

Service performance assurance for small charities: Experiences from New Zealand

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Funding information

There is no external funding for this research.

Small charities in New Zealand are leading the way in service performance reporting and assurance, providing a unique context for exploring the existing practices and challenges. This study investigates small charities' assurance practices based on a content analysis of the performance reports of 120 small registered charities. We found that many small charities have complied with the assurance and reporting requirements of service performance information. However, their reported outcomes and outputs may not be significant, understandable, or sufficient. Auditors exhibit high tolerance towards these issues because of the subjectivity, auditability and materiality related to service performance information. Our study provides preliminary insights on service performance assurance for small charities, which presumably will continue evolving and hopefully improving. However, there is a concern that some charities and assurance practitioners view service performance assurance as a compliance exercise, which does little to improve accountability and transparency in the charity sector.

KEYWORDS

non-financial assurance, service performance information, small charities

1 | INTRODUCTION

The rise of service performance assurance is an emerging phenomenon in the charity sector. Service performance assurance involves an audit or review of charities' service performance information, which reports what they have done in working towards their missions or charitable purposes. This information is vital for discharging accountability and facilitating stakeholders' decision-making. While assurance of financial statements is necessary for financial accountability (External Reporting Board [XRB], 2019b), it does not capture charities' activities, outcomes and responsibilities towards their missions, beneficiaries and communities (Connolly & Hyndman, 2013a). In order to

enhance the credibility of service performance information and improve public trust (Yang & Northcott, 2019), attention and discussions are increasingly focusing on service performance assurance. However, assurance of service performance information will likely face challenges given the qualitative nature of information, subjectivity in selecting suitable measurements and insufficient internal controls in producing the information.

Prior studies have mainly focused on large charities and their accountability and financial assurance practices (Connolly et al., 2018; Connolly & Hyndman, 2013a; Yang & Northcott, 2019). It is only in recent years that greater research attention has shifted to small charities (Hooks & Stent, 2019; Kemp & Morgan, 2019; Thompson & Morgan, 2020). This group of organisations has unique characteristics and challenges. For example, many small charities are grassroots and provide local knowledge about on-the-ground needs and connections

The authors made equal contributions to the paper.

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(Yang, 2021), and they represent most charities in many jurisdictions. However, they generally lack resources and professional support (Hull, 2013) to measure and report their performance. A recent New Zealand (NZ) study identified resistance from small charities to disclose service performance information, which is draining constrained expertise and resources (Hooks & Stent, 2019). Despite this knowledge about small charities' service performance reporting, there is an extremely limited understanding of their service performance assurance, mainly because they are not required to do so in most jurisdictions.

To our knowledge, NZ is a pioneer in mandating assurance of charities' service performance information, thus providing an exceptional context for this research. Interestingly, small charities have led the way in this regulatory change since 2015. Large charities will be subject to mandatory service performance assurance in 2023 and thus are not in the scope of this research. This study focuses on small charities in the Tier 3 reporting framework subject to mandatory assurance requirements (more details in Section 2.1) and examines their compliance with these service performance assurance requirements and the challenges they face. Tier 3 charities are socially and economically significant. The total income of Tier 3 charities is NZ\$ 22 billion, of which almost NZ\$ 9 billion is generated from providing goods or services and NZ\$7 billion from public donations. These charities maintain 3 million volunteers providing 54 million volunteer hours and 254,000 paid employees (Charities Services, 2020).

This study examines the assurance practices and challenges related to small charities' service performance information. Building on a detailed content analysis of small charities' performance reports, our study found that most small charities comply with the mandatory assurance requirements by disclosing and assuring service performance information. Although about half of the charities make good efforts in reporting suitable performance measures, the other half of charities' service performance information is unclear, insufficient or disconnected from the charities' outcomes and missions. These issues are tolerated by assurance practitioners, suggesting that the practitioners may be sympathetic towards charities' efforts in reporting non-financial information. Auditors' tolerance may result from prioritising financial information over non-financials, and service performance information can be subjective and inherently difficult to verify. Some charities and auditors seem to exhibit a compliance mindset, focusing primarily on the form rather than the substance of the reporting. Therefore, the information reported may not necessarily meet users' needs.

This research intends to contribute knowledge to NZ charity auditing and assurance policy and practice and potentially extend this knowledge to other countries that would like to adopt similar requirements. The paper is organised as follows. The next sections introduce the regulatory environment of the charity sector in NZ as well as a literature review. The following sections explain the research method before presenting the findings and discussing their implications.

2 | BACKGROUND

2.1 | NZ charity regulatory environment

Since 1 April 2015, many registered charities in NZ have been required to comply with reporting and assurance requirements relating to financial and non-financial service performance information. These service performance requirements were developed by the NZ Accounting Standards Board and the NZ Auditing and Assurance Standards Board of the External Reporting Board. As the charities' regulator, Charities Services, a government agency, monitors charities' compliance and their submissions of annual returns and performance reports.

NZ charities operate under a four-tier reporting framework based on their annual expenditure or operating payments (see Table 1). Tier 1 charities (expenditure over \$30 million) must fully apply the International Public Sector Accounting Standards (IPSAS), as adapted for NZ's Public Benefit Entities. The reporting regime for Tier 2 charities (expenditures under \$30 million and over \$2 million) has the same accounting standards but with reduced disclosure requirements. In comparison, most charities (96%) are in Tier 3 (expenditure under \$2 million and over \$125,000) and Tier 4 (operating payments over \$125,000). These small charities must comply with Public Benefit Entity Simple Format Reporting (PBE SFR) standards developed by the NZ accounting standard-setter and prepare a 'performance report' that contains both financial and service performance information to present a holistic view of their annual performance. A performance report contains seven key statements: entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance report.

A separate standard specifically addressing service performance reporting (Public Benefit Entity Financial Reporting Standard 48) was later developed for Tier 1 and Tier 2 charities and became effective in 2022.

Similar to the reporting requirements, service performance assurance was first mandated in 2015 for some Tier 3 charities, followed by a requirement for Tier 1 and Tier 2 charities to comply in 2023. Tier 3 charities represent 22% of the total number of charities (over 6,000 charities). The applicable assurance standards¹ of service performance information include the International Standard on Assurance Engagements (NZ) 3000 effective from 2015 and the newly developed NZ AS1, the Audit of Service Performance Information (effective from 2024) (XRB, 2019a). An Explanatory Guide (EG) Au9, issued in 2015, was the first official guidance developed by the NZ Auditing and Assurance Standards Board to audit or review service performance information (XRB, 2015). Interestingly, unlike reporting requirements that mandate all charities in different tiers, assurance requirements currently only apply to some Tier 3 charities.² As outlined in Table 2, based on their annual expenditure, Tier 3 charities can be audited, reviewed or neither (Charities Services, 2022c).

TABLE 1 Reporting and assurance standards for charities in different tiers.

Tier	Annual expenditure	Financial reporting standard	Service performance reporting standard	Service performance assurance standard
1	>\$30 million annual expenses (1% of charities)	Full IPSAS standards (as adapted for NZ's PBE)	PBE FRS 48 Service Performance Reporting (from 1 January 2022)	NZ AS 1 the Auditing of Service Performance Information (from 1 January 2024) ^a
2	≥\$2 million and <\$30 million annual expenses (3% of charities)	Reduced disclosure regime		
3	≥\$125,000 and <\$2 million annual expenses (22% of charities)	Public Benefit Entity Simple Format Reporting—Accrual (from 1 April 2015) PBE SFR-A (NFP)		International Standard on Assurance Engagements (NZ) 3000 (from 1 April 2015) or NZ AS 1 the Auditing of Service Performance Information (from 1 January 2024)
4	<\$125,000 annual operating payments (74% of charities)	Public Benefit Entity Simple Format Reporting—Cash (from 1 April 2015) PBE SFR - C (NFP)		Not required

Abbreviation: IPSAS, International Public Sector Accounting Standards.

^aThe effective date of NZ AS 1 was initially deferred from 1 January 2022 to 1 January 2023 and then deferred again to 1 January 2024, but it was available for early adoption.

