



**Charities' new non-financial reporting requirements:  
preparers' insights**

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## Charities' new non-financial reporting requirements: preparers' insights

### Abstract

**Purpose:** The purpose of this paper is to obtain insights from preparers on the new Performance Report requirements for New Zealand registered Tier 3 and Tier 4 charities, in particular the non-financial information included in the 'Entity Information' section and the 'Statement of Service Performance'.

**Design:** Semi-structured interviews were conducted with 11 interviewees, each involved with governance and reporting of one or more Tier 3 or Tier 4 registered charities. These interviews were analysed in terms of accountability and legitimacy objectives, which motivated the regulators to introduce the new reporting regime.

**Findings:** Key findings are summarised under three themes. *Manageability* relates to perceptions and suggestions regarding implementation of the new requirements. *Scepticism* concerns some doubts raised by interviewees regarding the motivations for performance reports and the extent to which they will be used. *Effects* include concerns about potentially losing good charities and volunteers due to new requirements making their work 'too hard', although an increased focus on outcomes creates the potential for continuous improvement.

**Research limitations:** The subjectivity that is inherent in thematic analysis is acknowledged and also that multiple themes may sometimes be present in the sentences and paragraphs analysed. We acknowledge too that early viewpoints may change over time.

**Practical implications:** Themes identified may assist regulators, professional bodies and support groups to respond to the views of preparers. Findings will also be of interest to parties in other jurisdictions who are considering the implementation of similar initiatives.

**Originality:** This paper provides early insights on new reporting requirements entailing significant changes for New Zealand registered charities for financial periods beginning on or after April 2015. The focus is on small registered charities (97% of all New Zealand

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3 registered charities) and key aspects of the Performance Report: Entity information and the  
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5 Statement of Service Performance.  
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10 **Keywords:** Charities, statement of service performance, non-financial reporting.  
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12 **Article Classification:** Research paper  
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Pacific Accounting Review

## Charities' new non-financial reporting requirements: preparers' insights

### 1. Introduction

The Financial Reporting Act 2013 heralded significant changes to financial reporting requirements for registered charities, which became effective from 1 April 2015. Peterson-Palmer and Malthus (2017) note that prior to this, there were no legal requirements for registered charities in New Zealand with regard to preparation of financial statements. The rationale for these changes was based on public interest, concerns about public trust as a result of scandals, and calls for greater transparency and accountability from registered charities (Cordery, Sim and van Zijl, 2017; Peterson-Palmer and Malthus, 2017).

The New Zealand External Reporting Board (XRB) is one of the global leaders in promulgating new accounting standards requiring performance reporting for public benefit entities (PBEs)<sup>1</sup> which place greater emphasis on non-financial reporting (Hankinson, 2017). McConville and Cordery (2018) note that the development of standards for non-financial reporting will face challenges. These include balancing the needs of a wide range of stakeholders interested in registered charities' performance information, and the risk of excessive disclosure that compromises effective communication. The purpose of the current research is to contribute to the development of reporting standards by obtaining preparers'<sup>2</sup> insights regarding the new Performance Report requirements, in particular, the Entity information section and the Statement of Service Performance (SSP). These insights include preparers' implementation challenges. Knowledge of such challenges and associated costs may assist standard setters in making cost/ benefit assessments during post-implementation reviews.

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<sup>1</sup> PBEs include not-for-profit (NFP) entities such as charities. All registered charities are required to follow the new XRB standards.

<sup>2</sup> Preparers of the Statement of Service Performance are primarily accountants or treasurers of the charities or sometimes a nominated volunteer.

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3 This study is limited to ‘small’ registered charities, namely those that meet the criteria  
4 for classification as Tier 3 and Tier 4 entities.<sup>3</sup> We adopt this focus as it is estimated that 22%  
5 of New Zealand registered charities are in Tier 3 and 75% are in Tier 4 i.e., a total of 97%  
6 (Department of Internal Affairs, 2016). Registered charities in Tier 3 have no public  
7 accountability<sup>4</sup>, have total operating expenses less than or equal to NZ\$2m and are required  
8 to prepare accounts in compliance with a ‘simple format standard’<sup>5</sup> using accrual accounting.  
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10 Registered charities in Tier 4 also have no public accountability, have total operating  
11 *payments* less than NZ\$125,000 and may use the ‘simple format standard’ based on cash  
12 accounting (cash paid and received). Templates to assist in meeting the reporting  
13 requirements are provided by the XRB: Tier 3 (EG A5)<sup>6</sup> and Tier 4 (EG A6).  
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26 The new accounting standards [Tier 3: Public Benefit Entity Simple Format Reporting  
27 - Accrual (Not-for-profit) and Tier 4: Public Benefit Entity Simple Format Reporting - Cash  
28 (Not-for-profit)]<sup>7</sup> require Tier 3 and Tier 4 NFP entities to prepare a performance report. This  
29 report includes non-financial information about the entity and its service performance, in the  
30 Entity Information section and a Statement of Service Performance (SSP) respectively. These  
31 performance reports must be submitted to the publicly available Charities Services website  
32 within six months of the entity’s balance date. The first performance reports were due by 31  
33 September 2016 (for March 2016 year-ends); later year-ends rolled on until a final due date  
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46 <sup>3</sup> The XRB introduced a new accounting framework, which became effective for not-for-profit PBEs for periods  
47 beginning on or after 1 April 2015. PBEs are classified into four tiers in terms of this framework. Tier 1  
48 comprises entities that have public accountability and/or have annual expenses in excess of NZ\$30 million, so  
49 are required to comply with the full suite of PBE accounting standards. Tiers 2 – 4 do not have public  
50 accountability. Charities in each tier are progressively smaller, so reporting requirements are progressively less  
51 onerous.

52 <sup>4</sup> Public accountability is a complex concept, which is defined in the External Reporting Board (XRB) Standard  
53 A1 *Application of the Accounting Standards Framework* (XRB A1), paragraphs 7-13.

54 <sup>5</sup> Simple format standards were developed to provide a less complex alternative for smaller, less sophisticated  
55 charities, than the accounting standards which Tiers 1 and 2 are required to comply with.

56 <sup>6</sup> Explanatory Guide A5: optional template and associated guidance notes for applying public benefit entity  
57 simple format reporting – Accrual (Not-for-profit); Explanatory Guide A6: optional template and associated  
58 guidance notes for applying public benefit entity simple format reporting – Cash (Not-for-profit):

