

The transparency of Chinese affiliated international charities: A comparative analysis

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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 nor material which to a substantial extent has been accepted for the qualification of any other degree or diploma of a university or other institution of higher learning, except where due acknowledgements and references are made in the acknowledgements and reference section.

Guanzhong (David) Zuo

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Abstract

The objective of the research project is to use comparative analysis to investigate the accounting transparency difference in terms of financial statements from international charities with affiliated organizations both in New Zealand and China.

The qualitative research methodology and a content analysis method were adopted to investigate the charities' annual reports which provide information for donors' decision making. Four charities which provide information common to China and New Zealand were analysed: International Committee of The Red Cross (ICRC), World Wide Fund For Nature (WWF), United Nations International Children's Emergency Fund (UNICEF) and World Vision International. The research focussed on the annual reports for 2010, as publicly disclosed on the charities' websites.

The most important finding of the study is that Chinese charity websites disclose little financial information. There seems to be less need in China for charities to be transparent to donors. Compared with charities in China, charities in New Zealand are more accountable. Although accounting transparency in New Zealand charities is much better than those in China, there is still some room for improvement.

The lack of accounting transparency in charity sectors needs to be addressed by accounting professions and the public because it may lead to potential agency problems. The findings indicate that accounting transparency is one of the problems in charities in China and also suggest that charities in New Zealand need to improve their accounting transparency further.

1 Chapter One: Introduction

To further the social objectives of government to those disadvantaged members of society, charities like Red Cross and Greenpeace, are playing a rich and varied role in modern society. Stakeholders want to see that donated assets are used effectively for charitable purposes. However, Olson (2000, p. 29) pointed out that agency theory should be extended to view the principal-agent relationship in not-for-profit organizations.

According to Clarke (2005), stakeholders have a right to know what is happening within the walls of organizations that receive a significant public benefit and are supposed to provide a public good. Financial reporting can help stakeholders to determine which charity to support (Melendez, 2001). However, the quality of the financial reports is not as good as it should be in order to support stakeholders in making decisions (Williams & Palmer, 1998). In 1981, a study of charities' annual reports and accounts cast significant doubt on their usefulness as a means of providing accurate, reliable and comparable information to stakeholders (Bird & Morgan-Jones, 1981).

Since Bird and Morgan-Jones (1981) pointed out the problems of charities' reporting in United Kingdom (UK), a number of researchers have looked at the impacts of the newly adopted Statement of Recommended Practice (SORP) on accounting in UK (Bird & Morgan-Jones, 1981; Connolly & Hyndman, 2000; Hines & Jones, 1992; Hyndman & McMahon, 2011; Skerratt & Tonkin, 1989; Williams & Palmer, 1998). In New Zealand, Hooper, Sinclair and Hui (2008) analysed the charity accounting in New Zealand and pointed out that there are

four problems (lack of consistency in the titles used; not capitalising fixed assets; oppose the use of accrual basis and not fully allocating the overhead of administration costs to fund-raising projects) which could limit the way forward in financial reporting by New Zealand charities. Huang and Hooper (2011) interviewed funding organisations from Auckland and Wellington and found that funding organisations require financial information in their decision-making processes. In western countries, the quality of financial reports prepared by charities received a lot of attention from the public. In China, many of the laws and policies that govern charitable activities remain under development, leaving grey areas (Livdahl, Sheng, Li, & Tse, 2010).

The objective of this study is to use comparative analysis to investigate the difference in the accounting transparency in terms of financial statements from international charity with affiliated organizations both in New Zealand and in China. This research aims to fill the gap in the literature by conducting empirical research to investigate the criteria of the charities' accounting transparency in financial statements in New Zealand and in China.

Therefore, the research question of this study is whether the financial statements of the same charities have more or less transparency in China than in New Zealand. The following sub-questions will be addressed in the research:

1. Does the Balance Sheet have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
2. Does the Cash Flow Statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

3. Does the Income Statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
4. Do the Notes to Financial Statements have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
5. Does the Audit Report have more transparency in China than in New Zealand? If so, which audit firms (PricewaterhouseCoopers, Deloitte Touche Tohmatsu Limited, Ernst & Young and KPMG) are involved and what kind of audit report is involved?

The research project falls within the interpretivism paradigm. The qualitative research methodology is appropriate for this study. More specifically, the discourse analysis, content analysis and the social constructivist analyses content analysis were used in this study. Four charities common to China and New Zealand were analysed: Red Cross, WWF, UNICEF and World Vision International. This study exclusively focused on the annual reports 2010 publicly disclosed on the charities' websites. Website information is the only source for the data collection so there is no interview, focus groups or other media as the method to do the data collection. The unit of analysis used to analyse the content of the chosen medium was the paragraph. With respect to Statement of Recommended Practice (SORP) being one of the best practice of charity accounting requirements, the categories are designed according to SORP guidelines in this study (tStatement of Financial Position, Statement of Financial Performance, Statement of Cash Flow, Notes and Auditor's report). The definitions of those five categories are based on previous researches and AUT Annual report 2011.

The structure of this research project is organised as follows. The next chapter, chapter two literature review, the charity accounting transparency concept and the theoretical framework of accountability between charity managers and donors are introduced, followed by accounting transparency measurement index and relevant research from UK, New Zealand and China. The review identifies a gap in the literature and the research question is introduced to address the gap. The research methodology and research method are discussed in Chapter Three. The chapter fully acknowledges the approach of the study and the application of content analysis. Chapter four analyses the data under predesigned categories. Findings from this research project are analysed and described in detail in this chapter. Chapter five provides results in terms of each research question. The implications of the findings and limitations of this study are discussed. Finally, further study and conclusion are presented.

2 Chapter Two: Literature Review

2.1 Introduction:

Mirshekary and Saudagaran (2005) find that people are using accounting information to help them make investment decisions. Donors do not contribute to organizations they do not trust and about which they do not feel confident (Melendez, 2001). Research also suggests that financial reporting transparency is associated with a lower cost of capital, so charities with poorer accounting transparency may face a significantly higher interest cost to borrow money or receive fewer donations (Barth & Schipper, 2008). It is important for a charity to maintain the confidence and financial support of the public by giving a transparent account of their activities. Previous research shows that transparency may have a positive relationship with trust (Stephan & Grimmelikhuisen, 2009). "Sunlight is the best disinfectant" (Fishman, 2007). This was also reiterated by Fisher (2006) who felt that opening the books will provide more transparency for donors to charities.

Stakeholders want to see that donated assets are used effectively for charitable purposes. According to Clarke (2005), stakeholders have a right to know what is happening within the walls of organizations that receive a significant public benefit and are supposed to provide a public good. Financial reporting can help stakeholders to determine which charity to support (Melendez, 2001). However, the reporting quality of charities is not as good as it should be to support stakeholders' decision making (Williams & Palmer, 1998).

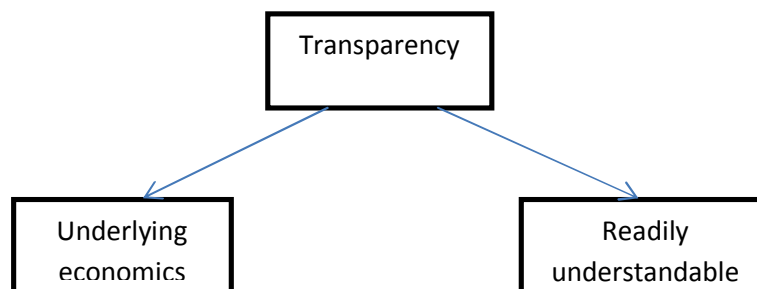
This chapter reviews literature about the accounting transparency in charity accounting. First, the definition about the accounting transparency has been based on Barth and Schipper (2008). Second, the theory about accounting transparency has been introduced, which is about the argument between stewardship theory and agency theory. The accountability relationship between charity manager and donor has been analysed under both stewardship theory and agency theory in this study. The third section reviews the literature about the relationship between accounting transparency and agency problem. More specifically, section three addresses the problem of why accounting transparency for charity sectors needs to be analysed under the agency theory. The fourth section defines the measurement of accounting transparency base on previous research. Several accounting transparency indexes have been defined in this section for my study, which deals with the problem of how to analyse accounting transparency. The fifth section is a review of literature from three countries: UK, New Zealand and China. This section introduces the background of research samples from those three countries. The final section summarises the literature review and highlights the gap in the literature with regard to the nature of charity accounting transparency both in New Zealand and China. Finally, the research questions are identified.

2.2 What is transparency?

There is no a widely accepted identification of transparency (Barth & Schipper, 2008). Researchers from different angles have different identifications of transparency (Barth & Schipper, 2008; Bhattacharya, Daouk, & Welker, 2003; Bushman, Piotroski, & Smith, 2004; Bushman & Smith, 2003; Elliott, Krische, & Peecher, 2010; Epstein, 2009; Fishman, 2007; Hodge, Kennedy, & Maines, 2004; Hunton, Libby, & Mazza, 2006; Mark Lang & Mark Maffett, 2011; Obly,

2002; Roberts, 2009; Unerman & O'Dwyer, 2006; Zarb, 2008). From the accounting perspective, based on the conceptual frameworks of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), Barth and Schipper (2008) point out that the financial reports need to include information about an entity's underlying economics and be readily understandable. Based on Barth and Schipper (2008), this study identifies financial reporting transparency as, on the one hand, information disclosed in the financial statements are underlying economics; on the other hand, information disclosed in the financial statements are readily understandable by internal and external information users.

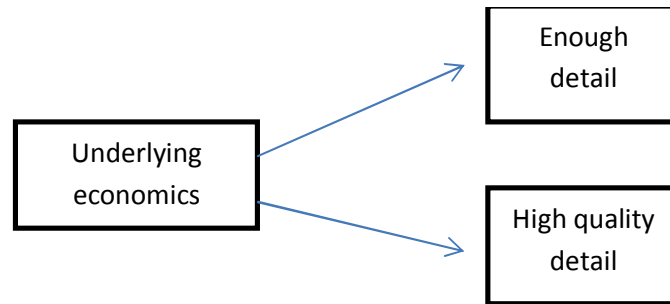
Figure 1 Definition of the accounting transparency (Author, 2012)



Underlying economics:

The underlying economics is identified by the issuers of the financial statements. There are two subjects that have been discussed by previous research. The first subject of the transparency is that a corporation should provide “enough details” for information users to make economic decisions (Mark Lang & Mark Maffett, 2011; Roberts, 2009). The second subject is that the detailed information must be of high quality (Bushman & Smith, 2003; Zarb, 2008).

Figure 2 Definition of the underlying economics (Author, 2012)



The purpose of the first subject is to disclose more detailed information to assist the stakeholders in making decisions. Roberts (2009) points out that transparency means that the inside of the organisation could become more visible so that stakeholders from outside of the organisation could “see through” a company from the provided detailed information. This definition is also supported by Lang and Maffett (2011, p. 177) who argue that transparency means the “availability of publicly traded corporation’s firm-specific information (e.g.: annual reports, required disclosures, analyst reports and voluntary disclosure) to users not directly connected with the firm’s operations (e.g.: management and other firm insiders)”. In order to increase the faith of stakeholders in a company’s transparency, there has been a constant elaboration of forms of financial and non-financial disclosures by organisations to their stakeholders. The comprehensive income is a good example. It requires that all revenues, expenses, gains, and losses recognised during the period be included in income, including all dirty surplus items (e.g.: Unrealised gain or loss or foreign currency translation adjustments).

However, there are some different voices that more information disclosure could improve transparency. Zarb (2008) argues that more data is not the answer to improve transparency. Furthermore, he mentions that transparency is not about

how much information is offered, but it is about how useful the information is to the people who use the information for their decision making. The same point has been proved by Szper and Parkash (2011). They point out that information based on regulation is not used by those who want to make a donation decision. The reason is that the disclosed information is not useful for donor's decision making. In particular, a charity does not provide appropriate non-profit information to donors so disclosed information is not what donors actually want and is not useful for donation decision making. This leads to our second subject of transparency identification in that disclosure information must be of high quality.

According to the Conceptual Framework for Financial Reporting (NZICA, 2010), transparency is to describe information that has the qualitative characteristics of relevance and representational faithfulness enhanced by comparability, verifiability, timeliness and understand ability. Bushman and Smith (2003, p. 66) comment that "corporate transparency is defined as the widespread availability of relevant, reliable information about the periodic performance, financial performance, financial position, investment opportunities, governance, value, and risk of publicly traded firms". The definition is also supported by Zarb (2008, p. 166) who consider that "financial information is presented as it really is with all changes in financial situation being reported truthfully and immediately to all stakeholders".

Readily understandable:

Readily understandable describes accounting transparency from the stakeholders' point of view. In order to achieve transparency, a corporation must supply enough details to help users in making economic decisions; however, at the same time those details should not be difficult for users to

understand and to process. Barth & Schipper (2008, p. 178) states “to be transparent, financial reports need to include information about an entity’s underlying economics and be understandable to users”. The New Zealand equivalent to International Financial Reporting Standards (NZ IFRS) points out that the objective of general purpose of financial statements is to provide information of an entity that is useful to wide range of users in making economic decisions, so the accounting information should be understood by information users (NZICA, 2004). Hunton, Libby and Mazza (2006) point out that more transparency means that needed information can be more easily extracted and more effectively used to understand a company’s financial health.

In summary, according to the analysis above, two aspects, the corporations’ aspect and the stakeholders’ aspect, have been discussed by previous research to identify accounting transparency. This study followed those two components to identify accounting transparency, more specifically underlying economics and be readily understandable.

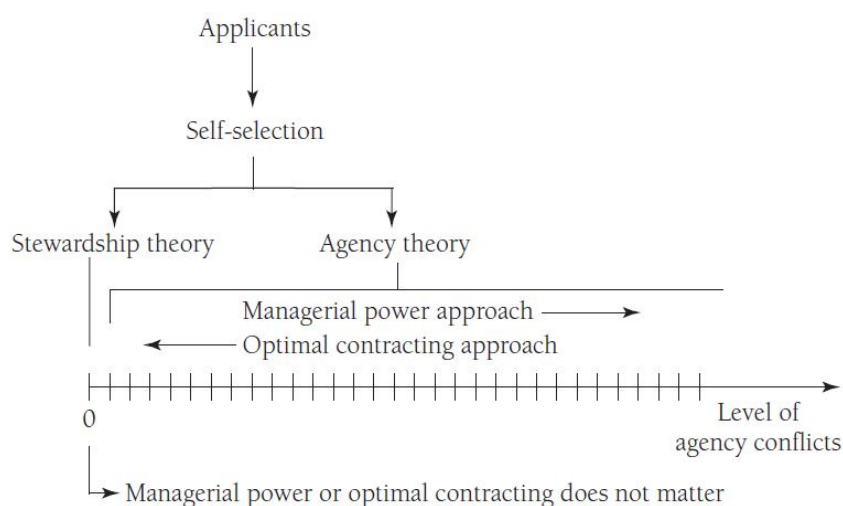
2.3 Agency problem theory or stewardship theory:

Olson (2000) defines the principal and agent relationship as one or more individuals (principal) hire others (agent) in order to delegate responsibilities to them. There are two parties in this relationship: principal and agent, for example, a client (principal) might hire a lawyer (agent) to defend his case. Shareholders (principal) might contract managers (agent) to run the organisation for their interest. The agency problem theory and the stewardship theory are both about the relationship between the principal and agent but conflict with each other. When the interests of the principal and the agency are aligned, it will maximise

shareholders wealth. However, if they conflict with each other, one of the control mechanism-accounting transparencies becomes important.

The stewardship theory traditionally assumes that managers are motivated in the best interests of the principals, which means there is no conflict between agency interest and principal interest (Davis, Schoorman, & Donaldson, 1997; Hung, 1998). Caers et al (2006) point out two branches of stewardship theory. The first branch is that agent and principal have perfectly aligned goals with each other, which means managers should operate for the best interest of their principals and the needs of other stakeholders. The second branch is that agents can attain a better effect when they cooperate with principal because agents are motivated by the interests of the principal. The agents have a motivation which is to obtain opportunities for desired personal outcomes such as growth and achievement when they act firm's best interest, when making decisions for the best interest of the firm (Tosi, Brownlee, Silva, & Katz, 2003).

