

The Impact of Tier Changes on Audit Fees: Evidence from New Zealand Not-for-Profits

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor used artificial intelligence tools or generative artificial intelligence tools (unless it is clearly stated, and referenced, along with the purpose of use), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Signature:

Artificial Intelligence Declaration Template

Artificial Intelligence Guidelines:

Artificial Intelligence (AI) tools, including generative AI tools approved for use by AUT ([AI Tool Register](#)), can be used as learning tools when preparing to write your research proposal or research component. AI tools also have capability to assist with data modelling, data analysis and data visualisation. However, the research component you submit for examination must be substantively your own work. AI tools cannot solely be used to generate content when writing or creating an artwork/artefact, as this constitutes plagiarism. The formal guidelines for appropriate use of AI on the [AI Hub](#) must be followed. Also refer to the [Using Artificial Intelligence in your Research: Self-Assessments, Checklists, and Sample Text](#), for examples and sample text.

If you do plan to use AI tools, this declaration should be submitted with the initial research proposal, Confirmation of Candidature, and when you submit your research component for examination. You must complete the template below for each AI output used detailing the following:

- Chapters where AI was used in any way
- Purpose of AI Use
- AI Tool(s) Used
- Prompts Used
- Post-AI Processing Methods

<i>Specify the chapter number(s) in your research proposal/research component where AI was used.</i>	
Chapter number(s):	All chapters
<i>Briefly explain why the AI tool was used (e.g., idea generation, summarization, data analysis, image creation, etc.).</i>	
Purpose of AI Use:	Idea generation Translating, proofreading and improving clarity and readability cross-checking regression results
<i>Clearly state the AI tools used.</i>	
AI Tool(s) Used:	ChatGPT and Claude were used to ask questions regarding theoretical explanations and academic reference suggestions, generate lists of references in my literature review for further review, verify my regression results, and assist with translation, proofreading, and improving clarity and academic expression. Their use was limited to support purposes and did not involve adding new content or changing the original meaning of my work
<i>Prompts or queries entered into the AI tool (only the instructive portion of the prompt is required). Include all relevant variations.</i>	
Prompts Used:	Prompts used in ChatGPT and Claude (Please refer to appendix)
<i>A summary or description of the AI-generated output. (Optional: attach output in an appendix.)</i>	
Output Received:	Sample output was used in ChatGPT Sample output was used in Claude
<i>Describe how the AI output was used, edited, or transformed.</i>	
Post-AI Processing Methods:	All AI generated outputs were manually checked, reviewed, edited or reject to make sure all information were correct and did not change the original meaning of my work before included in this thesis

You may use this free text box to explain the intent for the use of the AI generated content. For example, rather than stating what prompt(s) were used, you may articulate the purpose for which the prompt was used (supported by examples) here:

1. CHatGPT (Appendix A)
I used this prompt to help me generate a brief framework explaining the theoretical relationship between accounting standards adoption and audit fees. The output provided key concepts and relevant academic reference which allow me to better understand the concepts and provides key aspects for further research through Google Sholar. The findings reported in cited academic references were in the opposite direction related to my research and provided some relevant perspectives. The output provided a useful starting point for learning and further research.
2. ChatGPT (Appendix B)
I used this prompt to assist me to understand what fixed effect in regression model is and give a guide in selecting appropriate one. The output provides a clear explanation and different fixed effects commonly used in accounting studies.
Based on output of ChatGPT and relevant literature review, I determined that sector fixed effects were more appropriate for my research context which is same meaning that industries fixed effect suggested by ChatGPT. In non-for-profits context, charities are classified according to charitable sector rather than commercial industries. Thus, ChatGPT provides an incorrect academic terminology.
3. Claude (Appendix C)
I used Claude to cross-check my regression results generated in SPSS. I uploaded the regression results of SPSS output and the regression tables that I created to verify that the significance notations (*, **, and ***) were correctly assigned according to the reported p-values. However, I found some Claude generated outputs were not accurate. The output was used solely for verification purposes, and all results were confirmed against the original SPSS output.
4. ChatGPT (Appendix D)
I used ChatGPT to improve the clarity of my original work. The purpose was limited to checking grammar, spelling, and enhancing the clarity of expression and make the content are more readability. I carefully reviewed the output sentence by sentence to ensure that the words accurately reflected my original meaning and not have any new content, ideas or arguments was added beyond my work. I also further revised and edited the output by myself before included in this thesis.

STUDENT DECLARATION

By signing you are confirming that the AI use stated in the table(s) above are accurate and follow AUT's recommended guidelines detailed in the AI Hub and Postgraduate Handbook.

Student	Signature	Date
Name: Lu Sun	:	: 02/06/2026

Appendix A.

Tool: ChatGPT

Prompt: how the accounting standard adoption impacts the audit fees, cite relevant academic reference from high rank of accounting journey

Response: The adoption of new accounting standards can affect audit fees through several mechanisms. In general, when a new standard increases reporting complexity, requires additional disclosures, or involves greater management judgment, auditors need to perform more audit procedures, resulting in higher audit effort and audit fees.

1. Increased Audit Complexity and Effort

New accounting standards often require auditors to understand new recognition, measurement, and disclosure requirements. This increases audit planning, testing, documentation, and review procedures. According to audit pricing theory, audit fees reflect the expected audit effort and audit risk.

For example, the adoption of International Financial Reporting Standards (IFRS) introduced more principles-based accounting and greater use of professional judgment. Auditors therefore needed to spend additional time verifying compliance and evaluating management estimates.

Reference:

- Simunic, D. A. (1980). The pricing of audit services: Theory and evidence. *Journal of Accounting Research*, 18(1), 161–190.
 - Hay, D., Knechel, W. R., & Wong, N. (2006). Audit fees: A meta-analysis of the effect of supply and demand attributes. *Contemporary Accounting Research*, 23(1), 141–191.
-

2. Increased Financial Reporting Risk

New standards may create uncertainty regarding interpretation and implementation. Auditors face a higher risk of material misstatement during transition periods and often respond by increasing audit procedures and charging higher fees.

For instance, first-time IFRS adoption required auditors to verify numerous accounting adjustments and ensure compliance with unfamiliar requirements.

Reference:

- De George, E. T., Ferguson, C. B., & Spear, N. A. (2013). How much does IFRS cost? IFRS adoption and audit fees. *The Accounting Review*, 88(2), 429–462.

This study found that mandatory IFRS adoption was associated with significantly higher audit fees, particularly during the initial implementation period.

3. Greater Use of Professional Judgment and Estimates

Many modern accounting standards rely heavily on fair values, expected losses, impairment testing, and management assumptions. Auditors must evaluate these estimates and often engage specialists, increasing audit effort and cost.

Examples include:

- IFRS 13 Fair Value Measurement
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

Reference:

- Kim, J.-B., Liu, X., & Zheng, L. (2012). The impact of mandatory IFRS adoption on audit fees: Theory and evidence. *The Accounting Review*, 87(6), 2061–2094.

The authors argue that increased complexity and auditor liability associated with IFRS adoption contribute to higher audit fees.

4. Learning and Transition Costs

When standards are first adopted, both preparers and auditors incur learning costs. Auditors must develop expertise, train staff, revise audit methodologies, and update documentation. These transition costs are often reflected in higher audit fees during the early years of adoption.

However, once auditors and clients become familiar with the new standards, audit efficiency may improve and fee increases may moderate over time.

Reference:

- Griffin, P. A., Lont, D. H., & Sun, Y. (2009). Governance regulatory changes, international financial reporting standards adoption, and New Zealand audit and non-audit fees. *Accounting & Finance*, 49(4), 697–724.
-

5. Changes in Disclosure Requirements

New accounting standards frequently require additional disclosures. Auditors must verify the completeness and accuracy of these disclosures, increasing the amount of audit testing required.

Research shows that more extensive disclosure requirements generally lead to higher audit effort and therefore higher audit fees.

Reference:

- Basioudis, I. G., & Ellwood, S. (2005). External audit in the UK public sector: Fees and independence. *Financial Accountability & Management*, 21(2), 221–241.
-

Overall Conclusion

The accounting literature generally suggests that accounting standard adoption tends to **increase audit fees**, particularly during the initial implementation period. The main reasons are:

1. Increased audit complexity.
2. Greater financial reporting risk.
3. More professional judgment and estimation uncertainty.
4. Auditor learning and transition costs.
5. Expanded disclosure requirements.

Over time, as auditors and clients become familiar with the new standards, some of these effects may diminish, although standards that permanently increase reporting complexity can result in persistently higher audit fees.

Key References

- Dan A. Simunic (1980). *Journal of Accounting Research*, 18(1), 161–190.
- David Hay, Knechel, W. R., & Wong, N. (2006). *Contemporary Accounting Research*, 23(1), 141–191.
- Elizabeth T. De George, Ferguson, C. B., & Spear, N. A. (2013). *The Accounting Review*, 88(2), 429–462.
- Jeong-Bon Kim, Liu, X., & Zheng, L. (2012). *The Accounting Review*, 87(6), 2061–2094.
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- Basioudis, I. G., & Ellwood, S. (2005). *Financial Accountability & Management*, 21(2), 221–241.

Appendix B. Understanding the Fixed effect in OSL

Tool: ChatGPT

Prompt: What is Fixed Effect in Regression Model? What is available Fixed effect can be used in audit fees OSL for Charities?

Response: **What is a Fixed Effect in a Regression Model?**

A **fixed effect** is a variable included in a regression to control for characteristics that are **constant within a group but differ across groups**.

The purpose is to remove the influence of omitted factors that could bias the relationship between your independent variables and the dependent variable.

For example:

$$AuditFee_{it} = \beta_0 + \beta_1 X_{it} + \text{Firm Fixed Effects} + \varepsilon_{it}$$

Here, firm fixed effects control for all time-invariant characteristics of each firm, such as culture, governance style, or auditor preference.

Simple Example

Suppose you study audit fees for charities over several years.

Some charities may always have:

- More complex operations
- Better internal controls
- Stronger governance
- A long-standing relationship with a particular auditor

These characteristics are difficult to measure but can affect audit fees.

A **charity fixed effect** controls for all of these unobserved, time-invariant differences.

The model essentially compares:

The same charity over time rather than comparing different charities with each other.

Common Types of Fixed Effects Used in Audit Fee Research

1. Organization (Client) Fixed Effects

Most common in panel data.

Controls for:

- Governance quality
- Organizational culture
- Complexity that does not change much over time
- Auditor relationship history

Example:

$$AuditFee_{it} = \beta_0 + \beta_1 X_{it} + \text{CharityFE}_i + \varepsilon_{it}$$

2. Year Fixed Effects

Controls for factors affecting all entities in a particular year:

- Inflation
- Changes in auditing standards
- Economic conditions
- Regulatory changes

Example:

$$AuditFee_{it} = \beta_0 + \beta_1 X_{it} + YearFE_t + \varepsilon_{it}$$

This is very common and usually recommended.

3. Industry Fixed Effects

Often used for corporate audit-fee studies.

Controls for industry-specific characteristics:

- Banking
- Manufacturing
- Retail
- Technology

In charities, this could be:

- Education
 - Health
 - Religious
 - Community services
-

4. Auditor Fixed Effects

Controls for differences between audit firms.

Some auditors systematically charge more than others.

Example:

$$AuditFee_{it} = \beta_0 + \beta_1 X_{it} + AuditorFE + \varepsilon_{it}$$

Frequently used when there are many auditors in the sample.

5. Geographic Fixed Effects

Controls for regional cost differences.

Examples:

- Auckland
- Wellington
- Christchurch

Useful if audit costs differ substantially by location.

Which Fixed Effects Are Usually Best?

It depends on the data structure.

Data Structure	Recommended Fixed Effects
Cross-sectional (one year only)	Industry, auditor, region
Panel data (same entities over multiple years)	Entity fixed effects + year fixed effects
Multiple auditors	Auditor fixed effects
Multiple regions	Region fixed effects

Important Limitation

If you use **entity (charity) fixed effects**, any variable that does not change over time for a charity cannot be estimated separately.

For example:

- Region
- Type of charity
- Founding year

These are absorbed by the charity fixed effects.

Rule of Thumb in Audit Fee Studies

For panel data, a common specification is:

$$AuditFee_{it} = \beta_0 + \beta_1 X_{it} + CharityFE_i + YearFE_t + \varepsilon_{it}$$

This is often considered the strongest baseline model because it controls for:

- Unobserved charity characteristics (charity fixed effects)
- Economy-wide and regulatory changes (year fixed effects)

and reduces omitted variable bias substantially.

In audit fee research, **year fixed effects** are almost always a good idea, while **entity/client fixed effects** are often preferred when you have repeated observations for the same organizations over multiple years.

Appendix C. Verification of my regression results

Tool: Claude

Prompt: please check whether my presentation of regression results table is correct with SPSS output, please check the p value significant rule is *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels (two-tailed)

Response: Let me examine each image:

Image 1 (Model 1):

- LnTA\$000: B=0.115, SE=0.062, t=1.835, Sig=0.071
- LnEXP\$000: B=0.495, SE=0.302, t=1.640, Sig=0.105
- ARINV: B=-2.056, SE=0.512, t=-4.016, Sig=<.001
- DONATIONS: B=-0.582, SE=0.381, t=-1.529, Sig=0.131
- GRANTS: B=0.056, SE=0.225, t=0.248, Sig=0.805
- CITYCOST: B=1.021, SE=0.205, t=4.982, Sig=<.001
- $R^2 = 0.628$, Adjusted $R^2 = 0.519$
- N = 93 (Corrected Total = 92, so N = 93)
- Note: BIG7 = 1 (only BIG7 firms included)

Image 2 (Model 2):

- LnTA\$000: B=0.118, SE=0.063, t=1.889, Sig=0.063
- LnEXP\$000: B=0.445, SE=0.306, t=1.453, Sig=0.151
- ARINV: B=-2.079, SE=0.513, t=-4.053, Sig=<.001
- POST: B=0.103, SE=0.109, t=0.945, Sig=0.348
- $R^2 = 0.633$, Adjusted $R^2 = 0.518$

Image 3 (Model 3):

- LnTA\$000: B=0.115, SE=0.062, t=1.852, Sig=0.068
- LnEXP\$000: B=0.409, SE=0.305, t=1.343, Sig=0.184
- ARINV: B=-1.993, SE=0.512, t=-3.895, Sig=<.001
- DONATIONS: B=-0.654, SE=0.381, t=-1.716, Sig=0.091
- CHANGE: B=0.349, SE=0.234, t=1.494, Sig=0.140
- $R^2 = 0.645$, Adjusted $R^2 = 0.526$

Image 4 (Model 4):

- LnTA\$000: B=0.114, SE=0.063, t=1.821, Sig=0.073
- LnEXP\$000: B=0.415, SE=0.308, t=1.349, Sig=0.182
- ARINV: B=-1.988, SE=0.516, t=-3.854, Sig=<.001
- DONATIONS: B=-0.655, SE=0.384, t=-1.706, Sig=0.093
- POSTCHANGE: B=0.085, SE=0.375, t=0.227, Sig=0.821
- $R^2 = 0.645$, Adjusted $R^2 = 0.520$

Verification Results:

✅ **CORRECT!**

Key findings:

1. ✅ All coefficients match the SPSS output
2. ✅ All standard errors are correct (not t-statistics this time!)
3. ✅ Significance stars are accurate
4. ✅ R^2 values are correct (0.628, 0.633, 0.645, 0.645)
5. ✅ Adjusted R^2 values are correct (0.519, 0.518, 0.526, 0.520)
6. ✅ Sample size (N=93) is correct
7. ⚠️ This analysis is for **BIG7 = 1** (only Big 7 auditor firms)

Appendix D. Grammar Checking and Clarity Improvement

Tool: ChatGPT

Prompt: Scott and Chen (2025) provide an interesting comparison, noting an 14.5% increase in audit fees in the first year of SSP adoption with an 11% increase in audit fees in the first year of IFRS adoption for New Zealand's listed companies (Higgins et al., 2016). They argue the additional increase caused by the audit work in new statements (such as preparation of new working paper, templates and materiality estimates) rather than the SSP per se.

