment of its compliance with the English Colleges' Foundation Code of Governance, or if not adopted, the UK Corporate Governance Code 2010 (in so far as applies to the FE sector) with explanations of any departures
- Details of the members who served on the corporation during the year and up to the date of the approval of the accounts, including a summary of their attendance records
- Details of the governance framework, including information about the committee structure, appointments to the corporation, and the coverage of their work during the period
- How the college identifies, evaluates and manages risk (including operational, financial, compliance and other risks)
- Details of the internal control and assurance framework
- The governing body's performance, including an assessment of its own effectiveness (AoC, 2013e, Appendix 1).

4.3.1 Content analysis and construction of the disclosure index

A content analysis approach will be used to construct a disclosure index to collect public accountability data. Content analysis is described by Bryman and Bell (2011) as 'an approach to the analysis of documents and texts… that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner' (p.289) while Krippendorf (2004) states that 'content analysis is an 'empirically grounded method, exploratory in process' (p. xvii) which is a 'research technique for making replicable and valid inferences from texts (or other meaningful matter) to the context of their use' (p.18). Therefore, this is an appropriate method to use to

achieve the aims of this study. The document and text in this study are FE college annual reports. Content analysis can include word, sentence, paragraph or page count. This study is interested in the presence or absence (disclosure or non-disclosure) of an identified index item in the narrative section of the annual report. It is recognised that a lack of objectivity and transparency may be a concern when using content analysis, particularly in assigning items to the categories of a disclosure index. It is important for the reliability of the index that once categories have been predetermined they may be applied by others on a consistent and systematic basis with limited opportunity, therefore, for bias. Therefore, a robust method of selecting, assigning items to the index is required, which includes a pilot study with independent checking and verification. This is discussed further in Section 4.3.4.

As this study is analysing the content of FE college annual reports to measure the extent of accountability disclosures, how these change over time and between colleges to determine any observable trends and patterns content analysis an appropriate method to use. Content analysis requires items to be counted and for this study the accountability items which will be included in the disclosure index are identified from several sources. Specifically, the reporting requirements of the ADH including the OFR and the statement of governance and internal control, as well as the disclosure framework requirements of the SORP and the corporate governance requirements of the UKCG (as far as appropriate to colleges and the iteration in force in the period covering the annual report), or the Foundation Code of Governance (including the AAA).

The ADH contains the annual reporting guidance for FE college annual reports. The ADH contains illustrative sections of the annual report and disclosure requirements based on the model Casterbridge College annual report (AoC, 2014d, p.84). These have been used as a starting point for the creation of this study's disclosure index. The researcher recognises that the 2014 ADH used for the index items was issued after the periods being studied but as it incorporates current best practice it is deemed appropriate to use. Any items required in this iteration of the ADH not in previous versions (covering the period of this study) have been excluded from the index, for example, the requirement to include a public value statement (public benefit test).

A review of a sample of college annual reports over the three years took place prior to the selection of items and there was nothing to indicate that the illustrative reporting requirements would not be appropriate to use. The illustrative disclosure requirements can be found in Appendix C. There are six mandatory items and eighteen optional ("indicative") items and six headings which are neither mandatory nor optional identified as can be seen in Table 4.2.

Table 4.2 Casterbridge College illustrative disclosure items

Mandatory items
Legal status
Disability statement
Disclosure of information to auditors
Corporate governance statement (including governors who served on the board during the year)
Statement of the responsibilities of the corporation members
Public Benefit Test ("Public Value Statement")*
Optional (indicative) items (voluntary)
Mission
Implementation of strategic plan
Financial objectives
Performance indicators
Treasury management
Cash flows
Liquidity
Going concern including future financial performance as appropriate
Current and future developments
Student numbers
Student achievements
Curriculum developments
Post balance sheet events
Pay performance
Competitive environment
Environmental issues
Equal opportunities & employment of disabled persons
Professional advisors
Other
Nature, objectives & strategies
Financial position
Resources
Principal risks & uncertainties
Stakeholder relationships

Source: AoC (2014d, p.84) *not relevant to the period of study

Until 2011 Colleges were required to follow the UKCG, issued by the London Stock Exchange in 2010, and apply its principles as far as they apply to the FE sector, although there is no legal requirement to do so. However, as seen above a statement of corporate governance and internal control is a mandatory requirement of the ADH. The AoC published the Foundation Code of

Governance in December 2011 with the intention of amplifying the CG code and setting out standards of good governance that were specific to the college sector and which has been widely adopted (AoC, 2016f).

In 2013 the AAA to the Foundation Code was published and those colleges who adopt the AAA are no longer required to comply with the UKCG. For those colleges who have not adopted the AAA then the two codes continue to sit side by side (AoC, 2016f). For the purposes of this study the index incorporates some of the requirements specified in A.1.2 of the AAA (AoC, 2013c) i.e.

- Membership of its committees
- Number of meetings of the governing body
- Number of meetings of its committees
- Summary of the number of meetings attended by individual governors

Specific requirements of the CG are also included;

- Audit committee membership
- Number of audit committee meetings
- Responsibilities of the audit committee

The annual reports for Kirklees College were reviewed for 2011, 2012 and 2013 using the initial framework of disclosure items identified above and additional items disclosed under the optional headings were added to the index. The same process was carried out for Yeovil College, York College and Tower Hamlets College, with items being added, removed or reclassified as appropriate. This was to ensure that an item could be consistently classified under an identified disclosure heading and that the description of the disclosure item was appropriate and was applicable across colleges. These colleges were selected randomly for the initial index construction.

Following this iteration of the index a further five colleges (Kidderminster, Derwentside, Northbrook, Worthing and Seevic) were reviewed with amendments being made to items in the index. To test the validity of the index Kirklees College was re-tested and checked against the final iteration of the index by the researcher and by an assistant to support rigour in the process. No differences were found in applying the index or allocating items. As the annual reports were to be analysed, over a period of time due to time availability of the researcher, and to ensure consistency of analysis of items to the index over this period and between colleges a list of definitions was produced as an

aide memoir. Appendix D contains a full listing of the disclosure items as well as definitions. This also ensured rigour in the suitability of items to be included in the index.

Following this exercise, a further twenty items were identified and added to the index under 'implementation of strategic plan'; thirteen items further identified under 'financial objectives' and three further disclosure items classified under 'performance indicators'; nine further items under 'financial position'; four further items under 'cash flows'; four further items under 'current and future developments and performance'; three further items under 'student achievement'; five further items under 'curriculum development'; six further items under 'resources'; eleven under 'principal risks and uncertainties'; twelve individual stakeholder groups identified were included under 'stakeholder relations' along with modes of communication and 34 disclosure items were identified under 'corporate governance statement'. The final iteration of the index included 143 disclosure items. See Appendix C for the final iteration of the disclosure index. The number of items (143) in the index is much higher than those used in previous studies, for example,

- Gray and Haslam (1990) 32 items
- Dixon et al. (1991) 52 items
- Coy et al. (1993) 43 items
- Banks et al. (1997) 26 items
- Nelson et al. (2003) 26 items
- Maingot and Zeghal (2008) 123 items (performance indicators)
- Ntim et al. (2017) 57 items

As this is a self-constructed disclosure index, and there are no previous comparable studies in the FE sector, it is recognised that it could be seen to include an element of subjectivity and that this is unavoidable. Healy and Palepu (2001) see this as the main limitation of the method. However, Allegrini and Greco (2011) believe that reliability concerns can be addressed in the construction of the index and by inter-coder reliability and internal consistency measures. The researcher recognises the potential implications of this and put measures in place to avoid this wherever possible. A fellow PhD student also tested the coding on a sample of annual reports. Reliability is discussed in Section 4.3.4 and coding and the coding process in the following section.

4.3.2 Public accountability data and disclosure index

Disclosure index or disclosure measures have been widely used in prior public accountability studies (Banks et al.,1997; Coy & Dixon, 2004; Coy et al.,1993; Gray & Haslam,1990; Nelson et al., 2003; Ntim et al., 2017) of HEIs as well in disclosure studies in the corporate and not-for-profit

sectors (Allegrini & Greco, 2013; Cheung et al., 2010; Connolly & Hyndman, 2013; Dhanani & Connolly, 2012; Healy & Palepu, 2001; Marston & Shrives, 1991; Ntim, Opong & Danbolt, 2012; Ntim, 2013; Samaha, Dahawy, Hussainey & Stapleton, 2012). These have been created in the main from the published annual reports, the traditional mode of discharging accountability as it contains information for stakeholders (Gordon et al., 2002; Herawaty & Hoque, 2007; Tooley & Hooks, 2009). However, Beattie et al. (2004) argue that extant approaches to the annual report analysis, including disclosure index, are essentially one-dimensional 'whereas disclosure is a complex, multi-faceted concept' (p. 213).

Disclosure indices are lists of selected items that are expected, for the purpose of a study, to be disclosed in an annual report. Frequently studies differentiate items as those which are mandatory i.e. required to be disclosed and those items which are discretionary and voluntarily disclosed. This study will look at both mandatory and voluntary (optional items). A measurement of disclosure (score) can then be applied to each item and in total for each entity which allows comparison with the total score available and as stated by Bryman & Bell (2011) 'Measurement gives us a consistent device or yardstick for making such distinctions. A measurement devise provides a consistent instrument for gauging differences' (p.154). The index score will be used to determine any trends and patterns in disclosure in FE college annual reports and to determine whether there are any factors which impact or influence the level of disclosure. The following formula is used:

$$DS = \sum_{j=1}^{n} dj$$

Where:

DS = disclosure index score for a college,

d_j = 1 if the information is disclosed in the annual report

d_j = 0 if the information is not disclosed in the annual report

n = the number of disclosure items.

Krippendorf (2004) defines an index as 'a variable whose significance rests on its correlation with other phenomena' (p.58) and states that it is always advisable to use indices cautiously (p.62). Nevertheless, he recognises that,

> The inability to demonstrate high correlations should not prevent analysts from using quantitative measure, however. Researchers may be able to strengthen the indicative capabilities of such measures by adding independent variables, or they may observe these measures for long periods of time and then construct regularities that can be extrapolated into yet un-observed domains. In addition, researchers may vindicate their construction of such measures by successfully correlating them with other phenomena not initially anticipated (correlative validity) (p.62).

The disclosure index score is the dependent variable and governance, financial and college specific factors will be identified as independent variables for the statistical analysis. These are discussed further in Section 4.3.5.

4.3.3 Coding and the coding process

Krippendorf (2004) argues that texts acquire significance in the context of their use (p.33) and consequently a text is always someone's construction. Therefore, it is acknowledged that the context of this study is to investigate the extent of accountability disclosure from the perspective of college stakeholders. It is appreciated that the extent and type of disclosure in the text (the annual report) is specific to an individual college in terms of what is disclosed over and above the minimum requirements. For the purposes of this study a dichotomous, un-weighted score for the disclosure index items is used. This method has been selected as the study is not investigating the quality of the disclosure but the quantity and extent of accountability disclosure. It aims to tell the story around differences – trends and patterns over time and between colleges in the period under review and the introduction of the new freedoms. This method was used in Gray and Haslam's (1990) study of external reporting by UK universities – their analysis was based on the existence/absence of a category of disclosure as they were looking to capture the change in reporting practice and were not assessing quality or quantity. Dixon et al. (1991) also employed this method in their studies of universities external reporting. Disclosure score indices have also been used in corporate and governance disclosure studies (for example, Cooke, 1989a,1989b; Haniffa & Cooke, 2002; Allegrini & Greco, 2011).

By using a dichotomous score of one if the item is disclosed or zero if it is not disclosed it removes any opportunity for subjectivity/bias that can be applied by using a weighted score. Studies using dichotomous scores include Haniffa and Cooke (2002) and Gray and Haslam (1990). Other disclosure index studies have taken this further and used weighted scores to examine both quantity and quality of disclosure. Coy et al. (1993) developed a subjective weight for each item in their index, recognising that some items are more important than others. This was adopted by others (for example, Coy & Dixon 2003, Nelson et al., 2003). Banks et al. (1997) scored quality as the presence or absence of an information item in their study of UK University accountability and then measured the quality of that based on a subjective level of the information reported – on a 0-5 scale.

An un-weighted approach assumes all items in the index have equal importance. As this study is looking at disclosure over a three-year period, it avoids subjectivity in evaluating the importance of each item each year and the differences that may be found in reporting during that period by

adopting such an approach. Marston and Shrives (1991) argue that it would be expected that indices with large number of items would give the same results using either a weighted or an un-weighted index. As this study is looking at accountability disclosure from the perspective of multiple stakeholders and not one particular user group it would be not be beneficial to use a weighted approach (Cooke, 1989). There are a large number of items in this index (143) consequently an unweighted index is deemed appropriate - as supported by the views of Marston and Shrives (1991). Other studies using weighted indices have included much fewer items.

The narrative disclosure sections included in college annual reports are generally relatively short in comparison to university or corporate sector annual reports, for example Walsall College 2011 is 14 pages, Northbrook College 2012 is 15 pages, Seevic College 2013 is 15 pages long – the illustrative Casterbridge College OFR and statement of corporate governance and internal control is only 20 pages long and that includes alternative texts. The OFR appears to largely follow the format of the illustrative annual report in the ADH, with any additional or tailored disclosures usually in bullet point format or very short paragraphs. Consequently, it would be extremely subjective to attempt to rate the quality of disclosure – due to brevity of the information provided.

One of the issues of using a disclosure index is what to do with items where the disclosure/item is not relevant to a college. If these colleges are scored zero for non-disclosure, then it could affect the reliability of the index. There were two governance items relating to corporate governance codes that were removed from the index following a final the review of the items in the index. One other item, with the potential to be affected by relevance, was disclosure of debt. Some colleges are debt free and therefore would be penalised in the scoring. To avoid this problem, it was decided, following extraction of the finance data from the financial statements, to score colleges with no debt as one as zero suggests that they have failed to disclose which is not in fact the case – although they may have made no comment about being debt free in the OFR. HE provision is another item affected by relevance which could affect the disclosure index score – some colleges do not have HE provision. There are several places in the OFR where reference to HE provision could be made and it was decided to give a score for HE provision, if it was mentioned somewhere in the OFR. It is recognised that there may be instances of colleges with HE provision who are choosing not to disclose but these were expected to be few. The final iteration of the disclosure index -143 items can be found in Appendix D.

As this study is focusing on total (overall) disclosure and governance disclosure two indices have been created. The governance index is a sub-index of the total index.

The indices are calculated as follows:

Total disclosure score

$$DS = \sum_{j=1}^{n} dj$$

Where:

DS = the total disclosure score for a college,

d_j = 1 if the information is disclosed in the annual report

d_j = 0 if the information is not disclosed in the annual report

n = the number of disclosure items (maximum =143).

Governance disclosure score

$$DSGOV = \sum_{j=1}^{m} dj$$

Where:

DSGOV = the governance disclosure score for a college,

d_j = 1 if the information is disclosed in the annual report

d_j = 0 if the information is not disclosed in the annual report

m = the number of disclosure items (maximum = 34).

4.3.4 Reliability and validity of the disclosure index

According to Bryman and Bell (2007) validity is concerned with the integrity of the conclusion generated from research. Krippendorf (2004) states that 'any content analysis should be validatable in principle' (p.39) and this statement is supported by Marston and Shrives (1991) who state that 'index scores can be considered to be valid if they mean what the researcher intended' (p.198). Construct validity refers to whether the measure i.e. the disclosure index in this study reflects the what it is purporting to be measuring (Bryman & Bell, 2007).

Marston and Shrives (1991) state 'the validity of indices as a measure of information disclosure cannot be accepted without question' (p.198) but recognise that despite the questions that the use of an index raises, no other method has been developed for measuring disclosure. The use of indices as a measure is recognised as having weaknesses (reliability and validity). The use of an index in this study, is the most appropriate method to use, to measure the amount of disclosure and is one that has been used in similar studies. However, it is recognised that multiple and different indices are used in different disclosure studies and this, therefore, highlights another validity issue: direct comparisons with previous studies.

As discussed in Chapter Three, disclosure indices have been developed and modified over the years, for example Coy et al.'s (1993) MAD index which developed into Coy and Dixon's (2003)

PAI which also has been modified to meet the aims and objectives of other studies and the sector being investigated. Validity was at the forefront of the index design for this study. Nevertheless, it is recognised that existing indices identified in the literature review were not totally applicable to this study and could not be replicated, in their entirety for the FE sector. Although FE and HE are in the same sector - education - they are very different in terms of mission, funding and provision. One example is research - research income as a funding stream or as an accountability output - is virtually non-existent in FE. Consequently, due to the unsuitability of adopting previous indices, a new index is constructed. The construction of the index takes into consideration the findings from the extant literature, and uses where possible comparable items from the HE disclosure index literature. There are, however, some items in the index which are very specific to the FE sector.

Reliability is concerned with whether the results of a study are repeatable or can be replicated by another researcher (Marston & Shrives, 1991; Bryman & Bell, 2007). Krippendorf (2004) states that a 'research procedure is reliable when it responds to the same phenomena in the same way regardless of the circumstances of its implementation' (p. 211). The main issues with construction of the disclosure index are firstly, validity (discussed above) and secondly, how to award scores and to ensure the coding instructions are clear enough to enable the scoring of an item, i.e. is an item disclosed or not. Thirdly, how to ensure consistency of scoring between colleges and years and fourthly, how to deal with the non-disclosure of items. Detailed coding instructions, including definitions, were drawn up after construction of the index. These were subject to review and tested by the researcher and a doctoral researcher with experience in disclosure, to ensure reliability of coding - all items were coded in the same way. A sample of seven annual reports were double reviewed and following the reviews coding instructions were clarified to ensure consistency. Following this exercise, the sample was double reviewed again and piloted on a sample of other annual reports.

4.3.5 Governance, financial and college-specific data – measurement of independent variables

In addition, to the construction of a disclosure index, this study aims to collect relevant governance and college-specific data which may be contributing factors/variables that influence the disclosure and accountability practices of FE colleges. Prior studies have investigated some of these variables and whether they have any influence on the level of disclosure. There are also numerous studies investigating the relationship between firm performance and corporate governance characteristics - hypothesising and testing what specific factors influence and contribute to the extent of disclosure. Is there any correlation between the independent variables and the dependent variable (extent of disclosure)? Could the extent (and quality in some studies) of disclosure be due to specific governance characteristics? Empirical studies in the corporate sector have tested the

effect of corporate governance characteristics (independent variables) on disclosure, for example board size, frequency of meetings and the audit committee. These factors have been also tested in HEI disclosure studies (for example, Gordon & Fischer, 2008). As an FE college is required to include a statement of governance and internal control and to follow relevant corporate governance best practice, it is considered appropriate to use similar variables and these are discussed further below.

Company specific characteristics, for example, size, ownership structure, leverage, audit firm and liquidity have been used in extant corporate studies to test whether these factors have any impact or influence on the level of disclosure and accountability. Where appropriate, similar variables are also identified as independent or control variables in studies in the not-for-profit sector or university sector and will be discussed further below. As this study is looking at one particular type of entity, FE colleges, the characteristics identified as relevant are, for example, related to size, leverage and audit firm and include some related to college governance for example, size of governing body, frequency of meetings. In addition, factors specific to FE colleges are identified as HE provision, CG code adopted and use of co-opted members. These characteristics will be used as independent variables.

Table 4.3 provides details of the governance, financial and other data collected from the annual reports including the financial statements.

Table 4.3 Governance, financial and other variables – data collected

Governance	Financial (£000)	Other
• Number of governing board (corporation) members during year • Term of office • Number of staff members on governing board • Number of student members on governing board • Number of co-opted members on governing board • Number of female governors • Number of audit committee meetings • Number of independent audit committee members • Number of co-opted members on audit committee • Corporate governance code used • Number of committees • Names of committees	• External audit fee • Internal audit fee • Total short-term debt • Total long-term debt • Total debt • Net pension liability • Total liabilities (excluding pension) • Cash flow from operating activities • Total cash • Funding body grants • Tuition fees & educational contracts • Research grants & contracts • Other income • Endowment & investment income • Total staff costs • Interest & other finance costs	• External auditor – Big4? • Name of external auditor • Name of internal auditor • Gender of principal • Total number of staff • Total number of teaching staff • Total number of students • Reference made to Financial Notice to Improve (FNtI) • Financial health rating

As can be seen from Table 4.3 extensive governance, financial and other data was collected for all colleges in the sample. Following the detailed review of the literature in Chapter Three it was decided that the following factors would be relevant to investigate to address the third research objective.

College-specific independent variables

Size – In the literature firm size is usually measured by a number of variables for example, total assets, number of employees, total sales (income), listing status. These are usually identified as control variables alongside age and industry type (sector) (for example, Haniffa & Cooke, 2002; Ntim et al., 2012). Studies in HEI have used size related variables such as adjusted gross assets, total assets, number of students and total revenue as determinants of disclosure. Size will be used as an independent variable but as the FE sector is quite different from other sectors, including HE, the variable selected for size is total funding body grants. This is being used as a proxy for income/revenue. All colleges are recipients of funding body grants; their main source of income.

This is why it has been selected as an appropriate measure. Funding body grant information is readily available, consistently calculated, and presented in the annual reports. The suitability of other measures is considered however, there were a number of weaknesses uncovered. For example, the number of employees had a number of possible measures – FTE is disclosed but that could include all staff or just teaching staff and therefore there could be a lack of consistency between colleges. Total staff costs could also be considered as a proxy for size; the larger the college the more staff and consequently higher staff costs but again this is influenced by the number of teaching and non-teaching staff. Total assets, a variable often used in disclosure literature as a proxy for size, was originally discounted as a measure for FE. This is due to the variability been colleges in terms of composition of total assets. For example, some colleges own tangible assets such as property which they use, others own assets which are not used and other colleges use assets, usually property, rented from local government or other organisations. There are also differences in the age of tangible assets which consequently affects the net book value of the assets. In addition, there are differences between colleges with regard to the amounts of long or short-term investments included in total assets.

The correlation between items that could be proxies for size - total staff costs, number of staff, total funding body grants and total assets is analysed and based on the results total income as measured by total funding body grants (SIZE) was the selected independent variable. Other sources of income, if there are any, are a very small percentage of total income as the large majority of all colleges' income comes from the same funding bodies.

Leverage – There are several measures that can be used to measure leverage. Debt to equity ratio (long-term debt divided by total fund balance) is used by Gordon et al. (2002) in their study of the extent of disclosure by private and public colleges and universities in the US, while the ratio of total debt to total assets was used by Ntim et al. (2017) as a measure of leverage in their study of UK HEIs. In the corporate disclosure literature total debt to equity or total debt to total assets appear to be the most commonly used measures. As previously mentioned there are issues with using total assets for FE, however, as this is the measure most frequently used in disclosure studies, it was decided to measures of leverage based on the ratio of total debt to total assets. (DEBT)

Audit firm – As mentioned in Chapter Three numerous disclosure and corporate governance studies use the variable Big 4 or non-Big 4 to identify whether the use of a Big 4 audit firm (PwC, KPMG, Deloitte and EY) has any influence on the level of disclosure (for example, Gordon et.al., 2002). This factor could also be identified as a governance factor as well as a college specific factor. The size of the audit firm is often used as a proxy for audit quality. The requirement for an external auditor is from an accountability perspective a monitoring mechanism. Although it is the

responsibility of the college, principals and chief executives and finance directors to prepare the annual report, the external auditors can significantly influence the amount of disclosure (Barako et al., 2006). This was experienced by the researcher during their career in audit with a Big 4 firm. Notwithstanding, the ADH guidance on the reporting requirements provided to the preparers and external auditors it is purported from a public accountability perspective that those entities audited by the larger auditing firms, would be influenced to disclose more (Ntim et.al., 2017). (BIG4)

HE Provision – HE provision is delivered by a number of FE colleges – degree or post graduate level studies (post-19) and is of interest to this study as a college-specific characteristic. A college either has HE provision or it does not and it is presumed that it would disclose that information if it has. Another assumption is that colleges with HE provision will have to satisfy the reporting and disclosure requirements of HEFCE and other stakeholders in addition to FE requirements. Therefore, this is identified as a factor that might influence the level of disclosure which could result in colleges with HE provision providing more disclosure than those colleges without such provision. Tuition fees are identified as a disclosure item under the principal risks' category in the statement of governance and internal control and this could include HE tuition fees. As the FE sector's market becomes more competitive and ever more concentrated, providing post-19 education is one way that a college can distinguishing and differentiate itself from competitors as well as benefitting from more generous funding for HE. (HEPROV)

Governance independent variables

Board size – Board size, is one of many board characteristics identified in corporate governance and disclosure studies, including those of Gordon et al., (2002) and Ntim et al.'s (2017) research into university disclosure, as being key to the agency relationship, between agent and principal. FE colleges disclose information about governors in the statement of corporate governance and internal control. Details of governors who have served during the year and up to the date of signing of the annual report, including names and status (for example, external, co-opted etc.) are provided. This is an ADH recommendation. The number of governors can therefore fluctuate significantly between colleges as details of appointments and resignations etc. are disclosed. It is difficult to determine the number of governors at anyone point in time, for example the year end. In order to be consistent across all colleges it was decided to use the number of governors who have served during the year and up to the date of signing of the report as a variable rather than the number of governors serving at the year-end which would have to be extracted and calculated manually from the annual report. (GOVMAX)

Board meetings - The frequency of board meetings is another board characteristic used in corporate governance and disclosure studies. Studies such as Allegrini & Greco (2013) found that

the number of board meetings has a positive impact on the level of voluntary disclosure. The frequency of governing board meetings was also used by Ntim et al. (2017) in their study of UK HEIs and will be used for this study. Board meeting frequency is identified as the number of times the corporation meets during the year. As college corporations are comprised mainly of voluntary unpaid members (excluding the CEO/Principal) it, therefore, will not be surprising to find that the number of meetings during the year are not extensive. The number of corporation meetings and committee meetings is determined by individual colleges through their standing orders and Instruments and Articles of Government. However, it may be that colleges have been affected by exceptional events during a year, and hence may meet more often and consequently disclose more. The corollary may be that those events result in more meetings but could result in less disclosure as events are concealed. The number of corporation meetings does vary between college and the frequency of meetings could be influenced, by the governance model adopted by the college, for example, the Carver model. If colleges have adopted the Carver model this is usually stated in the statement of corporate governance and internal control and this is also, but not exclusively supported by an increase in number of corporation meetings disclosed. (GOVMEET)

Audit committee diligence (proxied by number of meetings) - The existence of an audit committee and audit committee diligence has, as a board characteristic, been extensively used in the governance and disclosure literature (as mentioned in Chapter Three). These include studies, prior to and in the early years of the development of CG codes and best practices, as well as more recent studies in developing countries – have investigated whether the existence of an audit committee and/or audit committee diligence has any influence on levels of disclosure (Barako et al., 2006). However, as all colleges are required to have an audit committee, a funding body requirement, its existence is a given. Its existence is not a factor considered relevant to the extent of disclosure for this study. However, the number of times the audit committee meets during the year is relevant. The number of audit committee meetings is used as a proxy for audit committee diligence. Diligence is identified in the literature as one of the contributory factors to audit committee quality. It is posited that the extent of disclosure will be associated with the level of diligence of the audit committee (Ntim et al., 2017; Allegrini & Greco, 2013).

The recommended best practice is a minimum of three audit committee meetings per year (one per term) but some colleges hold more than the minimum requirement. The statement of corporate governance and internal control contains a section headed audit committee that includes details the of number of audit committee meetings held during the year and this will be the measure used. (ACMEET)

Co-opted members – Co-opted members are used by FE colleges to provide additional expertise and knowledge as and when needed. The audit committee is the committee to which members most frequently are co-opted. This is largely due to this board sub-committee requiring and recognising the need for additional 'financial' expertise and knowledge. Co-opted members are identified in the statement of corporate governance and internal control. The use of co-opted members will be measured by their presence or otherwise. (COOPT).

CG code – This variable is selected as it is specifically relevant to FE colleges. There are a number of CG codes can be followed by colleges during the period of the study. For example, in 2013 annual reports these have been variously described in the statement of corporate governance and internal control as:

- UK Corporate Governance code
- UK Corporate Governance code + Foundation code
- Combined code
- AoC code (assuming this relates to the Foundation code)
- Foundation + Audit and Accountability Annex
- Foundation
- UK Corporate Governance code + Foundation + Audit and Accountability Annex

As can be seen there are various iterations of the UKCG referred in the annual report to as well as the more recently introduced FE sector-specific Foundation code. The seven different descriptions of the code coded 1 to 7 in SPSS for additional analysis. However, for the purposes of the statistical analysis the seven variants are to be classified and re-measured as either adopting the Foundation code or adopting the UKCG and iterations. (CGCODE)

Table 4.4 below provides a summary of the independent variables that will be used in the study

Table 4.4 Summary of definitions and measurement of independent variables

Abbreviated name	Full name	Measurement
SIZE	Total funding body grants	Total funding body grants (£)
DEBT	Ratio of total debt to total assets	Percentage of total debt to total assets
BIG4	Audit firm	1, if audited by a Big 4 audit firm, 0 otherwise
HEPROV	HE Provision	1, if HE Provision, 0 otherwise
GOVMAX	Number of governors in office during year & up to date of signing	Number of governing board members during year
GOVMEET	Number of governing board meetings	Frequency of governing board meetings
ACMEET	Number of AC meetings	Frequency of AC meetings
COOPT	Use of co-opted members	Use of co-opted members during the year
CGCODE	CG code used	1, if Foundation code, 0, if UKCG

The college specific characteristics, for example size and leverage, are often identified in the literature as control variables but for the purposes of this study they are deemed to be independent variables. Control variables are those additional variables that may have an influence on the nature of the relationships between variables in the study (Bryman & Bell, 2011). It is not considered necessary to control for these variables due to the homogeneity of the FE college population and exposure to the same influences.

4.3.6 Sampling

There were 391 UK FE colleges as at August 2013 (AoC, 2013f) - 339 in England, 30 in Scotland, 16 in Wales and in Northern Ireland (NI). These include: General FE and Tertiary colleges; Sixth Form colleges and Specialist colleges (Agriculture and Horticulture, Art and Design and Specialist designated). The focus of this study is English FE colleges on the grounds of differing funding regimes for colleges in Scotland, Wales and NI. English FE colleges are funded by the EFA and the SFA whilst Scottish colleges are funded by the Scottish Funding Council; Welsh colleges by the Welsh Government and NI's colleges by the Department of Employment and Learning through funds allocated by the NI executive. As the study's aim is to investigate accountability and disclosure practices it was decided that a homogeneous population was required. Hence Specialist and Sixth-form colleges were excluded leaving a population of 218 General Further Education colleges as at August 2013 (see Appendix F). These colleges provide a mix of academic and vocational education which can be at any level above compulsory education, from basic training to HE level (AoC, 2013f). The range and breadth of educational provision in these colleges requires accountability to multiple stakeholders. It is recognised that within this general category there will be differences between colleges due to the range and type of provision, i.e. not all colleges will

have HE provision, but the reporting requirements are the same. This type of college has been significantly affected by the new reforms and challenges as discussed in Chapter Two.

