



Charity service performance reporting and auditing:

Benefits, challenges and the way forward

A research collaboration

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Executive summary

Since 2022, Tier 1 and Tier 2 charities in New Zealand have been required to report their service performance information, and since 2023, this information has also been subject to audit. This represents an internationally unprecedented development, prompting this research to provide early insights into the practice of mandatory service performance reporting and auditing. Drawing on the perspectives of both auditors and charities, this research explores its benefits and challenges and identifies opportunities for improvement.

Key findings

Through analysing 120 Tier 1 and Tier 2 charities' Statements of Service Performance (SSP) and interviewing 34 participants, including both charity preparers and auditors, our key findings are summarised as follows:

- The majority of charities submitted their statutory reports on time and received an unmodified audit opinion on SSP. The auditing process has strengthened the rigour and credibility of service performance reporting and has encouraged many charities to develop more systematic processes for capturing verifiable performance information. The auditing process enhances the legitimacy of the reporting entities.
- The first year of auditing SSP has presented a steep learning curve for both charities and their auditors. The findings indicate an understanding gap between auditors and charities regarding what constitutes acceptable audit evidence for performance measures. Auditors' demands for evidence are generally more stringent than charities expected, resulting in a tension around the auditability of certain aspects of SSP. It has taken considerable discussions, negotiations, and sometimes frustrations and compromises for both parties to reach a shared understanding of what service performance auditing looks like in practice. While this process could be challenging, it helps to lay the foundation for improving the audit process in future years.
- The SSP was generally summarised in one to two pages and predominantly disclosed quantitative performance measures. Few charities included qualitative measures. This is likely influenced by the auditing practice, which is more accustomed to auditing quantitative over qualitative measures. Concerns were raised about the subjectivity and attribution in reporting performance measures relating to the fulfilment of charities' overall missions, and the costs and reluctance associated with auditing those measures. Some charities have responded by shifting that content from SSPs to other places, such as annual reports and websites, which fall outside the audit scope.

- While most charities recognise the importance of telling their stories, many charities did not perceive any substantive benefit in reporting and auditing SSP and saw it as a compliance exercise. Some interviewees questioned whether the benefits outweighed the costs, particularly given the perceived limited effect on attracting funding. Benefits may not be fully recognised until the practice becomes mature.

Suggestions

Based on these findings, which are discussed in detail in the following sections, we provide the following suggestions:

- The design and development of appropriate and meaningful performance measures require entity-wide collaboration and effort, including governance, management and operational staff. Where appropriate, engagement with external stakeholders such as funders and beneficiaries can be beneficial in selecting performance measures.
- To implement systems and processes for recording verifiable performance measures, operational staff and volunteers should be trained and supported to consistently apply those processes and controls. While this could be an expensive exercise, once set up successfully, the preparation of SSP could be incorporated into regular internal reporting practices, which would enable regular monitoring and feedback to charities.
- To support the development of verifiable and meaningful performance measures, funders could consider providing targeted, one-off grants to assist with system development, internal control design, and data collection processes for service performance reporting, in addition to routine funding. Funders could also consider using an audited SSP to inform funding decisions.
- Auditors should upskill in assessing qualitative measures and remain open-minded and receptive to the underlying logic and intention behind these measures, rather than placing undue emphasis on quantitative measures. They can also act as a 'sounding board' in charities' reporting journeys, offering suggestions without creating self-review threats. Accounting firms may consider investing in training and resources to help auditors assess various forms of evidence and evaluate the appropriateness and meaningfulness of performance measures that align with a charity's specific context, mission, and activities.
- Given the diversity of charitable work and the challenges involved in developing appropriate and meaningful performance measures, professional accounting bodies could support the sector by providing practical guidelines and examples of performance measures tailored to different types of charities, such as health, education and social services. This would help articulate disclosure expectations and enhance comparability within the sector or service area.

Service performance reporting and assurance requirements

Charities in New Zealand are categorised as Public Benefit Entities and are required to report both service performance and financial information in their General Purpose Financial Reports (GPFR). Larger charities in Tier 1 and 2 must follow PBE FRS 48 Service Performance Reporting, which has required the disclosure of service performance information since 2022¹. In the SSP, charities must explain what they have done during the reporting period in working towards their charitable purposes and objectives. Charities are required to select appropriate and meaningful performance measures and/or descriptions to illustrate their service performance in significant areas. Additionally, charities must provide supporting contextual information to explain why they exist, what they intend to achieve in broad terms over the medium to long term, and how they go about it. The disclosure of this information aims to improve accountability and support report users in making informed decisions. These users are primarily categorised as resource providers and service recipients and their representatives.

To improve the credibility of service performance information, Tier 1 and 2 and some Tier 3 charities are subject to mandatory audits by professional accountants who follow NZ AS 1, The Audit of Service Performance Information, effective from 2023 (with the revised standard taking effect in 2024).

Internationally, it is unprecedented for charities to be subject to mandatory service performance reporting and assurance, which positions New Zealand as a pioneer in this area. The NZ experience should be better understood to inform future developments and standard settings in other jurisdictions. Although the study primarily focuses on Tier 1 and 2 charities, some findings may also be relevant to Tier 3 charities.

¹Tier 3 and 4 charities in New Zealand started disclosing their SSPs in 2015, in accordance with the reporting standards applicable to their respective tiers. Tier 3 charities with annual expenditure exceeding \$1.1 million are subject to a mandatory audit of their performance report.

Research aim and methods

This research examines the benefits and challenges of service performance reporting and auditing in the New Zealand charity sector. We employed two research methods: content analysis and semi-structured interviews. For the content analysis, we used random sampling to select first-year statutory performance reports subject to mandatory auditing from 120 charities listed on the Charities Services' Register. The sample includes 30 Tier 1 charities and 90 Tier 2 charities to ensure representation across tiers. The 120 SSPs were analysed in June 2024. In addition, we analysed the SSPs of 14 charities that participated in interviews.

We interviewed 34 participants selected for their extensive involvement in service performance reporting or auditing. Most charity participants were from Tier 1 and 2, with the exception of two from Tier 3. These participants generally held senior positions, such as CEOs, CFOs, or positions responsible for service evaluation and delivery. Auditor participants included partners, managers, and technical team members from a range of accounting firms. We also interviewed three stakeholders who advocate for service performance reporting. The diverse group of interviewees provided broad insights into both the regulatory and practical dimensions of service performance reporting and auditing. The interviews, conducted between late 2022 and October 2024, averaged 60 minutes in duration and included 17 female and 17 male participants. Discussions with charity preparers focused on their experiences in preparing service performance reporting and working with auditors through the auditing process. Interviews with auditors focused on their experiences and challenges in auditing service performance information.