TABLE 2 Tier 3 charities assurance requirements.

Annual expenditure	Service performance assurance
≥\$1 million and <\$2 million	Audit
≥\$500,000 and <\$1 million ^a	Audit or review
≥\$125,000 and <\$500,000	Not required

^aThe expenditure levels for statutory audit and review requirements were updated from 1 million and 500,000 to 1.1 million and 550,000 respectively (Charities Services, 2022c) at the time of writing this paper. However, given that the data collection and analysis were based on the previous requirements, the previous expenditure levels are explained in this paper with the expectation that the results are applicable to the new levels.

Since this paper examines service performance assurance practices, it focuses on those Tier 3 charities subject to assurance requirements and their reported service performance information presented in the two non-financial statements: 'Entity Information' and 'Statement of Service Performance' (see Table 3). Entity Information summarises 'who are we' and 'why do we exist', including a charity's name, mission statement or purpose, the structure of operation and reliance on volunteers [PBE SFR-A (NFP), A36–37]. This provides contextual information about a charity, and the information does not usually change on an annual basis. The Statement of Service Performance aims to facilitate users' understanding of 'what did the charity do' during the financial year [PBE SFR-A (NFP), A39], which includes two key elements: 'outcomes' and 'outputs'. Outcomes are what a charity seeks to achieve in terms of their impact on society, and outputs are the goods or services that a charity delivers during the financial year [PBE SFR-A (NFP), A41 (a)].

According to A41 of the PBE SFR-A (NFP), a charity's mission/purpose, outcomes and outputs must be closely connected but with different disclosure requirements (XRB, 2022). The 'mission' statement of a charity is expressed in *broad* and general terms that cover the lifetime purpose of a charity. In contrast, while closely related to the mission statement, 'outcomes' focus on the *specific* goals of the

charity over the short to medium term. 'Outputs' are the goods or services delivered by the charity during the financial year, which should be described and quantified "to the extent practicable" [A41 (b)] with comparative figures disclosed (A17). It is the charities' responsibility to identify outcomes and outputs to reflect their service performance and quantify the outputs to the extent practicable. The statement of service performance should provide relevant, reliable and significant information about outcomes and outputs which are understandable for users of the performance report (A10, A27 and A42). The service performance information is for charities to 'tell their story' about what they did and how they achieved their goals.

Assurance practitioners are required to conduct an audit or review of the service performance information concurrently with the financial statements of a charity. They must express an opinion or conclusion on whether the entire performance report rather than just financial reporting complies with PBE SFR-A (NFP), and whether the 'identified outcomes, outputs and quantification of the outputs to the extent practicable are suitable'. To do so, auditors should obtain an understanding of how a charity determines and selects outcomes and outputs and assesses relevant controls. Auditors must obtain sufficient and appropriate evidence to verify that performance measures and descriptions are reliable, significant, comparable and understandable. However, many challenges exist in assurance in terms of the subjective and narrative nature of service performance information, which will be discussed further in the literature review section.

2.2 | Literature review

2.2.1 | Small charities' assurance and reporting practices

The external assurance of financial statements of public benefit organisations, including charities, has an important role. Hay and Cordery

TABLE 3 NZ charities tiered reporting framework.

Tier	Annual expenditure	Financial reporting	Service performance reporting	Service performance assurance
1	>\$30 million annual expenses	Financial statements in accordance with generally accepted accounting practice	Not required until 1 January 2022	Not required until 1 January 2023
2	≥\$2 million and <\$30 million annual expenses			
3	≥\$125,000 and <\$2 million annual expenses	<ul style="list-style-type: none"> • Statement of financial performance • Statement of financial position • Statement of cash flows • Statement of accounting policies • Notes 	<ul style="list-style-type: none"> • Entity information • Statement of service performance 	Audit, review or none (see Table 2)
4	<\$125,000 annual operating payments	<ul style="list-style-type: none"> • Statement of receipts and payments • Statement of resources and commitments • Notes 		Not required

(2017) summarised the value of assurance in a public sector audit, including mitigating agency risks, signalling good performance and providing credible financial information to attract greater contributions. These reasons for assurance are also relevant to charities. Agency theory explains the importance of externally verified financial information to address information asymmetry between charities and their external stakeholders, including funders and donors. Signalling theory explains that not-for-profit organisations use audited financial statements and appoint high-quality auditors (Hay & Davis, 2004) to signal good management controls and performance. Even before the mandatory assurance requirements, many charities had to be audited in accordance with their constitution or founding documents.

Financial assurance for charities is an established practice internationally. In the United Kingdom, small charities with an annual income under £1 million are generally subject to the scrutiny of independent examiners. An independent examiner is 'an independent person who is reasonably believed by the [charity] trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts' (UK Charities Act 2011, s145(1)(a)). Large charities with an annual income over £1 million, representing 4% of charities, must be audited by qualified accountants. Therefore, an independent examination is a primary form of external assurance for small charities in the United Kingdom and having an unqualified report helps build donor confidence (Kemp & Morgan, 2019). This is because many individual donors neither understand nor are able to undertake scrutiny of charities' financial statements themselves and rely entirely on auditors or independent examiners to verify this information (Connolly & Hyndman, 2013a). Although independent examiners can only provide limited assurance of financial information, similar to a review, Morgan (2011) argues that the examination is more than an informal checking of accounts and thus adds credibility to charities' accounts and becomes an essential means for small charities to discharge accountability. However, despite the importance of having an audited financial statement, it is seen as the least useful type of disclosure by donors to large charities (Connolly & Hyndman, 2013a). Similarly, most funders of small charities consider

that a qualified opinion on charities' financial statements does not necessarily mean mismanagement and thus will not affect the funding of charities. A qualified report only sends a signal to ask questions rather than deter charities from seeking grants (Kemp & Morgan, 2019). Financial accountability is secondary compared to a growing emphasis on service performance by charity stakeholders (Connolly & Hyndman, 2013a).

The benefits of service performance reporting include improving transparency and accountability, enhancing internal management and future service delivery, and building public trust and confidence in the charity sector (Connolly et al., 2018; Yang & Northcott, 2019). Regardless of the different approaches used to regulate charities in various countries, the expectation for charities to report their service performance is rising (McConville & Cordery, 2019). Nevertheless, it is challenging for charities in general and small charities in particular to measure and disclose their service performance information, given the qualitative nature and resource constraints (Chaidali et al., 2022; Hooks & Stent, 2019; Yang, 2021). These challenges, coupled with the issue of generating meaningful performance information, resulted in fewer small charities engaged in performance measurement and reporting compared with large charities (Chaidali et al., 2022). To ensure the credibility of service performance information, the needs for service performance assurance are likely to increase. For example, some NZ government agencies demand an audit of service performance information for the charities they funded (although not via auditing firms) because these agencies are often accountable for the service performance provided by those charities due to the contracting of public service (XRB, 2019b). However, there is extremely scant literature on service performance assurance for small charities. Since non-financial service performance assurance in the charity sector is not mandatory in most jurisdictions, this important area receives little or no research attention. Therefore, the NZ regulatory context provides a unique research setting to examine small charities' service performance assurance practices. Given the absence of charity literature in this area, we draw on the assurance of non-financial information in the private sector to broaden the literature review.

2.2.2 | Challenges in assurance of non-financial information

Service performance reporting is a form of emerging external reporting that aims to provide stakeholders with broader and more holistic information about an entity's performance. Assurance for non-financial information is on the rise, particularly with growing demands and requirements for environmental, social and sustainability reporting. However, assuring emerging external reporting includes several challenges identified by the International Auditing and Assurance Standards Board (IAASB) (2016) discussion paper, some of which are relevant to the assurance of service performance information.