It was decided to attempt to collect the annual reports for all 218 colleges, for the three years ended 31st July 2011, 2012 and 2013, rather than selecting a sample using probability or random sampling. This is a large population in comparison to previous disclosure studies in HE where attempts have been made to get data for the entire population. At the time of Gray and Haslam's (1990) study there were only 60 reporting organisations (as defined by the study), the number had risen to 84 universities at the time of Banks et al.'s study (1997) of UK HEIs. There was a population of 163 UK HEIs in 2012 when Ntim et al. (2017) selected their sample of 130 HEIs. As it was anticipated that obtaining the annual reports might be problematic, attempts were made to obtain information for as many colleges as possible – ideally the entire population. This was considered preferable to selecting a sample and then trying to obtain the data for those colleges in the sample. The issues that arose in obtaining the annual reports will be mentioned further in Section 4.3.7.

Following the Freedom of Information (FOI) requests in June 2014 (detailed in Section 4.3.7 below) and obtaining reports via FE college websites between October 2013 and May 2014 or via a google search (over the same period) three years continuous and complete data was obtained for a sample of 101 colleges (46.44% of total population). See Appendix G for full list of sample colleges.

4.3.7 Data collection: annual reports

All FE colleges have a 31 July year end. The audited financial statements (and other documents) for colleges and any subsidiaries have to be submitted to the responsible funding body by 31 December of that year. The documents do not have to be submitted in hard copy format to the funding bodies. Interestingly, the ADH for 2013/14 states 'In accordance with the Charity Commission guidance, **all** Colleges must make their Annual Reports and Accounts promptly available on their websites' (AoC, 2014d, p.6) but there is no such reference in the 2012/13 ADH which suggests this requirement has been introduced to ensure compliance with the Charity Commission guidance and to improve accountability. Nevertheless, making reports available could be seen as minimum good practice.

Making annual reports accessible is a key part of accountability to stakeholders and as this study is prior to the Charity Commission guidance: obtaining the annual reports for some colleges has been a herculean task. Annual reports were not being made available on FE college websites as a

matter of course for 2011, 2012 and 2013 nor were they available on the funding body website - only financial data was available. The majority of colleges who do publish the annual report on their website only have one year's report available and it is not always the most recent.

A search on the internet using the Google search engine was initially carried out for individual college annual reports during January to May 2014. This provided some links directly to the annual report but the majority of searches yielded no result. Individual college websites were then interrogated however, searching on colleges' websites for the annual reports was not a straight forward task as it proved extremely difficult to access or find any relevant information on some colleges' websites. The variation in content and style/layout was extreme. Each college did have a website which, in the majority of cases, tended to concentrate on providing information to current and prospective students. Some websites did not make it easy for users as there was no search facility, or if there was it did not provide any useful results, as is usually the case, or any results despite using different descriptions and key words. Consequently, it was a major trawling exercise of websites to locate the annual reports. Even if a college did make available the annual report they were not always prominently displayed. It was assumed, based on the researcher's knowledge of listed companies and HEIs that if the annual reports were made available then they would be available in similar sections of the website, for example Governance or in another equally prominent place. The Governance section of college websites sometimes did include the reports but in others it was necessary to open up all the tabs and trawl through if no search facility available or no search results found.

One of the factors that soon became apparent was that not all colleges called the annual report (including the financial statements) by the same name and that searches on the website and Google had to be flexible and extended to include the terms: annual reports, annual financial statements, financial statements, report and financial statements etc. This was a very time-consuming exercise. An additional factor that hampered the search was that FE college often produce an annual 'glossy' document which is often referred to as the annual report which is usually prominently displayed on the website. This 'report'/review, it could be argued, is the document that the majority of colleges' stakeholders are interested in as it provides a summary of the key achievements and performance of the college, including key statistics and key performance indicators over the last year which tend to be biased to present the college in the most favourable light. This document is much more user-friendly than the annual report and emphasises key information and perhaps is more manipulated towards good news stories than the annual report. The messages are aimed more at prospective and existing students. It is full of photographs, good news stories and messages from the Principal and Chair of Governors. It could be argued that it is more relevant to the majority of stakeholders than the annual report and by

providing this information a college is being transparent and accountable. This study has not used these documents but they would provide an interesting opportunity for future study and to compare the quality and quantity of what they disclose.

The first objective of this study is to ascertain the extent of disclosure and the first research question asks whether FE college make their annual reports accessible. As previously mentioned not all colleges made the annual reports available on their website. Therefore, due to the issue of lack of availability, of annual reports on college websites or not able to locate via Google searches, it was decided to use a FOI request to obtain the information. See Appendix H for pro-forma FOI emails that were sent to colleges to request the 'missing' reports. Obtaining an email address to make the request was not straight forward. Often the college did not have a search facility on their website that enabled a search to be made for FOI information (generally only a course search tool) nor were specific contact details available for FOI requests. Consequently, emails were sent to either a general email address, via a general enquiry form, to a named individual or named position within the college e.g., Clerk to governors – see examples below: freedomofinformation@bpc.ac.uk, robert.smith@bournville.ac.uk , info@blackpool.ac.uk, enquiries@aylesbury.ac.uk

The collection of the reports was extremely timing consuming, taking place between January and May 2014. The FOI requests were sent out between 2nd – 10thJune 2014; with second requests being sent out on 24th June 2014. June 2014 was selected for this exercise as it was expected that colleges would have their annual reports available. The reporting deadline for submission of the 2013 reports to the funding body was 31 December 2013. It was presumed that reports would be made available after then.

In the first instance FOI requests were sent by email to the named FOI reporting officer or using an FOI request form, where this information was available. Obtaining information as to whom to contact was in itself a massive task as some FE colleges do not provide details of a named individual. Others provided FOI forms or links and some did not provide any such information, and in those cases general enquiry/contact forms were completed where available, as well as directly targeting the Principal or Clerk to the Corporation when their email details were available.

Not all colleges responded to the FOI requests. It was decided at the end of August 2014 that a sample of 101 colleges (46.11% of total population) with annual reports available for three-years would be sufficient for this study. The findings, regarding the accessibility of the annual reports for all three years are presented in Chapter Five. Thus, availability is not just a methodological

(sampling) issue but also, as discussed in Chapter Five, in the context of the focus of this thesis, a matter of substance relating to the research agenda.

4.4 Analysis and statistical tests

This section aims to provide a brief outline of the techniques that will be used to analyse the data obtained from the disclosure index as well as the methods used to assess the influence of governance or college-specific factors on the extent of disclosure. To address objectives one and two the analysis will be descriptive in focus and is discussed further in Section 4.4.1. Section 4.4.2 will identify the tests and analysis to address the third objective.

4.4.1 Descriptive analysis

A detailed descriptive analysis of the collection of the annual reports will be provided to address the first research question in order to explore the accessibility of reports both pre and post the FOI request. Descriptive statistics, as well as the use of tables and graphical presentation (Gray & Haslam, 1990), will be used for detailed descriptive analysis of the level of disclosure at individual college, category index level and overall level for each year of the study and to interpret and determine any patterns, trends and observable differences to address the second research objective. This descriptive method was used in Dixon et al.'s (1991) study of external reporting by NZ universities. In addition to the analysis of the disclosure index for the years in question, further descriptive analysis is provided of other factors/characteristics, for example analysis of audit firms, HE provision, use of co-opted members and adoption of the Carver governance model, in order to interpret and tell the story of the extent of observable differences in accountability and disclosure practices during a period of change.

Category level

The analysis of patterns and trends will also focus on categories, especially with respect to the disclosure index. In particular, categories relating to mandatory, optional and others as well as financial and non-financial categories will be analysed. The analyses will encompass frequencies and descriptive statistics, amongst others.

Overall level

Analyses of patterns and trends will also focus on the overall disclosure index. The level of disclosure over time and across colleges will be tabulated. Similarly, frequency distributions and summary descriptive statistics will be employed.

4.4.2 Graphical presentation

A key tool that will be used in the analysis of patterns and trends is graphical presentations. Specifically, and where appropriate, the data will be presented by employing bar charts and histograms, amongst others.

4.4.3 Statistical analysis

There are numerous statistical methods that can be adopted to analyse disclosure index data as can be seen from the literature. The applicability of those methods to this study will be discussed in this section. As the third objective of the study is to assess whether specific factors (independent variables) impact the extent of disclosure hypotheses have been developed for each factor. These are summarised in Table 3.5. In addition, statistical analysis will also be employed to assess the impact of these independent variables on a governance disclosure index - see Section 4.3.2.

Previous studies in corporate, not-for-profit and HE sectors have used both univariate and multivariate analysis techniques to examine the association between identified entity-specific independent variables and extent of disclosure (for example, Gordon & Fischer, 2008; Ntim et al., 2017). These methods are also commonly used in studies investigating disclosure and corporate governance characteristics, for example, Barako et al. (2006) and Cheng and Courtenay (2006).

Correlation and multiple regression analyses will be employed. Specifically, and where appropriate, both Pearson and Spearman correlation analysis will be used, in addition to other non-parametric tests. The analysis will focus on exploring correlations between the disclosure index and governance and financial/college specific variables. The relationship between variables is tested using correlation techniques in studies by Gisbert and Navallas, 2013, Ntim et al., 2017, Beekes et al., 2016 and are therefore deemed appropriate for this study. The multiple regression model(s) used in this study is detailed in below.

Regression model(s)

Linear multiple regression will be used in this study to examine the association between the dependent variable of disclosure in FE annual reports and the independent variables of college specific characteristics and governance attributes. A total disclosure index score (DS) was constructed for the dependent variable and in addition the governance category score (DSGOV) from the index will be used in a second model to investigate the effect of the independent variables on governance scores. Therefore, the following two models are employed to investigate the relationship between the extent of disclosure and each of the college specific and governance characteristics.

Model 1: Total disclosure score

$$DS = \propto_0 + \beta1SIZE + \beta2DEBT + \beta3BIG4 + \beta4HEPROV + \beta5GOVMAX + \beta6GOVMEET + \beta7ACMEET + \beta8COOPT + \beta9CGCODE + \varepsilon$$

Model 2: Governance disclosure score

$$DSGOV = \propto_0 + \beta1SIZE + \beta2DEBT + \beta3BIG4 + \beta4HEPROV + \beta5GOVMAX + \beta6GOVMEET + \beta7ACMEET + \beta8COOPT + \beta9CGCODE + \varepsilon$$

Where;

DS is total disclosure score; DSGOV is governance disclosure score; $\propto_0$ is the constant term; SIZE is total funding body grants; DEBT is ratio of total debt to total assets; BIG4 is audit firm size; HEPROV is HE provision; GOVMAX is board size; GOVMEET is number of board meetings; ACMEET is number of AC meetings; COOPT is use of co-opted members; CGCODE is CG code used and ε is the error term

4.5 Conclusion

This chapter has sought to present the research design underlying the current study. Specifically, it sought to achieve a number of objectives. First, it outlined the philosophical (ontological and epistemological) and methodological assumptions underlining the study, including providing a philosophical justification for the decision to select a content analysis technique, which although heavily rooted in positivism (deductivism), displays some inductive tendencies. Second, a comprehensive discussion relating to the sampling procedure, data, data collection approach and sources was presented. Third, the content analysis technique, including items included in the disclosure index, the coding approach, and the governance and financial data collection was outlined comprehensively. Finally, the various tools that will be used in analysing the data, such as frequencies, summary descriptive statistics, graphs and charts, tables, statistical analysis was described.

In the next two chapters, the findings relating to accountability, the disclosure indices, the impact of governance and financial data will be presented.

Chapter Five Findings: Accessibility and disclosure

5.1 Introduction

This chapter addresses the study's first two objectives which are firstly to ascertain the extent of accountability disclosure in English General FE colleges' annual reports in the period 2011-2013 and secondly to identify any observable patterns and trends in colleges' accountability disclosure. A disclosure index was constructed as discussed previously in Chapter Four, to measure the extent of disclosure.

The availability of FE colleges' annual report was, at the conception of this study, presumed to be a methodological issue. However, this was not the case and as previously discussed the general accountability of some colleges can be questioned with regard to the accessibility and availability of annual reports. Consequently, the availability and accessibility of FE college annual reports turned into a substantive point about the lack of accountability. This led to the formulation of the first research question: do English general FE colleges make their annual reports accessible? Section 5.2 will analyse and discuss the availability and accessibility of annual reports and Section 5.3 will provide a detailed descriptive analysis of accountability disclosure measured using the self-constructed disclosure. This analysis will address the first objective: To ascertain the extent of accountability disclosure in English general FE colleges' annual reports in the period 2011-2013.

The second objective is to identify any observable patterns and trends in accountability disclosure of English General FE colleges during the period 2011-2013 will be discussed in Section 5.4. As previously mentioned in Chapters One and Two this period has been identified as one of challenge and opportunity for the sector although highly regulated particularly with regard to funding requirements. The changes to governance requirements and the 'new freedoms and flexibilities' perceived in the Education Act 2011 has the potential to impact the extent and areas of disclosure.

5.2 Accountability and the accessibility of FE college annual reports

One of the recognised mechanisms of accountability is through formal reporting. For the purposes of this study the annual report including the financial statements is the mechanism that has been identified as one way an FE college can demonstrate its public accountability. As a recipient of public funding, via the funding agencies, FE colleges have to demonstrate their accountability, i.e. how accountable are they for their actions and their performance (Kearns, 2011). As an incorporated entity, an FE college is legally required to produce an annual report. Therefore, they are seen primarily as a vehicle by which institutions communicate their accountability information to their stakeholders (Banks et al., 1997). It can be argued that the provision of financial accounts prepared in accordance with regulations is a minimum accountability requirement when viewed

through a stewardship lens. The annual reports are a function of stewardship and used as a vehicle to demonstrate colleges' stewardship responsibility. Moreover, it is not just the amount of detail in annual reports that matters but whether those reports are available in the first place. It was assumed, therefore, that these reports would be made available and accessible by colleges either on their website or by alternative communicated means and that such availability would be minimum best practice for the sector as is the norm for UK HEIs.

FE colleges have to follow the AoC ADH when preparing their annual report and financial statements. The ADH for the years 2010-11 to 2012-13 do not make any reference to the requirement for colleges to make their annual reports publicly available – suggesting an accountability deficit. It is, however, interesting to note that the 2013-14 ADH (section 1.9) does specifically state that in accordance with Charity Commission guidance all colleges must make their annual reports and accounts promptly available on their website (AoC[a], 2014) – which aims to remedy and recognise such a deficit. It became apparent when collecting the annual reports that it was not going to be a simple task of just accessing a college website for the information hence, the formulation of the first research question and the analysis in section 5.2 below.

5.2.1 Availability: Collecting annual reports

The collection of annual reports from college websites and via the Google search engine started in January 2014 and continued until May 2014. It was presumed that by then a FE college would have uploaded their annual report and made it available on their website. This was a large presumption on the researcher's part as it became apparent very early in the data collection that this was not the case. Large companies and UK HEI do make their annual reports available on their websites which makes secondary data collection relatively straight forward, for example annual reports are usually to be found for companies in the Investors section of their website or for HEI in the Governance section. This was not to be the case for FE colleges.

As stated above the search on FE college websites and via the Google search engine took place between January and May 2014 and the results can be seen in Tables 5.1, 5.2 and 5.3 below.

Table 5.1: Availability of reports and financial statements on websites

Disclosure/availability	Number	%
1 year	59	27.1
2 years	21	9.6
3 years	24	11.0
Sub-total	104	47.7
No disclosure	114	52.3
Total	218	100

Table 5.1 shows only 24 colleges (11.0%) had all three years' annual reports available on their website and 114 (52.3%) did not make available annual reports for any of the three years. 27.1% (59) colleges made available an annual report for one year only. As seen in Table 5.2 below it was not always the most recent annual report that was made available. 11.9% of FE colleges made available the annual report for 2011 while those providing 2012 or 2013 were much higher at 42.4% and 45.7% respectively. York college had annual reports available on its website going back to 2006.

Table 5.2: Further analysis of disclosure: One year available only

Year	Number	%
2010-11	7	11.9
2011-12	25	42.4
2012-13	27	45.7
Total	59	100

Table 5.3 shows that of the 21 FE colleges with two years' annual reports available the majority 61.9% made available the two most recent years (2012 & 2013) and one college disclosed 2011 and 2013 but omitted 2012. The time frame for collecting the reports was limited and it was delayed until after the funding reporting deadline of 31 December 2013 as it was anticipated that most reports would have been uploaded by the end of May 2014. The findings show, however, that this was not the case.

Table 5.3: Further analysis of disclosure: Two years available

Year	Number	%
2011 & 2012	7	33.3
2011 & 2013	1	4.8
2012 & 2013	13	61.9
Total	21	100

In summary, the key findings show that colleges, in the main are not making their annual reports available. There were 114 colleges, over half the population, not making their annual reports available on their website. This suggests poor accountability as they were not meeting minimum requirements to their stakeholders. It was only possible, using this collection method, to obtain annual reports for all three years for 24 colleges. Those colleges that did make some reports available; the availability was haphazard as to which year(s) were available. It was not necessarily the most recent year's report which was available.

In order to obtain a larger sample size for the study of disclosure items, and to investigate further the availability and accessibility of FE college annual reports, a FOI request was undertaken to obtain the missing reports.

5.2.2 Availability: Freedom of information requests

FOI requests are covered by the Freedom of Information Act 2000, which came into force in England, Wales and Northern Ireland in January 2005 (Edwards and McLeod, 2004), providing public access to information held by public authorities (ICO, 2017). The Information Commissioner's Office states that 'access to information helps the public make public authorities accountable for their actions and allows public debate to be better informed and more productive' (ICO, 2017). The Act covers public authorities and, therefore, FE colleges are included in the Act. Disclosure of information should be by default and only kept private if there is a good reason and permitted by the Act (ICO, 2017). The questions to be asked are - is the disclosure of information by colleges under FOI working and has it helped with accessing the information?

As FE colleges are covered by the Act, it could be assumed that they would be compliant with FOI requests for annual reports and have the requisite policies and procedures in place to accommodate such requests. A study by Edwards and McLeod (2004) on the FOI Act and records management in fifteen colleges found that there was diversity in preparedness of colleges in terms of having policies and procedures in place and that some colleges were struggling to implement these policies and procedures. Also, they identified costs; financial and staff time, as well as skills as some of the issues FE colleges were facing to implement appropriate records management systems prior to the FOI. However, as the FOI Act had been in place for almost ten years, at the time of the FOI requests, it was assumed that colleges would have policies and procedures in place to be able to service FOI requests. The FOI requests were asking for something that would normally be regarded as a public document and is disclosed and made accessible by many FE colleges and similar organisations. But as will be discussed later there was considerable variation

in the availability of FOI policies on websites even though FOI policies and procedures are required under the legislation.

FOI requests were sent to FE colleges requesting copies of the annual reports that were currently not available. Details and wording of the FOI email requests are available in Appendix H. Chapter Four details the FOI request process. Alongside the problem of finding annual reports it became evident that the transparency of FOI information, including the contact details of the Clerk and Principal, on some websites left a lot to be desired. It appeared that some FE colleges still did not have the resources and skills to make this information available (Edwards & McLeod, 2004) or that they were choosing not to, for whatever reason. But if they have not been asked the question, or had information requested by FOI before then they might not see the need to provide such details despite the requirement to be compliant with the Act.

Twelve colleges were not contacted. Four, in the 2013 college population, were identified as having merged with other colleges during the period under review and annual reports for the merged college would not be available for all three years. It was not possible to obtain contact details, for the others, during the sample collection period and would have required a general written FOI request to be sent, which is itself poor accountability.

5.2.3 Post FOI

Table 5.4: Availability of annual reports following FOI requests - June 2014

		No.	%
2013 received	2011, 2012, 2013	115 (24)	52.8
	2012 & 2013	16 (13)	7.3
	2011 & 2013	3 (1)	1.4
	2013 only	16 (27)	7.3
	Total 2013	150 (65)	
Some received but not 2013	2011 & 2012	5 (7)	2.3
	2012 only	11 (25)	5.0
	2011 only	3 (7)	1.4
Not received		49 (114)	22.5
Total		218 (218)	100.0

() pre FOI availability

Following the initial FOI requests follow up emails where sent to colleges where some of the data was still missing or incorrect or incomplete information had been sent. For example, a number of colleges only sent the financial statements and excluded the narrative section of the report. The

FOI Act requires requests to be responded to promptly and within 20 working days. Table 5.4 identifies 49 colleges where information was not made available following the FOI request and this is analysed further in Table 5.5 below.

Table 5.5 Analysis of unavailable reports post-FOI

Detail	Number
Not contacted (Section 5.2.2)	12
Hard copies received post cut-off	3
Not received	34
Total	49

Three colleges (Seevic, Kidderminster and Northbrook) provided hard copies of annual reports for all three years but these were received after the FOI cut-off and are not included in the 115 in Table 5.4 and were not used. Thirty-four colleges, excluding the twelve discussed above in Section 5.2.2, and the three colleges supplying hard copies, failed to provide any information for any of the years. A number of other colleges only provided part of the information requested during the allotted time frame resulting in for example, missing years or incomplete sets. One college responded replying that a merger had taken place in 2011 therefore the financial statements were not available for that year – this fact was missed at the time of FOI requests and they should not have been contacted but is included in the 34 unavailable. Out of office replies were received for some requests these were followed up to determine whether responses were eventually received within the set FOI response period. Those where no responses were received were not followed up due to timing pressures facing the researcher.

Some colleges gave reasons for not supplying the requested information. This included a number of colleges who requested payment to supply the information; one requiring £25 per copy. No payments were made and these colleges are included in the 'unavailable'/not received category. One college required confirmation that ethics approval had been obtained before supplying and others stated that financial management data was available on the SFA website (www.gov.uk). This website does provide an extensive financial database of college finance records. However, this is purely financial data and does not contain for example, information contained in the operating and financial review. The following quotes provide examples of such responses to the FOI request.

- Ethical clearance

"Thank you for your request under the Freedom of Information Act, I have been in contact with our Finance Director in this matter who would like some details from you before releasing the

statements. Specifically, her concern is for how your participant's data will be treated, will the data only be published with the research participant's permission?

Could you please supply us with a copy of the Ethics statement for your research, specifically addressing confidentiality and data security issues to confirm that your research will only be published with participants' permission.

When this information has been received and confirmed we will release the statements you require."

This is an example of one response, from the Head of Learning Resources and E-Learning which shows a lack of understanding by the college of the FOI request by the respondent and the Finance Director. There are no human participants therefore the college should have been able to meet the request. However, they do appear to be concerned about confidentiality but as the data is in the public domain this is not an issue. The decision was taken not to follow up the request with this college. (Strode College)

- Link to finance data

"You might also find this Government link useful. It holds all college financial data in spreadsheet format."
https://www.gov.uk/government/collections/sfa-financial-management-helping-colleges-to-account-for-funding

The above link only provides FE college financial management data from the annual report in a spreadsheet format and is unsuitable for the collection of data for the disclosure index.

- Charge for supplying

"We produce annual accounts for which we charge £25 per copy. Please advise if you still wish to request copies." (Bury College)

- All years not available

"I can readily provide the 2011 and 2012 but unfortunately, 2013 hasn't been signed off. Hopefully it will be in the next couple of weeks. Herewith are our financial statements for 31st July 2011 and 2012." Dated 3 June 2014. (Cambridge Regional College)

This is a very interesting statement regarding accounts which have not been signed off almost 12 months after the reporting date (31 July 2013) and almost six months after the funding body filing deadline of 31 December 2013.

Other colleges were extremely forthcoming and supportive in supplying the information, one respondent also identified themselves as a University of Huddersfield alumnus. The following extracts illustrate some of the positive responses.

"I believe copies of our financial statements can be found on our website under Corporate Information\governance\financial statements.
Nevertheless, please find the 11/12 financial statements attached."
The annual report and financial statements for 2011-12 were not available on the website at the time of the FOI request.

"Thank you for your email of 2 June 2014 in which you requested audited statements for the years 2010/11 and 2012/13 for Bournemouth & Poole College.
Copies of these are now available on the Bournemouth & Poole College website via this link:
http://www.thecollege.co.uk/about-bpc/policies"

The annual reports were made available on the website following the FOI request.

The FOI request was often immediately addressed by the college and requested data sent by return or within a few days. If not the request was acknowledged with the response indicating that it would be dealt with within the required 20 working days and often it was, others were acknowledged and the reply indicated that the request was being forwarded to other individuals for attention but some of these requests were not fulfilled. Table 5.6 summarises the number of reports obtained from websites and post the FOI requests.

Table 5.6 Summary of obtained reports: websites and FOI

Year	Websites Number of reports[a]	Post FOI Number of reports[a]
2011	39	126
2012	69	147
2013	65	150
Total	173 (26.5% of max)	423 (64.7% of max)
Maximum possible	654 (100%)	654 (100%)

[a] electronic copy

The number of reports available following the FOI request increased from 26.5% of the total possible to 64.7% as is shown in Table 5.6 but the distribution of the availability of the reports over the three years differs considerably. Subsequent to the FOI request the number of colleges with an annual report available for only one year had decreased from 59 (27.1% of total population) to 30 (13.7% of the total population). Of those with only one year available three were for 2011, eleven for 2012 and sixteen for 2013. 34 (15.6%) of the total population of FE colleges did not supply copies of reports following the FOI request for any of the years in question. There were 115 colleges (52.7% of total population) that supplied annual reports for all three years which was a significant increase of 379% on the pre-FOI data. However, for the purposes of the disclosure index analysis, only 101 of those 115 colleges had usable/complete sets of annual reports for all three years as missing information/pages etc. was discovered during data extraction. It was considered inappropriate at that late stage, often months after initial request, to contact the college again due to the time between initial request and analysis.
In conclusion, the findings show that not all FE colleges are making their annual reports available. 34 (15.6%) colleges did not publish the reports on their website nor did they response to FOI requests. The failure to response to the FOI requests within the required timetable set by legislation suggests a fundamental flaw in the college's attitude to accountability.

5.3 Accountability and extent of disclosure

A disclosure index was constructed to capture and measure the extent of accountability disclosure. To recap, the index comprised 143 items including both mandatory and voluntary (optional and other items) which are classified into twenty-four categories comprising five mandatory categories (or items) and nineteen voluntary categories. This disclosure index has been used to analyse the annual reports of a sample of 101 colleges for the years 2011, 2012 and 2013.

5.3.1 Descriptive statistics

Table 5.7 Descriptive statistics of total disclosure scores

Year	Minimum		Maximum		Mean	Median	Std. Dev
	DS	%	DS	%			
2011	39	27.3	105	73.4	72	73	9
2012	36	25.2	102	71.3	73	73	9
2013	49	34.3	101	70.6	74	74	8
Max DI score	143	100.0	143	100.0	143	143	

N =101, DS = total disclosure score

Table 5.7 presents the extent of disclosure for each year and as can be seen all colleges do disclose but the extent of disclosure does vary, although not significantly, as shown by the standard deviation, with a minimum of 36 items (25.2% of total) in 2012 to a maximum of 105 items (73.4%) in 2011. But by 2013 the maximum had fallen to 101 items (70.6%) whilst the minimum number of items disclosed had increased to 49 (34.3%) which was an increase in the minimum level of disclosure of 25.6% between 2013 and 2011 and 36.11% increase in the minimum level of disclosure between 2012 and 2013 but during 2012 the minimum level of disclosure fell to 36 items. The minimum level of disclosure has increased over the three years but this is not replicated with regard to the maximum as this has actually fallen by 3.8% between 2011 and 2013. Although there are notable differences in minimum and maximum scores, there is not much change in the mean and median, which suggests that overall disclosure has not changed significantly over the period of the study. Any discernible patterns and trends are discussed further in Section 5.4. The descriptive statistics of the disclosure scores for each category and year are presented in Table 5.8

Table 5.8 Descriptive statistics: disclosure scores by category and year

			2011			2012			2013		
Category	Max Score*	Type M/V[a]	Min	Max	Mean	Min	Max	Mean	Min	Max	Mean
Legal status	1	M	0	1	1	0	1	0.99	0	1	0.99
Mission	1	V	0	1	0.95	0	1	0.96	0	1	0.93
Implementation of strategic plan	21	V	1	17	4.16	1	16	4.50	1	16	4.15
Financial objectives	15	V	0	10	3.25	0	12	3.37	0	11	3.27
Performance indicator	3	V	0	3	1.89	0	3	1.80	0	3	1.65
Financial position/results	9	V	0	8	5.46	2	8	5.50	2	8	5.51
Treasury management	1	V	0	1	0.14	0	1	0.14	0	1	0.13
Cash flow & liquidity*	4	V	1	4	3.07	1	4	3.05	1	4	3.05
Current & future development	4	V	0	4	1.54	0	4	1.48	0	4	1.48
Student achievement	3	V	0	3	1.02	0	3	1.03	0	3	1.09
Curriculum development	6	V	0	6	5.85	0	6	5.77	0	6	5.82
Disability statement	1	M	0	1	0.92	0	1	0.89	0	1	0.85
Disclosure of information to auditors	1	M	0	1	0.97	0	1	0.98	0	1	0.98
Statement of responsibility of corporation members	1	M	1	1	1	1	1	1	1	1	1
Post Balance Sheet Events	1	V	0	1	0.64	0	1	0.62	0	1	0.63
Pay performance	1	V	0	1	0.57	0	1	0.57	0	1	0.58
Competitive environment	1	V	0	1	0.03	0	1	0.02	0	1	0.03
Equal opportunities	1	V	0	1	0.92	0	1	0.89	0	1	0.85
Environment	1	V	0	1	0.05	0	1	0.05	0	1	0.05
Professional advisors	1	V	1	1	1	1	1	1	1	1	1
Resources	6	V	0	6	4.58	0	6	4.61	0	6	4.70
Principal risks	12	V	0	7	2.95	0	7	2.90	0	8	3.02
Stakeholder relations	14	V	0	13	10.05	0	13	9.97	0	13	10.25
Governance **	34	M	20	29	24	21	28	24	22	31	25
Actual total score			39	105	72	36	102	73	49	101	74
Maximum total score	143		143	143		143	143		143	143	

[a]M = mandatory item. V=Voluntary item (optional per ADH)
*maximum score possible for each category
**requirement for statement of corporate governance and internal control is mandatory and all colleges for each year did include a statement. For the purposes of this research 34 items have been included in the governance category.

As shown above all colleges do disclose, but the variation in the level of disclosure for minimum, maximum and mean for each index category can be seen in Table 5.8. Table 5.8 also shows the number of individual items in each category (max score per Table 5.8) and these individual categories will be analysed later in the chapter.

The mean extent of disclosure can be seen from Table 5.7 to be in the low 70s for each of the years and there is little variation between years. The frequency of disclosure is identified in Table 5.9 below.

Table 5.9 Frequency of disclosure

Frequency of total DI score (no. of items)	2011		2012		2013	
	No.	%	No.	%	No.	%
30 - 39	1	0.99	1	0.99	0	0
40 - 49	2	1.98	2	1.98	1	0.99
50 - 59	3	2.97	3	2.97	5	4.95
60 - 69	19	18.81	22	21.78	21	20.79
70 -79	64	63.37	57	56.44	57	56.44
80 - 89	10	9.90	14	13.86	15	14.85
90 -99	1	0.99	1	0.99	1	0.99
100-105	1	0.99	1	0.99	1	0.99
Total no. colleges	101	100	101	100	101	100

In each of the three years 93 (92.08%) of the sample disclose between 60-89 items out of a maximum of 143 (41.95 - 62.24% of total DI score). There was an increase of five colleges (ten to fifteen) disclosing between 80-89 items between 2011 and 2013 and this was the range with the highest increase in disclosure. However, colleges disclosing between 70-79 items decreased by seven (10.9%) between 2011 and 2012 and 2013. It may be that these include the colleges that have subsequently increased their disclosure and have moved to the 80-90 range. As can be seen from Table 5.9 there is very little change, an increase of two over the same period, in the number of colleges disclosing between 60-69 items and no change at the top end (>90 items) and at the bottom end there is an increase of two disclosing 50-59 items with the minimum disclosure increased from 39 to 49 items.