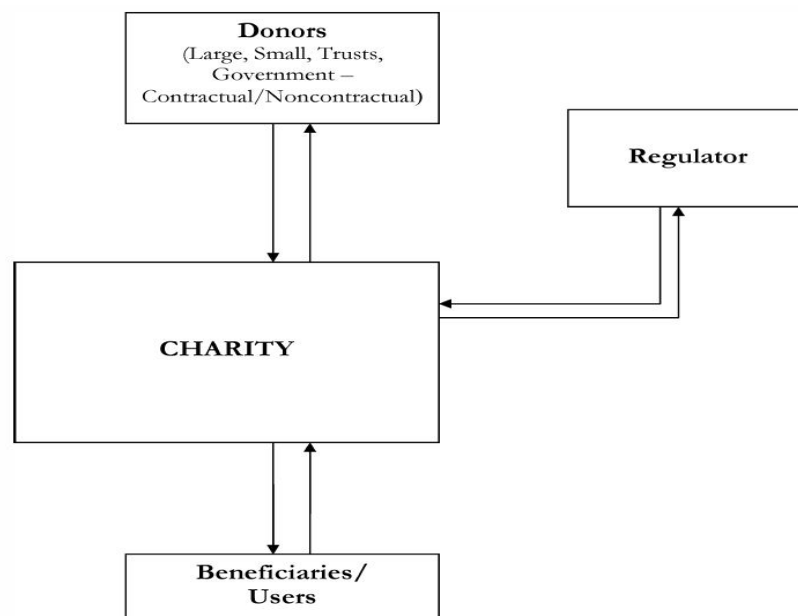
Figure 3 Positioning Agency and Stewardship Theory (Caers et al., 2006, p. 29)



The agency theory differs from the stewardship theory in that it questions the assumption that managers (agent) are motivated to act for the best interests of

the principals (refer Figure 3). The agency theory assumes that “these principal-agent relationships will be characterised by a conflict between the interests of the principal and those of the agent, and that the agent will be motivated to pursue his or her own goals” (Caers et al., 2006, p. 26). Therefore, all individuals act for their own self-interest based on agency theory. According to agency theory, an agency problem occurs when principals’ and agents’ interests differ and agents choose to act in their own interests rather than principals’ one.

Figure 4 Potential Links Between Charity Stakeholders (Hyndman & McDonnell, 2009, p. 10)



Charity also has an agency (charity) and principal (donor and beneficiaries) relationship (refer Figure 4). A charity may be characterised as an intermediary between donors (who provide resources, usually in the form of time or money) and beneficiaries (who are the ultimate recipients of the donors’ gifts) that broker philanthropic resources from donors to beneficiaries (Hyndman & McDonnell, 2009).

2.3.1 Charity under the stewardship theory: no conflict of interest between managers (agency) and stakeholders (principal)

2.3.1.1 What do donors want?

One of the most important external stakeholders for any charity is its donors. They contribute both money and time to charity and help charity to achieve its objectives. Different from an economic transaction, charity donors are not gaining from their act of contribution to charity. What a donor would like to see is resources that are transferred to the charity are used to benefit some other individuals, groups of individuals or the environment. As mentioned by Rose-Ackerman (1987), the reason that donor provides money and time to charity is because they derive some extra pleasure from the act of giving itself. Andreoni (1990, p. 464) refers to this as the “theory of warm glow giving”. The “warm glow” givers are getting satisfaction from the amount of their donation.

Developing the “theory of warm glow giving”, Hyndman and McDonnell (2009) divided donors into two groups: small donors and large donors. They point out that the small donors feel a warm glow from their act of donation so they do not take an interest in the final destination of the funds that they provide. Someone who puts a small sum into a collection tin on the street will be unlikely to spend time to find out where the charity determines its destination to be. For small donors, there is no accountability relationship between the donors and charities. However, large donors, such as grant-making trusts, are interested in the final destination of the funds they provide because there exists a growing pressure towards requiring charities to demonstrate their outcomes and impacts

(Hyndman & McDonnell, 2009). For large donors, there is a strong accountability relationship between donors and charities.

Based on the analysis above, donors provide money and time to a charity in order to help the charity achieve its objectives. The “warm glow” theory explains the motivation of donors’ activities, as donors feel satisfied in the process of giving, although donors do not get any profit from giving.

2.3.1.2 What do charity managers want?

Based on the stewardship theory, charity managers (agency) have the same interest with stakeholders (principal) without any monitoring and receiving benefit incentives. Separate research done by Brown and Caughlin (2009) and Tosi, Brownlee, Silve and Katz (2003) points out some reasons why charity managers put charity organisations' interests in front of their self-interest. Brown and Caughlin (2009) claim that the warm glow is the motivation to establish charitable firms and the warm glow theory can also be ascribed to the behaviour of the non-profit managers as well as to the donors. Charity managers also feel satisfied from providing service to charity organisation they work for. Tosi et al (2003) state that charity managers get the opportunities to achieve their personal outcome by acting for the greater good of the organisation.

There are several responsibilities that need to be taken by the charity managers. According to Brown and Caughlin (2009), there are three specific responsibilities. The first responsibility is that charity managers are likely to have specific ideas about how best they can deliver their services. The second responsibility is to produce as much as budget constraints allow. The third responsibility is to become “profit maximisers choosing to incorporate as a non-profit for the tax advantages” (Brown & Caughlin, 2009, p. 103). All those

responsibilities come from the organisation's interest. Charity managers maximise their working efficiency by acting for the best interest of the organisation, rather than acting for their own interests.

2.3.1.3 No conflict of interest between agency and principal in charity: so no disclosure

The stewardship theory states that managers will act in the best interests of the organisations even in the absence of controls (Tosi et al., 2003). According to this theory, donors and charity managers both have the same interest. On the one hand, donors provide resources (money or time) to help charity to achieve its objectives. On the other hand, charity managers are also performing for charities' best interest. Dicke (2002) suggests that an internal sense of responsibility is created when the core values of principals and agents are converged as they generally do in the case of charities. Because charity managers will act for the organisation's best interest without monitoring and incentive alignment under the stewardship theory, the control mechanism - accounting transparency - will inhibit the motivation of charity manager.

2.3.2 Charity under the agency theory: conflict of interest between managers (agency) and stakeholders (principal)

For profit seeking organisations, the conflict between managers (agency) and stakeholders (principal) frequently arise when organisations are owned by one set of persons and managed by another, with agents always choosing to act for their own interests when the principal and agent have interests that differ. Fraudulent financial reporting scandals of Enron and WorldCom show that the agency problem exists in for profit organisations.

Olson (2000) claims that agency theory should be extended to view the principal-agent relationship in the not-for-profit organisations. Investors are the

most important stakeholders in the for-profit organisations, while donors are the most important stakeholders for the charities. The difference is that donors do not expect to obtain profit from their donated resources (money or time). Non-profit organisations have traditionally been presumed to act in accordance with the public interest. However, “the non-profit sector’s claims to exist for the public good are no longer taken on faith” (Valentinov, 2011, p. 32). It means the public do not believe that the charities could manage donated assets properly for charity purpose. The potential losses increase in charities, when managers are not effectively monitored by donors (Hansmann, 1996). Inefficient charity managers could claim more resources than they actually need for various reasons which result in charities losses.

2.3.2.1 Charity accounting problem (charity manager)

Krishnan., Yetman, & Yetman (2006, p. 402) state “when accounting information is used as a basis for managerial compensation and donation decisions, one implication that follows is that managers would prefer to disclose accounting information that makes it appear as though the non-profit is functioning efficiently”. The following analysis shows the possibilities that charity managers (agency) could manipulate accounting numbers for their personal interest.

Managerial incentive drives charity managers to misreport the accounting numbers. Krishnan, Yetman and Yetman (2006) find that non-profit managers incorrectly classify costs in Internal Revenue Service (IRS) Form 990 which is the primary source of publicly available non-profit financial information. There are two facts pointed out by Krishnan et al (2006): The first fact is that the evidence on the websites of companies claiming to have zero fundraising expenses shows that they do have some fundraising expenses incurred. The

second fact is that those audited financial statements report higher fundraising expenses than stated in the IRS 990s. Finally, Krishnan et al., (2006) conclude that there is a positive relationship between managerial incentives (to garner higher managerial compensation and to attract additional donations) and the incidence of zero fundraising expenses, which means compensation purpose and attracting additional donations purpose are driving non-profit managers to misreport accounting numbers, so the incorrect classification is driven by managerial incentives.

Charity managers manipulate financial results in order to achieve some particular objectives. The “program ratio” (amount of program expenses/total expenses) is widely used to measure spending efficiency for non-profit organisation (Roberts., 2005). A high “program ratio” means that most of the expenses are used for the charity purpose. Because previous research points out that neither an increase nor decrease of the “program ratio” is a negative signal to external information users, charity managers have incentives to keep the program ratio stable in different years (Baber, Daniel, & Roberts, 2002; Jones & Roberts, 2006). Jones and Roberts (2006) analysed dataset of 708 organizations from 1992 to 2000 and found that charity managers are using “joint cost” to offset potential changes in “program ratios” in order to keep the ratio stable.

Eldenburg and Vines (2004) find that managers at non-profit organisations manipulate accounting disclosures in order to achieve good cash levels. The research targets the changes of the US hospital accounting rules in 1990, which requires extra information about “bad debt” and “charity care expenses” to be separately disclosed. The research finds that the reclassification is taking place (“bad-debt” expense decreases and “charity care” increases) when hospitals

(non-profit organisations) have high level of cash. Compared with “charity care expenses”, “bad debt” has higher chance of receiving partial or full payment. In order to achieve a good cash levels, hospitals have incentives to classify some “charity-care expenses” as “bad debt” (Eldenburg & Vines, 2004).

2.3.2.2 Does the donor care (stakeholders)?

Since charity managers could act in their self-interest under agency problem theory, donors care about how donated money has been distributed. Different from stewardship theory, the agent and the principal have a conflict of interest as stated in the agency problem theory. Donors would like to see if their donated asset has been distributed for charitable purposes, but charity managers could abuse donated assets for personal interest (Gibelman & Gelman, 2001). Survey results in the UK indicate that donors are interested in ultimate usage of funds (Charity Commission of England and Wales, 1999).

Naskrent and Siebelt (2011) find that the mental attitude of “trust” has a positive effect on donor retention. Without trust a donor would not financially support an non-profit organisation (NPO) at all (Sargeant & Lee, 2004). The high operational efficiency will increase donors’ trust in the charities. Donors care about the usage of funds.

2.3.2.3 Agency and principal have a conflict of interest in charity

According to the agency theory, people are self-serving and not idealistic and altruistic. When the principals’ and the agents’ interests differ, agents always choose to act for their own interests rather than for the principals. Gibelman and Gelman (2001) analyse media reports of “scandals” involving non-governmental organisations and point out that it is necessary to enhance the accountability because those scandals damage non-governmental organisations credibility and public trust.

2.3.3 Summary

The difference between agency theory and stewardship theory is that the manager (agent) acts in the best interests of the stakeholders' (principal) through monitoring and incentives aligned with organisational goal under the agency theory, however, the stewardship theory stresses that the manager acts in the best interests of his organisation even in the absence of controls (Tosi et al., 2003).

Based on the agency theory, in order to make sure the resources provided by donors are used for the purpose for which it was donated, the organisational governance-accounting transparency is necessary. There is some evidence (Gibelman & Gelman, 2001) to indicate that an agency problem exists in charities.

On the other hand, based on stewardship theory, charities have the same interest as donors, without monitoring. Thus, stakeholders do not worry that resources which are provided by donors would be misused by the charity managers. This leads to the control mechanism and accounting transparency becomes unimportant.

Corporate scandals, fraudulent financial reporting and recent turmoil in the US for profit organisations have attracted stakeholders' attention concerning the relationship between agency and principal. Based on previous research, those scandals show that there are some conflicts between manager (agency) interest and stakeholders (principal) interest in for-profit organisations even under the strict organisational governance. Using data collected from member institutions of the Council of Independent Colleges, Olson (2000) points out that the agency theory research is in the area of independent universities and colleges so the

research supports his hypotheses that agency theory should be extended to view the principal-agent relationship in not-for-profit organisations. Furthermore, many scandals from non-profit organisations have happened in the two previous decades, which gives rise to a loss of public confidence in NPOs. The agency theory will be adopted in the discussion below.

2.4 Agency problem and accounting transparency:

One possible reason for agency problems results from the information asymmetry (Sengupta, 1998). The basic insight of the principal-agent theory is that one party (the principal) hires another (the agent) to undertake a particular task, but the former party suffers from an information asymmetry that introduces a problem in terms of motivating the agent. The agency problem shows that it is hard for internal agent to deliver credible information to external information users . As mentioned by Black (2001, p. 786) “insiders have an incentive to exaggerate the issuer’s performance and prospects, and investors can’t directly verify the information that the issuer provides”.

There are three objectives that have been discussed to identify transparency in this study: greater disclosure, high quality disclosure and understandable information. The following section discusses the relationship between agency problem and accounting transparency from those three aspects.

2.4.1 Greater disclosure (transparency) will reduce agency problem (information asymmetry)

One aspect of the information asymmetry is that investors are facing uncertainty about a firm’s value because of the barrier that stands between issuers of common shares and public investors. Full disclosure could control information asymmetry (Black, 2001, p. 792). Focusing on the extended disclosure about

insider equity purchases on Securities and Exchange Commission (SEC) Form 4 (it is a form that needs to be filed by a director, officer or owner with more than ten percent of a class of equity security) in the US, Veenman (2012) points out that market has a positive reaction to the detailed information disclosure because detailed disclosure reduces the ambiguity about the firm's value. Veenman (2012) uses Form 4 filings as an example and points out that there is a high demand for stakeholders to know more about what was happening in the company. The detailed disclosure helps the company to deliver more information to investors, so greater disclosure reduces the information asymmetry between insiders and stakeholders.

Breaking the barrier between the company and the public investors is the target of the accounting standards issuers. To increase mandated disclosures for firms previously not filing with the SEC, On January 4, 1999, the SEC approved the "eligibility rule", which required all domestic Over The Counter Bulletin Board (OTCBB) firms to report under the 1934 Act. Focusing on the change, Bushee and Leuz (2005) find that newly SEC compliant firms experience significant increases in liquidity, suggesting that extending the level of disclosure could reduce the information asymmetry problem.

Developed from previous research, Huang and Zhang (2012) find that enhancing disclosure really reduces the insiders' ability to utilise corporate resources in a self-serving manner, because an opaque disclosure leads to destruction of value. Huang and Zhang (2012) supply the direct evidence that greater disclosure could reduce agency cost. Arguably, that greater disclosure could reduce agency cost also applies to charity accounting.

2.4.2 High quality disclosure (transparency) will reduce the agency problem (information asymmetry)

According to the Conceptual Framework of Financial Reporting, transparency is to describe information that has the qualitative characteristics of relevance and representational faithfulness enhanced by comparability, verifiability, timeliness and understandability (NZICA, 2010). Accounting transparency is not only about greater disclosure, but also about high quality disclosure.

Timely disclosure is one of the quality characteristics accounting transparency. Comparing the timely disclosure between multinational firms and domestic firms, Lee, Mande and Son (2008) find that timely disclosures (quality disclosure) reduce information asymmetry and enhances the trust between managers and shareholders.

As International Accounting Standards are considered by scholars as the signal of high quality, Chiang and Huang (2012) investigate whether the IFRS adoption (high quality disclosure) could mitigate agency problems. They collect data from Taiwan list firms from 2000 to 2008 and find that IFRS (high quality disclosure) achieves lower equity agency costs. In addition, Ascioglu, Hegde, Krishnan and McMermott (2012) indicate that quality disclosure (IFRS adoption) are less likely to face the issue of earnings management. The research provides the evidence that high quality disclosure to some extent reduces the opportunity that insiders have to manipulate accounting numbers, leading to less information asymmetry. The result also applies to charity accounting.

2.4.3 Understandable information (transparency) will reduce the agency problem (information asymmetry)

Understandability is to identify the accounting transparency from the information users' aspect. Stakeholders' decisions are based on insiders' information disclosure. If disclosed information can be understood by stakeholder, it can reduce the opportunity that managers act for their self-interest and increase investors' confidence.

Analysing the relationship between the disclosure quality and the cost of both debt and equity capital, Sengupta (1998) points out that disclosure quality reduces the cost of both debt and equity capital because high quality disclosure is considered by lenders and underwriters as having a lower likelihood of withholding unfavourable information. The research to some extent supports the point that the stakeholders as the monitors can reduce the chance that managers have to hide unfavourable information, leading to less information asymmetry.