We developed coding criteria for the analysis of service performance reporting, drawing on the requirements of PBE FRS 48 and insights from international academic literature on performance reporting in charities and the broader nonprofit sector. A description of selected criteria is provided in Appendix 1.

Research findings

The research findings are presented in two parts: first, the results from the content analysis of 120 charities, followed by insights from interviews. The content analysis highlights the audit opinion issued and key aspects of the reported service performance information. Where relevant, these findings are further discussed and contextualised through the interview data presented in the subsequent section.

Table 1 shows a breakdown of the 120 sampled charities. At the time of analysis in June 2024, three charities had not filed their General Purpose Financial Reports, two with a June 2023 balance date and one with a March 2023 balance date. Five charities submitted reports that did not include an SSP, and six reports were missing an Audit Report. One charity's SSP was excluded from its auditing scope.

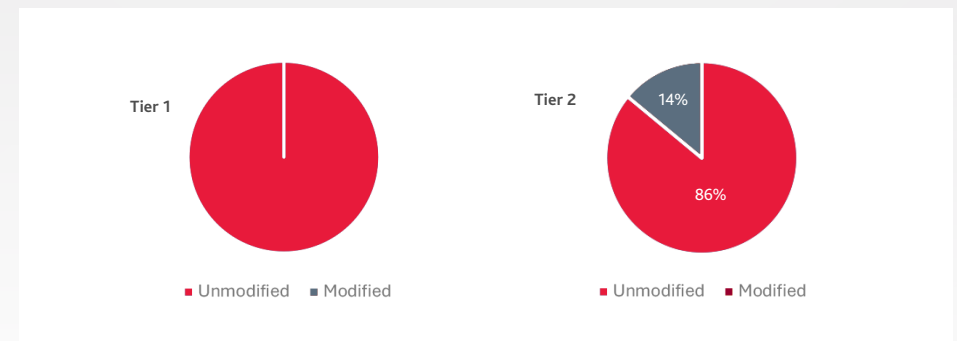
Table 1 - Filing of the statutory reports

	Tier 1		Tier 2		Total
Complete Performance Report	24	80%	81	90%	105
No filing	1	3%	2	2%	3
No SSP	1	3%	4	4%	5
No Audit Report	3	10%	3	3%	6
SSP Not Audited	1	3%	0	-	1
Total	30		90		120

Types of audit opinion

We excluded charities with no filing and no audit report when analysing the types of audit opinions. All Tier 1 charities (n=26) received an unmodified audit opinion during the first mandatory audit, including SSP². Twelve or 14% of Tier 2 charities (n=85) received a modified audit opinion. Three of the modified opinions were related to service performance, while the remaining were related to qualifications in financial information. The qualifications related to service performance were due to a lack of evidence.

Figure 1 - Types of audit opinion



²We included the charity that SSP was not audited while acknowledging the possibility that the SSP may not have received an unmodified opinion, had it been audited.

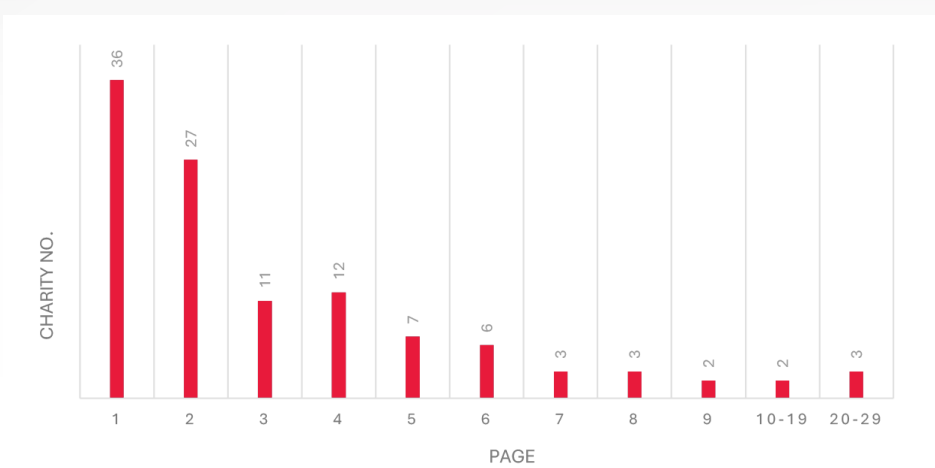
The disclosure and presentation of SSPs

This section discusses the information disclosed in the SSPs. As shown in Table 1, charities with no filing and no SSP were excluded from the analysis; therefore, SSPs from 28 Tier 1 charities and 84 Tier 2 charities were analysed, a total of 112 charities. Our analysis focused on five key aspects of the information disclosed: 1) the length and placement of SSP, 2) the nature of performance measures, particularly the dominance of quantitative measures, 3) the use and explanation of comparatives and disclosure of unfavourable performance, 4) verifiability of reported information, and 5) links of SSPs to financial information. Each of these areas is discussed in the following subsections, supported by examples.

1. Length of SSP and placement in the annual report

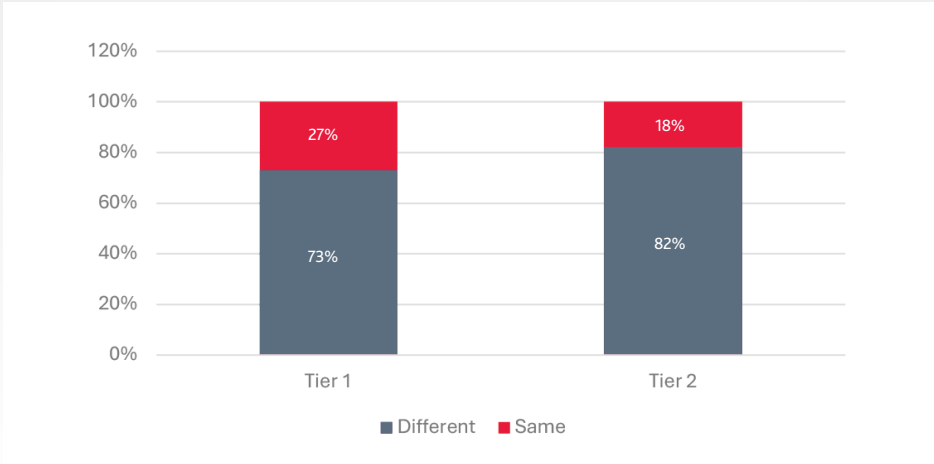
Among the sampled charities, 56% (n=63) presented SSPs that were less than two pages in length, with the most common length being a single page (n=36) (see Figure 2). On average, Tier 1 charities produced SSPs of 4.82 pages, while Tier 2 charities averaged 3.12 pages. All charities disclosed their purposes and descriptions of what they did during the reporting year. Notably, many adopted a tabulated format originally designed for Tier 3 and 4 charities. While shorter SSPs may enhance readability, they risk providing a less meaningful picture of a charity's service performance and may reflect the under-preparedness or compliance-driven mindset of some charities. These issues are further discussed in the interview findings.