Although, there is little change in the mean (72, 73, 74) over the three years what is apparent is that more changes took place around the mean (60-69, 70-79 & 80-89) between 2011 and 2012 than between 2012 and 2013. The percentage in the 70-79 band fell from 63.37% of total in 2011

to 56.44% in 2012 and this remained constant for 2013. But the number disclosing more and moving to disclose between 80-89 items has increased year on year from 9.9% to 14.85%.

Further detailed analysis of disclosure will continue by looking at mandatory and voluntary items and a detailed investigation of items within categories will continue in Section 5.3.2, with trends and patterns are investigated in Section 5.4.

Of the 24 categories in the disclosure index there are five mandatory items (individual items with a maximum score of one), and nineteen voluntary categories which contain 138 items - total 143 items (see Table 5.8).

Tables 5.10 and 5.11 show the descriptive statistics for the mandatory and voluntary items regarding disclosure by number of colleges for each item.

Table 5.10 Descriptive statistics of mandatory disclosure: number of colleges per year

Mandatory item	2011 No.	2012 No.	2013 No.
Legal status	101	100	100
Disability statement	90	88	86
Disclosure of information to auditors	101	101	101
Corporate governance statement [a]	101	101	101
Statement of responsibilities of corporation members	101	101	101
Total number of colleges	101	101	101

[a] Identified as a mandatory item in ADH but for extended and contains 34 items in index

Analysis of disclosure of the mandatory items shown in Table 5.10 shows both some expected results and some interesting anomalies. It would generally be expected that for mandatory items there would be 100% disclosure and compliance by all colleges. This is the case for three of the categories but legal status is not disclosed by one college and the number disclosing a separate disability statement has decreased from 90 in 2011 to 86 in 2013; this may be due to colleges combining their disability and equality statements – which was observed during the data collection.

The variation in number disclosing in the voluntary categories as seen in Table 5.11 varies considerably. This is as expected due to the nature of the items identified. However, as will be discussed later, there is much less variation in the extent of disclosure for the voluntary categories between years.

Table 5.11 Descriptive statistics of voluntary categories: number of colleges per year

Voluntary category	2011 No.	2012 No.	2013 No.
Mission	96	97	94
Implementation of strategic plan	101	101	101
Financial objectives	84	85	82
Performance indicator	83	86	86
Financial position/results	100	101	101
Treasury management	14	14	13
Cash flow & liquidity	101	101	101
Current & future development	81	79	80
Student achievement	76	76	78
Curriculum development	99	98	98
Post Balance Sheet Events	65	63	64
Pay performance	58	58	59
Competitive environment	3	2	3
Equal opportunities	93	90	86
Environment	5	5	5
Professional advisors	101	101	101
Resources	90	91	93
Principal risks	97	96	97
Stakeholder relations	95	94	97
Total number of colleges	101	101	101

There is disclosure for each of the category for each year, however there is a wide variation in disclosure for the categories. Not all colleges are saying something about everything perhaps suggesting selective accountability. Disclosure ranges from 100% (all colleges disclose something in that category) for some categories for example, implementation of strategic plan; cash flow and liquidity and professional advisors, while only three (2.97%) colleges disclosing information about competitive advantage in 2011 and 2013 and five (4.95%) colleges disclosing information within the environment category for each year. Further detailed analysis of disclosure for both mandatory and voluntary categories, will be discussed in the following section.

5.3.2 Analysis by category

As mentioned earlier in Section 5.3.1 two of the five mandatory items are not disclosed by all 101 colleges for each year. All colleges (100%) meet the requirement to disclose a statement of corporate governance and internal control, a statement of responsibility of corporation members and include a statement of responsibility of corporation members. However, legal status is not specifically stated in the annual reports for one college for the years 2012 and 2013, although it is specifically referred to in 2011. With regard to the requirement to disclose a disability statement as can be seen from Table 5.10 not all colleges are meeting the requirement for a separate disability statement. In 2011, 90 colleges (89.1%) disclosed a separate statement but this had fallen to 87.1% disclosing in 2012 and 85.1% in 2013. Interestingly, nine colleges did not include such a

statement for all three years while three colleges included a separate statement in 2011 but not in 2012 or 2013. These colleges are choosing incorporate the disability statement with the equality statement which is accepted practice.

All colleges disclosed a statement of corporate governance and internal control. This is an AoC ADH requirement. The illustrative Casterbridge College annual report provides an example of the contents of such a statement. Under the mandatory heading 'statement of corporate governance and internal control' thirty-four individual governance disclosure items were identified. The number of items in this category is higher than any other category. As during the period under review, college governance was facing significant changes and challenges; the 'new freedoms' gave colleges the opportunity to restructure the corporation and abolish the requirement for sub-committees except for the audit committee. Concurrently changes were introduced to governance best practice, e.g. revisions to the UK Corporate Governance code and the creation of the Foundation code etc. by the AoC. Moreover, the study is also investigating whether there are any contributory factors to the extent of disclosure and as governance factors have been identified as possibly influencing the extent of disclosure it was decided to include more 'best practice' disclosure items under this heading, for example, details of governor's attendance at corporation meetings, details of governor's attendance at committee meetings and overall governor attendance. The index also includes in this category items relating to co-opted members.

Co-opting members to a governing body is not usually found in the corporate sector. NEDs on corporate boards are the equivalent of the external governors on an FE corporation. In the FE sector in addition to the elected members, additional members can be co-opted onto the governing body to provide additional knowledge and expertise. They are not elected members and can be brought onto the committee at any time in the year often to fill a casual vacancy or bring in additional skills and expertise. Members are often co-opted onto the college audit committee.
It is recognised that not all colleges use co-opted members but as colleges do not make a statement affirming whether they do or do not use co-opted members and as some colleges could use but not disclose, it has been decided to include 'co-opted' items in the index but to provide additional analysis, see Table 5.12, which identifies the minimum and maximum extent of corporate governance disclosure for those with co-opted members and those without.

Table 5.12 Analysis of corporate governance disclosure: with co-opted and without co-opted members

	2011		2012		2013	
	With co-opted	Without co-opted	With co-opted	Without co-opted	With co-opted	Without co-opted
Minimum	20	20	21	21	22	20
Maximum	29	26	28	26	31	29
Mode	24	24	24	24	24	24
Total category score	34	30	34	30	34	30

There are four items relating to co-opted members included in the index: do colleges disclose the names of co-opted member; do colleges disclose which committees are served by co-opted members; is the college disclosing the term of office for a co-opted member and co-opted member attendance at meetings. Governance best practice requires information and details about governors as they are responsible for discharging college accountability, therefore it is argued that it is equally important to disclose information about any co-opted members on the corporation. Particularly, whether they are being co-opted to the corporation or onto a committee. Disclosing this information by colleges would for example, enable the identification of where and why an area of expertise is required. This would provide an additional level of transparency and accountability.

Table 5.12 presents the descriptive statistics for the levels of governance disclosure for colleges who do and those who do not disclose that they have co-opted members. The minimum levels of disclosure show very little if any difference over the period, between the disclosure in the governance category for those with co-opted members and those without. This is the same for the mode which is identical for all years and for those with and without co-opted members.

However, change between years cannot necessarily be ascribed only to co-opted members as there is also movement between other items within the category as well. The use of co-opted members is a college-specific factor that will be discussed further in Chapter Six to assess its influence, if any, on the extent of total and governance disclosure scores.

As can be seen from Table 5.13 disclosure of information about co-opted members is not extensive but as stated above this may be because colleges did not use co-opted members in a particular year. The highest level of disclosure relates to co-opted members and the committees served; 28 colleges disclosed this information in 2011 (27.7%) of total population and it rose to 33 (32.7%) in 2013. 26 (25.7%) college disclosed the names of the co-opted members in 2011 and this had risen to 30 (29.7%) by 2013. Information about co-opted members' attendance at meetings was identified for the first time in 2013 but by only by three colleges (3%) and none had provided this information in 2011 and 2012. It was expected that the level of disclosure for this item

would be low as the level of disclosure for all the items relating to governor attendance is much lower than other items for example, name and status of appointment.

Furthermore, Table 5.13 clearly shows the nine items which are disclosed by all 101 colleges. These are standard items identified in the ADH Casterbridge College illustrative example (AoC, 2014d). There are also items which are disclosed by less than 100% and these fall into three distinct groups. Firstly, those items which are disclosed by more than 90 colleges, there are thirteen such items, and include the items where disclosure by all colleges would be presumed as they are also identified in the ADH's illustrative annual report. Surprisingly, these include a statement of the level of compliance with the CG code and number of audit committee meetings. Secondly, those items that are disclosed by between 70-89 colleges. There are two such items and both relate to details regarding the date of appointment of corporation members. Finally, the remaining ten items are disclosed by less than 33 colleges (2013). Of these ten items three were disclosed by colleges for the first time in 2013: details of co-opted members' attendance; details of governors' attendance at committee meetings; and details of governors' attendance (number) at corporation meetings - by three, six and eleven colleges respectively. This may suggest that the adoption of the Foundation Code has had some impact on the disclosure of these items.

Table 5.13: Analysis of corporate governance statement disclosure by year: number of colleges

	Category	2011	2012	2013
1	CG code	101	101	98
2	Level of compliance	99	98	99
3	Names of governors	101	101	101
4	Date of appointment (most recent)	88	89	88
5	Date of appointment (first)	74	76	75
6	Term office expires	24	25	27
7	Status of appointment	93	93	94
8	Date of resignation (if applicable)	95	96	94
9	Committees served	101	101	101
10	Co-opted member names	26	25	30
11	Co-opted committees served	28	27	33
12	Co-opted term of office	19	16	20
13	Co-opted member attendance	0	0	3
14	Number of corporation meetings	98	98	97
15	Overall governor attendance %	1	1	15
16	Number of committee meetings	90	90	90
17	Details of governors' attendance at committee meetings	0	0	6
18	Details of governors' attendance at corporation meeting %	2	1	8
19	Details of governors' attendance at corporation meetings – number of meetings	0	0	11
20	Details of committee structure	101	101	101
21	Appointments to corporation	101	101	101
22	Term of office	101	101	99
24	Term of office (re-election number of terms max)	18	18	22
24	Other committees - details	101	101	101
25	Audit committee membership – number	99	99	99
26	Number of AC meetings	99	99	100
27	Independence of corporation	98	98	98
28	Responsibilities of AC	101	101	101
29	Internal control - scope	101	101	101
30	Purpose of system of IC	101	101	101
31	Capacity to handle risk	95	97	99
32	The risk & control framework	101	101	101
33	Internal auditors	100	100	100
34	Review of effectiveness	100	101	101
	Total number of colleges	101	101	101

The table shows that there has been a notable increase in disclosure of details of attendance by governors at corporation and committee meetings. For example, in 2011 and 2012 no colleges disclosed details of the number of corporation meetings each governor attended but this had increased to 11 in 2013. It is suggested that this increase is perhaps as a result of the adoption by some colleges of the FCG and its AAA, during 2013 and guidance in the ADH. The FCG A.1.2 states that:

> The Annual Report and Financial Statements should identify the membership of the governing body and of its committees, and should set out the number of meetings of the governing body and its committees together with a summary of the number of meetings attended by individual governors.

Irrespective of whether the FCG is adopted, the ADH (AoC, 2014d) states that as a minimum, the SFA and the EFA consider that the following must be included within the statement of corporate governance and internal control: details of the members who served on the corporation during the year and up to the date of the approval of the accounts, including a summary of their attendance records.

These requirements have obviously started to impact the disclosure of these items during the period. Table 5.14 shows the frequency of disclosure of governance items and this supports the points mentioned above.

Table 5.14 Frequency of disclosure of governance items: by number of colleges

No. of items disclosed	Frequency 2011	Frequency 2012	Frequency 2013
20-24	63	64	48
25-29	38	37	51
30-34	0	0	2
Total	101	101	101

If the four items relating to co-opted members are excluded, then 30% of the items are disclosed by all colleges for all three years. The range of disclosure and any patterns and trends is discussed in Section 5.4.

To summarise, the findings show that there was disclosure for every item in the index for each item but not by all colleges. This applied to both mandatory and voluntary items. Colleges are required to include a statement of corporate governance and internal control in the annual report (a mandatory item) and this statement has been used for the creation of a sub-index of 34 voluntary items. The focus of the above analysis has been on this sub-index and the use of co-opted

members. Twenty-four items in the index were disclosed by over 75% of colleges and disclosure for the other ten showed significant increase in disclosure for 2013. This suggests more accountability through increased governance disclosure as iterations of CG codes adopted were developed and reviewed over the study period. Although, the use of co-opted members does not appear to show any significant difference from those colleges without co-opted members when comparing the mean.

5.3.3 Voluntary disclosure items

5.3.3.1 'Single item' categories

There are nineteen categories of voluntary disclosure as shown in Table 5.11. Of those categories eight have only one item: mission, treasury management, post balance sheet events, pay performance, competitive environment, equal opportunities, environment and professional advisors (see Table 5.8). Therefore, for the purpose of this analysis these single items are grouped together to avoid excessive repetition of individual item tables.

Table 5.15 Analysis of 'single' voluntary disclosure categories by year by number of colleges

Category	2011 Number	2012 Number	2013 Number
Mission	96	97	94
Treasury management	14	14	13
Post balance sheet events	65	63	64
Pay performance	58	58	59
Competitive environment	3	2	3
Equal opportunities	93	90	86
Environment	5	5	5
Professional advisors	101	101	101
Total colleges	101	101	101
Total categories	8	8	8
Minimum no. disclosure items	2	2	2
Maximum no. disclosure item	7	7	7

As indicated in Table 5.15 above there is quite a wide range of disclosure by colleges for these 'single item' categories with the three 'safer' more standard items being disclosed by a large number of colleges: 100% of colleges disclose details of professional advisors, an average of 89% of colleges over the three years disclose a separate equal opportunities statement and over 90% disclose a separate statement about the college's mission. Other items which are more subjective and may require a non-standard statement fare less well in terms of number of colleges disclosing.

For example, treasury management, which is identified in the ADH as 'the management of the College's cash flows, its banking, money market and capital transactions' (AoC, 2014d, p.21). Disclosure under this category relates to whether a college makes any specific reference to treasury management other than stating that the college has a treasury management policy in place – for example, is there any disclosure or reference to borrowing or arrangements with lenders and how these items are managed. The decision was taken to include this item despite the fact that colleges without debt would not necessarily have any comment to make, but they may to choose to refer to the fact that they are debt free or that they have other capital market transactions. This is a disclosure which could be of interested to a college's various stakeholders. Approximately 13% of colleges make a specific reference to treasury management while only 4.9% disclose reference to the environment but approximately 63% disclose a separate statement of post balance sheet events. The mean scores for each of these 'single' voluntary categories are shown in Table 5.8.

Excluding the eight single-item 'categories', identified in Tables 5.8 and 5.15 and discussed above there are eleven 'voluntary' categories with more than one disclosure item included under that heading– ranging from 3 to 34 items. The governance statement, with 34 disclosure items, has been discussed under mandatory disclosure in Section 5.3.2.1. However, as this is the largest category in terms of number of items and the items in the index are identified as 'voluntary' it will also be discussed further in this section. Each of the remaining voluntary categories are discussed below.

5.3.3.2 Implementation of strategic plan

There are 21 disclosure items included under the category of implementation of strategic plan and as shown in Table 5.8. The minimum disclosure for this category in any of the three years is one with a maximum of seventeen in 2011 and sixteen in both 2012 and 2013 and a mode of two for each year. This indicates a low level of disclosure with the majority of colleges (64%) disclosing between two and five items as shown in Table 5.16.

Table 5.16 Frequency: disclosure of implementation of strategic plan

No. of items disclosed	Frequency 2011	Frequency 2012	Frequency 2013
1	22	17	17
2-5	62	68	65
6-9	12	11	15
10-13	4	3	2
14-17	1	2	2
18-21	0	0	0
Mode	2	2	2
Mean	4.16	4.50	4.15
Maximum possible	21	21	21

This study is not evaluating the quality of disclosure with regard to the implementation of college's strategic plan however, in order to get a sense of the accountability of colleges with regard to this category, 21 items have been selected to be included in this category to enable more depth of analysis and understanding of accountability priorities. Table 5.17 shows the disclosure of the 21 items by number of colleges and year. The items with the highest level of disclosure are firstly, a general statement of strategic priorities with 98% of colleges disclosing a general statement about their strategic priorities and objectives. Perhaps this is the 'safest' disclosure to make as it does not necessitate the college providing more sensitive items or information for which the college could be held accountable for. The second highest item is disclosing a 'measure of the success rate' and only 40.6% disclosing this in 2013. Colleges do have different 'interpretations' of these items presenting and disclosing this information in a number of ways – some colleges provide a specific measure, for example a percentage or state a number with comparatives of what has been achieved during a year. Other colleges make more oblique, generalised statements which lack specific details. For the purposes of this index, a specific reference or measure had to be stated in order for an item to be scored.

Table 5.17 Disclosure of implementation of strategic plan items: by number of colleges and year

Year	2011	2012	2013
General statement of strategic priorities/ objectives	99	99	99
Success rate	37	43	41
Achievement rate	24	24	17
Lesson/teaching observations/quality	15	15	15
Learner attendance	5	4	4
Learner destinations	7	8	8
Learner satisfaction	8	13	12
Self-assessment (curriculum)	3	5	6
Stakeholder/community engagement	13	13	18
Values	33	31	32
Ofsted assessment	22	21	20
Support & learner experience	6	11	15
Vocational/specialist centres	6	6	5
Estate management	12	13	10
Trade union relations	1	0	0
Retention rate	15	16	15
External partnerships	12	11	17
Customer service/internal/external communication	3	2	3
Staff development/ training/recruitment	10	7	8
College performance/ financial information	19	22	20
IT & management information	4	7	5
Total colleges	101	101	101

Within this category are some important public accountability items and key performance metrics that are of interest to the identified stakeholders with regard to accountability: learner satisfaction, learner destination, retention rate etc. and they are not being disclosed by the majority of colleges under this category. The overarching view is that most colleges are choosing to disclose as little as possible in this category. Further discussion of this will take place in Chapter Seven.

5.3.3.3 Financial objectives

There are fifteen disclosure items identified in the financial objective category. The descriptive statistics in Table 5.8 identify the minimum disclosure for each year as 0 while the maximum is ten, twelve and eleven and the mean is 3.25, 3.37 and 3.27 respectively for each year. This shows that some colleges are choosing not to disclose any information regarding their financial objectives.

Table 5.18 Disclosure of financial objective items: by number of colleges and by year

	2011	2012	2013
Disclosure item	Number	Number	Number
Pay cost % income	24	27	26
Interest &/ debt repayment	6	7	6
Borrowing % income	11	12	11
General: Profitability	33	33	31
General: Solvency/liquidity	46	43	43
General: Planning/ forecasting/ budget	21	23	24
General: Sources of funding	34	35	35
General: Capital investment	31	30	28
Target v actual cash flow (£)	2	2	3
Target v cash days	32	32	31
Target v current ratio	34	36	33
Operating surplus	35	37	34
Borrowing % income & reserves	8	10	10
Income growth %	11	13	15
Minimum contribution to overheads	0	0	0
Total number of colleges	101	101	101

The highest level of disclosure relates to the disclosure of a general comment about solvency/liquidity with an average of 44 colleges (43.5%) over the period 2011-2013 disclosing this item. No colleges in the sample disclosed information about the minimum contribution to overheads. The next least disclosed item is details of target v cash flows – with only approximately 2% of colleges disclosing this information and only slightly higher levels of disclosure are made for interest and debt repayment (six colleges in 2011 and 2013). As can be seen in Table 5.18 the items with the highest levels of disclosure are those relating to ‘general’ statements rather than specific details or figures. The frequencies of financial objectives disclosure items are shown in Table 5.19.

Table 5.19 Frequency of disclosure: financial objectives

No. disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	17	16	19
1-3	36	38	35
4-6	39	38	39
7-9	8	8	7
10-12	1	1	1
12-15	0	0	0
Maximum possible	101	101	101

The frequency of number of disclosure items as seen in Table 5.19 indicates that there is not a wide spread of disclosure of items in this category amongst colleges. An average of 36.3% of colleges over the three years disclose between one and three items and this rises only slightly to 38.6% of colleges disclosing four to six items. What is surprising is the low level of disclosure under this category and that some colleges provide no disclosure at all under the financial objectives heading. However, it may be that some these items are disclosed elsewhere in those particular colleges' annual reports. Financial objectives and financial stability are of key concern to the sector particularly during the period under review, as it is identified by some colleges as one of the key risks they face. Consequently, more disclosure was expected, however, these items may be seen as 'sensitive' and colleges chose to not disclose or are disclosing and being accountable to stakeholders via other means.

5.3.3.4 Performance indicators

There are three items under the performance indicator category and these have been derived from the ADH. The first is an indicator identified as 'per FE Choices website' which looks at measures such as success rates. The second item is whether a college has disclosed any additional indicators of performance, excluding FE Choices. This includes for example, those indicators used to measure internally against key performance indicators or delivery against funding targets. The final item is identified as disclosure of the college's current financial health grading based on the annual Finance Record completed for the SFA. Such disclosure may take the form of a statement for example, 'the current rating of Good is considered an acceptable outcome'.

What can be seen from Table 5.20 is that disclosure for each of these items has decreased over the period. The largest fall (13.2%) with 68 colleges disclosing in 2011 and 59 in 2013 is disclosure of current rating. This is supported by the decrease in mean across all years from 1.89 in 2011 to 1.65 in 2013. It not known whether this is a strategic decision on the part of colleges not to disclose

this information particularly if the rating has fallen. The use of FE Choices is the highest disclosed item, which is not surprising as it is a fairly standard and objective disclosure. FE Choices is the government website which is designed to help learners and employers make informed choices and it contains key satisfaction survey data. This suggests that FE Choices website is used as an accountability mechanism for the informed stakeholder; as stakeholders have to be aware of its existence in order to access it.

Table 5.20 Disclosure of performance indicators: by number of colleges and by year

Disclosure item	2011	2012	2013
As per FE choices	74	72	68
Additional indicators	49	43	40
Current rating	68	67	59
Total number of colleges	101	101	101

As indicated in Table 5.8 for each item within the performance indicator category the minimum level of disclosure is 0 items and as shown in Table 5.20 eighteen colleges are choosing not to disclose any information in this category in 2013. Additional indicators are the least disclosed item. The frequency of disclosure for each item is shown in Table 5.21

Table 5.21 Frequency of disclosure: performance indicators

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	18	15	18
1	10	16	19
2	38	44	44
3	35	26	20
Total	101	101	101
Mode	2	2	2
Maximum	3	3	3

The total number of items being disclosed has decreased dramatically with a fall from 35 colleges disclosing three items in 2011 to only twenty in 2013.

5.3.3.5 Financial position/results

There are nine disclosure items identified under the category of financial position/results and as can be seen from Table 5.8 the maximum disclosure in each of the three years is eight while the minimum was zero in 2011 but improved to two for 2012 and 2013. Although there are changes in

minimum and maximum there is very little change in the mean - 5.46. 5.50 and 5.51 for each year respectively, shown in Table 5.8, which suggests that there has not been any significant change in disclosure of financial position/results over the period. Table 5.22 shows the disclosure of financial position/results by college and year.

Disclosure relating to operating surplus or deficit is disclosed by 99%, 100% and 100% of colleges in 2011, 2012 and 2013 respectively. Other highly disclosed items include, accumulated reserves, cash balances, SFA funding source (%) and details of fixed asset additions and or disposals with between 75-85% of colleges disclosing these in 2013.

Table 5.22 Disclosure of financial position/results: by number of colleges and by year

Disclosure item	2011 No.	2012 No.	2013 No.
Operating surplus/deficit before exceptional items	100	101	101
Exceptional items	51	49	50
Accumulated reserves	89	87	85
Fixed asset additions/disposals	77	76	76
Cash balances	81	84	84
Funding source (SFA) %	78	79	82
HE funding %	4	5	9
Subsidiary company(s)	44	47	44
Pension costs	27	28	26
Total colleges	101	101	101

Information about exceptional items is provided by approximately 50% of colleges and in addition approximately 43% disclose information about subsidiary companies. At the other end of the scale only four, five and nine colleges disclose information about HE funding for the three years of the study. As with some of the other items previously discussed HE provision is not found at all colleges in the sample and therefore it is not possible to determine whether all colleges with HE provision are providing this disclosure or if there are more with such provision but they are selecting not to disclose the information. The number disclosing in 2013 has increased more than two-fold since 2011. Whether HE provision, a college-specific factor, is one of the factors that has any impact on the extent of disclosure will be covered in Chapter Six.

Table 5.23 shows the frequency of disclosure for financial position/results and shows the mode at five items for 2011, 2012 and six for 2013 – with approximately 56% of colleges disclosing between five and six items and there is also little variation between years.

Table 5.23 Frequency of disclosure: financial position/results

No. of disclosure items/frequency	2011	2012	2013
0	1	0	0
1-2	4	3	5
3-4	16	18	15
5-6	56	56	57
7-8	24	24	24
9	0	0	0
Mode	5	5	6
Maximum possible	9	9	9

The items with the highest levels of disclosure in this category are unsurprisingly those where the information is also available in the financial statements for example, operating surplus, disclosure of fixed asset additions or disposals and accumulated reserves. These items only restate information from the financial statements and are consequently statements of 'fact' demonstrating financial accountability.

5.3.3.6 Cash flow and liquidity

There are four items of disclosure relating to cash flow and liquidity in this category. As can be seen in Table 5.8 the minimum and maximum number of disclosures for each year is one and four respectively with a mode of three each year. Table 5.24 shows the number of colleges disclosing for each item in the category.

Table 5.24 Disclosure of cash flow and liquidity: by item and by year

Disclosure item	2011	2012	2013
Net cash from operating activities (operating cash flow)	90	91	92
Details of debt and interest payments	42	39	39
Liquidity (explicit reference)	79	79	79
Going concern	99	99	98
Total colleges	101	101	101

A high proportion of colleges disclose operating cash flow (over 90%) and a statement of going concern (98%) as can be seen in Table 5.24. However, there is much less disclosure of items relating to debt or borrowing as only approximately 40% of colleges refer to it while 78% make explicit reference to liquidity. This may be because not all colleges have borrowings and will be discussed further in Chapter Six. However, it could be that colleges are choosing not disclose this

information in the operating and financial review section but relying on disclosure in the financial statements. Compared to some of the other categories there are significantly more colleges disclosing items. This may be due to the type of item – statements of fact rather than a subjective measure(s).

Table 5.25 Frequency of disclosure: cash flow and liquidity

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
1	10	9	8
2	11	11	11
3	42	47	50
4	38	34	32
Mode	3	3	3
Maximum	4	4	4

Table 5.25 shows frequency of disclosure by year and it highlights that approximately 80 out of 101(80%) colleges are disclosing three or four items in this category for each year. Also, there is a reduction in the number only disclosing one item (from ten in 2011 to eight in 2013) and an increase in those disclosing three items.

5.3.3.7 Current and future developments and performance disclosure

The illustrative annual report in the ADH includes a sub-heading for current and future development and performance and included under this banner are student numbers, student achievements and curriculum developments. These can be identified as key accountability items for the education sector. For the purposes of constructing the disclosure index these have been shown as separate categories each with a number of disclosure items: current and future developments [student numbers] (four items); student achievement (three items) and curriculum developments (six items) a total of thirteen items. However, as these items are all related to the overarching current and future developments they will be discussed together.

The descriptive statistics for these items can be seen in Table 5.8. The minimum disclosure for each of these categories for each year is zero and the maximum is full (100%) disclosure of all items (four, three, and six) respectively for each year. It can also be seen from Table 5.8 that while there are notable differences in maximum and minimum scores for each category there is not much change in mean scores over the three years. The analysis by year and number of colleges for each item under the sub-headings are to be seen in Table 5.26. Table 5.26 is a combined table for these items with a common theme.

Table 5.26 Disclosure of current and future developments and performance: by number of colleges and by year

Disclosure item	2011	2012	2013
Student numbers (current & future developments)			
Total Student numbers	34	31	34
Number of students – SFA/EFA funded	66	62	61
Number of students - other funded	43	40	40
Student numbers HE	13	16	14
Student achievements			
Student achievements	39	36	41
League table position	2	2	2
Learner outcomes	62	66	67
Curriculum developments			
Curriculum developments/achievements	93	91	94
Ofsted assessment	32	37	33
Higher Education	31	33	31
Accommodation	21	18	23
Future developments	77	74	76
Foundation Degree	12	11	13
Total	101	101	101

From Table 5.26 it can clearly be seen that not all colleges disclose information about student numbers and those that do present in a variety of ways. Total student numbers are only disclosed for approximately 33.6% of colleges each year and approximately 60% do disclose the number that are SFA/EFA funded compared to 40% who provide details of student numbers funded by other sources. What is not determinable from Table 5.26 is whether these are the same colleges. As previously discussed, in Chapter Three, other studies have used student numbers as a proxy for size but due to the inconsistent and variations in disclosing this information in FE college annual reports an alternative measure for size has been adopted. With regard to student achievements the item which is disclosed by highest number of colleges is learner outcomes with approximately 65% of colleges disclosing this information each year whilst only two (1.9%) colleges disclose league table position. In terms of curriculum development, the items disclosed by the most colleges (approx. 92% each year) are a general statement about curriculum developments/achievement and future developments disclosed by approximately 75% of colleges. The two lowest disclosed items relate, firstly to Foundation degrees with only approximately 12% of colleges referring to them, and this may be because there is no Foundation degree provision at the college and hence no developments so they are unable to score. Or a college does have Foundation degree provision but is not proposing any new developments/courses or is proposing Foundation degree provision but chooses not to disclose under this category or disclosure is not considered important.

Secondly, only approximately 20% of sample make any specific reference to the college's accommodation under the heading of curriculum developments and such comments are generally referring to plans for the college's estate – new building or closure of sites. Approximately 30% of colleges in the sample refer to HE provision under curriculum developments and the same comment made regarding Foundation degrees also applies to HE.

The frequency of disclosure for each of the items under the three current and future development sub-headings can be seen in Tables 5.27, 5.28 and 5.29.

Table 5.27 Frequency of disclosure: current and future developments (student numbers)

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	20	23	21
1	29	30	34
2	35	31	30
3	11	11	9
4	6	6	7
Mode	2	2	1
Maximum	4	4	4

From Table 5.27 it can be seen that approximately 83% of all colleges for each year disclose two or fewer items related to student numbers, and approximately 20% each year do not refer to student numbers in the annual report under this heading. This is perhaps not unexpected due to the complexity of types of provision and modes of attendance at colleges.

Table 5.28 Frequency of disclosure: student achievement

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	25	25	23
1	51	50	48
2	23	24	28
3	2	2	2
Mode	1	1	1
Maximum	3	3	3

Disclosure of student achievement also follows this pattern, as seen in Table 5.28, with approximately 70% each year disclosing one or fewer items and 23% fail to disclose any items in this category. There is also little change in the mean score over the period.

Table 5.29 Frequency of disclosure: curriculum developments

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	2	3	3
1-2	48	45	46
3-4	47	49	46
5-6	4	4	6
Mode	2	2	2
Maximum	6	6	6

However, for curriculum developments, fewer colleges are not disclosing items. Only approximately 3% are not disclosing any items while approximately 90% disclose between one and four items. Table 5.29 shows little change in disclosure which is supported by a lack of notable change the mean scores over the period.