Small charities may lack internal control over the service performance reporting process. This directly affects the auditability of service performance information. Verifying performance indicates organisations need to 'make things auditable', which involves an expensive process of building an environment to produce 'facts' and determining what kind of things are acceptable as evidence (Power, 1996). In the context of service performance assurance, small charities need to effectively design measures of non-financial performance and processes that can be implemented to collect data for such measurements. However, given the inadequate in-house resources and reporting expertise, such processes might not be properly designed and implemented. A weak control environment with higher control risks will likely lead to insufficient evidence for reported information, thus creating difficulty for verification.

Furthermore, non-financial information that includes narratives or images is qualitative in nature, which can be highly subjective, less observable and susceptible to management bias (such as evaluative type of information rather than factual information) (IAASB, 2016). Management subjectivity and bias may directly affect the selection of reported content. Since there is no prescribed number of outcomes and outputs that a charity should disclose, a charity may choose to disclose one or two outputs that do not sufficiently cover the outcomes of the charity. It would be difficult for auditors to verify whether all significant outputs that should be disclosed have been disclosed. The reporting standard PBE SFR-A (NFP) recognises that service performance contains narrative information and thus allows a degree of tolerance on the quantification of outputs, which is reflected in the phrase 'to the extent practicable'. However, this phrase could also become an excuse for both preparer and assurance practitioners to legitimise insufficient and irrelevant disclosures of service performance information.

Another challenge for service performance assurance is the concept of materiality. Materiality is a tolerable threshold of error and/or omission in an assurance engagement. Auditors determine whether reported information fairly represents an organisation's performance and complies with applicable standards based on whether there are material errors, omissions or deviations from standards. The determination of materiality relies on the auditor's independent assessment based on the auditee's context and what is perceived as material from the information users' perspective. Materiality is highly subjective, even in a financial statement audit (Brennan & Gray, 2005).

Nonetheless, in the financial statement audit, auditing standards provide some benchmarks (net profit, asset or turnover) to determine materiality, such as 5%–10% of net profit. The vagueness of materiality is exacerbated in a non-financial assurance engagement because of the nature of information and the absence of benchmarks (Edgley et al., 2015). In the context of social and environmental reporting assurance (SERA), Edgley et al. (2015) suggest that materiality addresses the risks related to an absence of relevant and reliable information about corporate material impacts on the wider social environment and climate. Therefore, both relevance and completeness of information should be part of the materiality consideration. Many assurors, particularly assurors from the accounting profession, tend to narrowly focus on the accuracy of the reported data (Edgley et al., 2015) and fail to consider a wide range of stakeholders' information needs. They thus fail to produce meaningful assurance in a holistic evaluation of environmental, social and sustainability reports (Gray, 2000; O'Dwyer & Owen, 2005). Materiality in service performance assurance can be also vague and problematic, as it is in SERA. To add to the confusion, as assurance is required for the entire performance report, the question remains how auditors apply an overall materiality to both financial and non-financial information. Indeed, the application of materiality for financial information is not applicable when assuring a statement of service performance. However, there is limited guidance provided in audit standards and regulations. For example, ISAE (NZ) 3000 applies a traditional, accounting risk-based approach to determine materiality, which focuses on the reliability of information and assurance risk (Edgley et al., 2015). ISAE (NZ) 3000 states that auditors need to apply professional judgement about materiality by considering both quantitative and qualitative factors of information (paragraphs A95–97). NZ AS 1 (paragraphs 31 and 50) specifies that auditors should determine materiality based on whether the service performance criteria are suitable and whether the misstatements (including omission of facts) of reported information are likely to significantly influence the decisions of intended users (XRB, 2019a). These challenges in mandated service performance assurance open up an interesting and valuable area of research in the context of small charities, which differs significantly from large corporates' economic, social and sustainability assurance. This research aims to investigate the assurance practices and challenges related to service performance information for small charities.

3 | METHOD

To address the research question, registered charities' most recent performance reports and annual return summaries³ were collected for content analysis. Content analysis is a well-established method used in prior studies to analyse assurance reports of sustainability reports (O'Dwyer & Owen, 2005) and charities' narrative reports (Morgan & Fletcher, 2013). A Tier 3 charity in NZ must submit an annual return within 6 months of their balance date in accordance with Sections 41 and 42 of the Charities Act 2005. The rationales for using these documents were twofold. Firstly, the data, as regulatory required

	Arts	Education	Religion	Total
Audit (expenses >\$ 1 million and <\$ 2 million)	20	20	20	60
Audit or review (expenses >\$500,000 and <\$1 million)	20	20	20	60
Total	40	40	40	120

TABLE 4 Sample of small charities (n = 120).

documents, is publicly available via an online Charities Register managed and monitored by the NZ Charities Regulator Charities Services. Secondly, the most recent reports were selected,⁴ representing the latest understanding of charity service performance reporting and assurance practices.

3.1 | Data collection

The dataset (Table 4) included Tier 3 charities from both ends of the expenditure spectrum: those annual expenditures over \$500,000 and those less than \$2 million but above \$1 million. Selection was based on size (expenditure level) to cover different assurance requirements (audit or review, see Table 3). NZ charities are broadly represented in 19 sectors,⁵ and this research selected the top three sectors in NZ based on the number of charities in each sector: Education (21.6%), Religion (18.5%) and Arts/culture/heritage (hereafter 'Arts') (9.3%)⁶ (Charities Services, 2022a).

The data were drawn from the website of the Charities Register, which maintains financial and non-financial information for every registered charity in NZ, including charity name, registration number, address, annual expenditure and sector (Charities Services, 2022b). We filtered out Tier 3 charities and then sorted the charities based on the selected expenditures and sectors. Charities in the category over \$1 million and less than \$2 million with the most significant expenditures were chosen by sorting the expenditures from largest to smallest and selecting the top 20 charities in each sector of Arts, Education and Religion. Charities in the category over \$500,000 and less than \$1 million with the lowest expenditures were chosen by sorting the expenditures from smallest to largest and selecting the 20 charities with the least expenditure in each sector. In this way, the aim was to include a broad sample to represent most charities subject to service performance assurance. Each charity was assigned a unique reference number based on the initial of its industry and size. For example, Education charities with expenses greater than \$1 million were numbered E1, E2, E3 etc., and Education charities with expenses greater than \$500,000 were numbered E5-1, E5-2, E5-3 etc. In Section 4, information concerning a charity's identity is blocked out. In total, the sample included 120 charities, of which 20 were selected from each sector from both ends of the expense spectrum but excluded de-registered charities and those that belong to a group⁷ (see Table 4).

Geographically, the sample covered 43 regions in NZ. Although slightly more than half (50.8%) were from major cities in NZ (Table 5): Auckland, Wellington and Christchurch (the three largest cities in NZ), it is interesting to note that 49.2% of the reports came from a variety

TABLE 5 Region of charities' locations (n = 120).

Region	Number	Percentage
Auckland	33	27.5%
Wellington	15	12.5%
Christchurch	13	10.8%
Other	59	49.2%

of regions, including Blenheim, Gisborne, Hamilton, Hastings, Napier, Nelson and Tauranga. This shows the unique local representations of small charities' service coverage and the wide geographical distribution of the selected sample.

For each sample, there was a particular focus on sections of entity information, statement of service performance and independent auditor's or reviewer's report contained in its performance report. For the charities that did not disclose their independent auditor's or reviewer's reports, a further search on their annual return summaries⁸ was conducted to cross-check whether the charities had confirmed their performance reports were reviewed or audited and/or whether they disclosed an audit fee in their financial information. If a charity either disclosed an audit fee or indicated that an audit or review was conducted in the annual return, it was considered that the charity had performed an assurance but did not disclose the audit report/review conclusion. Since the documents reviewed in this study are publicly available, the names of the charities and auditors are anonymised.

3.2 | Content analysis

To facilitate systematic and consistent analysis, a framework was developed to analyse service performance information and assurance reports. The elements of the framework were informed by both the assurance guidance of service performance information (i.e. EG Au9 and ISAE 3000) and the reporting standards PBE SFR-A (NFP). In accordance with the framework, the performance reports and annual return summaries were manually analysed for each element as shown in the left column in Table 6.