Figure 2 - Length of SSP



Although SSPs in the statutory report are typically brief, many charities choose to provide more comprehensive SPI in their annual reports, which are publicly available on their websites. Within our samples, 78 charities had annual reports accessible online, but only 16 charities (6 Tier 1 and 10 Tier 2 charities) included their statutory SSPs in those reports. As shown in Figure 3, 73% of Tier 1 and 82% of Tier 2 charities presented SPI in a different format in their annual reports. These disclosures featured detailed descriptions of services or programmes, organisation values and strategies, and beneficiaries' testimonials and stories. This may indicate that charities place greater emphasis on detailed narrative-style reporting through other mechanisms like annual reports rather than within the statutory SSP.

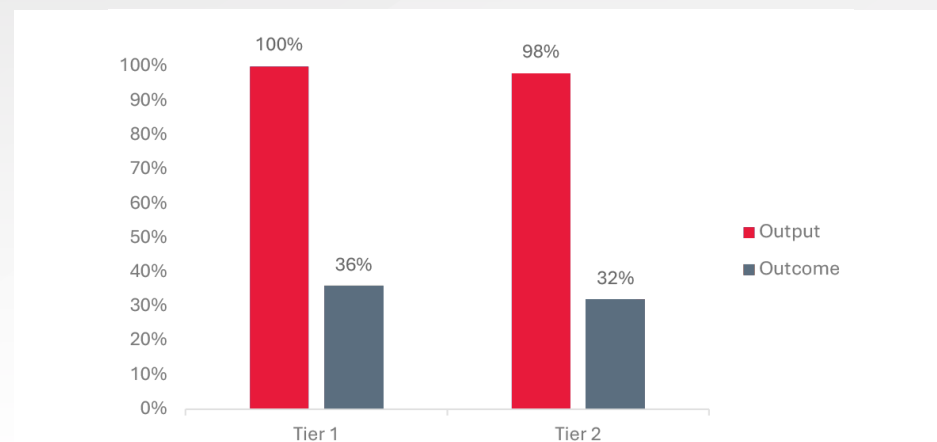
Figure 3 - SPI in annual report and statutory report



2. The nature of performance measures – dominance of quantitative over qualitative

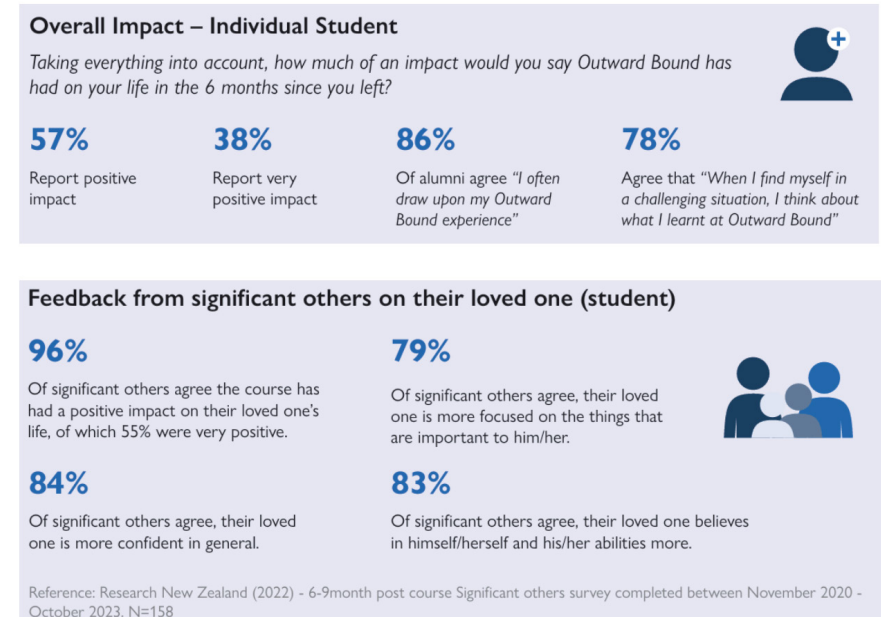
Performance measures in service performance reporting were predominantly quantitative and focused mainly on outputs, as shown in Figure 4. In our sample, all Tier 1 charities and 98% of Tier 2 charities disclosed outputs related to their main operations, such as the number of participants or consultations provided. In contrast, outcomes were reported considerably less, with 36 % of Tier 1 charities (n=10) and 32% of Tier 2 (n=27) including outcome-related disclosures. While both outputs and outcomes address what a charity did and its achievements during the financial period, outputs refer to the immediate or direct goods or services delivered, whereas outcomes relate to the medium to longer-term effects on individuals or society. The low rate of outcome reporting may suggest that many charities focus on service delivery activities and have limited outcome measures which capture the fulfilment of their missions.

Figure 4 - Disclosed outputs and outcomes



A good example of outcomes is Outward Bound Trust, which runs multi-day challenging expeditions outdoors. The charity conducts a post-course evaluation to understand the long-term impact of their outdoor education programmes, which is completed by both the participants and their significant others.

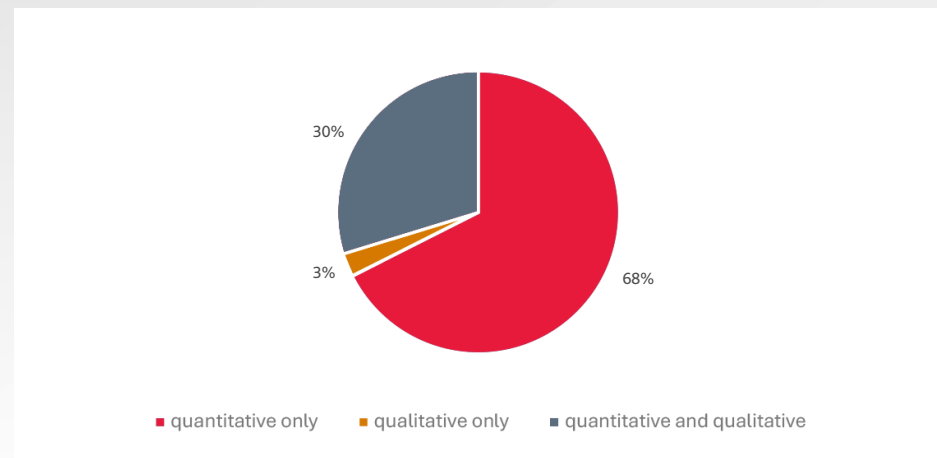
Figure 5 - An example of outcomes



Source: Outward Bound Trust of New Zealand Statement of Service Performance 1 June 2022 to 30 June 2023