Botosan and Plumlee (2002) provide evidence that there is a negative relationship between the level of detailed disclosure and the cost of equity capital. As the investors estimates their investment returns based on available information about the firm, the greater disclosure would reduce the uncertainty (information asymmetry) about the investment risk, thereby "increasing the demand for its securities and reducing its cost of equity capital" (Botosan & Plumlee, 2002, p. 23).

According to the analysis above, there is a negative relationship between the level of accounting transparency and information asymmetry, which means the accounting transparency (see Table 2.1) could deal with agency problem.

Table 2-1 Summary of Relationship between Accounting Transparency and Agency Problem (Author, 2012)

	Details disclosure deals with agency problem?	High quality disclosure deals with agency problem?	Understandable by stakeholders deals with agency problem?
Agency problem (information asymmetry)	Y	Y	Y

2.4.4 Conclusion

There are two ways to deal with the agency problem according to previous research: Corporate governance and accounting transparency (Huang. & Zhang, 2012; Szper & Prajash, 2011; Yetman & Yetman, 2004). The difference between those two ways is that corporate governance deals with the agency problem from an internal perspective, which means the agency problem could be cured by the charity managers themselves if charity has a good internal control system. On the other hand, accounting transparency deals with the agency problem by effectively monitoring charity managers' activities by external stakeholders.

Most of the previous research on charities are concentrated on corporate governance (Yetman & Yetman, 2004). They point out that corporate governance could reduce the agency problem. However, previous research about the relationship between accounting transparency and the agency problems focus on for-profit organisations. There is a lack of research about the relationship between charities' agency problem and accounting transparency. This dissertation will discuss charity accounting from an accounting transparency aspect.

2.5 Measuring accounting transparency internationally:

This section discusses the existing accounting literatures on measuring accounting transparency.

2.5.1 The statement of comprehensive income is to increase accounting transparency

The concept of “comprehensive income” was formally introduced in FASB Concepts Statement No 3 which was superseded by No 6. The comprehensive income concept requires that all revenues, expenses, gains, and losses recognised during the period should be included in the income, regardless of whether they are considered to be the results of the operations of the period. FASB claims that comprehensive income provides greater transparency, comparability, and consistency (Chambers., 2011). Based on the definition of transparency, this part discusses how the statement of comprehensive income increases the accounting transparency.

2.5.1.1 The statement of comprehensive income supply “enough details” for users’ decision making

As mentioned by Robinson (1991, p. 112), “by reporting comprehensive income, we can provide details to highlight the complicated nature of the number and allow statement users to make their own assessments”. According to this statement, some items that previously have not been measured or have been measured only to a limited extent are included in the statement of comprehensive income. The comprehensive income increases the information content of the income statement because “dirty surplus” items, such as “unrealised gain” or “loss or foreign currency translation adjustments”, are also included in the statement of comprehensive income. Failure to include all non-

shareholder accounting flows in a readily intelligible statement of comprehensive income might reduce the “transparency” (Hanlon, 2000). The more details that are disclosed in the statement of comprehensive income would increase the accounting transparency.

On the other hand, more items that can be seen in one place by users of financial statements also increases the accounting transparency. “Comprehensive income includes all changes in equity except those resulting from investments by owners and distribution by owners” (Cahan, Courtenay, Gronewoller, & Upton, 2000, p. 1274). The gains and losses are recognised under the broader definition of the income in the comprehensive income. Different from “reporting the results of operations” (items are not recognised as revenue unless realised in cash or in other assets that will eventuate in cash and these items can be assessed with reasonable certainty), proponents of the comprehensive income feel that income figures on the income statements over the life of a company constitute its total net income (revenue is recognised even if unrealised), which means all items in the financial performance are included in one place, thereby facilitating users of financial statements understanding. Financial statement users will not overlook any items when they use the statement of comprehensive income for decision making because all items, including those unusual items are included in measuring total net income.

2.5.1.2 The “dirty surplus” items in the statement of comprehensive income have high information quality

The definition of transparency is not only about “enough detail” for users’ decision making, but also about high quality of detailed information. Those “dirty surplus” items which are included in the statement of comprehensive income are proved to have high value relevance for financial statement users’ decision

making by previous research (Cahan et al., 2000; Kanagaretnam, Mathieu, & Shehata, 2009; O'Hanlon & Pope, 1999; Shuto, Otomasa, & Suda, 2009).

Studying some Canadian firms, Kanagaretnam, Mathies and Shehate (2009) find that dirty surplus items are significantly associated with price and market returns and the comprehensive income is more strongly associated with both stock price and returns compared to net income. It means the dirty surplus items listed in the statement of comprehensive income have a high value relevance characteristic. Arguably, the high value relevance also applies to charities where there is a dirty surplus.

Cahan et al (2000) use samples from New Zealand, where disclosure of a form of comprehensive income was started in January 1 1995, and finds that comprehensive income is more value relevant than tradition net income.

Investigating the relationship between the dirty surplus items on the balance sheet and the cost of debt from Japanese firms, Shuto, Otomasa and Suda (2009) find the evidence that equity ratio with dirty surplus items has a strong explanatory power to the debt interest rate than that without dirty surplus. In other words, the dirty surplus items have a value which is relevant to the debt interest rate.

Examining UK stock return and accounting flows accumulated over intervals of up to 20 years, O'Hanlon and Pope (1999) address the concern whether the dirty surplus items have value relevance and find strong evidence that UK ordinary profit is value relevant and provide some evidence that extraordinary items (dirty surplus items) are value relevant.

Those four previous researches all point out that the dirty surplus items listed on the statement of comprehensive income have high information quality, which to some extent supports the point that the statement of comprehensive income increases accounting transparency.

2.5.1.3 The comprehensive income statement could increase the understanding from a user perspective

Readily understandable is to describe accounting transparency from the stakeholders' point of view. "To be transparent, financial reports need to include information about an entity's underlying economics and be understandable to users" (Barth & Schipper, 2008, p. 178). FASB claims that the comprehensive income in an income statement type format provides greater transparency, comparability, and consistency (Chambers., 2011). The issue that the comprehensive income can increase the transparency in terms of increasing the stakeholders' understanding to financial statement has been discussed by two previous studies (Chambers, Linsmeier, Shakespeare, & Sougiannis, 2007; Hirst & Hopkins, 1998).

Hirst and Hopkins (1998) argue that the statement of comprehensive income is effective in enhancing the transparency of the company's earnings management activities and would appropriately devalue those earnings. The research is from the stakeholders' perspective (buy-side), consistent with their hypothesis; they found that stakeholders detected the earnings management when viewing the comprehensive income in the income statement type format. The research supplies the evidence that the statement of comprehensive income increases the accounting transparency in term of supply understandable information to stakeholders.

Following previous research, Chambers, Linsmeier, Shakespeare and Sougiannis (2007) concentrate on the issue whether reported Other Comprehensive Income (OCI) and its components are priced by market participants. In the research, Chambers et al (2007) document two components of OCI, foreign currency translation adjustment and unrealised gains/losses on available-for-sale securities, and find that OCI information is included in stock-price returns. This result follows the point that the statement of comprehensive income is inherently more transparent and understandable for investors. This has relevance for users of charity reports.

According to the analysis above, the statement of comprehensive income is increasing the accounting transparency (see Table 2.2).

Table 2-2 Summary of Relationship between Accounting Transparency and Statement of Comprehensive Income (Author 2012)

Item	Transparency objectives		
	Enough detail	High quality detail	Readily understandable
Comprehensive income	Y	Y	Y

2.5.2 The direct method for cash flow statement is to increase accounting transparency:

Both FASB standards and IASB standards allow either the direct method of cash flow statement or the indirect method of cash flow statement format, but both encourage the direct method presentation (Orpurt & Zang, 2009). Both the direct method and the indirect method require the cash flow statement to be classified to operating activity, financing activity and investing activity. The

difference between the direct method and the indirect method is only on the presentation of the operating activity. Aranoff (Aranoff, 2003) points out that non-profit entities using the direct method of their cash flow statement would greatly improve their disclosure and transparency. Below is a discussion on how the direct method for cash flow statement can increase accounting transparency based on previous researches.

Direct method could supply greater information:

The main difference between the direct method and the indirect method is that the direct method presents separate categories of the cash inflows and the cash outflows, while the indirect method is a reconciliation of the income statement. For example, the depreciation expense is a non-cash paid expense in the income statement. Because the indirect method of cash flow statement is to reconcile the income statement, the depreciation expense is listed in the indirect method cash flow statement for reconciliation. However, the direct method cash flow statement only lists cash paid and received items, therefore the depreciation expense cannot be listed in the direct method cash flow statement. It is not a simple mechanical exercise to convert the indirect method components to the direct components.

Whether the direct method of the cash flow statement could supply information that other statements cannot do is arguable. Krishnan and Largay (2000) points out that the direct method of the cash flow statement components can be more accurately estimated by using the income statements and the indirect method of cash flow statements. However, Orpurt and Zang (2009) point out a different result that the items supplied by the direct method such as cash received from customers cannot be accurately estimated using the income statement and the

indirect method cash flow statements. More specifically, Orpurt and Zang (2009) find that when predicting future operating cash flows and earnings, the cash flow statement disclosures using the direct method are more incrementally informative than that using the indirect method.

More transparency means more detailed information should be disclosed. The direct method is proved to provide more information about cash receipts and cash payments than the indirect method which only amends information from the income statement, so it is more transparent.

The direct method of cash flow statement supplies high quality information:

The direct method of cash flow statement is incrementally useful for stakeholders' decision making. According to the FASB (1978), one of the primary objectives of financial reporting is to predict cash flows. Focusing on the question whether the direct method could lead to a more accurate prediction of future operating cash flows than the indirect method, Krishnan and Largay (2000) collected 405 firms which are using the direct method from National Automated Accounting Research System (NAARS) database for the years 1988-1993 and find that the direct method information has a higher predictive ability of future cash flows than the indirect method information. A similar result is also found by Orpurt and Zang (2009). Analysing 2198 direct method cash flow statements from 1989 to 2002, Orpurt and Zang (2009) point out that market are using the direct method cash flow statement for setting stock prices, which means the direct method is valuable to investors when forecasting future cash flows and earnings.

The accounting transparency not only about supplies enough details to information users, but also supplies high quality information for economic decision making. Previously, researchers (Krishnan & Largay, 2000; Orpurt & Zang, 2009) have proved that the direct method can supply quality information to stakeholders for decision making.

Direct method cash flow statement is easy to understand by stakeholders:

Whether disclosure information is understandable by stakeholders is another subject to identify in accounting transparency. Looking at its influence on commercial banks' lending decisions, Klammer and Reed (1990) find that bank analysts and loan officers with the indirect format cash flow statement may present a different loan decision with the direct method cash flow statement approach. Klammer and Reed (1990) point out that the direct method of displaying cash from operations could enhance the bank analyst and loan officers' ability to understand and apply information, so there was less variability in the size of the loans that would be granted when the analysts receive the direct method cash flow statement than the indirect method cash flow statement. Klammer and Reed (1990) supply the evidence that the direct method of cash flow statement increases the accounting transparency in terms of supplying understandable information to stakeholders. To summarise the discussion above, the direct method of cash flow statement is increasing the accounting transparency based on the accounting transparency identification in this study (see Table 2.3).

Table 2-3 Summary of Relationship between Accounting Transparency and Direct method Cash Flow Statement (Author, 2012)

Item	Transparency objectives		
	Enough detail	High quality detail	Readily understandable
Direct method cash flow statement	Y	Y	Y

2.5.3 Fundraising expenses is an important index that could lead to information asymmetry:

In the US, charities are required to classify their spending into three categories: programs, fundraising, and administrative activities (Hager, 2003). In the UK, according to SORP, support costs are required to classify into each of the activity cost categories and fundraising cost. The fundraising cost is one of the important accounting titles in charity accounting.

There are two accounting ratios closely related to the fundraising cost: program ratio (amount of program expenses/total expenses) and fundraising ratio (fundraising expenses/total donations). The higher program ratios indicate that most of donations are allocated for charitable purposes. Lower fundraising ratios are suggestive of higher fundraising efficiency. Those two ratios can influence donors' decision making. Previous research finds that managers have incentives to manipulate those two ratios for managerial incentives (Krishnan. et al., 2006). Misallocated cost is the way that charity managers manipulate those two ratios: to increase the cost for charitable activities and to decrease the cost for fundraising. As donors would like to see their donated resources are used for charitable purposes, charity managers would allocate all costs to charitable activities and lesser expenditure on other costs. Krishnan, Yetman and Yetman (2002; 2006) find that some charities do have some fundraising costs incurred,

according to their website information, but charities still report zero fundraising costs in their statements.

- Program ratio=program expenses/total expense
- Fundraising ratio=fundraising expense/total donations
- Total cost=program expenses+fundraising expense

Charity managers have an incentive to disclose a lower fundraising cost or even no fundraising cost in the Income Statement (Krishnan. et al., 2006). Whether the fundraising cost is disclosed in the Income Statement is one of the indexes to define accounting transparency.

2.5.4 Other index about accounting transparency from previous research

Accounting transparency is a widely used variable by quantitative research. For example, Bhattacharya, Daouk and Welker (2003) use earning opacity as an independent variable to analyse how earnings opacity (accounting transparency) influences on investors' decision. Bushman, Piotroski and Smith (2004) point out that the financial transparency factor is primarily related to the political economy. Hunton, Libby and Mazza (2006) find that the greater transparency could reduce the likelihood that managers engage in the earnings management. The review about how to identify accounting transparency is listed in the table below (see table 2.4):

Table 2-4 Summary of Accounting Transparency Index (Author, 2012)

Article	Author	Time	Accounting transparency index
The world price of earnings opacity	Bhattacharya Daouk welker	(2003)	<ol style="list-style-type: none"> 1. Aggressiveness (opposite of accounting conservatism) 2. Loss avoidance 3. Earnings smoothing
What determines corporate transparency?	Bushman Piotroski Smith	(2004)	<ol style="list-style-type: none"> 1. Financial accounting disclosure 2. Governance disclosures 3. Timeliness of disclosures 4. Accounting policies 5. Credibility of disclosures
Financial reporting transparency and earnings management	Hunton Libby Mazza	(2006)	Comprehensive income reporting
Economic effects of transparency in international equity markets: A review and suggestions for future research	Lang Maffett	(2011)	<ol style="list-style-type: none"> 1. Earnings management 2. Accounting standard choice 3. Timely loss recognition 4. Auditor choice 5. Measures constructed from analyst data 6. Aggregate measures
Transparency and liquidity uncertainty in crisis periods	Lang Maffett	(2011)	<ol style="list-style-type: none"> 1. Earnings management 2. Firm' auditor 3. Accounting standard (non-local accounting standards) 4. Analyst following 5. Forecast accuracy
Accounting transparency of Korean firms: Measurement and determinant analysis	Kim	(2005)	<ol style="list-style-type: none"> 1. Corporate governance subindex 2. Audit subindex 3. Disclosure subindex

2.6 Country based charity accounting research:

This study is a country based research. The study compares accounting transparency in terms of financial statement from international charities with affiliated organizations both in New Zealand and China. The UK SORP, as one of the successful practice in accounting profession, also influences this study. This section will review charity accounting literatures from those three countries.

2.6.1 Charity accounting research in China

There is not much research about charity accounting in China. Miller (1997) is using a systematic random selection method to select 91 annual reports as the research scope in Hong Kong and the purpose of the research is to provide information about charity accounting in Hong Kong. The background of the research is that only 48 groups applied (in 1994) for a permission to make public appeals even though there are thousands of charities in Hong Kong.. There was no specific law in Hong Kong on charitable activities at that time and it made the charities credibility became low. A newspaper reports that only 5% of the 4 million dollars television raised funds in 1992 was actually spent on charitable purposes and the rest of the money went on production and administration costs (Nadel, 1995). The Hong Kong Council and Social Services received a big number of calls from people worried about fund-raisers and investigation showed that 40% of the collectors were bogus (Miller, 1997). Miller (1997, p. 78) points out some negative aspects for charity accounting in Hong Kong:

- 1. Only 5.5% presented a statement of cash flow.*
- 2. Most charities present a balance sheet (93%).*
- 3. 26% recognized depreciation in their financial statements.*

4. *Only 4% included a statement of functional expenses as part of the financial statements.*
5. *Sixty eight charities disclosed accounting policies (74.7%).*
6. *74% of the charities indicated the accrual system of accounting was being used.*
7. *35% of charities were audited by one of the “Big Six” firms.*

Cordery and Zajkowski (2005), looking at the tools for increasing the transparency in the charity, state that the transparency and the accountability have been ignored by the Hong Kong charities until recently. The Hong Kong Social Welfare Department has indicated that charities need to report their financial affairs accurately and completely in order to enhance the transparency and the accountability. However, the cash rather than accrual accounting which has been adopted by many Hong Kong charity is the challenge for Hong Kong Institute of Chartered Accountants and its members (Cordery & Zajkowski, 2005).