Judgement was specifically applied to the appropriateness of outcome, relevance, sufficiency, comparability and understandability of outputs. The rule of thumb was whether we, as stakeholders, understood what the charities were supposed to do and what they did do based on their service performance information. We developed coding to note down the issues observed by using five examples in each sector for each of the two categories. For example, if no outcome was

TABLE 6 Data analysis framework.

Analysis element	Rationale of analysis
Charity background <ul style="list-style-type: none"> Entity name Reporting year Total annual expenditure 	Provide background information for each sample
Assurance information <ul style="list-style-type: none"> Assurance provider Standards used Type of assurance (audit or review) Scope Audit fee Type of audit opinion or review conclusion Disclosed issues (reasons for modifications) Auditor's responsibilities towards service performance information 	This information was drawn from each audit or review report to understand the identities of the assurance firms, assurance scope, type of conclusions/opinions, and assurance standards. We compared the auditors' conclusions with our observations on each charity's service performance disclosures.
Mission and outcomes <ul style="list-style-type: none"> Entity mission Outcome disclosed Appropriateness of outcome (judgement) Difference between mission and outcome (yes/no) 	Disclosed mission and outcomes were checked to determine whether specific outcomes were closely related to the mission and not identical as required by paragraph A41 (a) PBE SFR- A (NFP).
Outputs <ul style="list-style-type: none"> Outputs disclosed Description and quantification of outputs (judgement) Significant outputs (judgement) Comparative outputs (yes/no) 	Each output was examined to check its relevance, significance, comparability and understandability, which are required by paragraphs A41(b), A42, A17 and A10 of PBE SFR-A (NFP) It was also considered whether the disclosed outputs were sufficient to reflect a charity's operation.
Annual return summary—Audit & Review Checklist <ul style="list-style-type: none"> Follow the charity's rule to review or audit (yes/no) Level of operating expenditure Confirm if the performance report submitted is reviewed or audited (yes/no) Received a modified audit opinion other than completeness with cash donations (yes/no) 	Sections 41 and 42 of the Charities Act 2005 requires charities to file annual returns. This was checked for charities that did not disclose assurance reports in their performance report. Answers to these questions were checked to determine whether the charities had performed an audit or review.

disclosed, the code was 'no outcome'. If the output was not relevant or significant, the code was 'irrelevant'. If significant outputs were omitted, the code was 'insufficient'. Two Research Assistants then applied coding to their allocated documents and met with us on a weekly basis over 2 months to discuss any discrepancies and questions. We provided ongoing revisions of the coding enacted by the Research Assistants to increase reliability and consistent use of

coding. Further data analysis aggregated and compared the elements in Table 6, which will be discussed in Section 4.

4 | FINDINGS

This section is structured to first present an overview of service performance assurance practices for small charities and then to focus on specific issues related to outputs and outcomes as the key reporting elements in the Statement of Service Performance.

4.1 | Service performance assurance practices

4.1.1 | Assurance practitioners

There were a total of 54 different professional accountancy firms that provided assurance services to the small charities in our sample⁹—34 firms in each lower and higher expense group. Table 7 lists the top 14 auditing firms which conducted at least three engagements. For example, William Buck Audit (NZ) Ltd provided seven engagements (6.5%), which was the highest number of engagements, followed by BDO, which provided six engagements (5.6%). In addition to the top 14 firms, nine firms each conducted two engagements, and 31 firms conducted one. This shows a wide diversity of assurance practitioners who provided services for small charities without a strong presence of the Big 4 accounting firms. The Big 4 accounting firms' low presence in this market may reflect that the small charities had little desire to utilise the Big 4 firms' reputations to signal the legitimacy of their performance, and those firms probably had little interest in small charities' business. The small charities generally engaged with small assurance providers, whom they often knew of via word of mouth and perhaps from their local regions.

4.1.2 | Scope and type of assurance

As outlined in Table 8, 67% (80/120) of charities had assurance on the full scope of their performance reports and disclosed their assurance reports in the performance reports. However, 10% (12/120) of charities conducted assurance on financial information only,¹⁰ and 23% (28/120) did not disclose their assurance reports.¹¹ The unavailability of the assurance reports not only created difficulties for this research, but more importantly, it failed to meet users' information needs and missed the opportunity to signal to stakeholders the good performance of the charities. It may indicate that some charities do not perceive that making their assurance reports publicly available is beneficial.

For those charities that disclosed their assurance reports (see Table 9), 88% of them (81/92) conducted an audit, which included almost all¹² higher-expense charities (expenses over \$1 million) and most of the lower-expense charities (expenses less than \$1 million). This shows that overall small charities preferred to engage in high-

TABLE 7 The top assurance practitioners for small charities.

Name of assurance firm	Expenses >500k and <1m	Expenses >1m and <2m	Total
William Buck Audit (NZ) Ltd	5	2	7
BDO	2	4	6
Audit Integrity Ltd	1	4	5
Charity Integrity Audit Ltd	3	2	5
Crowe NZ Audit Partnership	0	5	5
Campbell and Campbell Accounting Consultants	2	2	4
CKS Audit	3	1	4
Independent Auditors Ltd	1	3	4
KPMG	1	3	4
Ashton Wheelans	1	2	3
Audit Professionals	1	2	3
Grant Thornton	0	3	3
HP Hanna & Company Ltd	2	1	3
Kendons Chartered Accountants Ltd	0	3	3

TABLE 8 The scope of assurance.

Scope of audit/review	Expenses >500k and <1m	Expenses >1m and <2m	Total
Performance report (service performance + financial)	36	44	80
Financial information only	7	5	12
No assurance report provided	17	11	28
Total	60	60	120

Type of assurance engagement	Expenses >500k and <1m	Expenses >1m and <2m	Total
Audit	33	48	81
Review	10	1	11
Total	43	49	92

TABLE 9 The type of assurance.

level assurance, particularly those smaller charities with freedom of choice. Alternatively, this might not be a choice but rather what the charities' rules or constitutions required when they were established.¹³

4.1.3 | Types of audit opinion and review conclusion

The audit opinion or review conclusion expressed on the performance report followed the same format as a traditional financial statement audit opinion (without key audit matters) or review conclusion. Materiality was not explicitly mentioned in service performance information in any assurance report.

Table 10 shows that 20% of charities (16/81) received a modified audit opinion and 45% (5/11) received a modified review conclusion.¹⁴ The results were similar for the two groups of charities in which higher expense charities (20%–10/49) slightly outperformed

lower ones (26%–11/43). The reasons for modifications were mainly related to financial information (e.g. cash donations), except for one charity only. This seems to indicate a high level of compliance with service performance reporting because most auditors believed that the service performance information complied with the Tier 3 reporting standards and that the charities' selected performance measures were suitable.

Only one charity (coded as E22) received a modified opinion relating to service performance reporting because of insufficient evidence on two output measures. The charity mentors Māori and Pasifika youth. Exhibit 1 shows an extract of its Statement of Service Performance.

As stated in the audit report, the reason for a qualified opinion was due to the lack of sufficient and appropriate evidence to verify two outputs, namely, 'the number of mentee families who received food parcels and the number attendees at the annual basketball Polyjam community event' as disclosed on Exhibit 1. The auditor could not verify the reliability of the outputs, indicating an auditability

TABLE 10 Types of audit opinion and review conclusion.