While outputs are typically quantitative, outcomes can be presented in both quantitative and qualitative forms. Among the 37 charities that disclosed outcomes (see Figure 6), 68% (n=25) disclosed quantitative outcomes only, such as patients/ visitors or participants' satisfaction, increased awareness or immunisation rates, academic achievements (e.g. passing NCEA results), and results from participating in sports or art events. Notably, 30% (n=11) disclosed both quantitative and qualitative outcomes, including beneficiary feedback and testimonials, successful certification audits, and staff achievements. Only one charity (3%) disclosed qualitative outcomes only, describing how funding was allocated across different strategic areas.

Figure 6 - Quantitative and qualitative outcomes



Individual stories were largely absent from SSPs, with only one charity including such a narrative, although they were more commonly featured in charities' annual reports. The example in Figure 7 shows the difference the charity made by fulfilling an ill child's wish. Interview data revealed that charities were cautious about claiming outcomes, particularly those with a long-term effect. The auditing process was perceived to favour quantitative output measures and discourage outcome-related disclosures; this issue will be further discussed in the interview findings.

Figure 7 – An example of an individual story in SSP

“One million. No, more than that: 100 million!”

This is how excited six-year-old Jonty was for his wish. Jonty was only 10 weeks old when he was diagnosed with bone cancer.

He's had a lifelong fascination with stars, rockets, and outer space. He even has a star named after him. Jonty's wish was to fly in a rocket with his family.

With their NASA spacesuits on, Jonty and his family were greeted by stormtroopers before they were flown 27,000 feet in the air on a private jet dressed up as a rocket ship. Jonty screamed with joy when he saw his star.

“He was blown away. It was everything he had dreamed it was going to be. A once-in-a-lifetime experience,” says mum Kerri.

www.makeawish.org.nz

Source: Make-a-wish foundation of New Zealand Trust Statement of Service Performance for the year ended 31 December 2022

3. The comparatives and neutrality of information

FRS 48 paragraph 37 requires disclosing comparatives of the preceding period but allows judgment on whether to provide comparative narratives and descriptions. As shown in Figure 8, prior-year comparatives were the most commonly used (100% of Tier 1, 92% of Tier 2 charities). Target comparatives were less frequently included (32% for Tier 1, 23% for Tier 2), while external benchmarks were rarely used (4% for Tier 1, 2% for Tier 2). Figure 9 illustrates an example from a college that compared its outcomes against those of all decile 10 schools as a benchmark. However, no explanation was provided for the changes across years, particularly for a significant increase in merit endorsement from 20.5% in 2022 to 36.8% in 2023. A lack of explanations for comparatives was identified across the sample, with 32% of Tier 1 charities (n=9) and only 8% of Tier 2 charities (n=7) providing an explanation. In many cases, the explanations merely described changes in numbers without specifying the reasons behind the changes.

Figure 8 - Comparatives

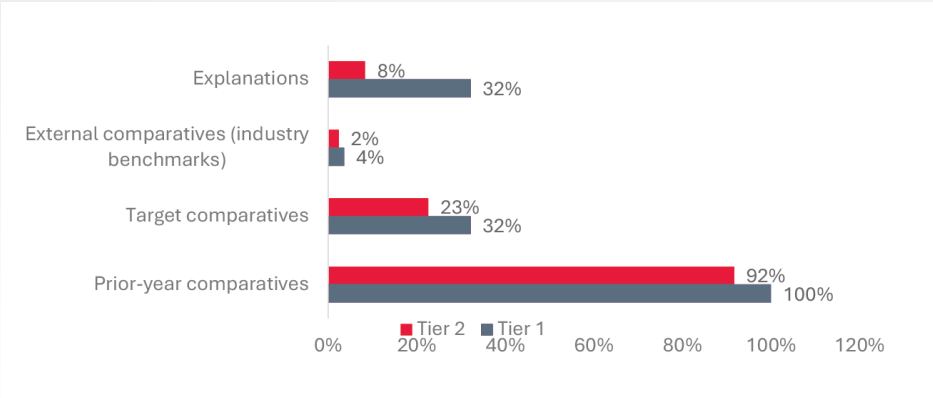


Figure 9 - An example of industry benchmark

NCEA results

Merit and Excellence endorsements for Christ's College students compared with all decile 10 schools

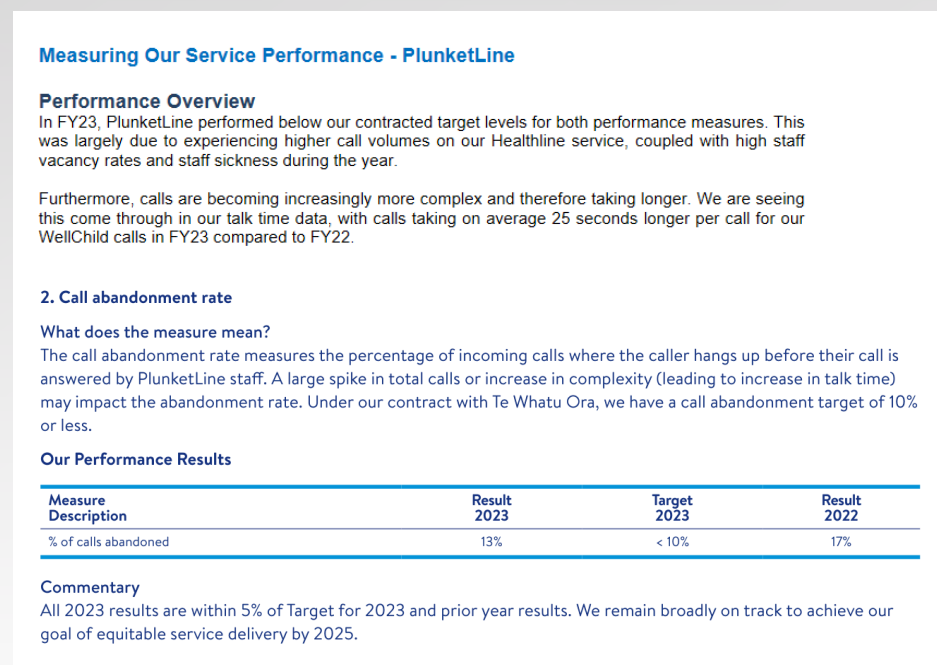
Merit Endorsement (%)				
	FY2023	FY2022	FY2023	FY2022
	Level 2	Level 2	Level 3	Level 3
Christ's College	34.8	36.1	36.8	20.5
All decile 10 schools	35.8	30.1	30.1	28.2