2.6.2 Charity accounting research in New Zealand

Since Bird and Morgan-Jones (1981) pointed out that accounting disclosure is very difficult to understand by donors, a number of researchers are looking at the issue of how to improve the accounting quality in charities. There are many New Zealand researchers gathering to discuss the situation in New Zealand (Hay, 1992; Hooper et al , 2008; Huang & Hooper, 2011; Miah, 1991)

In July 1987, New Zealand issued the “Statement of Public Sector Accounting Concepts” (the Concepts), which has been valued as the most significant initiative undertaken by the New Zealand accounting profession to improve the quality of external financial reporting practices in the public sector (Miah, 1991).

Miah (1991, p. 83) points out some innovations in the Statement of Public Sector Accounting Concepts issued in 1987:

- *As the information is the foundation of accountability, more detailed disclosure has been required by the Concepts for public sectors*
- *The conceptual framework is based on the purposes of User-needs model*
- *Public sector managers are accountable not only of the stewardship function but also for the managerial aspect of their performance (efficiency and effectiveness).*

However, the Concepts, which was issued in 1987, became superseded because further developments have taken place since 1989. To avoid a possible misleading about the reforms and also to expand on some of the points raised by Miah (1991), Hay (1992, p. 2) replies to Miah's arguments and points out that:

- *More external reporting is also required by the development.*
- *Describing an entity's resources in physical terms is no longer required and all assets are required to use accrual accounting in balance sheet.*
- *Miah(1991) goes too far about SPSCA being based on a user needs model. Managers' accountability and decision-usefulness approaches are both important for the public sector accounting concepts.*
- *Public sector accounting shift from cash to accrual accounting is a "new development" (p4), which is opposite Miah(1991)'s view.*

Whether the charity accounting information is useful for the funding decision (stakeholders) is another issue that attracts researchers' attentions in New Zealand. Based on the view that accounting information should be useful for

stakeholders' decision making, so the charity accounting information should be used by the donors to determine which charity to support. Hooper et al (2008) point out there are four charity accounting problems (lack of consistency in the titles used; not capitalising fixed assets; oppose use of accrual basis and not fully allocating the overhead of administration costs to fund-raising projects) that could influence the stakeholders in understanding the financial statements based on New Zealand data.

Although there are some problems in the New Zealand charity accounting, the accounting information is still proved to be useful for stakeholders. Huang and Hooper (2011) interview funding organisations from Auckland and Wellington and find that funding organisations require financial information in their decision-making processes. The research result supports the point that charity accounting information is useful for stakeholders' decision in New Zealand and stakeholders trust those disclosures in charities' accounting information.

2.6.3 Charity accounting research in UK

Charity Commission is growing very fast in UK so the charity issue is becoming an important sector of British economy (Hines & Jones, 1992). The first major research on UK charity accounting was conducted by Bird and Morgan-Jones. Bird and Morgan-Jones (1981) survey 135 fund raising charities and point out that users of financial information find it difficult to understand and make a comparison between financial statements. Charity managers manipulate accounting numbers by using some contentious accounting treatments. Their motivation is to make the total revenue looked small to attract more potential donors.

There are two concerns addressed by some charities' stakeholders after Bird and Morgan-Jones issue their reports: first, the poor reporting practice in UK charities undermines the confidence of donors. Second, poor reporting practice in UK charities increase the likelihood of major scandals that donated assets will not be used for charity purpose. In order to improve the quality of the financial reporting in the charity, the Accounting Standards Committee (ASC) undertook a lengthy consultation to develop a Statement of Recommended Practice (SORP) on charity accounting. The first SORP on the charity accounting was released in 1988. The SORP responds to the needs of donors on the charities' financial statements. The charity commissioners expect the accounts of charities and their accounting practices to fully comply with this SORP. The influence of the SORP has attracted the attention of many UK charity accounting researchers.

The first SORP for charity accounting was released in 1988. Focusing on the SORP adoption, Ashford (1989) accounts of 56 charities in 1988/1989 and finds that most of the charities continue to use dubious accounting practices which are directly contrary to the newly released SORP.

The target of the SORP is to improve the quality and the consistency of the charity accounting and the reporting in the UK. However, researchers have different results about the effects after the adoption of SORP on the charity accounting. The research on the impact of SORPs would be helpful for assessing whether they could be having an effective role in the future. Hines and Jones (1992) carry out a longitudinal study of large charities' reporting practices from 1988 to 1990 about whether the SORP had a significant impact upon the UK charity accounting. The research finds that most of the selected charities comply with the SORP's recommendations. However, Hines and

Jones (1992) do not find any evidence that the SORP has a significant impact upon the accounting practices of the UK charities. A comparative study of 83 charities in 1994/1995 financial statements was conducted by Williams and Paller (1998) in order to assess how far charity accounting practices had progressed since the 1970s and to identify the effects of the revised SORP (1995) to the charity accounting practice. Williams and Palmer (1998) found that there is a significant improvement to the quality of financial statements for those larger charities. Using empirical research analysis, Connolly and Hyndman (2000) examined 151 financial statements of large fund raising charities in England and Wales. Their objectives were to assess the impact of both the original SORP and the revised SORP on the charity accounting. Connolly and Hyndman (2000) conclude that the charity accounting has been improved significantly since the 1980s. Developing from the work of Connolly and Hyndman (2000), Hyndman and McMahon (2011) point out that a much tighter and more meaningful regime of accounting and reporting leads to a more accountable and healthier charity. According to those previous researchers, the SORP has a significant effect on enhancing the quality of charity accounting in the UK.

2.7 Summary and Research questions:

This chapter has provided a background of accounting transparency in charity accounting research. The identification of accounting transparency has been defined at the beginning of this chapter. As noticed by Barth and Skipper (2008) accounting transparency is not well defined although both IASB and FASB have specific requirements for financial statements on accounting transparency. It is important that the meaning of accounting transparency is clarified before its problems are discussed. The theory basis about accounting transparency has

been introduced, which is about the argument between the stewardship theory and the agency theory. It can be noticed that the analysis about accounting transparency in charity accounting is necessary because of the agency problems. Accounting transparency will to some extent deal with agency problem (Black, 2001; Botosan & Plumlee, 2002; Lee et al., 2008). Finally, this chapter reviews charity accounting research from the UK, New Zealand and China.

It is important to note that there is not much research about charity accounting in China; nevertheless, no research studies have been done on what is the nature of the disclosure about the accounting transparency in terms of financial statements in China. In New Zealand, the quality of financial reporting in charity has drawn a lot of public attention ; it is interesting to see how quality characteristics such as accounting transparency are adopted in New Zealand.

The proposed research project aims to fill the gap in the literature to see whether the financial statements of the same charities have more or less transparency in China than in New Zealand and what are the nature of the accounting transparency in terms of financial information both in New Zealand and China.

Therefore, the research question is: Do the financial reports of affiliated international charities, available on their websites, have more or less transparency in China than in New Zealand?

Sub-questions will be addressed in the research:

1. Does the Balance Sheet have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

2. Does the Cash Flow statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
3. Does the Income Statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
4. Do the Notes to Financial Statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?
5. Does the Audit Report have more transparency in China than in New Zealand? If so, which audit firms (Big 4) are involved and what kind of audit report is involved?

3 Chapter Three: research design

3.1 Introduction:

The research project of this study is to investigate whether the financial reports of affiliated international charities, available on their websites, have more or less transparency in China than in New Zealand. The research design is the guideline for the researcher to investigate a particular problem and seek solutions. In order to ensure the credibility of this research, it is necessary to explain the nature of the research and detailed steps of the research method. Once the potential problems and the process of the research have been clearly identified, the research can be implemented accordingly.

This chapter firstly discusses why the qualitative methodology is appropriate in this research. It then introduces the particular research method-content analysis and also describes the process of using the content analysis in this research. Justification of why the content analysis is appropriate for this research is provided. After that, steps conducting the content analysis are provided and they include: the scope of the research; how to do the data collection, how to categorise themes, how to identify a category according to the particular research project. Finally, a discussion of how to obtain the reliability and the validity for this research using the content analysis is provided.

3.2 The methodology - qualitative research

methodology:

3.2.1 The ontology of the research

The interpretivist paradigm is adopted for this study and this study agrees with the statement “it is not important whether or not the interpretation is correct-if men define situations as real, they are real in their consequences”(Berg, 2009, p. 10). As an interpretivist researcher, I believe the form and nature of reality is relative realism. Researchers are playing an important role in the process of research so “human interactions form the central source of data” (Berg, 2009, p. 11).

Chicago School orientation agrees that “humans have certain creative capacities that allow them to develop and employ symbols to identify and define various aspects of the world around them” (Berg, 2009, p. 13). This study is to compare the charity accounting transparency between New Zealand and China and to look for the nature of charity accounting disclosure in terms of the accounting transparency both in New Zealand and China.

Collected data from charities’ financial statements were analysed aiming to examine whether the disclosed information in the financial statements was transparent for stakeholders and what was the nature of the charity accounting disclosure. The research question relates to a social reality which is constructed by people in interpreted by them, rather than referring to something that exists objectively “out there”, so the interpretivist paradigm is applicable for the research.

3.2.2 Why qualitative research methodology?

According to Creswell (1998), whether the qualitative research methodology is suitable for research it is necessary to follow three steps.

First, “in a qualitative study, the research question often starts with a how or what so that initial forays into the topic describe what is going on” (Creswell, 1998, p. 17). In this research, the research question is about the comparison of the transparency between New Zealand charity and Chinese charity. The nature of the research question is to deal with what has been disclosed in the charities’ financial statements in terms of increasing the accounting transparency and how financial information has been disclosed in the financial statements in terms of the accounting transparency. The research question is about how and what, so qualitative research is the most appropriate methodology for this research.

Second, “choose a qualitative study because the topic needs to be explored” (Creswell, 1998, p. 17). The relevant research topic about charity accounting in New Zealand is focusing on whether charity accounting could be used by stakeholders for their decision making (Huang & Hooper, 2011) and what the problems of the charity accounting are in New Zealand (Hooper et al., 2008). However, there is no relevant research analysis on the transparency of charity accounting in New Zealand. Because there is a lack of research on this particular topic, issues about the charity accounting transparency cannot be easily identified. There are no existing theory to explain the behaviour of how charities disclosure information in financial statements both in New Zealand and China, so the topic needs to be explored. The qualitative research methodology is suitable for this research.

Third, “use a qualitative study because of the need to present a detailed view of the topic” (Creswell, 1998, p. 17). The third reason to choose the qualitative research methodology in this research is because the research will not only find out if the charity accounting disclosure is better in China or New Zealand in terms of accounting transparency, but also try to find out what has been disclosed in the charity financial statements and how charities disclose their financial information. This research can then provide some suggestions to both accounting information users and accounting standard issuers to explore the extent of charity accounting disclosure.

Also, this is a qualitative research as it assesses the quality of the charity accounting disclosure using words and descriptions whereas most quantitative research relies chiefly on numbers. The qualitative research refers to the meanings, concepts, definitions, characteristics of things (Berg, 2009). The research aims to explore participants’ attitudes and behaviours so the research attempts to obtain in-depth opinions from participants. This research examines whether information in the charity financial statements reflects the charity’s actual performance. Previous research has pointed out that the agency problem exists in the charities (Gibelman & Gelman, 2001) so donors do not trust that charity managers would distribute their donated asset for charity purposes. As charity managers have incentives to manipulate accounting numbers because they are in the better position than the outside stakeholders, the question of how information can be disclosed in the financial statements is becoming interesting. Charities’ financial statements are one of the most important media for donors to understand how donated assets have been distributed. “Certain elements of symbolism, meaning, or understanding usually require consideration of the individual’s own perceptions and subjective apprehensions”

(Berg, 2009, p. 16). This research aims to understand the meanings and concepts from disclosed financial statements in order to find out how information has been disclosed in the financial statements and whether disclosed information can be understood by donors. Because this research is to interpret the meanings of accounting transparency of the financial statements, qualitative research methodology is appropriate for the research.

Finally, Patton (2002) considers that qualitative inquiry usually focuses in depth on small samples that are selected purposefully. There are only 8 international charities with affiliated organisations that are common to both China and New Zealand, but 4 of them are Hong Kong based and therefore not relevant to the research. Those international charities that have Chinese branches based in Hong Kong, Taiwan and Macao are excluded from the research because they are subject to different legislations. Therefore four charities common to China and New Zealand are analysed: Red Cross, WWF, UNICEF and World Vision of International. Only 2009/2010 financial statements from those charities websites are used as the sample of this research. This research is only focus on purposeful samples. The research follows the view that the social reality is constructed by the way people perceive social situations (Bryman & Bell, 2011). Researchers from different backgrounds may have different understandings and those different understandings would influence people's action. In this research, the natures of charity accounting disclosure in terms of accounting transparency are examined. All the relevant information is collected from the published annual reports.

3.3 Research method:

The content analysis will be employed to assess the comparative analysis about the accounting transparency of international charities in China and New Zealand. "Content analysis is a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena" (Wamboldt, 2009, p. 314). The study accepts the point that content analysis is an "inquiry process (which does) not (rely) on casual reading but on rather explicit counting and coding of particular lines of prose, of word usage and of disclosure" (Wilmshurst, 2000, p. 16).

3.3.1 Reasons for adopting content analysis as the research method:

First, "content analysis is an unobtrusive technique" (Krippendorff, 2004, p. 40). Researchers do not want to use contaminated data in the research because they fear of being manipulated by their sources. Social researchers may want to avoid ways that subjects react to being involved in scientific inquiries. For example, a subject may aware that he or she is observed or tested so the subject may act differently as to when they are in a normal situation, which makes the collected data untrue or the experimenter/interviewer interaction has an effect on the subjects, which also may distort data. Those situations may distort the data and jeopardize the validity of the research. However, content analysis is "unreactive" or "unobtrusive" (Krippendorff, 2004, p. 40).

Second, "content analysis can handle unstructured matter as data" (Krippendorff, 2004, p. 41). For efficiency reasons, researchers want data that are readily able to be analysed so they impose structure on the data collection

process, e.g., surveys, mail questionnaires and structured interviews. However, those structures prevent the respondents' individual voices from being heard. Content analysis is interested in the data after the data have been generated so it "preserves the conceptions of the data's sources" (Krippendorff, 2004, p. 41).

Third, content analysis can be used to analyse small samples of texts (Krippendorff, 2004). In my dissertation, there are only four charities common to China and New Zealand: Red Cross, WWF, UNICEF and World Vision International. There are only 4 charities with affiliated organisations both in China and New Zealand as samples in my research and I only use the 2009/2010 financial statements from those four charities. The small samples of texts make the content analysis appropriate in this research.

3.3.2 Content analysis - what to study

"Content analysis is a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use" (Krippendorff, 2004, p. 18). The qualitative approaches - the discourse analysis - content analysis and the social constructivist analysis - content analysis will be used in this research. Both of them are focusing on discourses (Krippendorff, 2004). The difference between discourse analysis and social constructivist analyses is that: the discourse analysis is to deal with the problem that how particular phenomena are represented, while the constructivist analyses is to answer how reality comes to be constituted in human interactions and in language (Krippendorff, 2004). In this research, I am concentrating the key issue accounting transparency. Both IASB and FASB have provided the conceptual frameworks for the accounting transparency, however, those conceptual frameworks are theory based so there is no a practical model for

financial statements which shows the particular items that represent accounting transparency. The discourse analysis will be used at this stage because I need to analyse the financial statements from selected samples to find out how accounting transparency is represented. Furthermore, the agency problem exists between charity managers and donors, so social constructivist analyses are used to analysis how the agency problem emotion are conceptualized by charity managers based on the financial statements disclosure and analysis.