Please improve the clarity without changing my original meaning, and no do add ant content and arguments

Response: Here is a clearer version that preserves your original meaning and argument:

Scott and Chen (2025) provide an interesting comparison, reporting a 14.5% increase in audit fees in the first year of SSP adoption, compared with an 11% increase in audit fees in the first year of IFRS adoption among New Zealand listed companies (Higgins et al., 2016). They argue that the additional increase was driven by the audit work associated with new statements, such as the preparation of new working papers, templates, and materiality estimates, rather than by SSP adoption itself.

This version mainly improves grammar, flow, and readability without adding any new content or arguments.

Acknowledgements

I would like to express my sincere gratitude to my supervisor, Tom Scott, for his invaluable guidance and support throughout this research. His insightful feedback, patience, and encouragement have been instrumental in shaping the direction and quality of this thesis. I am especially grateful for his constructive comments, which consistently challenged me to think more critically and to strengthen the clarity and rigour of my work.

I also wish to thank the staff at Auckland University of Technology for providing a supportive academic environment during my postgraduate studies.

Finally, I wish to acknowledge David Parker for providing professional proofreading services. Their careful attention to language and presentation contributed to the overall clarity of this thesis.

Abstract

Tiered reporting frameworks are commonly justified by regulators on cost–benefit grounds, particularly where reporting threshold adjustments reduce compliance burdens for smaller organisations. Whether these anticipated savings actually materialise in practice has received limited attention, with a focus on not-for-profit contexts. This thesis examines this question using New Zealand’s February 2024 updated revision to Public Benefit Entity (PBE) tier size thresholds, which allowed not-for-profits with expenditure between \$2 million and \$5 million to shift from Tier 2 International Public Sector Accounting Standards Reduced Disclosure Regime to Tier 3 Public Benefit Entity Simple Format Reporting – Accrual simplified reporting. Analysis uses 212 New Zealand not-for-profits (424 entity-year observations) across 2023 and 2024. The findings provide no evidence of audit fee reductions following tier migration during the first year of adoption, and only 15.6% of eligible non-for-profits voluntarily shifted to simplified reporting. The evidence further suggests that not-for-profits maintain more comprehensive reporting practices to satisfy stakeholder expectations, despite having regulatory permission to adopted simplified reporting. Overall, the results suggest regulatory relaxation does not lead to immediate audit cost reductions, with low voluntary adoption indicating that stakeholder expectations constrain the practical use of regulatory flexibility. These results have important implications for policymakers evaluating the effectiveness of tiered reporting frameworks.

Key words: audit fee, not-for-profit, deregulation, charities, voluntary reporting choices

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Chapter 1 Introduction

Tiered financial reporting frameworks have become a widely adopted regulatory approach for entities worldwide. In the not-for-profit sector, across diverse jurisdictions, regulators increasingly adopt differentiated reporting structures. These include the four-tier Public Benefit Entity (PBE) standards in New Zealand, the Statement of Recommended Practice (SORP) in the U.K., the General Purpose Financial Report (GPFR) and Special Purpose Financial Report (SPFR) regimes in Australia, and initiatives by the Financial Accounting Standards Board (FASB) in the U.S. Despite institutional differences, these frameworks are built on a common premise that aligning reporting requirements with organisational size and complexity can reduce compliance burdens without undermining accountability (Gilchrist & Simnett, 2019). This convergence reflects a recognition that uniform reporting requirements impose disproportionate costs on smaller entities while offering limited additional informational value to stakeholders.

The implications of this regulatory shift are particularly pronounced in the not-for-profit sector. Unlike for-profit organisations that can offset regulatory costs through price adjustments, not-for-profit entities operate under binding resource constraints, where resources allocated to compliance and audit costs directly reduce funds available for mission-related activities. At the same time, not-for-profits remain subject to strong accountability expectations from donors, grant-makers, regulators, and society. This creates an inherent tension between maintaining transparency and preserving resources for service delivery. In response, regulators may justify tier threshold adjustments and reporting simplifications on cost–benefit grounds, with the expectation that regulatory relief will reduce compliance burdens and release resources for charitable purposes

(e.g., the 2024 revision to tier thresholds in New Zealand and the 2026 increase in tier thresholds in the U.K.). However, a fundamental question remains empirically unresolved: Do the expected compliance cost savings actually materialise when regulators raise tier thresholds and permit simplified reporting?

Existing research provides extensive evidence on one side of the regulatory equation, namely the effects of regulatory tightening. The adoption of International Financial Reporting Standards (IFRS) across multiple jurisdictions has consistently been associated with increases in audit fees, driven by greater measurement complexity, enhanced professional judgment requirements, and expanded disclosure verification (De George et al., 2013; Griffin et al., 2009; Higgins et al., 2016; Kim et al., 2012; Miah et al., 2020). Similarly, the U.S. federal Sarbanes–Oxley Act of 2002 led to substantial increases in audit fees in the U.S. as auditors responded to internal control assessment requirements under Section 404 and heightened legal liability exposure (Evans & Schwartz, 2014; Ghosh & Pawlewicz, 2009; Huang et al., 2009; Salman & Carson, 2009).

Comparable evidence is observed in the not-for-profit sector. The Nonprofit Integrity Act of 2004 in the U.S. imposed additional reporting requirements, resulting in increased audit fees in the first year of adoption (Neely, 2011). The 2015 not-for-profit accounting reform in the U.K. resulted in higher audit fees due to expanded disclosure requirements relating to governance, risk management, and public benefit reporting (Mayapada et al., 2024). In New Zealand, the introduction of mandatory Statement of Service Performance (SSP) reporting has also been associated with increased audit fees, reflecting the additional effort required to verify non-financial information (Chen & Scott, 2025). Taken together, these studies establish a consistent pattern that indicates stricter and more complex regulatory requirements lead to higher audit fees. However,

far less is known about the opposite side of the regulatory equation. In particular, it remains unclear whether regulatory relaxation, through simplified reporting requirements, leads to corresponding reductions in audit fees. This asymmetry represents an important empirical gap, leaving regulation evaluation incomplete and the cost–benefit justification for tiered reporting frameworks largely untested.

In studying this gap, the New Zealand not-for-profit sector provides a suitable setting to examine the impact of regulatory deregulation on audit fees. On April 1, 2015, the External Reporting Board (XRB) implemented a comprehensive four-tier reporting framework for not-for-profits, with tier classifications based primarily on annual operating expenditure and public accountability. This framework creates a regulatory variation in reporting complexity, with Tier 1 entities following the full Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), Tier 2 entities applying the International Public Sector Accounting Standards Reduced Disclosure Regime (PBE IPSAS RDR), Tier 3 entities using Public Benefit Entity Simple Format Reporting – Accrual (PBE SFR-A), and Tier 4 entities using Public Benefit Entity Simple Format Reporting – Cash (PBE SFR-C). In February 2024, the XRB announced updated threshold criteria, increasing the Tier 1/Tier 2 boundary from \$30 million to \$33 million and the Tier 2/Tier 3 boundary from \$2 million to \$5 million (XRB, 2024a). This regulatory tier threshold change provides a unique opportunity to examine whether regulatory deregulation, in form of increased tier classification thresholds enabling a simplified reporting framework, produces a decrease in audit fees.

This study examines whether regulatory deregulation reduces audit fees by analysing New Zealand not-for-profits with operating expenditures between \$2 million and \$5 million that became eligible to shift from Tier 2 (PBE IPSAS RDR) to Tier 3 (PBE SFR-A) following the 2024 threshold revision. Using a sample of 212 not-for-profits

across 424 non-for-profit-year observations spanning 2023 and 2024, the result finds there is no statistically significant decrease in audit fees in the post-tier change period for those impacted not-for-profits, compared to the pre-tier change period. A key descriptive finding is that only 15.6% of eligible not-for-profits (33 not-for-profits) actually shifted from Tier 2 to Tier 3 in the first year following the threshold revision. Taken together, these findings suggest that the threshold revision did not produce widespread immediate tier migration and did not translate into observable first-year audit fee reductions at the market level.

This study makes several contributions to the audit fee literature. First, this is the first study to examine downward regulatory tier transitions and their impacts on audit fees in the not-for-profit sector. This addresses a critical gap in audit fee literature, where regulatory tightening effects have been extensively examined but regulatory relaxation effects remain empirically unexplored. By examining the dynamic effect of moving between regulatory tiers, rather than static tier levels, this study captures the decrease in audit effort and the risk adjustments that occur when not-for-profits transition to less complex reporting regimes. This approach aligns with recent calls in the accounting and audit literature to examine regulatory changes as “exogenous shocks” so as to enable stronger causal inference and mitigate endogeneity concerns (Eierle et al., 2022; Xu, 2025).

Second, this study extends resource dependence theory to regulatory transition contexts in not-for-profit organisations. Resource dependence theory predicts that organisations facing greater external resource dependency will invest in legitimacy-enhancing activities, including higher-quality financial reporting and auditing, to maintain stakeholder confidence (Verbruggen et al., 2015). Consistent with this theoretical prediction, results show that higher donation and grant ratios associate positively and

significantly with audit fees, indicating that externally dependent not-for-profits invest in greater audit effort to enhance transparency and accountability. The finding that only 15.6% of eligible not-for-profits actually shifted to Tier 3 despite regulatory permission provides additional support for resource dependence theory. This low adoption rate aligns with the work of Yang and Simnett (2020), who documented that not-for-profits with external funding dependencies voluntarily maintain comprehensive reporting frameworks to preserve donor confidence, suggesting that resource dependence constraints limit the practical utilisation of regulatory flexibility.

Third, the results document the absence of a decrease in audit fees for tier threshold revisions and also provide evidence of audit fee stickiness in not-for-profit contexts. De Villiers et al. (2013) demonstrated that audit fees exhibit asymmetric adjustment dynamics, declining approximately half as quickly as they increase in response to equivalent changes in fee determinants. In the regulatory deregulation context, audit fee stickiness suggests that even when reporting requirements materially decrease, institutional and economic forces may prevent proportionate fee adjustments, at least in the short term.

Finally, this study offers policy-relevant insights for regulators and standard setters evaluating whether current tier thresholds and reporting frameworks achieve the intended objectives. Regulators justify higher reporting thresholds as mechanisms to reduce compliance costs while maintaining accountability. This study provides direct empirical evidence on whether such cost savings materialise in audit fees. The finding of no significant audit fee decreases for impacted not-for-profits shifting from Tier 2 to Tier 3 in the first year following adoption demonstrates that expected compliance cost relief did not materialise during the initial implementation period. These results suggest that regulators should undertake a post-implementation review and consider whether

further recalibration of reporting requirements, assurance expectations, or implementation guidance might better achieve the reform's intended cost–benefit optimisation without compromising transparency and public trust.

This study proceeds as follows. Chapter 2 describes the institutional setting and provides background information on New Zealand's not-for-profit sector and the tiered reporting framework. Chapter 3 reviews the literature and develops the hypotheses to be tested. Chapter 4 describes the research design, data, and empirical methodology. Chapter 5 presents the results and discusses the findings. Finally, Chapter 6 summarises this study and concludes with a consideration of the study's limitations and directions for future research.

Chapter 2 Institutional Setting and Background

2.1 Not-for-profits in New Zealand: Definition and Regulation

The Charities Act 2005 is the legislative framework that governs the registration, regulation, and operation of charitable organisations in New Zealand. Introduced in response to the lack of transparency and accountability in the not-for-profit sector, the Charities Act 2005 was designed to ensure that not-for-profits operate for the benefit of the public and adhere to consistent standards (Charities Services, n.d.-d). Before its enactment, the not-for-profit sector in New Zealand was largely unregulated, with no formal requirements for registration, leading to concerns about inconsistent practices and a decline in public confidence (Department of Internal Affairs, n.d.).

Under the Charities Act 2005, not-for-profit entities seeking charitable status must register with Charities Services, proving that they meet the legal definition of a “charitable purpose.” This includes the relief of poverty, the advancement of education, the advancement of religion, and other purposes beneficial to the community. Not-for-profits seeking charitable status must register with Charities Services, which confers significant tax advantages, including exemption from income tax and eligibility for donor tax credits, creating strong economic incentives for compliance with registration and reporting requirements (Inland Revenue Department [IRD], 2022). These organisations must demonstrate that their activities provide a public benefit, a critical requirement that differentiates them from private or commercial entities (Charities Services, n.d.-b.) The Act imposes governance standards on registered not-for-profits, ensuring that they operate transparently and responsibly. This includes the requirement for registration, the submission of annual financial returns, and adherence to a tiered reporting system, with reporting obligations varying based on the size and complexity of the organisation

The not-for-profit (charities) sector, also known as the “third sector”, is distinct from the public or state sector and the private or commercial sector. In 2020, there were approximately 27,239 registered not-for-profits in New Zealand, contributing \$9.4 billion to the economy, representing 4.4% of New Zealand’s total GDP and 10.6% of the workforce (IRD, 2020). This includes exemptions from income tax for not-for-profits, tax concessions for not-for-profits, and tax incentives for charitable giving. In 2018, the IRD provided approximately \$300 million in donation and gift tax concessions, \$2 million in payroll giving tax credits, \$38 million in tax value from company gift deductions, and \$4 million from Māori Authority gift deductions (IRD, 2020). Thus, considering this privileged status, it is important that not-for-profits discharge accountability not only to society but also to specific donors, beneficiaries, and other users. As tax-exempt entities benefiting from public funds, charitable donations, and government concessions, these entities bear a significant responsibility to ensure transparency and accountability in their performance.

2.2 Tiered Reporting Framework

To address diversity within the sector, New Zealand has adopted a tiered financial reporting framework developed by the External Reporting Board (XRB). This framework classifies not-for-profits into four tiers based on annual operating expenditure and public accountability presence, aligning reporting requirements with entity size and complexity while balancing accountability against compliance costs. Table 1 summarises the reporting and assurance requirements within New Zealand’s not-for-profit context.

Tier 1 entities represent the largest and most complex not-for-profits. These entities either exceed \$33 million in annual expenditure or hold public accountability, such as

issuing financial instruments in public markets or managing assets in a fiduciary capacity (XRB, 2022a). Tier 1 not-for-profits are required to apply the full PBE IPSAS, preparing comprehensive general-purpose financial statements with extensive disclosures.

Tier 2 entities, defined as those with annual expenditure between \$5 million and \$33 million and without public accountability, apply IPSAS RDR concessions. While recognition and measurement principles remain at the level of full compliance consistent with Tier 1, disclosure requirements are reduced, reflecting a cost–benefit trade-off for mid-sized entities.

Tier 3 entities with annual expenditure between \$140,000 and \$5 million and without public accountability, follow simplified accrual-based reporting under PBE SFR-A. This standard retains accrual accounting principles while substantially reducing complexity through templated formats, reducing the volume and complexity of disclosures and eliminating certain statements, such as the Statement of Changes in Net Assets (XRB, 2024c). The Tier 3 framework aims to make reporting accessible for smaller entities without extensive accounting expertise.

Tier 4 entities, representing the smallest not-for-profits with annual expenditure below \$140,000 without public accountability, apply PBE SFR-C with minimal disclosure requirements to meet statutory reporting obligations.