Excellence Endorsement (%)				
	FY2023	FY2022	FY2023	FY2022
	Level 2	Level 2	Level 3	Level 3
Christ's College	30.3	36.1	21.6	24.1
All decile 10 schools	23.6	21.1	16.5	17.0

Source: Christ's College Canterbury Statement of Service Performance for the year ended 31 January 2023 (available via Charities Services)

PBE FRS 48 also requires service performance information to be neutral, capturing both favourable and unfavourable aspects of a charity's performance in an unbiased manner. However, only around 20% of charities in both tiers disclosed unfavourable performance aspects. The example in Figure 10 provides a clear explanation of such a disclosure. The charity reported performance below the target set by its funder due to longer calls, high call volumes and staff shortages.

Figure 10 - An example of neutrality



Source: Royal New Zealand Plunket Trust Service Performance Report for the year ended 30 June 2023

4. Verifiability of reported information

PBE FRS 48 requires service performance information to be verifiable. A few charities engaged external parties for independent preparation of service performance information (4% of Tier 1 and 1% of Tier 2 charities). These external parties included research companies and online evaluation tools, and their involvement is likely to increase the reliability of the reported survey results. A further 14% of Tier 1 and 11% of Tier 2 charities disclosed their data collection methods. Figure 12 presents an example of a charity that utilised an online survey tool to capture and assess audience experience. The explanation outlines when and how the survey was sent and the survey design, which improves the transparency and reliability of the survey results reported.

Figure 11 - Verifiability

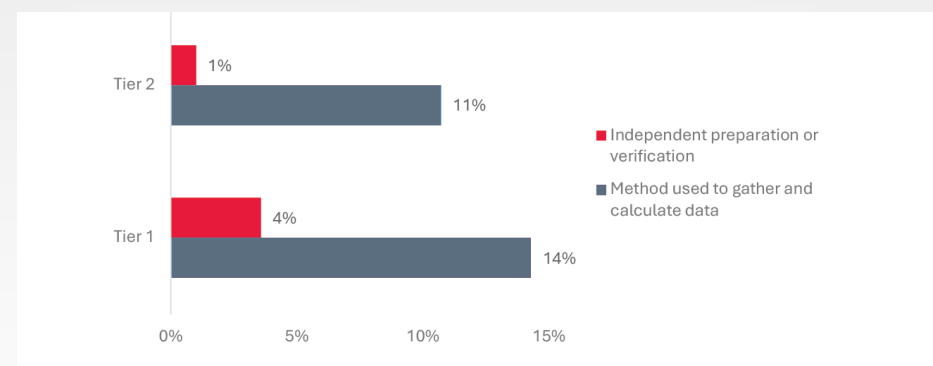


Figure 12 - An example of the method used to gather data

- Auckland Theatre Company uses [Culture Counts](#) to evaluate the experience and opinions of our audiences as well as the artists, young people, and organisations we work with. Culture Counts is purpose-designed to measure the impacts and outcomes of the cultural sector, and is used by arts organisations across the globe. Culture Counts invites people to respond to statements linked to dimensions such as quality using a slider, rather than 5-point scale, allowing a finer gradation of opinion. The tool translates the results to a number between 0 and 1, and then averages the entire respondent dataset to establish the percentage of agreement. The higher the percentage, the greater the number and strength of respondents' agreement. The measures selected have been used by the Company since 2017 to measure the quality and the impact of our work.

Auckland Theatre Company emails all ticket purchasers a survey link, inviting people to complete the survey and share the link with those they attended with. Audiences can also access the survey via a QR code included in the free programme and displayed around the theatre Venue.

For our participants, practitioners and partners we email a survey link at the conclusion of their programme of engagement or participation.

Source: The Theatre Foundation and Group Consolidated Statement of Service Performance for the year ended 31 December 2022 (available via Charities Services).

5. Links to financial information

As the SSP is integrated within a GPFR alongside financial information, we examined the extent to which service performance information is linked to financial statements. PBE FRS 48 suggests that service performance information is cross-referenced to financial statements to reflect the costs of delivering service performance. We found that 54% of Tier 1 and 37% of Tier 2 charities presented some links between their service performance and financial information. However, the links were often inconsistent or ambiguous. Figure 13 shows an example where service performance data is clearly linked to financial information, though discrepancies remain. Particularly, revenue generated by admissions in the SSP is reported as \$1,375,295 but appears as \$1,598,397 in the financial statements. The grant of \$135,096 received from the Ministry of Education is consistently reported across both statements.

Figure 13 - An example of links to financial information

Objective 1 - Maximise the Visitor Experience

MOTAT's visitation for the year was 232,144, which generated Exchange Revenue of \$1,375,295. This compared to the previous year's 100,554 visitors, which generated \$763,425. This revenue is included under 'Gate and Tram Admissions' in Note 3 'Exchange Revenue'. The previous year's visitation was impacted by COVID lockdowns in Auckland.

Pursuant to MOTAT's contract with the Ministry of Education, MOTAT received \$135,096 towards the cost of providing LEOTC/Enriching Local Curriculum and ECE programmes to 24,544 students compared to the previous year where MOTAT received \$135,099 for 15,887 students. This contribution is included in Note 2 'Non Exchange Revenue' as 'Ministry of Education Grant'.

3. Exchange revenue

	2023	2022
Gate and Tram Admission	1,598,397	981,869
Hirage, Events and Functions	76,893	12,777
Other income	359,644	403,666
Shop Sales	210,743	53,793
Total Exchange Revenue	2,245,678	1,452,105

2. Non exchange revenue

	2023	2022
Grants		
Donated Collection Assets	221,000	376,645
Ministry of Education Grant	135,096	135,099
Waitemata Local Board - Cycleway	-	379,829
New Zealand Lottery Board	-	29,209
Tātaki Auckland Unlimited		
Void Fill	445,103	-
Tram Track replacement	354,897	-
Cycleway	-	30,000
Community Week	-	30,000
Local Activation	-	11,500
Panuku Development	-	39,000
Other Donations & Grants	18,661	6,696
RFA Loan Forgiveness	-	105,949
Government Subsidies and Grants	-	1,306,086
Total Grants and Donations	1,174,757	2,450,013

Source: MOTAT Financial Statements for the year ended 30 June 2023

Key challenges for service performance reporting and auditing

Given the unprecedented nature of mandatory auditing of non-financial information, the first-year audit of SSP created a considerable amount of pressure and stress for both auditors and charities. Both parties experienced a steep learning curve. Although charities were aware of the upcoming SSP audit requirement at least two years in advance, many auditors observed that their clients were underprepared and left the SSP until the last minute. On the other hand, charities were often surprised and at times frustrated by the extent of evidence required by auditors. As such, the first-year SSP audits became a negotiated process between the auditor and charities, particularly around what constitutes appropriate and meaningful performance measures that can be verifiable. The quote below indicates auditors' significant influence in shaping SSP content.