Qualitative researchers are subjectivist so they will bring a wider range of knowledge to the context of study. Category schemes (theory driven) are invented by the researcher to generate knowledge and to increase understanding of a particular phenomenon (Wamboldt, 2009). More specifically, the content analysis research method generally encompasses the following steps (Wamboldt, 2009, p. 315):

- 1. Selecting the unit of analysis,*
- 2. Creating and defining the categories,*
- 3. Pretesting the category definitions and rules,*
- 4. Assessing reliability and validity,*
- 5. Revising the coding rules if necessary,*
- 6. Pretesting the revised category scheme,*
- 7. Coding all the data, and*
- 8. Reassessing reliability and validity.*

3.3.2.1 Designing the sampling method and selecting the unit of analysis:

Sampling method:

According to Wamboldt (2009), content analysis is predictive in intent. For the purpose of this research, all charities both exist in New Zealand and China and

can be the potential candidates of this research. Four charities common to China and New Zealand will be analysed: Red Cross, WWF, UNICEF and World Vision International.

The research is only focusing on the financial statements publicly disclosed on the charities' own website in 2009-2010. In order to compare the accounting transparency of international charities with affiliated organisations both in China and New Zealand, only those charities who have their financial statement (or annual reports) 2010 available on their website would be considered in this research. Finally, those four charities (Red Cross, WWF UNICEF and World Vision International) are all have their financial statements available on their website so those four charities will be studied in this research.

The financial statement (annual reports) will be the only resources for this research. First, the research is to discuss the information asymmetry between agency (charity manager) and stakeholders (donor) for charities with affiliated organisation both in China and New Zealand. Financial statements have been widely recognised as the principal means for corporate communications of activities and intentions between agency and stakeholders by research (Wiseman, 1982). Second, it can be easily assessed. Finally, financial statements are assumed to be audited, so the data should be of high quality.

Website information is the only media for the data collection so there is no interview, focus groups or other media as the method to do the data collection. Two benefits for using website information are: first, controlled experiments, interviews, focus groups, surveys, and projective tests might distort data (Krippendorff, 2004). For example, the subject may aware they are being observed or tested so they may not act as they normally do, which makes the

research lose validity and researchers being manipulated by the distorted data. Second, financial statements can be easily obtained from the web, so the researcher saves time and travelling costs for data collection.

The unit of analysis:

“Content analysis is a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use” (Krippendorff, 2004, p. 18). The texts and the meaningful matter are important for content analysis because they are the materials that were analysed by researchers. “A text means something to someone”, which means the materials are produced by someone to have meaning for someone else (Krippendorff, 2004, p. 19). In my research, the text is the charities’ financial statements. Those financial statements are prepared by charity managers but they have different meanings for stakeholders. There are three measures that can be designed to analyse the content of the chosen text. Words (Wilmshurst, 2000), sentences (Borkowski, Welsh, & Wentzel, 2012) and pages (Campbell, 2000) are the most common measures in content analysis, but each type of analysis has its own pro and cons:

“Words have the advantage of lending themselves to more exclusive analysis (are categorized more easily) and have the pragmatic advantage that databases may be scanned for a specified word. Sentences are to be preferred if one is seeking to infer meaning. Pages, however, tend to be the preferred unit as this reflects the amount of total space given to a topic and, by inference, the importance of that topic...pages are also the easier (and more reliable) to measure by hand” (Borkowski et al., 2012, p. 97).

The paragraph as the unit of analysis for this study is chosen for several reasons. First, the word unit of analysis is rejected because word analysis is too small for understanding of meaningful words. “Meaningful connections are likely to be found within five words on either side of the target-words for English” (McCarty, 2008). For example, the word “expense” appears very often in the income statement, its connotations differ by phrase, such as “administration expense”, “fund raising expense”, or “charity activities expenses”. Second, the sentence unit analysis is inappropriate in this research because sentences in a paragraph were organised very deliberately by topic. All sentences within a paragraph always have the same topic so they are under the same category. The sentence unit analysis is also too small for this research. Third, pages as unit analysis have more information content than words and sentence unit analysis, but several different disclosure categories might occur within a single page, so they may have a risk of inconsistent interpretation of what it is that is being measured. The paragraph as the unit of analysis is appropriate.

Language is one of the issues that the researcher needs to consider before the research. Because of the paragraph as the unit of analysis, I need to decide which language, English or Chinese, will be used as the official language in this research. After read the charities’ annual reports from China, I find that those reports are prepared both in English and Chinese. I think international charities with affiliated organisations in China also accept donations outside of China or their affiliated organisation from other countries may transfer donations to the Chinese branch, so they prepare their reports both in English and Chinese in order to meet the needs of overseas’ donors. Because English is used in Chinese reports and New Zealand reports, English will be used as the official language in this research.

3.3.2.2 Creating and defining the category system:

“The intent of content analysis is not necessarily to document the shared meaning between the researcher and the researched, but to describe the phenomena of interest for a particular purpose” (Wamboldt, 2009, p. 316). More specifically, based on their own knowledge to the context of the study, the researcher will use a particular framework or perspective to analyse the data.

This study is focusing on the accounting transparency issue for charities based on the agency problem theory. Most of those previous research are only looking at the accounting transparency issue in for profit organisations, while this research is focusing on the non-profit organisations - charities. The research question is: the financial reports of affiliated international charities available on their websites have more or less transparency in China than in New Zealand. In order to answer this question, there are five sub-questions that will be addressed in the research. Each of the sub-questions is looking at one component of the financial statements and the basic financial statements are made up by those five components (the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flow, Notes and Auditor’s report). How to categorise information is a challenge for the research design.

The target of the SORP is to improve the quality and consistency of charity accounting and reporting in the UK. The SORP has been proved by many researchers (Connolly & Hyndman, 2000; Hyndman & McMahon, 2012; Williams & Palmer, 1998) and that there is a positive effect on the quality of charity accounting after SORP adoption. A comparative study about 83 charities’ 1994/1995 financial statements was conducted by Williams and Palmer (1998) in order to assess how far charity accounting practices had

progressed since that 1970s and to identify the effects of revised SORP (1995) to the charity accounting practice. Williams and Palmer (1998) found that there is a significant improvement to the quality of financial statements for those larger charities. Using empirical research analysis, Connolly and Hyndman (2000) examined 151 financial statements of large fund raising charities in England and Wales. Their objectives were to assess the impact of both the original SORP and the revised SORP to charity accounting. Connolly and Hyndman (2000) concluded that charity accounting has improved significantly since the 1980s. Hyndman and McMahon (2012) point out that a much tighter and more meaningful regime of accounting and reporting led to a more accountable and healthier charity. According to those previous researches, SORP have a significant effect to enhance the quality of charity accounting in the UK.

The categorisation is based on the research question. "Category schemes are invented by the researcher to generate knowledge and to increase understanding of a particular phenomenon" (Wamboldt, 2009, p. 316). This research follows the view that a much tighter and more meaningful regime of accounting and reporting led to a more accountable and healthier charity (Hyndman & McMahon, 2012). With respect to SORP, it is one of the best sources setting out charity accounting requirements; the categories are designed according to SORP guidelines in this study. The SORP provides a comprehensive framework of recommended practice for charity accounting and reporting. After an overall gross assessment of the financial information of those four charities, five accounting categories were selected based on SORP 2005.

The framework of financial reports under SORP 2005:

Not all charities are required to report their financial information in the same way, so to what extent that charities report their financial information depends on the size of the charity's income in the accounting year and the assets held at the end of that financial year. If the charities are small in size, the charity only need to prepare a simple annual report and no audit is required. If the charities are large in size, the charity is required by law to have an audit and follow the guidance in the SORP. According to SORP (ASB, 2005, p. 98),

Charities Act 1993 (England and Wales): Threshold for the preparation of accruals accounts

Gross income > £ 100,000

Charities Act 1993 (English and Wales): Threshold for audit

Gross income >£ 500,000 or

Gross assets >£ 2.8m and gross income > £100,000

The Charities Act s353(1) defines gross income as "in relation to charity, means its gross recorded income from all sources including special trusts"

According to the "Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005)", charity accruals accounts should comprise (ASB, 2005, p. 5):

- *A Statement of Financial Activities for the year that shows all income resources and all resources expended by it and reconciles all changes in its funds. The statement should consist of a single set of accounting statements and be presented in columnar form if the charity operates more than one class of fund;*
- *An income and expenditure account where this is a legal requirement. In certain circumstances the Statement of Financial Activities will also meet the legal requirements for an Income and Expenditure Account. Where the two*

statements are combined this should be identified in the heading of the statement.

- *A balance sheet that shows the recognised assets, the liabilities and the different categories of fund of the charity*
- *A cash flow statement, where required, in accordance with accounting standards; and*
- *Notes explaining the accounting policies adopted and other notes which explain or expand upon the information contained in the accounting statements referred to above or which provide further useful information. This will include notes analysing the figures in the accounts and explaining the relationship between them.*

In this research, I will first identify whether those selected samples are eligible for disclosure in both the Financial Statements and the Audit Report. If those samples meet the requirement of large in size charities, they are required to prepare full financial statements and auditors' report by SORP 2005. The categories of the research will include: The Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flow, Notes and Auditor's report

The limited application of SORP 2005 guidelines should be appreciated because the SORP 2005 is only designed for UK charities. As mentioned by SORP 2005, the Statement of Financial Activities (SOFA) has been introduced to the charities, instead of the traditional revenue statement or income statement. The main difference between SOFA and income statement is that the capital expenditure is included in the income statement but not in the SOFA (Williams & Palmer, 1998). In my research, I will only concentrate on whether charity accounting achieves the accounting transparency, so whether the capital

expenditure is included in the SOFA will not influence my research conclusions. This research will treat the income statement the same as the SOFA requirements.

3.3.2.3 How to identify those five categories in term of accounting transparency

This study will adopt some particular benchmarks according to previous research to identify those five categories in term of accounting transparency.

Category one - Balance sheet

The SORP states that (ASB, 2005, p. 36):

“The balance sheet provides a snapshot of the charity’s assets and liabilities at the end of its accounting year and how assets are split between the different types of funds. The objective of the balance sheet is to show the resources available to the charity and whether these are freely available or have to be used for specific purposes because of legal restrictions on their use.”

“The presentation choices that aid transparency are a classified statement of financial position” (Gordon, Khumawala, Kraut, & Neely, 2010, p. 215). Particularly, “subtotals for the current assets” and “subtotals for the current liabilities” are selected to define the Balance sheet category in term of accounting transparency. For readers who want to compute commonly used ratios the format without “subtotals of current asset” and “subtotals for the current liabilities”, is not user friendly (Gordon et al., 2010, p. 215). The accounting titles “subtotals for the current asset” and “subtotals for the current liabilities” are employed to assess transparency.

Category two - Cash flow statement

The SORP states that (ASB, 2005, p. 50):

“Wherever a cash flow statement is prepared it should comply with the requirements of UK FRS 1.”

“We believe that accountability and transparency would be greatly enhanced if information on operating, investing, and financing cash flows were more commonly available” (Gordon et al., 2010, p. 218). Direct method Cash flow statement is selected to define the Cash flow statement category in terms of transparency. Previous research states that Direct method cash flow increases accounting transparency (Aranoff, 2003). According to SORP, “transactions which do not result in cash flows should not be reported in the Cash flow statement”, which means the indirect method of Cash flow statement is not allowed by SORP 2005. Direct method cash flow statement is employed to assess transparency in this study.

Category three - Income statement

The SORP states that (ASB, 2005, p. 14):

“The statement of Financial Activities is single accounting statement with the objective of showing all incoming resources and resources expended by the charity in the year on all its funds.”

“Comprehensive income” and “fundraising cost” are selected to define income statement category in terms of transparency. “Comprehensive Income statement” is employed to assess transparency (Hunton et al., 2006). The “fundraising cost” title in the Income statement is employed to assess transparency (Krishnan. et al., 2002; Krishnan. et al., 2006).

Category four - Notes to financial statements

The guide “Not for profit financial reporting guide New Zealand” states that (NZICA, 2006, p. 66):

“The notes are an integral part of the financial statements. The notes provide: information about the significant accounting policies applied by the entity; additional information about items included in the primary financial statements and information about transactions or event that is not apparent from the primary financial statements.”

“The notes to the financial statements are the area where improvements in transparency can be readily achieved” (Gordon et al., 2010, p. 218). Accounting standards (non-local accounting standard) are selected to define “Notes to the financial statements” category in terms of transparency (Mark Lang & Mark Maffett, 2011; Mark Lang & Mark Maffett, 2011). Non-local accounting standards which have been adopted as the accounting standard to prepare the charity accounts are employed to assess transparency.

Category five - Auditor’s report

Auditor choice is selected to define the auditors’ report category in terms of transparency (Mark Lang & Mark Maffett, 2011). PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Yong and KPMG (Big 4) as the charities’ auditors are employed to assess accounting transparency in this study.

3.3.2.4 Pretesting the category definitions and rules:

At this stage, I select the Balance sheet from all samples to do some pretesting to determine if the rules for classification are clear. Because the identification of the category - Balance sheet is based on previous research, I discover that some content falls outside the pre-established Balance sheet category. The

reason that some information falls outside the pre-established Balance sheet category is because the definitions to the balance sheet category is too narrow. In order to deal with the problem, I employ the AUT Annual report 2011 as the model for the study. AUT is a non-profit organisation and the selection of the AUT Annual report 2011 as the model to define categories for the study is random. The reason to select the AUT Annual reports 2011 as the model of the study is based on previous research that the more detailed disclosure (transparency) the less information asymmetry between agency and stakeholders.

The study will compare all selected samples to the benchmark model – the AUT Annual report 2011. The process of the study is then extended to examine the annual reports from selected samples of international charities with affiliated organisations both in New Zealand and China and also using the UK SORP to investigate whether charities' annual reports complied with AUT Annual report 2011. Both similar accounting items and different accounting items between those selected samples' annual report and the AUT Annual report 2011 will be identified under each designed category.

These categories provide the basis for disclosure and specific variables used in this study's content analysis and are presented below (see Table 3.1):

I code those financial statements from selected samples myself according to the five categories just described: Balance sheet category ("subtotals of current assets", "subtotals of current liabilities" and "AUT Annual reports 2011"); Income statement category ("comprehensive income", "fundraising cost" and "AUT Annual reports 2011"); Cash flow category (direct method cash flow statement and "AUT Annual reports 2011"); Notes to the financial statements category

(non-local accounting standard and “AUT Annual reports 2011”) and Auditor’s report category (Big 4 accounting firm and “AUT Annual reports 2011”).

Table 3-1 Disclosure Categories Used in Content Analysis (Author, 2012)

Category	Code	Description of category
Balance sheet	CB	Whether charities included a statement of balance sheet as part of their financial statements? Whether financial statements provided a classified statement of financial position that had subtotals for the current assets and current liabilities?(subtotals for current asset; subtotals for current liabilities) Balance sheet of AUT Annual report 2011
Income statement	CI	Whether charities are using a comprehensive income statement? (comprehensive income) Whether charities show costs related to a specific program? (fundraising cost) Income statement of AUT Annual report 2011
Cash flow statement	CC	Whether charities included a statement of Cash flow statement as part of their financial statements? Whether the Direct method has been used for Cash flow statement? (Direct method) Cash flow statement of AUT Annual report 2011
Notes to financial statements	CN	Whether charities have adopted international accounting standards (US GAAP or IFRS) or domestic accounting standards? (non-local accounting standard) Notes to the financial statements of AUT Annual report 2011
Auditor’s report	CA	Whether charities included audit report as part of their financial statements? Whether charities are audited by one of the “Big 4”accounting firms? (Big 4 accounting firms) Auditor’s report of AUT Annual report 2011

3.3.2.5 Assessing reliability

“The key to reliability is agreement observed among independent observers” (Wamboldt, 2009, p. 98). I am the only researcher in this research, so I will do

all the coding myself. In order to make the progress of assessing data reliable, the test-retest of reliability may be appropriate in my research. I will code those financial statements more than once at different times under those five categories.

Both latent and manifest content analysis will be used. In latent content analysis, I will consider the meaning of words in the text, whereas manifest content analysis is to describe only the surface and visible words without text. Using both latent and manifest content analysis can provide insightful and meaningful results (Wamboldt, 2009).