59 <sup>7</sup> PBE SFR-A (NFP); PBE SFR-C (NFP)  
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3 of 30 August 2017. The current research indicates that small registered charities (Tiers 3 and  
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5 4) experience some difficulty producing and reporting the required non-financial information  
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7 in the Entity Information section and the SSP. The focus is, therefore, on exploring these  
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9 difficulties. The major findings can be summarised under three key themes: manageability,  
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11 scepticism and effects associated with the new reporting requirements.  
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15 This paper contributes to the literature on regulation of charities, in particular insights  
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17 regarding recent changes to reporting requirements for the New Zealand registered charities  
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19 sector. Peterson-Palmer and Malthus (2017) note a paucity of research in this regard. Their  
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21 focus is on the impact of changes to *financial* reporting and assurance requirements and they  
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23 restrict their study to interviews of five charities in the Nelson region of New Zealand. They  
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25 posit that their findings may contribute to an understanding of the impact of the recent  
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27 changes and serve as a guide to continued implementation and monitoring of the accounting  
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29 standards. The current study responds to their call for further research, larger sample size and  
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31 varied geographic locations. It also extends their contribution by focusing on *non-financial*  
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33 *information* in the Entity Information section and the SSP, as well as using a larger sample  
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35 size to cover Auckland and Wellington, the largest centres in the North Island. The current  
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37 study identifies with Cordery *et al.*, (2017) who discuss the need for efficient regulatory  
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39 options for the charities sector in order to increase public trust and confidence. The new  
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41 regulations for registered charities and other entities in the NFP sector aim to achieve  
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43 consistency of reporting across the sector and thus improve accountability and transparency  
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45 as well as readability and comparability (Peterson-Palmer and Malthus, 2017). Morgan  
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47 (1999) found that a new statutory regime for charity accounting in England and Wales caused  
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49 charities to adopt new approaches to record keeping. He reported that although required  
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51 disclosures were seen to create additional work, there was general acceptance that the new  
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53 regime would lead to more meaningful reporting. Our research provides additional support  
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3 from a different setting for these findings. Similarly, Morgan and Fletcher (2013) reported  
4 that mandatory public benefit reporting by charities helped the charities to focus on their aims  
5 and enabled them to ‘tell their story’.  
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10 Understanding how to improve performance reporting is important, as this is integral  
11 to regulatory efforts to improve how charities discharge their accountability (Hyndman and  
12 Anderson, 1995; Gray *et al.*, 1996). The XRB reinforces this in its statement: “The  
13 performance report ... is designed for those users who cannot require the entity to disclose  
14 the information needed for accountability and decision making” (External Reporting Board,  
15 2013, p.10). Accountability is a key mechanism by which charities achieve legitimacy  
16 (Ospina *et al.*, 2002). By describing achieved outcomes and outputs, a charity legitimises its  
17 activities and enhances accountability to stakeholders. The current study is therefore set  
18 within the context of accountability and legitimacy.  
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31 This research is significant because, as noted by Palmer (2013), the concept of  
32 disclosure is critical to the ongoing development of the charities sector and consistent  
33 disclosure requirements will improve stakeholder trust and confidence in the sector (Cordery  
34 *et al.*, 2017). Compliance with external reporting requirements is important for trust building  
35 and ongoing stakeholder support (Agyemang *et al.*, 2017). According to Saj (2012),  
36 community service organisations, such as charities, will adopt mandatory requirements when  
37 they consider them to contribute to the effectiveness of the organisation.  
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47 This study makes further contributions to the literature and these are best appreciated  
48 in the context of recent commentary on the new reporting requirements (Tukiri and Fisher,  
49 2017). First, the low level of compliance by registered charities in the first year of mandatory  
50 adoption of the new reporting requirements was alarming – a compliance rate of 59%. As we  
51 note in Section 5 below, compliance did improve in the second year of reporting, but  
52 Charities Services reports that a consistent message they hear is that Tier 3 and 4 registered  
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3 charities still find it a challenge to complete the reporting requirements (Charities Services,  
4 2019). The findings are amongst the earliest insights which may assist regulators and  
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6 preparers in facilitating completion of reporting requirements and achieving improved levels  
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8 of compliance. Second, the new reporting requirements are the biggest change in reporting  
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10 ever for New Zealand registered charities. The extent of change as well as the significance of  
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12 charities for the New Zealand economy are important factors motivating this study. Charities  
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14 Services (2018) reports that charities are vital to New Zealand's society with assets totalling  
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16 \$58 billion and annual income of \$18 billion. Third, 97% of New Zealand's approximately  
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18 28,000 registered charities are small in size (Tiers 3 or 4), hence the current focus on small  
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20 registered charities.  
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26 The need for performance reporting has been formally promoted in the United  
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28 Kingdom since at least the 1990's (e.g., the 1995 Statement of Recommended Practices  
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30 (SORP)). The 2005 SORP introduced expanded performance and governance requirements  
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32 for annual reports of the charities' trustees (Hyndman and McMahon, 2010). New Zealand is,  
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34 however, one of the first countries in the world to implement SSP requirements, a separate  
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36 statement dedicated to describing performance in terms of outcomes and outputs. Therefore,  
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38 this study will be of interest to standard setters and early adopters of best practice in other  
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40 countries (Gilchrist and Simnett, 2019).  
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44 The paper proceeds as follows. Section 2 provides background information on  
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46 performance reporting, as well as a review of related literature on accountability and  
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48 legitimacy. Section 3 describes the research method and section 4 presents the research  
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50 findings. Section 5 includes the discussion and conclusion.  
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## 54 55 56 **2. Performance reporting** 57 58 59 60

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3 Performance reporting can be defined as “systematic information describing the outputs and  
4 outcomes of public programs and organizations - whether intended or otherwise - generated  
5 by systems and processes intended to produce such information” (Pollitt, 2006, p. 39).  
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10 MacIndoe and Barman (2012, p. 717) note that “the use of outcomes as the optimal sign of  
11 organizational performance replaced prior efforts to measure inputs ... and outputs ... as  
12 other indicators of organizational success”. Others (e.g., Barman, 2007; Connolly and  
13 Hyndman, 2004; Hyndman and McMahon, 2010) also state a need for charities to focus on  
14 their outcomes and outputs as a basis for providing a measurement of performance which can  
15 be reported to stakeholders.  
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24 The Performance Report, which registered charities are required to prepare annually,  
25 begins with Entity Information, a section designed to answer the questions: ‘Who are we?’  
26 and ‘Why do we exist?’ (EG A5 and A6). This section states the mission or charitable  
27 purpose of the entity (Charities Services, 2015). This is followed by the SSP which  
28 “...reports the activities of the entity over the past year” especially in relation to achievement  
29 of mission (PBE SFR-A (NFP) EG A5, Sec. 4)  
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37 Service performance relates to a range of elements, particularly outcomes and outputs.  
38 Identifying the relationship between the two provides information on the effectiveness of the  
39 entity. Therefore, the first task in preparing the SSP is for the entity to describe its outcomes  
40 and outputs (‘What did we do?’, ‘What difference does our organisation make?’, ‘What  
41 change are we trying to make in society?’) (Deloitte, 2016).  
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## 51 **2.1 Accountability and legitimacy**

52 The study is framed within the concepts of accountability and legitimacy. Performance  
53 information is important for developing a more accountable charitable sector (Sinclair *et al.*,  
54 2013). The focus of this research is performance reporting, in particular the reporting of  
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3 outcomes and outputs, which are measures of efficiency and effectiveness, and thus part of  
4 the accountability obligations of charities (Connolly and Hyndman, 2004). Accountability is  
5 defined as: “the requirement for one party to account to another party for its performance  
6 over a given period” (PBE IPSAS 1, C17); further, “a key objective of external reporting of  
7 service performance is to strengthen accountability for delivery of outputs” (NZICA TPA-9,  
8 2007, para. 1.12). The aim is to provide accountability and legitimacy<sup>8</sup> by reporting to  
9 stakeholders (including members, volunteers, beneficiaries, donors and the public) on the  
10 achievements of the charity in relation to its objectives. In respect of one group of  
11 stakeholders, Molloy and Cordery (2009, p. 48) state: “lapsed donors rarely claim they  
12 couldn’t afford to carry on giving, but they often say they’ve lost faith in the effectiveness of  
13 their giving”, and Bekkers (2003) reports that donors would like to know more about what is  
14 happening to their donations. Williams (1984) notes that a lack of accountability and loss of  
15 legitimacy through insufficient disclosure causes a decline in donations. Therefore, in order  
16 to encourage donations of money and time, charities need to provide evidence of the  
17 difference they make to the lives of beneficiaries and what they have achieved in addressing  
18 social needs (Framjee, 2004). In other words, they need to prove the legitimacy of their  
19 activities. Output reporting contributes to legitimacy and promotes efficient performance,  
20 which is a basis for accountability of managers (Bale and Dale, 1998). The more recent focus  
21 on reporting also on outcomes will likely enhance these benefits.

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47 Non-financial reporting assists stakeholders in assessing performance, in particular,  
48 how stated outcomes are being achieved (Abraham, 2007; Palmer and Randall, 2002; van der  
49 Heijden, 2013). However, charities often have a wide range of complex missions with  
50 different and diverse components usually based on social values (Hallock, 2002; Herman and  
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57 <sup>8</sup> Legitimacy inspires public trust and confidence. Dowling and Pfeffer (1975, p.122) suggest that it is “... a  
58 condition or status which exists when an entity’s value system is congruent with the value system of the larger  
59 social system of which the entity is a part”.