"I would say this, there was almost no one that had prepared an adequate starting point in my portfolio. The ones that did [prepare a SSP], when it came to audit, [we] ended up rewriting the whole thing anyway, because it was way too much detail or it wasn't auditable, or it wasn't at the right level of aggregation. So it wasn't reporting on the really important things to them." (A32, Auditor)

The key challenges in reporting and auditing SSP, auditability, a preference for quantitative performance measures, and perceived cost versus benefits will be discussed below.

1. Auditability - What is considered appropriate and sufficient audit evidence?

All interviewed charities had some prior experience in preparing service performance information, typically for funders or internal purposes. However, presenting this information in a statutory report subject to audit was still considered challenging. While many charities already had processes in place to collect performance information, their understanding of what constitutes acceptable audit evidence often differed from auditors' expectations. For example, the charity quoted below had been preparing SSPs for years in accordance with funder requirements, yet still found the first-year audit process unexpectedly difficult due to the level of audit evidence required:

"We had a very, very demanding audit last year on our non-financial performance and it caught us a little bit by surprise. We just weren't aware of the degree of evidence that our auditors would be requiring. Our auditor found it incredibly difficult, and we found it incredibly difficult to actually give them the evidence that they required. Look, to be honest, we did think that some of the evidence that they were requiring was a bit over the top and probably nonsensical." (C34, T2 charity)

One of the difficulties in providing sufficient audit evidence was due to the nature of charitable service delivery. Many services are provided free of charge, leaving little or no monetary trail. As a result, evidence for performance measures is largely internally generated, which can reduce its perceived reliability from an auditing perspective. While the reliability of this information could be strengthened through internal controls, these controls and processes were not always consistently carried out across the charity. In some cases, the lack of controls has prevented charities from including certain performance measures in their SSPs. As one Tier 2 charity explained:

"We have this thing called [the name of the service], which was a free event. And it relied on someone at the door counting people as they came in. And sometimes it would just be forgotten." (C23, T2 charity)

Charities' perception of what constitutes sufficient internal controls often differs from that of auditors. Charities often report measures such as the number of visitors or the number of participants in their program. They may consider counting the number of participants and recording the total on a spreadsheet or a piece of paper to be sufficient, whereas auditors may question the accuracy and verifiability of the number. In the example below, the charity hosted free visits from schools. Staff manually counted the number of children attending, but the auditor required independent confirmation from the schools:

"So we could provide the auditors with a booking confirmation to say school X is potentially going to bring 15 students, but we cannot guarantee that 15 students actually arrive for any number of reasons, illness, sickness couldn't be bothered, whatever. So how were we capturing those students? We had a manual sign in sheet. So once the students get off the bus, one of our team members does a bit of a poll right there. We were expecting 15 students, actually only 10 arrived and they were writing a physical 10 on the piece of paper and then that was going towards our visitor numbers. So we were using what we physically saw with our eyes, the number of students getting off the bus. We added that to our visitor numbers. Our auditors said that wasn't enough evidence. So we said, well, we don't know what else you want us to give. And they said, well, how do we know that the person standing on the bus miscounted and there were only nine students. And we said, well, we've actually got trust in staff that they are doing the right thing." (C34, T2 charity)

Charities operate out of altruism and place significant trust in their staff and volunteers; therefore, they often believe their staff are reliable in recording non-financial data. In contrast, auditors apply professional skepticism, requiring objective and verifiable evidence to support reported performance. This disconnection can create tension during the audit process, with some charities viewing auditors' demands as excessive while auditors struggle to obtain auditable, reliable evidence of reported information. The tension is exacerbated by auditors often having to engage with charity staff from diverse professional backgrounds who may have limited or no experience with dealing with auditing.

"Often, we're talking to people who are not in the finance team, who don't necessarily have the same understanding of auditing as the finance team. ...There can be a really wide range of people and businesses e.g. [name of an entity], there's a conservation manager who's got a zoology degree or there's a legal or operations person. It might be a really broad range of people who are providing information that go into a whole lot of different and unique measures and they might not understand really what we're trying to get in terms of audit evidence." (A18, Auditor)

As auditors ventured into the non-financial performance of charities, they needed a more in-depth understanding of charity operations and to learn new systems and processes. Many of them had to engage with unfamiliar areas, such as how scientists count birds, how researchers analyse survey responses, and how cultural traditions affect service delivery. Other challenges include auditors dealing with highly confidential data, including patients and victims information, encountering IT management systems that do not align with financial reporting balance dates, and having difficulty establishing causal links between outputs and outcomes.

2. Preference for quantitative performance measures

As discussed earlier, the content of SSPs was predominantly focused on quantitative output measures, whereas annual reports often contain more information on outcomes, both quantitative and qualitative. The auditing process appears to reinforce this preference for quantitative measures. This preference may reflect a combination of factors, including the relative ease of auditing quantitative data, auditors' inexperience in testing qualitative measures, and the inherent difficulties in measuring and verifying outcomes.

Auditors are accustomed to working with numerical data, and it is easier to apply materiality to quantitative outputs or outcomes. While some qualitative elements such as matching a charity's mission and strategies with founding or strategy documents are relatively straightforward to verify, other qualitative performance measures can be more complex and subjective. The following example illustrates this challenge: one charity sought to include results and themes from their annual survey, which they believed were meaningful measures of their impact, but their auditor was very reluctant to audit that information:

"There had been a comment from their audit partner that qualitative data is very difficult to verify. And I had said: well, if you look at the standard, it can be both, so you need to help me to understand why you can't do this potentially. The partner came back said: well, most of the not-for-profits that we audit are trusts that are giving out grants so they don't have any qualitative data. So we haven't done it before." (C31, T2 charity)

Auditors tend to emphasise factual, objective data and often focus on short-term metrics like attendance numbers and service volumes. However, auditors demonstrated a range of attitudes towards outcomes. Some would not like outcomes unless there was a proven direct causation between a charity's outputs and outcomes, others were more encouraging, recognising the complex nature of outcomes.

