

**The Audit and Review of Service Performance information in the New
Zealand Charity Sector**

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Abstract

The purpose of this research study is to explore the current practices of the audit and review of service performance information in the charity sector. Performance audit is an accountability mechanism that has been used in the public sector as a way to exercise accountability while assessing the “economy, efficiency and effectiveness” of public sector performance (Parker, Jacobs, & Schmitz, 2019, p. 285). In response to accountability issues and reporting quality, the New Zealand charity sector have introduced performance audit into charity reporting, and interestingly enough it has been regulated amongst the small to medium sized charities. As of 1 January 2021, a new statutory audit regulation for the audit of service performance information was made effective: the NZ AS 1: New Zealand Auditing Standards 1. This standard has been created solely as a specific statutory audit regulation for service performance information. However, since the introduction of Service Performance reporting in April 2015, charities have been required to either audit or review their performance report. Despite the recent introduction of the NZ AS 1, there have already been existing standards which cater towards the audit or review of non-financial information. This study investigated into the current practices of audit and review of service performance information using the current standards that have been used for the past few years. Based on 400 performance reports collected from a sample of 200 Tier 3 charities, this study conducted a qualitative research which aimed at building an understanding into the current practices of the audit of service performance information in the charity sector. This study finds that the performance audit of the public sector differs from the performance audit that is currently practiced in the charity sector in terms of focus, terminology and practice. It is seen that while audit is the analysis of the true and fair view of financial information, when it comes to the non-financial information, specifically, the Service performance information, the audit and review is a conclusion on its suitability and practicability. What suitability means is based on the judgement of the assurance provider and how they confirm the relevance, completeness, neutrality, reliability and understandability of a charity’s disclosed outputs and outcomes for the year. The findings also show that the conceptualisation of these characteristics is confusing amongst its practice. This study contributes to current literature as it finds that the policing role of charity regulators is seen to take place in the allocation of new standards and while it is a good thing it has also identified that there is the need to strengthen the educating role of charity regulators as there seems to be a misunderstanding in the conceptualisation of the qualitative characteristics. The findings of this study is useful for accounting standard setters, accounting professional bodies and assurance practitioners.

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List of Abbreviations

E's	Economy, Efficiency & Effectiveness
ISAE 3000	International Standard of Assurance Engagements (New Zealand) 3000 (Revised) – Assurance Engagement other than Audits or Reviews of Historical Information
ISRE 2400	International Standard on Review Engagements (New Zealand) 2400
NFP	Not-For-Profit Entity
NZ AS	New Zealand Auditing Standards
NZ AS 1	New Zealand Auditing Standards 1: Audit of Service Performance Information
NZ SRE 2410	New Zealand Standard on Review Engagements 2410 (Revised) – Review of Financial Statements Performed by the Independent Auditor of the Entity
PBE	Public Benefit Entity
PBE (RDR)	Public Benefit Entity (Reduced Disclosure Regime)
PBE SFR-A (NFP)	Public Benefit Entity Simple Format Reporting - Accrual (Not-for-profit)
PBE SFR- C (NFP)	Public Benefit Entity Simple Format Reporting - Cash (Not-for-profit)
SPI	Service Performance information
SSP	Statement of Service Performance
XRБ	External Reporting board

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning

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Chapter 1: Introduction

1.1 Introduction

Charities are reliant on the trust of the public to exist, but that trust has been declining over the years due to the lack of accountability and transparency in charity performance (Yang & Northcott, 2019). Audit is one form of an accountability mechanism which is used by charities to help discharge accountability. The conclusions drawn by an auditor helps to increase the credibility of the information that is being disclosed (Sinclair, Hooper, & Mohiyaddin, 2011). In an attempt to increase public trust, by promoting accountability and transparency in charity reporting, the External Reporting Board in New Zealand have introduced a new statutory audit regulation¹ the: “NZ AS 1: NEW ZEALAND AUDITING STANDARDS: *The Audit of Service Performance information*”². This new audit standard has been introduced to assist in the audit of the non-financial information, specifically the service performance information that is reported in charity performance reports. Service performance information (SPI) refers to the short to medium term goals that a charity has set to achieve, and what they have done over the reporting period in order to achieve these goals (External Reporting Board, 2013). The establishing of the NZ AS 1 statutory audit regulation, is a recent introduction which has taken effect as of 1 January 2021. Despite the new introduction of this performance audit standard, there are a few audit standards that are already available for the audit or review of non-financial information. This study looks into the audit and review of SPI practices in charities, using the standards before the introduction of NZ AS 1. There is a need to investigate into the current practices of the audit and review of SPI. This is because the current audit statutory requirements is only applicable to small and medium-sized charities, existing studies on charity regulation have shown that new regulatory changes tend to not sit well with charities of such size, due to hinderances in skills such as understanding accounting and reporting frameworks (Thompson & Morgan, 2020). With the new statutory audit regulation NZ AS 1 being introduced, it is