3.3.2.6 Assessing validity

People share the same social, cultural, political, or historical perspective, but the researcher is able to know reality by his or her personal history, areas of interest, and focus. "Multiple meanings are always present in data - there is no right meaning, only the most accurate meaning from a particular perspective" (Wamboldt, 2009, p. 319).

"The validity of our category scheme is supported by previous relevant research from the literature" (Wamboldt, 2009, p. 320). Experts' judgement is important for content analysis, because content analysis relies heavily on content validity that can only be determined by the judgement of experts in the area. In this research, I am using SORP as the category because the SORP is the one of the best examples of expert practice which has been proved by previous research. The pre-existing category scheme of SORP provides support for validity.

3.4 Summary:

The chapter provides an overview of the research methodology and research method. According to the nature of the research question, the qualitative research methodology and a content analysis research method will be used in the study. It starts from analysis of the appropriate research methodology for the study, followed by the research method. In particular, the entire process of content analysis method is explained in detail. The chapter illustrates how the study will be done in order to achieve the research objective. The next chapter explores data and analysis finding according to research objective.

4 Chapter Four Finding and Analysis:

4.1 Introduction:

The objective of this study is to investigate accounting transparency of financial statements based on those international charities with affiliated organisations both in New Zealand and China. Also, the researcher compared the level of charity accounting transparency between New Zealand and China. The findings were drawn on annual reports (financial report) from selected sample web sites. This chapter provides a detailed comparative result about charity accounting transparency from four international charities with four affiliated organisations in New Zealand and four affiliated organisations in China in 2009/2010 fiscal year.

Following the predesigned research method in last chapter, the discourse analysis content analysis and social constructivist analyses content analysis were used in the study. The paragraph as the unit of analysis was used to analyse charity accounting statements from those 8 samples. Based on the UK SORP, five categories were used (Income statement, Balance sheet, Cash flow statement, Notes to the financial statements and Auditor's report). Several predesigned benchmarks according to previous research and the AUT Annual report 2011 were set up to identify those five categories for the study. Comparing all 8 samples with the research model, all findings were located in those 5 predesigned categories.

After the introduction section (this section), the organisation of this chapter is introduced as follows: the second section is to identify whether those selected

samples are eligible for disclosure in financial statements and audit reports according to the SORP. It is followed by findings which are allocated to those five predesigned categories. Finally, the conclusion of the chapter is presented.

4.2 Test samples with SORP:

As one of the best practices, UK SORP is used as the benchmark to compare with those 8 affiliated international charities both in New Zealand and China. SORP is required by the United Kingdom's Charity Commission for enhancing reporting by charities. Statement of Recommended Practice (SORP), as showing by previous research, can lead to a more accountable and healthier charity (Hyndman & McMahon, 2011). Charities are required to display information on their financial statements for donors' decision-making by the SORP. According to the SORP (ASB, 2005, p. 98):

Charities Act 1993 (England and Wales): Threshold for the preparation of accruals accounts

Gross income > £ 100,000

Charities Act 1993 (English and Wales): Threshold for audit

Gross income >£ 500,000 or

Gross assets >£ 2.8m and gross income > £100,000

The Charities Act s353(1) defines gross income as "in relation to charity, means its gross recorded income from all sources including special trusts"

After an overall gross assessment of the financial information of those 8 charities both in China and New Zealand, six of them (three New Zealand based international charities and three Chinese based international charities) are eligible to disclosure their financial statements for donors' decision making

and also those financial statements need to be audited by third party (refer Table 4.1). Two charities (WWF New Zealand and World Vision International China) do not supply detailed financial information on their website annual reports, so those two charities will not be assessed in this research.

Table 4-1 Proposed Financial Reports Tiers and Assurance Tiers (Author, 2012)

Institutes	Total Gross Income	Display Financial Reports?	Audit?
Red Cross China	Gross income 2010 46,164,400 RMB (£4,645,755>£500,000>£100,000)	YES	YES
Red Cross New Zealand	Gross income 2010 10,064,000 NZD (£4,844,284>£500,000>£100,000)	YES	YES
WWF China	Gross income 2010 107,595,551 RMB (£10,827,879>£500,000>£100,000)	YES	YES
WWF New Zealand	No income information available online	?	?
UNICEF China	Gross income 2010 21,807,648 RMB (£2,194,613>£500,000>£100,000)	YES	YES
UNICEF New Zealand	Gross income 2010 19,319,000 NZD (£9,299,158>£500,000>£100,000)	YES	YES
World Vision International China	No income information available online	?	?
World Vision International New Zealand	Gross income 2010 55,717,176 NZD (£26,819,339>£500,000>£100,000)	YES	YES

(£ 1=9.9369 RMB £ 1=2.0775 NZD)

Those 6 samples both from New Zealand and China need to produce financial statements (income statement; balance sheet; cash flow statement and notes to financial statements) and also need to employ accounting firms to audit their financial statements.

The findings are divided into five sections relating to the categories which have been designed before the research as to the income statement (see Table 4.2-4.6), the balance sheet (see Table number 4.7-4.11), the cash flow statement (see Table 4.12), notes to financial statements (see Table 4.13-4.16) and the auditor's report (see Table 4.17).

4.3 Category one - Income statement:

As mentioned in Chapter Three, there are several benchmarks that have been employed to identify the Income statement category. The following section 4.3.1 to 4.3.5 will study the Income statement in the sample charities.

4.3.1 Income statement and Statement of comprehensive income

The Income statement in the model (AUT Annual report 2011) is made up of two components: Income statement and the statement of comprehensive income. All three charities in New Zealand supply Income statements in their annual report; however, Red Cross New Zealand is the only charity in three that also supplies the "Statement of comprehensive income" in its annual report 2010 (refer Panel A of Table 4.2).

In China, the WWF China is the only charity to supply Income statements in its annual report and no other charities prepare the "Statement of comprehensive income" from purposeful samples of this research (refer Panel B of Table 4.2). The UNICEF China only draws a pie chart to show stakeholders how the charity spent money. The Red Cross China does not have Income statement on its web site and all income and expenditure information comes from a government document from Ministry of Finance People's Republic of China (PRC).

**Table 4-2 Income statement and Statement of Comprehensive Income
(Author, 2012)**

Panel A. Charity in New Zealand:			
	Institute	Income statement	Statement of comprehensive income
Model	AUT	Y	Y
	UNICEF New Zealand	Y	N
	Red Cross New Zealand	Y	Y
	World Vision International New Zealand	Y	N
Percentage		100%	33.3%
Panel B. Charity in China:			
	Institute	Income statement	Statement of comprehensive income
Model	AUT	Y	Y
	UNICEF China	N	N
	WWF China	Y	N
	Red Cross China	N	N
Percentage		33.3%	Nil

4.3.2 Notes for Income statement

In the Income statement, the research model (AUT Annual Report 2011) is using summarised accounting titles to make the statement easy to read by information users. For each summarised accounting title, there are specific notes to explain what they are and how to get the figures. For example, the summarised accounting title – Government operational funding is \$141,620 in the Income statement of the AUT Annual report 2011. The “Note 2” which is listed beside the figure \$141,620 promises to explain the details of this summarised accounting title and how to calculate the \$141,620. After reading the “Note 2”, stakeholders find that the summarised accounting title- Government operational funding is made up by 15 sub-titles (Student Achievement Component, Tertiary Education Organisational Capability, Tripartite funding, and so on). In order to give to users, detailed information for

their decision making and also to make the statement easy to read, notes are necessary for those summarised accounting titles in the Income statement.

After comparing New Zealand based charities with the model (AUT Annual Report 2011), the researcher finds that the UNICEF New Zealand does not have the notes available to explain the summarised accounting title for the Income statement. The rest of the samples (Red Cross New Zealand and World Vision International New Zealand) supply notes for summarised accounting titles in the Income statement (refer Panel A of Table 4.3).

On the other side, the WWF China is the only charity to supply the Income statement to stakeholders and those accounting titles in the Income statement are also summarised accounting titles, but the WWF China does not supply the notes to explain the detailed information of the summarised accounting titles (refer Panel B of Table 4.3).

Table 4-3 Notes for Income Statement (Author, 2012)

Panel A. Charity in New Zealand:		
	Institute	Notes for income statement
Model	AUT	Y
	UNICEF New Zealand	N
	Red Cross New Zealand	Y
	World Vision International New Zealand	Y
Percentage		66.7%
Panel B. Charity in China:		
	Institute	Notes for income statement
Model	AUT	Y
	UNICEF China	N
	WWF China	N
	Red Cross China	N
Percentage		Nil

4.3.3 Current year and previous numbers

2010 financial year accounting performance information is also listed in the 2011 Income statement in order to enhance the comparability of financial

statements in the AUT Annual report 2011. All New Zealand samples in this research use the same format with the research model (AUT Annual report 2011) of putting both 2009 and 2010 income and expenditure information in 2010 financial year Income statement (refer Panel A of Table 4.4).

However, WWF China is the only charity that prepares an Income statement in China in all three samples, but the WWF China Income statement only offers only current year income and expenditure information for stakeholders without supplying 2009 information for comparability purpose (refer Panel B of Table 4.4).

Table 4-4 2009 and 2010 Accounting Numbers (Author, 2012)

Panel A. Charity in New Zealand:			
	Institute	2010 Number	2009 Number
Model	AUT	Y	Y
	UNICEF New Zealand	Y	Y
	Red Cross New Zealand	Y	Y
	World Vision International New Zealand	Y	Y
Percentage		100%	100%
Panel B. Charity in China:			
	Institute	2010 Number	2009 Number
Model	AUT	Y	Y
	UNICEF China	N	N
	WWF China	Y	N
	Red Cross China	N	N
Percentage		33.3%	Nil

4.3.4 Actual and budget number

Benchmarking information, though not perfect, could provide some guidance with regard to the level of performance and service provision in the public sector (Gajda-Lupke, 2009). For a given set of outputs, minimising the use of inputs can lead to high efficiency. The AUT Annual reporting 2011 not only compares the current year accounting information with the previous year accounting

information, but also uses the current year accounting information to compare with the budget number. The budget information is useful for those stakeholders who consider the performance efficiency of AUT. Compared with the AUT Annual report 2011, not even one charity with affiliated organisations both in New Zealand and China supply the budget information in their income statement (refer Table 4.5).

Table 4-5 Budget Accounting Numbers (Author, 2012)

Panel A. Charity in New Zealand:			
	Institute	Actual number	Budget number
Model	AUT	Y	Y
	UNICEF New Zealand	Y	N
	Red Cross New Zealand	Y	N
	World Vision International New Zealand	Y	N
Percentage		100%	Nil
Panel B. Charity in China:			
	Institute	Actual number	Budget number
Model	AUT	Y	Y
	UNICEF China	N	N
	WWF China	Y	N
	Red Cross China	N	N
Percentage		33.3%	Nil

4.3.5 Fund raising expense

Fund raising expense is a particular accounting title for charity accounting showing how charities spend money for money. The research model (AUT Annual report 2011) does not have this particular accounting title in its Income statements. All three international charities with affiliated organisation in New Zealand have listed the fund raising expense in the Income statement or in the relevant notes (refer Panel A of Table 4.6). For example, Red Cross New Zealand shows \$2,958,000 on the accounting title-Expenditure on revenue generation activities. The World Vision International shows \$162,416,000 on Direct Mail and \$107,713,000 on World Vision Magazine.

Three samples from international charities with affiliated organisations in China do not supply the cost of fund raising in their Income statement or in notes (refer Panel B of Table 4.6).

Table 4-6 Fund Raising Expense (Author, 2012)

Panel A. Charity in New Zealand:		
	Institute	Fund raising expense
Model	AUT	N
	UNICEF New Zealand	Y
	Red Cross New Zealand	Y
	World Vision International New Zealand	Y
Percentage		100%
Panel B. Charity in China:		
	Institute	Fund raising expense
Model	AUT	N
	UNICEF China	N
	WWF China	N
	Red Cross China	N
Percentage		Nil

4.4 Category two - Balance sheet:

As previously discussed in Chapter Three, there are several benchmarks that have been employed to identify the transparency of the Balance sheet category. The following section 4.4.1 to 4.4.5 will study the Balance sheet in the sample charities.

4.4.1 Treatment of purchased and gifted assets

There are only two samples in New Zealand which supply the Balance Sheet in the annual reports (Red Cross New Zealand and World Vision International) (refer Panel A of Table 4.7). The UNICEF New Zealand does not prepare the Balance Sheet in the annual reports. Compared with the research model - the AUT Annual reports 2011, both Red Cross New Zealand and World Vision International New Zealand use the same treatment to those purchased and

gifted assets, which is capitalising and depreciating both purchased and gifted assets. The treatment is following the “Not for profit financial reporting guide New Zealand”.

In China, there are no Balance Sheets available on the web sites of those selected charities in China (refer Panel B of Table 4.7).

Table 4-7 Treatment of Purchased and Gifted Assets (Author, 2012)

Panel A. Charity in New Zealand:		
		Treatment of purchased and gifted assets
Model	AUT	Capitalising and depreciating
	Red Cross New Zealand	Capitalising and depreciating
	World Vision International New Zealand	Capitalising and depreciating
	UNICEF New Zealand	No balance sheet available
Panel B. Charity in China:		
		Treatment of purchased and gifted assets
Model	AUT	Capitalising and depreciating
	Red Cross China	No balance sheet available
	WWF China	No balance sheet available
	UNICEF China	No balance sheet available

4.4.2 Measure base for Property Plant and Equipment (PPE)

Red Cross New Zealand and World Vision International New Zealand have different measurements to PPE (refer Panel A of Table 4.8). After reading their balance sheets, the researcher finds that Red Cross New Zealand is measuring PPE at fair value (the revaluation model). However, World Vision International New Zealand is recording PPE at historic cost (Cost model). Both the Revaluation model and the Cost model are accepted by the Not for Profit financial reporting guide New Zealand. “Following initial recognition property, plant and equipment is subsequently measured at cost (the cost model) or at fair value (the revaluation model), less depreciation if the assets are depreciable” (NZICA, 2006, p. 21).

In China, there are no balance sheets available on the web sites from those selected international charities with affiliated organisations in China (refer Panel B of Table 4.8).

Table 4-8 Measurement Base for PPE (Author, 2012)

Panel A. Charity in New Zealand:		
		Measure base for PPE
Model	AUT	Revaluation model (fair value)
	Red Cross New Zealand	Revaluation model (fair value)
	World Vision International New Zealand	Cost model (history cost)
	UNICEF New Zealand	No Balance sheet available
Panel B. Charity in China:		
		Measure base for PPE
Model	AUT	Revaluation model (fair value)
	Red Cross China	No Balance sheet available
	WWF China	No Balance sheet available
	UNICEF China	No Balance sheet available

4.4.3 Revaluation reserve account

The accounting title “revaluation reserve” is only in the Balance sheet from Red Cross New Zealand, because only Red Cross New Zealand is using the Revaluation model. According to the New Zealand IFRS, when a firm revalues a fixed asset upward, the increment is taken directly to equity through a “revaluation reserve” account. However, World Vision International New Zealand uses the cost model in the Balance sheet, so there is “Revaluation reserve” in its Balance sheet (refer Panel A of Table 4.9).

In China, there are no Balance sheets available on the web sites of those selected international charities with affiliated organisations in China (refer Panel B of Table 4.9).

Table 4-9 Revaluation Reserve Account (Author, 2012)

Panel A. Charity in New Zealand:		
		Revaluation Reserve accounts
Model	AUT	Y
	Red Cross New Zealand	Y
	World Vision International New Zealand	N
	UNICEF New Zealand	No Balance sheet available
Percentage		33.3%
Panel B. Charity in China:		
		Revaluation Reserve accounts
Model	AUT	Y
	Red Cross China	No Balance sheet available
	WWF China	No Balance sheet available
	UNICEF China	No Balance sheet available
Percentage		Nil

4.4.4 Impairment test annually

The impairment test is operated by both Red Cross New Zealand and World Vision International New Zealand annual (refer Panel A of Table 4.10). The statement of World Vision International New Zealand states that “annually, the Trustees assess carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down.” (P. 14) The statement of Red Cross New Zealand states that “at each reporting date, Red Cross reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered on impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).” (P. 40).

In China, there are no Balance sheets available on the web sites of those selected international charities with affiliated organisations in China (refer Panel B of Table 4.10).