A central feature of the New Zealand framework is mandatory service performance reporting across all tiers. Given that not-for-profits aim to deliver social and community benefits rather than financial returns, financial information alone is insufficient to capture organisational performance. Service performance reporting, effective from January 2022, provides both qualitative and quantitative information on outputs,

outcomes, and societal impacts, enhancing accountability and supporting stakeholder decision-making (XRB, 2022b). Unlike financial reporting, service performance reporting does not provide reduced disclosure concessions across tiers, reflecting its fundamental importance in demonstrating public benefit.

2.3 Auditing and Assurance Requirements

The Charities Act 2005 establishes mandatory audit and assurance requirements for registered not-for-profits based on annual operating expenditure thresholds. Not-for-profits must submit audit reports within six months of their fiscal year-end (Charities Services, n.d.-a).

Under the Charities Act 2005, large not-for-profits are defined as those with annual operating expenses exceeding \$1.1 million, while medium-sized not-for-profits have annual operating expenses between \$550,000 and \$1.1 million. Not-for-profits with annual operating expenses below \$550,000 are classified as small not-for-profits. These size classifications determine audit and assurance requirements independently of tier classification, meaning that not-for-profits in the same reporting tier may face different assurance obligations depending on their expenditure levels.

Large not-for-profits must obtain a statutory audit by a qualified auditor as defined under sections 35 and 36 of the Financial Reporting Act 2013. This encompasses all Tier 1 and Tier 2 not-for-profits, along with larger Tier 3 not-for-profits (those with expenditure between \$550,000 and \$5 million). The audit provides reasonable assurance through an independent auditor's opinion on both financial statements and statements of service performance (SSP). The historical financial information of these entities is audited in accordance with the full suite of International Standards on Auditing (New Zealand) (ISAs (NZ)), and the SSP is subject to assurance under either the International Standard

on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised) – *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, or NZ AS 1 (Revised) – *The Audit of Service Performance Information* (Charities Services, n.d.-c; XRB, 2025a).

Medium-sized not-for-profits must obtain an independent review report from a qualified auditor, providing limited assurance. This applies to Tier 3 not-for-profits with annual operating expenditure between \$140,000 and \$550,000. Reviews are conducted under include ISRE (NZ) 2400 – *Review of Historical Financial Statements Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, or NZ SRE 2410 (Revised) – *Review of Financial Statements Performed by the Independent Auditor of the Entity*. The SSP is audited under ISAE (NZ) 3000 (Revised) or NZ SRE 1 – *Review of Service Performance Information* (Charities Service, n.d.-c; XRB 2025b).

Tier 4 not-for-profits with annual operating expenditure below \$140,000 are exempt from mandatory audit or review requirements but may voluntarily engage auditors or reviewers (Charities Services, n.d.-c).

2.4 Tier Threshold Revision

In February 2024, the XRB published an amendment to XRB A1 – *Application of the Accounting Standards Framework*, to revise expenditure thresholds, determining reporting tier classification (XRB, 2024b). These changes have had an impact for financial years ending on or after 31 March 2024 and Table 2 presents the new criteria under this amendment. The primary reasons for this change are to align with legislative updates, particularly the Financial Reporting (Inflation Adjustments) Regulations 2021 and the Incorporated Societies Act 2022, while considering the balance of costs and benefits and aiming to reduce inflationary pressures (XRB, 2024a).

For this study, the reform created a \$3 million expenditure band (\$2 million to \$5 million) where not-for-profits previously classified as Tier 2 became eligible for voluntary Tier 3 adoption. Entities that chose to transition moved from IPSAS RDR standards with comprehensive disclosure requirements to simplified PBE SFR-A standards with substantially reduced reporting complexity. Critically, audit obligations for these not-for-profits remained unchanged due to expenditure levels exceeding the \$1.1 million statutory threshold.

This regulatory setting makes it possible to examine whether reductions in reporting complexity led to observable changes in audit fees when auditing assurance obligations remain constant. If simplified reporting requirements reduce audit effort through decreased disclosure verification, financial statement note preparation, or engagement scope, voluntary tier migration should produce observable audit fee reductions during initial implementation periods. Conversely, null fee effects would suggest that regulatory deregulation through reporting simplification fails to translate into cost savings, potentially reflecting fee stickiness, persistent professional standard requirements, or limited actual reductions in audit scope despite simplified reporting frameworks. This institutional variation forms the empirical foundation for identifying regulatory policy effects on not-for-profit audit markets.

Chapter 3 Literature Review and Hypothesis

Development

3.1 Audit Fee Determinations

The determinants of audit fees have been extensively examined in accounting literature, with studies consistently identifying key factors such as client characteristics, auditor attributes, and risk exposure. Simunic's (1980) seminal work introduced an audit fee model for audit fee determinants in order to assess price competition. He found significant associations between audit fees and client size, complexity, risk, financial distress and audit opinion types. A large body of research has consistently found empirical evidence supporting these significant positive relationships (Firth, 1985; Gerrard et al., 1994; Palmrose, 1986).

Hay et al. (2006) conducted a meta-analysis of audit fee determinants and concluded that client size is the most robust and economically significant predictor of audit fees. Larger clients generate higher transaction volumes requiring more extensive substantive testing and maintain more complex accounting systems necessitating greater controls testing, thereby increasing audit effort and fees.

Beyond size effects, a client's complexity influences the audit fees. Pratt and Stice (1994) demonstrated that higher proportions of accounts receivable and inventory are associated with greater audit risk, as these accounts require substantial professional judgment in valuation. Ge and McVay (2005) documented that receivables and inventory exhibit the highest frequencies of material weaknesses in internal controls, thereby increasing audit task complexity. This heightened complexity necessitates more specialised audit procedures and expands substantive testing, which in turn leads to

greater audit effort and higher audit fees (Chan et al., 1993). Moreover, Menon and Williams (2001) demonstrated that the impacts of size and complexity on audit fees extend beyond pure cross-sectional variation, contributing to long-term upward trends in audit costs as financial sophistication and regulatory requirements compound over time.

Hay et al. (2006) identified leverage and profitability as key financial risk indicators commonly employed by auditors to assess client failure probability. Higher leverage increases the risk profile of clients and exposes auditors to greater litigation risk (Pratt & Stice, 1994). Consistent with this argument, previous studies have documented positive associations between leverage and audit fees (Bell et al., 2001; Brinn et al., 1994; Hay et al., 2006). More recent evidence from Barua et al. (2019) confirmed strong positive relationships between total leverage and audit fees, highlighting liquidity risk as an important channel through which financial distress affects audit pricing. Operating losses provide a direct indicator of financial distress. For profit-oriented entities, losses may signal severe financial deterioration, potentially triggering going-concern assessments, expanded audit procedures, and heightened litigation exposure. In audit fee models, loss indicator variables are commonly employed as proxies for financial distress and litigation risk (Simunic, 1980). This approach is consistent with evidence reported by Ghosh and Pawlewicz (2009), Kim et al. (2012) and Miah et al. (2020), who found that financially distressed firms incur higher audit fees.

Auditor attributes, particularly audit firm size and reputation, have received extensive attention in the audit fee literature. A robust finding across jurisdictions is that larger audit firms (historically, the Big 8, Big 6, Big 5 and, currently, the Big 4) command significant audit fee premiums relative to smaller audit firms (Francis, 1984; Hay, 2013; Palmrose, 1986). The magnitude of Big N fee premiums varies substantially across

institutional settings and time periods. Craswell et al. (1995) documented fee premiums of approximately 30% for Big 8 auditors in Australia, while DeFond et al. (2000) reported premiums of approximately 37% for Big 6 auditors in Hong Kong. Early New Zealand evidence, however, presented a contrasting pattern. Firth (1985) found no significant Big 8 fee premium, attributing this null result to strict professional fee guidelines and limited competitive differentiation in the New Zealand audit market during that period. Subsequent New Zealand research by Johnson et al. (1995) documented significant Big 5 premiums, suggesting the Big 5 dominated the New Zealand auditing market by providing quality-differentiated audit services. Two primary theoretical explanations have been proposed for Big N fee premiums: the quality differentiation hypothesis and the market power hypothesis. The market power hypothesis suggests that fee premiums may reflect monopoly pricing power and barriers to entry rather than purely quality-based differentiation (Palmrose, 1986). On other hand, the quality differentiation view posits that larger audit firms invest more heavily in audit technology, industry-specific expertise, training programmes, and quality control systems, producing a demonstrably higher audit quality that justifies premium pricing (DeAngelo, 1981; DeFond & Zhang, 2014; Tate, 2007).

Audit location represents an additional determinant reflecting regional cost variations in labour markets and operational expenses. Chan et al. (1993) introduced the “London Premium” concept in U.K. audit fee research, documenting significantly higher fees being charged by London-based auditors. Brinn et al. (1994) confirmed this finding, attributing the premium to higher administrative costs, labour costs, and cost-of-living adjustments in metropolitan centres. Francis et al. (2005) reported this to be consistent with the U.S. evidence, documenting 19% premiums for auditors combining firm-wide and city-specific industry leadership. These findings demonstrate that audit pricing

reflects multi-dimensional expertise encompassing industry knowledge, geographic market positioning, and office-level capabilities rather than simply a Big N brand premium.

Audit risk represents another significant factor influencing audit fees, particularly when engagements involve financial distress, going-concern issues, modified audit opinions, or extended audit report lag. These factors are often interrelated, as they each contribute to heightened audit risk and increased auditor effort; consequently, they are associated with higher fees. Geiger and Rama (2003) examined financially distressed U.S. manufacturing firms, reporting that modified audit opinions were strongly associated with elevated fees, reflecting additional procedures required to resolve qualification issues and assess going-concern uncertainties. These authors also find there is no association between non-audit service fees and audit opinion. These findings are consistent with Basioudis et al. (2008), who reported similar results in the U.K. This suggests higher non-audit service fees may result from auditors performing additional work to support companies and help them address financial issues. On the other hand, auditors are more likely to maintain independence to protect their reputation and avoid litigation risks. Sharma and Sidhu (2001) examined bankrupt companies in Australia and found going-concern qualified opinions are less likely to be issued to clients generating higher proportions of non-audit services fees to total fees than to clients generating lower proportions of non-audit services fees to total fees. They argued that the observed relationship does indeed impair auditor independence, as auditors might be reluctant to issue adverse opinions to clients from whom they derive substantial non-audit service revenue. Habib et al. (2019) found that audit report lag is positively associated with modified audit opinions compared to clean audit opinions, as non-clean opinions require auditors to perform additional procedures, resolve conflicts through discussions with clients, and assess going-concern

issues due to the higher likelihood of misstatements. This increased effort ultimately results in higher audit fees. Blankley et al. (2014) found that going-concern modified audit opinions and audit fees both have a positive and significant impact on abnormal audit report lag, indicating the increased complexity and effort required for such engagements. Hay (2013) explained that audit report lag serves as an indicator of audit efficiency, with longer delays often reflecting greater audit difficulties.

3.2 The Determination of Audit Fees for Not-for-Profits

Not-for-profits differ fundamentally from private sector entities in terms of culture, organisational structure, and financial requirements (Tate, 2007). These differences contribute to a distinct audit risk environment that is shaped by sector-specific accounting regulations, financial reporting requirements, and the diverse needs of financial statement users. Consequently, the determinants of audit fees in the charitable sector are likely to diverge from those observed in the private sector.

In the public sector, Beattie et al. (2001) developed a model to examine the factors influencing audit fees for the U.K. not-for-profits. Their findings suggest that the primary determinants of audit fees in this sector are the size and complexity of the not-for-profits. This conclusion is supported by subsequent studies conducted in various jurisdictions, including the U.S. (Vermeer et al., 2009), Australia (Arnold et al., 2017; Yang & Simnett, 2023), and Belgium (Verbruggen et al., 2015). However, Cantoni et al. (2011) challenged this assertion, reporting no significant relationship between complexity and audit fees in U.K. not-for-profits. They argued that the discrepancies in findings may stem from differences in the proxy variables used to measure complexity. For instance, Cantoni et al. (2011) defined complexity through organisational structure,

operational scope, and total numbers of restricted and unrestricted funds, whereas Beattie et al. (2001) used debtors and inventory as proxies.

Audit risk is another critical factor in determining audit fees. Previous research identified several financial indicators that contribute to audit risk, consequently, influence audit fees. Cantoni et al. (2011) found that the accounts receivable-to-total inventory ratio is positively associated with audit fees, reflecting heightened concerns over collectability and revenue recognition. Similarly, Vermeer et al. (2009) reported that financial distress is a significant determinant of audit fees, as financially unstable organisations require more extensive audit procedures to assess going-concern risks. Yang and Simnett (2023) further supported this argument, finding that the debt ratio is positively associated with audit fees, reflecting the increased audit scrutiny required for entities with higher leverage. However, Verbruggen et al. (2015) found that the current ratio and debt-to-total-assets ratio do not significantly impact audit fees. They argued that these variables may be less relevant in a not-for-profit setting due to the lack of profit seeking in the sector, the absence of shareholders and capital market pressures, and the unique regulatory frameworks governing not-for-profit bankruptcy.

The impact of audit opinion and audit report lag on audit fees is also well-documented. The issuance of a qualified audit opinion is consistently associated with higher audit fees, as demonstrated by studies in Australia (Arnold et al., 2017; Yang & Simnett, 2023) and Belgium (Verbruggen et al., 2015). However, the relationship between audit report lag and audit fees remains inconclusive. While prolonged audit completion times typically indicate greater audit effort and complexity (Hay, 2013), Beattie et al. (2001) and Verbruggen et al. (2015) found no significant correlation between report lag and audit fees in the not-for-profit sector. Beattie et al. (2001) argued that not-for-profits

face less pressure to finalise audits promptly and may delay audit engagements to align with periods of lower auditor workload, thereby reducing marginal costs.

The presence of Big N auditors is consistently associated with higher audit fees across various contexts. Previous research, including Beattie et al. (2001), Vermeer et al. (2009), and Basioudis and Ellwood (2005), has documented a significant audit fee premium for Big Ns, often attributed to their reputation, perceived audit quality, and expertise in handling complex audits. Basioudis and Ellwood (2005) further examined audit fee differentials by comparing fees charged by external auditors and auditors appointed by the Audit Commission in the U.K.'s National Health Service (NHS), finding that Big 5 firms charge an 8.3% premium compared to other external auditors. However, when total auditor remuneration, including performance management service fees and non-audit service fees, is considered, the premium is no longer significant, suggesting that market structure and regulatory constraints influence audit fee structure in the public sector. Yang and Simnett (2023) provided recent Australian evidence documenting that Big 4 firms deliver measurably superior audit quality while commanding fee premiums. Their analysis revealed that Big 4 auditors prove significantly more likely to issue going-concern opinions when financially appropriate compared to non-Big 4 firms, indicating greater professional independence and audit effectiveness.

Not-for-profit audit markets exhibit substantially lower concentration than private sector markets. Beattie et al. (2001) documented that auditor concentration in the U.K. not-for-profit sector is lower than in the for-profit sector. This lower concentration theoretically increases competitive pressure, potentially suppressing fee levels.

Consistent with this market structure effect, Beattie et al. (2001) reported that overall audit fee rates for not-for-profits approximate only 50.0% of comparable private sector

engagement fees. They proposed multiple explanations for this substantial fee discount: lower market concentration may reduce monopoly pricing power that Big N firms command in concentrated profit sector; auditors may partially discount fees as quasi-charitable contributions supporting not-for-profit missions; and the perceived lower audit risk in heavily regulated, not-for-profit distribution environments may justify reduced risk premiums in audit fees.