5.3.3.8 Resources

There are six disclosure items under the category resources; this is an overarching category including individual and standalone items for example, staff numbers, tangible resources of the campus or college site and reputation or brand. The ADH identifies four items in its illustrative annual report: tangible resources, financial resources, people and reputation – those resources that 'it can deploy in pursuit of its strategic objectives' (AoC, 2014d).

Financial resources have been split into three component parts, as they appear in ADH, which are net assets, pension liability and long term and other liabilities. These are quite distinct resources and are areas which in the period of the study are of great significance to the financial health of a college. Colleges during the period 2011-2013 were undergoing major improvements to the physical space and investing heavily in tangible resources which, lead to pressure on other resources and increases in borrowings. The total number of items as seen in Table 5.30 is six.

Disclosure ranges from a minimum of zero to a maximum of six for all years with a mean of 4.58. 4.61 and 4.70 as shown in Table 5.8. There is a small and increasing change in the mean over the period. Detailed disclosure for each item in this category by year is found in Table 5.30. In 2011 48 colleges disclosed a maximum of six items, but this had fallen to 47 colleges in 2012 and increased to 49 colleges in 2013. What is interesting is that not all colleges disclose under this category.

Table 5.30 Disclosure of resources: by number of colleges and by year

Disclosure item	2011	2012	2013
Tangible resources	69	67	70
Net assets	82	83	84
Pension liability	79	79	79
Staff numbers	85	87	89
Long term & other liabilities	66	66	68
Reputation/brand	82	84	85
Total colleges	101	101	101

Over 65% of colleges are disclosing each item for each year with the least disclosure being for long term and other liabilities. Those items with the highest level of disclosure are those which fall under the ADH description of financial, people and reputation – that is net assets, staff numbers and reputation/brand and over 80% disclosing each of these items.

Table 5.31 Frequency of disclosure: resources

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	11	10	8
1-2	5	6	6
3-4	13	12	13
5-6	72	73	74
Mode	6	6	6
Mean	5	5	5
Maximum	6	6	6

The frequency of disclosure for this category is shown in Table 5.31. Despite the ADH guidance, there are still colleges choosing not to disclose under the resources heading. This number has declined over the period but there are still eight colleges (7.9% of total) without any such disclosure: Colchester; North Nottinghamshire; Northumberland; Petroc; Sheffield; South Cheshire; West Herts and Yeovil, which is unexpected.

5.3.3.9 Principal risks

The ADH identifies three principal risks: Government funding; tuition fee policy, and maintaining adequate funding of pension liabilities. These were the three principal risks facing all colleges at the time of the study. In addition, the ADH states that colleges may want to consider disclosing other items specific to the college (using the college's risk register for information) (ADH, 2014d).

Twelve items are included under this category in the index. This suggests colleges have followed ADH guidance and are disclosing risks specific to the college over and above the three suggested principal risks. However, as shown in Table 5.8 there are still colleges providing no disclosure in this category for each year, the maximum number of disclosure items being seven, seven and eight respectively and there is no notable change to the mean. The detailed disclosure for each item by college and by year is shown in Table 5.32 below.

Table 5.32 Disclosure of principal risks and uncertainties: by number of colleges and by year

Disclosure item	2011	2012	2013
Property/estate /college environment	37	34	35
Loans	2	3	3
Disaster recovery/business disruption	7	6	4
Curriculum	2	7	7
Funding (government/ public)	91	89	90
FE loans/tuition fee policy	55	57	59
Proposed merger	3	2	0
Student numbers	20	19	25
Budget(ing)	5	4	5
Pension fund liability	55	55	53
Learner experience	6	5	7
Financial Stability	15	12	17
Total colleges	101	101	101

Not surprisingly, in view of the ADH guidance, the top three risks identified are funding (government and public), FE loans/tuition fees and pension fund liability. However, a higher level of disclosure was expected for these items but only approximately 50% of all colleges disclose these items each year. The risk with the highest level of disclosure is government funding - with approximately 90% - which was not unexpected. The types of risks identified is interesting particularly curriculum and learner experience which perhaps demonstrates an awareness of increasing accountability and transparency.

Table 5.33 Frequency of disclosure: principal risks and uncertainties

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	5	5	4
1-2	18	24	20
3-4	73	65	70
5-6	4	6	6
7-8	1	1	1
Mode	3	3	3
Maximum	12	12	12

As shown in Table 5.33 the majority of colleges disclose between three and four principal risks. City of Islington college discloses the highest number of principal risks each year with seven, seven, and eight items respectively. Two colleges provided no disclosure of principal risks and uncertainties for all three years and a further three colleges did not disclose two out of the three years.

5.3.3.10 Stakeholder relations

There are fourteen different items identified under this disclosure category. In addition to the ten stakeholders, suggested by the ADH (AoC, 2014d, p.26), some colleges identify additional stakeholders. The additional stakeholders are Bankers, local school and university partners. Full details of the stakeholders can be seen in Table 5.34.

Table 5.34 Disclosure of stakeholder relations by number of colleges by year

Disclosure item	2011	2012	2013
Local Community	91	92	95
Government offices/LEPs/ Regional Development Agencies	83	78	83
Bankers	1	2	3
Students	93	92	95
Education Sector Funding Body	91	90	92
Staff	92	91	93
Local Schools	21	24	23
Local employers (linked)	92	91	94
Local authorities	91	90	93
Other FE institutions	91	90	92
Trade Unions	86	84	86
Professional bodies	89	88	89
Modes of communication stated	79	78	81
University Partners (specific)	15	17	16
Total colleges	101	101	101

An additional item has been included that measures whether a college includes a statement on how it communicates with its stakeholders. This item is of specific interest in view of the issues identified previously regarding accountability and the availability of data (see Section 5.2). Table 5.34 clearly shows that the ten stakeholders identified in the ADH are those disclosed by most colleges. The three stakeholders identified with the highest level of disclosure are, for 2013, the local community, students and local employers (95, 95 and 94 colleges respectively). The three stakeholders with the least number of colleges disclosing are the additional stakeholders identified above: Bankers, local schools and university partners (2013: three; 23 and sixteen respectively) which is not an unexpected – as this requires a positive decision by a college to disclose more. Only approximately 79% disclose how they communicate with their stakeholders which is interesting and supports some of the findings in the earlier part of this chapter.

Table 5.8 shows that the maximum number of disclose items out of a total of fourteen is thirteen and the minimum is zero and that is the same for all three years. The mean scores also show little notable change during the period. Table 5.35 identifies that the number of colleges with no disclosure has fallen from six to four between 2011 and 2013 while those disclosing between seven and nine items has increased by 100% over the same period.

Table 5.35 Frequency of disclosure: stakeholder relations

No. of disclosure items	Frequency 2011	Frequency 2012	Frequency 2013
0	6	7	4
1-3	3	2	2
4-6	1	2	2
7-9	3	4	6
10-12	83	79	81
13	5	7	6
Mode	11	11	11
Mean	11	11	11
Maximum possible	14	14	14

Table 5.35 also indicates that over 85% of colleges, for all years, disclose ten or more items. This also supports the view that colleges are mainly just following the guidance in the ADH but what is of interest are the reasons that colleges are not disclosing nor identifying their stakeholders. The reasons for non-disclosure are areas for further research and are discussed in Chapter Seven.

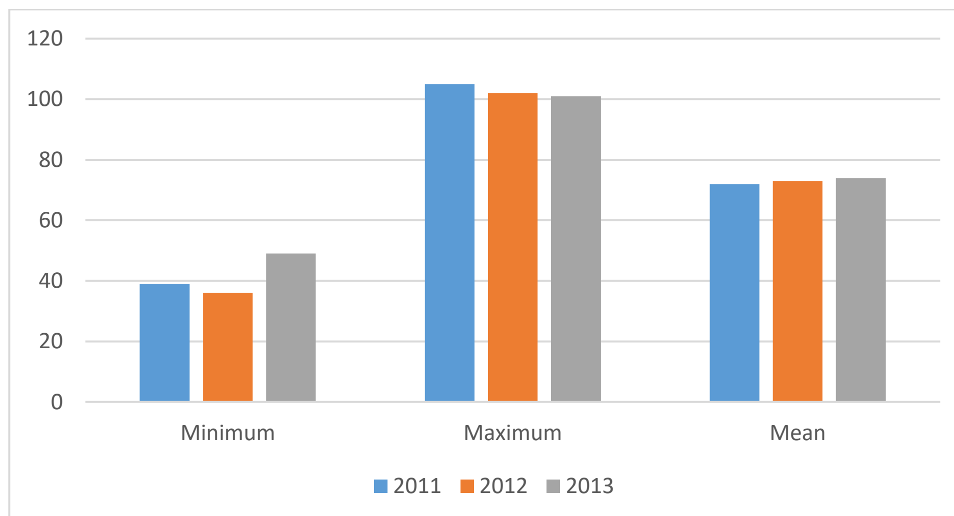
5.4 Disclosure: patterns and trends

The analysis in the preceding section highlighted the overall disclosure for each category and for each disclosure item. This section will investigate any observable patterns and trends in the overall disclosure for 2011, 2012 and 2013 and then will identify any patterns and trends within categories.

5.4.1 Overall disclosure: patterns and trends

In order to determine any patterns and trends in overall disclosure it is necessary to revisit Table 5.7 which summarised the minimum, maximum and mean disclosure for each year. The minimum level of overall disclosure was 39 in 2011, 36 in 2012 and increased to 49 in 2013. While the maximum level of overall disclosure showed the reverse as there was a decrease from 105 in 2011 to 102 in 2012 and to 101 in 2013. However, even though there are notable differences between minimum and maximum scores the mean and median show no notable changes. These figures are presented graphically in Figure 5.

Figure 5 Minimum, maximum and mean overall disclosure scores for the three-year period



Halesowen College had the maximum overall disclosure score for each year (105, 102 and 101 respectively). Stanmore College had the minimum overall disclosure for 2011(39) and 2012 (36) but this had risen to a score of 71 for 2013. Petroc College had the lowest overall score of 49 for 2013 but that was consistent with its scores for 2011 and 2012. Overall disclosure does not show any significant obvious pattern or trend. The mean scores for each year are 72, 73, 74 and show a slight increase over the period. The overall change in disclosure by number of colleges between 2011-12 and 2012-13 can be seen in Table 5.36.

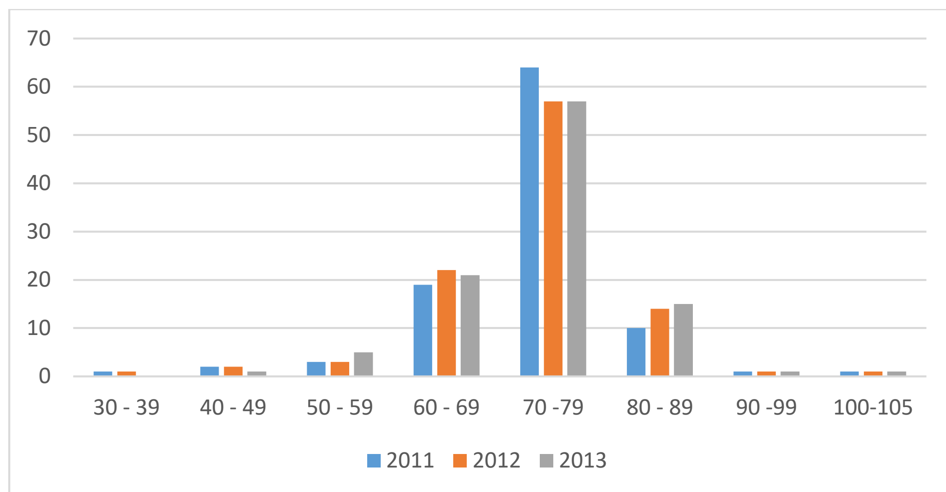
Table 5.36 Change in disclosure between years: number of colleges

	Movement 2011-2012	Movement 2012 -2013
No change	19	19
Decrease	43	38
Increase	39	44
Total colleges	101	101

Nineteen colleges were identified as having no change between 2011-12 and 2012-13, however these were not the same nineteen colleges. Further analysis for those showing no change between years, shows that only four colleges were consistent and had no change in their total overall disclosure level between 2011and 2012 and 2012 and 2013. Thirteen colleges showed a decrease in total disclosure over both periods, eleven colleges showed an increase in total disclosure for both periods, while 22 colleges had a decrease between 2011 and 2012 but an increase between 2012 and 2013 and almost similar number 21 showed the opposite, i.e. an increase and then a decrease. Eight colleges had a decrease between 2011-12 and no change between 2012 -13, and four showed no change between 2011-12 and a decrease between 2012-13 while seven showed increase between 2011-12 and no change between 2012-13. Eleven had no change and then an increase between 2012-13.

Interestingly, the college with the highest total disclosure score for all three years (105, 102,101) was one of the colleges which showed a decrease for both periods and one college in the bottom ten for total disclosure showed a decrease from 69 in 2011 to 58 in 2013. This is a worrying trend for this college from an accountability perspective. In the bottom ten there was a decrease in scores between 2011-12 for six colleges but this had decreased to two for 2012-13 and colleges showing an increase in disclosure had increased from one to five, suggesting some positive improvement in disclosure and accountability.

Figure 6 Frequency of overall disclosure: by year



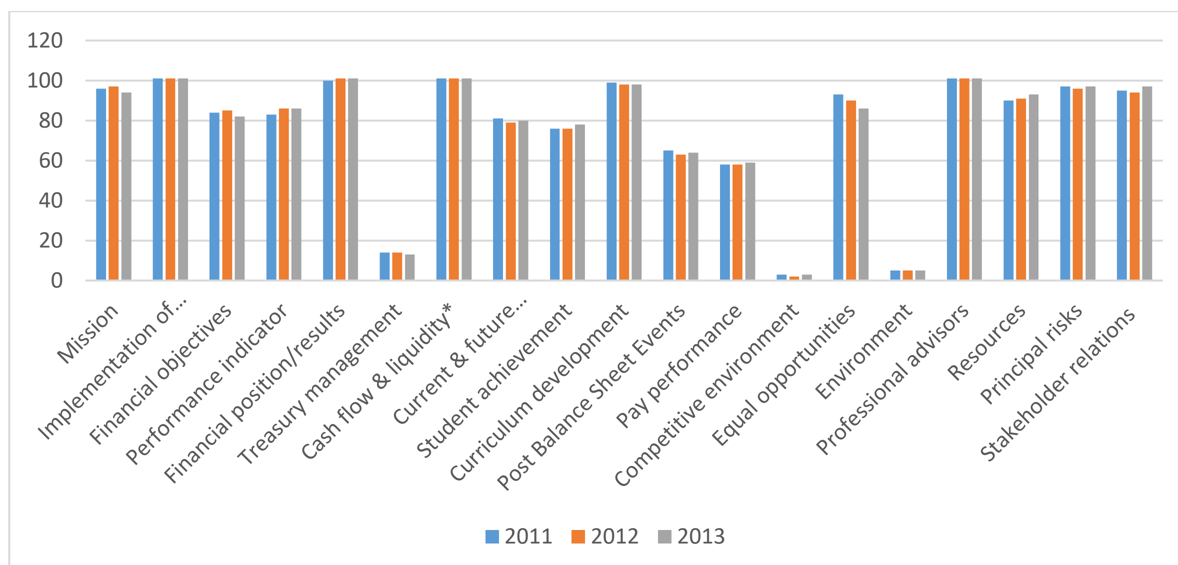
From the analysis of total scores and the data presented in Figures 5 and 6 it is very difficult to see any patterns or trends emerging. Neither a consistent increase or decrease in overall scores is shown over the three-year period. Further analysis will be carried out in Sections 5.4.2 and 5.4.3 to determine whether this is also reflected in the disclosure index scores at category level.

5.4.2 Categories: patterns and trends

Tables 5.8 and 5.9 in Section 5.3 above show the descriptive statistics for the 101 colleges in terms of minimum, maximum and mean scores for each category for each year and the frequency of total disclosure scores (maximum 143). There are 24 disclosure categories with twelve including more than one disclosure item and twelve with only one item. For each of the twelve with only one item the maximum disclosure is 100% for each year with the minimum being 0%. The one exception being professional advisors where there was 100% disclosure by all 101 colleges for each year. The mean scores for these categories show no noticeable change or trend.

Table 5.8 also distinguishes between mandatory and voluntary disclosure categories – some with single items and others, for example, the statement of governance and internal control with multiple items. Figure 7 shows a chart of the total disclosure for the voluntary categories for each year and from that it will be possible to discern any trends during the period.

Figure 7 Overall disclosure of voluntary categories: by number of colleges by year



There is little movement, that can be seen from the charts, between years for each of these categories and no clear or discernible trend. In order to determine whether there any patterns emerging, the twelve categories with a possible score >1, have been ranked for each year based on their maximum disclosure score for that category as a percentage of total maximum score possible and the results are presented in Table 5.37.

Table 5.37 Ranking: maximum disclosure score for categories with more than one item

		2011		2012		2013	
Category	Max score	Actual score as % of total	Rank	Actual score as % of total	Rank	Actual score as % of total	Rank
Implementation of strategic plan	21	80.9	11	76.2	12	76.2	10
Financial objectives	15	66.7	12	80.0	11	73.3	11
Performance indicator	3	100.0	1=	100.0	1=	100.0	1=
Financial position/results	9	88.9	7	88.9	7	88.9	8
Cash flow & liquidity	4	100.0	1=	100.0	1=	100.0	1=
Current & future development	4	100.0	1=	100.0	1=	100.0	1=
Student achievement	3	100.0	1=	100.0	1=	100.0	1=
Curriculum development	6	83.3	10	83.3	9	83.3	9
Resources	6	100.0	1=	100.0	1=	100.0	1=
Principal risks	12	87.0	8	87.0	8	66.7	12
Stakeholder relations	14	92.8	6	92.8	6	92.8	6
Governance	34	85.3	9	82.4	6	91.2	7

Table 5.37 above shows that there are five categories where the maximum score is 100% and ranked first and this is the same for each year. Of the other categories, three show no change in actual score between years but overall ranking for each year may be different due to the movements in the other categories. Four show movement in actual scores and rankings. These are implementation of strategic plan, financial objectives, principal risks and governance. The categories with the greatest movement in ranking and increase in disclosure are principal risks and governance: principal risks showed a decrease from 87% in 2011 and 2012 to 66.7% in 2013. The converse was the case for governance, ranked fifth which showed an increase from 85.3% in 2011 to 91.2% in 2013 but with a small decrease of one item between 2011 and 2012 (29, 28, 31 items respectively). These categories will be analysed in more detail in Section 5.4.3 but it is interesting that these are some of the areas where colleges are facing most challenges and pressures, particularly with regard to funding and the implementation/adoption of new governance codes and changes introduced by NCNC.

The ranking analysis findings of Table 5.37 supports the data presented in Figures 5, 6 and 7 and shows that there is little variation between years for most of these categories. Ranking analysis has also been carried out for minimum scores, for each of these categories, and is presented in Table 5.38. However, as eight of the categories have zero minimum score for all three years Table 5.38 focuses only on the four categories with minimum scores greater than one.

Table 5.38 Ranking: minimum disclosure for categories with more than one item (disclosure >0)

		2011		2012		2013	
Category	Max score	Min actual score as % of max score	Rank	Min actual score as % of max score	Rank	Min actual score as % of max score	Rank
Implementation of strategic plan	21	4.7	3	4.7	4	4.7	4
Financial position/results	9	0	4	22.2	3	22.2	3
Cash flow & liquidity	4	25.0	2	25.0	2	25.0	2
Governance	34	58.8	1	61.7	1	64.7	1

When looking at minimum disclosure scores there has been no change for implementation of strategic plan and cash flow and liquidity over the three years. The two categories which show any changes are financial position/results and governance. The minimum disclosure score for financial position/results has increased from zero in 2011 to two out of nine (22.2%) for both 2012 and 2013 and the minimum governance scores have increased each year from 58.8% (20 items) in 2011, 61.7% (21 items) in 2012 to 64.7% (22 items) in 2013. This results in this category being ranked first each year. A slight increase in trend can be seen over the period for governance but other than that there is no discernible pattern or trend emerging at the category level. Whether this

picture is also reflected at the individual item level will be investigated and analysed in Section 5.4.3.

5.4.3 Categories – individual items: patterns and trends

As identified in the previous sections at both overall level and category level there does not appear to be any distinct patterns or trends emerging - there is little movement or consistency of movement evident between years or categories. It would be an extremely tedious task and read if each individual item in the index was analysed to determine any pattern or trend therefore, it has been decided that this section will concentrate on key categories often associated in prior disclosure literature with accountability.

The four areas of accountability: strategic accountability; financial accountability; fiduciary accountability and procedural accountability that are identified by Dhanani and Connolly (2012) are used to map the selected disclosure index categories against. It is recognised that although these are accountability themes presented inter-dependently they are also inter-related.

Table 5.39 Types of accountability: examples of disclosure items

STRATEGIC ACCOUNTABILITY	FINANCIAL ACCOUNTABILITY
• Implementation of strategic plan (21) • Current and future development (13) (student numbers; student achievement; curriculum development)	• Financial position/results (9)
FIDUCIARY ACCOUNTABILITY	PROCEDURAL ACCOUNTABILITY
• Principal risks (12) • Governance (34)	• Stakeholders (14)

Source: adapted from Dhanani and Connolly (2012, p.1146), () number of index items in each category.

The individual items in the categories selected and included in Table 5.39 represent 72% of total number (103 out of total 143 items) and cover key types of accountability and are discussed below.

5.4.3.1 Implementation of strategic plan and current and future developments (strategic accountability)

There are 21 items included in the implementation of strategic plan category as shown in Table 5.17 and from the analysis carried out there is nothing to suggest any overall particular pattern or trend emerging, for the individual items, over the three years. There is only one item showing any increase over two consecutive years - 2012 and 2013 - that is support and learner experience (moving from six colleges in 2011 to fifteen in 2013). Two items have constant disclosure over the

period: general statement of strategic priorities/objectives (99) and a measure of lesson/teaching observations (15). All the other items show no observable pattern or trend in terms of movement or change and the number of colleges disclosing the item does not vary significantly between years. This supports the findings in Table 5.8 which shows mean disclosures scores of 4.16, 4.50 and 4.15.

Current and future development is comprised of three categories: student numbers, student achievement and curriculum development which total thirteen items in the index. Disclosure for each of the three years can be seen in Table 5.26 and the finding are consistent with those at the overall category level – that is, there are no obvious patterns or trends emerging. There is slight fluctuation and change between years but this appears random and not supported by any known causes in the sector at the time. Two items, interestingly do show a noticeable change in disclosure - a decrease when they might be expected to remain constant or increase. The number of students, SFA and other funded, are being disclosed by fewer colleges in 2013 than 2011. Other than that, there are some spikes – an increase in disclosure in 2012 while others show a decrease and this is same for 2013.

Overall, in summary, there does not appear to be any pattern or trends emerging in colleges' strategic accountability disclosure at the individual item level which support the findings at overall and category level.

5.4.3.2 Financial position/results (financial accountability)

There are nine items included in this category and the maximum total disclosure for all years is eight with minimum increasing from zero in 2011 to two in 2012 and 2013. However, the mean scores for each year show little change (5.46, 5.50 and 5.51). Table 5.22 shows the analysis of the nine items included in this category. There are three items which display an increase in disclosure: cash balances (81, 84, 84); funding source (SFA) % (78, 79, 82) and HE funding % (4,5,9).

The disclosure for HE funding is lower than the other items as this is to be expected as not all colleges have HE provision or disclose any reference to HE provision in their annual report's narrative section. The increase in disclosure may be due to the increase in funding being received and colleges selecting to widen their portfolio to include this provision. Also, there could be increased importance being placed on this source of funding as colleges have to be accountable for it and by disclosing the fact this suggests that colleges are demonstrating increased transparency and accountability. The other items that show an increase also suggests the importance of those items to colleges in uncertain and challenging times, e.g. cash balances.

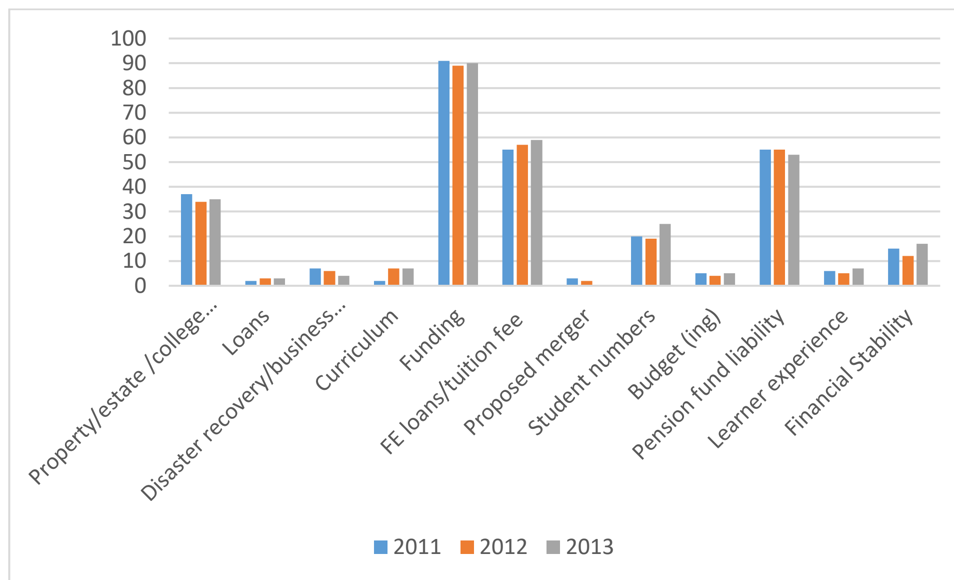
There is only one item displaying a decrease in disclosure for the two years from 2011 and that is accumulated reserves. 89 colleges disclosed information about accumulated reserves but this had fallen to 85 (4.5% decrease) by 2013. Pension costs also report lower disclosure in 2013 than 2011.This is rather unexpected given the precarious position the sector is in regarding pensions and pension liabilities.

In summary, again the results at an individual item level support the findings at the overall and category level for financial accountability and are there are no observable patterns or trends at either level.

5.4.3.3 Principal risks and governance (fiduciary accountability)

Two categories are identified as associated with fiduciary accountability. The first is principal risks and uncertainties and these are identified by the ADH as those risks to which a college is exposed based on its strategic plan. Not all principal risks are within a college's control but they are required to be reported in a risk register, which is reviewed annually. Table 5.32 identifies the twelve items in this category and Figure 8 graphically illustrates the disclosure of these items between years. The three principal risks: funding, FE loans/tuition fee policy and pension fund liability are disclosed by more than 50% of the sample for each year.

Figure 8 Disclosure of principal risks by year



Funding risk is disclosed by most colleges - 90.1% (2011), 88.1% (2012) and 89.1% (2013) and this is to be expected in view of the changes facing the sector with regard to funding. The risk with the next highest level of disclosure is FE loans and tuition fees policy again this is a risk facing by colleges as result in changes to funding and government policy. This is the only item which shows

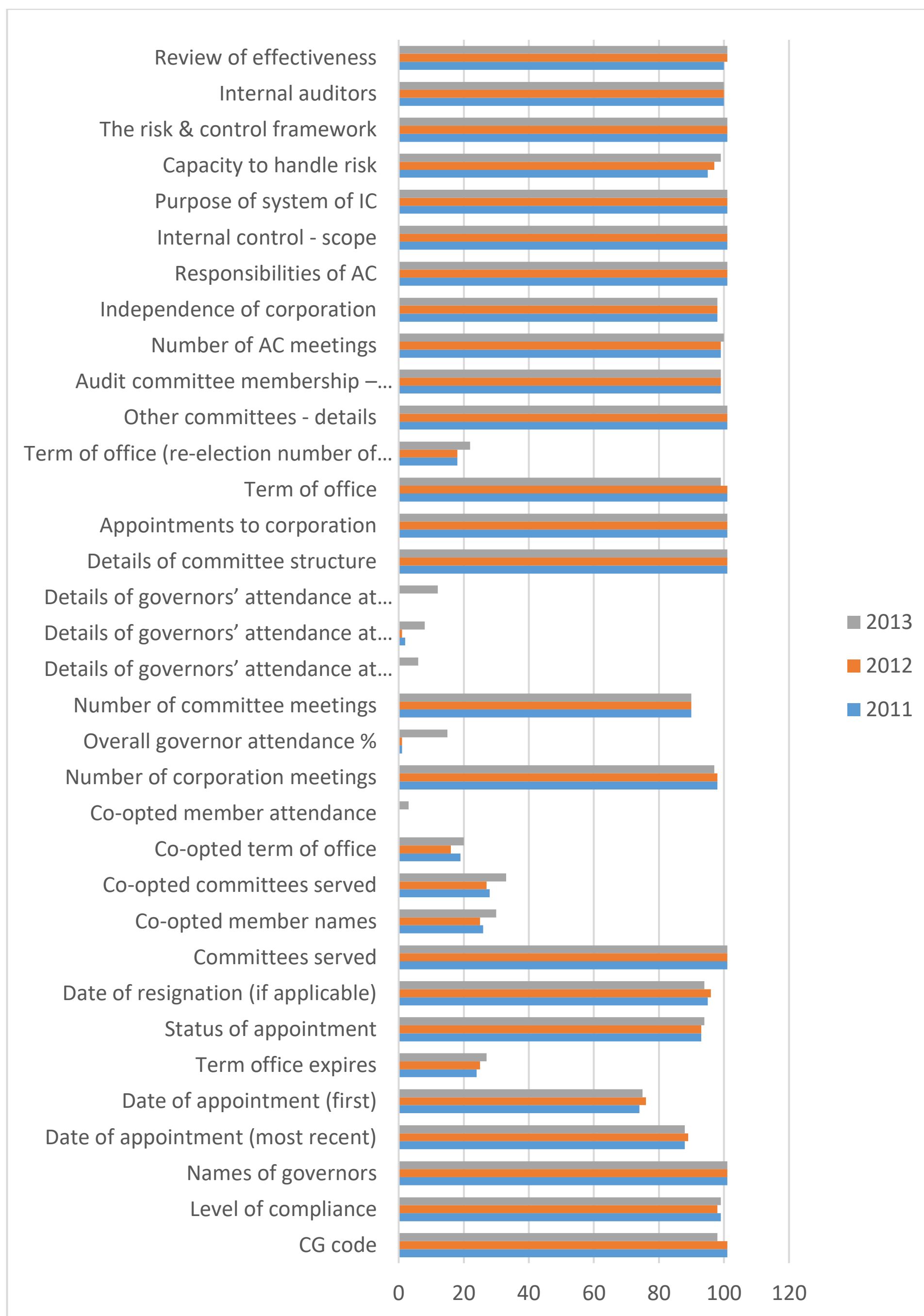
an increase in disclosure year on year – increasing from 54.5% of colleges disclosing in 2011 to 58.4% in 2013. The third item with disclosure by over 50% of colleges is pension fund liability 54.5% (55 colleges) in 2011 and 2012 and a small decrease to 52.5% in 2013 (53 colleges). Pension funding and changes in accounting for pension liabilities has had an impact on the sector and what is surprising is that not all colleges are identifying this risk.