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3 Renz, 1999; Forbes, 1998). This makes it difficult to assess their performance (Stewart and  
4 Walsh, 1994). Thus, reporting ‘outputs’ and ‘outcomes’ is a means to address the  
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6 accountability of registered charities in efficiently providing their services and benefiting the  
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8 community, and promoting the legitimacy of the organisation.  
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## 14 15 16 **2.2 Outcomes<sup>9</sup>**

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18 Outcomes are derived from the charitable purpose or mission of the charity and can be  
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20 described as “what the entity is seeking to achieve in terms of its impact on society” (PBE  
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22 SFR-A (NFP), EG A5, Sec. 4). More explicitly, outcomes are “the benefits or results it has  
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24 for its customers, clients, or participants” (Plantz, Greenway and Hendricks, 1997, p.17) or as  
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26 defined in PBE SFR-A (NFP) para. A40, “what the entity is seeking to achieve in terms of its  
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28 impact on society”. Tier 3 registered charities are required to describe their outcomes in the  
29  
30 SSP, with a focus on the short- to medium-term and being specific (PBE SFR-A (NFP) para.  
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32 A41(a)).<sup>10</sup> Doing so makes the charity accountable to its stakeholders and enables them to  
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34 determine whether the charity is effective or not. Outcome measurement and reporting also  
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36 enhances the public image and legitimacy of the charity. Disclosure of this information  
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38 provides evidence of the legitimacy of the charity and helps position it as a successful  
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40 organisation (Hatry, van Houten, Plantz and Greenway, 1996).  
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## 48 **2.3 Outputs**

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50 “A key objective of external reporting of service performance is to strengthen accountability  
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52 for delivery of outputs” (PBE IPSAS 1, para C13). Outputs are specific activities and items  
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56 <sup>9</sup>The terms outcomes and outputs have been removed from Service Performance Reporting requirements for  
57 Tiers 1 and 2 (FRS 48). It is possible that they will also be removed when the Statement of Service  
58 Performance for Tier 3 and Tier 4 charities is reviewed.

59 <sup>10</sup> Tier 4 charities are only required to report their outputs; reporting of outcomes is optional.  
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3 that the entity provides in order to achieve the stated outcomes: “The goods and services that  
4 the entity delivered during the year” (PBE SFR-A (NFP), A40, p. 16). The accounting  
5 standard requires disclosure of current year actual and budgeted figures, as well as  
6 comparative actual figures for the previous year. Outputs may be reported in monetary terms  
7 or as a simple quantitative measure in units, such as the number of programmes and/or clients  
8 that are serviced by the charity, number of visits to beneficiaries, or number of consultations  
9 (Buckmaster, 1999; Connolly and Hyndman, 2004). Pollitt (1986) asserts that the  
10 effectiveness of an organisation can be measured by the level of outputs utilised in producing  
11 outcomes, and the sustained production of benefits. Accountability for outputs requires  
12 description in terms of their quantity and quality as well as the timeframe and physical  
13 location for their delivery.

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15 Reporting on outputs provides a basis for stakeholders to determine the extent to  
16 which they contribute to the achievement of outcomes. For example, for a charity that makes  
17 school lunches, an example outcome could be: to reduce malnutrition in children at XYZ  
18 school. The related output could be: providing lunches to children at XYZ school - 50  
19 lunches per term provided this year (Fletcher, 2016). This information has legitimacy value  
20 as stakeholders become connected to the activities of the charity.

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22 The inclusion of non-financial performance-related information in charity annual  
23 reports is argued to be of greater importance and usefulness compared to traditional financial  
24 information, and more essential in discharging the accountability of charities (Connolly and  
25 Hyndman, 2004; Huang and Hooper, 2011). The new reporting requirements should therefore  
26 assist in enhancing public trust and confidence in registered charities. Preparers’ views in this  
27 regard, are explored by investigating the following research questions:

- 28 1. What are the views of Tier 3 and 4 preparers on the new non-financial  
29 performance reporting requirements, in particular, the Entity information section  
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3 and the SSP and their contribution to improved accountability and legitimacy to  
4 stakeholders?  
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8 2. What insights do Tier 3 and 4 preparers have to offer, regarding the preparation  
9 and provision of the new non-financial performance reporting information?  
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15 In summary, managers need to determine the best way to achieve their entity's desired  
16 outcomes and to ensure that resources are used to generate outputs which clearly contribute to  
17 these. Performance-related information is the focus of the new regulations. This should  
18 promote accountability. It should also serve as a legitimising tool to win donor trust and  
19 support (Connolly and Hyndman, 2013) and to justify a charity's right to exist. This study  
20 provides evidence of the views of preparers on these matters.  
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### 31 **3. Research method**

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33 Description and judgement are essential in the evaluation process (Guba and Lincoln, 1989).  
34 This approach favours purposive sampling (the researchers select those from whom feedback  
35 will be obtained on the basis of their knowledge and familiarity with the topic), over random  
36 sampling (Lincoln and Guba, 1985). The interviewees had been selected by their respective  
37 charities to prepare the required reports. As Cavana et al. (2001) explain, purposive sampling  
38 is particularly appropriate where there are a limited number of individuals who have the  
39 information, which is sought. As noted in Section 1, the first performance reports were due  
40 by 31 September 2016 (for March 2016 year-ends); later year-ends rolled on until a final due  
41 date of 30 August 2017. To obtain early insights, interviews were conducted between August  
42 2016 and early April 2017. We relied on enquiries through our personal and business  
43 networks to identify early reporters and those involved in their reporting processes.  
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Semi-structured interviews were conducted with 11 interviewees, each involved with governance and reporting of one or more Tier 3 or Tier 4 registered charities. A semi-structured question sheet was developed, drawing on prior literature, to facilitate the interviews and to assist in ensuring consistency of approach and questions used.<sup>11</sup> Open-ended questions were used in order to explore interviewee' views on the new performance reporting requirements, resulting in interviews which lasted between approximately 30 minutes to just over one hour. The interviews were conducted by the authors of this study, as well as by one experienced research assistant. Each interview was recorded with the permission of the interviewee. The researchers listened to and considered the opinions and feedback of respondents and this provided a rich understanding of the issues and problems they encountered when preparing their Entity information section and SSP. Table 1 provides further detail of interview duration, dates of interviews, charity sectors and interviewees, all of whom had considerable business experience (four were accountants).

**(Insert Table I here)**

The interview recordings were transcribed by a paid professional. NVivo, a qualitative software package, was used to assist with some initial analysis and coding of transcribed interviews. Smith and Taffler (2000) and Stent, Bradbury and Hooks (2015) inform the thematic analysis of interview transcripts, with particular reference to their descriptions relating to manageability and evaluative themes. The two researchers and their research assistant analysed the transcripts and agreed on the emergent key themes, which are described in more detail under Section 4 below.

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<sup>11</sup> A copy of the question sheet is available from the authors on request.

#### 4. Research findings

Our study focuses on the first two parts of a Performance Report: (1) Entity Information and (2) SSP. Requirements for the Entity Information section are designed to ensure that users are provided with the answers to two major questions: “Who are we?” and “Why do we exist?” The SSP requirements are designed to answer the questions: “What did we do?” and “When did we do it?” Our findings are therefore, organised under these headings and related interview questions. The findings are further organised within the above headings, in terms of three key themes, which emerged from the analysis. The three key themes concern levels of manageability, scepticism and effects associated with the new performance reporting requirements. Manageability relates to implementation difficulties and challenges; scepticism relates to doubts; effects concern consequences of implementation. Interview responses did not necessarily result in the presence of all three themes under each of the headings, which follow.

##### 4.1 “Who are we?” and “why do we exist?”

The ‘Entity Information’ section of the performance report requires the name of the entity, its type, purpose/mission, structure, sources of funds and resources, main methods used to raise funds and reliance on volunteers and donated goods or services. The focus is on the legitimacy of the organisation. Insights were sought from respondents as to whether this information had increased general understanding of the purpose/mission of their charities, as well as whether this purpose/mission had been clearly ascertainable from past documentation. Two themes emerged: *manageability* and *scepticism*.