Several studies have explored the relationship between non-audit service fees and audit fees. Beattie et al. (2001) found a significant positive association, consistent with findings from Cantoni et al. (2011), Vermeer et al. (2009), and Arnold et al. (2017). Cantoni et al. (2011) further observed that in “service delivery” not-for-profits, non-audit service fees exhibit a highly significant relationship with audit fees, as these organisations frequently require additional consulting services. However, Yang and Simnett (2023) and Verbruggen et al. (2015) argued that non-audit service fees do not significantly impact audit fees, suggesting that differences in results may stem from national variations.

From the auditor attributes side, Tate (2007) examined auditor switching in not-for-profit organisations in the U.S. She argued that the motivation for changing auditors may stem from not-for-profit organisations seeking either lower audit fees or higher audit quality from specialist auditors. The results indicate that organisations that have switched auditors incur higher audit fees compared to organisations that have retained the same auditor. This suggests that organisations that have switched auditors are more likely to have statistically significant findings, reportable conditions, material noncompliance, and going-concern opinions, highlighting their higher audit risk and complexity. Garven et al. (2018) used unexplained audit fees as a proxy to examine the relationship between audit fees and audit quality, finding a significant positive

relationship. Unexplained audit fees refers to the difference between actual and estimated audit fees. Thus, it may imply that unexplained higher audit fees may reflect greater auditor effort and additional procedures undertaken to enhance the quality of financial reporting. Beattie et al. (2001) also highlighted the impact of auditor location on audit pricing, finding that London-based auditors charge higher fees due to cost-of-living adjustments and market competition. Basioudis and Ellwood (2005) and Ellwood and Garcia-Lacalle (2015) further refined this analysis, finding that the “London Premium” is only significant for auditors appointed by the Audit Commission rather than external auditors.

Finally, Beattie et al. (2001) emphasised that the operational nature of a not-for-profit can also reflect its complexity. Specifically, they highlighted that fundraising not-for-profits require more extensive auditing procedures than grant-making not-for-profits, particularly in relation to income verification and financial controls. Due to the inherent challenges in verifying diverse revenue streams and ensuring financial accountability, the greater audit effort required for fundraising not-for-profits results in higher audit fees. Vermeer et al. (2009) extended this analysis using resource dependence theory, arguing that organisations reliant on external funding, such as donors, creditors, and government agencies, require additional audit procedures. These external resource dependencies increase audit risk, thereby leading to higher audit fees. However, their study found no significant relationship between the donor contribution ratio and audit fees. They suggested that this may be attributed to the relatively low magnitude of donor contributions, which account for only 8% of total revenue in their sample. Yang and Simnett (2023) supported this perspective, reporting that audit fees are positively associated with the proportion of government funding but negatively associated with the ratio of donation revenue.

3.3 Accounting and Auditing Regulation Change and Audit Fee

The dominant framework for analysing audit fees originates from Simunic (1980), who conceptualised audit costs as comprising both the cost of audit effort and an anticipated loss component. This highlights that auditing is inherently risk-based, requiring auditors to assess the risks associated with financial statements and adjust their efforts accordingly. Therefore, auditors play a crucial role in ensuring compliance with legal and regulatory requirements (Evans & Schwartz, 2014). Heightened regulatory scrutiny often results in a significant increase in audit fees, as auditors may respond in one of two ways: they may transfer the risk of material misstatement to their clients by charging a risk premium, or they may intensify their audit efforts to enhance audit quality and mitigate risk, thereby increasing fees (DeFond & Zhang, 2014).

Xu (2025) explored the relationship between regulatory burden and audit fees using a measure of regulatory intensity, finding a positive association between them. This suggests that more stringent regulatory requirements contribute to increased complexity in regulatory compliance, necessitating more extensive and specialised audit procedures. Consequently, audit firms may need to hire auditors with specialised knowledge and expertise or provide further training to ensure their staff are well-versed in evolving regulatory demands. Additionally, auditors may perceive greater audit risk due to the complexity and stringency of regulations, leading to higher fees to account for potential liability exposure. Despite the auditors' increased effort to mitigate the litigation risk, Xu (2025) argued that the residual risk may still remain because complete risk elimination is unachievable, even when auditors have fully complied with auditing standards.

Zhu and Sun (2012) contended that changes in accounting standards and audit regulations can directly affect audit fees, as they influence the nature of audit tasks and the associated risks. Any modification in accounting standards typically alters the auditors' working processes, subsequently impacting both audit risk and audit fees. This effect underscores the critical relationship between regulatory shifts and audit-related costs. Furthermore, such regulatory changes may have both short-term and long-term effects on audit fees.

In most cases, the changing of accounting standards and audit regulations involves stricter and more extensive disclosure requirements. Notable adoptions of regulations, such as the International Financial Reporting Standards (IFRS) and the U.S. federal Sarbanes–Oxley Act of 2002 (SOX), impose more rigorous standards for financial reporting and audit procedures. These regulatory frameworks are designed to enhance transparency and accountability, but they often lead to increased audit effort and complexity, as a result, a higher audit fees.

According to De George et al. (2013), audit fees serve as a direct and observable economic measurement for assessing the impact of changes in accounting standards. They found an abnormal increase in the audit fees after the implementation of IFRS in Australian public companies. They identified two main drivers behind the increased audit effort and increased fees following IFRS adoption. First, the auditors required additional knowledge to be applied to ensure the new standards had been appropriately implemented. These additional efforts are not only related to examining the auditee's financial statements but also necessitate auditors themselves investing more time and resources in becoming proficient with the new accounting standards. Thus, the transition costs, particularly in the first year of IFRS adoption, lead to greater auditing efforts which increase the audit fee. Second, auditors are likely to face greater risks related to the potential for material misstatements in financial statements which, in turn, increase the

likelihood of litigation risk. For example, IFRS places significant emphasis on fair value measurement, which introduces greater subjectivity, professional judgment, and discretion into financial reporting. This increased subjectivity elevates the risk of errors and audit failures, thereby raising the potential for litigation and reputational damage for auditors (De George et al., 2013).

A large body of research examines the relationship between the adoption of IFRS and audit fees from different perspectives. For example, IFRS requires auditors to exercise greater professional judgment, particularly with fair value measurement and impairment testing, which in turn increases audit risk and effort (De George et al., 2016; Hay et al., 2023; Kim et al., 2012; Miah et al., 2020). Similarly, IFRS mandates more detailed and comprehensive disclosure requirements, imposing an additional burden on both clients and auditors (Griffin et al., 2009; Higgins et al., 2016; Kim et al., 2012; Miah et al., 2020). Future, IFRS increases the marginal audit risk, which is driven by the old and newly reformed accounting standards (Zhu & Sun, 2012). The increased audit fee is associated with the pre-adoption, transitions, and post-adoption years (De George et al., 2013; Griffin et al., 2009; Higgins et al., 2016), and is caused by an increase in audit hours despite a decrease in audit fee rate (Kang et al., 2021).

De George et al. (2016) highlighted the point that the rise in audit fees observed during IFRS implementation in the European Union was not solely due to IFRS but also to broader regulatory reforms that enhanced enforcement mechanisms. Kim et al. (2012) found that the IFRS-related audit fee premium was positively correlated with the degree of differences between a country's previous local Generally Accepted Accounting Principles (GAAP) and IFRS. These findings suggest that any change in accounting and auditing regulations will impact on the audit fees, and the greater the discrepancies

between the previous and new accounting standards, as well as changes to introduce stricter regulation and enforcement, the higher the audit fees that firms are likely to incur.

Beyond IFRS, SOX represents a pivotal regulatory reform that has significantly influenced audit fees. Research has consistently found a substantial increase in audit fees following SOX implementation, driven by stricter oversight mechanisms, expanded audit scope, and heightened legal liability for auditors (Evans & Schwartz, 2014; Ghosh & Pawlewicz, 2009; Huang et al., 2009; Salman & Carson, 2009). For example, Ghosh and Pawlewicz (2009) found that audit fees increased by approximately 74.0% in the U.S. post-SOX period, and Salman and Carson (2009) found that Australian firms listed on U.S. exchange faced a 37.3% greater increase in audit fees compared to other firms. Specifically, provisions such as section 103, which mandates a seven-year retention period for audit work, and section 404, requiring auditors to assess management's internal control over financial reporting, have significantly intensified audit procedures and effort, thereby elevating audit costs. This shift away from audit fee discounting post-SOX further underscores how auditors recalibrated their risk-pricing models in response to increased regulatory scrutiny (Huang et al., 2009).

Following the enactment of SOX, the U.S. established the Public Company Accounting Oversight Board (PCAOB) to oversee and inspect audit firms, thereby influencing audit fees and audit quality. Tanyi and Litt (2017) emphasised that PCAOB inspections enhance public confidence in auditing by compelling auditors to allocate greater resources to compliance, resulting in higher audit fees. The frequency of inspections further influences audit effort, with firms subject to annual inspections incurring greater costs than those under the triennial cycle. Similarly, Mohapatra et al. (2022) provided international evidence from China, demonstrating that PCAOB registration correlates with increased audit fees and improved audit quality. This suggests that heightened

regulatory scrutiny universally necessitates greater audit effort, reinforcing the intrinsic link between regulatory compliance, audit risk, and audit fees.

Shaw and Terando (2018) examined cumulative regulatory effects, analysing the combined impacts of SOX, the 2008 financial crisis, and the Dodd-Frank Act within the banking sector. Their findings reveal that regulatory reforms, rather than macroeconomic events, primarily drive audit fee increases. Their conclusion aligns with Evans and Schwartz (2014), who confirmed that audit fee increases in the U.S. reflected regulatory pressures rather than market concentration changes. This evidence suggests that regulatory tightening effects dominate other fee determinants during periods of major institutional change.

In the New Zealand context, regulatory provisions such as the Auditor Regulation Act 2011 have contributed to variations in audit fees. Hay et al. (2023) found that audit fees increased following the implementation of this Act, particularly for small listed companies, due to the Financial Markets Authority's extensive review and adjustment of audit inspection requirements. This indicates that smaller firms may face heightened regulatory scrutiny, prompting auditors to allocate additional resources to mitigate compliance risks. However, Al-mulla and Bradbury (2022) expected that introducing Key Audit Matters (KAMs) under International Standard on Auditing (New Zealand) 701 would increase fees by requiring auditors to disclose significant financial reporting risks, thereby enhancing transparency. However, their findings reveal no significant associations between KAM disclosures and audit fees, suggesting that client resistance to higher fees may cause auditors to absorb incremental costs within existing profit margins rather than passing them to clients. This evidence highlights the point that regulatory changes do not universally translate into proportionate fee adjustments when competitive pressures or client price sensitivity constrain auditor pricing power.

In contrast to the extensive research examining regulatory tightening effects, substantially less evidence addresses whether deregulation or standard relaxation produces fee reductions. The limited number of studies available suggest more ambiguous relationships than the consistently positive tightening–fee associations. For instance, the adoption of Auditing Standard No. 5 (AS5) in the U.S. led to a decline in audit fees (Krishnan et al., 2011), primarily due to its shift toward a risk-based approach for evaluating internal controls. By replacing the prescriptive requirements of AS2, AS5 allowed auditors to focus on high-risk areas rather than conduct exhaustive testing of all controls, thereby reducing audit scope and effort (Doogar et al., 2010; Wang & Zhou, 2012). Krishnan et al. (2011) documented that this regulatory simplification produced audit fee declines, demonstrating that streamlined audit requirements can enhance efficiency while lowering compliance costs.

A similar pattern emerged in New Zealand following the adoption of Financial Reporting Standard No. 44 (FRS 44). Grosse et al. (2024) found that aligning accounting and auditing disclosure requirements under FRS 44 was associated with lower audit fees, particularly for firms experiencing financial distress. By mandating additional disclosures related to managerial assessments of going-concern risks, FRS 44 effectively reduced the need for auditors to apply extensive professional scepticism in assessing going-concern issues. This alignment between financial reporting and audit expectations appears to ease auditor–client tensions by encouraging clients to improve their preparation for going-concern analysis, thereby minimising additional audit effort. More broadly, Eierle et al. (2022) argued that when external reporting requirements provide auditors with clearer insights into client risks, the audit process becomes more efficient, leading to cost reductions.

Beyond standard-setting, the broader deregulation of the audit profession has also been associated with declining audit fees. Kinney (2005) documented a long-term decrease in audit fees in the U.S. throughout the 1980s, attributed to the relaxation of regulatory constraints prior to the introduction of SOX in 2002. This finding suggests that any relaxation of audit standards can lead to lower audit fees by reducing both perceived audit risk and the level of effort required in audit procedures. In addition, the deregulation of professional standards can intensify competition in the audit market, further contributing to fee reductions. Evidence from Maher et al. (1992) showed that real audit fees, after adjusting for inflation, declined in the U.S. between 1977 and 1981, following changes in the Code of Professional Ethics in 1972. Similarly, Crittenden et al. (2003) found that audit fees declined in the U.K. after the removal of allegedly anti-competitive professional regulations restricting competitive bidding in 1984. Craswell et al. (2000) observed real fee decreases among Australian Big 8 clients following the removal of advertising and publicity restrictions in the early 1980s—changes that also increased auditor switching frequency, suggesting heightened competitive intensity.

However, Hay and Knechel (2010) provided evidence from New Zealand suggesting that the deregulation of advertising and solicitation in the audit market had a more nuanced effect. Contrary to expectations, their findings indicate that the removal of advertising restrictions was associated with an increase in audit fees. They argued that this outcome reflects the differentiation strategies employed by Big 8 firms, which leveraged advertising to highlight the quality and product differentiation of their audit services, thereby sustaining higher fees. This suggests that while deregulation can drive competition and lower audit fees in some contexts, its effects may be counterbalanced by firms' ability to differentiate their services and maintain pricing power in the competitive market.

3.4 Accounting and Auditing Regulation Changes and Audit Fee for Not-for-Profits

Research examining regulatory change effects on not-for-profit and public sector audit fees remains limited compared to evidence from for-profit contexts, but available studies consistently document that increased reporting requirements increase audit fees in public and not-for-profit sectors. Redmayne and Laswad (2013) examined New Zealand local councils adopting IFRS. Using detailed data on audit hours and billing rates, they provided more precise estimates of changes in audit fees and effort attributable to IFRS implementation. Their findings reveal significant increases in both audit fees and effort during the first year of IFRS implementation. Critically, the relationship between effort and fees is nonproportional, as local council audit fees rose 19.0% while audit hours increased 47.0%, suggesting that some of the additional costs associated with IFRS adoption may not have been fully passed on to clients. The authors proposed that firms mitigate costs by employing junior auditors while simultaneously increasing work requirements. This strategy highlights how competitive or relationship considerations may prevent full cost pass-through even when effort substantially increases.

In researching the not-for-profit sector, Neely (2011) investigated the impact of California's Nonprofit Integrity Act of 2004 on audit fees. The act introduced additional reporting requirements designed to improve accountability and mitigate fundraising abuse. He found that audit fees increased by approximately 15.0% of median audit fees following reform. Mayapada et al. (2024) examined the 2015 introduction of new not-for-profit accounting standards in the U.K., providing direct evidence on how regulatory tightening affects not-for-profit audit fees. They documented substantially higher audit fees following the reform, which were driven by expanded disclosure requirements for

charity activities, governance structures, principal risks and uncertainties, mitigation strategies, and enhanced public benefit demonstrations. The study emphasises that accounting standards serve as benchmarks for financial statement evaluation, meaning that standard changes fundamentally influence audit processes by reshaping how auditors assess reports and determine service costs. The additional time and resources required to verify expanded disclosures and evaluate new compliance dimensions directly translated into higher audit fees, confirming that increased regulatory complexity affects not-for-profit audit costs.