At the other end of the scale very few colleges (three, two, zero) identify proposed mergers as a risk (whether this is because colleges do not think that they are likely to be affected, therefore, disclosure is not seen as relevant or whether it could be interpreted as an opportunity for a merger or showing vulnerability if they disclose or had recently undergone a merger). The FE sector during the period 2011-13 was facing a great deal of turbulence with mergers becoming more prevalent and it was considered that this might be a risk disclosed by more colleges than the findings show. The effect on mergers on the FE sector has been discussed previously in Chapter Two.

The second category identified under fiduciary accountability is governance. As discussed, in Chapter Three, governance has a pivotal role in accountability and is the area which could potentially have the most impact for colleges under the new freedoms advocated by the 2011 Education Act and the introduction of a sector specific governance code. Therefore, there is a lot happening regarding college governance during the period. Figure 9 illustrates the disclosure of governance items over the period. In addition, some colleges in the sample, have adopted the Carver® model of governance which might impact on their level of individual disclosure under this category. This will be discussed further in Chapter Seven.

Because of the issues facing college governance this category contains the most items (34) in the disclosure index. Four items relate to co-opted members and these have been discussed in Section 5.3.2. Table 5.12 shows descriptive statistics for governance disclosure including and excluding co-opted members. As expected colleges are complying with the requirements to name governors, provide details of the committees served by governors, include information about the committee structure and a standard statement about appointments to corporation, responsibilities of the audit committee, scope of internal control, purpose of the system of internal control and details of committee structure. These are standard requirements detailed in the ADH and there is 100% compliance for each year. Reference to the term of office of governors (although this does vary in detail – from explicit reference to number of meetings to a bland statement stating that the corporation meets termly) was 100% in 2011 and 2012 but decreased to 99 in 2013. The disclosure for all items and years is presented graphically in Figure 9.

Figure 9 Disclosure of governance items by year



Other items are included in the index based on extant good CG practice; disclosure found in UK listed companies and what was being disclosed in some exemplar/sample colleges. Of these twenty items, ten showed an increase in disclosure between 2012 and 2013 while five showed a decrease and five no change. The items with the largest increase between 2012 and 2013 were:

- Overall governor attendance (%) - increase of fourteen from one to fifteen (1400% increase)
- Details of governor attendance at committee meetings – increase of six from zero to six (600% increase)
- Details of governor attendance at corporation meetings (%) – increase of seven from one to eight (700% increase)
- Details of governor attendance at corporation meetings (no.) – increase of twelve from zero to twelve (1200% increase)

Adoption of the FCG could be suggested as having contributed to the increase in disclosure of these items for 2013.

In summary, 22 items were disclosed by more than 90 (89.1%) colleges for each year and for those items there was either no change or very little difference between years – generally an increase or decrease of one college. The mean scores shown in Table 5.8 (24, 24 & 25) also support the view that there are no emerging patterns or trends. Moreover, the majority of items in this category show the same picture as that shown by others.

5.4.3.4 Stakeholders (procedural accountability)

The fact that stakeholders are identified in the annual report may perhaps suggest that colleges are recognising accountability to stakeholder groups. Or it could suggest they are just paying lip service to them and just adopting boiler plate disclosure. Of the thirteen stakeholders identified only three are disclosed by less than 25% of colleges these are Bankers, university partners and local schools. The majority of colleges only reporting the 'stock'/standard stakeholders identified in the ADH. The maximum level of disclosure for each year is thirteen and the stakeholders disclosed by most colleges are students (95) and the local community (95).

In 2011, only West Cheshire disclosed a stakeholder relation with their Bankers (total debt: £31.8m). This had risen to two colleges disclosing in 2012: West Cheshire (total debt: £24.5m) and Kirklees College (total debt: £25.5m) and this had increased to three in 2013: West Cheshire (total debt: £12.7m), Kirklees College (total debt: £4.5m) and Walsall (total debt: £8.2m). West Cheshire and Kirklees continued to disclose the relationship even though the total level of debt was decreasing. Interestingly, other colleges chose not to identify Bankers as a stakeholder despite high and increasing debt levels. Debt is another factor that is investigated in Chapter Six to assess if it has any influence on the level of disclosure.

University partners are identified as stakeholders by fifteen, seventeen and sixteen colleges respectively, however, it is a mixed picture when looking at other HE disclosure items. There does not appear to be any association between the extent of HE disclosures in different categories. Thirteen, sixteen and fourteen colleges each year identify their HE student numbers, while approximately 31 each year, make a reference, to HE curriculum developments while only four, five and nine respectively refer to HE funding in financial position/results. It is therefore, difficult to ascertain exactly how many colleges actually have HE provision. Using only those identifying university partners it would suggest that only approximately one in every six of the sample had HE provision. The number falls to approximately one in three colleges disclosing information about HE curriculum development. What is apparent is the lack of consistency of disclosure and that not all colleges with HE provision are disclosing the same extent or type of information. It would be an interesting area to explore further the FE/HE relationship using interviews or questionnaires as would the requirement to specifically disclose HE provision. It is certainly an area that colleges have to be accountable for – on numerous fronts. Often the relationship between HE and FE is precarious and short-lived, and depends very much on what is on the current government agenda e.g. university colleges, university campuses, foundation degrees, degree apprenticeships etc.

Interestingly, six colleges in 2011 (Bromley, East Durham, North Nottinghamshire, Petroc, Stanmore and Southampton) made no reference at all to stakeholder relations. This had increased to seven in 2012 with the addition of Westminster Kingsway but had decreased to only four colleges (East Durham, Petroc, Southampton and Westminster Kingsway) failing to make any reference at all to stakeholder relations in 2013. This is despite the guidance and illustrative example in the ADH. There is no indication of the reason for this but it may be that the relationships are presumed and that there is no need to disclose.

Further examination of the total disclose scores for these colleges indicates, with the exception of Westminster Kingsway, that they are well below the mean, for example, Petroc has a disclosure score for all years of 49 and the scores for North Nottinghamshire are 47, 46 and 57 respectively. It suggests that the scores for these colleges are well below the mean due to their failure to disclose any stakeholder relations and even with the possibility of an additional of fourteen items in this category their scores would still be below the mean. The mean scores for the category as identified in Table 5.8 are 10.05, 9.97 and 10.25 which suggest little notable change overall during the period. However, the number not disclosing any stakeholder relations had decreased by 2013. This is a positive movement suggesting colleges are becoming more aware of importance of stakeholders and accountability.

Communicating with stakeholders is essential for discharging accountability and as mentioned previously this is not only done through the annual report. This is supported by the fact that only approximately 80% of colleges actually state the mode(s) of communication with their stakeholders in the annual report. Those who do disclose generally adopt the generic statement recommended by the ADH - 'The College recognises the importance of these relationships and engages in regular communication with them through the College Internet site and by meetings' (AoC, 2014, p.26). This is a bland statement that lacks specific details. The researcher's experience, when searching websites for annual reports, suggests that the level of communication and discharging accountability to stakeholders is not necessarily high on a college's agenda.

The findings, see Table 5.34, also show similar results to the other categories discussed. There are no observable patterns or trends to be seen either at overall or individual item level. There are very slight changes between years but these are mainly the results of an increase or decrease in one or two items.

5.5 Conclusion

To recap, the aim of this chapter was to investigate two objectives firstly, to ascertain the extent of accountability disclosure in FE college annual reports (Questions One and Two) secondly, to identify any observable patterns and trends (Question Three). The findings show that at the time of the data collection FE colleges were not making their annual reports easily accessible and even following a FOI request accessibility was patchy. As the annual report is recognised as a key communication and accountability vehicle the results were disappointing in terms of data collection but interesting from a number of 'why' perspectives. This will be discussed further in Chapter Seven. In order to determine the level of accountability a disclosure index was constructed comprising 143 items. The findings show a mean overall level of approximately 73 with a range between 36-105 which this was lower than anticipated. Individual voluntary categories with multiple disclosure items suggest colleges are often focussing on and limiting themselves to the suggested disclosure in the ADH example. This will also be discussed further in Chapter Seven.

As the three-year period covered by this study was one affected by the introduction a new Education Act and government policy changes it was anticipated, at the start of the study, that the level of disclosure and accountability of FE colleges might show some changes over the period affecting the extent of total disclosure or observable patterns and trends. What is apparent is that there is little identified or observable change over the three years, although some colleges are disclosing slightly more within certain categories over time. Because of the lack of any discernible patterns and trends over the period only the 2013 disclosure index data for the 101 sample

colleges will be used to address the third research objective (Questions Four and Five). That is to identify whether there are any factors including college-specific and governance, that influence the variation in accountability disclosure in the annual reports of English general FE colleges. The analysis and findings for the third objective are presented in Chapter Six.

Chapter Six Findings: Factors influencing disclosure

6.1 Introduction

This chapter aims to address the third objective of the study; that is, to determine which factors are associated with variations in accountability disclosure in FE college annual reports. As previously mentioned, the factors are those that can be attributed specifically to a college, for example, size, financial position, auditors and those factors associated with governance practices and attributes. The governance factors include size of the corporation, number of meetings and governance code used. As the findings of Chapter Five did not identify any discernible patterns or trends in disclosure between 2011-2013 the decision has been taken to focus only on 2013. The sample of 101 colleges used for the analysis in Chapter Five will also be used for the analysis to identify some of the factors that influence the extent of disclosure. The remainder of the chapter will be organised as follows: Section 6.2 deals with the descriptive statistics for the extent of the overall disclosure index taking into consideration the above factors; Section 6.3 presents the findings of the correlation analysis (univariate analysis); and Section 6.4 presents the results of the multivariate regression analysis use to test the hypotheses for the two models identified in Chapter Four.

6.2 Descriptive statistics

Table 6.1 presents the descriptive statistics for the independent variables. As shown in the table the overall mean of board size is twenty members with the minimum being twelve and the maximum 25. The data shows the number of governors during the year overall. This includes appointments and resignations during the period, which affects the overall board size. The AoC 2014 survey, on the composition of 183 FE corporations, using the standard Instruments and Articles of Government to underpin their governance frameworks, found that a typical corporation is made up of seventeen members. The smallest corporation responding to the survey had eleven governors and 23% have corporations set at twenty. This is the maximum under the un-modified Instruments and Articles (AoC, 2014a). However, as this study is looking at number of governors during the year and up to date of signing the findings are not directly comparable with the AoC 2014 survey, but are not dissimilar. The maximum of 25 reported is greater than maximum under the Instruments and Articles suggesting that the corporation had undergone many changes during the period – resignations and appointments.

Table 6.1 Descriptive statistics: independent variables

Variable	Minimum	Maximum	Mean	Median	Std. Deviation	Skewness	Kurtosis
GOVMAX	12	25	19.82	20.00	3.025	-0.306	-0.416
GOVMEET	3	10	5.08	4.00	2.399	0.952	-0.312
ACMEET	2	6	3.18	3.00	0.537	3.304	14.167
SIZE*	8.59	11.2	9.9139	9.9641	0.511	-0.085	-0.14
SIZE £000	5358	73349	22955.7	21249.0	12109.5	1.414	2.847
LEV**	0.00	39.4	13.0362	12.90	9.579	0.328	-0.495
LEV	0.00	56.0	13.3594	12.90	10.56	0.967	2.045
BIG 4	0.00	1.00	0.35	0.00	0.478	0.655	-1.603
HEPROV	0.00	1.00	0.31	0.00	0.464	0.850	-1.304
CGCODE	1.00	7.00	2.22	2.00	1.44	2.179	4.213
CGCODE***	0.00	1.00	0.26	0.00	0.439	1.126	-0.746
COOPT	0.00	1.00	0.34	0.00	0.47	0.702	-1.538

*log transformed, ** winsorized for 2 outliers, *** re-coded CG code, Number of colleges =101

The frequency of corporation meetings varies between the minimum of three and a maximum of ten with the mean being approximately five meetings per year and the median being four. The sample includes three colleges who have adopted the Carver® Policy model of governance and they all have ten meetings per year. There is nothing to suggest from the data collected that there has been any significant change in the number of meetings for 2013 compared with 2011 and 2012 and it is apparent that it is usual practice for some college corporations to meet more frequently than others as there are a further nine colleges that also meet ten times per year.

The number of audit committee meetings each year ranges from a minimum of two to a maximum of six with the mean of approximately three meetings – being the equivalent for most colleges of one audit committee meeting per term. There is only one college, South Leicester, that meets bi-annually which is its usual practice and not specific to 2013.

The table shows that size, as measured by total funding body grants, shows a wide range from a minimum of £5.358 million to £73.349 million with a mean of £22.955 million. This suggests that there are vast differences between FE colleges in terms of size. This view is also supported if a comparison is made of the number of FTE staff as this shows a range of 176 to 1520. The

distribution for size was highly skewed and it was considered appropriate to transform the data to the natural log. This resulted in reduced skewness and also by transforming the data a number of extreme amounts were eliminated. The log transformed results are also shown in Table 6.1.

With regard to leverage, the ratio of total debt to total assets, a wide range of results are shown in Table 6.1. The minimum leverage ratio is 0% and the maximum is 56% with the mean and median being approximately 13%. 16.8% (17) of colleges in the sample are debt free. The table also indicates that there are some extreme values. These have been taken into consideration and adjusted for, and are explained in more detail later in the chapter. The descriptive statistics for leverage after adjusting for the extreme values are identified with ** in Table 6.1.

Table 6.1 also identifies the skewness and kurtosis for each variable. The variable showing a high level of skewness is the frequency of audit committee meetings. This is as a result of two colleges holding six audit committee meetings during the year (Case 88 and 53). A robustness test is carried out on this variable and the findings are discussed in Section 6.4.3. The other variables are not highly skewed which means that they are normally distributed. As the mean can be distorted by skewed data which may not have a normal distribution (Pallant, 2016), the median is also presented.

The descriptive statistics for the four categorical independent variables: external auditor type; HE provision; use of co-opted members; and CG code used are presented in Table 6.1. Sometimes colleges describe the same governance code differently and there is therefore inconsistency in the description of the governance code adopted, hence seven categories were originally identified (see Chapter Four). The frequency of adoption of these seven categories of code and the frequencies of the other categorical independent variables are presented in Table 6.2.

However, in order to facilitate further statistical analysis of the CG code used, it was decided to reduce the number of codes to two: those still using the UK CG code and iterations (26: 25.7%) and those colleges that have adopted wholly or in part the AoC Foundation code and iterations (75: 74.3%). This would allow for more meaningful statistical analysis by concentrating only on the two codes. The FCG was introduced in 2011 with the Annex following in 2013. The extent and variation in adopting the FCG and Annex can be seen in Table 6.2. Only four colleges have fully adopted the Code and Annex with 67 colleges referring in the statement of corporate governance and internal control that they applied both the UK CG code and the FCG during 2013. Colleges that adopt the FCG should in future years only use that code and not a hybrid as appears to be the case for 2013.

Table 6.2: Frequency – categorical independent variables

	Frequency	Percentage
External auditor		
Non-Big4	66	65.3
Big4	35	34.7
Total	101	100.0
HE provision		
No HE provision	70	69.3
HE provision	31	30.7
Total	101	100.0
CG code		
UKCG	25	24.8
UKCG & Foundation	63	62.4
Combined code	1	1.0
AoC code	1	1.0
Foundation & Audit & Accountability Annex	4	4.0
Foundation	3	3.0
UKCG & Foundation & Audit & Accountability Annex	4	4.0
Total	101	100.0
CG code***		
UK CG and variants	26	25.7
Foundation code and variants	75	74.3
Total	101	100.0
Co-opted members		
No	67	66.3
Yes	34	33.7
Total	101	100.0

Table 6.2 shows there are 31 colleges with and 70 colleges with no HE provision, similarly there are 35 colleges who are audited by the Big 4 audit firms while 66 colleges are audited by non-big 4 firms. Of the Big 4 firms only three (KPMG, PwC and Deloitte) provide external audit services to colleges in the sample. EY do not provide any external auditing services for any of the colleges in the sample. The split is also similar for the use of co-opted members with 66.3% not using (or disclosing the use of) external co-opted members while 33.7% did appoint co-opted members during 2012-13. The findings for co-opted members are similar to those of the AoC 2014 survey which found 30% of their sample colleges had at least one co-opted member (AoC, 2014a).

6.3 Statistical analysis – exploring the relationship of variables

6.3.1 Correlation analysis

This section seeks to assess whether there is any relationship between the dependent variable (disclosure index score) and the continuous independent variables: number of audit committee meetings, number of governing body meetings, board size, size and leverage and to describe the strength and direction of the relationship. In addition, there are also four independent variables which are dichotomous and their relationship with the dependent variable can also be tested using correlation analysis (Pallant, 2016). Correlation analysis will be used to indicate the association between two variables to determine if a relationship exists between the variables and also to determine the strength of the relationship (Hair, Celsi, Money, Samouel & Page, 2011). This is also needed to inform the regression analysis.

Both Pearson and Spearman's Rank correlation were used as parametric and non-parametric tests to explore the strength and direction of the relationship between variables. Pearson correlation is a test that assumes the following assumptions are met: (1) normal distribution of sample; (2) homogeneity of variance; (3) interval or ratio data; (4) independence (Field, 2013). Pearson correlation is used to measure the linear association between two interval (continuous) variables (Hair et al., 2011) and it can also be used where there is one continuous and one dichotomous variable (Pallant, 2016). Hair et al. (2011) state there are only two assumptions for Pearson. First, that there is a linear relationship and second, that there is normality of distribution. However, as correlation is considered a 'reasonably robust statistic when the distribution varies from normal, this assumption is frequently taken for granted' (Hair et al. 2011, p.353). But as the data in this study, could be influenced by outliers (or extreme scores), affecting the normality of and skewing the distribution, Spearman's rho a non-parametric test is also used. Spearman rho is designed for use with ordinal data and when the data does not meet the assumptions for Pearson correlation. It also minimises the effects of extreme scores and violations of assumptions (Field, 2013).

The linearity of relationships can be inspected visually by creating scatterplots which will provide information on the direction and strength of the relationship. In addition, the calculation of Pearson and Spearman rank correlation coefficients provides a numerical summary of the relationships. The correlation coefficients, after adjusting for outliers for the leverage variable, are presented in Table 6.3.

Table 6.3 Correlation coefficients: independent variables and the extent of disclosure

	Index	
Variable	Pearson	Spearman’s Rank
ACMEET	-0.125	-0.068
GOVMEET	-0.114	-0.106
GOVMAX	-0.014	0.042
SIZE	0.066	0.110
LEV	-0.150	-0.169
BIG4	0.141	0.174
HEPROV	0.124	0.093
COOPT	0.230*	0.210*
CGCODE	-0.043	-0.021

*Correlation is significant at the 0.05 level (2 tailed)

The scatterplots when reviewed for the distribution of data points show that the data points are widely dispersed which suggests small and virtually no correlation. This is supported by the resulting correlation coefficients in Table 6.3. Only one independent variable - co-opted members indicates a significant correlation (0.230), at the 5% level, with the total disclosure index score. This could suggest that colleges with a higher level of disclosure are those who appoint co-opted members to assist the corporation. Co-opted members are co-opted to bring in additional expertise to the corporation and they are usually co-opted on to the audit committee. It is possible that they are able to influence the extent of disclosure in college annual reports or that that possibility colleges using co-opted members have more interest in accounting and accountability. But maybe those using co-opted members are bigger, more sophisticated colleges and it will be interesting to see the results from multiple regression where things like size are controlled for.

Hair et al. (2011) state that coefficients in the 0.21- 0.40 range are small but indicate a definite relationship (p.351). Spearman’s rank correlation coefficients confirm the results of the Pearson correlation coefficients. Other than co-opted members, neither test indicates that any other variables are significantly different from zero, therefore showing no relationship with the extent of disclosure. Carrying out Spearman’s rank in addition to Pearson correlation provides a robustness check of the results. Interestingly, although showing no significant association all the governance variables indicate a negative relationship suggesting that there is no relationship between these items according to this analysis.

Table 6.4 presents both the Pearson and Spearman correlation coefficients for all the variables and the correlation matrix, particularly Pearson, will be used to comment on multicollinearity in

Section 6.4.1. The correlation matrix shows that the only variable with a positive and significant correlation with the total disclosure index score is the use of co-opted members which supports the hypothesis H1g. However, the analysis does not support hypotheses H1b, H1c, H1d, H1f and H1i as all these variables are negatively and insignificantly correlated with the disclosure index score which indicates no relationship. Although the variables SIZE, BIG4 and HEPROV are positively associated as hypothesised they are insignificantly correlated with the disclosure index score therefore, the hypotheses H1a, H1e and H1h are also not supported. As this is the first study carrying out such analysis in the FE sector there are no prior studies in the sector to make direct comparisons of findings with but a discussion of the findings along with those of other disclosure index studies is found in Chapter Seven.

Table 6.4 Correlation coefficients for all variables

Pearson Correlation/Spearman	Disclosure index score	BIG 4	HEPROV	CGCODE	COOPT	GOVMEET	GOVMAX	ACMEET	SIZE	LEV
Disclosure index score	1.000	0.174	0.093	-0.021	0.210*	-0.106	0.042	-0.068	0.110	-0.169
BIG 4	0.141	1.000	-0.079	-0.048	-0.034	0.081	-0.059	0.284**	0.308**	0.027
HEPROV	0.124	-0.079	1.000	-0.048	0.116	0.005	-0.080	-0.024	-0.042	-0.153
CGCODE	-0.043	-0.048	-0.048	1.000	-0.036	0.018	-0.060	0.026	0.024	0.158
COOPT	0.230*	-0.034	0.116	-0.036	1.000	0.107	0.167	0.128	0.011	0.086
GOVMEET	-0.114	0.080	-0.013	0.009	0.082	1.000	-0.061	0.098	-0.043	-0.005
GOVMAX	-0.014	-0.061	-0.096	-0.033	0.161	-0.067	1.000	0.034	0.203*	0.108
ACMEET	-0.125	0.225*	-0.061	0.058	0.115	0.121	0.026	1.000	0.153	0.092
SIZE	0.066	0.322**	-0.043	0.015	-0.008	-0.072	0.195	0.123	1.000	0.102
LEV	-0.150	0.030	-0.167	0.174	0.079	-0.066	0.105	0.153	0.096	1.000

*correlation is significant at 0.05 level (2 tailed)

**correlation is significant at 0.01 level (2 tailed)

6.3.2 Non-parametric statistics and T tests

In addition, to the correlation analysis carried out in Section 6.3.1, non-parametric techniques and *t*-tests were used as a number of the variables are categorical and measured on a nominal scale. *t*-tests are used to determine whether two sets of data are significantly different from each other. There are four categorical variables: External Auditor; HE provision; Co-opted members and CG code. As discussed in Section 6.2 CG codes was recoded and reduced from seven possible code descriptors to two.

The Mann-Whitney U Test and *t*-tests were used to test for differences between the dependent variable and the categorical variables. Mann-Whitney U Test is used to test for the differences between two independent groups and the continuous variable (disclosure score) while the Independent-samples *t*-test was used to compare the mean scores for the continuous dependent variable for two different groups, for example, those colleges with HE provision and those with no HE provision. The results of both tests are presented in Table 6.5 and identify any significant differences.

Table 6.5 Mann-Whitney and *t*-test for categorical independent variables

Variable		Mann-Whitney			*t*-test		
	No.	Z-value	Sig.	Median	t-value	Sig.	Mean
External auditor		1.736	0.083		1.419	0.159	
Big 4	35			76.00			74.77
Non-Big 4	66			73.00			72.42
HE provision		0.929	0.353		1.242	0.217	
Yes	31			75.00			74.71
No	70			74.00			72.59
Co-opted		2.105	0.035*		2.354	0.021*	
Yes	34			76.50			75.79
No	67			73.00			71.94
CG code		-0.210	0.834		-0.433	0.666	
Foundation	75			74.00			73.44
UKCG	26			74.00			72.65

*significant at 5% level

As shown in Table 6.5 there are no significant differences in scores between colleges using Big 4 and Non-Big 4 audit firms which confirms previous findings, between those with and those without HE provision, and which CG code used. However, the z score for co-opted members is 2.105 and shows a statistically significantly difference of 0.035 in scores when comparing colleges with co-

opted members and those without. This means that the use of co-opted members is a significant variable in predicting the extent of disclosure. This is supported by the findings of the *t*-test which shows that the means are not significantly different, as they are not < 0.05 (Hair et al., 2011) except for co-opted members (0.021). Whereas, the other variables have no influence on the extent of disclosure. It was anticipated that colleges with HE provision would have to satisfy additional stakeholders including the HE funding body and therefore would disclose more. However, this does not appear to be the case as colleges appear to be meeting additional disclosure (HE specific) requirements via mechanisms other than the annual report e.g. returns etc.

The correlation, Mann-Whitney and *t*-tests analysis provides evidence or not of association between the independent variables and the dependent variable - total disclosure scores - looking at one variable at a time. The findings of the Mann- Whitney and *t*-tests also show that only one independent variable, co-opted members, provides any evidence of a relationship with the total disclosure index score. This is consistent with and supports the findings of the correlation analysis. However, this analysis cannot be used to determine the interrelationships between variables which could explain the variation in the extent of disclosure. For this, multiple regression analysis will be used to explore the relationships between a continuous dependent variable and the nine independent college-specific or governance variables. This method is consistent with previous disclosure studies and is employed in the following section.

6.4 Multiple regression

The primary goal of regression analysis is usually to investigate the relationship between one dependent and several independent variables, allowing the strength of relationship to be determined, and to assess the importance of each of the independent variables to the relationship but it does not allow for causality to be determined (Tabachnick & Fiddell, 2014). Although multiple regression is based on correlation and as highlighted in Section 6.3 above, there was little significant correlation between the dependent and independent variables, and therefore, it may be considered by some, inappropriate to use under the circumstances. However, most of the extant disclosure studies have used multiple regression to further investigate relationships and the existence of relationships. It is, therefore, considered appropriate to carry out this test in order to investigate any interrelationships of variables and to identify the influence a variable, particularly as this is the first known disclosure index study in the FE sector. Also, a relationship has been identified from the correlation analysis (co-opt) and using multiple regression will allow for other variables to be controlled for, in order to see if the relationship with this variable is still there.

Standard multiple regression is used for this analysis, allowing all the independent variables to be entered into the regression model simultaneously. This is described by Field (2013) as forced entry as it makes no decision about the order in which the variables are entered but it does rely on a sound theoretical basis for including the variables selected. The alternatives of hierarchical or stepwise regression require decisions to be made on the order predictors are entered into the model and these decisions are either based on their importance in predicting the outcome or mathematical criterion and there is no theoretical reason for doing the regression in stages for this study. Field (2013) suggests that stepwise methods are best avoided except for exploratory model building (p.323). In order to avoid misleading results from using the regression model a number of assumptions are made regarding linearity, normality, homoscedasticity, outliers and multicollinearity. These are discussed in Section 6.4.1 below.

6.4.1 Regression model assumptions

Multicollinearity

Multicollinearity refers to the correlation among the independent variables (Hair et al., 2011) and can occur when the correlation between each independent variable is high and it can, consequently, cause a number of problems in regression. Where there is a high degree of multicollinearity it may not be possible to rely on the individual coefficients to interpret the results (Hair et al., 2011). If multicollinearity does exist, then it would then become difficult to determine the impact of individual variables. Therefore, it is important to check for multicollinearity. There are a number of methods that have been used to test for multicollinearity in disclosure studies and these include values for correlation coefficients (see Table 6.4) as well as Variance inflation factor (VIF) and Tolerance.

With regard to correlation coefficients it is generally accepted that variables with bivariate correlations of 0.7 or more should be excluded from the analysis. As can be seen in Table 6.4, the correlation coefficients of all the independent variables are less than 0.33 (Pearson) and 0.31 (Spearman) suggesting no problems with multicollinearity. The analysis shows correlations that are significant between BIG4 and ACMEET (0.225*); BIG4 and SIZE (0.322**) and SIZE and GOVMAX (0.203*). The results for VIF and tolerance coefficients are presented in Table 6.6 below and they support the results of the correlation coefficients. Field (2013) states that there are no hard and fast rules about what values for VIF and tolerance cause concern and different authors have different views. The larger the VIF then generally there is a greater cause for concern. Values of above 10 for VIF or tolerance values of less than 0.10 are often used as guideline cut-off points for determining the presence of multicollinearity (Pallant, 2016). As can be seen there is no evidence of multicollinearity as all VIF values shown in Table 6.6 are below

10 and the tolerance values are above 0.10.

Table 6.6 Multicollinearity test results

Variable	VIF	Tolerance
GOVMAX	1.113	0.898
GOVMEET	1.047	0.955
ACMEET	1.112	0.899
SIZE	1.197	0.835
LEV	1.108	0.902
BIG4	1.205	0.830
HEPROV	1.068	0.937
CGCODE	1.044	0.958
COOPT	1.081	0.925

Linearity, normality, homoscedasticity and outliers

One assumption of multiple regression is linearity. Therefore, the linearity of the relationship between predicted dependent variable scores and errors of prediction (residuals) needs to be investigated. Residuals are 'the differences between the obtained and the predicted dependent variable scores' (Pallant, 2016, p.152). However, 'failure of linearity of residuals in regression does not invalidate an analysis so much as weaken it' (Tabachnick & Fidell, 2014, p.163). Linearity can be checked using the graphical output produced by the SPSS regression analysis and as can be seen from the graph in Appendix I there is clear linear relationship between the dependent variable and the independent variables which satisfies the assumption for multiple regression.

A further assumption is that of normality and as Tabachnick and Fidell (2014) state that 'the assumption of normality is that errors of prediction are normally distributed around each and every predicted DV score' (p.163). The errors of prediction being the residuals. This can be checked in a number of ways, one of which is from the graphical output of the SPSS regression procedure which includes the residual Scatterplot, Normal Probability Plot (P-P) of the Regression Standardised Residual and Histogram. These can be found in Appendix I and J. As can be seen from the Normal P-P Plot the observations lie in a reasonably straight diagonal line from bottom left to top right which suggests no major deviation from normality (Pallant, 2016) and the scatterplot shows the residuals randomly scattered around the zero-horizontal line although there do appear to be a few outliers, which will be discussed later. The Histogram also shows a normal distribution.

Tabachnick and Fidell (2014) state that 'the assumption of homoscedasticity is the assumption that the standard deviation of errors of prediction are approximately equal of all predicted DV scores'

(p.163) and this is another assumption which must not be violated for the regression model. The residual scatterplots can be used to check this assumption and initial screening suggests that there are a number of outliers which require further investigation in order to ensure no violation of assumptions.

Outliers for the independent variable leverage were identified during the initial analysis of the descriptive statistics. Outliers being those values that are distinctly different from other values and which can affect the validity of the findings (Hair et al., 2011). The data was checked and the values were correct. There are a number of different methods suggested in the literature to deal with extremes in the data. One method is to exclude the case from the analysis or alternatively to winsorize the data. To deal with the identified outliers the data for these two cases was winsorized in order to retain and not reduce the sample size. There a number of different suggested methods for winsorizing; one being to replace an outlier's value with the value of the mean plus 3 standard deviations. This was calculated for the two cases. However, it was decided to use mean plus two standard deviations which allowed both outliers to be winsorized to 34.48 which was within the range of the next highest case (39.40) which was not deemed to be an outlier. Additionally, outliers are also required to be checked for the regression model and they are defined by Tabachnick and Fidell (2014) as those cases that have a standardised residual in excess of about ±3.3 (p.164). There are a number of different tests which can be used to identify outliers and whether these need to be removed from the analysis or winsorized. One way of checking is by looking at the Mahalanobis distances that are produced by SPSS. In order to do this the critical chi-squared value for the number of independent variables (degrees of freedom) is required. This was obtained from Table 4 in Tabachnick and Fidell (2014) with a suggested alpha level of 0.001 taken. The chi-squared value given was 27.877 and this was compared with the maximum value for Malalanobis distance in the residual statistics table which was 38.761 which exceeds the critical value.