¹ The use of the term ‘statutory regulations’ in this dissertation has synonymity with the terms: standards or statutory requirements. For clarity these three terms will used here and there, yet it refers to the same thing.

² Note that the audit of service performance information is the formal way to call the performance audit that is currently being practiced in the charity sector.

important to build an understanding on the current practices of audit and review of service performance information, using the standards that have been in use. To investigate this, this study aims to explore the different standards in use and examine the practices seen in the review and the audit of charity non-financial information.

1.2 Research Background

One of the motivations of this study lies in investigating into the practice of performance audit in charities, due to majority of the current performance audit literature focusing on the public sector. This is because what may be going on in the public sector may not be applicable to the performance audit being practiced in charities. This section will look into how the public sector and charity sector intertwine and where the focus of this study will lie.

1.2.1 Public Benefit Entities – registered charities

In New Zealand, registered charities are classified as a Public Benefit Entity (PBE). “Public Benefit Entities are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objectives rather than for a financial return to equity holders” (External Reporting Board, 2016, p.4). Both the public sector and not-for-profit sector fall under PBE and as a PBE they are to comply with reporting standards as laid out by the External Reporting Board. Both sectors are required to prepare performance reports which are to undergo audits known as a performance audit. Accountability issues was seen as the trigger towards introducing performance audits within the public sector to help promote transparency and enhance the credibility of its performance information (Raudia, Taro, & Agu, 2016). Similarly to an extent, charities face the same issue with accountability hence the introduction of performance audits. Performance audit as defined through the public sector lens, is a tool which exercises accountability by expanding the focus away from financial compliance and more towards the economy, efficiency and effectiveness of performance (Parker et al., 2019). Using same idea of auditing the performance reports, the introduction of the audit of service

performance information was being brought to life within the charity sector. The significance of this introduction lies in who this regulatory change impacts. The introduction of performance audit within the charity sector currently only impacts the small to medium sized charities. Charities of these sizes are seen to not react well to new regulatory changes and given this new introduction there is still limited understanding about performance audit practices in the charity sector.

1.2.2 Charity Sector

The charity sector contributes significantly, to both the economy and the society. From providing charitable services for the public, to millions of dollars they add to the New Zealand GDP. New Zealand has more than 28,000 registered charities that retain 108,244 individual charity officers and 235,000 volunteers. This sector receives \$NZ19.6 billion gross income on average per year and has a total of \$NZ 65.03 billion in total assets (Charities Services 2020). Since the 1 April 2015, compliance with the statutory audit and review requirements has been in effect with many registered charities where financial and non-financial performance information they report needed to be either audited or reviewed (Charities Services 2020). In assuming that performance audits will benefit the quality of charity reporting, New Zealand has mandated the performance audits for many registered charities and developed audit guidelines and standards: the ISAE 3000: 'INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS [NEW ZEALAND] 3000'. It is also important to note that this is the first-time specific audit and review requirements are established for registered charities in New Zealand. Registered charities are divided into four different tiers, and across each tier, there is a difference in the accounting recognition used, level of annual expenditure and whether it has public accountability or not (Charities Services 2020). Tier 1 charities are to fully comply with the international financial reporting standards set; they also have more than \$30 million in annual expenses and have public accountability. Tier 2, Tier 3 and Tier 4 are all without public accountability, with expenditures less than \$30 million, \$2 million and under \$125,000 per annum, respectively. Tier 2 prepares its performance reports using the reduced disclosure regime, and Tier 3 and Tier 4,

report using Simple Format Reporting where Tier 3 is in, reports in assumption with accrual accounting and Tier 4 reports in cash basis (Charities Services 2020). As such, the charity sector in New Zealand provides a unique and rich context for this study. Due to the current statutory requirements regarding the audit and review of performance information, this study will focus solely on Tier 3 charities (represents 36% of the entire charity sector (Charities Services, 2020a)). This tier is the only one which is impacted by the provision of performance audits, given that Tier 1 and tier 2 are currently not required to prepare any service performance information in their reports until 1 January 2022. Tier 3 and 4 are required to provide service performance information, however Tier 4 charities are not required to have their performance reports audited or reviewed. This leaves Tier 3 charities with the decision to audit or review their performance reports.