Similarly, Chen and Scott (2025) provided particularly relevant evidence for this study, investigating the adoption of the SSP by New Zealand Tier 1 and Tier 2 not-for-profits from January 1, 2022. Their findings indicate 14.5% audit fee increases in the first year of SSP adoption, which exceeded the 11.0% first-year increase observed for New Zealand listed companies adopting IFRS (Higgins et al., 2016). This larger proportional impact suggests that the auditing of non-financial performance information involves inherently greater complexity and effort than traditional financial statement audits. SSP assurance requirements necessitate detailed scrutiny and evaluation by auditors. This includes assessing the quality and accuracy of reported non-financial information, which is inherently more subjective than financial data. Additionally, they found no significant audit lag or filing lag associated with SSP adoption, suggesting that fee increases reflect substantive additional assurance requirements rather than auditor learning curves.

3.5 Voluntary Reporting Choices in Not-for-Profits

An important yet underexplored dimension of not-for-profit financial reporting concerns the gap between regulatory requirements and actual reporting practices. Yang and

Simnett (2020) provided critical evidence that not-for-profits do not share identical motivations and economic incentives for financial reporting as private entities, yet paradoxically they often voluntarily maintain more comprehensive reporting frameworks than are legally required.

Examining large Australian not-for-profits, Yang and Simnett (2020) documented that many not-for-profits decline to adopt Reduced Disclosure Requirements despite regulatory permission, instead voluntarily maintaining full General Purpose Financial Statement (GPFS) requirements. Their analysis reveals that not-for-profits with wider stakeholder groups, greater donation income ratios, greater economic and political importance, and higher indebtedness levels prove significantly more likely to maintain comprehensive reporting frameworks. This voluntary choice reflects the possibility that donors and grant providers may explicitly or implicitly expect comprehensive financial reporting as funding conditions; competitive positioning in fundraising markets may compel transparency signalling through more comprehensive reporting; and organisational legitimacy concerns may lead managers to align with sector norms regardless of regulatory minimums. This finding is particularly relevant for understanding how not-for-profits may respond to regulatory change. When thresholds are revised to permit lower-tier reporting, formal eligibility does not guarantee actual adoption if institutional pressures constrain practical utilisation.

3.6 Hypothesis Development

The extant literature consistently demonstrates that changes in accounting and auditing standards influence audit effort, complexity, and risk exposure, which in turn impact audit fees. A substantial body of research has established that regulatory tightening, where more rigorous accounting and auditing standards are introduced, tends to drive up

audit fees due to increased compliance costs, heightened professional scepticism requirements, and expanded auditor responsibilities (DeFond & Zhang, 2014; Hay et al., 2006). These studies highlight the point that enhanced disclosure and audit procedures require additional auditor effort, leading to higher fees. Extensive empirical evidence confirms this positive relationship between regulatory tightening and audit fees across diverse contexts including IFRS adoption (De George et al., 2013; Kim et al., 2012), SOX implementation (Ghosh & Pawlewicz, 2009), and not-for-profit reforms (Chen & Scott, 2025; Mayapada et al., 2024).

While numerous studies examine how regulatory tightening affects audit fees, whether regulatory relaxation produces fee reductions remains empirically unexplored in the not-for-profit sector. This gap is particularly consequential given the widespread adoption of differentiated regulatory frameworks explicitly designed to calibrate compliance requirements to organisational capacity (Cordery et al., 2017). If simplified reporting requirements do not translate into observable audit fee reductions, then the fundamental cost–benefit rationale underlying tiered regulation—that smaller, less complex not-for-profits should face proportionately lower compliance burdens—fails to materialise in practice.

Theoretically, simplified reporting requirements should reduce required audit effort through multiple mechanisms: fewer disclosure items necessitate less substantive testing; simplified recognition criteria reduce judgment complexity and associated verification procedures; and lower regulatory stringency may decrease perceived audit risk and liability exposure. Yet whether these theoretical cost savings materialise in audit fee reductions depends critically on how audit markets function and how auditors respond to regulatory changes.

Several theoretical and institutional mechanisms may prevent theoretical audit effort reductions from translating into proportionate fee decreases, particularly in the short-term following tier transitions. First, Yang and Simnett (2020) demonstrated that many not-for-profits voluntarily maintain comprehensive reporting frameworks despite regulatory permission to simplify, driven by stakeholder expectations, competitive fundraising pressures, and organisational legitimacy concerns. This voluntary conservatism suggests that formal tier eligibility may not shift into actual lower-tier adoption. If impacted not-for-profits maintain higher-tier reporting content despite formal tier transitions, or if auditors recommend sustaining certain procedures to satisfy perceived stakeholder needs, then the relationship between regulatory tier and audit effort becomes attenuated.

Second, Chen and Scott (2025) emphasised that regulatory changes create transitional costs. Their documentation of 14.5% audit fee increases following SSP adoption reveals that the first year of implementation required developing new working papers, templates, and materiality frameworks. While transition to lower tiers theoretically simplify rather than complicate reporting, similar transitional preparations may be necessary: auditors must develop tier-appropriate audit programmes, establish new documentation standards, and determine appropriate evidence thresholds for simplified reporting frameworks. These setup costs may temporarily be offset or delay fee reductions from reduced audit effort.

Finally, De Villiers et al.'s (2013) audit fee stickiness theory suggests that audit fees may not adjust immediately or proportionately to reductions in audit effort. Audit fees are known to adjust asymmetrically, decreasing approximately half as quickly as they increase in response to corresponding changes in fee determinants. Consequently, any reduction in audit effort arising from a tier change may not translate into an immediate

decrease in audit fees. Instead, the effect may appear as an absence of future fee increases, rather than a direct downward adjustment.

This study examines the effects of deregulation in the not-for-profit sector by focusing on threshold changes that allow not-for-profits with operating expenditure between \$2 million and \$5 million to shift from Tier 2 (PBE IPSAS RDR) to Tier 3 (PBE SFR-A) reporting standards. This regulatory change represents a material simplification across multiple financial reporting dimensions with direct implications in requiring fewer audit procedures. For example, under the Tier 3 reporting standard, goods and services (and other non-cash assets) received in kind are not required to be recorded; and donations, grants and government funding are recorded as revenue when received unless there is a “use or return” condition attached to the revenue (XRB, 2024c).

The elimination of these requirements removes the need for auditors to verify fair value estimates for donated items, assess recognition criteria for volunteer services, test controls over in-kind contribution recording, distinguish between exchange and non-exchange transactions, assess performance obligations, and evaluate restriction enforceability. Consequently, this transition is expected to lead to a decrease in audit fees.

Given the theoretical and empirical evidence discussed, this study posits that transitioning to a lower reporting tier reduces audit fees due to decreased reporting complexity and audit risk. However, the extent of cost savings may be tempered by audit fee stickiness, voluntary reporting conservatism and stakeholder pressure, and the transitional costs associated with new accounting and auditing standards. Thus, the following hypothesis is proposed:

H1: There is a decrease in audit fees post-tier change for impacted not-for-profits under updated tier-threshold reform

Chapter 4 Research Method

4.1 Sample

The sample was based on not-for-profit entities that could shift from Tier 2 to Tier 3 after the change in threshold levels. Under the updated threshold, not-for-profits with annual operating expenditure between \$2 million and \$5 million are eligible to shift from Tier 2 to Tier 3 for effective reporting periods ending on or after 31 March 2024. The sample was drawn from both the 2023 (pre-change) and 2024 (post-change) financial years to ensure a consistent one-year pre- and post-change comparison, and also because not-for-profits have a range of balance sheet dates across both of years. To be included in the sample, not-for-profits must have filed an annual report, including the audit report, for both years.

Table 3 explains the sample selection procedure. The initial sample comprises not-for-profits that report under Tier 2 with an annual operating expenditure between \$2 million and \$5 million during the 2023 or 2024 financial years. The selection therefore began with an initial dataset of 1,141 entity-year observations extracted from the New Zealand Charities Service Register, as New Zealand Charities Service has a mandatory requirement for all not-for-profits to file annual reports with audit reports (if applicable). I excluded 445 not-for-profits that only have one single year of financial information, which meant there were not available for pre- and post-change comparison. The missing values for necessary audit fees and audit report information in this study reduced the sample by a further 268 observations. In addition, one not-for-profit with public

accountability¹ was excluded from final sample, leaving a total of 424 observations consisting of 212 not-for-profits.

The control variable of financial data was directly download in a Microsoft Excel form via the New Zealand Charities Advanced Search function. The missing values in the financial data were hand-collected from organisations' annual reports, which are available on the New Zealand Charities Service Register. Audit-related data—the audit fee amount, type of audit opinion and name of audit firm—were hand-collected from each not-for-profit's annual report and auditor's report.

4.2 Regression Model

The analysis used a traditional audit fee regression model to estimate the audit effort with determinants from previous literature (Chen & Scott 2025; Simunic 1980; Yang & Simnett, 2023), controlling for differences in the size and complexity of not-for-profits, auditor attributes, audit difficulties, and other changes in the financial and auditing reporting environment. Due to relatively small sample size, the following regression model was used:

$$\begin{aligned} LnAF = & \beta_0 + \beta_1 POST + \beta_2 CHANGE + \beta_3 POST * CHANGE + \beta_4 LnTA + \beta_5 LnEXP \\ & + \beta_6 ARINV + \beta_7 CASHTA + \beta_8 TLTA + \beta_9 LOSS + \beta_{10} DONATION \\ & + \beta_{11} GRANTS + \beta_{12} CLEAN + \beta_{13} BIG7 + \beta_{14} CITYCOST \\ & + \beta_{15} SECTOR + \varepsilon \end{aligned}$$

Table 4 defines all variables and the expected signs of their relationship with the audit fees. First, *LnAF* is specified as the dependent variable, which measures the natural logarithm of audit fees reported in annual report. Next, *POST* is specified as a binary

¹ As this non-for-profit has public accountability, it is required to report using the Tier 1 accounting standards.

variable that takes the value of 1 if the annual report is for the period beginning on or after 1 January 2024. The interaction *POST*CHANGE* is the key variable of interest; it equals 1 if the not-for-profit shifted from Tier 2 to Tier 3 and the annual report is for the period beginning on or after 1 January 2024 (i.e., after the revision of operating expense thresholds, and involves the not-for-profits applying the PBE SFR-A instead of IPSAS RDR). I expect a significantly negative coefficient on *POST*CHANGE* if my hypothesis is supported.

In addition to the main variables, drawing on well-established audit fee literature in both the private and not-for-profit sectors, I included various client and auditor characteristics known to influence the natural log of audit fees.

Organisational Size: Auditee size is a primary driver of audit costs; larger entities tend to incur higher fees. Previous studies in the for-profit sector (Gerrard et al., 1994; Palmrose, 1986; Simunic, 1980) and the not-for-profit sector (Vermeer et al., 2009; Yang & Simnett, 2023) consistently find entity size to be the strongest predictor of audit fees. *LnTA*, the natural logarithm of total assets, is used as a primary size proxy. However, applying this to not-for-profits is not straightforward due to their unique income sources and asset compositions (Beattie et al., 2001). In New Zealand, regulators classify not-for-profit size by both assets and expenses (Chen & Scott, 2025; Cordery et al., 2017). The natural logarithm of total expenditure (*LnEXP*) is included as a second size measure. By incorporating both *LnTA* and *LnEXP*, I captured the not-for-profit's financial magnitude as well as its operational scale, which is especially relevant given that the tiers threshold revision is based on operating expenditure.

Assets Composition and Complexity: Two variables are used to proxy the complexity and nature of a not-for-profit's resources, which can affect the audit effort. The ratio of

accounts receivable and inventory to total assets (*ARINV*) is included to capture asset complexity and potential valuation or internal control risk. Similarly, the ratio of cash to total assets (*CASHTA*) is also included, as cash-driven not-for-profits may face distinct audit challenges. High proportions of receivables, inventory and cash typically demand more audit effort—these “difficult-to-audit” accounts are associated with greater audit risk and higher fees. Hay et al. (2006) reported that significant receivables and inventories require more extensive audit testing in the private sector. In not-for-profits, receivables and inventory are among the areas most prone to internal control weaknesses, with a lack of robust control over cash income, which leads to an audit opinion issue as cash transactions are associated with a high level of risk (Vermeer et al., 2009).

Financial Condition and Risk: It is important to control for a not-for-profit’s financial health, as auditors may adjust fees for clients under financial stress or with a going-concern risk. Following Chen and Scott (2025), two variables are included: the leverage ratio, the ratio of total liabilities to total assets (*TLTA*); and the dummy variable (*LOSS*), coded as 1 if total expenses exceed total revenue to capture the financial risk. In the private sector, meta-analyses have found that clients with a higher risk of failure (e.g., sustained losses or high debt) tend to be charged higher fees due to greater audit effort and auditor risk exposure (Hay et al., 2006). This is also found in not-for-profit sectors (Vermeer et al., 2009). In addition, Chen and Scott (2025) argued that not-for-profits often operate as service providers rather than profit-seekers, so a short-term operating loss is relatively common and not necessarily viewed as a serious risk by auditors. However, persistent operating losses could raise long-term going-concern issues.

Revenue Structure: I also controlled for the composition of a not-for-profit’s revenue, as different funding sources carry different risk implications and audit considerations

(Beattie et al., 2001). Not-for-profits often have more diverse income streams than for-profit firms, including donations from the public, grants from governments or foundations, and revenue from the sale of goods or services. A fundraising-focused not-for-profit that relies heavily on donations may experience greater volatility and uncertainty in revenues, as donations can fluctuate year to year and often involve cash handling and public fundraising campaigns. In contrast, a grant-driven not-for-profit may enjoy more stable, predictable funding such as multi-year government grants, potentially reducing audit complexity related to revenue recognition and donor restrictions (Beattie et al., 2001; Yang & Simnett, 2023). To account for these different revenue structures, two control variables were included: the ratio of donation to total revenue (*DONATION*), and the ratio of grants to total revenue (*GRANTS*).

Audit Opinion Outcome: Previous research uses the presence of a modified audit opinion as an indicator of significant audit issues or risks encountered (Hay et al., 2006). Thus, I included a binary variable that takes the value of 1 if there is no modification on the audit report (*CLEAN*), including the Other Matter paragraph. This definition excludes an audit report containing an Emphasis of Matter paragraph, as such a disclosure highlights areas of significant auditor attention and potential risk. However, a report containing an Other Matter paragraph is classified as *CLEAN*. The Other Matter paragraph typically discloses the fact that the corresponding service performance information for 2022 was unaudited, which does not inherently reflect increased audit risk or necessitate additional audit effort (Chen & Scott, 2025).

Auditor Attributes: Finally, two variables are included for auditor characteristics known to impact fees. A Big 4 audit firm tends to charge a premium for its services. A large body of literature documents a Big 4 fee premium in various settings (Beattie et al., 2001; Francis, 1984; Hay, 2013; Palmrose, 1986; Vermeer et al., 2009; Yang &

Simnett, 2023). This premium is usually attributed to the Big 4's greater expertise, reputation for higher audit quality, and higher cost structures. In line with the structure of the New Zealand not-for-profit audit market, auditors have been classified into a broader group of major providers. The binary variable *BIG7* equals 1 if the auditor is one of the four largest international firms (Deloitte, EY, KPMG, or PwC) or one of the three prominent mid-tier firms with larger market presence in not-for-profit sector (BDO, Grant Thornton, or Baker Tilly), and 0 otherwise. Another auditor-related factor is the geographic location of the audit. Audit costs and pricing can vary by location due to differences in labour costs and market competition (Chan et al., 1993). Beattie et al. (2001) noted that, in their U.K. not-for-profit sample, higher audit fees were encountered in one major metropolitan centre in comparison to other regions, consistent with a cost-of-living adjustment and concentrated competition driving up fees. In New Zealand, Auckland is the largest metropolitan area and financial centre, where operating costs for audit firms (and auditor salaries) are generally higher than elsewhere in the country. Chen and Scott (2025) suggested that location-based cost differences may be amplified in the not-for-profit sector, as not-for-profits (and their auditors) are more dispersed across urban and rural areas, depending on community needs. To capture this effect, I included *CITYCOST*, a dummy variable equal to 1 if the audit engagement is based in Auckland (e.g., the not-for-profit's main office is in Auckland) and 0 for audits conducted in other regions.