*Manageability*. The interviewees generally noted that the Entity Information formalised and standardised what was already available on the New Zealand Charities Register (available on the New Zealand Charities Services website). Interviewee J added that

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3 they already had a Strategic Plan in place, which identified the role of the organisation and  
4 stated its mission, so this was easily translated into ‘Entity Information’.  
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8 *Scepticism.* Many interviewees appear sceptical about the extent to which the new  
9 reporting requirements will increase people’s ability to understand who the organisation is  
10 and why it exists. Interviewee E believes that nobody reads the reports except the accountant  
11 (and researchers). The charity she is involved with advertises its services, so has reasonably  
12 good brand recognition. She contends that the fact that they receive about 24,000 phone calls  
13 a year indicates that people know, through their advertising, who they are and what they do.  
14 Interviewee F supports the need for charities to ‘tell their story’ effectively, but has no  
15 evidence or feedback that anyone understands her entity’s story any better as a result of their  
16 efforts in implementing the new reporting requirements.  
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28 In summary, completing this section of the report was generally perceived by the  
29 interviewees as non-onerous, an essential part of being accountable to stakeholders in order to  
30 receive tax free status, and the information was readily available from past documentation.  
31 However, standard setters and regulators would do well to take note of the high level of  
32 preparer scepticism in Tiers 3 and 4 around the usefulness of the Entity Information section  
33 of Performance Reports and the extent to which stakeholders use it for decision-making.  
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#### 44 ***4.2 ‘What did we do’ and ‘when did we do it’?***

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46 The SSP section of the Performance Report requires information about the desired outcomes,  
47 the outputs provided to promote these outcomes, as well as how and when the outputs  
48 contribute to those outcomes. The focus is on accountability and promoting the legitimacy of  
49 the charity.  
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#### 55 ***How were outcomes determined?***

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58 Two themes were identified: *manageability* and *effects*.  
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3       *Manageability.* The majority of the interviewees said that they struggled to identify  
4 the planned outcomes for their charity even though they had a mission statement to use as a  
5 basis. Interviewee A noted that one entity, for whom she is the treasurer, had only gained  
6 charitable status several years after it was first incorporated. Charitable status was, therefore,  
7 not expressed in the mission statement or the statement of purpose: “They have five things  
8 under the aims, so I had to go from those to the purpose or mission because that is the nearest  
9 thing I’ve got, then from that to outcomes” (Interviewee A). This was not a problem with her  
10 other charity (a trust) because it was initially set up as a charity and the aims/mission  
11 therefore translated easily into outcomes.  
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24       Interviewees B, C and E found it more difficult: “It was a pain and took time to think  
25 it through and make sure the two complied” (Interviewee C). Interviewee B (accountant for  
26 several charities) found that this section gave him the most strife. He asked the trustees to  
27 come up with their own words. One club delivered a couple of short paragraphs of outcomes.  
28 Another had several meetings and wrote a full page of outcomes. Most other organisations  
29 provided a mission statement but ignored outcomes. Such shortcomings compromise  
30 accountability to stakeholders who would be unable to determine specifics on what the  
31 charity is seeking to achieve through the delivery of goods and/or services.  
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42       *Effects.* Other interviewees offered differing insights as to how they went about  
43 defining outcomes. Interviewee K emphasised the need to think carefully about defining  
44 outcomes, and what and how to monitor them. He intended to send out a questionnaire to the  
45 charities in order to get everyone thinking about outcomes and outputs which would then  
46 flow on from year to year. Interviewee F already had targets flowing on from the mission  
47 statement and used those to state outcomes, but she noted that the outcomes change each year  
48 as new projects are developed. As a result, they are always looking at new ways in which  
49 they can be accountable and describe exactly what they are doing. She noted that the new  
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3 reporting requirements have made them think more carefully about their defined outcomes.  
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5 Interviewee G said that their stated outcomes were developed independently of the mission  
6  
7 statement. In his opinion, they are a group of people wanting to do good things and they  
8  
9 know what they want to do without the need to reflect on the mission statement and  
10  
11 outcomes. However, Interviewee I encouraged organisations he worked with to start with  
12  
13 the mission then contemplate the activities which would contribute to achieving it; an  
14  
15 important strategic exercise. He observed that very few people actually think strategically,  
16  
17 with the result that there was very little analysis of whether outputs were properly connected  
18  
19 or contributing to stated outcomes. Interviewee J noted that they had input from a major  
20  
21 sponsor into the outcomes of their organisation.  
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26 In summary, although describing outcomes is optional for Tier 4 entities, it appears  
27  
28 that all entities are working towards doing so. Most have not found this easy to do, and have  
29  
30 sought assistance from accountants or similar professional advisors – an indication of their  
31  
32 acknowledgement of the importance of this information for their legitimacy.  
33  
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35 Application of the new reporting requirements has implications for the functioning of  
36  
37 the organisation (Potter, 2005). One implication is increased accountability demands for  
38  
39 registered charities. The SSP requires that a charity focus on its aims and outcomes and  
40  
41 therefore on its beneficiaries. This promotes accountability of the charity through the telling  
42  
43 of a richer, fuller story. This, in turn, is inherently important in establishing the legitimacy of  
44  
45 the organisation.  
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49 ***Are any of these outcomes new or different, compared to what the entity used to aim at***  
50  
51 ***achieving before these new requirements were implemented?***  
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54 *Effects.* The only theme that emerged in response to this question is ‘effects’. The  
55  
56 new requirements led registered charities to consider the desired outcomes from their  
57  
58 activities and to check whether they were appropriate and in line with their mission  
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3 statement. There was little evidence that the new requirements resulted in a change in  
4  
5 outcomes, although Interviewee F noted that they did result in increased focus on outcomes,  
6  
7 which she felt contributed to continuous improvement. Interviewee K remarked that: “We  
8  
9 probably are going to see new or different outcomes emerging as result of having to think a  
10  
11 bit harder about what they are and what we are doing”.

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15 On the other hand, interviewee G responded as follows: “We are incorporated and we  
16  
17 have a constitution and the constitution sets out objectives and that's what our objectives are -  
18  
19 they haven't changed.” He went on to explain that, prior to incorporation, his community  
20  
21 organisation had “... produced a lot of visionary stuff about where they wanted to go and  
22  
23 how they wanted to do it, so they already had a pretty clear idea about what their objectives  
24  
25 were”. Interviewees G and H agreed that outcomes for the charity they represented were  
26  
27 “organic”, “came from the spirit of the people”, and depended upon “what people have the  
28  
29 energy for at certain times”, rather than a reflection of the mission statement.  
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### 33 34 ***How were outputs determined and measured/quantified?***

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36 This requirement is concerned with describing and quantifying what the entity did to achieve  
37  
38 its desired outcomes and when (e.g., the number of services/goods delivered or people  
39  
40 helped). Themes of *manageability* and *scepticism* were identified.  
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44 *Manageability*. Entities took various approaches to source the information about  
45  
46 outputs and, for some, the challenge of changing from a financial to a non-financial  
47  
48 orientation was evident. Interviewee C said he looked back on what the club had done and  
49  
50 where the money went. Interviewee B found that most clubs just added words around the  
51  
52 financial information available in the payments information, in essence providing a list of  
53  
54 what the money was spent on. He thought this was unnecessary and superfluous. The  
55  
56 Charities Services website uses guide dog objectives as an example, which he considered  
57  
58 were more definable in terms of outputs and outcomes than is true of the clubs he deals with.  
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3 The Tier 3 clubs he is responsible for very rarely have an activity that can be expressed in  
4 numerical terms. Interviewee H found defining outputs difficult as records had not been kept  
5  
6 of the number of participants in group events. She also remarked that the change in mindset  
7  
8 from reporting “we made NZ\$300 on a sausage sizzle” to “we fed 15 people at a sausage  
9  
10 sizzle”, had been a challenge. They are now more aware of the need to record information.  
11  
12 Interviewee K said they had now put systems in place to collect information about outputs.  
13  
14 He thought that this information would promote better control for clubs. Some of the  
15  
16 charities he has prepared reports for, held meetings to “pull the information together”, often  
17  
18 using the annual report as a source.  
19  
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23  
24 Interviewee F noted that they already had systems in place to record numbers at  
25  
26 meetings, etc., so they could specify how they recorded their outputs – meeting attendees sign  
27  
28 a register. Their stated outputs include examples, e.g., how funding received has helped a  
29  
30 family. Interviewee F focuses on telling a story of what they do, not just facts and figures.  
31  
32 Interviewee J said it was very easy to list the outputs: number of events and attendance with a  
33  
34 description of each event including financial outcomes and number of student scholarships  
35  
36 given.  
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40 *Scepticism.* Concerns raised included Interviewee G who reiterated that if no one is  
41  
42 looking at the information provided or really cares about it, then their reporting serves no  
43  
44 purpose. Interviewee I thought outputs were a superficial way of looking at how much good  
45  
46 an organisation is doing. In his view, it would be better to design a set of indicators which  
47  
48 were representative of the outcome, rather than trying to measure the outcomes through  
49  
50 outputs, which is really difficult to do.  
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54 In summary, there was a mix of positive and negative feedback related to the  
55  
56 reporting of outputs. A key component of accountability is answering the question: ‘What  
57  
58 did we do?’ This is essential information to provide stakeholders with a basis for assessing  
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3 the performance of an entity, consistent with the entity's overall purpose. The information  
4 provided in answering the question, 'When did we do it?', assists in providing richer detail  
5 and gives greater insight as to the frequency and regularity of activities, e.g., monthly coffee  
6 meetings, annual galas, quarterly newsletters.  
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15 ***Have you made any formal or informal plans to introduce new/changed processes or***  
16 ***measures, as a result of the new requirements, regarding information on outputs?***  
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19 *Manageability.* It is expected that the ability of an entity to source and report on the  
20 required information will evolve and improve over time. All interviewees considered that  
21 they now had everything in place and adequate recording processes to be able to proceed with  
22 the reporting requirements in the future. Several interviewees mentioned the advantages of  
23 an online reporting package and the ability to convert the information it provides into  
24 outcomes and outputs.  
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35 No further themes emerged with regard to this interview question.  
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40 ***4.3 What other reporting considerations arose from the new requirements?***  
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42 Themes of *manageability*, *scepticism* and *effects* are evident in responses to aspects of this  
43 question.  
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46