Further investigation identified two cases with values in excess of 27.877 and both these cases had outliers for the number of audit committee meetings which has previously been identified as a potential issue. Both cases have six audit committee meetings compared to the mean of 3 and it was decided not to exclude these cases in order to maintain the sample size. Further information about unusual cases can be found in the Casewise Diagnostics. One case is identified with standardised residual values falling outside the ±3.0 and that is case 30 which has a standard residual of 3.46 which is caused by the case having a disclosure score of 101 well above the mean. To determine whether this case is having an influence on the results of the model as a whole the value for Cook's Distance in the residual statistics can be checked. Pallant (2016) citing Tabachnick and Fidell (2013) suggest that values greater than 1 may be cause for concern. In this

case the maximum value for Cook's Distance is 0.341 suggesting no major problems and no need to remove the case from the analysis.

6.4.2 The regression models

Based on the results of the above tests it can be taken that the multiple regression assumptions are not invalid and that standard multiple regression will be used to examine the relationship between the two models identified in Chapter Four: Model (1) examines the relationship between the dependent variable of total disclosure index score (DS) and the college specific and governance independent variables and Model (2) examines the relationship between the governance disclosure index scores (DSGOV) and the independent variables.

The regression models are:

(1) DS = $\propto_0 + \beta 1SIZE + \beta 2DEBT + \beta 3BIG4 + \beta 4HEPROV + \beta 5GOVMAX + \beta 6GOVMEET + \beta 7ACMEET + \beta 8COOPT + \beta 9CGCODE + \varepsilon$

(2) DSGOV = $\propto_0 + \beta 1SIZE + \beta 2DEBT + \beta 3BIG4 + \beta 4HEPROV + \beta 5GOVMAX + \beta 6GOVMEET + \beta 7ACMEET + \beta 8COOPT + \beta 9CGCODE + \varepsilon$

Where,
DS is total disclosure; DSGOV is total governance disclosure score; $\propto_0$ is the constant term; SIZE is total funding body grants; DEBT is ratio of total debt to total assets; BIG4 is audit firm size; HEPROV is HE provision; GOVMAX is board size; GOVMEET is number of board meetings; ACMEET is number of AC meetings; COOPT is use of co-opted members; CGCODE is CG code used and ε is the error term

Regression analysis – total disclosure score (1)
As the third objective of this study is to determine which factors are associated with variations in accountability disclosure in FE college annual reports multiple regression is used to examine if there is a relationship between the total level of disclosure and the independent college specific and governance factors. R^2 measures the proportion of the variation in the dependent variable that is explained by the independent variable for a linear regression. The total variance (R^2) explained by the model as a whole was .162 (16.2%) suggesting that 83.8% of the variation in disclosure scores cannot be explained by the selected independent variables. Adjusted R^2 is a modified version of R^2 that has been adjusted for the number of independent variables in the model and is considered more appropriate when evaluating model fit (i.e. the variance in dependent variable

accounted for by independent variables). The findings show that for the total disclosure index all nine hypothesised explanatory variables selected for this study had an adjusted R^2 0.079 (7.9%). This compares to the findings of Gordon et al. (2002) with an adjusted R^2 0.131, although they only used five independent variables and found that size had a modest but significant association. Gordon and Fischer (2008) reported an adjusted R^2 0.139 overall but this increased to 0.238 when the model was run for private institutions only, but fell to 0.068 when run for public institutions. It is interesting that the figure for public institutions is lower and not dissimilar to the findings of this study (FE are public institutions). The regression results of Maingot and Zeghal's (2008) study, in the HE sector, showed R^2 0.44 and 0.49 for both their measures of size, so not directly comparable as only one independent variable.

Furthermore, the adjusted R^2 or R^2 results, in corporate disclosure index studies, also contrast with the findings of this study, as they suggest much higher explanations for the differences in disclosure scores (Cooke,1989; Adelepo, 2011; Allegrini & Greco, 2013, Ntims et al., 2012; Barako et al., 2006) are accounted for by their independent variables (including some of those used here). Cooke (1989) reports adjusted R^2 between 0.456 - 0.657 for the models used in his study while Allegrini and Greco (2013) report an adjusted R^2 of 0.407. Barako et al (2006) and Adelopo (2011) only report R^2. The ANOVA table also shows whether the regression model is a significant fit of the data overall and Sig. values of less than .05 would be expected if this was the case (Field, 2013, p.338). The ANOVA table show Sig. = .054 which suggests there is not a significant fit and the model did not significantly improve the ability 'to predict the outcome variable compared to not fitting the model' (Field, 2013, p.338). The regression results for each of the independent variables are presented in Table 6.7

Table 6.7 Regression analysis of college specific and governance factors: total disclosure scores.

Variable	Coefficient β	Significance p-value
CGCODE	.015	.881
BIG 4	.194	.069
HEPROV	.068	.494
COOPT	.278	.006**
LEV	-.154	.131
SIZE	.041	.700
ACMEET	-.160	.116
GOVMEET	-.142	.151
GOVMAX	-.037	.712
Standard error	7.628	
R^2	.162	
R^2 adjusted	.079	

** indicates significance at the 5% level. SIZE is total funding body grants; DEBT is ratio of total debt to total assets; BIG4 is audit firm size; HEPROV is HE provision; GOVMAX is board size; GOVMEET is number of board meetings; ACMEET is number of AC meetings; COOPT is use of co-opted members; CGCODE is CG code used.

The Co-opted member variable 0.287 is significant which means that this variable makes the strongest contribution to explaining the disclosure score when the variance explained by all the other variables in the model is controlled for (Pallant, 2016). This factor is also significant at the 5% level (.006). There is nothing significant at the 1% level so the 5% and 10% levels were looked at as they indicate possible results. The next highest factor was external auditor type but this was not significant at the 5% level. The partial correlation coefficient indicates the contribution of a variable to the total R^2. This shows that co-opted members explain 7.7% of the variance in total disclosure index scores (when the partial correlation coefficient is squared) while the next highest external auditors, significant at the 10% level, can only explain 3.7% of the total variance. Other variables only explaining very minimal contribution to the total variance.

Regression analysis – total governance disclosure score (2)

In addition, to determining which factors are associated with variability of accountability in FE colleges at a total disclosure score level, regression analysis is used for Model (2) which has total governance scores as the dependent variable. The results of the regression analysis are shown in Table 6.8.

Table 6.8 Regression analysis of college specific and governance factors and total governance disclosure score

Variable	Coefficient β	Significance p-value
CGCODE	-.188	.035**
BIG 4	.099	.298
HEPROV	-.021	.816
COOPT	.474	.000*
LEV	.156	.088
SIZE	.148	.123
ACMEET	.033	.719
GOVMEET	.034	.698
GOVMAX	-.058	.524
Standard error	1.608	
R^2	.330	
R^2 adjusted	.264	

* indicates significance at the 1% level and ** at 5% level.

The model, which includes the college specific variables as control variables, shows the total variance (R^2) explains 33% of the variation in the total governance disclosure scores which suggests that 67% of the variation in disclosure scores cannot be explained by the selected independent variables. The findings show that for the governance disclosure index all nine hypothesised explanatory variables selected for this study had an adjusted R^2 0.264 (26.4%) which is much higher than the adjusted R^2 (.079) for the total disclosure index suggesting that the independent variables make a larger contribution to explaining the variation in governance scores than total disclosure scores. There are 143 items in the total disclosure score and 34 in the total governance disclosure score. Of the independent variables the use of co-opted members makes the largest contribution (β =.474). When the partial correlation coefficient is squared it shows that co-opted members explain 22.4% of the variance. The next largest being CG code used (β =-.188) which is now significant; it was not significant for the total disclosure index. Pallant (2016) states that the relationship should preferable be >.3 which it is for co-opted members only. However, both make a statistically significant contribution (.000 and .035 respectively). The contribution from co-opted members is significant for both the total disclosure score and the total governance disclosure score but CG code is only significant for the governance disclosure score.

As some of the independent variables do not have statistically significant regression coefficients for either model those independent variables are not seen as a good predictor of the dependent variable (Hair et al., 2011). In such a case, Hair et al. (2011) suggests removing the insignificant independent variables, which is effectively what adjusted R^2 is doing, or adding more independent

variables. However, for this study there are no obvious additional variables to add. The lack of statistically significant regression coefficients and the limited number of independent variables is seen as a potential limitation of the study and is discussed further in Chapter Seven.

6.4.3 Robustness tests

Outliers & winsorizing

In order to check for robustness of the assumptions a number of additional tests were performed. First, both regression models were re-run using the unwinsorized leverage data. Second, to ensure that the two cases identified with six audit committee meetings (median being three) did not skew the results the regression analysis was re-run for both models with the two outliers being winsorized to mean plus two standard deviations. This resulted in the actual six audit committee meetings being replaced with four. The results of these robustness tests are shown in Table 6.9. The winsorized leverage and unwinsorised audit committee meeting figures from Tables 6.7 and 6.8 are in parenthesis for comparison.

Table 6.9 Robustness test results

	Coefficient β	P value	R^2	R^2 adjusted
Leverage (1)	-.129 (-.154)	.204 (.131)	.156 (.162)	.072 (.079)
AC meeting (1)	-.166 (-.160)	.106 (.116)		
Leverage (2)	.159 (.156)	.083 (.088)	.326 (.330)	.260 (.264)
AC meeting (2)	-.011(.033)	.904 (.719)		

( ) model: (1) Total disclosure score; (2) Total governance score.

The results show that even when the data is adjusted for outliers and winsorized there is little difference between the results and there is no effect on the significance of either variable in either model or R^2.

6.4.4 Regression analysis findings

The findings of the regression analysis for Model (1) indicates that the selected independent variables only explain 16.2% of the variation in disclosure scores. The independent variable, COOPT, makes the strongest and only significant positive (.006) contribution to explaining the total disclosure score. This supports hypothesis H1g. Size, Auditor type, HE provision and CG code all show positive but insignificant associations however leverage, board size, frequency of corporation meetings and number of audit committee meetings all show negative but insignificant associations which provides little support for the other hypotheses.

The results of the regression analysis for Model (2) show similar results in that the independent variable (COOPT) shows the strongest contribution to the overall governance score (.474) with the next strongest being CGCODE (-.188). The latter result is not unexpected as there could be more emphasis on governance disclosure by those colleges adopting the Foundation code. Both these variables make a statistically significant contribution (.000 and .035 respectively). Overall, the selected independent variables explain 33% of the variation in disclosure scores. The results support hypothesis H2g that there is a positive association between co-opted members and the governance disclosure score but does not support the other hypotheses. The results are summarised in Table 6.10 below.

Table 6.10 Hypotheses results

Variable	Hypothesis	Expected direction	Result	Hypothesis	Expected direction	Result
SIZE	H1a	+ve	+ve	H2a	+ve	+ve
LEV	H1b	+ve	-ve	H2b	+ve	+ve
GOVMAX	H1c	+ve	-ve	H2c	+ve	-ve
GOVMEET	H1d	+ve	-ve	H2d	+ve	+ve
BIG4	H1e	+ve	+ve	H2e	+ve	+ve
ACMEET	H1f	+ve	-ve	H2f	+ve	+ve
COOPT	H1g	+ve	+ve*	H2g	+ve	+ve*
HEPROV	H1h	+ve	+ve	H2h	+ve	-ve
CGCODE	H1i	+ve	+ve	H2i	+ve	-ve*

*significant

As seen in Table 6.10 there are only two hypotheses that can be accepted (H1g & H2g) and both these relate to the same variable – co-opted members. There is one other hypothesis, H2i, that is significant but the sign is negative and opposite to that hypothesised. This suggests that there may be something 'odd' about governance codes and governance disclosure. Perhaps, colleges have signed up for a code which signals that they are well governed and disclose only what required and those who have not yet adopted the FCG are duty bound to say more about governance and therefore disclose more. All other variables, irrespective of direction of association, are not significant.

6.5 Conclusion

To recap, the aim of this chapter was to investigate empirically factors that might influence the level of disclosure at both a total disclosure index score level and also at the governance category disclosure score level for 2013. 2013 was selected as the analysis in Chapter Five had not

identified any observable patterns or trends in the extent of disclosure during the period 2011-2013. There were nine independent variables identified, some from the literature and others that were identified as being specifically relevant to FE (co-opted members, HE provision and CG code). Nine hypotheses were tested and only one independent variable was found to have a positive and significant contribution to the extent of disclosure for both models. CG code did have a significant relationship in explaining the contribution to the overall governance scores, albeit a negative relationship. A discussion of these results, and how they compare with the results of prior empirical studies and the theoretical framing is carried out in Chapter Seven

Chapter Seven Discussion and Conclusions

7.1 Introduction

In the previous chapters (Chapters Five and Six) the detailed empirical findings of the study have been presented. In this chapter, the aim is to discuss and make sense of those findings by comparing and contrasting them with prior empirical studies and theoretical literature as well as discussing them in the round and in a sector context.

To recap, the main aim of the study is to ascertain the extent of disclosure of English general FE colleges in the three-year period after the introduction of 'new freedoms' in the Education Act 2011 and during an era of governance change. In order to achieve this aim three objectives and five research questions emerged.

The objectives are,

1. To ascertain the extent of disclosure in English general FE colleges annual reports 2011-2013
2. To identify any observable patterns and trends in disclosure of English general FE colleges.
3. To assess the influence of various factors in explaining variations in disclosure in the annual reports of English general FE colleges.

In order to achieve the above objectives following research questions were identified.

1. Do English general FE colleges make their annual reports accessible?
2. What is the level of accountability disclosure in English general FE colleges' annual report for the period 2011-2013?
3. What patterns and trends are observable from the accountability disclosure in English general FE colleges' annual reports for the period 2011-2013?
4. What impact do college-specific characteristics have on the extent of accountability disclosure in the annual reports of English general FE colleges?
5. What impact do governance practices have on the extent of accountability disclosure?

The discussion will be structured around the two main themes of accountability and factors influencing disclosure. Section 7.2 will address accountability and the first two objectives and will be structured around the first three research questions while Section 7.3 will address the second theme and third objective and is structured around the final two research questions. The chapter will then discuss the conclusions, limitations and recommendations of the thesis. The findings and conclusions will be summarised in Section 7.4. Section 7.5 will identify the research contribution of

the study and the research limitations are discussed in Section 7.6. Finally, recommendations and avenues for future research will identified and discussed in Section 7.7.

7.2 Accountability

7.2.1 Accessibility of annual reports

As explained in Section 3.3 accountability has many forms and definitions depending upon context (Sinclair, 1995; Ebrahim, 2003; Bovens, 2005; Koppell, 2014). In the narrowest sense it is to give an account of one's actions – providing information. The information element of accountability can be provided in numerous ways and via various mechanisms (Coy et al., 2001). Coy and Dixon (2004) argue that the accountability of universities and colleges is wider than the legal view of corporate accountability and it should be classified as public accountability. As recipients of funds from the public purse the view is that the public has the right to know about the condition and performance of an organisation. The annual report is one such accountability (and public accountability) mechanism. The value of the annual report is that it provides a wide range of summarised relevant information, in a single document, which enables all stakeholders to obtain an understanding of objectives and performance as 'no other single source of such information is available to all stakeholders on a routine basis' (Coy et al., 2001, p.14). Furthermore, from a stewardship perspective the core minimum accountability mechanism is the annual report and as a public document it should be accessible (Dixon & Coy, 2007). Therefore, it is not just the amount of detail in the annual report that matters, but whether the annual report is available in the first place. And as recognised Coy et al. (2001) one of the main dimensions of accessibility, in the context of accountability, is the effort made to make stakeholders aware that an annual report is available and the ease at which stakeholders can obtain copies of the annual report.

Unexpectedly, this study found that information, as provided by the annual report, was not available to or accessible for all stakeholders. Originally, this was going to be a methodological point regarding missing data, but it turned into a substantive point about lack of accountability, and whether reports are being made available: hence, the emergence of the first research question (as explained in Section 5.2). Many FE colleges were not making annual reports available. It was anticipated that they would be freely available on the entities' website or from a central publicly available repository but, as discussed, that was not the case. The findings show an accountability deficit – 52.3% of colleges did not make annual reports available on their website. Dixon et al. (1991) also found unexpected difficulties experienced in obtaining the annual reports for all seven NZ universities for the period 1985-1989 – it took seven months and three letters before they received all sets of reports. However, this appears to have changed in recent years for UK HEIs (Ntim et al., 2017).

The unavailability of annual reports on websites resulted in FOI requests. The FOI requests were necessary because of the failure of accountability, and it was an issue of concern of how poor some FE colleges were in complying after the requests. FOI legislation was enacted in 2000 with colleges required to have policies and procedures in place to deal with such requests. FOI legislation should result in increased accountability, transparency and public understanding. However, Worthy (2013) discusses the impact of FOI on local and central government and concludes that FOI has increased accountability but only increased public understanding in a small way and interestingly finds that the 'variable openness of institutions depends on context, culture and political leadership' (Worthy, 2013, p.395). He also found that requesters of FOI information 'saw it as a strong force for accountability' (p.402). The lack of responses, by some colleges, to the FOI requests demonstrates variability of openness which could be influenced by the culture and leadership of the college and their understanding of accountability.

Following the FOI requests there was still no response from 22.47% of the total population. There was considerable variability from colleges in the responses received to the FOI requests. Some of these showed a lack of understanding of, or adherence to FOI legislation and their own published policies and procedures. Owing to the timing of the requests and responses and the time availability of the researcher, outstanding requests subsequent to second requests were not followed up. FOI should be a force for accountability, but the findings of this study suggest otherwise, as a much lower sample size resulted than those achieved by earlier disclosure studies in the HE sector. Gray and Haslam (1990), Nelson et al. (1997) and Gordon et al. (2002) managed to obtain samples of 64%, 87% and 73.6% (total population) respectively of HEI annual reports – following written requests to institutions. Although in a similar sector they are not directly comparable regarding funding and stakeholders. More recent studies in the UK HE sector (Ntim et al., 2017) as well as the researcher's experience of collecting HEI annual reports have found annual reports freely available to download from the HEIs websites. FE culture and context, as suggested by Worthy (2013), could be a large contributory factor to the availability of reports.

Guidance was issued by the Charity Commission, and specified in ADH 2013-14, that all colleges must make their annual report and accounts promptly available on their websites (AoC, 2014d, section 1.9). This is an interesting development by the Charity Commission and has it been made, in order, to improve and increase college accountability and transparency? Therefore, the problem of availability of reports on websites might be solved. This is an area that has been identified for possible future research (see Section 7.7). Given that the data in the study relates to the period before the ADH 2013-14 guidance, it was thought helpful to do a quick check on whether FE colleges are now making their annual reports available and complying. An internet search, on 19th

August and 15th September 2018, of ten 'unaccountable colleges' who did not respond, to the FOI request, took place. This is new data which provides a brief useful input to the discussion. The search showed the following annual report availability:

Riverside	2016, 2017
Peterborough	2016, 2017
Northampton	2016, 2017
MidKent	2016
Kensington and Chelsea	2016, 2017
Henley	2016, 2017

Norton Radstock, New college Nottingham, Harrow, Redbridge - All merged with other colleges since 2014

Excluding the colleges who have been involved in mergers in recent years, all colleges have complied with the requirement to make the annual report promptly available on the website, with the exception of MidKent, as the 2017 report is not available on their website. This perhaps suggests that colleges are responding to the request for increased accountability, as accountability is a key constituent of good governance. Interestingly, the college accounts guidance for 2017-18 is even more specific. It requires accounts to be published, on the college website by 31 January 2019, for the year ended 31 July 2018 (SFA, 2018). Perhaps this is a reaction to the increased spotlight on public accountability in the sector.

Coy et al. (2001) argue that being publicly accountable through their annual reports is a means by which an organisation can gain legitimacy (Dowling & Pfeffer, 1995; Ashforth & Gibbs, 1990) both upwards and downwards to beneficiaries. If entities do not make their annual reports available, then surely their public accountability could be questioned. Colleges might probably argue that they are being accountable via other mechanisms other than the annual reports, and that there is little use or demand for them, but the annual reports are there to fulfil the stewardship function – reporting to stakeholders. A qualitative study of Chair of Governors, Principal (CEO), Clerks to Governors and auditors' perceptions of the annual report disclosure and accountability to different stakeholder groups would be an interesting area for further research, as would a study of stakeholders' perceptions of and uses of the annual report.

There does not appear to be any reason for colleges not making their annual reports available – perhaps they did not see the need to disclose to wider stakeholder groups as they are already communicating to them through other medium. For example, the financial memorandum annual reporting mechanisms, the publication of various forms of information on FE Choices, Ofsted, and

the SFA websites as well as the ‘glossy annual report’ and the college website. As mentioned earlier, there is a lot of variability in the quality of information, and the ease of access to information (Nelson at al., 2003). If some colleges are not disclosing, this could become problematic for them given that there is now widespread compliance and theoretically they could be seen as resisting coercive and isomorphic pressure (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

7.2.2 Disclosure

It is widely recognised that one way an entity demonstrates it accountability is through the disclosure of information and the annual report is one mechanism (for example, Cooke, 1989a; Gray & Haslam, 1990; Cooke, 1992; Healy & Palepu, 2001; Nelson et al., 2003; Gordon et al., 2002; Coy & Dixon, 2004; Coy et al., 2001; Ntim et al., 2017). To measure the extent of disclosure this study uses a self–constructed disclosure index of 143 items - greater than those of previous studies in the education sector (see Section 4.3.2 and Table 7.1). This allows for the analysis of categories at a greater depth than previous studies and it also focusses only on narrative reporting in the annual report. This is the first study that investigates disclosure in FE college annual reports hence addressing a research gap. What and how much FE colleges are disclosing and whether this has changed over time is investigated and the results are compared with prior studies, albeit in other sectors.

Not all of the items identified in previous HEI studies are relevant to or of interest to the FE sector, for example research. An index has been created which focusses on FE items, in addition, to other items identified from previous disclosure index studies. In addition, the index includes 34 governance items which also contributes to the knowledge gap. Such items are not found in studies by Coy and Dixon (2004), Nelson et al. (1997), Banks et al. (1997), Gray and Haslam (1990) and Ntim et al. (2017). Governance has risen in prominence since the earlier studies, consequently, including these items in the index makes a unique contribution to governance and disclosure literature. They are items of interest as their disclosure provides evidence of increased accountability, transparency and openness.

The majority of disclosure index studies in the education sector adopt and adapt the items chosen by Coy et al. (1993) which are based loosely on items in Gray and Haslam’s (1990) study. Table 7.1 summarises the main studies; items and number of categories.

Table 7.1 Comparison of previous education sector studies: disclosure

	No. of items in index	No. of categories	Mean index score No. %	Period/Year	Sample size
Coy et al. (1993)	43	8*	Not available	1985-1990	33
Banks et al. (1997)	26	4**	 11.7 45.0 11.3 43.5 11.2 43.0	1992-1994	 53 1992 59 1993 73 1994
Nelson et al. (2003)	26	4**	 6.8 26.1 16.2 62.3	1988-2000 e.g.1996 e.g. 2000	 36 48
Ntim et al. (2017)	57	8***	25.0 44.02	2012 only	130
Current study	143	24 (Table 5.8)	72.0 50.3 73.0 51.0 74.0 51.7	2011 2012 2013	101

Categories: *objectives; service performance; cost of services; cash flow; financial position; resources; commitments; accounting policies. **overview; service performance; financial performance: physical and financial condition. ***overview of university; overview of report; financial items; general services; teaching services: process; teaching services: output; research services; community services.

If accountability can be determined or suggested by a measure of the quantity of disclosure, then the mean disclosure level is an appropriate measure allowing for comparability with previous studies, in addition to minimum and maximum disclosure scores. The findings of this study suggest the extent of disclosure is comparable to a degree with those of previous studies. As indicated in Table 7.1 the mean score for this study (2013: 51.7%) is lower than that of Nelson et al.'s (2003) results for 2000. This is not unexpected, due to the index having considerably more items (143) and being much more extensive regarding the detailed items within categories and the number of categories. However, the mean disclosure percentages for each year of the current study, as shown by Table 7.1, are greater than others. For example, Ntim et al. (2017) found a mean PATI score of 44.02% with a large degree in variability (from a minimum of 14.19% to a maximum of 78.36%). Variability is also a feature of the total FE disclosure scores which range, for example, from a minimum of 25.2% to a maximum 71.3% in 2012 (mean 51.0%). These scores are comparable with the findings of Banks et al. (1997) which showed the mean 43%, minimum disclosure 26.9% and a maximum 65.4% for 1994 when measuring quantity of disclosure for UK universities in England, Wales and Norther Ireland. Also, as FE colleges are different types of educational institutions to HE, not all HE indices items are directly comparable to FE. These have

been controlled for in this study as items not applicable to FE have been removed e.g. research disclosure. In addition, the indices used in the above studies also include items found the financial statements whereas this study includes items only from the narrative sections of the annual report. Also some of the studies in Table 7.1 investigate quality as well as quantity of disclosure for example, Ntim et al. (2017) or apply subjective weighting (Nelson et al., 2003). This study investigates quantity only.

Hence, to address a gap, this study focusses on the operating review/narrative section of the annual report, the section where colleges can differentiate themselves through the extent of disclosure; it is a statement that describes the college's own position whilst complying with the requirements of the 2007 HE and FE SORP. The indices of Coy et al. (1993), Banks et al. (1997), Nelson et al. (2003) and Gray and Haslam (1990) include some 'financial statement' items such as accounting policies, operating statement, statement of cash flows and the Auditor's report. As financial reporting in the FE (and HE) sector is now highly regulated (SORP) these items have been excluded from the current index. They are now included as standard under the current reporting regime and if included they would not contribute towards identifying differences in extent of accountability. The index would have been even larger if included. In addition, this study is unique and contributes to the literature as it focusses solely on narrative disclosure in the operating and financial review and statement of corporate governance and internal control.

7.2.3 Patterns and trends

The period under review was one of potential change and challenge for the sector with the introduction of the Education Act 2011 and the 'new freedoms' advocated by government policy in 2011 (BIS, 2011). It was expected, at the commencement of the study, that these would have an impact on the level and extent of accountability of colleges during the three-year period. Looking at the overall scores for the period, (see Section 5.3.4), there is virtually no change over the three-year period nor at the individual category level. These findings are the same as Nelson et al.'s, (1997) study of Australian universities which adopted a MAD index allowing for the quality and quantity of disclosure to be measured. Although the index for this study is only looking at the extent of disclosure. They found at both the overall and sub- category level the results for each year were virtually unchanged and static. Their study was also at a time of turbulence in the business environment and one in which 'calls for public accountability' (p.42) were growing in strength and frequency. Interestingly, and directly comparable to the current study, they found that many universities failed to provide adequate information about objectives, student numbers and student faculty ratios, thereby making it difficult for stakeholders to make informed judgements. This resonates with the findings of this study, carried out approximately twenty years later, as these are

areas where information is still lacking or sparse. They also found that most universities only revealed sparse or descriptive information, and the level of disclosure tended to be minimal.

The period of Gray and Haslam (1990) study on external reporting by UK universities between 1983 and 1987 was also seen as a turbulent and unstable period for the sector. However, at the time there was no explicit regulatory reporting framework for the university sector and guidance had only, at the latter period of the study, been introduced (Jarratt Report) which recommended the adoption of specific performance indicators. They had expected to see a change in voluntary reporting practices of universities during this unstable period, in an attempt to influence public perceptions, and looked to investigate whether disclosure practices had changed over the period and, in addition, whether the categories of disclosure, particularly voluntary, increased over the period. What they did find was that there were few significant changes/increases in non-financial or voluntary categories of disclosure over the period. Interestingly, this lends support to the idea that responsiveness to 'environmental' change was small and slow, as well as possibly an incorrect presumption by the authors of the nature of the changes in reporting practice during this period of instability for the sector. Again, this view resonates with the current study as it was expected that changes might be detected during the period but it was not the case. Voluntary disclosure has not changed much at all during the three-year period. Perhaps concentrating only on a three-year period is not sufficiently long to detect any possible meaningful changes – instigated by either governance practices or NCNC.

The categories/themes identified in this study are more numerous than those studies previously mentioned and as shown in Table 7.1. Most prior studies in HEIs use or expand on Coy et al.'s (1993) four categories. Not all the categories, in this study, are directly comparable but financial position/results and current and future developments (student numbers, student achievement and curriculum development) are categories which contain some of the items (or similar) in the financial and service performance categories of prior studies. Therefore, the findings of these will be briefly compared.

Approximately 33% of FE colleges disclose the total student numbers compared to approximately 44% in Banks et al.'s (1997) and approximately 90% in Nelson et al. (1997) study. However, 60% of colleges disclose the number of SFA funded students. Although the extent of disclosure by institutions does differ, the study shows little variation in the period under investigation. It is particularly interesting that some colleges do, yet there are plenty who do not disclose. This is a surprising finding as it would be expected that it would be one or the other – all do or all do not. It is however, difficult to determine total student numbers but this may be due to reporting different types of students – there is not one 'common' type of student as FE (especially) and HE is made

up of a wide range of course offerings or student classification – full-time; part-time; apprentices; vocational and non-vocational courses; HE provision (UG/PG) – and funding. This was also an issue when looking at factors that might influence disclosure (see discussion in Section 7.3) as the lack of comparable disclosure of student numbers could not be used as an indicator (proxy) of size. Furthermore, it is also difficult to make direct comparisons of themes as this study does not exactly replicate prior studies. Gordon et al. (2002) concentrated on only one theme, service efforts and accomplishments, in their study of US public and private colleges and universities and they also found a range of disclosure scores from a high of 59.1% to a low of 17.6%. The findings from FE also identified a range of scores with mean scores well below the maximum. This could be a limitation of using disclosure indices – the maximum score is an 'ideal' that is unlikely to be achieved. Realism is required regarding a realistic expectation of scores.

7.2.4 Accountability, disclosure and governance

There are four areas of accountability identified by Dhanani and Connolly (2012). These are strategic, financial, fiduciary and procedural accountability. These have been used as types of accountability to group some of the key categories in the disclosure index (see Table 5.39) to add another dimension to the discussion. First is strategic accountability which is associated with an entity's core purpose (Dhanani and Connolly, 2012). The relevant categories under this banner, for FE colleges, includes the implementation of strategic plan and current and future developments (two categories representing approximately 24% of disclosure index items). There was little variation in scores between year with mean scores of 4.16, 4.50 and 4.16 – for a total of 21 items. The low scores suggest that colleges are not very forthcoming in divulging strategic accountability via the annual report. Providing information on key performance indicators and the direction a college is heading does not appear to be a key area for disclosure. This is in contrast to Dhanani and Connolly's (2012) findings in the charity sector, where charities were found to be increasing levels of strategic accountability in order to attract donors and to increase public trust. FE colleges provide annual returns to funding bodies to satisfy meeting funding requirements. They also found less negative strategic accountability reporting which could support the view that colleges only disclose more positive items and omit anything with negative connotations which might not appeal to external stakeholders. They suggest that such disclosure is 'motivated by the positive model of stakeholder theory' (p.1160). Colleges also use the annual review, as an external accountability publicity mechanism, to promote their 'positive' strategic messages to increase public trust. Also, funding is not affected through disclosure in the annual report, unlike charities who are mainly relying on donors.