1.3 Research Aim and Questions

There are very limited studies that focus on the audit and review of non-financial information disclosed in charity reporting (Johnsen et al., 2019). The introduction of audit and review standards to assist practitioners on providing assurance³ on the non-financial information, i.e., service performance information is one that is new and as a new introduction there is a need to explore its current practices to build an understanding. In doing so, this study investigates into contemporary performance audit and practices building an understanding on its focus, terminology, practice and nature. This study aims to fulfil the gaps in the charity regulatory literature regarding the audit requirements placed on small to medium sized charities. To meet the aim and purpose of this research study, the following research question was being put in place for this study to seek answers for:

- Research question: How is the audit and review of service performance information currently being practised?

In examining the research aim and aforementioned research question, it will contribute to address the current gaps in the literature on audit and charity regulations. This study draws on

³ When assurance is being mentioned it refers to both audit and review.

document analysis and thematic analysis to help achieve both, the next section provides an outline.

1.4 Outline of Research Methodology and Method

To meet the research aim, and answer the research question this study employed the use of qualitative methods to help collect and analyze information to help formulate an understanding into the practices on the audit and review of service performance information. The use of document analysis and thematic analysis as the methods was seen as appropriate for this study given the aim of the study and the fact that charity documents such as the performance audit was accessible online. A total of 400 performance reports was collected from a sample of 200 Tier 3 charities, to collect information relating to its service performance and its audit or review. Document analysis was the form of data collection, where the collection and analysis of data was performed simultaneously. Thematic analysis was used to complement the data collected and analyzed through the document analysis to help group the data based on the commonalities that came through the data collection and analysis process (Atheide & Schneider, 2017). The understanding of the information collected was drawn in reference to an interpretivist paradigm approach, this approach was appropriate given that this study aimed to build an understanding on the practice of the audit and review of service performance information and using an interpretivist paradigm allows for an interpretation to be made on the analyzed set of data to formulate findings that are meaningful (Fossey, Harvey, McDermott, & Davidson, 2002).

1.5 Intended contributions of this dissertation

The findings of this study provide two main contributions to existing literature, and policy and practice. First, this study helps provide insights into the charity accounting regulation literature. This study provides an overview into the outcomes of introducing the statutory audit and review requirements on the small to medium charities. The findings show that charity report preparers are confused as to what is classified as service performance information for disclosure, which shown in the inconsistencies in what is disclosed as an output and as outcomes. This shows the

need for charity regulators to promote its educating role to provide more than templates for assistance. Due to the fact that charity report preparers are still confused as to what goes into the report, as a result audit and review practitioners are seen to perform audit procedures on the incorrect information that has been disclosed in the report. Secondly, this study also contributes to policy and practice. The findings of this study show that there is a need to revise the current statutory audit regulatory of use because the qualitative characteristics which the audit and review are based upon are seen to create confusion amongst the audit and review practitioners about the conceptualization of the characteristics. This study provides insights into the current issues with the standards and the new introduction of the study and what it means for the charity regulators, audit and review practitioners and charity report preparers.

1.6 Outline of this dissertation

This remainder of the dissertation is structured as shown below:

Chapter 2 provides an overview on the international literature in relation to performance audit and charity regulation. The review of the existing studies in these areas help build the foundation in which this study is based upon and also provide the research gaps in the current literature. Chapter 3 presents the setting of this study and outlining the significance of the charity sector and providing an overview on all the relevant charity statutory audit and review requirements. Chapter 4 presents the interpretivist paradigm that was adopted to develop the methods of use for this study. It will report the use of document and thematic analysis to help gather and analyze the data. Chapter 5 presents the data collected based on the procedures of the research methodologies and methods. This chapter is an extension of the aim to answer the research question. Chapter 6 will summarize the key findings of the study in relation to the research question being set. This chapter provides an extension by comparing and contrasting of the key findings against the existing literature to highlight the contributions of the study: Charity regulation and practice. This chapter also outlines the limitations of the study, provides suggestions for future research and followed lastly with the concluding remarks.