47 ***Improvements or benefits?***  
48

49 Responses to this question related to the *effects* of implementation of the new  
50 reporting requirements. Interviewees were asked to consider any benefits that the new  
51 reporting regime has introduced. Interviewees G, H, I and K felt that the new requirements  
52 were unnecessary, as their funders generally obtained the information they required through  
53 the application forms that had to be completed for their funding contracts to be awarded.  
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3 They discharged their accountability to these funders through the contractually required  
4 reporting. However, these interviewees do not appear to appreciate that the SSP was designed  
5 to address most generic contractual requirements. The SSP is, therefore “important in  
6 fulfilling the accountability obligations to provide goods or services to others when the entity  
7 receives grants from funders, or contracts with the government or other bodies” (PBE SFR-A  
8 (NFP), EG A5, Sec. 4).  
9

10  
11 Interviewee H also thought that, given the small amount of income her charity  
12 received, the amount of reporting required was excessive. In general, their thoughts are  
13 expressed by Interviewee G: “... you are feeding stuff into the ether with absolutely zero  
14 feedback on anything you are putting in and even now, we got (sic) no feedback whatsoever  
15 on all this performance stuff we put in”. The new reporting requirements were, therefore,  
16 seen as “... an extra layer of public exposure and, as I say, I am not seeing the benefit”  
17 (Interviewee H). However, she did think it was worthwhile to sit down and think about why  
18 the charity exists i.e., the Entity Information section.  
19

20  
21 Interviewee J felt that requirements to report minimum categories of revenue and  
22 expenses, provide much more coherent information. Interviewee K, on the other hand, felt  
23 that the information provided in ‘old’ entity annual reports was sufficient for accountability  
24 purposes and that the new requirements did not add anything that was significantly more  
25 helpful.  
26

#### 27 ***Additional costs?***

28 *Manageability* and *effects* were the key themes emerging from this question.  
29

30  
31 *Manageability.* Most interviewees acknowledged that having done the reports once,  
32 the second time around would be much easier. These thoughts are summed up by  
33 Interviewee J who stated that no significant costs had been incurred in meeting the reporting  
34 requirements and that it was just a matter of “getting up to speed”.  
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3           *Effects.* Although most interviewees said there were no additional costs, a substantial  
4 learning curve in meeting the new reporting requirements is evident. One expressed concern:  
5  
6 “that whereas most people could have been treasurer before and operate things in their own  
7  
8 way there would be a lot of people not capable of keeping records to a standard that they can  
9  
10 do the reporting at the end of the year. It was onerous to do the first one - tough. I’m a  
11  
12 volunteer so there was no financial cost but a huge increase in my contributed hours”  
13  
14 (Interviewee C). Interviewee H thought the requirements were “an awful lot of reporting for  
15  
16 such a low level of income”.

### 23 24 ***Usage and usefulness of the templates provided by the XRB?***

25  
26 Responses to this question focused on *manageability* of reporting.

27  
28           The XRB provides templates to assist in the reporting process and to help registered  
29  
30 charities understand what is being asked of them. Use of these is optional but they have the  
31  
32 potential to improve communication and comparability by ensuring that Entity Information  
33  
34 and the SSP is systematically organised, presented in a standardised manner, includes all  
35  
36 required information and excludes misleading or irrelevant information.

37  
38           Interviewees F, H and K found the template helpful and were pleased to have a format  
39  
40 with which to work. Others were supportive of having a template to complete, but were  
41  
42 critical of the templates provided by the XRB, suggesting that, as a result, many have resorted  
43  
44 to using other templates developed by accountants and by Xero.<sup>12</sup> Illustrative quotes include:

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47           - “The templates are diabolical .... The auditors have said that they are advising  
48  
49 people not to use the template” (Interviewee A).  
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55 <sup>12</sup> ‘Xero’ is a reference to accounting software that is commonly used by small to medium sized enterprises in  
56 New Zealand.  
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3 - “The templates were horrible; sort of a summary page then all these notes that  
4 expanded the data. Turning simple cash accounting into something that required  
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7  
8 45 pages of instructions was bizarre and bureaucracy at its worst” (Interviewee B).  
9

10 Interviewee B, therefore, adapted the XRB template and sent this on to a number of clubs to  
11 help them cope. Interviewees J, C and E expressed similar sentiments – an indication,  
12 perhaps that the spreadsheeting skills of many in this sector are relatively rudimentary.  
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17 In summary, there was a mix of responses to the voluntary templates. It appears that  
18 the Xero templates were more user friendly but access to those was limited. Those with more  
19 experience in reporting were able to adapt the XRB template or to develop their own.  
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### 23 ***Other comments/views on the new requirements?***

24 Interviewees responded to this final open-ended question with a variety of general comments  
25 that identified with the themes of *manageability* and *scepticism*.  
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30 *Manageability*. Interviewee A emphasised the need for clearly stated rules and well-  
31 specified aims before beginning the reporting process. Similarly, the need to record members  
32 separately from non-members with regard to attendance at events and making of donations.  
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37 *Scepticism*. Interviewee C remarked that he did not think that anyone “looks at this  
38 stuff on the web”. In his view, people have the attitude that they can just make up numbers  
39 and put something in the report on the basis that nobody looks at it. In a similar vein,  
40 Interviewee D noted that Charities Services are reportedly checking 8-9% of returns.  
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However, because many are filing late, Charities Services are checking a disproportionate  
number of those filed in the first six months. In his opinion, there does not appear to be any  
accountability for those not bothering to file returns.