Table 4-10 Impairment Test Annually (Author, 2012)

Panel A. Charity in New Zealand:		
		Impairment test annually
Model	AUT	Y
	Red Cross New Zealand	Y
	World Vision International New Zealand	Y
	UNICEF New Zealand	No Balance sheet available
Percentage		66.7%
Panel B. Charity in China:		
		Impairment test annually
Model	AUT	Y
	Red Cross China	No Balance sheet available
	WWF China	No Balance sheet available
	UNICEF China	No Balance sheet available
percentage		Nil

4.4.5 Subtotal for current assets and subtotal for current liabilities

In New Zealand, UNICEF New Zealand does not show the Balance sheet, so stakeholders cannot see the figures for current asset and current liabilities (refer Panel A of Table 4.11). The other two charities (Red Cross New Zealand and World Vision International New Zealand) not only list assets in order of liquidity and liabilities in order of due date, but also calculate the subtotals for the current assets that will be available within the next year and the current liabilities that will have to be paid in the coming year.

In China, the sampled charities do not show their Balance sheet in their annual reports, so the researcher cannot find the relevant information about asset and liabilities (refer Panel B of Table 4.11)

Table 4-11 Subtotal for Current Assets and Subtotal for Current Liabilities (Author, 2012)

Panel A. Charity in New Zealand:			
	Institute	Subtotal for current assets	Subtotal for current liabilities
Model	AUT	Y	Y
	UNICEF New Zealand	N	N
	Red Cross New Zealand	Y	Y
	World Vision International New Zealand	Y	Y
Percentage		66.7%	66.7%
Panel B. Charity in China			
	Institute	Subtotal for current assets	Subtotal for current liabilities
Model	AUT	Y	Y
	UNICEF China	N	N
	WWF China	N	N
	Red Cross China	N	N
Percentage		Nil	Nil

4.5 Category three - Cash flow statement

As expected, given the nature of the accounting transparency in New Zealand charities, the Direct cash flow method is widely adopted by charity accounting in New Zealand, but also the Indirect cash flow method is also used by New Zealand charities in preparing their financial statements. In China, there is no Cash flow statement disclosure from the selected charities.

4.5.1 Direct and Indirect cash flow method

In New Zealand, UNICEF New Zealand does not supply the Cash flow statement on its web site. Red Cross New Zealand and World Vision International New Zealand show the Cash flow statement in the financial statements at the end of the financial year. In the research model - the AUT Annual Reports 2011, AUT only uses the “Direct method” to prepare the Cash flow statement, while the “Direct method” and “Indirect method” are both adopted by Red Cross New Zealand and World Vision International New Zealand to show the Cash flow statement (refer Panel A of Table 4.12).

In China, there are no Cash flow statements available on the web sites of those selected international charities with affiliated organisations in China (refer Panel B of Table 4.12).

Table 4-12 Direct and Indirect Cash Flow Method (Author, 2012)

Panel A. Charity in New Zealand:			
		Direct method cash flow statement	Indirect method cash flow statement
Model	AUT	Y	N
	Red Cross New Zealand	Y	Y
	World Vision International	Y	Y
	UNICEF New Zealand	No cash flow statement available	No cash flow statement available
Percentage		66.7%	66.7%
Panel B. Charity in China			
		Cash flow statement available	
Model	AUT	Y	
	Red Cross China	N	
	WWF China	N	
	UNICEF China	N	
percentage		Nil	

4.6 Category four - Notes to the financial statements

Based on the predesigned benchmarks in Chapter Three, the following section 4.6.1 to 4.6.4 will study the Notes to the financial statements in the sample charities.

4.6.1 Detailed information about where donations comes from

In New Zealand, UNICEF New Zealand does not have the “Notes to the financial statements” available on its websites. The researcher read the financial statements of Red Cross New Zealand and finds that there is only a lump sum about total income listed in the Income statement and more detailed information has been disclosed in the notes to show financial statement users where donations come from (refer Panel A of Table 4.13). For example, Red

Cross New Zealand have detailed information about where donations come from in “Note 3”, so stakeholders can find that \$243,000 comes from lottery, \$4,649,000 comes from project partners and \$3,003,000 comes from the New Zealand government. In contrast to Red Cross New Zealand, World Vision International New Zealand has all that information about where donations come from listed in the Income statement directly so it is not necessary to use the “Notes to the financial statements” to provide the explanations.

In China, there are no “Notes to the financial statements” available from selected international charities with affiliated organisation in China (refer Panel B of Table 4.13).

Table 4-13 Detailed information about where donation comes from (Author, 2012)

Panel A. Charities in New Zealand		
		Detailed information about where donation comes from
Model	AUT	Y
	Red Cross New Zealand	Y
	World Vision International New Zealand	N
	UNICEF New Zealand	No “Notes to the financial statements” available
Percentage		33.3%
Panel B. Charities in China:		
		Detailed information about where donation comes from
Model	AUT	Y
	Red Cross China	No “Notes to the financial statements” available
	WWF China	No “Notes to the financial statements” available
	UNICEF China	No “Notes to the financial statements” available
Percentage		Nil

4.6.2 Detailed information about where donations have been distributed

In “Notes 4” of financial statements from Red Cross New Zealand, stakeholders can find out the information about where donations have been distributed (e.g., \$2,000 has been spent on supplies, materials and other for international humanitarian law and \$8,402,000 has been spent on disaster relief and development of international appeals).

Table 4-14 Detailed information about where donations have been distributed (Author, 2012).

Panel A. Charities in New Zealand		
		Detailed information about where donations have been distributed?
Model	AUT	Y
	Red Cross New Zealand	Y
	World Vision International New Zealand	Y (partial)
	UNICEF New Zealand	No “Notes to the financial statements” available
Percentage		66.7%
Panel B. Charity in China:		
		Detailed information about where donations have been distributed?
Model	AUT	Y
	Red Cross China	No “Notes to the financial statements” available
	WWF China	No “Notes to the financial statements” available
	UNICEF China	No “Notes to the financial statements” available
percentage		Nil

In “Notes 7” of financial statements World Vision International New Zealand, stakeholders can find out where donations have gone (e.g., \$424,986,000 development grants have been allocated to World Vision International with affiliated organisations in Papua New Guinea and \$404,971,000 development grants has been allocated to Solomon Islands). The weakness of the disclosure

is that the researcher can only find the destinations of the allocation but there is no relevant information about how donations have been used in that particular country.

UNICEF New Zealand does not have the “Notes to the financial statements” available on its web site (refer Panel A of Table 4.14).

In China, there is no “Notes to the financial statements” available from selected international charities with an affiliated organisation in China (refer Panel B of Table 4.14)

4.6.3 Accounting standard

The international financial accounting standard (IFRS) has been adopted by the research model AUT Annual report 2011. The accounting standard information is listed in the “Note 1” - summary of significant accounting policies. Compared with the research model, both Red Cross New Zealand and World Vision International New Zealand are both adopting NZ IFRS to prepare their financial statements (refer Panel A of Table 4.15). The only difference is that the Red Cross New Zealand is listing accounting standard information in “Note 1”, but World Vision International New Zealand is listing the adopted accounting standard information in a separate section called Summary of Accounting Policies which is located after the Cash flow statement and before “Notes to the financial statement”.

In China, the adopted accounting standard information is not available in any of three samples (refer Panel B of Table 4.15).

Table 4-15 Accounting Standard (Author, 2012)

Panel A. Charity in New Zealand:			
		IFRS or US GAAP	Location
Model	AUT	Y (NZ IFRS)	Note 1
	Red Cross New Zealand	Y (NZ IFRS)	Note 1
	World Vision International New Zealand	Y (NZ IFRS)	Not in Notes
	UNICEF New Zealand	No “Notes to financial statements” available	
Percentage		66.7%	
Panel B. Charity in China			
		IFRS or US GAAP	
Model	AUT	Y (NZ IFRS)	
	Red Cross China	No “Notes to financial statements” available	
	WWF China	No “Notes to financial statements” available	
	UNICEF China	No “Notes to financial statements” available	
Percentage		Nil	

4.6.4 Measurement base

In the AUT Annual report 2011, AUT disclosed that “the financial statements have been prepared on an accruals basis”. The measurement base information is listed in the “Note 1 measurement base” part in AUT Annual 2011. Red Cross New Zealand also lists the measurement based-accrual basis accounting at the “Basis of preparation” section in “Note 1”. There is no measurement base information to be found in the “Notes in the financial statements” from World Vision International New Zealand. World Vision International New Zealand only mentions that their financial statements are based on NZ IFRS, but do not disclose its measurement base (refer Panel A of Table 4.16).

In China, there are no “Notes to the financial statements” available from all three selected samples, so the researcher cannot find the measurement base (refer Panel B of Table 4.16).

Table 4-16 Measurement Base (Author, 2012)

Panel A. Charity in New Zealand:			
		Accrual basis accounting	Location
Model	AUT	Y	Note 1
	Red Cross New Zealand	Y	Note 1
	World Vision International New Zealand	Not mentioned	Not mentioned
	UNICEF New Zealand	No "Notes to financial statements" available	
Percentage		33.3%	
Panel B. Charity in China			
		Accrual basis accounting	
Model	AUT	Y	
	Red Cross China	No "Notes to financial statements" available	
	WWF China	No "Notes to financial statements" available	
	UNICEF China	No "Notes to financial statements" available	
Percentage		Nil	

4.7 Category five - Auditor's report

As mentioned in Chapter Three, PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Yong and KPMG (Big 4) have been adopted to identify the accounting transparency for the auditor's report category. The following section 4.7.1 will study the auditor's report of the sample charities.

4.7.1 Big 4?

The research model - AUT annual reports are audited by the government (Audit New Zealand). Red Cross New Zealand has their financial statements audited by one of Big 4 (Deloitte), while World Vision International New Zealand employed another audit firm from Big 4 to audit its financial statements (PricewaterhouseCoopers). UNICEF New Zealand does not supply the auditor's report. All samples in China do not supply auditor's report (refer Table 4.17).

Table 4-17 Big 4? (Author, 2012)

Panel A: Charities in New Zealand:		
		Big 4?
Model	AUT	N (Audit New Zealand)
	Red Cross New Zealand	Y (Deloitte)
	World Vision International New Zealand	Y (PricewaterhouseCoopers)
	UNICEF New Zealand	No auditor's report available
Percentage		66.7%
Panel B: Charities in China:		
		Big 4?
Model	AUT	N (Audit New Zealand)
	Red Cross China	No auditor's report available
	WWF China	No auditor's report available
	UNICEF China	No auditor's report available
Percentage		Nil

4.8 Summaries

Category One - Income statement

In New Zealand, with the respect to the content analysis on the Income statement category, there are several issues that earned the most coverage in the samples in New Zealand: first, all samples prepare their Income statement in annual reports 2010 (100%). Second, all samples listed two years information (2010 fiscal year and 2009 fiscal year) in their Income statement (100%). Third, all samples listed the particular accounting title - fund raising experience in the Income statement or relevant notes (100%). However, there is no charity from selected samples that shows the budget numbers in their Income statement (Nil) and only one sample prepares the "Statement of comprehensive income" in the Income statement (33.3%).

In China, UNICEF China is the only charity in my selected samples to supply the Income statement in its annual report. However, that Income statement only states the summarised accounting title for income and expenditure for 2010 and

neither accounting titles nor figures have any detailed explanations attached to them.

Category Two - Balance sheet

In New Zealand, all samples figures give out the subtotal for current assets and subtotal for current liabilities in the Balance sheet and all three charities in my study are capitalising and depreciating purchased and gifted assets (100%). Only one charity (Red Cross New Zealand) is using “Revaluation model” in recording PPE, so the accounting title “Revaluation reserve” is only listed in its Balance sheet (33.3%). Most of the charities are doing impairment tests annually (66.7%).

In China, no charities from selected samples prepare Balance sheets in their annual reports.

Category Three - Cash flow statement

In New Zealand, both the direct and indirect cash flow statement are adopted by most of the charities (66.7%). The UNICEF New Zealand is the only New Zealand charity that does not show their Cash flow statement with the annual reports.

In China, the Cash flow statements are not available for all selected samples in their website annual reports.

Category Four - Notes to financial statements

Most of New Zealand charities supply the information about where are donations comes from in their financial statement. In this study, I find the only difference is that the Red Cross New Zealand lists detailed information in its

“Notes to the financial statements”, but the World Vision International New Zealand has a detailed Income statement for the information about where their donations come from so it is not necessary to list again the information in “Notes to the financial statement”. UNICEF New Zealand does not have “Notes to financial statement” in their annual report. Both Red Cross New Zealand and World Vision International are also listing information about how donations have been distributed in their notes, but World Vision International New Zealand only shows where most of the donations have been distributed to overseas’ branches but without supplying the information as to how the donations are used there. The “Accounting standard” is disclosed by both Red Cross New Zealand and World Vision International New Zealand, but the World Vision International New Zealand does not supply the information in “Notes to the financial statement”. The last theme is measurement base; the World Vision International does not supply the information in its financial statement.

In China, none of the charities from my selected samples prepare “Notes to the financial statements”.

Category Five - Auditor’ report

In New Zealand, UNICEF New Zealand does not supply a complete financial report so their annual reports may not audited by any audit firm. The researcher cannot get the auditor’s report from their web site. The Red Cross New Zealand employs one of the Big 4 (Deloitte) to audit their annual report, while World Vision International New Zealand also employs PricewaterhouseCoopers which is also one of Big 4 to audit its annual reports. New Zealand samples seem to prefer to employ Big 4 to do the audit service for them.

In China, the WWF China is the only charity from three purposeful samples to supply the Income statement in its annual report. However, the Income statement is the only financial statement in its annual report, and no auditor's report is available on the web site. The other two international charities with affiliated organisations in China do not supply auditor's report either.

The following chapter discusses data result in terms of this study's five research questions and also analyses findings with respect to the concepts drawn from the literature review.

5 Chapter Five: Discussion and Conclusion

5.1 Introduction:

The agency problem may explain the reason why charities have lost public confidence (Caldwell & Karri, 2005). Financial reporting is one of the ways that stakeholders can determine which charity to support (Hooper et al., 2008). It is important for charities to maintain the confidence and financial support of the public by giving a transparent account of their activities. In academic research, there is a debate as to “what form should charities account?” (Hyndman, 2010). This research used content analysis to analyse whether the financial statements of the same charities have more or less transparency in China than in New Zealand. Five sub-questions are constructed and addressed in the research project to achieve this objective.

This chapter is organised as followed. The first section is to discuss each research question addressed in this study. The second section is the limitations of the study. This is followed by suggestions for future research and conclusions of this study are presented.

5.2 Response to research questions

5.2.1 Sub research question one:

Does the Balance sheet have more transparency in China than in New Zealand?
If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

This study finds that New Zealand charities have better accounting transparency with regard to the Balance sheet than charities in China. Each Balance sheet theme in the Table 5.1 shows that New Zealand charities have better performance in respect of the Balance sheet than charities in China.

The nature of the disclosure in China

After reading annual reports from selected samples, I find that the Balance sheet, from international charities with affiliated organisations in China, is not available. There is not even one international charity from selected samples in China which supplies the Balance sheet in their annual reports.

The nature of the disclosure in New Zealand

Previous research show that not all charities would like to do “capitalising and depreciating fixed assets”, which makes the disclosure of the treatment of purchased and gifted assets in Balance sheet become necessary. After having surveyed 29 New Zealand based charities, Newberry (1992) finds that four charities do not capitalise and depreciate fixed assets in their audited financial reports, so it is necessary to disclose how charities treat purchased and gifted assets in the Balance sheet to increase the accounting transparency. A similar situation also happened in the UK. After the SORP was adopted in the UK, researchers find different results about how charities treat their purchased and gifted assets in Balance sheet. Hines and Jones (1992) discovered that large UK charities still do not depreciate their fixed assets and do not comply with SORP. Williams and Palmer (1998) point out a different result, in that more charities are doing depreciation for fixed assets in the Balance sheet after SORP adoption. In my study, most of the charities (66.7%) from New Zealand are capitalising and depreciating purchased and gifted assets in their Balance

sheet. UNICEF New Zealand is the only New Zealand based charity that does not show the way it treats purchased and gifted assets in Balance sheet.