Type of opinion/conclusion	Expenses >500k and <1m	Expenses >1m and <2m	Total
Audit—unmodified	27	38	65
Audit—modified	6	10	16
Review—unmodified	5	1	6
Review—modified	5	0	5
Total	43	49	92

Description of the Entity's Outcomes			
1. To break the cycle of disengagement of Maori and Pacific youth from their families, schools, and communities			
2. To establish Communities of Practice with a shared vision of improving outcomes for young Maori and Pacific people and their families			
Description of the Entity's Outputs			
As a cultural relationship-based intervention service for young people, ██████████ completed mentoring with 667 young people and their families. These attendees are made up of:			
One to one academic and life skills mentoring; in-schools Healthy Relationships group programme; in-schools Leadership group programme; a mentoring life skills through sport - Polyjammers basketball programme; a transition to adulthood programme for young people who have been in state care; a residential homes educational and pastoral care programme working alongside excluded youth. This work often includes wrap around service supported mentoring which involves working with families to remove or alleviate risk factors and to also provide advocacy support to young people transitioning back into education; transitioning to adulthood/independence; facing suspension or exclusion from school.			
Annual Community Polyjam Basketball Event raising funds for Christmas Hampers and gifts for our young people and their siblings. Provision of Food Parcels alleviate financial pressures in the homes of the young people we work with as part of our holistic approach to young person's wellbeing.			
Quantification (to the extent practicable) of the Entity's Outputs:	Actual This Year	Budget This Year	Actual Last Year
Mentees - group and individual packages of care	667	448	448
Mentees - on-going individual packages of care (in addition to above)	27	33	33
Annual Basketball Polyjam Community Event Attendees	201	200	225
A food Parcels for Mentee Families	404	250	225

EXHIBIT 1 E22 Statement of Service Performance 2020.

issue. The charity might not have had sufficient controls to show that the food parcels despatched were indeed received by mentee families or that the number of attendees was accurate. A modified opinion indicates that the auditor believed that insufficient evidence on two of the four reported outputs was a material issue. Interestingly, compared with most of the charities' disclosed service performance information, we found this charity better complied with the reporting standards because the outcomes were appropriate, the descriptions and quantifications of outputs were clear, the outputs were relevant and significant and comparative figures were provided. It is interesting to note that most of the charities that had issues with their disclosed service performance information received no modifications on their service performance information; however, this charity was given a qualified opinion on its service performance information. More specific issues are analysed in detail in Section 4.2.

4.1.4 | Standards used in full-scope assurance

Of the 80 charities that conducted full scope assurance (see Table 11), 90% (72/80) of the engagements complied with the appropriate assurance standards being used—either ISAs (NZ) & ISAE (NZ) 3000, ISAs (NZ) & NZAS 1 or ISRE (NZ) 2400 & ISAE (NZ) 3000.¹⁵ However, 10% (8/80) used assurance standards

inconsistent with full-scope engagements. The assurance practitioners for the eight charities were four small local firms, suggesting the issue was concentrated in particular local firms. Seven engagements used the assurance standards related to financial information only (three applied ISAs and four applied ISRE 2400) and one used NZ AS 1, which only related to service performance information. It is surprising that auditors using one set of standards (either related to financial or non-financial information) could arrive at opinions or conclusions related to the full scope of the performance report. Almost 14% (5/36) of assurance engagements in the lower expense charities used standards inconsistent with the scope, which was higher than the 7% (3/44) observed in the higher expense group.

Overall, there was a high level of compliance with service performance reporting/assurance standards by small charities, and many charities (67%) engaged in full-scope assurance on their performance reports and made their assurance reports available to the public. Nonetheless, various issues were found in the reported service performance information, which will be discussed next.

4.2 | Suitability of outcomes and outputs

By way of an unmodified opinion on the statement of service performance, auditors affirmed that the charities had complied with PBE

TABLE 11 Assurance standards used in full-scope engagement.

Standards used in the full scope of assurance	Expenses >500k and <1m	Expenses >1m and <2m	Total
ISAs (NZ) & ISAE (NZ) 3000	25	39	64
ISAs (NZ) & NZAS 1	1	2	3
ISRE (NZ) 2400 and ISAE (NZ) 3000	5	0	5
ISAs (NZ) only	1	2	3
NZAS 1 only	0	1	1
ISRE (NZ) 2400 only	4	0	4
Total	36	44	80

SFR-A (NFP) and that the performance measures were 'suitable'. As explicitly stated on the assurance report of small charities, the auditor's responsibilities were to

perform procedures to obtain evidence about and evaluate whether the reported outcomes and outputs, and quantifications of the outputs to the extent practicable, are relevant, reliable, comparable and understandable.

Due to the limitation of content analysis, it was not possible to evaluate the reliability of the reported outcomes and outputs; instead, the focus was on the relevance, comparability and understandability of this service performance information disclosed by the charities. Of the 79¹⁶ charities with full assurance scope and which received no modification on service performance information, we found that 49% (39/79) of charities had no issues with service performance information. However, 51% of the charities had various issues with their reported outcomes and outputs, which are illustrated below with some examples that could be potential areas for further improvements.

4.2.1 | Outcome issues

Outcomes are specific goals when pursuing a charity's mission, and are fundamental to the charity's existence. In line with PBE SFR-A (NFP) A 41 (a), we assessed whether the charity's mission statement and outcomes had been disclosed, whether they were identical and whether the reported outcomes were too broad. Table 12 shows that 75% (59/79) of charities disclosed relevant and specific outcomes to achieve their missions. However, the remaining charities seemed confused about the meanings of outcomes. For example, 14 charities had very broad outcomes, four charities' outcomes were identical to their missions and two charities did not even report outcomes.

These issues indicate that some charities either lacked an understanding of the meaning of outcomes or did not have a clear outcome to report. They also seemed confused about the differences between missions and outcomes despite paragraph A 41 (a) of PBE SFR-A (NFP) explicitly expressing that outcomes and missions should be different (see Section 2). The example below shows that the charity R20

disclosed performance measures in the outcome section (the first reporting element in the Statement of Service Performance), suggesting that they might have misunderstood the reporting template or believed performance measures are equivalent to outcomes (Exhibit 2).

Exhibit 3 shows another example of outcome issues. E1 was an education charity that failed to specify the short to medium-term outcomes in fulfilling its mission. It is unclear how the trustees' satisfaction was achieved. More specific outcomes for this charity could be funding collaborative programmes to improve sports participation or relieving child poverty to improve school attendance rate. However, the charity failed to outline any specific outcome.

Although auditors seemed to tolerate the vagueness of the outcomes, it was regarded as worth noting since the reported outcomes were too broad to provide users with useful information about what the charity intended to achieve in the short or medium term. The concept of materiality should have rested on whether omission or unclear outcomes were likely to affect users' decision-making. The findings suggest that auditors/reviewers perceived the outcome issues identified as immaterial, which in their view would not affect users' decision-making.

4.2.2 | Output issues

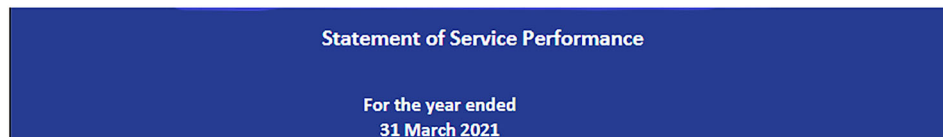
Compared with the outcome issues, it was found that the disclosed outputs were more problematic, but this was also tolerated by auditors. Charities are required to describe their significant outputs (e.g. activities, goods and services provided) that occurred during the year and quantify those outputs 'to the extent practicable'. Based on the requirements in PBE SFR-A (NFP) (i.e. A41 (b), A42, A26, A10 and A27), we assessed whether the outputs were relevant and significant in illustrating the charity's service performance, whether the number of output measures was sufficient to reflect the activities of the charity and whether the description and quantification of outputs were understandable and comparable. When assessing outputs, the application of the phrase 'to the extent practicable' in practice was particularly considered. This was operationalised by determining whether the output measures were qualitative in nature and, thus, could not be quantified. For example, the outputs of a museum can be the themes and significances of exhibitions,¹⁷ which are inherently qualitative.

TABLE 12 Outcome issues in full scope assurance.

Outcome issues in full scope assurance	Expenses >500k and <1m	Expenses >1m and <2m	Total
Fine ^a	29	30	59
Outcomes are too broad	5	9	14
Identical mission and outcome	2	2	4
No outcome reported	0	2	2

^aFine means that a charity had disclosed both mission and outcomes, and the reported outcomes were not too broad or identical to the mission statement.

EXHIBIT 2 R20 Statement of Service Performance 2021. [Colour figure can be viewed at wileyonlinelibrary.com]



The Board measures performance according to certain indicators. These are listed below with reference given to the relevant sections in the Policy.