Chapter 2: Literature Review

2.1 Introduction

This chapter provides an overview of the existing international literature that is concerned with performance audit development and current practices. The literature review draws on a body of literature that is different from the charity sector, because the concept of Audit of Service Performance information is one that is very new and has not been introduced into other countries other than New Zealand. Drawing from the Public Sector performance audit literature is relevant for two reasons:

- 1) In New Zealand, registered charities are considered a Public Benefit Entity, which both the public sector and registered charities fall under. Both entities are required to report in relation to the standards provided by the External Reporting Board.
- 2) The introduction of the Audit of Service Performance Information, as outlined in the New Zealand Auditing Standard 1, is a new concept in the charity sector and given that the focus of this audit is around non-financial information, looking into the performance audit practiced in the public sector, which are also non-financial information audits, will be useful to build an understanding into what performance audit is and thus providing a good foundation into understanding the audit of service performance information within small charities.

The aim of this study is to investigate the practices of the Audit and Review of Service Performance information within the New Zealand charity sector. This chapter will expand on what has been identified in the development of performance audits within the public sector and how it has been translated into the charity sector. This chapter has been divided into three parts, section 2.2 looks into the development of performance audits and its introduction into the public sector, drawing the focus on its growth since its introduction. Section 2.3 introduces the emergence of performance audit in the charity sector by drawing on charity audit and literature on small to medium charities to help identify why it was seen that a performance audit needed to be introduced. Section 2.4 addresses the gaps that is currently seen in the literature, which this study aims to address.

2.2 Development of performance audit in the public sector

The definition of performance audit is one that prior research has seen as contradictory due to changes in identity, focus and practice over the years. Parker et al. (2019) describe performance audit as a tool which puts emphasis on the discharge of accountability and control by expanding the focus away from financial compliance and more towards efficiency, economic aspects and effectiveness.

The introduction of performance audit was developed due to increasing concerns over the effectiveness and efficiency of the public sector (Odia, 2014; Pollitt, 2003). Its introduction goes back to as early as the 1950s. The country of origin however is one seen as a competing claim. Odia (2014) states that its introduction began after the second world war and originated from the General Accounting Office in the US where its usage was to manage the effectiveness of how its military bases used their resources. However, according to Glynn (1985), the origin of performance audit came from Canada, given they were the first country to also create regulatory requirements for their performance audits. Despite the debate over its place of origin, what they have in common is that the development originated in the public sector and that its introduction is due to the increasing need for efficiency and effectiveness within the public sector due to issues such as managing financial crises, departmental inefficiencies and an overall political desire to cut costs (Jacobs, 1998; Radcliffe, 1998; Skene, 1985). The introduction of a performance audit was seen as a way to provide information that would benefit both the auditee⁴ and the public. The benefits for the auditee from a performance audit, is the potential to improve its internal practices through the recommendations given by an auditor. The public on the other hand benefit from a performance audit, because a performance audit informs them about how their money was spent and being allocated throughout the reporting period. Since the introduction of performance audits, a number of countries have also implemented them to account for their increasing government spending, policy changes, or poor performance (Bawole & Ibrahim, 2017). Increasing concerns from the public has led to the development of

⁴ Auditee refers to the party who is getting audited

performance audits to account for the increasing demands for accountability within the public sector (Colquhoun, 2013). The changing public attitude towards public sector performance is what triggered the emphasis on accountability within governments. In response to these demands, different countries across multiple jurisdictions have started to regulate performance audits within their countries. The introduction for regulated performance audits started around the 1970s, with New Zealand creating a mandate in 1977 giving the Auditor General autonomy to execute performance audits. According to Bourn (2007), since the introduction of performance audits it has been seen that only authoritative figures such as the Auditor General who could perform a performance audit in the public sector. Loke, Ismail, and Hamid (2013) found that auditors perceive that the conducting of a performance audit should also be done by other experts outside these authoritative audit institutions such as technical specialists, finance officers or service specialists⁵. There is still a contradiction about who is perceived to be able to provide an audit opinion, due to confusion about the different elements that are required by the audits, such as whether the original financial auditors are competent to perform these audits alone.

Despite this contradiction, the role of performance audits is one that has remained constant since its implementation. Performance audits have played two roles: they are viewed as a tool that enhances accountability; and are also seen as a tool that encourages learning, performance improvement and change (Raudia et al., 2016). Raudia et al. (2016) show that the information provided through a performance audit can be used to point out areas within a public sector that need improvement, and given the accountability context, the interested parties within that context would be incentivised to make these changes. Bechberger et al. (2011) however argues that a performance audit is either used solely as a means to discharge accountability or it is used for learning processes, both do not happen simultaneously. This is because in order to exercise accountability the auditor emphasis would involve rigour, independence and social distance.