By contrast, some charities, particularly large ones, actively sought to demonstrate the long-term impact of their work, which was often collected through surveys or pre- and post-service/ intervention assessments. However, they encountered challenges from auditors who questioned the reliability of qualitative measures and descriptions, claiming potential biases and incomplete datasets. This discouraged some charities from including qualitative or impact-related measures in their SSPs. The charity quoted below had invested significant resources into developing outcome-focused performance measures to reflect the difference they made in people's lives. However, their auditors held a different view:

"When I first started looking at the [PBE FRS 48] standard, I thought this was about proving your impact or trying to quantify what difference you're making and write about it. But when the auditor got involved, to my surprise, they in effect swung it right back to what have you done? so we could have easily just written a Statement of Service Performance about how many people we helped with each of our services. They'd have been quite happy. It was us who was going, but hold on, we're trying to work out what difference we're making. So what's our transition rate? What's our prisoner reintegration rate? That's where we need to be focusing. What the standards seem to imply didn't seem to be what we could have got away with.... And not doing the outcomes is actually much easier." (C29, T1 charity)

The tension arose from different perspectives between charities and auditors. The charity in this case had started to explore a more complex question: 'what difference are we making?', which relates to outcomes or impact measures. In contrast, auditors tend to focus on the question 'what have you done?', emphasising short-term service deliveries. This emphasis frustrated the charity as they perceived quantitative data alone to be insufficient for demonstrating their performance.

Many charities share this view and express a desire to report on their outcomes, which is more meaningful and fulfilling. However, they also acknowledged inherent difficulties with measuring outcomes, such as respondent biases. In the example below, a charity used the Alcohol Drug Outcome Measure (ADOM), a sector-recognised tool, to assess the effectiveness of its alcohol and other drug addiction program. However, they excluded the measure from their SSP because they anticipated that the auditor would question its reliability and fear that could lead to a qualified audit opinion:

"The outcome measures just become increasingly grey. Even like the ADOM thing, which is an industry wide standard form where you're contacting people and getting them to fill it out. There's a bias in it because if someone comes to an addiction programme and then they carry on drinking, they disappear. You can't contact them because you don't know where they are, so you can't do an ADOM with them. But all of your best clients who have graduated and are happy and you're still in contact with they are the ones you can do the ADOM with. Our auditor is going, hold on, is that really an accurate number? So you start going, oh, let's just leave it out, because if we're not quite sure about that number then just leave it out. So that tends to be the approach with the SSP being audited. Last thing we want is a qualified audit because of some numbers on the SSP." (C29, T1 charity)

3. Questioning whether benefits outweigh costs

While all interviewees acknowledge the potential benefits of statutory service performance reporting and assurance, which will be discussed in the next section, their perceptions of its practical value varied considerably. Interviewees highlighted the increased costs associated with the practice, including increased audit fees, the time auditors spent on understanding the charity's operations, the charity's staff time and effort spent collecting and explaining evidence, and the opportunity costs that could be directed toward service delivery.

Some charities felt that service performance reporting and auditing might not enhance their ability to attract funding. Some believed the highly aggregated format of SSPs lacked depth and meaningful insights, limiting their value to external readers:

"That means that we can continue to be in compliance with the charity sector and therefore allowed to operate, so we are reporting this so we can continue to be legally compliant. It's a nice to have, I would imagine the reader of these pages [the SSP] would spend probably no more than 3 minutes reading them and have no expectation as to whether that's good, bad or ugly. I honestly question whether you can actually attract more funding through this report. I think it's marginal at the best and probably even detrimental. (C25, Tier 1 charity)

...so who are we actually doing this for at the end of the day? If it doesn't necessarily increase people's confidence in donating to our organisation. So who is benefiting from it? If it is costing so much more and so...who's actually benefiting from it? Because if we're spending an extra 10 grand on audit as one example, that's \$10,000 that isn't going to direct service delivery. Might not seem like a lot, but we can do a lot with \$10,000. So yeah, that's a big question for me." (C31, T2 charity)

Some auditors also recognised the challenge of balancing the cost and benefit of mandatory service performance reporting and auditing. One auditor described it as a well-intentioned concept that is difficult to implement in practice, particularly given the resources involved:

"It's a really hard thing to do for a lot of organisations. So it's a great idea conceptually, but it's hard, right. And therefore, the amount of effort [that went] into it and what is the benefit? You've got a charity who's using its money wisely, and they're spending a lot of money on this and the auditor's charging a lot of money, is that a benefit?" (A28)

Since this was the first year of mandatory service performance reporting and auditing, whether the benefits justify the costs remains an open question. However, the ambiguity in whether benefits outweigh costs might lead to a compliance mindset expressed by some interviewees. As one auditor explained, some charities approached it as a hurdle to be settled with minimal effort:

"This client even said that they just wanted to make this easier to get through the audit and anything else they wanted actually to put into their Chairperson's and CEOs report. I do think that there have been a few clients that have pushed more towards 'let's make this easier and we can easily prove this number to you. And this is something we can easily audit'. So that's has been some of our clients as well." (A24)

Key benefits of service performance reporting and auditing

Despite all the challenges discussed, the introduction of mandatory service performance reporting and auditing has led to some positive changes. Based on interview data, this study identifies three key benefits: 1) improved transparency and accountability through more holistic and credible reporting; 2) strengthened performance measures and greater rigour in data collection and reporting processes; and 3) increased focus on understanding, evaluating, and more accurately attributing the impact of charitable work.

1. Improving transparency and accountability

The majority of interviewees recognised the importance of telling their stories through SSPs. By disclosing service performance information alongside financial information, charities can provide a more holistic view of their operations, therefore improving transparency and accountability. These benefits are illustrated in the quote below from a Tier 3 charity, with annual expenses of NZD150,000 at the time of the interview. The charity used its SSP to demonstrate accountability and to build relationships with funders by celebrating its achievements.