Stakeholder disclosure items can be mapped to procedural accountability in Dhanani and Connolly's (2012) study. The wide range of stakeholders identified by colleges, suggests numerous facets of accountability are required - what is of interest and relevance will differ depending on the stakeholder. As a minimum, accountability to students, local employers and community would be expected and two items included within the category of student achievement are pertinent to such accountability: disclosing a measure of achievement and disclosure of league table positions. The latter does not appear to have the same level of importance to the sector as league tables for HEI, as only two colleges disclose this. This is probably due to the local nature of the FE sector as the majority of students stay and study locally. The competition faced by FE colleges comes largely from local sixth form colleges or other colleges with specific employer links or vocational training provision, i.e. for those students undertaking apprenticeships or not studying at all.

Success rates (learner outcomes) is the highest disclosed item. Disclosure of these through the annual report may not be considered the most appropriate vehicle for these statistics and colleges may provide in different ways but still only approximately 60% are choosing this mechanism to disclose success rates while approximately 40% are not, which is a significant split. The alternative mechanisms to demonstrate/communicate accountability has in some way moved towards the FE Choices website as highlighted in Chapter Five when performance indicator disclosure was discussed. This website, a central repository, is promoted to users for making informed choices about FE colleges. So, the question asked is whether the annual report is of any relevance to prospective or continuing students – how do they make decisions and what information do they use? This would be an interesting area for further research. There were sixteen colleges disclosing a relationship with university partners in 2013 and this item showed little change over the period. In 2013 there were 31 colleges identifying HE under current and future developments. Of those 59% had disclosed more than or equal to the mean with 41% disclosing less than the mean. Suggesting that the extent of disclosure is not influenced by HE provision. This fact is also supported in the next section.

Fiduciary accountability can be demonstrated through the disclosure of governance and principal risks/ risk management (see Table 5.39). Specific reference to risk management is one of the governance disclosure items in the index. Colleges identify their risk and internal control framework (often a generic statement) in the statement of governance and internal control which provides information on the management of risk. The principal risks are identified in the operating review section and are tailored to individual college circumstances. The principal risks identified are funding, tuition fee policy and pension fund liability – all associated with financial stability/instability. However, despite this only 16.8% of the sample in 2013 state specifically that financial stability is a risk. There is much less focus on risks associated with student matters – numbers and curriculum

development – this is surprising in view of the climate at the time. Even following changes made possible by the 2011 Education Act and the introduction of Area Reviews, the risk of merger or a proposed merger does not seem to be at the forefront of disclosure. This was not identified nor disclosed as a risk by any college in 2013 but as is seen in Chapter Two, it is a risk facing more and more colleges.

Another important disclosure under the fiduciary accountability umbrella is governance. This study emphasises the role of governance and discharging accountability through disclosure and hence the inclusion of 34 governance disclosure items (derived from the statement of corporate governance and internal control) in the index. One interesting outcome was the increase in number disclosing attendance by governors at corporation meetings. As Table 5.13 shows there was no disclosure of this item in 2011 but it had risen to eleven in 2013. A reason suggested to account for this could be the adoption of the new FCG – looking at the eleven colleges who do disclose this all of them have adopted the new code. However, as shown in Table 6.2, there are 75 colleges using the FCG and variants – so why is there less disclosure by the other 64 colleges using the FCG, or why are those eleven choosing to disclose more? Perhaps, it could be suggested that, this depends on the individuals on the corporation and their experience and background. Or as mentioned in Chapter Six could this be because the adoption of the new FCG signals good governance practice and therefore no need to disclose more. However, only four of the eleven colleges above are included in the fifteen colleges showing an increase in disclosure of details of overall governor attendance. This is of interest to stakeholders – are the appointed representatives attending and fulfilling their role and therefore being seen to be accountable and transparent regarding their commitment to the voluntary governor role. All except for three have adopted the FCG while the three use the UK CG code.

Under the financial accountability umbrella sits disclosure of financial position/results (nine items). This is concerned with the financial viability, continuity and operational efficiency of the entity (Dhanani and Connolly, 2012). The mean score for disclosure under this category is approximately 5.50, suggesting higher levels of disclosure for this category. This, it can be suggested, is probably because these disclosures require a statement of objective facts, which are also available in the financial statements. They are 'easy' and uncontroversial disclosures that can be found elsewhere in the annual report and are not exposing the college to any new disclosure(s) of results. Also, it may be suggested, that due to funding coming mainly from one source there is 'limited appetite for financial accountability disclosures from the different constituents' (Dhanani and Connolly, 2012, p.1156) and stakeholders other than funding bodies may prefer the 'storytelling of strategic accountability' rather than 'the "grey" financial statements' (Dhanani & Connolly, 2012, p.1156 citing Connolly et al., 2009).

FE colleges are complying with legislation regarding annual reporting (external accountability) and there is nothing to suggest otherwise but as Ebrahim (2003) argues 'laws and regulations in themselves are inadequate as mechanisms of accountability since they represent only a minimum common behavioural standard' (p.199). This seems to be the conclusion drawn from the analysis of the disclosure index. The ADH contains the 'Casterbridge college annual report' for illustrative purposes but it also allows colleges to tailor their own reports as appropriate (AoC, 2014d) but the findings show that not many colleges are disclosing much more than the minimum or standard items identified in the ADH. The findings support those Dhanani and Connolly (2012) in that the annual report serves as a formal accountability document. Mechanisms such as the 'glossy' annual review or good news stories on the website are more focussed on publicity rather than public accountability.

If the annual report is a formal accountability document required by legislation, then the question can be asked as to whether it should contain only the financial statements and little more. As funding bodies are getting the information they need from other returns (SFA, 2015) and accountability to other stakeholders is limited in the annual report, is the annual report of any use to stakeholders? This would be an interesting area for further research.

7.2.5 Summary of key findings and conclusions: accountability

This section provides a summary of the key findings for Questions 1, 2 and 3 which were postulated to address the study's first two objectives i.e., to ascertain the extent of disclosure in English General FE colleges annual reports 2011-2013 and to identify any observable patterns and trends in disclosure of English General FE colleges.

Question 1: Do colleges make their annual reports accessible?

A major finding was that FE colleges were not making their annual reports readily accessible. This is more than just a methodological point regarding missing data as accessibility is a main dimension of accountability (Coy et al., 2001). Only 47.7% of the total number of FE colleges, had made at least one year's annual report available on their website and only 11% had reports accessible on the website for all three years. There is no single repository for FE college annual reports. Extracts of financial management data is available for all colleges on the government website but this does not provide all the required narrative information.

A FOI request was necessary to obtain missing annual reports. Despite the existence of FOI legislation, obtaining missing reports was still problematic suggesting a lack of accountability by some colleges. Out of a total population of 218, the annual reports for 49 colleges were not

available for all three years. Annual reports were obtained for all years for 115 colleges, with a final usable sample of 101 colleges.

This suggests that colleges firstly, do not have full understanding of FOI requirements and secondly, there is also a lack of awareness of demonstrating accountability through the annual report. Although, it could also demonstrate that there are not any repercussions for not complying. However, the question of accessibility could be a thing of the past as there is now specific guidance in the ADH that annual reports have to be uploaded to websites (SFA, 2018). A quick check of a small sample of previously "unaccountable" colleges (Section 7.2.1) suggests that this is now the case, as colleges are now making their annual reports available. This suggests that there is recognition for the need for increased accountability and transparency in the sector.

Questions 2 & 3: What is the level of accountability disclosure in FE colleges' annual reports for the period 2011-2013 and what patterns and trends are observable from the accountability disclosure in FE colleges' annual reports for the period 2011-2013?

To measure the level of total disclosure an index of 143 items (24 categories: five mandatory and nineteen voluntary) was constructed including items identified in the ADH. Approximately 73% of the sample disclosed between 70-89 items from the index. The minimum scores for each year were 39, 36, and 49, the maximum scores were 105, 102, 101 and the means were 72, 73 and 74 respectively. Overall, there was little change between years and only sight movement in 2013 with more colleges moving into the 80-89 band from 70-79.

In addition, to overall levels of disclosure, categories of disclosure were investigated. As with the total levels of disclosure, there was very little discernible change and no patterns or trends emerged from the findings over the period. The categories with the highest levels of disclosure include financial position, curriculum developments, stakeholder relations, cash flow and liquidity, resources and governance. These categories are more objective than some of the other categories and include some items which replicate financial statement data. Strategically it may be seen as a safer option to disclose these items rather to be 'exposed' through the disclosure of implementation of strategic plan and financial objectives items. These categories have much lower mean disclosure scores. Also, it is an easier option to just disclose the minimum recommended by or as illustrated in the ADH. What has also been noticed is the boiler plate reporting with some colleges providing the same information in the same way each year. However, there are colleges who have embraced individuality and the option to tailor the report to their own circumstances. Gray and Haslam's (1990) study recognised reporting driven by policy prescription rather than user demand and the findings of this study suggests nothing or very little has changed in over twenty years.

Also, it is easier to follow than to lead. Why would colleges choose to disclose more and present in a different way to the Casterbridge college example in the ADH and is there any need for individuality?

Furthermore, colleges often publish an annual review aimed mainly at students (existing/prospective) and local employers/stakeholders in addition to the annual report. This could be seen as an alternative vehicle for demonstrating accountability which is supported by Gordon et al. (2002) who state 'perhaps other information prepared on a uniform basis by all institutions reduces the need for additional voluntary disclosures with the annual report' (p.260).

As no discernible patterns or trends emerged and there was little change over the period it was decided to focus only on 2013. The sample of 101 colleges was used for the statistical analysis to assess the influence factors on the extent of total and governance disclosure and this will be discussed in the following section.

7.3 Factors influencing disclosure

The review of the empirical disclosure literature identified factors that could influence the level of disclosure and these have been used to develop the hypotheses. The factors identified from the literature are: SIZE, LEV, BIG4, GOVMAX, GOVMEET & ACMEET (for example, Allegrini & Greco, 2013; Barako et al., 2006; Chen & Jaggi, 2000; Cooke, 1989; Haniffa & Cooke, 2002; Jensen, 1993; Maingot & Zeghal, 2008; Ntim et al., 2017; Gordon et al., 2002). The first three factors will be discussed in Section 7.3.1 and Section 7.3.2 will discuss the final three. In addition, three factors have also been selected that are specific to FE and the period covered by the study. The factors identified are: HEPROV, CGCODE and COOPT and they will be discussed together in Section 7.3.3.

7.3.1 Factors: SIZE, LEV and BIG4

Size (SIZE)

Size is the exploratory variable most frequently associated with extent of disclosure in prior studies (Gordon et al., 2002). According to agency theory, larger firms are more likely to be associated with higher agency costs and consequently motivated to disclose more information than smaller firms which can off-set monitoring costs (Jensen & Meckling, 1976). There are a number of different constructs put forward by the literature to measure size. In this study, size is measured by income (total funding body grants). The results show a positive correlation but not statistically significant association implying that the hypothesis H1a and H2a are not supported. This is contrary to the findings of Abraham and Cox (2007), Adelopo (2011), Allegrini and Greco (2013),

Cooke (1989) and Haniffa and Cooke (2002) who also found a positive association, but statistically significant relationship, between the size of corporate entities and the extent of disclosure.

In the HEI sector Gordon et al. (2002) found a significant positive relationship between size (adjusted gross assets) and the extent of disclosure in their study of US HEIs as did Gordon and Fisher (2008) who also found such a relationship in their study of performance reporting disclosure, also in the US HEI sector. Their findings indicated that larger institutions reported more types of performance indicators suggesting that this was due to either economy of scale or higher visibility.

However, the measure used as a proxy for size in these studies was total assets as opposed to funding income used for this study. Maingot and Zeghal (2008) also used income (revenue) as a proxy for size in their study of Canadian Universities and they also found a positive statistically significant regression coefficient ($R^2 = 0.44$). In order to test, whether funding income (revenue) as a proxy for size had any significance on the results the regression model was re-run using total assets as a measure of size. The results of the test did not show any significant difference between the two measures. This suggests that the results are robust to different definitions of size.

First, FE colleges unlike corporate entities or HEIs do not have different orders of magnitude in terms of size. Second, increased size is not associated with increased diversity of income which might affect disclosure. FE colleges are reliant mainly on one source of income – government funding. Other HEIs in the UK, and elsewhere, have access to a wider range of income streams. In the US there are both public and privately funded institutions. In addition, universities are recipients of, for example, research income, endowments, grants and other funding streams in addition to funds from the public purse. The homogeneity of the FE sector and its reliance on one source of income is a possible explanation for the lack of statistical significance in the findings. FE colleges are not quantitatively significantly different in terms of size, unlike for example FTSE 350 companies. Therefore, size is not an important influence on disclosure. As colleges, in order to receive funding, have to satisfy funding body requirements it is not unexpected that they disclose what is required, by the Financial Memorandum, as a minimum in order to guarantee continued support and income. The funding bodies, who are in effect the 'principal', taking an agency theory perspective (Jensen & Mackling, 1976), get the information that they require, regarding the performance of colleges, whether disclosed in annual reports or not.

Leverage (LEV)

It is argued, from an agency perspective, that firms with a greater proportion of debt (more highly leveraged) will incur higher monitoring costs (Jensen & Meckling,1976, p.338) including increased disclosure to their stockholders. However, FE colleges do not issue debt instruments, but they do

and can take out loans and as can be seen from the descriptive statistics in Chapter Six some colleges are faced with significant debt burdens. Hypotheses H1b and H2b were formulated assuming a positive association between leverage and the extent of disclosure.

However, the findings suggest that hypothesis H1b and H2b cannot be supported. The regression analysis, see Table 6.7, shows a negative but statistically insignificant association between leverage and the extent of total disclosure. This was also the finding of Ntim et al.'s (2017) study of UK HEIs. Gordon et al. (2002) also found that leverage was not associated with higher levels of disclosure in US HEIs. This suggests that leverage is not a contributory factor to disclosure in the Education sector and maybe lenders (if banks, in contrast to debtholders) can require internal information anyway. Also, the financial stability of a college is an explicit funding body requirement and a college can be put into special measures if this is not the case (SFA, 2012).

However, some corporate studies find that leverage is relevant which it is why it has been selected for the model. But the findings of these studies are mixed with Allegrini and Greco (2013) reporting a negative and insignificant association. Adelopo (2011) found a negative but statistically significant association while Barako et al. (2006) found a significant and positive association.

External Auditor (BIG4)

The external auditor is an important monitoring mechanism from an agency theory perspective, as a means of alleviating agency costs. However, the relationship for FE colleges and external auditors, is not one of reporting to the principals (shareholders) but to the Corporation in accordance with the Financial Memorandum but it can also give confidence to other stakeholders (AoC, 2014d). The regression analysis in Table 6.7 shows that there is a positive but statistically insignificant association between external auditors (Big 4/Non-Big 4) for both the extent of total disclosure and governance disclosure. This is also supported by the correlation coefficient in Table 6.4 for H1e. These results imply that hypotheses H1e and H2e are not supported. This result is consistent with the findings of Ntim et al. (2017) who also found that Big 4 external auditors were positively associated but statistically insignificant. This contrasts with the findings of Gordon et al. (2002) which showed a significant negative association suggesting less disclosure by those audited by the Big 6 but as argued by Ntim et al. (2017) the audit market has changed since 2002. There are now only four big audit firms and the Gordon et al. (2002) study also included universities and colleges with state appointed auditors – very different to the current UK audit market.

Corporate sector studies (for example, Chen & Jaggi, 2000; Barako et al., 2006; Ntim et al., 2017) also indicate mixed results but they have generally been positive so it was hypothesised that there

would be a positive association between the extent of disclosure and auditor type for FE colleges. In the UK there is a great deal of choice in the audit market. However, the number of different audit firms identified from the sample FE colleges was rather limited. Audit firms often specialise in certain sectors with the larger audit firms offering multiple sector specialisms. The FE sector and colleges are not insubstantial clients in terms of audit fee and advisory services, which is presumably why three of the Big 4 audit firms have a presence in the FE colleges in this study. Colleges can still select their audit firm and the regular rotation of auditors is becoming more common. The audit market and the audit of FE colleges is highly regulated. The reporting requirements of FE colleges are prescribed by company legislation, the Charity commission and the funding bodies (AoC, 2013b). This level of regulation and scrutiny of the audit profession suggests that audit firm size has no bearing on the extent of disclosure. 35 colleges (34.6%) had Big 4 auditors with the remaining 66 (65.4%) using one of eight different audit firms (Macintyre Hudson; RSM Tenon/Baker Tilly; Buzzacott; Grant Thornton; Mazars; Scrutton Bland; Francis Clark and Bishop Fleming). All the audit firms had multiple FE college clients, except for the last three who only audited one college each in the sample. This contrast with the findings of Ntim et al. (2017) who found 78% of their sample was audited by the Big 4 firms – which might suggest the propensity of HEIs to appoint prestigious Big 4 firms and for the Big 4 firms to take on these not insubstantial education sector clients.

During the three-year period there was also evidence of some colleges changing auditor's appointments however these tended to be within the firms listed above. The findings show that there were no new audit firms entering the FE market during the period. What is also interesting is the some of the external audit firms also provide internal audit services (outsourced) to some of the sample colleges, thereby reinforcing the importance of this sector, as a source of fee income, to some audit firms and the audit market.

7.3.2 Factors: GOVMAX, GOVMEET & ACMEET

A variety of different theoretical perspectives have underpinned prior studies for example, agency theory with regard to the monitoring and controlling role of the board (Jensen & Meckling, 1976); resource dependency with regard to the resources and information available from board members, particularly external/outside board members (Pfeffer & Salanick, 1978; Hillman & Dalziel, 2003). Legitimacy theory is also used in relation to board composition and structure having a legitimising effect on the organisational structure and leadership in an organisation (Dowling & Pfeffer, 1975; Ashforth & Gibbs, 1990).

Board size (GOVMAX)

Board size and number of board meetings are standard governance characteristics in terms of the composition of the board and have consequently, shaped the assumptions and stance of previous empirical studies. It has been ascertained that there is no previous empirical literature on the effect of board size and number of board meetings on the extent of disclosure in the FE sector and studies in the HE sector are limited (Ntim et al., 2017, Gordon et al., 2002). Ntim et al. (2017) in their recent study of UK HEIs applied a multi-theoretical perspective to formulate their non-directional hypothesis for disclosure and board size based on the variety of roles required to be performed by a board. Gordon et al. (2002) in their study of US universities and colleges, looked at board size from a monitoring perspective, particularly due to the composition of the board in HEIs being almost exclusively comprised of outsiders or external members - as is the case for FE colleges. In addition, as the size of the board increases it allows more opportunity for increased diversity in terms of ethnicity, gender and experience and background (Gordon et al., 2002) and hence the expectation of a positive relationship between board size and extent of disclosure. In addition, corporate disclosure studies including those of Ntim et al. (2012), Allegrini and Greco (2013) and Gisbert and Navallas (2013) also found a positive and statistically significant association between board size and voluntary disclosure so it was hypothesised that there would be a positive association for FE.

The results of the regression analysis, for both the total disclosure index and the governance index, show a negative and statistically insignificant association with board size. On that basis, both hypotheses H1c and H2c, which stated that there is a positive association between board size and the extent of disclosure, are not supported and would be rejected. The results are consistent with the findings of both Ntim et al. (2017) and Gordon et al. (2002) in the HE sector (see Table 7.2).

A number of colleges in the sample are reporting board vacancies at the reporting date, as well as detailing a significant number of appointments in the post year end period. It could be argued, that the governors in post, after the year end are those who have most influence on disclosure. However, as the majority of the corporation are unpaid lay persons, their influence on providing additional disclosure other than that suggested by the ADH could be considered minimal. Hence, it can be argued, that the number of governors does not have any impact on the extent of disclosure. It is also consistent with agency theory which suggests that larger boards often result in poor communication leading to poor monitoring, lack of participation and effectiveness which could negatively impact on disclosure (Lipton & Lorsch, 1992; Jensen, 1993; Cheng & Courtenay, 2006). This is not consistent with stakeholder and resource dependency theories which suggests larger boards are likely to disclose more to their stakeholders.

Number of board (GOVMEET) and audit committee meetings (ACMEET)
The number of meetings both for the board and audit committee are identified in the literature as proxies for diligence (Allegrini & Greco, 2013; Dewing & Williams,1995; Ntim et al. 2017). Internal factors that influence diligence such as activity and influence are difficult to measure hence the use of proxies. Allegrini and Greco (2013) using an agency setting in their corporate study, concluded that there was a positive and significant association between the number of board and audit committee meetings and the extent of disclosure. Hypotheses H1d, H2d, H1f and H2f were, therefore constructed based on a positive association premise derived from the literature. However, the findings in Tables 6.7 and 6.8, for number of board and audit committee meetings, show statistically insignificant associations suggesting that hypotheses H1d, H2d, H1f and H2f are not supported with regard to either the total disclosure or governance indices. This suggests that a higher number of governors' or audit committee meetings has no influence on the level of total disclosure. Although, these findings contradict those of Allegrini and Greco (2013), in the corporate sector, they are consistent with the findings of Ntim et al. (2017) for UK HEIs which also show a negative and statistically insignificant relationship with number of board meetings and disclosure scores (see Table 7.2).

The findings for audit committee meetings differ from those of Ntim et al. (2017) who found that their measure of audit quality was statistically and positively associated with the level of voluntary disclosure. However, Ntim et al. (2017) used a composite measure for audit committee quality comprising composition, expertise, diligence and monitoring capacity while this study has used one measure diligence: the number of audit committee meetings which can affect direct comparability. Allegrini and Greco (2013) also found audit committee meeting frequency was highly and positively associated with extent of disclosure. The minimum number of audit committee meetings was two and the maximum six. The median being three equating to one audit committee meeting per term. This is supported by the findings of Dewing and Williams (1995). The comments made regarding use of lay persons and board size are also relevant here.

7.3.3 Factors: HEPROV, COOPT, CGCODE

The six factors, previously mentioned, have been shown to have no statistically significant association with the levels of disclosure indicating that the hypotheses cannot be supported. Hypotheses also have been postulated regarding the association between three independent variables specifically related to FE – HE provision, the use of co-opted members and CG code. The results are summarised in Table 6.10.

HE provision (HEPROV)

It was hypothesised (H1h and H2h), underpinned by a stakeholder perspective, that there is a positive association between colleges providing HE courses and the extent of total and governance disclosure. Mitchell et al. (1997) discuss stakeholder salience, based on the premise of stakeholders possessing one or more of the following relationships: power, legitimacy and urgency. The key HE stakeholders in FE include the university partner (HEI) and the student (in their dual roles as consumers and providers of funds). This implies that FE colleges may communicate more and demonstrate accountability to these stakeholders through disclosure. Nelson et. al (2003) found, in their recipients' responses, that improvements in accountability scores by Canadian Universities were caused by a number of factors including 'a perceived need to reach the university's stakeholders' (p.97). However, the results in Tables 6.7 and 6.8, show statistically insignificant associations, which indicates that the hypotheses H1h and H2h are not supported. This suggests that accountability to these stakeholders is provided by other mechanisms and those with HE provision are only disclosing the minimum as there is no requirement for them to do more.

Co-opted members (COOPT)

The findings of the regression analysis in Tables 6.7 and 6.8 show that one factor, co-opted members, does have a positive and statistically significant association for total disclosure score and governance score, suggesting that both hypotheses H1g and H2g can be supported. Although, identified as a characteristic specific to the FE sector, it could also be classified as a governance characteristic as additional external members are co-opted onto to the board or committee, usually to provide additional expertise. From a resource dependency perspective, additional co-opted members are a resource which may impact on the interdependencies and power within an organisation (Pfeffer and Salancik,1978) leading to more influence and control over an organisation, which could be manifest in the extent of communication and disclosure. It is a way that an organisation can manage and strategically adapt to its external environments (Callen, Klein & Tinkelman, 2010). Co-opted members are a resource brought into a college for a specific purpose and it is suggested that co-opted members can influence the existing interdependencies and power relations within the corporation and one outcome of this is increased disclosure. Pfeffer and Salancik (1978) state that 'for one of the inducements received for contributing the most critical resources is the ability to control and direct organizational action' (p.27) and this supports the above comment which is demonstrated by way of additional accountability disclosure. In addition, co-opting additional members could also be a monitoring activity, identified by agency theory to reduce agency costs to members and by disclosing more agency costs are reduced.

Corporate governance code (CGCODE)

For FE colleges, the period under review was a time of change and challenge on many fronts and one of those was the decision by the AoC to develop its own code of governance. Prior to 2011, the only CG code available to colleges was the UKCG code and previous iterations with FE colleges applying the principles of the UKCG code as appropriate to the sector. The AAA, an addition to the FCG, was published in 2013 (AoC, 2013c). Consequently, during the period of the study, colleges have been applying/adopting a number of different extant codes (as well as early adoption of the FCG and Annex). 2013 was no exception, as seven different descriptions of the code adopted were identified in the annual report (see Table 6.2). It was hypothesised that there would be a positive association between the extent of disclosure and the CG code used. This presumed that the introduction of a new code would result in increased disclosure, as is commonly the case when there is a new code or iteration. As previously mentioned, the seven code descriptors were reduced to two (UKCG and FCG) for the statistical analysis.

Interestingly, the results of the regression analysis show contrasting findings. There is a positive but insignificant association between CG code and the extent of total disclosure, therefore hypothesis H1i is rejected. However, the regression results indicate a negative and significant association between CG code and extent of governance disclosure. Again, the hypothesis has to be rejected because of the direction of the result but a number of reasons could be suggested for the negative association. Firstly, with good governance practices less disclosure is offered by colleges. Secondly, it could be the items included in the governance index do not measure or reflect a good governance activity or thirdly, as there is compliance with good CG practice this is seen by colleges as a substitution for the need to voluntarily disclose such/more information.

As far as I am aware, there are no other disclosure studies in the FE sector therefore, there is a lack of empirical literature with which to compare the findings for these three factors.

In summary, Table 7.2 sets out previous education studies' findings on the factors that influence disclosure, for comparison with the current study's findings. As shown by Table 7.2 there are limited education studies with which to directly compare results. Previous studies have often focussed on one or a few factors or those not relevant to FE or outside the scope of this study. Consequently, comparison with the findings of other studies is limited but it also illustrates the contribution this study is making to the disclosure and education sector literature.

Table 7.2 Comparison of previous education sector studies: factors influencing disclosure

Study	Variables (factors)								
	Size	Leverage	BIG4	Board size	Board meetings	Audit committee meetings	HE Provision	CG code	Co-opted members
Current study	+ve	-ve	+ve	-ve	-ve	-ve	+ve	+ve	+ve*
Gordon et al (2002)	+ve*	-ve	-ve	-ve	N/A	N/A	N/A	N/A	N/A
Maingot & Zeghal (2008)	+ve*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Gordon & Fisher (2008)	+ve*	+ve	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ntim et al. (2017)	N/A	-ve	+ve	-ve	-ve	+ve*	N/A	N/A	N/A

*statistically significant

Other

A number of other factors, have been mentioned throughout this study that, are of interest to FE colleges. One of these is the use of or adoption of the Carver model of governance by a number of colleges in the sample (Carver, 2016). There is also evidence identified during the data collection that other colleges are considering adopting this governance model. This is illustrated in the following extract from Bromley College's 2013 annual report.

> In view of the increased 'freedoms and flexibilities' now available within the sector and the consequent levels of responsibility and accountability residing with the Corporation, the decision was taken in May 2013 to adopt a 'policy governance' model for 2013/14, operative from 1 September. This means that the full Corporation will meet 7 or 8 times in the year but there will be no Committees other than Audit, which will meet once each term, and the Search and Remuneration Committees which will be convened as necessary. This means that an increased volume of business will be conducted through the Corporation meetings and governors will be expected to have a broad and deep understanding of all the educational and commercial decisions faced by the College. In addition, specific issues will be dealt with on a 'task-and-finish' basis by specifically convened groups of governors and college staff.

Out of interest, the disclosure scores for two colleges identified as following the Carver governance model - New College Stamford and Hereward - were looked at to see if they were different from the mean. Results are shown in Table 7.3.

Table 7.3 Disclosure scores: Carver governance model colleges

College	Mean Total index	Total index score	Mean Governance index	Governance index score
New College Stamford	74	74	25	27
Hereward	74	69	25	24

Nothing conclusive can be drawn from the limited review but to generalise it can be suggested that there is no difference in extent of disclosure between those with a more ‘traditional’ governance model and those adopting the Carver model.

7.3.4 Summary of key findings: factors influencing disclosure

This section provides a summary of the key findings for Questions 4 and 5 which were postulated to address the study’s third objective i.e., to assess the influence of various factors in explaining variations in disclosure in the annual reports of English general FE colleges. To recap, the research questions are:

Question 4: What impact do college-specific characteristics have on the extent of accountability disclosure in the annual reports of FE colleges, and

Question 5: What impact do governance practices have on the extent of accountability disclosure?

The statistical analysis results indicate that only one FE college characteristic, co-opted members, has an influence on the extent of total and governance disclosure. The results show a positive and significant relationship for both indices. The CG code used does show a significant association with the governance index but the direction is negative and not positive as hypothesised and there is no statistically significant relationship with the total disclosure index. The variables, other than the two above, show a mixed picture. For example, size and Big 4 show positive but insignificant association for both indices. This contrasts with the findings of Gordon et al. (2002), Maingot & Zeghal (2008) and Gordon & Fisher (2008) who found that size had a positive and significant association. With regard to Big 4, the findings are supported by Ntim et al. (2017) also found a positive but insignificant association but not supported by Gordon et al. (2002) who found a negative association. Leverage, number of board meetings, number of governors and number of audit committee meetings all show negative associations for the total disclosure index. These findings are supported by Ntim et al. (2017) except for audit committee meetings. However, they are all positive for the governance index except for number of governors.

As colleges have annual guidance in the form of the ADH, what colleges disclose is fairly standard, and as colleges are a homogenous population, unlike the corporate and university sectors, it is not surprising that there is little evidence of characteristics – college or governance – influencing the level of disclosure. That co-opted members, temporary additions to the corporation, brought in for their knowledge and expertise, do influence the extent of disclosure suggests that these 'outsiders', as additional monitoring mechanisms, are making a contribution to, as well as seeing the need for, increased accountability.

7.5 Research contribution

Much of the research in the FE sector is largely governmental department/AoC commissioned focussing on case studies or policy driven 'insider' qualitative studies. There is a lack of quantitative empirical studies in this sector. The current study makes a number of contributions to the FE and UK education sector research literature in addition to contributing specifically to the disclosure index and governance literature.

Firstly, the current study adds to the disclosure index studies literature. There are no previous studies looking at accountability disclosure in FE college annual reports neither are there any previous studies in this sector using a self-constructed disclosure index. Therefore, the study is contributing to the FE sector literature as well as widening the scope of disclosure index research. The size of the index (143 items) is far greater than that used in other disclosure studies, particularly those in the HE sector and is therefore contributing to the education sector literature. Also, this study only uses information obtained by content analysis, from the narrative section of the annual report, thereby distinguishing itself from other studies that have incorporated financial statement data (for example, Nelson et al., 2003; Ntim et al., 2017).

Secondly, the study contributes to the not-for-profit disclosure literature (including education) by investigating factors such as size, leverage and auditors on the extent of disclosure as well as other factors specific to the sector (HE provison, co-opted member and CG code). There are few studies of HE in FE and no previous studies of HE disclosure in FE annual reports and this study therefore, opens up the opportunity of further research in this area. Particularly, as more FEIs are being validated to award degrees, in their own right.