⁵ The perception behind introducing these other experts was due to the fact that public sectors were involved in a range of service such health, transport, defence and education. Given that the performance audit is a move away from financial compliance, Malaysian auditors perceived that introducing other people with the expertise to work alongside them would improve performance audits (Loke et al., 2013).

The learning aspect involve space for discussions and interpersonal relations with relevant parties. Raudia et al. (2016) found that there is no trade off seen between the two roles. How does this play out for charities?

2.3 Emergence of performance audits within the charity sector

In order to understand the introduction of the Audit of Service Performance information, there needs to be an understanding as to how it was initially introduced into the charity sector. The audit of service performance information was made necessary due to studies showing that stakeholders found performance related information more useful than the traditional accounting information. The questions now are: What is performance information and what has made its introduction necessary in the charity sector? And how does this relate to the introduction of the Audit of Service Performance information?

Charities thrive on public trust and in order to sustain the trust of the public, a level of transparency and accountability is required of them in order to meet the information needs of the public (C. Yang & Northcott, 2019). Studies have shown that there has been a growing concentration within charity sectors and the preparing of their financial statements and reports, and while there are multiple issues,⁶ it has been noted that the provision of non-financial information in reporting such as service performance information, is viewed as more beneficial of use than the traditional financial information (Connolly & Hyndman, 2004). Performance information refers to charity information that reflects their future plans, governance arrangements, objectives, outputs, impacts, efficiency and effectiveness (Connolly & Hyndman, 2004). Service Performance information is an extension of performance information and its focus is on the outputs, objectives and impacts of service provision. The main issue currently seen in the charity sector is that with reporting regimes, unlike accounting standards which are international standards, the reporting standards for charities are nationally set. There is a need,

⁶ The issues currently seen in the charity sector affecting their external financial reporting are due to the diversity in regulatory standards which exercise accounting practices and the lack of standardization has resulted users finding it difficult to build an understanding on the financial statements (Connolly & Hyndman, 2004).

therefore, to look at individual countries to see how they regulate their charities, given each charity sector is specific to its country (McConville & Cordery, 2018). Each country has their own approach to their service performance information, UK charities are required to disclose their objectives and performance and governance structures; however larger charities who have operating expenditures greater than a million are expected to report on the contributions they have made to society and in reference to their inputs, activities, outputs, objectives and impact (McConville & Cordery, 2018). With US charities, on the other hand, performance related information disclosure is very limited, and the disclosure of service performance information is also very limited. However, what seems to be common in service performance disclosure is the inclusion of mission and vision statements and whether there have been any changes in the services over given the period (McConville & Cordery, 2018). As mentioned earlier, charity reporting is dependent on the country it operates in, Australia for instance has proposed introducing service performance information however the discussions on its introduction are still pending given that there is conflicts as to whether the costs outweigh the benefits (McConville & Cordery, 2018) . What can be seen from these studies is that despite the differences in the way the Service Performance information is addressed, it is widely practiced in charity sectors in multiple jurisdictions. It can also be agreed that the introduction of service performance information is of more value for its main stakeholders in comparison to receiving the traditional financial information. However, similarly to the public and for-profit sectors, audits have also been introduced into the reporting of financial information of charities and there has also been a recent introduction of nonfinancial information audit: performance audit. From performance audits it has led to the introduction of a new type of performance audit, the Audit of Service Performance information. The introduction of this new audit regulation is important to note, given that the introductions of such regulatory change usually hit the charity sector hard, especially charities of smaller sizes (Thompson & Morgan, 2020). The main reasons for this are the lack of financial understanding, a hinderance in skills and general understanding of the workings of the accounting and reporting frameworks (Cordery, 2013; Thompson & Morgan, 2020). This shows there is a need to further investigate how this new introduction is being practiced given it is a newly introduced concept. Currently, audits within