Interviewee G was concerned that they received no feedback whatsoever: “We are  
feeding stuff into the system and now we have to feed more stuff in and there is nothing  
coming back”. He wondered if the reports were looked at: “If anyone can tell me what the

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2  
3 benefit is, then fine, but I can't see it". He also wanted someone to check the report, give it a  
4  
5 score (e.g., 1-10) and advice on how to improve.  
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8 Interviewee H thought the reporting improved accountability and helped prevent  
9  
10 people "going off on tangents" with public money. She noted, however, that she had filed  
11  
12 the wrong year accounts with Charities Services and no one had picked that up.  
13

14  
15 While interviewee K supported the increased transparency, he thought that some  
16  
17 registered charities would struggle to find people who were willing to record the information  
18  
19 necessary for the reports and as a result would close down: "It's too hard now and they can't  
20  
21 be bothered". Interviewee H expressed similar sentiments and interviewee G went a step  
22  
23 further: "Maybe that's what they are trying to do. They are trying to clean the cupboard out".  
24

25  
26 The concluding open-ended question allowed interviewees to discuss any remaining  
27  
28 views and concerns regarding the new regulations. In general, this reveals that they had  
29  
30 attempted to define and respond to the accountability issues in respect of their particular  
31  
32 charities, but had misgivings about the extent to which some others in the sector make  
33  
34 conscientious efforts to do the same.  
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37  
38 It is acknowledged that some of the concerns and misgivings of the interviewees  
39  
40 reflect limited knowledge of the information available on the Charities Services website and  
41  
42 efforts by Charities Services to monitor compliance. This is exacerbated by their lack of  
43  
44 understanding of the new regulatory requirements for registered charities within the context  
45  
46 of the sweeping changes for all reporting entities introduced by the Financial Reporting Act  
47  
48 2013 and the Financial Reporting (Amendments to other Enactments) Act. These changes  
49  
50 included carefully considered reporting and assurance requirements for all reporting entities  
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52 and recognition of the need to minimise compliance costs for smaller entities.  
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#### ***4.4 Summary***

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3 Connolly and Hyndman (2013) note the need for greater accountability and transparency  
4 from organisations formed for the public benefit. In this research, the growing importance of  
5 accountability in the registered charities sector is acknowledged. The aim of the new  
6 regulations is to report on the value added by each charity in terms of outcomes and outputs,  
7 specifically to focus on “who we are, why do we exist, and what did we do?” Some of the  
8 interviewees considered that the accountability process imposed on the registered charities  
9 sector was too onerous and suspected many were seeking ways to work around the imposed  
10 requirements. Others accepted the need for more formal and structured accountability  
11 requirements and supported transparency as an essential feature of good charity governance.  
12 Interviewees noted the disruption caused by the external mandatory reporting requirements.  
13 However, these findings support Saj (2012), who considers that organisations will more  
14 readily adopt mandatory external reporting requirements when they are seen to contribute to  
15 organisational effectiveness and transparency, and Morgan and Fletcher (2013, p. 26) who  
16 found public benefit reporting to be “a positive catalyst for fresh engagement with the  
17 charitable objects...”, along with a general acceptance of the broad accountability that results  
18 from having charitable status.  
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### 43 **5. Discussion and conclusion**

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45 This study provides early insights from preparers regarding the most significant change ever  
46 in reporting requirements for New Zealand registered charities (Tukiri and Fisher, 2017).

47  
48 This change applies to registered charities for financial periods beginning on or after 1 April  
49 2015, so the last of the first round of these new reports became due for submission by 31  
50 August 2017. This study focuses on smaller (Tier 3 and 4) registered charities, as they  
51 account for approximately 97% of all registered charities in NZ. In particular, the focus is on  
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3 Entity Information and the SSP, two components of the newly mandated Performance Report,  
4 as they are novel in requiring non-financial information such as outcomes and outputs.  
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8 In-depth interviews were conducted with 11 interviewees, each involved with  
9 reporting for one or more Tier 3 or Tier 4 registered charities. In particular, the views of Tier  
10 3 and 4 preparers are explored regarding the new reporting requirements and the preparation  
11 and provision of the new performance reporting information.  
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17 The aim of an SSP is for an entity to present service performance information that is  
18 useful for accountability and decision-making (Feedback Statement on ED NZASB 2016  
19 Service Performance Reporting, p. 1). In addition, legitimacy management relies on  
20 communication between the reporting entity and its stakeholders (Samkin and Schneider,  
21 2010). The intention is to provide information that is appropriate and meaningful for  
22 stakeholders of the many small New Zealand registered charities by prescribing a set format  
23 for reporting this information. The new reporting regime is seen, by regulators, as an  
24 opportunity for each registered charity to ‘tell its story’, by highlighting to the general public  
25 who the organisation is, why it exists and what it did. A number of researchers (e.g.,  
26 Hofmann and McSwain, 2013; Sinclair *et al.*, 2014; Cordery *et al.*, 2017) posit that regulation  
27 requiring particular disclosures is needed in order to increase transparency of registered  
28 charities receiving government and public support and to prevent earnings manipulation and  
29 even fraud in the charitable sector.  
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47 Interviewees described various experiences and perceptions and their views varied  
48 considerably. One interviewee felt that the developer of the new reporting requirements had  
49 done a fantastic job. At the other extreme, interviewee G was of the opinion that, “It’s classic  
50 bureaucracy gone mad” and “there’s a good case to knock this on the head for Tier 4s”.  
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56 The key themes identified concern manageability, scepticism and effects associated  
57 with the new reporting requirements. The *manageability* theme highlights that many saw the  
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3 SSP requirements as onerous, intimidating, unnecessary and sometimes confusing and time  
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5 consuming. However, there was support for standardisation, which improved readability and  
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7 comparability and some suggestions for overcoming difficulties and challenges. In general,  
8  
9 interviewees agreed that a charity needs to be accountable to its donors, its community and its  
10  
11 country. In this regard, Morgan (1999) finds that the need to adopt new approaches to record  
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13 keeping created challenges, but led to improvements in charity governance and  
14  
15 accountability. Without this accountability, the public cannot determine whether the charity is  
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17 legitimate and effectively fulfilling its objectives.  
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21 The *scepticism* theme suggests that many have doubts about the extent to which  
22  
23 performance reports are used or even read by stakeholders. Some also express doubts about  
24  
25 the motives of regulators and their commitment to enforcing the new requirements. Standard  
26  
27 setters and regulators should take heed of this scepticism and a number of suggestions in this  
28  
29 regard are made in closing.  
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33 The *effects* theme warns of the potential for losing good charities and charity workers,  
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35 who are discouraged by new requirements that make their work ‘too hard’. However,  
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37 interviewees also express views suggesting they are thinking harder about questions like  
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39 “who are we?” and “what are we doing?” and that the increased focus on outcomes may  
40  
41 contribute to continuous improvement.  
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44  
45 Resistance to change is to be expected, but there is already evidence that this will  
46  
47 moderate and settle as reporting falls into a replicable pattern which will roll over more easily  
48  
49 from one year to the next, and as systems are developed and refined to record the information  
50  
51 required. Charities Services (2018a) reports that compliance with requirements to adopt the  
52  
53 new reporting requirements improved in the second year of reporting checks, from 65% to  
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55 82%, with exceptional improvement in Tier 4 which moved from 56% to 72% compliance as  
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3 of March 2018. As concluded by Morgan (1999, p. 114), it is expected that with a little more  
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5 time, education and training, “the new accounting regime will be seen as normative”.  
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8 Further research and effort is required to raise awareness of benefits and how to  
9  
10 maximise these, as well as to address the challenges discussed under the ‘manageability’ and  
11  
12 ‘scepticism’ themes. Examples of such challenges include: technical difficulties with the  
13  
14 optional templates made available by the XRB as well as some accounting requirements;  
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16 defining and measuring outcomes and outputs (or representative indicators of these); and  
17  
18 scepticism about whether stakeholders (e.g., regulators, funders, donors, beneficiaries,  
19  
20 employees) actually check, use or are interested in the new performance reports.  
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23  
24 Supportive efforts to date by the XRB, Charities Services and professional accounting  
25  
26 bodies are acknowledged. It is also noted that only one interviewee had attended courses  
27  
28 offered by these bodies – a reminder that registered charities also have a responsibility to  
29  
30 make an effort. Recent initiatives by Chartered Accountants Australia and New Zealand  
31  
32 (CAANZ) will assist further towards addressing some of the issues identified in the current  
33  
34 study. Community accounting projects have emerged which offer free support, advice and  
35  
36 assistance to charities. Encouraging initiatives like these should help to highlight the benefits  
37  
38 and overcome the challenges identified in this study.  
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42 Expansion of recent initiatives like the introduction of charity reporting awards  
43  
44 (CAANZ, 2017) is recommended in order to develop a database of examples of good  
45  
46 practice. These could be used to further educate preparers, funders and the general public as  
47  
48 to how useful performance reports can potentially be in effectively communicating the  
49  
50 charity’s ‘story’. In particular, such examples could be drawn on to:  
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- Improve the level of public trust and confidence in registered charities (reported as moderate at 5.9 out of 10 in 2016 – the most recent survey, according to Charities Services, 2018b);<sup>13</sup>
- illustrate how performance reports can be used to motivate donations from the public;
- reduce bureaucracy required from funders in terms of their application and reporting requirements;
- better inform trustees and management as to the efficiency, effectiveness and economy with which they are achieving their desired outcomes.