Chapter 5 Results

5.1 Descriptive Statistics

Table 5 presents descriptive statistics for the full sample of 424 entity-year observations across the 2023 and 2024 reporting periods. By design, the sample is evenly split between the pre- and post-tier change periods. Approximately 15.6% of the not-for-profits (33 not-for-profits with 66 observations) immediately shifted to a lower reporting tier in 2024. The relatively small proportion of not-for-profits that shifted tiers may reflect several constraints or strategic considerations. First, eligibility for shifting to the lower tier depends on the entity's balance date and the transitional rules, which require not-for-profits to remain within the \$2 million to \$5 million operating expenditure band for two consecutive reporting periods. Many not-for-profits may not yet have satisfied these timing and eligibility conditions. Second, some not-for-profits may be reluctant to adopt a reduced disclosure framework due to stakeholder expectations. Donors and grant providers, as key external users, rely heavily on financial statements to assess a not-for-profit's credibility, governance quality, and resource efficiency. Connolly and Hyndman (2013) identified donors as the most influential stakeholder group for fundraising not-for-profits, noting that accounting guidance is largely directed toward meeting their information needs. A move to a less comprehensive reporting framework may therefore be perceived negatively, potentially undermining public trust and confidence (Yang & Simnett, 2020). Finally, certain grant agreements explicitly mandate the use of higher levels in financial reporting frameworks. Yang and Simnett (2020) found that Australian not-for-profits receiving a larger proportion of government funding are more likely to prepare Tier 1 GPFS, partly

because “some government grants require their acquittal through the preparation of Tier 1 GPFS” (p. 337).

The mean and median audit fees in the sample are \$14,601 and \$10,963, respectively. In terms of organisational size, the average total assets amount to \$12.2 million, with a median of \$3.9 million. A comparison with Yang and Simnett’s (2023) study of Australian not-for-profit organisations shows broadly similar audit fees (mean A\$18,000; median A\$11,000) and a comparable median level of total assets (A\$4.6 million). However, their sample shows a larger mean total asset (A\$21.9 million), indicating a more size-skewed asset distribution among Australian not-for-profits. In the present study, the mean and median total expenditure are \$3.3 million and \$3.2 million, reflecting a concentration around the \$2 million to \$5 million expenditure band.

On average, accounts receivable plus inventory comprises 10.4% of total assets, compared with 33.0% reported by Chen and Scott (2025), suggesting that the not-for-profits in this sample are more focused on delivering services. The ratio of cash and cash equivalents to total assets averages 30.5%, which is similar to the 23.0% recorded for Tier 1 and Tier 2 not-for-profits in Chen and Scott (2025), highlighting the high liquidity characteristic of “classic” not-for-profits (Cordery et al., 2017). The mean ratio of total liabilities to total assets is 27.8%, compared with 54.0% in New-Zealand-listed companies (Al-mulla & Bradbury, 2022), reflecting the risk-averse governance common in the not-for-profit sector, where preserving donor trust and the stability of not-for-profits are prioritised over debt-funded expansion. Of the not-for-profits in the sample, 33.3% reported a loss, which is similar to the 28.0% in Chen and Scott (2025) and 26.7% in Yang and Simnett (2023). With respect to the revenue composition of donations and grants, the results show mean *DONATION* is 13.2% of total revenue, this is similar to the 11.6% reported in Yang and Simnett (2023). However, the mean

GRANTS is 11.4%, compared to 43.5% in Australian larger not-for-profits (Yang & Simnett, 2023). This difference may reflect that the more limited government funding resources available to the smaller not-for-profits in New Zealand compared with larger size not-for-profits in Australia. *CityCost* shows that 22.6% of not-for-profits in the sample are located in Auckland, consistent with Chen and Scott's (2025) finding that 54.0% of Tier 1 not-for-profits and 31.0% of Tier 2 not-for-profits are located in Auckland, based on their test-of-differences results. This suggests that larger not-for-profits are more likely to be located in metropolitan areas, reflecting both higher demand for services and greater access to diverse revenue sources. In untabulated results, I found that only 1.0% of not-for-profits in the sample (two entities) incurred non-audit service fees. This pattern reflects the sector's prioritisation of mission-driven spending and the limited resources available for ancillary services such as non-audit engagements (Yang & Simnett, 2023).

Panel A of Table 6 presents the results of a Student's *t*-test comparing the not-for-profits that remained in Tier 2 with the 33 not-for-profits that shifted from Tier 2 to Tier 3. Audit fees do not differ significantly between those groups, suggesting tier shifting does not immediately produce cost reductions. However, *BIG7* is significantly different between those groups, indicating not-for-profits that changed tiers are less likely to engage Big 7 auditors. This finding may imply that the not-for-profits that shifted to lower tier are relatively smaller or less complex entities that, under relaxed regulatory requirements, demonstrate a greater propensity to choose lower-cost auditors. Aside from these differences, all other variables remain statistically insignificant, implying that the tier transition did not materially alter the financial or operational characteristics of these not-for-profits after they shifted to Tier 3 from Tier 2. Similarly, Panel B compares the means of key variables between the pre- and post-change periods for the

full sample of not-for-profits (212 not-for-profits with 424 observations). The results show that *EXP* and *LnEXP* exhibit statistically significant differences, while all other variables remain insignificant. This indicates that not-for-profits in the post-change period report higher levels of operating expenditure.

Panel C summarises the sectoral distribution of the sample based on not-for-profits' self-reported primary sector classification from the Charities Register. It shows the most common sector is health (23.1%), followed by social services (17.9%), and education/training/research (13.7%). These three sectors together account for over half the sample, which implies these not-for-profits are more likely to provide service performance than retail arms, consistent with the earlier observation of lower *ARINV* ratios. Other notable sectors include community development (9.0%), sport/recreation (9.0%), environment (6.1%), and religious activities (5.2%). The diversity of sectors suggests our findings will be broadly relevant across diverse types of not-for-profits, though there may be sector-specific cost structures (e.g., religious not-for-profits often rely heavily on donations, which could affect audit procedures).

In regard to audit opinion, Table 7 summarises the distribution of opinions issued. Overall, 75.2% of the sample received an unmodified audit report, with neither an Emphasis of Matter nor an Other Matter paragraph. This proportion closely aligns with the findings of Yang and Simnett (2023), who observed that 78.4% of their not-for-profit sample received unmodified opinions. Regarding the content of the audit reports, 42 reports in the sample contain an Other Matter paragraph. The majority of these (36 out of 42) relate to the absence of assurance over the comparative service performance information for the 2022 reporting year, attributable to the introduction of SSP reporting effective from 1 January 2022. The remaining six Other Matter paragraphs concern disclosures associated with a change in audit firm.

Regarding audit market composition, a total of 71 audit firms provided audit services to the not-for-profits in the sample, with 21.9% of engagements being audited by firms classified under *BIG7*. Table 8 presents the top 11 firms that performed at least 10 audit engagements in both FY2023 and FY2024. BDO recorded the highest number of engagements, with 52 audits (12.3%), suggesting that BDO holds a comparatively dominant position within the mid-tier charitable sector. Among the Big 7, KPMG and Grant Thornton also appeared in the top 11, with 16 (3.8%) and 10 (2.4%) engagements, respectively. This indicates a notably lower presence of Big 7 firms compared with Chen and Scott (2025) who reported that approximately 30.0% of their sample was audited by Big 4 firms. The limited Big 4 presence in the not-for-profit sector may reflect a strategic withdrawal from a less-profitable, smaller-client market segment, rather than an inability to compete. As Yang and Simnett (2023) noted, large audit firms are generally less willing to engage with higher-risk clients in the not-for-profit sector because audit fees tend to be relatively low. Instead, they selectively undertake engagements where the client can sustain a fee premium, consistent with their broader client-screening practices in private sectors.

The Pearson correlation coefficients reported in Table 9 indicate that the correlations among the independent variables are not excessively high. Therefore, multicollinearity does not appear to be a concern, and all variables are retained for further analysis.

5.2 Regression Analysis

5.2.1 Tier Threshold Revision and Audit Fee

Table 10 presents ordinary least squares regression results examining audit fees responses to the 2024 tier threshold revision. To mitigate the influence of extreme observations and reduce the potential distortion caused by outliers, all continuous

variables were winsorised at the 1% level (1st and 99th percentiles). The models explain about 28% of variance in the independent variable over entire sample, which is lower than the 48% reported by Yang and Simnett (2023). This low adjusted R^2 is consistent with the structural characteristics of the sample selection. The sample is restricted to not-for-profits with annual expenditure between \$2 million and \$5 million with a limited time dimension restriction which substantially reduces cross-sectional variation in key size variables and explanatory power.

I estimate the following regression model, in which $LnAF$ is regressed on the $POST$ indicator, the $CHANGE$ indicator, their interaction term ($POST*CHANGE$), and the full set of controls described above. Four linear regressions are performed on the full sample. Each model incrementally incorporates the variables capturing different aspects of the regulatory reform ($POST$, $CHANGE$ and $POST*CHANGE$). Model (1) includes basic audit fee determinants for not-for-profits. Model (2) introduces $POST$, an indicator variable for the post-tier-change period, to capture any overall shift in audit fees on or after 1 January 2024. Model (3) introduces $CHANGE$, an indicator for not-for-profits that shifted to Tier 3 to isolate any difference in audit fees between not-for-profits that would be impacted by the thresholds revision and those that would not. Finally, Model (4) includes the interaction term $POST*CHANGE$ to capture the incremental impact of the threshold revision on audit fees for the impacted not-for-profits.

The results show there is no statistically significant relationship between $POST*CHANGE$ and audit fees, implying no observable decrease in audit fees for impacted not-for-profits in the first year of the reform. Thus, I did not find evidence to support my hypothesis. One potential explanation may relate to the limited proportion of treated observations in the first year following the thresholds revision, as discussed

above in 5.1. Another possible explanation may be the phenomenon of audit fees stickiness (De Villiers et al., 2013).

For the control variables, the results in Model (4) show that audit fees are strongly and positively associated with organisational size. This suggests that larger not-for-profits demand greater audit effort due to their higher transaction volumes, more complex operating structures, and more extensive account balances. This finding is consistent with extensive evidence from previous literature in both profit and not-for-profit sectors, which identifies organisation size as one of the dominant drivers of audit fees (Beattie et al., 2001; Hay et al., 2006; Yang & Simnett, 2023). Regarding auditor attributes, the results show that audit fees are significantly and positively associated with *BIG7*. Specifically, not-for-profits audited by a Big 7 firm pay, on average, approximately 52.5% higher audit fees than those audited by non-Big 7 firms, holding all other factors constant. This finding is consistent with the established audit-pricing literature, which documents a Big N fee premium attributable to higher perceived audit quality, stronger brand reputation, and greater litigation risk exposure (DeAngelo, 1981; Hay et al., 2006; Simunic, 1980). In the not-for-profit context, Yang and Simnett (2023) similarly reported a significant Big N and mid-tier fee premium for Australian not-for-profits, while Chen and Scott (2025) observed that New Zealand not-for-profits engaging Big 4 auditors incur substantially higher fees.

The results also reveal that asset-based complexity is significantly associated with audit fees. The findings show that higher *ARINV* is associated with lower audit fees. This contrasts with private-sector evidence in New Zealand, where Al-mulla and Bradbury (2022) documented a significant positive relationship. Chen and Scott (2025) similarly reported a negative but statistically insignificant association between *ARINV* and audit fees. These differing results suggest that, in the not-for-profit context, receivables and

inventories often reflect the presence of a retail or trading arm (such as a not-for-profit shop) rather than complex commercial activity. Revenue generated through these outlets is typically stable and low risk, providing a predictable alternative revenue source for not-for-profits. As a result, auditors may perceive not-for-profits with retail operations to be lower-risk and less complex overall, with the stabilising effect of this revenue model outweighing the traditional complexity typically associated with receivables and inventories in the private sector.

Geographic cost differentials are also evident. The coefficient on *CITYCOST* is positive and statistically significant, indicating that not-for-profits located in Auckland incur approximately 19.0% higher audit fees compared to those in other regions. This premium likely reflects elevated labour costs and administration expenses, greater demand for audit services, and potential market concentration effects in metropolitan areas. The result is consistent with evidence from the U.K. (Beattie et al., 2001) and Australia (Yang & Simnett, 2023), although it contrasts with Chen and Scott (2025), who reported no significant geographic effect for larger New Zealand not-for-profits, suggesting that geographic cost differentials operate more powerfully among smaller not-for-profits where scale economies are limited.

Revenue structure also has significant implications for audit pricing. The ratios of grants and donations to total revenue capture how not-for-profits' reliance on specific funding sources impacts audit fees. The results report a higher value for *GRANTS* is associated with higher audit fees. This aligns with Yang and Simnett (2023), who documented a significant positive relationship between grants reliance and audit fees. Government and institutional grants typically impose stringent reporting obligations and monitoring mechanisms, thereby increasing audit effort and perceived litigation risk. Similarly, the results indicate *DONATIONS* is positively associated with audit fees. This aligns with

Chen and Scott's (2025) finding that fundraising-intensive not-for-profits face higher audit fees. Tate (2007) explained that fundraising not-for-profits face heightened public accountability expectations, as donors demand transparency regarding how contributions are recorded and allocated. In addition, the larger magnitude of the *GRANTS* coefficient relative to *DONATIONS* suggests that grant-funded not-for-profits face even higher marginal audit fees than fundraising not-for-profits. This diverges from Beattie et al. (2001), who found that fundraising not-for-profits pay higher audit fees in the U.K., and may reflect stronger baseline public trust in New Zealand's not-for-profit sector.

Capturing the relationship between organisation size and audit fees, the results show that *LnEXP* is positively associated with audit fees. This finding reinforces the view that expenditure-based measures are a meaningful proxy for organisational size in the not-for-profit sector, supporting Beattie et al.'s (2001) argument that "the measurement of size is not straightforward in the not-for-profit sector" (p. 249). Likewise, not-for-profits with high measures of financial risk incur higher audit fees. The result shows the total liabilities to total assets ratio (*TLTA*) is positive associated with audit fees, indicating more leveraged not-for-profits face a higher audit fee. This is consistent with the previous literature, which argues that auditors incorporate a financial-risk premium where solvency concerns or elevated default risk are present (Hay et al., 2006; Tate, 2007; Yang & Simnett, 2023).