the charity sectors of different jurisdictions are more commonly required to audit their financial reports in comparison to its non-financial information. While there are studies showing that charities are moving towards providing non-financial information, there are limited number of studies that have been focussing on the non-financial information audit within the charity sector as the majority of the study focus on the audit of the financial information. The studies surrounding charity audit, currently lie under the audit of non-profit organisations. Recent studies include the costs and benefits of mandatory auditing practices (Carey, Knechel, & Tanewski, 2013) and the tendencies of auditors to issue going-concern modified opinions for charities (Y. Yang, Simnett, & Carson, 2021). Most of the studies identified in this area are focussed on the non-profit organisations or charities within Australia, and as mentioned earlier, each jurisdiction has charity regulations specific to their own since the regulations are nationally set. However, outlining the results of these studies are still helpful in laying out an idea as to how audit currently works in different situations. The benefits and costs that have been seen associated with the setting of mandatory audits in Australian not-for-profits; the benefits include the provision of credible information which helps to increase transparency and economic efficiency however the extent as to which a number of stakeholders who use the audited financials is being used is still open for discussion (Carey et al., 2013). Audit has also seen to provide a positive influence on the intenal culture, governance and the quality of internal management within the organisation. The costs however that have been identified to be associated with these benefits involve high financing; as there is high direct costs linked into the preparation for an audit and the liasing with auditors, and second the audit fee fot the service provided (Carey et al., 2013). Given this study is focused more on the outcomes of the audit and review reports and the practices that are seen as a result of these reports, it is important to refer to studies which have looked into the contents of the report. A more recent study done amongst the group of charities in Australia by Y. Yang et al. (2021) look into the factors which contribute to the tendacies of an auditor to draw a going concern modified audit opinion for a charity's financial statements. The factors that were identified that contribute to the propensity in which an auditor would conduct an audit and conclude with a going-concern modified audit opinion, were charities who were smaller in size, were in great financial distress, heavily

dependent on fundings and received a going-concern modified audit opinion the previous year. In mentioning these studies we draw back to the idea of performance audit in charities and think about what are the costs and benefits, and what and how the final conclusions were drawn. Drawing from the public sector performance audit literature, we can see the development of the idea of performance audit, but it has been established through the literature that what is practiced within the public sector and the charity sector are very different. Therefore, drawing on ideas brought from the charity regulation and audit will help to formulate an understanding on the practices of audit of service performance information that is being performed within these small to medium charities. Chapter 3 explains the research context and its relevance to the study, and, given the connection between the charity and public sectors, New Zealand is a good fit to study as, according to McConville and Cordery (2018), the charity sector is seen to be influenced by public sector standards, given that the New Zealand External Reporting Board is the sole creator for the reporting standards that are used by both.

2.4 Research problem and gaps to research

While we initially draw literature from the public sector performance audit, this area is a new introduction into the charity sector and there is very little understanding on its practice. As mentioned earlier in 2.3, the performing of audits on charity financial information is one that is more commonly practiced, and while there is a number of studies looking into its practices, the amount of studies on the audit of non-financial information is very limited given that its voluntary in most countries, or it is one that is not mandated. This study aims to contribute to the charity reporting and regulatory literature by adding further discussion on the Audit of Service Performance. As mentioned earlier, the introduction of the Audit of Service performance is one that is new and there is a need to understand the way it is practiced. The new information will add to the current conversations of C. Yang and Northcott (2021) and show how the charity regulators are building public trust through the lens of performance audits. In order to fill the gaps in the current literature the following research question has been set in place to meet the overall aim of the study.

Research question: How is the audit and review of service performance information currently being practised within the charity sector?

Chapter 3: The New Zealand Charity Sector in context

This chapter provides an overview into the New Zealand charity sector and the environment in which it operates in. This is to help build an understanding into the current setting and to link it towards the overall aim of this study. This chapter is structured as follows: Section 3.1 provides an overview on the not-for-profit sector in New Zealand, explaining its economic and social significance. Section 3.2 provides an overview on the performance reporting statutory regulations that are currently in practice with New Zealand charities. Section 3.3 introduces the charity sector statutory audit regulations and Section 3.4 looks into the recent regulatory changes in the charity sector.