The subjectivity that is inherent in thematic analysis is acknowledged and also that multiple themes may sometimes be present in the sentences and paragraphs analysed. We acknowledge too that early viewpoints may change over time. While the findings are specific to new reporting initiatives in the registered charities sector in New Zealand, they should also be of interest to regulators, professional bodies and charities in other jurisdictions who are considering and evaluating the implementation of similar initiatives.

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<sup>13</sup> The same reference reveals that these surveys have been conducted every two years since 2008. Equivalent scores in prior years were: 6.0 (2014); 4.4 (2012); 5.5 (2010); and 5.8 (2008).

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12 **Charities' new non-financial reporting requirements: preparers' insights**

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50 *to attendees of the Auckland Regional Accounting Conference, 2017 and to two anonymous reviewers for their*  
51 *suggestions and comments which helped to improve the paper.*  
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<b>Table I. Interviewees</b>			
	<i>Description of interviewee / Sector (s)</i>	<i>Interview duration (minutes)</i>	<i>Date</i>
A	Accounting academic and treasurer of two charities (Tier 3 and 4) Education / Training Research	67	04/08/2016
B	Business owner, Chartered Accountant*; Accountant for a number of charities (Tier 3 and 4) Education / Training / Research	48	10/03/2017
C	Business owner, treasurer of one charity (Tier 4) Community Development	32	9/03/2017
D	Chartered Accountant* working in NFP sector (Tier 3 and 4) International Activities & Sport / Recreation	58	06/03/2017
E	Business manager (Tier 3 and 4 charities) Community Development	66	28/02/2017
F	Executive Officer, community organisation (Tier 3) Community Development	48	28/02/2017
G	Chair of community organisation (Tier 4) Environment / Conservation/ Community Development	64	10/02/2017
H	Treasurer of community organisation (Tier 4) Environment / Conservation/ Community Development	64	10/02/2017
I	Employee of local council; works with community groups (Tier 4) Environment / Conservation/ Community Development	67	27/02/2017
J	Treasurer of a charity (Tier 3) Arts / Cultural / Heritage	35	15/05/2017
K	Accountant, performs pro bono work for a number of charities (Tier 4) Sport / Recreation / Arts/ Cultural / Heritage	35	06/03/2017

\* = Chartered Accountant is a designation restricted by law to those persons qualified to use it in terms of the professional education and practical experience requirements of the Institute of Chartered Accountants of Australia and New Zealand.

## Authors' response to Reviewer 1

Thank you once again for your review and comments. We have addressed your comments and suggestions, as detailed below. We have added our responses in the far right hand column, which we inserted into a copy of your original comments.

### Feedback on Pacific Accounting Review paper – **Charities' new non-financial reporting requirements: preparers' insights**

Manuscript ID: PAR-12-2018—119R1

Reviewer comments		Authors' responses	
Version 1 Pg no.	Line no.		
		<p>The paper needs to be further edited, and the following amendments, <b>which were raised in the previous review</b>, still need to be made:</p>	<p>As noted in our R1 responses, we did amend the research questions to reflect the focus on SSPs and also corrected where necessary to ensure that 'Entity Information' is no longer included under the SSP umbrella. <b>We were surprised that we missed the items you raised and apologise. It appears some amendments were inadvertently lost in combining work by the two authors during our revision processes.</b></p>
13	3	<p><i>Should refer to Entity Information not Performance Reports, which include other information.</i></p>	<p>We have added an opening sentence to the Research Finding section to clarify. We also amended as suggested and searched the current R2 version to try to ensure we refer to 'Entity Information'; SSP's and Performance Reports as appropriate in view of the distinctions between these terms.</p>
13	49	<p><i>Remove who is involved with a number of charities.</i></p>	<p>Done – thank you and apologies for missing this.</p>
14	45	<p><i>This section is not really optional, as per the Charities Services Guide for Tier 4 Charities</i></p>	<p>We have amended this sentence to clarify what we meant – we note that the Guide referred to does note that description of outcomes is optional for Tier 4 charities.</p>

Reviewer comments			Authors' responses
Version 1 Pg no.	Line no.		
20	10	..that the SSP and the Entity Information..	Done – thank you and apologies for missing this.
23	38	<i>..significant change ever in performance reporting..</i>	Thank you – we have amended this to “reporting requirements”.
23	49	.. on the SSP and the Entity Information, two components of..	Done – thank you and apologies for missing this.
24	47	<i>Remove the apostrophe, should be 4s.</i>	Done – thank you and apologies for missing this.
26	42	<i>Do you mean exemplars or examples? There are lots of exemplars of performance reports on the Charities Services website.</i>	We have replaced ‘exemplars’ with ‘examples’ – thank you and apologies for missing this.
		The following amendments need to be made to the second version of the paper:	
4	28	<i>Should read ..about the entity in the Entity Information section, and its service performance in the Statement of Service Performance section</i>	Done – thank you
4	55	<i>Footnote 5 should read .. based on full Public Benefit Entity International Public Sector Accounting Standards (not IFRS)</i>	We have re-worded this - thank you
15	13	<i>Should read ..usefulness of the Entity Information section of ..</i>	Done – thank you

## Authors' response to Reviewer 2

Thank you once again for your review and comments. We have addressed your comments and suggestions, as detailed below. Our responses have been added in the far right hand column, alongside your original comments.

Manuscript Number: PAR-12-2018-0119.R1

Title: Charities' new non-financial reporting requirements: preparers' insights

Reviewer comments	Authors' responses
<p>The research aim (p.1) and the two key research questions (p.11) are not well aligned. It is unclear whether the research aims to investigate the preparers' <i>understanding</i> of the new non-financial performance reporting requirements or their <i>experiences and perceptions</i> of implementing these requirements and challenges faced.</p> <p>The first research question is a bit clumsy. It seems to investigate 1) to what extent the preparers understand the new requirements; 2) whether (and if so how) these requirements help to improve charity accountability and legitimacy (but to whom?). The focus of the paper and research questions need to be clarified throughout the paper.</p>	<p>Our purpose, as explained on p.1 is to obtain preparers' insights on the new non-financial Performance Reporting requirements, including challenges they faced, in order to assist standard setters in their efforts towards continuous improvement. The title of the paper refers to 'preparers' insights'. Preparers' views on the new requirements and their contribution to accountability and legitimacy (Research Question 1) appears to us to align well with the above purpose and is well motivated in terms of prior literature, so we are uncertain as to where the reviewer sees any misalignment here.</p> <p>Preparers' insights regarding preparation/provision of the new requirements (Research Question 2) also appears to us to align well with the above purpose. As explained further on pg.3, insights regarding implementation challenges provide potentially important information to standard setters that may assist in assessing cost/benefit implications of some of the requirements. Throughout the paper we use the terms <i>insights</i> or <i>views</i>. When we use the term <i>understanding</i> we are referring to our understanding (rather than the interviewees).</p> <p>We would argue that the first research question is broad rather than clumsy. Participant responses to this question could provide insights regarding the two questions suggested by the reviewer, as well as potentially to other questions. Our focus is on interviewees' experiences and perceptions - their understanding is</p>