Several control variables are insignificant. First, the ratio of cash to total assets (*CASHTA*) is statistically insignificant, indicating no robust evidence that liquidity impacts audit fees in this sample. This aligns with Chen and Scott (2025), who also report an insignificant relationship in their Tier 1 not-for-profits sample. The mixed coefficient signs across studies may reflect the fact that larger not-for-profits often hold

more complex cash instruments or have higher transaction volumes, while mid-tier not-for-profits typically have simpler liquidity structures, resulting in limited variation in audit effort attributable to cash balances. The *LOSS* indicator is likewise statistically insignificant. This is consistent with previous not-for-profit studies (Verbruggen et al., 2015), which argued that a single-year loss is not a strong indicator of heightened audit risk, as many not-for-profits exhibit volatile or break-even financial performance due to these organisations having service-oriented objectives rather than profit-seeking motivations. Finally, the audit opinion variable (*CLEAN*) is also insignificant, indicating no systematic fee differential between not-for-profits receiving unmodified opinions and those receiving modified reports. This is consistent with Chen and Scott (2025), who also found no significant relationship. Tate (2007) noted that modified opinions among charitable organisations are relatively rare and are typically expressed as Emphasis of Matter or Other Matter paragraphs rather than as qualified or adverse opinions. These “mild” modifications are unlikely to necessitate substantial additional audit effort and, therefore, exert only a limited influence on audit fees.

5.2.2 Additional Analysis

In Table 11, Panels A and B present the regression results breakdown of the sample by audit type (Big 7 and Non-Big 7 subsamples). Across both subsamples, I found no evidence of a decrease in audit fees following the thresholds revision, as the coefficient on *POST*CHANGE* is statistically insignificant in all model specifications. These null effects provide no evidence that tier threshold revision impacts on audit fees in ways that vary systematically with auditor quality or firm size, suggesting the absence of first-year fee reductions persists regardless of audit provider characteristics.

Beyond the main finding, the determinants of audit fees do differ across auditor types. *CITYCOST* demonstrates a positive significant coefficient in Big 7 subsample but proves statistically insignificant among Non-Big 7 subsamples, suggesting that the Big 7 incorporate a metropolitan cost premium while Non-Big 7 auditors maintain more uniform fee schedules maybe due to competitiveness constraints or lower pricing power. Furthermore, operating scale, revenue structure and leverage exhibit asymmetric pricing patterns. *LnEXP*, *GRANTS* and *TLTA* are all associated positively and significantly with audit fees in Non-Big 7 subsamples but prove insignificantly among the Big 7, indicating Non-Big 7 auditors demonstrate greater pricing sensitivity to operational complexity, grants dependency, and financial risk than Big 7 firms.

In untabulated cross-sectional analysis, I also broke down the full sample by donation revenue intensity, comparing between not-for-profits with an above-median ratio of donation revenue to total revenue and those with a below-median ratio of donation revenue to total revenue. The results remain consistent with the full sample finding, providing no evidence of a reduction in audit fees for not-for-profits impacted by the threshold revision in the first year of the reform. In the Below-Median Donation subsample, *LOSS* is positively and significantly associated with audit fees, suggesting that auditors assess operating loss risk differently depending on revenue structure. For not-for-profits relying on earned revenue rather than philanthropic support, operating losses may signal greater financial distress and going-concern risk, prompting risk-based fee premiums. In contrast, *CITYCOST* is no longer statistically significant in the below-median donation subsample. This suggests the low donation-intensive not-for-profits are less concentrated in major metropolitan areas and may exhibit more dispersed operational structures, thereby reducing the extent to which location-based cost premiums apply. In addition, *POST* is associated positively and significantly

associated with audit fees in the above-median donation subsample, likely reflecting general time-period. While consistent with Yang and Simnett (2023), who documented donation revenue complexity affecting audit pricing, the specific mechanism underlying the post-revision fee increase among high donation-intensive not-for-profits warrants further investigation.

To further examine whether the determinants of audit fees differ across treated and untreated not-for-profits, I conducted cross-sectional analyses partitioning the full sample based on tier transition status, as shown in Table 12 . Specifically, the sample is divided into not-for-profits that transitioned from Tier 2 to Tier 3 following the threshold revision (Changed-Tier subsample) and those that remained in Tier 2 (Unchanged-Tier subsample). This partition alters the interpretation of the *POST* indicator. For the Changed-Tier subsample, *POST* captures within-group variation following actual tier migration; by contrast, for Unchanged-Tier not-for-profits, *POST* reflects general time effects absent regulatory treatment.

Consistent with full-sample findings, *POST* remains statistically insignificant in the Changed-Tier subsample. This provides no evidence that audit fees decline even when focusing exclusively on not-for-profits that actually shifted to Tier 3 and adopted simplified reporting requirements. In the Unchanged-Tier subsample, significant fee determinants prove to be largely similarly to the full sample specification, except *DONATION*. Conversely, *LnEXP* remains significantly and positively associated with audit fees. However, *CLEAN* become positively and significantly associated, a result not observed before. This finding may reflect transitional complexities associated with the adoption of Tier 3 reporting standards. Not-for-profits undergoing tier migration are likely to incur one-off adjustment costs, including the implementation of new reporting frameworks, modifications to financial statement disclosures, and the need for auditors

to reassess and potentially redesign audit procedures. These transition-related demands may increase audit effort and, consequently, audit fees in the short term. The positive association between *CLEAN* and audit fees in the Changed-Tier subsample may suggest that better-governed not-for-profits (those more likely to obtain unmodified audit opinions) may also be more willing or able to invest in higher-quality audit processes during the transition period.

5.2.3 Robustness Tests

To ensure that the null findings are not driven by model specification or the choice of control variables, I conducted a series of robustness tests. First, I estimated a parsimonious model that excludes the full set of controls and then sequentially introduces individual control variables. Second, I re-estimated the full specification while omitting one control variable at a time to assess the sensitivity of the results to specific regressors. Third, I considered alternative controls by adding return on assets (*ROA*) into the model.

In addition, to examine whether the results are influenced by extreme observations, I re-winsorised all continuous variables at the 0.5th and 99.5th percentiles, instead of the baseline 1st and 99th percentiles.

Across all alternative specifications, the results remain qualitatively unchanged. There is no evidence that the 2024 expenditure threshold revision is associated with a reduction in audit fees.

Chapter 6 Conclusion

This study examines whether New Zealand's 2024 tier threshold revision reducing reporting complexity produces audit fee decreases for impacted not-for-profits. Using a sample of 212 New Zealand not-for-profit entities with annual operating expenditure between \$2 million and \$5 million, I analysed not-for-profits eligible to transition from the more complex Tier 2 PBE IPSAS RDR to the simpler Tier 3 PBE SFR-A framework. The results showed that only 15.6% of eligible not-for-profits shifted to the simpler reporting framework during the first year following revision. Importantly, I found no evidence of audit fee decreases for impacted not-for-profits, with this null effect persisting across auditor types and organisational characteristics. This finding demonstrates that regulatory deregulation does not produce impacts that are symmetrical with regulatory tightening, challenging assumptions that reporting simplification automatically translates into proportionate cost reductions. Despite the threshold revision, traditional audit fee determinants remain significant. Larger not-for-profits and those with greater operating expenditure pay significantly higher audit fees, consistent with established audit fee literature documenting size as the dominant pricing factor. Not-for-profits with lower accounts receivable and inventory ratios and higher leverage also incur higher fees, while greater reliance on donations and grants associates positively with audit pricing, reflecting increased complexity in verifying diverse revenue streams. From an auditor attribute perspective, the Big 7 firms (Big 4 plus BDO, Grant Thornton, and Baker Tilly) charge a fee premium, indicating quality differentiation and reputation effects extend to the not-for-profit audit market.

These findings contribute to the growing literature on audit pricing in the not-for-profit sector by providing one of the first investigations of regulatory deregulation through

simplified reporting requirements. The findings regarding the limited adoption rate combined with the absence of audit fee reductions during the first year following revision provide important insights for regulators and standard-setters evaluating whether tier threshold revisions achieve intended cost reduction objectives. The evidence that externally funded not-for-profits face resource dependence constraints suggests certain not-for-profit subsectors may voluntarily maintain comprehensive reporting irrespective of threshold levels, limiting achievable cost savings from regulatory simplification. Therefore, governance bodies considering tier transitions should evaluate stakeholder expectations, funding source dependencies, and reputational considerations alongside pure compliance cost calculations, recognising that tier migration decisions involve complex trade-offs extending beyond regulatory compliance costs alone.

Several limitations circumscribe this study's findings and suggest fruitful avenues for future investigation. First, the analysis captures only first-year post-revision effects. Audit fee adjustments may exhibit temporal dynamics, with initial fee stickiness (De Villiers et al., 2013) giving way to subsequent decreases as auditors and not-for-profits gain experience with simplified reporting requirements and establish new pricing equilibria. Future research should examine whether fee impacts emerge over extended post-implementation windows, distinguishing transitory adjustment periods from permanent pricing shifts. Second, this study does not examine audit fee implications for other types of tier transitions, such as not-for-profits moving from the Tier 1 (PBE IPSAS) to the Tier 2 (PBE IPSAS RDR) framework. Further studies should examine whether threshold revisions at other tier boundaries produce differential fee impacts to provide a more complete understanding of tiered reporting system dynamics. Third, the lower transition adoption rate constrains statistical power for detecting treatment effects

and limits generalisability to not-for-profits actually exercising tier transitions. Future research should investigate factors driving tier migration decisions, potentially employing qualitative methods to understand governance deliberations and cost–benefit evaluations underlying tier choices. Fourth, the cross-sectional evidence reveals that donation-intensive not-for-profits experienced audit fee increases in the post-revision period, suggesting donation revenue complexity may interact with regulatory changes in ways warranting further investigation. Future research should examine mechanisms driving this post-revision fee increase for donation-dependent organisations. Finally, as with any archival study, the findings may be susceptible to omitted variable bias. Despite efforts to control for known determinants, unobserved risk factors or organisational characteristics that correlate with both tier transitions and audit fees could potentially influence the results.

In conclusion, this study demonstrates that regulatory deregulation effects prove more complex and nuanced than a simple reversal of regulatory tightening impacts and highlight the complexity of regulatory design choices and underscore the importance of post-adoption review to assess whether intended policy objectives materialise in practice. Asymmetric adjustment dynamics, resource dependence constraints, and stakeholder pressure mechanisms constrain the extent to which reporting simplification translates into observable cost savings, at least within initial implementation windows.

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Tables

Table 1 Reporting and Assurance Requirements

	Tier 1	Tier 2	Tier 3	Tier 4
Thresholds (based on annual operating expense)	> \$33 million	> \$5 million, and < \$33 million	> \$140,000, and < \$5 million	< \$140,000
Public accountability	Yes	No	No	No
GAAP requirements	Yes	Yes	Yes	No
Accounting Standard	PBE IPSAS	IPSAS RDR	PBE SFR-A	PBE SFR-C
Statement of Service Performance (Effective from 1 January 2022)	Yes	Yes	Yes	Yes
Audit Assurance	Audit	Audit	> \$1.1 million Audit > \$550,000 Audited or reviewed < \$550,000 Voluntary	Voluntary

Table 2 The Criteria for Reporting Tier Size Threshold Changes

	After financial year ending 31 March 2024 (New)	Before financial year ending 31 March 2024 (Previous)
Tier 1	> \$33 million, or hold public accountability	> \$30 million, or hold public accountability
Tier 2	> \$5 million, and < \$33 million	> \$2m million, and < \$30 million
Tier 3	> \$140,000, and < \$5 million	> \$140,000, and < \$2 million
Tier 4	< \$140,000	No change

Table 3 Sample Selection

Procedure	Details	Total
Step 1	Start from the Charities Register for annual expenditure between 2m and 5m extract for the period 2023 and 2024	1141
Step 2	Less: Not-for-profits with only one year of financial information	(445)
Step 3	Less: Not-for-profits without audit fees disclosure	(162)
Step 4	Less: Not-for-profits without audit report information	(108)
Step 5	Less: Not-for-profits with public accountability	(2)
Step 6	Final sample size (entity-years observations)	424

Table 4 Variable Definition

<i>LnAF</i>	The natural logarithm of reported audit fees.
<i>POST</i>	A binary variable that takes the value of 1 if the annual report is for the period beginning on or after 1 January 2024, and 0 otherwise.
<i>CHANGE</i>	A binary variable that takes the value of 1 if the not-for-profit actually shifted from Tier 2 to Tier 3 following the 2024 threshold revision, and 0 otherwise. The binary variable is time-invariant and is coded identically in both the pre- and post-revision periods.
<i>POST*CHANGE</i>	A binary variable that takes the value of 1 if the not-for-profit shifted from Tier 2 to Tier 3 under the 2024 threshold revision AND the annual report is for the period beginning on or after 1 January 2024, and 0 otherwise.
<i>LnTA</i>	The natural logarithm of total assets.
<i>LnEXP</i>	The natural logarithm of total operating expenditure.
<i>ARINV</i>	The ratio of accounts receivable and inventories to total assets.
<i>CASHTA</i>	The ratio of cash to total assets.
<i>TLTA</i>	The ratio of total liabilities to total assets.
<i>LOSS</i>	A binary variable that takes the value of 1 if total liabilities are bigger than total revenue.
<i>DONATIONS</i>	The ratio of donations to total revenue.
<i>GRANTS</i>	The ratio of grants to total revenue.
<i>CLEAN</i>	A binary variable that takes the value of 1 if there is no modification on the audit report (excluding Emphasis of Matter paragraph), and 0 otherwise.
<i>BIG7</i>	A binary variable that takes the value of 1 if the auditor is Deloitte, Ernst and Young, KPMG, PwC, BDO, Grant Thornton, or Baker Tilly, and 0 otherwise.
<i>CITYCOST</i>	A binary variable that takes the value of 1 if the audit was based in Auckland, and 0 otherwise.

Table 5 Descriptive Statistics

Descriptive Statistics							
Variable	Mean	Median	SD	Minimum	Maximum	Skewness	Kurtosis
<i>AF</i>	14601.07	10963	12107.97	1138	97966	2.751	12.597
<i>LnAF</i>	9.32	9.302	0.738	7.037	11.492	-0.041	0.001
<i>POST</i>	0.5	0.5	0.501	0	1	0	-2.010
<i>CHANGE</i>	0.156	0	0.363	0	1	1.906	1.642
<i>POST*CHANGE</i>	0.078	0	0.268	0	1	3.163	8.042
<i>TA</i>	12189.72	3854.59	20510.35	8.550	145115	3.247	12.665
<i>LnTA</i>	8.510	8.257	1.334	2.146	11.885	-0.011	1.357
<i>EXP</i>	3252.525	3209.854	758.914	2008.52	4968.11	0.321	-0.843
<i>LnEXP</i>	8.060	8.074	0.235	7.605	8.511	-0.033	-1.001
<i>ARINV</i>	0.104	0.048	0.148	0	0.995	2.809	10.124
<i>CASHTA</i>	0.305	0.196	0.282	0	1	0.726	-0.666
<i>TLTA</i>	0.277	0.217	0.250	0	1.818	1.574	4.351
<i>LOSS</i>	0.333	0	0.472	0	1	0.713	-1.498
<i>DONATIONS</i>	0.132	0.007	0.269	0	1	2.199	3.519
<i>GRANTS</i>	0.114	0	0.250	0	1.217	2.487	5.196
<i>CLEAN</i>	0.859	1	0.349	0	1	-2.064	2.272
<i>BIG7</i>	0.219	0	0.414	0	1	1.361	-0.148
<i>CITYCOST</i>	0.226	0	0.419	0	1	1.312	-0.280

Note. The table presents descriptive statistics for sample variables. *TA* and *EXP* variables present in \$000 amount. All variables defined in Table 4.