Thirdly, the study contributes to the governance literature as it focuses on a period of governance change and investigates changes in disclosure as well as the influence of governance characteristics (number of audit committee and board meetings and board size) on the extent of disclosure. It makes a major contributes to the empirical not-for-profit governance literature, with

the statistically significant finding of the influence of co-opted members on the extent of disclosure; an area for which there has been no previous research. Furthermore, the use of co-opted members could be included as a variable in future disclosure index studies.

Finally, the study has looked at accountability and disclosure through a multi-theoretical framework. The findings indicate that the theories underpinning disclosure: agency, resource dependency, legitimacy, institutional, stakeholder and stewardship were able to provide some explanation of the extent of disclosure in FE colleges.

7.6 Research limitations

Even though there have been some interesting findings, the study acknowledges a number of limitations. As this is the first disclosure index study in the FE context, it is entirely new territory and consequently a number of limitations became apparent particularly, during the latter stages of the study.

First, the sample size is less than the entire population of FE colleges. Ideally, the whole population would have been included in the analysis and as previously discussed attempts were made to obtain the annual reports for all colleges. Due to the issues encountered with the availability of annual reports, the sample size is restricted to approximately 46% of the total population. However, this limitation did result in an interesting finding regarding availability or lack of availability. But new insights and outcomes may have become apparent with an increased sample size, as there is a danger of overgeneralisation, with samples of less than 100% of the population. Patterns and trends not discernible from the sample may have been present when the entire population is taken into consideration. However, there is no reason to suspect any particular bias from the sample obtained. This also applies to the outcome of the statistical analysis.

Secondly, the current study only looks at a three-year period. It was the intention to investigate and identify any changes in disclosure practices following the introduction of NCNC government policy and the Education Act in 2011. By focussing only on a three-year period, including 2011, it restricted the opportunity to identify any significant changes. It was assumed that changes, if any, would take place almost immediately. The results show that little change took place over the period. If the period was increased to five or more years then the outcomes might have been different. However, practical limitations in terms of time prevented the study being conducted over a longer time period. In addition, the restriction in time available for the collection of annual reports and following up non-FOI responses also impacted the final sample size.

Thirdly, the study uses a self-constructed disclosure index which has several limitations. These limitations are acknowledged in the literature. One such limitation, is the selection of items in the index. As this research is carried out in a sector not previously studied, the selected items are appropriate to FE and are not exactly the same as other studies, therefore, direct comparability is at times limited. Previous studies in the HE sector have mainly been developments and iterations of Coy et al.'s (1993) MAD and later PAI index. Most of the items in these indices were not appropriate for FE. However, the items selected for this study, could have been grouped or categorised more in line with those studies resulting in a more circumspect selection of items. The outcome, would possibly have resulted in fewer items – but this is also a strength of the study as it is an extensive index comprising of 143 items using the ADH guidance as the foundation. A number of previous studies have looked at public accountability disclosure and adopted a public accountability stance. This study recognises public accountability but it is not its main aim to construct a PAI/PATI index.

Following on from the selection of items, is the limitation of measuring only quantity of disclosure, rather than quality or both. Other studies, often with fewer disclosure items or covering only one year, have applied a measure to assess the quality of disclosure. This involves applying a scale or measure to determine the quality of each disclosure item (Coy et al., 1993; Coy & Dixon, 2003; Nelson et al., 2003). Furthermore, prior studies have also applied a weighting to items or categories in the index, as some items are perceived to be more important than others (Banks et al., 1997). However, subjectivity cannot be avoided with such weightings. This study applied a dichotomous score recording disclosure or non-disclosure with all items having an equal weighting in the index. It was not attempting to incorporate the relative importance of different disclosures (Gordon et al., 2002) thereby, trying to avoid subjectivity as much as possible. A limitation of using an index to measure disclosure, is what to do about omission of items. Items may not be disclosed because they are not relevant and do not apply (genuine 0 score) or have they may have been purposely ignored or omitted – possibly for a more favourable impression. A decision was taken regarding the treatment of such items but it is recognised that this is also a limitation as it involves subjectivity.

This study has focussed purely on descriptive and quantitative analysis, therefore taking a predominantly quantitative approach. As a result, the question of why colleges disclose or do not disclose information in their annual reports cannot be answered. What makes one college disclose more than its counterparts cannot be determined from the analysis. It would also be interesting to identify stakeholder perspectives on and perceptions of the extent of disclosure and the usefulness of the annual report as a means of demonstrating accountability – either through questionnaire or interview; adopting a mixed methods approach. But this could be an avenue for future research.

In addition, this study only uses the annual report, as a mode of communication and vehicle to demonstrate accountability. It is recognised that while concentrating only on the annual report all other forms of communication with stakeholders has been ignored. Websites currently a prime mechanism for the dissemination of information to various stakeholder groups have not been used, due in part to the variability of and access to information, but it is recognised that they are a valuable source of disclosure data. Some prior accountability disclosure index studies have constructed a disclosure index using data from the annual report and websites (Ntim et al., 2017).

Finally, the selected factors (independent variables) were largely drawn from the empirical disclosure studies literature and with hindsight identifying more factors specific to FE or related to governance characteristics may have identified some more interesting findings and outcomes. However, using them did allow comparisons of findings to be made. This was not possible for the three FE specific factors. An extensive database of college and governance factors was constructed during data collection and a large proportion of this data was not used in the study and some of those additional factors could also have been investigated to determine their impact on the extent of disclosure.

7.7 Recommendations and avenues for future study

There are a number of potential avenues for future research, in the FE sector, particularly in relation to accountability and governance. The FE sector is significantly under represented and neglected particularly with regard to empirical research. Disclosure index and accountability studies largely focus on the corporate as well as the 'more glamorous' HE sector, or in general on the charity or not-for profit sectors. The FE sector is a major player in the education sector, due its size and contribution, unfortunately it fails to attract the attention and research focus that it deserves. Due its turbulent history, often as result of government policy, and a general lack of 'interest' in FE, it is often forgotten or seen as the 'poor relation' of the education sector: falling between 6th form colleges/schools and HE. However, the diversity of provision offered by the FE sector makes it an interesting and worthy subject to study. Some suggestions for future research as presented as follows:

Firstly, future research could focus on a more extended period of study or to use this to look at again later e.g., 2018 etc. It is obvious that legislation, policy and the introduction of new codes of governance take time to be assimilated. As with changes in reporting standards, there is usually an effective date for compliance with an opportunity for early adoption, and a three-year period covering the introduction of such changes is not sufficient to identify the impact of any changes or

as might be expected to confirm that they have no effect whatsoever on the content of the annual report. Also future research could check whether FE colleges are complying with the requirement to publish their full annual report for the year ended 31 July 2018 on their websites by 31 January 2019 (SFA, 2018).
Secondly, future research could consider other mechanisms that colleges have for demonstrating accountability. For example, content analysis of websites and the 'glossy' annual reviews would make for an interesting study both in terms of how colleges are accountable (what and how report) to different stakeholder groups as well as a comparative study with the legally required annual report. It would also be interesting to carry out further research into FE college values and mission statements, as primary points of accountability from a disclosure and stakeholder perceptions perspective. Furthermore, stakeholders' perceptions of and use of the annual report would also be an interesting study. Do stakeholders use the annual report? If not, then where are they getting information from and what type of information is of interest? An operating review section is required in the annual report but for whom is it of interest? Can the annual report become the 'go to report' for the demonstration of accountability? These are questions for and areas of interest to policy makers.

Thirdly, a qualitative study could be undertaken by way of interviews with the Chair of Governors, the Clerk, Principal (CEO) and external Auditors to get an insight into what and why information is disclosed: the lived experiences. How and who decides what is disclosed? Is it a case of boilerplate reporting, either using the ADH with little deviation or adaption or following what has been reported in the past or is it way of engaging and demonstrating accountability of the college and corporation? What are these parties' perceptions of accountability? What is the point of (expense of producing) the annual report if no one going to use it (other than satisfying a legal requirement) as funding bodies have alternative returns/measures of accountability?

More recently, research has focused on other factors which could influence the extent of disclosure, for example, ethnicity and gender diversity (Ntim et al., 2017). Unfortunately, due to the limited information in the annual report and the way information is presented in the statement of governance and internal control, it was not possible to investigate the effect of diversity on the board. It was not always possible determine gender or ethnicity from governor names or the way names were presented. This would have been an interesting factor to consider but would have required extracting information from other sources e.g. websites. This would have been possible only for the most recent year due to websites being updated frequently.

The findings show that the use of co-opted members is positive and statistically significant. The use of and influence of co-opted members on a board or sub-committee would be an interesting

topic for future research. There is very little literature on co-opting members onto a board or sub-committee and it would an area ripe for further quantitative or qualitative research.

As mentioned previously research into FE colleges, particularly empirical research, is sorely lacking and limited. Consequently, it is of interest to academics as well as policy makers. This study provides a starting point for further research into the FE sector.

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Appendices

Appendix A	Key provisions of UKCG and Foundation Code
Appendix B	SORP (extracts – paragraphs 25, 26 & 27)
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Appendix A Key provisions of UKCG and Foundation Code

UKCG September 2012 (extracts)

Section A: Leadership

A.1: The Role of the Board

Main Principle

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

A.1.1. The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

Section B: Effectiveness

B.1: The Composition of the Board

Main Principle

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Supporting Principles

The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy. The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees. …

C.1: Financial And Business Reporting

Main Principle

The board should present a fair, balanced and understandable assessment of the company's position and prospects. Supporting Principle The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. The board should establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable.

C.2: Risk Management and Internal Control

Main Principle

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

C.3: Audit Committee and Auditors

Main Principle

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Code Provisions

C.3.1. The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience

Audit and Accountability Annex to the Foundation Code of Governance (extracts)

Introduction

1.4 A College must either comply with the Foundation Code of Governance and its Audit and Accountability Annex, or comply with the Financial Reporting Council's UK Corporate Governance Code (in so far as it applies to the College sector).

Business and Financial Reporting

A.1 In its reports to external stakeholders, funding agencies, and regulators, the governing body should present a balanced and understandable assessment of the College's performance and prospects.

A.1.1 The governing body should explain in the Annual Report and Financial Statements the statutory and regulatory framework under which it operates, its strategy for delivering the mission and objectives it has set for the College, the College's performance during the year, and its future prospects including the key financial and business risks it faces.

A.1.2 The Annual Report and Financial Statements should identify the membership of the governing body and of its committees, and should set out the number of meetings of the governing body and its committees together with a summary of the number of meetings attended by

individual governors. It should also include a statement of how the governing body operates, including a high level statement of which types of decision are to be taken by governors and which are to be delegated to management, together with the governing body's assessment of its own corporate governance performance in accordance with guidance contained in the Foundation Code of Governance and the Audit and Accountability Annex……
A.1.4 The governing body is responsible for monitoring the integrity of the Financial Statements of the College and any formal announcements relating to the College's financial performance, reviewing significant financial reporting judgements contained in them. A.1.5 The governing body should report in the Annual Report and Financial Statements that the business is a going concern, with supporting assumptions or qualifications as necessary.

Risk Management and Internal Control
A.2 The governing body is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives, and should maintain appropriate and effective risk management and internal control systems.
Audit Committee and Auditors
A.3 The governing body should appoint an audit committee. The committee should comprise at least three independent governors, one of whom should chair the committee. It may additionally include co-opted members; but the Chair of the governing body, the Clerk, the Principal and other senior management staff should not be members. At least one member of the audit committee should have recent and relevant accountancy, or audit and assurance, experience.

Appendix B SORP (extracts – paragraphs 25, 26 & 27)

Operating and financial review

The SORP Board considers that an *Operating and Financial Review* (OFR) should be included in the report and *financial statements*. This review should provide an overview of the institution's finances and operations and should follow best practice as set out in the Reporting Statement.

'The *Operating and Financial Review'* issued by the Accounting Standards Board in January 2006. Specifically the OFR should provide a comprehensive and balanced analysis, consistent with the size and complexity of the institution, of:

(a) the development, performance and operation of the business and operation of the institution during the financial year;

(b) the position of the institution at the end of the year;

(c) the main trends and factors underlying the development, performance and position of the business of the institution and its academic performance during the financial year; and

(d) the main trends and factors which are likely to affect the institution's future development, performance and position.

The OFR should be produced in accordance with the following principles, in that it should:

(a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);

(b) focus on matters that are relevant to the interests of *funders and financial supporters*;

(c) have a forward-looking orientation, identifying those trends and factors relevant to the *funders and financial supporters*' assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;

(d) complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure;

(e) be comprehensive and understandable;

(f) be balanced and neutral, dealing even-handedly with both good and bad aspects; and

(g) be comparable over time.

The OFR should provide information to assist *funders and financial supporters* to assess the strategies adopted by the institution and the potential for those strategies to succeed. The key elements of the disclosure framework recommended to achieve this are, where significant:

(a) the nature of the institution including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;

(b) the development and performance of the institution, both in the financial year under review and in the future;
(c) the resources, principal risks and uncertainties and relationships that may affect the institution's long-term financial position; and
(d) the position of the institution including a description of the long-term financing, treasury policies and objectives and liquidity of the institution both in the financial year under review and the future.

Appendix C. ADH illustrative disclosure requirements

Casterbridge College identified illustrative disclosure items

Mandatory items
Legal status
Disability statement
Disclosure of information to auditors
Corporate governance statement (including list of governors who served on the board during the year
Statement of the responsibilities of the corporation members
Public Benefit Test (“Public Value Statement”)*
Optional (indicative) items
Mission
Implementation of strategic plan
Financial objectives
Performance indicators
Treasury management
Cash flows
Liquidity
Going concern including future financial performance as appropriate
Current and future developments
Student numbers
Student achievements
Curriculum developments
Post balance sheet events
Pay performance
Competitive environment
Environmental issues
Equal opportunities & employment of disabled persons
Professional advisors
Other
Nature, objectives & strategies
Financial position
Resources
Principal risks & uncertainties
Stakeholder relationships
*not relevant to the period of study

Appendix D Example of disclosure items definitions - aide memoir

Disclosure item	Definition
Legal status	Statement re: legal status
Mission	Statement re: mission
Implementation of strategic plan	
Values	Values stated/listed
General statement - strategic priorities/objectives	May be a list of strategic objectives/directions/priorities (general comments– but no specifics) e.g. Barking & Dagenham
Specific objectives & achievements: Success rate	Success rates specifically stated /measured e.g. Kirklees 2011 p 1 – rate 2010/11 increased to 82%
Achievement rate	Achievement rate specifically stated e.g. Kirklees 2011 p 1 – 95%
Retention rate	Specific % or figure referred to
Lesson/teaching observations/quality	Specifically stated /measured e.g. Kirklees 2011 p 2 72% of lesson observations
Learner attendance	Specifically referred to %/ or measured
Learner destinations	Specifically referred to %/or measured
Learner satisfaction	Specifically referred to %/ or measured
Self-assessment (curriculum)	Specifically referred to %/ or measured
Stakeholder/community engagement	Details of how this has been achieved – what they have done e.g. Kirklees
Ofsted assessment	Ofsted assessment stated or what aiming for
Support & learner experience	Specifically referred to
Vocational/specialist centres	Specifically referred to i.e. new centres opened or planned for
Estate management	Specifically referred to %/measured
External partnerships	Specific reference to
Customer service/internal/external communication	Specifically referred to %/measured e.g. Kirklees p 2
Staff development /training/recruitment/appraisal	Specifically referred to %/measured or statement of what done in year e.g. Kirklees p2
Trade union relations	Specific reference made
College performance/financial information	Specific reference & some measure?
IT & management information	Specifically referred to %/measured e.g. Kirklees p 2
Financial objectives	

General: Surplus	General statement about/make reference to operating surplus see Amersham and Wycombe p 2
General: Solvency/liquidity	General statement about/make reference to solvency
General: Planning/forecasting/budget	General statement about/make reference to planning/forecasting targeting
General: Sources of funding	General statement about/make reference to sources of funding see Amersham and Wycombe p 2
General: Capital investment	General statement about/make reference to capital investment** see Amersham and Wycombe p 2
Specifics: Target v actual cash flow (£)	Some colleges go beyond the general statements of Amersham & Wycombe & give specifics
Target v actual cash days	
Target v actual current ratio	
Operating surplus % income	
Borrowing % income	
Borrowing % income & reserves	
Interest & (debt) repayment	
Pay cost % income	
Income growth %	
Minimum contribution to overheads	
Performance indicators	
As per FE choices	Previous to FE choices was called Framework for Excellence – usually 4 standard indicators listed
Additional indicators	Reference made to indicators in addition to the above
Current rating (Financial health grading)	Reference made specifically to current rating
Financial position/results	
Operating surplus/deficit before exceptional items	Amount stated e.g. Kirklees 2011 p 5 (£5,144,000)
Exceptional items	Amount stated & described
Accumulated reserves/deficit	Amount stated e.g. Kirklees 2011 p 5 (£9,666,000) Barking & Dagenham p5 £15.692m (need to be consistent therefore use £000 rather than £millions)
Fixed asset additions/disposals	Amount stated e.g. B & D 2011 p 5 £1,900,000
Cash balances	Amount stated e.g. B & D p 5 £6.781m
Funding source (SFA/EFA) %	Specific %/amount e.g. 83.4% B & K 2011 p5
HE funding %	Specific amount/% may be stated
Subsidiary company (s)	State whether have or not

Pension costs	Amount stated
Treasury management	
Borrowing details (specific – not a general statement)	College may make specific reference to such details e.g. Kirklees 2011 p 5 (treasury policy & objectives)
Cash flows & liquidity	
Net cash from operating activities or cash inflow from operating activities	Amount
Details of debt / interest payments (rates)	Amount/specifics
Liquidity (explicit statement)	Statement on liquidity made e.g. B & D 2011 p 6
Going concern	This may be a separate heading elsewhere in annual report
Current & future developments & performance	
Total Student numbers	Total number – actual figure
Number – SFA/EFA funded	Actual number stated
Number- other funded/non-funded	Actual number stated
Student numbers HE	Actual number stated
Student achievements	
Student achievements	Amount %/measure K 2011p 6
League table position	Specific reference
Curriculum developments	
Curriculum developments/achievements	Specific reference to developments
Ofsted assessment	Outcome stated e.g. Kirklees p 6 (inadequate)
HE (development/plans)	Specific reference made
Accommodation/property	Specific reference made
Environmental issues	Specific reference made
Competitive environment	Specific reference made
Post balance sheet events	1 =yes they have some; 0 = no PBSE
Pay performance	Specific statement and %
Future developments	Specific reference made
Equal opportunities of disabled persons	This a separate heading & not under curriculum developments
Professional advisors	As above
Resources	
Tangible resources (e.g. campus/site)	Usually reference to college site
Net assets	Specific amount B & D p 8 £19,188,00
Pension liability	Specific amount B & D p 8 £5,045,000

Staff numbers	Total number (usually expressed as full time equivalents)
LT & other liabilities	Amount if disclosed or 0 if none
Reputation/brand	Just a statement usually
Principal risks & uncertainties	
Property/estate /college environment (accommodation	Statement/reference made
Loans	Statement/reference made
Disaster recovery	Statement/reference made
Curriculum (plans)	Statement/reference made
Funding (government/public)	Statement/reference made
FE loans/tuition fee policy	Statement/reference made
Student numbers	Statement/reference made
Budget (ing)	Statement/reference made
Pension fund liability	Statement/reference made
Learner experience	Statement/reference made
Proposed merger	Statement/reference made
Stakeholder relationships	
Students	
Education Sector Funding Body	
Staff	
Local Schools	
Bankers	
Local employers (linked)	
Local authorities	
Government offices/LEPs/Regional Development Agencies	
Local Community	
Other FE institutions	
Trade Unions	
Professional bodies	
Modes of communication stated	
Corporate Governance statement	
Apply CG code	
Level of compliance	Usually a statement to say complies with all provisions etc.
Names of governors	
Date of appointment (most recent)	
Date of appointment (first)	

Term office expires	
Status of appointment	
Date of resignation (if applicable)	
Committees served	
Co –opted member names	
Co-opted committees served	
Co-opted term of office	
Co-opted member attendance	
Number of corporation meetings	
Overall governor attendance %	
Number of committee meetings	
Details of governors’ attendance at committee meetings	
Details of governors’ attendance at corporation meeting %	
Details of governors’ attendance at corporation meetings – number	
Details of committee structure	i.e reference made to different committees
Appointments to corporation	Statement
Term of office	
Term of office (re-election number of terms max)	
Other committees - details	i.e. membership & usually description of purpose
Audit committee membership -number	
Number of AC meetings	
Independence of corporation	Statement
Responsibilities of AC	Statement - descriptive
Internal control - scope	Statement
Purpose of system of IC	Statement
Capacity to handle risk	Statement
The risk & control framework	Statement
Internal auditors (has IA service)	Statement
Review of effectiveness	Statement
Disability statement	Statement
Disclosure of information to auditors	Statement
Statement of responsibilities of the corporation members	Statement

** Financial objectives – some colleges will make brief comments others will include specifics

Appendix E Disclosure index categories

Category	Total possible
Legal status	1
Mission	1
Implementation of strategic plan	21
Financial objectives	15
Performance indicator	3
Financial position/results	9
Treasury management	1
Cash flow & liquidity*	4
Current & future development	4
Student achievement	3
Curriculum development	6
Disability statement	1
Disclosure of information to auditors	1
Statement of responsibility of corporation members	1
Post Balance Sheet Events	1
Pay performance	1
Competitive environment	1
Equal opportunities	1
Environment	1
Professional advisors	1
Resources	6
Principal risks	12
Shareholder relations	14
Governance *	34
Actual total score	
Maximum total score	143

Appendix F UK FE colleges August 2013

Association of Colleges **http://www.aoc.co.uk/en/about_colleges/index.cfm** (accessed 11/12/13)

About Colleges:

Colleges provide a rich mix of academic and vocational education. It may be at any level above compulsory education, from basic training to Higher National Diploma or Foundation Degree. As autonomous institutions incorporated by Act of Parliament they have the freedom to innovate and respond flexibly to the needs of individuals, business and communities.

Colleges in the UK that are regarded as part of the Further Education sector include General FE and Tertiary Colleges; Sixth Form Colleges; Specialist Colleges (Agriculture and Horticulture, Art and Design, Specialist Designated)

Number and list of Colleges August 2013:

Colleges in the UK	391
Colleges in England	339
General Further Education Colleges	218
Sixth Form Colleges	93
Land-based Colleges	15
Art, Design and Performing Arts Colleges	3
Specialist Designated Colleges	10
Colleges in Scotland	30
Colleges in Wales	16
Colleges in Northern Ireland	6

Appendix G List of sample colleges

(Name & SPSS code)

1 Abingdon & Witney ABW	39 Mid-Cheshire MCH	77 Sussex Downs SDO
2 Barking & Dagenham BAD	40 Milton Keynes MIL	78 Swindon SWI
3 Barnet & Southgate BSG	41 Nelson & Colne NEL	79 Tameside TAM
4 Basingstoke BAS	42 New Col Durham NDU	80 Tower Hamlets TOW
5 Blackburn BLA	43 New Col Stamford NST	81 Trafford TRA
6 Bourneville BOU	44 New Col Swindon NSW	82 Tresham TRE
7 Bracknell & Wokingham BRA	45 Newcastle-under-Lyme NEW	83 Truro & Penwith TRU
8 Brockenhurst BRK	46 North Hertfordshire NHE	84 Tyne Metropolitan TYN
9 Bromley BRM	47 North Lindsey NLI	85 Uxbridge UXB
10 Brooklands BRL	48 North Notts NNO	86 Wakefield WAK
11 Carshalton CAR	49 Northumberland NOR	87 Walsall WAL
12 City & Islington CIS	50 Oaklands OAK	88 Waltham Forest WFO
13 City Col Brighton & Hove CBR	51 Oxford & Cherwell Valley OXF	89 Warwickshire WAR
14 City Col Norwich CNO	52 Petroc PET	90 West Cheshire WCH
15 City of Wolverhampton CWO	53 Preston PRE	91 West Herts WHE
16 Colchester Inst COL	54 Redcar & Cleveland RED	92 West Suffolk WSU
17 Col of West Anglia CWA	55 Richmond Adult RIC	93 West Thames WTH
18 Craven CRA	56 Rotherham ROT	94 Westminster Kingsway WEK
19 Croydon CRO	57 S & City Col Birmingham SCB	95 Weston WES
20 Dearne Valley DEA	58 S Leicester SLE	96 Wigan & Leigh WIG
21 Derby DER	59 S Staffordshire STA	97 Wiltshire WIL
22 Doncaster DON	60 Salford City SAL	98 Worcester WOR
23 Dudley DUD	61 Sandwell SAN	99 Worthing WCO
24 East Durham EDU	62 Sheffield SHE	100 Yeovil YEO
25 Eastleigh EAS	63 Shipley SHI	101 York YOR
26 Exeter EXE	64 Shrewsbury SHR	
27 Gloucester GLO	65 Somerset SOM	
28 Great Yarmouth GRY	66 South Cheshire SCH	
29 Greenwich Com GRE	67 South Devon SDE	
30 Halesowen HAL	68 South Tyneside STY	
31 Havering HAV	69 Southampton SOU	
32 Hereward HER	70 St Helen's STH	

33 Kirklees KIR	71 Stanmore STA	
34 Lancaster & Morecambe LAN	72 Stockport STP	
35 Leeds City LEE	73 Stockton Riverside SRI	
36 Leicester LEI	74 Strode STR	
37 Loughborough LOU	75 Sunderland SUN	
38 Macclesfield MAC	76 Sussex Coast SCC	

Appendix H FOI email requests

Wording

2011

I am Principal Lecturer in the Department of Accountancy at the University of Huddersfield and am currently researching governance in Colleges of Further Education using audited financial statements. To this end I have searched FE College websites and have found statements for the years 2012 and 2013 for your college.

I am now requesting the audited statement for the year 2011 as part of Freedom of Information. Could you either email these to me at l.avison@hud.ac.uk or post a hard copy to:

Lynn Avison
The Business School
University of Huddersfield
Queensgate
Huddersfield HD1 3DH.

Thank you in advance for your co-operation but should you require any further details please do not hesitate to contact me.

2012

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Huddersfield HD1 3DH.

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2013

I am Principal Lecturer in the Department of Accountancy at the University of Huddersfield and am currently researching governance in Colleges of Further Education using audited financial statements. To this end I have searched FE College websites and have found statements for the years 2011 and 2012 for your college.

I am now requesting the audited statement for the year 2013 as part of Freedom of Information.

Could you either email these to me at l.avison@hud.ac.uk or post a hard copy to:

Lynn Avison

The Business School

University of Huddersfield

Queensgate

Huddersfield HD1 3DH.

Thank you in advance for your co-operation but should you require any further details please do not hesitate to contact me.

2011 and 2012

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None
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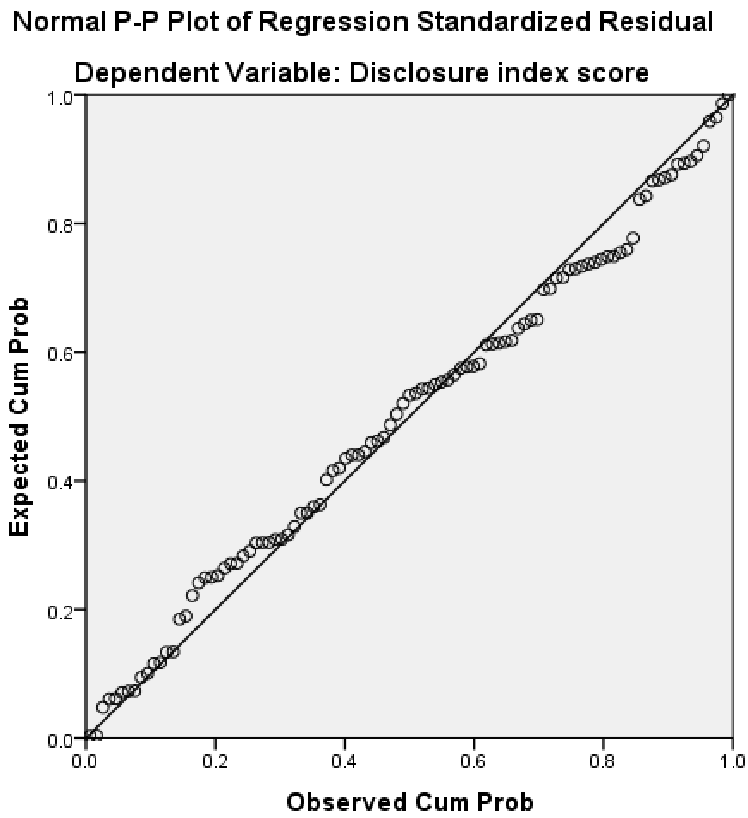
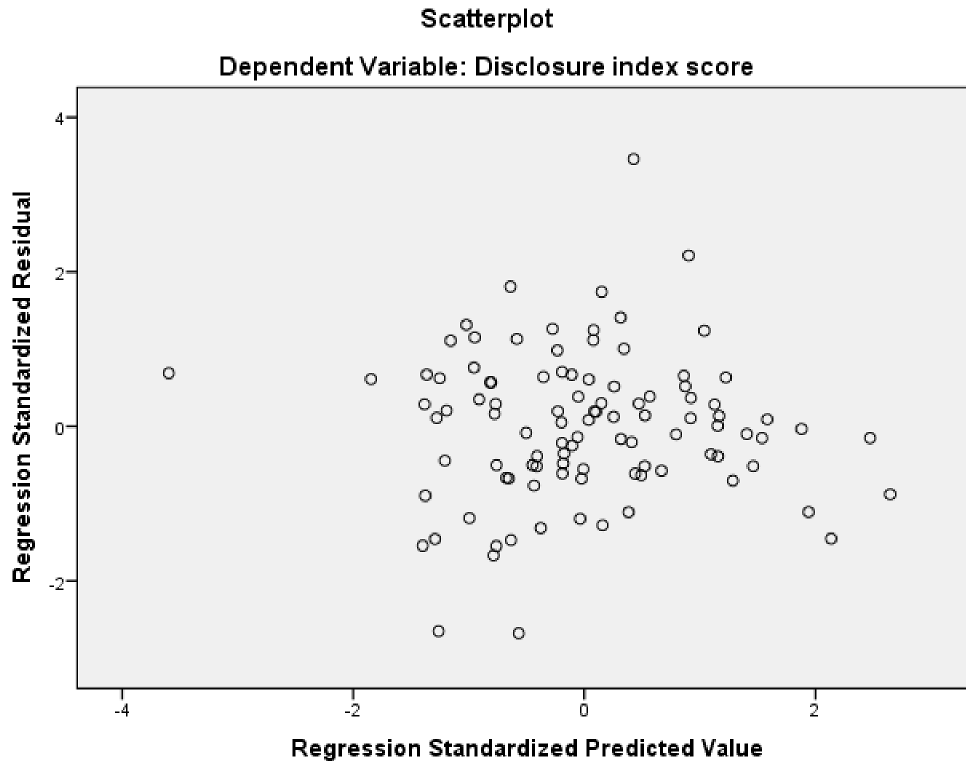
Appendix I Normal probability plot and scatterplot

Normal Probability Plot (P-P) of the Regression Standard Residual, Scatterplot



ot


Scatterplot
Dependent Variable: Disclosure index score
Regression Standardized Residual
Regression Standardized Predicted Value
4
2
0
-2
-4
-2
0
2

Appendix J Histogram of regression standardised residuals