Reviewer comments	Authors' responses
	<p>incidental to this. This breadth is in line with the exploratory, qualitative nature of the study.</p> <p>We have added ' ... to stakeholders.' to the end of the question to address the reviewer's concern " ... (but to whom?). Please see section 2.1, particularly pg.9 for a detailed discussion of who these stakeholders may be and substantial support from prior literature which motivates the relevance of this research question.</p>
<p>The paper argues its originality and contribution as it provides "early insights on new reporting requirements" (pp.1, 12 and elsewhere), but it also cited Morgan (1999) in p.27 who suggests that "the new accounting regime will be seen as normative" after more time and education. So why understanding the preparers' views at a very early stage of implementing the requirements is significant? Wouldn't it be more interesting to investigate whether the new accounting regime becomes a norm after a few years of implementing the new requirements? The author(s) could argue it is future research, but what can we learn from examining the preparers' early insights needs further articulations.</p>	<p>We provide strong motivation for the value of the early insights from this study mostly in the latter half of the Introduction. Particularly pertinent examples are explained in the final paragraph on pg. 6, flowing to pg. including:</p> <ul style="list-style-type: none"> <li>• low levels of compliance by charities initially;</li> <li>• reliable anecdotal evidence that Tier 3 and 4 charities still find the new reporting requirements challenging (see also XRB NFP Update, 21 Aug, 2019);</li> <li>• the extent of change introduced by the new requirements and the significance of charities for the NZ economy;</li> <li>• as Zowie Pateman (CAANZ Acting Reporting Leader) remarks in pg.3 of "New Charity Reporting – One Year On, 2017: "One year on is a good time to pause and reflect on the benefits to us as a community of the new reporting requirements."</li> </ul>
<p>The interview data was collected between August 2016 and April 2017. It was prior to the end of the first year of implementing the new reporting standards (p.12). While some interesting viewpoints were presented by the interviewees, it is reasonable to believe that their viewpoints could subject to change after complying with the new standards for a few rounds or even completing the first year of implementation. So it is perhaps useful to identify what kind of viewpoints could change and sustain. This will strengthen the contribution of the paper.</p>	<p>We agree that early viewpoints may change over time. We have added this as a limitation, rather than trying to identify which views may change as we were concerned about the level of subjectivity this would involve. We note also that there is frequent emphasis in the paper on the fact that these are early insights.</p>
<p>Some varied and conflicting viewpoints of preparers were presented (e.g. in pp. 19, 26 and elsewhere), which is interesting. However, if interviewees offered such</p>	<p>We are unsure of the reviewer's concern here. As the reviewer notes the variety of views are interesting. We</p>

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<p>varied viewpoints, to which points the author(s) concluded the interview data reached saturation. This issue merits more explanations, especially considering a small number of interviews included in this paper.</p>	<p>have drawn these together in a summary at the end of each section of the research findings and in the discussion and conclusion.</p>
<p>Some findings presented were inconsistent. For example, p.26 "many saw the new requirements as onerous..." but p.15 shows "completing this section of the report was generally perceived by the interviewees as non-onerous..." and p. 21 "these thoughts are summed up by Interviewee J who did not think meeting the Charities Services requirements was onerous". Also, p. 21, Interviewee H said "I am not seeing the benefit" of the new requirements, but later the same interviewee expressed "it was worthwhile to sit down and think about why the group (charity) exists". It is suggested that the author(s) perform a thorough check on the consistent presentations of findings and discussion/conclusion.</p>	<p>We have made amendments to sections 4.3 and 5 to clarify/resolve what appeared to be contradictory statements. These had to do with distinguishing clearly between the Entity Information section and the SSP in discussing interviewees' views.</p>
<p>There is still a need for the author(s) to articulate clear contributions to literature. What there anything surprising about the findings? The author(s) could make more of how they have drawn upon accountability and legitimacy and how they contribute to the extant literature.</p>	<p>In the Introduction section we include a paragraph that states "This research is significant because...". We also include a paragraph that begins "This study makes further contributions...." and another that begins "The need for...". Please also see our response to the second row in the table above which addresses similar concerns. We were somewhat surprised at the level of scepticism encountered as is evident in that this emerged as a separate theme. We have also provided frequent linkages to accountability and legitimacy. We note that we had to cut significant amounts of our original material to comply with word limit constraints. However, throughout the paper (excluding references) we use the term 'accountability' 47 times and 'legitimacy' 20 times.</p>
<p>Editorial:  1. p.3 line 31 needs reference.  2. p. 3, provide the challenges identified by McConville and Cordery (2018) in developing non-financial reporting standards.  3. p. 4 lines 22-31, meanings are not clear in this long sentence. A performance report includes non-financial information, but the SSP is not the only place that presents this information.  4. p. 4 line 42, miss the word 'Information' after 'Entity'.</p>	<p>1. Done  2. Done  3. We have broken the sentence into two and clarified what is provided in the SSP and Entity Info sections  4. Amended - added 'Information'</p>

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<p>5. p. 7, first paragraph, provide some recent statistics to support why charities are significant to the New Zealand economy.</p> <p>6. p.8 last paragraph, "Accountability may be defined as..." why uncertainty is expressed here?</p> <p>7. p. 9. "output reporting contributes to legitimacy..." what about outcome reporting?</p> <p>8. p. 10 "Tier 3 charities are required to measure, evaluate and report on their outcomes". Provide references to support the measurement and evaluation requirements.</p> <p>9. p. 11, lines 52-54, it is suggested to rewrite the first sentence after the research questions.</p> <p>10. p.12, "We relied on personal knowledge and enquiries to identify early reporters and associated parties." explain what this means.</p> <p>11. p. 12 "a survey instrument was developed..." was the survey another research method employed? If so, provide more details.</p> <p>12. It is useful to provide more information on the selected Tiers 3 and 4 charities, including their service areas, annual expenditures/operating payments, and the number of staff and volunteers.</p> <p>13. Please include the date and length of each interview in Table 1, not in the findings.</p> <p>14. p. 15. "completing this section...was generally perceived by the interviewees as...an essential part of being accountable" to whom?</p> <p>15. p. 16. "Such shortcomings compromise accountability to users." who are the users? and how their accountability expectations would be compromised.</p> <p>16. p. 17 and elsewhere, the terms of 'charities', 'NFPs' and 'third sector organisations' are used in this paper. The focus is on registered charities, so consistent wording needs to be checked and used.</p> <p>17. p. 17. the last paragraph, the interviewees talked about 'objectives', not outcomes. how do these objectives information relate to or inform reporting on outcomes?</p>	<p>5. Done</p> <p>6. We have changed this to 'is defined'</p> <p>7. Amended to refer also to outcome reporting.</p> <p>8. We have amended this sentence to more accurately reflect what is required and cited (PBE SFR-A (NFP) para. A41(a)).</p> <p>9. Thank you – we have improved this sentence by rephrasing it.</p> <p>10. We have amended this to better explain what we mean.</p> <p>11. Amended to refer to question sheet we used to guide our interviews.</p> <p>12. We have included the sectors/service areas in Table 1. Our focus was on interviewees, many of whom represented multiple charities. As such, we did not ask them to individually identify all the charities they worked with, so are not able to supply the other information suggested. We are also concerned to ensure our interviewees are anonymous.</p> <p>13. Done</p> <p>14. Amended to include "to stakeholders".</p> <p>15. Amended to replace 'users' with 'stakeholders' (see response to second comment on pg.1 re who stakeholders are and their expectations.</p> <p>16. We have searched these terms and where appropriate replaced them with 'charities' or 'registered charities'.</p> <p>17. Comments regarding 'objectives' were responses to the question: "<i>Are any of these outcomes new or different, compared to what the entity used to aim at achieving before these new requirements were implemented?</i>". This question is also the heading under which these comments are discussed.</p>

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<p>18. p.18. some interviewees talked about their experiences of preparing output reporting for (sport) clubs and thought it would be different compared to the charities that provided other services. Therefore, as previously mentioned, it is useful to provide the service categories of Tiers 3 and 4 charities investigated.</p> <p>19. p. 20. check the quote provided by Interviewee G in the last paragraph.</p> <p>20. p. 22. explain Xero is an accounting software for the international readers.</p> <p>21. p. 24. "The aim of the new regulations is to measure..." to measure or to report on outputs and outcomes?</p> <p>22. p. 25. "This change applies to charities..." it needs to be clear that it is for 'registered charities', not charities in general.</p> <p>23. p.25 and elsewhere, a few terms of 'governance', 'management', 'measurement', and 'reporting' are used in the paper, the author(s) need to check and use the words consistently.</p>	<p>The opening sentence of this section provides further context in reminding readers of the link between the entity's mission and outcomes. On careful consideration, we feel that these precursors to the comments on 'objectives' provide sufficient context.</p> <p>18. See response to (12) above – we have now included this information in Table 1.</p> <p>19. We have inserted "(sic)" to acknowledge a grammatical error by the interviewee in this quote.</p> <p>20. We have added a footnote.</p> <p>21. Amended as suggested</p> <p>22. Amended as suggested</p> <p>23. We have used the 'search' function to check all of these terms and ensure they are correctly used.</p>