Table 6 Sample Statistics

Panel A: Test of Difference			
	<i>CHANGE=0</i>	<i>CHANGE=1</i>	<i>Difference</i>
<i>AF</i>	14864.517	13172.061	1692.456
<i>LnAF</i>	9.345	9.185	0.160
<i>TA</i>	12351.334	11313.105	1038.229
<i>LnTA</i>	8.525	8.429	0.096
<i>EXP</i>	3246.689	3284.182	-37.493
<i>LnEXP</i>	8.059	8.067	-0.008
<i>ARINV</i>	0.102	0.112	-0.01
<i>CASHTA</i>	0.303	0.312	-0.009
<i>TLTA</i>	0.285	0.234	0.051
<i>LOSS</i>	0.327	0.364	-0.037
<i>DONATIONS</i>	0.138	0.100	0.038
<i>GRANTS</i>	0.115	0.108	0.007
<i>CLEAN</i>	0.860	0.848	0.012
<i>BIG7</i>	0.237	0.121	0.116**
<i>CITYCOST</i>	0.229	0.212	0.017
Panel B: Test of Differences			
	<i>CHANGE=0</i>	<i>CHANGE=1</i>	<i>Difference</i>
<i>AF</i>	13690.745	15511.392	-1820.646
<i>LnAF</i>	9.259	9.381	-0.122
<i>TA</i>	11962.99271	12416.45347	-453.461
<i>LnTA</i>	8.478	8.543	-0.066
<i>EXP</i>	3131.718	3373.332	-241.614***
<i>LnEXP</i>	8.023	8.097	-0.074***
<i>ARINV</i>	0.103	0.104	-0.001
<i>CASHTA</i>	0.315	0.294	0.021
<i>TLTA</i>	0.289	0.266	0.022
<i>LOSS</i>	0.368	0.297	0.071
<i>DONATIONS</i>	0.135	0.129	0.006
<i>GRANTS</i>	0.119	0.110	0.009
<i>CLEAN</i>	0.859	0.859	0.000
<i>BIG7</i>	0.198	0.241	-0.043
<i>CITYCOST</i>	0.226	0.226	0.000
Panel C Sector Distribution			
Sector	N	%	
Accommodation / housing	8	3.77%	
Arts / culture / heritage	8	3.77%	

Care / protection of animals	1	0.47%
Community development	19	8.96%
Economic development	2	0.94%
Education / training / research	29	13.68%
Emergency / disaster relief	1	0.47%
Employment	1	0.47%
Environment / conservation	13	6.13%
Fundraising	4	1.89%
Health	49	23.11%
Information and Advice	1	0.47%
International activities	2	0.94%
People with disabilities	6	2.83%
Religious activities	11	5.19%
Social services	38	17.92%
Sport / recreation	19	8.96%
Total	212	100.0%

Note. The table presents statistics for sample variables. Panel A reports Student's *t*-test comparing the means of unchanged tier (*CHANGE*=0) and changed tier (*CHANGE*=1) subsamples. Panel B reports Student's *t*-test comparing the means between pre-change (*CHANGE*=0) and post-change period (*CHANGE*=1) subsamples. Panel C reports sector distribution. All variables defined in Table 4.

Table 7 Audit Opinion Distribution

Type of Opinion	Frequency	Percent
Unqualified Opinion	319	75.24%
Unqualified Opinion with Other Matter	42	9.91%
Unqualified Opinion with Emphasis of Matter	17	4.01%
Qualified Opinion	46	10.85%
Total	424	100%

Table 8 Audit Firms with Over Ten Clients

	N	%	Cumulative %
BDO	52	12.26%	12.26%
Moore Markhams	33	7.78%	20.05%
PKF	27	6.37%	26.42%
SILKS	22	5.19%	31.60%
Audit Professionals	18	4.25%	35.85%
RSM	17	4.01%	39.86%
KPMG	16	3.77%	43.63%
Crowe	15	3.54%	47.17%
William Buck	13	3.07%	50.24%
Ashton Wheelan	10	2.36%	52.59%
Grant Thornton	10	2.36%	54.95%

Table 9 Correlation Matrix

	<i>AF</i>	<i>LnAF</i>	<i>POST</i>	<i>CHA</i> <i>NGE</i>	<i>POST</i> <i>*</i> <i>CHA</i>	<i>TA</i>	<i>LnTA</i>	<i>EXP</i>	<i>LnEXP</i> <i>P</i>	<i>ARIN</i> <i>V</i>	<i>CASH</i> <i>TA</i>	<i>TLTA</i>	<i>LOSS</i>	<i>DON</i> <i>ATIO</i> <i>NS</i>	<i>GRAN</i> <i>TS</i>	<i>CLEAN</i>	<i>BIG7</i>	<i>CITY</i> <i>COST</i>
<i>AF</i>	1																	
<i>LnAF</i>	0.875	1																
<i>POST</i>	0.075	0.083	1															
<i>CHANGE</i>	-0.051	-0.079	0	1														
<i>POST*CHANGE</i>	-0.016	-0.038	0.291	0.677	1													
<i>TA</i>	0.336	0.314	0.011	-0.018	-0.011	1												
<i>LnTA</i>	0.307	0.342	0.025	-0.026	-0.008	0.776	1											
<i>EXP</i>	0.214	0.207	0.159	0.018	0.032	0.139	0.152	1										
<i>LnEXP</i>	0.211	0.208	0.158	0.013	0.027	0.133	0.15	0.993	1									
<i>ARINV</i>	-0.17	-0.197	0.004	0.024	0.002	-0.252	-0.421	-0.025	-0.018	1								
<i>CASHTA</i>	-0.194	-0.207	-0.037	0.012	0.003	-0.384	-0.546	0.022	0.018	0.075	1							
<i>TLTA</i>	-0.042	-0.048	-0.045	-0.074	-0.064	-0.251	-0.349	0.096	0.097	0.476	0.286	1						
<i>LOSS</i>	0.129	0.124	-0.075	0.028	0.019	0.028	-0.057	0.12	0.119	0.034	-0.106	0.055	1					
<i>DONATIONS</i>	0.036	0.045	-0.011	-0.051	-0.03	-0.074	-0.133	-0.048	-0.037	-0.148	0.214	-0.066	0.016	1				
<i>GRANTS</i>	0.116	0.183	-0.017	-0.011	-0.009	-0.064	-0.01	0.061	0.055	0.034	0.008	0.008	0.033	-0.11	1			
<i>CLEAN</i>	0.07	0.091	0	-0.012	-0.034	0.031	0.012	0.074	0.074	-0.015	0.05	0.082	-0.029	-0.135	-0.012	1		
<i>BIG7</i>	0.355	0.351	0.051	-0.102	-0.069	0.134	0.168	0.123	0.13	0.018	-0.136	-0.005	0.17	-0.04	0.183	0.084	1	
<i>CITYCOST</i>	0.078	0.075	0	-0.015	-0.01	0.085	-0.033	0.006	0.002	0.046	0.218	0.107	0.085	0.199	0.135	0.026	-0.014	1

Note. Two-sided, significant correlations at 5% level are bolded, significant correlations at 1% level are bolded and italic; All variables define in Table 4.

Table 10 Regression Results

Full Sample Regression Results				
	(1)	(2)	(3)	(4)
	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>
<i>LnTA</i>	0.116*** (0.038)	0.119*** (0.038)	0.119*** (0.038)	0.119*** (0.038)
<i>LnEXP</i>	0.398*** (0.143)	0.359** (0.145)	0.360** (0.146)	0.359** (0.146)
<i>ARINV</i>	-1.015*** (0.282)	-1.022*** (0.282)	-1.015*** (0.283)	-1.016*** (0.283)
<i>CASHTA</i>	-0.256* (0.149)	-0.243 (0.149)	-0.244 (0.149)	-0.243 (0.149)
<i>TLTA</i>	0.369** (0.158)	0.384** (0.158)	0.379** (0.159)	0.379** (0.159)
<i>LOSS</i>	0.101 (0.070)	0.113 (0.071)	0.115 (0.071)	0.115 (0.071)
<i>DONATIONS</i>	0.262** (0.132)	0.264** (0.132)	0.262** (0.132)	0.262** (0.132)
<i>GRANTS</i>	0.393*** (0.133)	0.402*** (0.133)	0.401*** (0.133)	0.402*** (0.133)
<i>CLEAN</i>	0.124 (0.091)	0.126 (0.091)	0.126 (0.091)	0.126 (0.091)
<i>BIG7</i>	0.431*** (0.082)	0.425*** (0.082)	0.423*** (0.082)	0.422*** (0.082)
<i>CITYCOST</i>	0.174** (0.083)	0.169** (0.083)	0.167** (0.083)	0.167** (0.083)
<i>POST</i>		0.087 (0.062)	0.087 (0.062)	0.093 (0.068)
<i>CHANGE</i>			-0.030 (0.088)	-0.012 (0.122)
<i>POST*CHANGE</i>				-0.036

				(0.168)
<i>_cons</i>	4.727***	4.954***	4.949***	4.958***
	(1.116)	(1.127)	(1.128)	(1.130)
<i>Sector FE</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	424	424	424	424
<i>R²</i>	0.328	0.331	0.331	0.331
<i>Adjusted R²</i>	0.282	0.282	0.280	0.280

Note. The table presents OLS regression results for full sample. Two-tailed test of significance results are reported. Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. All variables defined in Table 4. All models include sector fixed effects.

Table 11 Cross-sectional Regression by Auditor Type

Panel A: Big 7 Subsamples				
	(1)	(2)	(3)	(4)
	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>
<i>LnTA</i>	0.115*	0.118*	0.115*	0.114*
	(0.062)	(0.063)	(0.062)	(0.063)
<i>LnEXP</i>	0.495	0.445	0.409	0.415
	(0.302)	(0.306)	(0.305)	(0.308)
<i>ARINV</i>	-2.056***	-2.079***	-1.993***	-1.988***
	(0.512)	(0.513)	(0.512)	(0.516)
<i>CASHTA</i>	-0.370	-0.373	-0.320	-0.323
	(0.374)	(0.375)	(0.373)	(0.376)
<i>TLTA</i>	0.257	0.279	0.221	0.216
	(0.314)	(0.315)	(0.314)	(0.317)
<i>LOSS</i>	-0.034	-0.012	-0.035	-0.037
	(0.122)	(0.124)	(0.124)	(0.125)
<i>DONATIONS</i>	-0.582	-0.576	-0.654*	-0.655*
	(0.381)	(0.381)	(0.381)	(0.384)
<i>GRANTS</i>	0.056	0.066	0.103	0.103
	(0.225)	(0.225)	(0.225)	(0.226)
<i>CLEAN</i>	0.038	0.044	0.022	0.023
	(0.213)	(0.213)	(0.212)	(0.214)
<i>CITYCOST</i>	1.021***	1.023***	1.018***	1.019***
	(0.205)	(0.205)	(0.203)	(0.205)
<i>POST</i>		0.103	0.103	0.095
		(0.109)	(0.108)	(0.114)
<i>CHANGE</i>			0.349	0.307
			(0.234)	(0.300)
<i>POST*CHANGE</i>				0.085
				(0.375)
<i>_cons</i>	4.609	4.888*	5.247**	5.213**

	(2.429)	(2.449)	(2.440)	(2.461)
<i>Sector FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	93	93	93	93
<i>R</i> ²	0.628	0.633	0.645	0.645
<i>Adjusted R</i> ²	0.519	0.518	0.526	0.520

Panel B: Non-Big 7 Subsamples

	(1)	(2)	(3)	(4)
	LnAF	LnAF	LnAF	LnAF
<i>LnTA</i>	0.123*** (0.045)	0.126*** (0.045)	0.125*** (0.045)	0.125*** (0.045)
<i>LnEXP</i>	0.351** (0.158)	0.310* (0.161)	0.311* (0.161)	0.310* (0.161)
<i>ARINV</i>	-0.769** (0.344)	-0.780** (0.343)	-0.773** (0.344)	-0.776** (0.345)
<i>CASHTA</i>	-0.155 (0.167)	-0.141 (0.167)	-0.143 (0.167)	-0.143 (0.167)
<i>TLTA</i>	0.370* (0.199)	0.391* (0.200)	0.382* (0.202)	0.382* (0.202)
<i>LOSS</i>	0.128 (0.083)	0.138 (0.083)	0.140 (0.084)	0.141 (0.084)
<i>DONATIONS</i>	0.279* (0.150)	0.280* (0.150)	0.276* (0.151)	0.276* (0.151)
<i>GRANTS</i>	0.548*** (0.166)	0.557*** (0.166)	0.556*** (0.166)	0.557*** (0.166)
<i>CLEAN</i>	0.149 (0.099)	0.150 (0.099)	0.150 (0.099)	0.149 (0.100)
<i>CITYCOST</i>	0.145 (0.093)	0.139 (0.093)	0.136 (0.094)	0.136 (0.094)
<i>POST</i>		0.093 (0.071)	0.093 (0.071)	0.102 (0.078)
<i>CHANGE</i>			-0.032 (0.096)	-0.006 (0.132)

<i>POST*CHANGE</i>				-0.051 (0.182)
<i>_cons</i>	4.954*** (1.227)	5.202*** (1.240)	5.205*** (1.242)	5.217*** (1.244)
<i>Sector FE</i>	Yes	Yes	Yes	Yes
<i>N</i>	331	331	331	331
<i>R²</i>	0.221	0.226	0.226	0.226
<i>Adjusted R²</i>	0.160	0.162	0.160	0.157

Note. The table presents OLS regression results. Panel A reports the results for Big 7 subsample and Panel B reports the results for Non-Big 7 subsamples. Two-tailed test of significance results are reported. Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. All variables defined in Table 4. All models include sector fixed effects.

Table 12 Cross-sectional Analysis by Tier Transition Status

	<u>Changed-Tier subsample</u>		<u>Unchanged-Tier subsample</u>	
	(1)	(2)	(1)	(2)
	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>
<i>LnTA</i>	-0.082 (0.224)	-0.080 (0.226)	0.124*** (0.041)	0.129*** (0.041)
<i>LnEXP</i>	1.061* (0.541)	1.028* (0.548)	0.302* (0.159)	0.251 (0.162)
<i>ARINV</i>	-1.106 (1.111)	-1.049 (1.124)	-1.086*** (0.302)	-1.106*** (0.301)
<i>CASHTA</i>	-0.243 (0.389)	-0.227 (0.393)	-0.141 (0.169)	-0.121 (0.170)
<i>TLTA</i>	0.509 (0.641)	0.523 (0.646)	0.331** (0.167)	0.352** (0.168)
<i>LOSS</i>	0.093 (0.254)	0.107 (0.257)	0.076 (0.077)	0.092 (0.077)
<i>DONATIONS</i>	1.156 (0.720)	1.133 (0.727)	0.179 (0.141)	0.181 (0.141)
<i>GRANTS</i>	0.621 (0.417)	0.616 (0.420)	0.269* (0.148)	0.280* (0.148)
<i>CLEAN</i>	0.745** (0.303)	0.771** (0.309)	0.060 (0.100)	0.059 (0.100)
<i>BIG7</i>	0.511 (0.368)	0.514 (0.370)	0.447*** (0.087)	0.440*** (0.087)
<i>CITYCOST</i>	0.109 (0.288)	0.091 (0.292)	0.175* (0.092)	0.167* (0.092)
<i>POST</i>		0.089 (0.154)		0.100 (0.068)
<i>_cons</i>	1.778 (3.600)	1.958 (3.640)	5.450*** (1.236)	5.762*** (1.252)
<i>Sector FE</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	66	66	358	358

R^2	0.592	0.595	0.322	0.327
<i>Adjusted R²</i>	0.411	0.402	0.267	0.270

Note. The table presents OLS regression results for Change-Tier and Unchanged-Tier subsamples. Two-tailed test of significance results are reported. Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. All variables defined in Table 4. All models include sector fixed effects.