- 4.1 Clergy Allowance
- 4.2 Living Allowance
- 6.2/4 Support of Clergy in Retirement
- 5.2 Health Insurance
- 3.5 Annual Jubilee celebrations
- 3.6 Other Clergy Events
- 3.9 Other costs as approved by the Board

EXHIBIT 3 E1 Statement of Service Performance 2021.

Entity's Purpose or Mission

For the advancement of education, the advancement of religion, the advancement of sport, and such other charitable purposes within New Zealand as the Trustees from time to time decide upon

Description of Entities Outcomes

The Trustees are satisfied that the Trust achieved its goals of assisting charitable activities, including assisting charities providing services to education, religion, sport and a number of welfare activities.

Therefore, we coded these naturally unquantifiable output measures as 'fine'. However, if the output measures could be quantified, but the charities failed to quantify them, or the quantification itself was unclear, we believed it was a quantification issue (examples are given below).

Table 13 shows that many charities had various output issues, including quantification issues, insufficiency, irrelevancy, inappropriate and insignificant outputs, a lack of clear descriptions and no comparatives. Out of the charities with no comparative outputs, none was newly registered or engaged in new activities and thus excused for failing to provide comparative outputs. Surprisingly, the charities with expenses greater than \$500,000 outperformed their larger counterparts. The lower expense charities appeared to be more capable of designing relevant, appropriate and significant output measures. Their quantification issues were also fewer

compared to the higher-expense charities. In contrast, the charities with expenses greater than \$1 million presented various outputs issues, including 11 incidents¹⁸ of irrelevant, inappropriate or insignificant outputs and 10 incidents of poor quantification of outputs. Charities from both expense groups show similar numbers of incidents for the other two output issues concerning insufficient numbers of outputs and unclearly described outputs.

To illustrate the issues associated with outputs, Exhibit 4 presents an extract of education charity E9's Statement of Service Performance as an example of inappropriate outputs that were poorly described and quantified. The charity provided various educational programmes, but only two output measures were disclosed, which failed to represent 'what the charity did' during the reporting period. The descriptions and quantifications of both measures were unclear. For example, the output measure 'participant days' failed

TABLE 13 Outputs issues.

Output issues	Expenses >500k and <1m	Expenses >1m and <2m	Total
Fine	20	18	38
Quantification (failed to quantify outputs or quantification is unclear)	5	10	15
Insufficient number of outputs	7	6	13
Irrelevant, inappropriate or insignificant outputs	1	11	12
Unclear description	3	3	6
No outputs comparatives	3	2	5

Description of Entity's Outcomes

Mission: To achieve positive change in individuals and communities.

The opportunities provided included

- programmes for individuals and groups from disadvantaged backgrounds
- camps for school aged participants
- trades academies
- programmes designed for school age students
- corporate programmes
- tailored programmes designed to get people in the outdoors

EXHIBIT 4 E9 Statement of Service Performance 2020.

	2020	2019
Description and Quantification of the Entity's Outputs		
Participant Days	11,500	11,383
Approximate individual student participation	2,737	2,800
	2020	2019
Course Delivery Costs		
Course Delivery Expenses	71,663	150,844
Course Food Expense	52,504	77,262
Travel & Accommodation	1,874	18,798
Wages & Salaries	1,311,350	1,091,957
Total Course Delivery Costs	1,437,391	1,338,861

to communicate whether it was referring to the total number of days participants were involved in one programme or different programmes. To reach 11,500 participant days in a reporting year, the charity needed to run at least one programme with 32 people daily, including public holidays and during the COVID lockdown period in NZ, which seems unrealistic. Similarly, it is unclear whether 'approximate individual student participation' referred to the number of days or hours or something else. More meaningful and suitable measures could have been the number of programmes based on their outcomes (e.g. programmes for disadvantaged individuals or school-aged students) and the number of attendees for each programme. Furthermore, the 'Course Delivery Costs' in its Statement of Service Performance did not suitably represent its service performance and were duplicated with information in the financial statements. The poorly designed and described outputs would have created confusion and different interpretations for the users of the statement, but the auditor seemed to consider all these issues immaterial and provided an unqualified opinion.

It was observed that poor efforts were made by some charities to disclose sufficient, significant and quantifiable outputs. This example relates to unquantified outputs and inconsistencies in the claims

reported in the Statement of Service Performance of a special character early childcare centre for the financial year ended 31 December 2019 (Exhibit 5). The charity listed five goals established in 2015/2016, which had not been changed since the 2017 performance report until the recent 2021 report. The charity has specified 'all goals have been achieved as planned' in each year's Statement of Service Performance since 2017. Although the first outcome could not be quantified, outputs related to the middle three goals could be practically quantified to support the claims that goals had been achieved. However, there was no ratio of qualified teachers to the total number of teachers to show that the charity had 'maintained or increased the number of registered teachers' (Exhibit 5). The proportions of the hours taught by qualified teachers were relevant to this goal, but the proportion taught by qualified teachers decreased from 2018 to 2019 for both centres,¹⁹ which suggests this goal was not achieved. Furthermore, no output showed the number of marketing materials or efforts made towards non-Muslim families or the percentage of children from non-Muslim backgrounds attending the centre. There were no outputs about the amount of new equipment bought or upgraded. The charity had used the same local auditor since 2017. The auditor seemed to believe it was immaterial for the charity to 1)

For the year ended 31 December 2019

Description of Entity's Outcomes

The [REDACTED] strategic plan for 2015/2016 incorporated the following goals:

- To maintain consistency in standard of programme delivery.
 - To maintain/increase the number of registered staff holding a Diploma of Teaching (Early childhood) or equivalent
 - Marketing centres towards and increasing the participation of non-Muslim families.
 - Updating of resources which included the purchasing new equipment and upgrading of existing equipment.
 - Move the [REDACTED] Centre to a new building by late-2016/early-2017.
- All goals have been achieved as planned.

Description and Quantification of the Entity's Outputs

Account	Christchurch 2019	Christchurch 2018	Dunedin 2019	Dunedin 2018
Daily roll capacity	38	38	38	38
Children hours per year - under 2	5,732	5,517	2,318	4,580
Children hours per year - over 2	11,358	7,145	7,114	9,763
Children hours per year - 20 + 10 Hours FCH	22,784	22,050	13,273	23,079
Funded Child Hours (FCH) - Total	<u>39,874</u>	<u>34,712</u>	<u>22,705</u>	<u>37,422</u>
ECE Registered Teachers Hours	3,849	4,168	2,280	3,402
ECE Non-Registered Teachers Hours	1,536	923	1,042	1,214
Teachers Hours - Total	<u>5,385</u>	<u>5,091</u>	<u>3,322</u>	<u>4,616</u>

Description and Quantification of the Entity's Outputs

[REDACTED] delivered quality ECE programmes in Christchurch and Dunedin centres, rated by ERO as "Well Placed" with Islamic based as special character but open for all kids.

EXHIBIT 5 E5-13 Statement of Service Performance 2019.

claim that it achieved the goals despite outputs showing inconsistency with the achievement and 2) omission of quantifiable outputs to support the outcomes.

Another example relates to the appropriateness and omission of significant outputs. Exhibit 6 illustrates an Early Child Education centre²⁰ that disclosed outputs following its outcomes. Although 'the amount spent on professional development' (Exhibit 6) to train staff was relevant and was also recorded in its financial information, the amount spent was inappropriate service performance information in terms of achieving Outcome 1. The charity could have disclosed the number of staff who attended professional development, the hours or number of sessions attended and the impact of the training (e.g. improving skills or certification awarded). Furthermore, although the annual Matariki (Māori new year) evening was relevant to Outcome 3, the charity could have provided some quantified measures, such as the number of families that attended or the different ethnicities of attendees, to indicate 'involvement with the wider community' (Exhibit 6). The charity also could have disclosed the number of other events they held in their centre, such as a Christmas party. Furthermore, given that the charity was a childcare centre, the number of children attending the centre should be a significant output to be disclosed. Despite the problems of designing and quantifying significant

outputs, the auditor still indicated that the outputs were suitable and did not perceive that the omission of significant and appropriate output measures was material.