According to “Not for profit financial reporting guide New Zealand”, both “Cost model” (historically cost) and “Revaluation model” (fair value) are accepted by New Zealand charities. Charities can make the decision which model they want to apply in preparing their financial statements. The disclosure about how to measure Property Plant and Equipment (PPE) is another way to reduce the information asymmetry between charity managers and stakeholders. In this study, I find both “Cost model” and “Revaluation model” are both adopted by New Zealand charities. Red Cross New Zealand is using the “Revaluation model” to prepare its Balance sheet. World Vision International New Zealand is adopting the “Cost model” to prepare its Balance sheet.

There is an uncertainty about how often charities do the “impairment test” in a fiscal year. The “impairment test” is to test whether the “carrying amount” of the asset exceeds its “recoverable amount”. If it does, charities need to write down the “carrying amount” to a “recoverable amount” according to the accounting conservatism requirement. According to New Zealand IFRS, “long-lived assets are not tested annually, but rather when there are indicators of impairment”. As stakeholders, they want to know whether the “impairment test” has been done by charities for the disclosed fixed asset items in the Balance sheet, so the disclosure as to how often an “impairment test” has been done by a charity accountant reduces the information asymmetry between charity managers and donors. In this study, most of the charities (66.7%) in New Zealand announce that they do the impairment test annually.

Following Gordon, Khumawala and Neely (2010), accounting transparency means to disclose the “subtotal of current assets and current liabilities”,

because they find that only 40% of the audited financial statements provide “subtotal current assets and current liabilities” information in Balance sheets from selected samples. To disclose the “subtotal of current asset and current liabilities” in the Balance sheet is user friendly, because the information could be used by users who want to compute commonly used ratios to analyse an organisation’s ability to pay its bills (Gordon et al., 2010). In my study, 66.7% of charities listed “subtotal of current assets and current liabilities” in Balance sheet from charities in New Zealand.

Table 5-1 Transparency of Balance Sheet: New Zealand Vs China (Author, 2012)

Balance sheet theme	Theory about transparency	Country	Country
		New Zealand	China
Capitalising and depreciating (purchased and gifted assets)	Detailed information	66.7%	Nil
Revaluation model (fair value)	Detailed information	33.3%	Nil
Impairment test annually	Detailed information	66.7%	Nil
Subtotal for current assets and current liabilities	Gordon et al (2010)	66.7%	Nil

5.2.2 Sub research question two:

Does the Cash Flow statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

The result in this study finds that New Zealand charities have better accounting transparency about the Cash Flow statement than charities in

China. Each Cash flow statement theme in the table 5.2 shows New Zealand charities have better performance in Cash Flow statement than charities in China.

The nature of the disclosure in China

After reading the annual reports from selected samples in China, the research finds that there is not even one charity that prepares Cash Flow statements in their annual reports.

The nature of the disclosure in New Zealand

According to previous research, the “Direct method” of Cash Flow statement could increase the accounting transparency (Aranoff, 2003; Klammer & Reed, 1990; Krishnan & Largay, 2000; Orpurt & Zang, 2009). The direct method of Cash Flow statement is good for increasing accounting transparency. The “Indirect method” of Cash Flow statement is simple for users to analysis (decision making), which to some extent increase the accounting transparency. In this study, most of the New Zealand charities (66.7%) have adopted both “Direct method” and “Indirect method” for Cash Flow statement preparation.

Table 5-2 Transparency of Cash Flow Statement: New Zealand Vs China (Author, 2012)

Cash flow theme	Theory about transparency	Country	Country
		New Zealand	China
Direct method for cash flow statement	Aranoff (2003) Orpurt and Zang (2009) Krishnan and Largay (2000)	66.7%	Nil
Indirect method for cash flow statement	Detailed information	66.7%	Nil

5.2.3 Sub research question three

Does the Income statement have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

This study finds that New Zealand charities have better accounting transparency about Income statement than charities in China. Each Income statement theme in the table 5.3 shows New Zealand charities have better accountability in their Income statement than charities in China.

The nature of the disclosure in China

After reading their annual reports from selected samples in China, the study finds that Chinese charities are only concentrating on the income and expenditure performance. All three charities disclose their income and expenditure information in their annual reports; the WWF China, however, is the only charity which prepares an Income statement in its annual reports. UNICEF China only draws a pie chart in the annual reports to show how much they spent for each of the charitable activities. Red Cross Society of China only shows an official document from the Ministry of Finance People's Republic of China (PRC) about how much they accepted from donors and how much has been distributed for charitable purposes.

The nature of the disclosure in New Zealand

All New Zealand charities in my study prepare Income statements in annual reports; however, Red Cross New Zealand is the only charity that also supplies the "statement of comprehensive income" in annual reports. The "statement of comprehensive income" is to increase accounting transparency (Hirst & Hopkins, 1998; Robinson, 1991; Shuto et al., 2009). Comparing with selected samples in China in which no charity prepared a "statement of comprehensive

income” in their annual reports, New Zealand has better performance, but only a small part of the New Zealand charities (33.3%) supply the “statement of comprehensive income” in New Zealand. The disclosure with respect to the “statement of comprehensive income” needs to be improved for New Zealand charitable accounting transparency in the future.

In order to make “income statement” easy to read, accountants always use summarising accounting titles to prepare the “income statement” and each summarising accounting title should have particular notes to explain the details of the accounting title in the “Notes to the financial statements” section. Stakeholders can go to the particular notes in the “Notes to the financial statements” section to find out the detailed information that they are interested in. It is necessary to use the notes to increase the accounting transparency and also keep statements well organised and easy to read. In my study, most of the charities (66.7%) in New Zealand have notes to explain the summarising accounting titles in Income statements, which supply more information to stakeholders and increase the accounting transparency.

All samples (100%) in New Zealand supply two years (2009 and 2010) income and expenditure information in the Income statements 2010. It is reader friendly for stakeholders to compare current year performance to the previous year’s performance. The detailed disclosure helps charity accounting to increase the comparability which is one of the accounting quality characteristics widely accepted by IFRS and US GAAP.

This study also points out a weakness of accounting transparency from selected samples in New Zealand. There is not even one charity in New Zealand that supplies “budget number” in their income statements. Gajda-Lupke (2009) points out that benchmarking information should provide some

guidance with regard to the level of performance and service provision in the public sector. Stakeholders could compare actual numbers to budget numbers to calculate the working efficiency of a charity. It is necessary to supply budget numbers in the Income statement to help donors evaluate charities' efficiency.

Table 5-3 Transparency of Income Statement: New Zealand Vs China (Author, 2012)

Income statement theme	Theory about transparency	Country	Country
		New Zealand	China
Income statement	Detailed information	100%	33.3%
Statement of comprehensive income	Hirst and Hopkins (1998) Robinson and (1991) Shuto, Otomasa and Suda (2009)	33.3%	Nil
Notes for income statement	Detailed information	66.7%	Nil
Current year (2010) information	Detailed information	100%	33.3%
Previous year (2009) information	Detailed information	100%	Nil
Actual number	Detailed information	100%	33.3%
Budget number	Detailed information	Nil	Nil
Fund raising expense	Krishnan, Yetman and Yetman (2006) Hooper et al (2008)	100%	Nil

The last theme for accounting transparency in the Income statement category is "fund raising expense". Previous research shows that the "fund raising expense" was used by charity managers to manipulate accounting information (Jones & Roberts, 2006; Krishnan. et al., 2006). Krishnan, Yetman and Yetman (2002; 2006) point out that managers have incentives to under-report

“fundraising expenses” in order to improve the program service ratio and fundraising ratio from charities. In New Zealand, Hooper et al (2008) find that charities may allocate a significant portion of administration costs to increase the fund-raising projects because charity managers try to appeal to the donors for a lack of funds. Because there may be ambiguity around recording “fundraising expenses” in the Income statement, it is necessary to disclose detailed information about “fund raising expenses” in the Income statement to increase the information transparency between charity managers and donors. In this study, all the selected samples in New Zealand are listing the “fund raising expenses” in their Income statement 2010.

5.2.4 Sub research question four

Do the “notes to financial statement” have more transparency in China than in New Zealand? If so, what is the nature of the disclosure or lack of disclosure in terms of financial information?

This study finds that New Zealand charities have better accounting transparency with regard to “notes to financial statements” than charities in China. Each “notes to financial statement” theme in the table 5.4 shows New Zealand charities have better performance in “notes to financial statements” than charities in China.

The nature of the disclosure in China

There are no “notes to financial statements” is available from any of the selected samples in China.

The nature of the disclosure in New Zealand:

“The notes to the financial statements are the area where improvements in transparency can be readily achieved” (Gordon et al., 2010). Donors might be

interested in the information about where donations come from and how donated asset has been distributed. What donors would like to see is the resources that are transferred to charities are used to benefit some other individual, group of individuals or the environment. In this study, Red Cross New Zealand is the only charity that both discloses detailed information about where donations comes from and where donations have been distributed. World Vision International New Zealand only partially discloses where donations have been distributed but without disclosing the information about how the donations have been used. After reading the “notes to the financial statements” from the World Vision International New Zealand, the researcher finds most of the donations have been transferred to its branches in an overseas country, but there is no relevant information about how the donation has been used at that particular country. The information disclosure about where donations come from and how donated assets have been distributed by charities needs to be improved in future in order to increase accounting transparency for charities in New Zealand.

Following Lang and Maffett (2011, p. 196), “use of an international form of accounting rules may be beneficial to the transparency of a firm’s financial reporting if the firm is from a country with relatively poor local accounting standards”. The “accounting standard choice” (US GAAP or IFRS) is one of the themes used to identify accounting transparency. In this study, most of the New Zealand charities (66.7%) are adopting New Zealand IFRS to prepare financial statements; however, one charity does not appear to prepare the “notes to the financial statements” on its annual reports, so the “accounting standard choice” information has not been disclosed in the financial statements.

Table 5-4 Transparency of Notes to financial statements: New Zealand Vs China (Author, 2012)

"Notes to financial statements" theme	Theory about transparency	Country	Country
		New Zealand	China
Detailed information about where donation comes from	Detailed information	33.3%	Nil
Detailed information about where donation has been distributed	Detailed information	66.7% (Partial)	Nil
Accounting standard (IFRS or US GAAP)	Lang and Maffett (2011)	66.7%	Nil
Measurement base (Accrual basis accounting)	Bird and Morgan-Jones (1981) Hooper et al (2008)	33.3%	Nil

Accounts of an entity are prepared on either "cash flow basis accounting" or "accrual basis accounting". Hooper et al (2008) point out that one of the charity accounting problems in New Zealand is that 38% of interviews from his research oppose the use of a modified accrual basis in charity accounting, which lead to less consistency and comparability. The "accrual basis accounting" should be the fundamental concept in preparing financial statements (Bird & Morgan-Jones, 1981; Hooper et al., 2008). Not all charities would like to adopt the accrual basis in preparing their financial statements, so it is necessary to disclose what the accounting basis for the financial statements preparation is in the "notes to financial statements". In this study, only one charity lists the measurement base information in its "notes to the financial

statements”. The measurement based information disclosure is the weakness for current charity accounting in New Zealand from this study’s perspective.

5.2.5 Sub research question five:

Does the audit report have more transparency in China than in New Zealand? If so, which audit firms (Big 4) are involved and what kind of audit report is involved?

The result in this study finds that New Zealand charities have better accounting transparency with regard to audit’s reports than charities in China. Most of the charities in New Zealand employed the “Big 4” to do the audit service (refer Table 5.5).

The nature of the disclosure in China

There are no charities in China from this study that supply audits’ report on their websites.

The nature of the disclosure in New Zealand:

High quality auditors can mitigate agency problems and opacity (Mark Lang & Mark Maffett, 2011). Land and Maffett (2011, p. 198) point out that “whether or not management chooses a high quality external auditor to audit its financial statements is also likely to be indicative of the firm’s commitment to transparency”. In this study, most of New Zealand based charities (66.7%) are audited by “Big 4” accounting firms.

Table 5-5 Transparency of Auditor's Report (Author, 2012)

Auditor’s report theme	Theory about transparency	Country	Country
		New Zealand	China
Big 4	Lang and Maffett (2011)	66.7%	Nil

5.3 Implications for this study's results

The study shows that Chinese charities have a lot to do to enhance charity accounting transparency in terms of financial statements. The performances of those international charities are poor on accounting transparency in terms of financial statements in China. Only limited financial information has been disclosed by Chinese charities in their annual reports. The most frequently listed financial information that Chinese charities make available is income and expenditure information; however, such information shows only summarising accounting classifications and figures without any detailed explanation. Research from the UK and the US shows that agency problem exists in charities. Donors care about how donated resources have been distributed. There are two potential problems for Chinese charities that lack accounting transparency in term of financial statements: first, charities will not receive any donations from the public, because donors do not have confidence in charities. Second, donated assets might be misused by charity managers because of the agency problem. With respect to the situation that there are no mandatory reporting requirements for charities in China, development of standards for charities in China might be useful for charities increase accounting transparency in financial reports in China.

Compared with charities in China, the study also shows New Zealand charities have better accounting transparency in terms of financial statements. However, the accounting transparency in terms of financial reports available on websites is not perfect in New Zealand. There is some room for New Zealand charities to enhance accounting transparency. On the one hand, some charities (e.g., Red Cross New Zealand) disclosed detailed financial information in their website financial statements and almost all accounting transparency benchmarks which has been identified before the research has been covered

by their financial statements. On the other hand, some charities only disclose part of their financial information (income statement only) in the annual reports. The New Zealand “Not for profit financial reporting guide” was adopted on 1 January 2007; we will see the effect of increasing the accounting transparency over a long term period.

Further, charities are more accountable in New Zealand than in China. Charities have moral obligations to stakeholders, which is against the agency theory. On the one hand, stakeholders gain satisfaction from donating assets to charities. On the other hand, after accepting donations from public, the charities have the responsibility to meet stakeholders’ expectations and also have the responsibility to report transparently to give donors true and fair information about charities itself. In this study, I find most of the New Zealand charities are taking the accountability seriously between them and donors.

In summary, New Zealand charities have better accounting transparency than China, but it still has some more to do to further improve the accounting transparency on websites in future. The importance of accounting transparency in terms of financial statements on websites has not drawn enough attention in China and it could lead to potential agency problems in the future. To enhance the accounting transparency for charities, the Chinese accounting standard board should make this a priority.

5.4 Limitations

There are some limitations for this study. First, research samples are small. There are 6 annual reports from international charities with affiliated organisations in New Zealand and China that can be analysed for this study.

Second, the study only uses website information as media for the data collection, which means the study only accepts e-copy financial statements as

financial statements and the most widely used traditional paper financial statements are not identified as financial statements in this study. Some charities only prepare paper financial statements and there are no e-copy financial statements available online, with the result that this study concludes that the charity does not prepare financial statements when I cannot find e-copy financial statements on their websites, even though the charity may be able to supply hard copy of financial statements on request.

5.5 Further Research

This study selects the paragraph as the unit of analysis for this study and simply uses the percentage calculation to compare accounting transparency between international charities with affiliated organisation in New Zealand and China. Further research is necessary to investigate accounting transparency in more depth.

“Content analysis is a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena” (Downe-Wamboldt, 2009, p. 314). The content analysis is to quantify specific phenomena to investigate research questions. Zarb (2008) argues that more data is not the answer to improve transparency. Furthermore, he mentioned that transparency is not about how much information is offered, but about how useful that information is to the people who use the information for their decision making. Besides the content analysis method, some other research method may be employed in this kind of research in the future.

5.6 Conclusion

The purpose of this study is to investigate whether the financial reports of affiliated international charities available on their websites have more or less transparency in China than in New Zealand. The content analysis of annual reports from website of international charities with affiliated organisation in New Zealand and China complied with predesigned benchmarks from previous research in terms of accounting transparency and the AUT Annual report 2011. Particularly, five sub-research questions are addressed in this study.

The result of the research is that the financial reports of affiliated international charities that available on their website have more accounting transparency in New Zealand than in China. More specifically, I find New Zealand charities have more accounting transparency than in China in all five categories (Balance sheet, income statement, cash flow statement, notes to financial statements and auditor's report).

Charities are more accountable in New Zealand than in China. However, the accounting transparency in terms of financial reports is not perfect in New Zealand. There are some areas for the New Zealand charities to enhance accounting transparency.

On the other hand, the accounting transparency seems to be less needed in China for charities. The lack of accounting transparency in China may lead to potential problems in future. It is necessary to do something to increase the charity accounting transparency in China as accounting transparency increases public confidence towards a charity.

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