"We used to just have a very basic report. Dare I say, it was almost embarrassing to go to funders with it. It did not look professional, it didn't really capture what we did... We wanted to be able to go to funders and say, 'this is us. This is what we do', and actually have something that looks professional and legitimate. We are so incredibly grateful to our funders for the money that they give us. Now, we can actually go back to them and say, 'This is how we spent the money' and really capture what we've done - not only physically, but in terms of our benefits and outcomes. It's showing the difference that we've actually made in people's lives and demonstrates that every dollar is extremely well spent. It also helps us retain funders and donors as we can invite them to our AGM. And this is what we presented to our AGM. It's really a moment of celebration of what we've actually done. We've had a few funders who have been able to attend over the years, and it helps to build that relationship with them." (C13, Tier 3 charity)

Auditing adds credibility to the reported service performance information and increases the legitimacy of both individual charities and the sector as a whole. It provides social credence, offering assurance that the reported numbers are not just internally generated claims but have been independently reviewed and verified. This verification gives stakeholders, such as donors, greater confidence and trust in the reliability of reported information:

"I think that ultimately it's like auditing the financials. It gives us social credence. It means that we're not just putting up numbers that could be anything. They're actually something that someone has reviewed and said, 'these are meaningful and can be relied on in the context of the financials,' and I think that is valuable. ... So I think the value is in that people will look at them with a lot more confidence and our numbers are meaningful. (C30, T1 charity)

It lends credibility to the numbers. You can put those numbers out with anybody and they see an audit opinion attached to it. Well, it's true, you have been verified. It means a lot to our donors. It means a lot to our partners. When we say this is what we're doing we can actually prove that." (C14, T2 charity)

2. Strengthening performance measures and enhancing reporting rigour

As mentioned earlier, most interviewed charities had already undertaken some form of service performance reporting prior to the introduction of PBE FRS 48. However, the mandatory reporting requirement still provided an opportunity for many to reflect on what constitutes appropriate and meaningful performance measures and to review or refine existing processes and controls to better capture and report these measures. In the example below, the charity shifted its measure from case-based to individual-based as a result of its reflection and developed a more systematic process to track data.

"We report already - we want to share what our clients say about us, the benefits they receive and how many people we see. So there's nothing new about it for us. But I think what is new is really to do it more systematically and be able to trace [the changes] over the years... Previously, all our databases were set up for cases but not for individuals. If one person engaged in a certain service, they're listed, then they come back into another service, but they're listed again. So what do we report? The number of people seen or the number of cases." (C10, T1 charity)

The auditing process further enhances the accuracy and reliability of service performance information by encouraging the development or refinement of data collection systems and internal controls. This benefit was evident even in charities that already submit service performance information to funders or are subject to accreditation audits. The interviewee below pointed out that unlike reporting to funders and other stakeholders, which often allow adjustments in future reporting cycles, audit demands a higher degree of precision and accountability. As one interviewee noted, an error in an audited report not only creates complications but can also raise concerns about data quality or even organisational competency:

"I spend a lot of time telling everyone about how important accuracy is because once it is in [the audit report] it can't change. When we report to our funders, if we pick up an error in our previous dataset, we can just incorporate that into the next report and note it. But once it is audited, there's a bit of a palaver in adjusting a result, isn't there? You have to make a statement about it in the next report and then it just sort of introduces this whole uncertainty of what's going on there." (C23, T2 charity)

3. Demonstrating and moderating impact claims

For some charities, the introduction of the SSP requirement served as a catalyst to reflect more deeply on their mission achievement and evaluate and demonstrate the impact of their work. The charity below undertook an organisation-wide project to better understand and measure its impact in response to the requirements:

"We saw this as an opportunity to go, why don't we see if we can use this as a chance to both prove and improve our mission impact? Do we really know what difference we're making? Can we work hard to get a better idea of what difference we're making? And then once we know that, then we can obviously improve that difference by turning the dial on some of our metrics and the likes; so we decided to sort of start a process of trying to work out what our impact was, making sure that we could measure it and then use it." (C29, T1 charity)

Auditing also plays a critical role in moderating how charities communicate their impact. While many charities share their impact through channels such as newsletters, websites, or annual reports, there is a risk that they may overstate their role. The audit process places greater scrutiny on the impact claims in SSPs and encourages charities to clarify these attributions. For example, one charity that provides scholarships to support future doctors intends to report outputs achieved by those doctors after graduation. However, the auditor raised concerns about whether the outputs could be reliably measured and fully attributed to the charity. Another example, shown in Figure 14, demonstrates how a charity acknowledged the limits of its direct contribution, clarifying in its SSP that the impact was delivered by local partners and directing readers to the annual report for a comprehensive view of their impact.

Figure 14 - An example of articulation of impact on SSP

Tearfund's partnership-led framework means not all areas of impact could be included in the Statement of Service Performance, impact delivery through partners being one such exclusion. Management, therefore, would refer readers to our Annual Report for a more comprehensive overview of impact over the year as this demonstrates the success of the work we help fund which is the ultimate outcome for our supporters, partners, and the participants in the projects.

Child Development

Our goal is to meet children’s development needs, so they are empowered to reach their full potential. Tearfund partners with Compassion International, which supports local faith communities to release children from poverty. Tearfund NZ sponsors support children through programme centre activities. Sponsorship helps provide educational and nutritional support, health care and a safe environment in which to grow and provides the opportunity to learn about God.

	2023	2022
Children sponsored through Tearfund NZ	10,320	10,989
Number of countries children are sponsored in	25	25

Source: Tearfund NZ Statement of Service Performance for the year ended 30 June 2023 (available via Charities Services)

Concluding remark

Mandatory service performance reporting and auditing represent a new and evolving practice for both charities and auditors. As this research looked at the first year of the standard implementation, it was expected that both parties would encounter challenges in embedding the regulations into practice. However, this also marks the beginning of a shared learning journey. As charities continue to develop more structured and systematic processes and controls, the audit process will likely become more streamlined while also supporting improvements in internal management, governance, and strategic decision-making. Meanwhile, as auditors gain more experience in understanding how charities evaluate their performance, especially outcome or impact measures, we look forward to seeing more meaningful and credible service performance disclosures emerge in future SSPs.

Appendix 1: Description of coding criteria

CODING CRITERIA	DESCRIPTION
Charities' background and mission	Who we are Why do we exist
Output	What did we do How did we perform The immediate or direct products or services of the charity.
Outcome	What did we do How did we perform The medium to longer-term effect on individuals or society.
Comparative	When did we do it Comparison to the same measure in the previous year or an external target
Neutrality	How did we perform Whether examples of poor performance, project failures, negative effects or missed targets are provided
Methods used to gather or calculate outputs	How did we perform Evidence on how information was gathered or calculated
Link to the financial information and notes	How did we perform Clear link from SSP to financial statements and notes

Appendix 2: Glossary used in the report

TERM	ABBREVIATIONS	DESCRIPTION
Annual Report	No Abbreviation	The report (which is not necessarily the same as the GPFR) that an entity discloses on its website to communicate its performance.
General Purpose Financial Report	GPFR	The statutory statements, which include SSP, Financial Statements and notes to the financial statements.
Service Performance Information	SPI	Service Performance Information includes quantitative and qualitative performance measures and qualitative descriptions. This information describes what an entity does and how it performs.
The Statement of Service Performance	SSP	The title of the report, which presents an entity's service performance information and contextual information during a financial reporting period.

A research collaboration



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