The last example concerns the practicality of quantifying output measures that charities chose to disclose. R19 was a church that also used its facilities as a community centre. Exhibit 7 shows an extract of its 2020 Statement of Service Performance. The charity disclosed a number of efficiency and effectiveness outputs that were relevant, significant and sufficient to achieve its reported outcome. The usage of the centre was quantified, but some measures related to the effectiveness of participating in the community, such as 'gaining confidence in English', 'learning new skills' and 'contributing their experience, skills and knowledge' (Exhibit 8) were much less quantifiable. These measures fell within the phrase 'to the extent practicable', which reflects an inherent issue in quantifying effectiveness measures.

The above examples illustrate differences in the depth and breadth of performance measures. Some charities could have done more but did not, and a few made better attempts. In sum, although almost half of the sample charities' service performance information was acceptable, the findings identified several issues related to outcomes and outputs, and auditors unanimously gave an unmodified

Statement of Service Performance

For the year ended 31 July 2018

Our main goal was to have a positive impact on all the children that attend our ECE Centre and to provide quality education. The Trustees believe we have achieved this.

Entity's Outcome 1

To empower staff with professional development.

	2018	2017
Description and Quantification of the Entity's Outputs		
Amount spent on professional development	18,712	14,616

Entity's Outcome 2

To increase number of qualified staff. During the 2018 year we actively worked to provide training and advance the qualifications of our unqualified staff. This is reflected in the amount spent on professional development during the year.

	2018	2017
Description and Quantification of the Entity's Outputs		
Qualified staff members	7	6

Entity's Outcome 3

To increase involvement with the wider community.

Output: To do this, we hosted our annual Matariki evening and invited the wider community to celebrate.

EXHIBIT 6 E5-16 Statement of Service Performance 2018.

COMMUNITY CENTRE

Desired Outcomes for the Centre are:

To be a focal point for community activities in the [redacted] Auckland City, providing a quality facility for their use through programmes and the use of facilities for social interaction.

Achieved Outputs for the Centre are:

Annual visitors/users/participants (approx.) 49,627 90,408

This is in line with our work plans approved by Auckland Council and our own goals and values as an entity of Church and Community Centre.

Output measures are:

- increase in number of users - both casual and regular attendants at long-term programmes.
- increase in the level of engagement by migrants
- gaining confidence in English
- learning new skills
- the level of networking and socialisation with longer term residents
- contributing their experience, skills and knowledge
- enabling some to find employment

Number of programmes per week	127	132
One-off bookings/month	4	21

EXHIBIT 7 R19 Statement of Service Performance 2020.

opinion. Auditors tolerated issues including omitted and unclear outcomes, omissions of comparative outputs, and irrelevant, insignificant and unclear output measures. However, in our view, these issues affected the relevance, understandability and comparability of reported outcomes and outputs and were unlikely to meet the users' information needs.

5 | DISCUSSION AND CONCLUSION

This research investigated assurance practices and challenges related to service performance information disclosed by small charities. The research found that small charities showed a high level of compliance with mandatory service performance reporting and assurance

requirements. However, these charities made varied efforts to report service performance, ranging from clear performance measures aligned with specific outcomes to vague outcomes with insignificant, irrelevant and insufficient outputs. Regardless of good or poor reporting, auditors/reviewers seemed reluctant to issue qualified reports unless for financial reasons. It appears that auditors were stringent on the accuracy of financials, but they were highly tolerant of issues related to service performance information. The materiality of service performance information was much higher than financial information. For example, despite many charities receiving modifications because auditors could not verify the completeness of cash donations,²¹ the 'completeness' of output measures (analysed by 'insufficient numbers of outputs') or the omission of reporting elements in the performance reports (analysed by the omission of comparatives or outcomes) did not result in any modification. Some auditors even gave unmodified opinions on service performance using assurance standards only related to financial information. Therefore, the usefulness of service performance reporting was questionable, and the value of service performance assurance was limited. We infer two interrelated reasons for this and explain the study's contributions to the literature.

First, due to the highly subjective nature of determining what to report, the requirements on the depth and breadth of service performance disclosure are flexible, and auditors have limited means to verify whether the reported performance measures are complete. The phrase 'to the extent practicable' allows charities and auditors to legitimately justify the limited quantifiable outputs disclosed, which, unfortunately, results in a minimum level of disclosure from some charities to reduce assurance costs and avoid potential scrutiny from stakeholders. This reduces the likelihood that charities and auditors appreciate or realise the benefits of service performance assurance. Furthermore, 'sufficient and appropriate evidence' of service performance is difficult to obtain owing to the qualitative nature of measures (e.g. improvement of skills or wellbeing). Even some quantified output measures are challenging to verify. For example, an auditor struggled to verify whether the number of food parcels was indeed delivered to genuine beneficiaries of the charity. This study sheds light on the challenges associated with service performance assurance of small charities, which are mainly related to subjectivity, auditability and materiality when verifying this service performance information.

Second, a minimum level of disclosure and high tolerance towards service performance information may reflect a compliance mindset by both auditors and preparers. From charities' perspective, their service performance meets the regulatory requirements, but there is little motivation to use service performance reporting to 'tell their story' to wider stakeholders. Some charities do not even publicly disclose their assurance reports, which show that they may not need assurance to signal good performance and attract donations. From the auditors' perspective, they seem to be sympathetic towards charities' reporting pressure and focus more on the forms of the service performance information rather than the substance. This may be because of an understanding that charities lack the expertise to design a

comprehensive system to capture performance measures and frame strategies and activities for disclosure in their performance reports, despite actually doing good work for beneficiaries and members.

These findings extend prior literature on the financial assurance of small charities (e.g. Kemp & Morgan, 2019; Morgan, 2011) by providing insights into service performance assurance practices drawing on a unique context of the NZ mandatory assurance requirements on small charities. Contrary to the increasing calls for charity performance accountability (Connolly et al., 2018; Yang & Northcott, 2019) and regulation on performance reporting and assurance (McConville & Cordery, 2019), our study reveals that service performance reporting and assurance appear peripheral and are possibly perceived less valuable compared to financial assurance by both small charities and assurance practitioners. This may be because small charities' trustees are primarily concerned with audited financial statements, which they perceive as bringing legitimacy to their charities (Connolly & Hyndman, 2013b; Thompson & Morgan, 2020).

The findings offered in this study are an initial step toward understanding the assurance of service performance information and provide empirical evidence for the challenges identified by the IAASB (2016) and extend them to the context of the charity sector. This study indicates that the challenges of subjectivity in reporting scope, auditability and suitability of performance measures may reduce auditors' scrutiny of service performance information, resulting in a norm of issuing an unmodified opinion. Although we do not know the auditors' rationale for determining materiality based on the content analysis, the high materiality appears to suggest a narrow and traditional view focused on the accuracy of the reported information and its financial implications (Edgley et al., 2015; O'Dwyer & Owen, 2005). Thus, the study extends the prior observations of materiality in sustainability assurance in the private sector to charity service performance assurance. This highlights a potential need for further education of auditors to consider a wider stakeholders' perspective when determining materiality. Moreover, our study extends prior literature on small charities' service performance reporting (e.g. Hooks & Stent, 2019) by highlighting the difficulties of verifying outputs and outcomes and a compliance mindset largely constrained small charities to value the benefits of performance reporting and assurance. The reluctance to service performance reporting and assurance could result from charities perceiving that their accountability to funders and donors is not well discharged via mandatory reporting. As Yang and Northcott (2019) noted, charity accountability can be discharged in various ways. For small charities, informal disclosure mechanisms via face-to-face conversations could be valued higher compared to formal annual reporting and assurance.

To our knowledge, this paper is the first attempt to explore non-financial service performance assurance practices in the charity sector, which is a highly under-researched field (Hooks & Stent, 2019; XRB, 2019b). The research is particularly timely given the recent statutory audit requirements for service performance information prepared by large NZ charities which commenced in 2023. Since NZ Tier 3 charities are a pioneer in service performance assurance, the

issues found with the assurance practices of Tier 3 charities may be useful for charity auditors, preparers, regulators and accounting standard setters. Charities in other countries, such as the UK and Australia, may also find NZ's service performance assurance experience useful to shed light on their regulation and policies for small charities.

The research has implications for practice. To make service performance reporting more desirable for charities, small charities' key stakeholders, including regulators and funders, could work more collaboratively to promote performance reporting further and connect charities' reporting benefits with their internal management and governance practices and improvement for future service delivery. It can also be helpful for charities to reflect on and consider potential improvements in their performance. Although some funders require specific reports and monitoring mechanisms to meet their information needs (XRB, 2019b), assurance of well-presented and informative service performance reporting is still valuable for attracting volunteers and donors and marketing charities' services to communities. Thus, it may increase charities' social capital and reputation. Assurance practitioners should adopt a broader view of materiality by considering stakeholders' perspectives and consider the omissions of significant service performance information rather than merely focusing on the accuracy of *reported* output measures and financial information. Nonetheless, balancing the costs and benefits of reporting and assurance is challenging.

There are limitations to the research, which can be seen as a future research agenda. Firstly, this research is based on a content analysis of 120 charities' performance reports and annual returns from the three largest sectors (Education, Religion and Arts) in its analysis and the findings may not be generalisable to other sectors in NZ and charities in other jurisdictions. The sampling was purposefully targeting both ends of the expenditure spectrum rather than randomised. The discussions were based on inferences and the extant literature but did not take into account any views and experiences from the charity preparers and assurance practitioners in terms of how and why they prepared and assured service performance information. Future research could use interview-based methods and/or an in-depth case study to further explore the issues identified in this paper. For instance, how do assurance practitioners determine materiality and what are the potential reasons for such determinations? What are the difficulties of assuring non-financial service information? How has auditability of service performance information been dealt with in practice? How do charities select their auditors and what type of auditors do they prefer? Secondly, it is assumed that small charities are accountable to the general public and use their performance reports to discharge accountability. More research is needed to understand further the relationships between small charities' reporting, assurance and accountability. For example, what is the perceived significance of reporting and assuring service performance information from multiple perspectives, including small charities, assurance practitioners and users of performance reports? What is the role of service performance reporting in discharging small charities' accountability? How do they differ from large charities?

ACKNOWLEDGEMENTS

Open access publishing facilitated by Massey University, as part of the Wiley - Massey University agreement via the Council of Australian University Librarians.

CONFLICT OF INTEREST STATEMENT

We are not aware of any conflict of interests involved with this submission.

DATA AVAILABILITY STATEMENT

Data are available on request from the authors.

ETHICS STATEMENT

Ethical approval is not applicable to this research because the collected data are publicly available.

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ENDNOTES

- ¹ For the audit or review of financial information, the applicable assurance standards are ISAs (NZ) or ISREs (NZ), respectively.
- ² Tier 1 and Tier 2 charities' financial statements must also be audited, but the requirements for their service performance assurance are only effective from 1 January 2023. At the time of study, Tier 1 and Tier 2 charities did not have to meet service performance assurance requirements unless they were early adopters.
- ³ For those charities that provided insufficient or ambiguous information on their performance reports and annual return summaries, a search on their websites for further information or clarifications was carried out to identify relevant information.
- ⁴ Some Tier 3 charities did not file their reports in a timely manner; therefore, some reports were from the years ending 2019 or 2020.
- ⁵ The 19 sectors are Accommodation/housing, Arts/culture/heritage, Care/protection of animals, Community development, Economic development, Education/training/research, Emergency/disaster relief, Employment, Environment/conservation, Fundraising, Health, International activities, Marae on reservation land, People with disabilities, Promotion of volunteering, Religious activities, Social services, Sport/recreation, others.
- ⁶ Some charity assurance research has excluded Religious activities and Education from the sample selection (e.g., Yang & Simnett, 2020; Yetman & Yetman, 2013) since these sectors have reporting exceptions in their jurisdictions. However, NZ has a unique context where all registered charities with an annual expenditure greater than NZ \$500,000 and less than NZ\$2 million must comply with service performance assurance requirements. Therefore, both Religious activities and Education were included in the sample selection, which will provide unique insights into this area.
- ⁷ Those charities that are members of a group submit consolidated rather than individual performance reports.
- ⁸ Each charity needs to file an annual return summary. In the summary, there is a section titled 'Audit & Review'. The section asks the charity to specify whether they are subject to the statutory assurance requirement and whether they conducted an audit or review and whether they received a modified opinion.
- ⁹ When charities conducted an audit or review but did not disclose their audit or review report, their annual return filings were checked to

identify their auditors. In total auditors were identified for 108 charities, whereas 12 charities did not disclose the name of their assurance practitioners.

- 10 Out of the 12 charities which only assured financial information, three charities (all in the category of expenses greater than \$1 million) had not prepared a statement of service performance.
- 11 We have checked these charities' annual return filings, with 20/28 claiming that their performance reports were assured and none of them received a modified opinion other than on the basis of cash donations. However, they decided not to make the assurance report publicly available. It was assumed that the charity services would have verified their claim. However, it was not possible to determine the scope of assurance without sighting the assurance report. The service performance information for these charities was also checked and except for one charity, all other charities provided their statement of service performance.
- 12 The one charity in expense between one and two million did a review instead of an audit was because the charity changed to Tier 3 from Tier 4 as a result of a jump in expense in a financial year.
- 13 The constitutions or founding documents of a charity could be standard legal documents with built-in assurance requirements.
- 14 Charities which did not disclose an assurance report were excluded; while they indicated that they performed an audit or review on their annual return summaries, there is no indication of the type of opinion/conclusion they received.
- 15 To conduct assurance on the full scope of a performance report, two different sets of standards must be used: standards concerned with assurance of historical financial information, such as ISAs (NZ) or ISRE (NZ) 2400, and standards related to service performance information, such as ISAE (NZ) 3000 or NZAS 1.
- 16 The 12 charities that had assurance on financial information only and the 28 charities that failed to disclose an audit or review report were excluded. For the remaining 80 charities that had the full scope, the charity that received a modified opinion on service performance information mentioned above was excluded since the auditor had already identified some outputs were not verifiable.
- 17 One of the Museum charities disclosed the title and themes of their exhibition as outputs. An example in its 2021 Statement of Service Performance was 'Accretions of History: ANZAC's in Taji, Iraq. This exhibition from Australia features the artworks of Captain Julian Thompson. Julian, an army radiographer, was deployed with the combined Australian and New Zealand Task Group Taji-4 and Jaji-10 at the Taji Military Complex in Iraq and operated the x-ray capability for Coalition forces as well as captured, through paintings, and activities of the ANZACS in Taji'.
- 18 Some charities may have had one or multiple issues with their outputs. For example, a charity may have disclosed an insufficient number of outputs and the disclosed outputs were also poorly described or irrelevant.
- 19 In 2019, the proportion of hours taught by registered teachers in the Christchurch branch decreased from 82% to 71% and from 74% to 69% in the Dunedin branch. The proportion of hours taught by registered teachers deteriorated further in the 2021 reports (61% in Christchurch and 55% in Dunedin). The charity still claimed that all goals had been achieved, and the auditor gave an unmodified opinion.
- 20 At the time of data collection, the most recent annual filing was the charity's 2018 Performance Report.
- 21 Auditors needed to verify a number of assertions such as occurrence, accuracy and completeness of cash donations. They normally had evidence to approve occurrence and accuracy but sometimes could not verify completeness because of insufficient controls employed by small charities when collecting these donations.

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How to cite this article: Xu, G., & Yang, C. (2023). Service performance assurance for small charities: Experiences from New Zealand. *International Journal of Auditing*, 1–18. <https://doi.org/10.1111/ijau.12307>