3.1 The New Zealand not-for-profit sector

3.1.1 Not-for-profit organisations

The New Zealand Not-for-profit sector is very large and important both economically and socially. According to Stats NZ (2018), there is a total of 115,770 not-for-profit organisations in New Zealand. Not for profits contribute a total of \$8.10 billion NZD to the GDP, which makes up 2.8 percent of the country's overall GDP (Stats NZ, 2018). New Zealand has a higher than average level of philanthropic funding in comparison to all other developed countries (JBWere, 2020). Given this fact, a high level of competition is seen amongst grant seekers to gain resources to assist in the provision of their services (Elliot & Haigh, 2013). The not-for-profit sector in New Zealand is a contributor to the economy not only by being a billion dollar industry, but by having a larger workforce than any other industry (Stats NZ, 2018). Elliot & Haigh (2013) add that international literature on the not-for-profit sector cannot always be transferrable to New Zealand, due to the history⁷, culture and size of its sector. Speaking of size, the not-for-profit sector functions in 12 different service groups. Table 1 shows a summary of

⁷ The history behind the evolution of this sector is due to three factors, the first being the ongoing indigenous Maori population and the emergence of a multi-cultural society. The second factor relates to the legal, social and political consequences of the British settlement during the mid-nineteenth century, and the last factor is based on the post-1938 elaboration of the welfare state (Sanders et al., 2008).

what services, including the different subgroups, NFPs fall under. From the table, we are able to see the different categories and different aspects of society that the not-for-profit sector covers.

Table 1: The distribution of NFP services

Different groups and services that NFP organisations function under
Culture and recreation
Education and Research
Health
Social services
Environment
Housing and Development
Law, advocacy and politics
Grant making, fundraising and voluntarism promotion
International
Religion
Business and Professional associations, unions
Residual categories (other)

3.1.2 The charity sector and its reporting regime

Registered charities are a part of the not-for-profit sector and are a significant contributor to the economy and society. There are more than 28,000 registered charities, which retain 108,244 individual charity officers and 235,000 volunteers. The charity sector receives on average \$NZ19.6 billion gross income per annum and has \$NZ 65.03 billion in total assets (Charities Services, 2020a). As a not-for-profit, charities provide services that cater for the twelve groups as charitable services as outlined in Table 1. Charities have different reporting requirements they have to follow.

All the statutory requirements are applicable based on the tier under which a charity falls. The charities are divided into four different tiers, and across each tier there is a difference in the accounting recognition used, the level of annual expenditure and whether it has public

accountability or not (Charities Services, 2021d). The tiers are set according to the expenditure or operating payment a charity makes. Tier 1 charities consist of charities with expenditure greater than \$30 million in annual expenses and have public accountability⁸. Tiers 2, 3 and 4 are all without public accountability. Charities operating expenditures less than \$30 million are classified as Tier 2. Tier 3 charities operate at expenditures less than \$2 million and Tier 4 has operating payments of less than \$125,000 per annum. Tier 1 charities are to provide financial reports which are in compliance with the accounting standards that have been created by the XRB, Tier 2 charities are to provide its financial reports in accordance to the reduced disclosure regime, and Tier 3 and 4 charities report based on a Simple Format Reporting standards with Tier 3 on an accrual basis and Tier 4 on a cash basis (Charities Services, 2021a). All tiers are required to provide financial reports, and Tiers 3 and 4 have the exception where they have to provide additional non-financial information. Tiers 1 and 2 have to provide financial statements that are in compliance with the generally accepted accounting practice (GAAP), while Tiers 3 and 4 provide summarised versions of financial reporting (Charities Services, 2020c). Table 2 provides an overview on the statutory regulations which each Tier is to comply with when preparing their performance reports.

Table 2: Tier Criteria and Requirements

Tier	Tier Criteria	Standards set
1	<ul style="list-style-type: none"> • Has public accountability • Has total expenditure > \$30 million 	PBE Standards
2	<ul style="list-style-type: none"> • No Public accountability • Total expenditure < \$30 million 	PBE Standards (RDR)
3	<ul style="list-style-type: none"> • No public accountability • Expenditure < \$2 million 	PBE SRA –A (NFP)
4	<ul style="list-style-type: none"> • No public accountability • Operating payments <\$125,000 	PBE SFR-C (NFP)

Tiers 1 and 2 are larger in size in comparison to tiers 3 and 4, therefore a higher level of disclosure is required. All tiers are to comply with all the relevant standards as set by the New

⁸ Public accountability refers to the responsibility that any public body who uses or manages funds funded by the government are to be answerable for the use and management of the funds that have been provided. Only charities that are categorized as Tier 1 need to have public accountability, meaning that any public funds that a Tier 1 charity receives from the government means there is a responsibility to disclose how the funds are being used and managed(Charities Services, 2021d).

Zealand External Reporting Board. Tiers 1 and 2 have a total of 51 standards to be compliant with. Each standard is specific to different elements of the financial statements and how to apply the accounting frameworks into financial statement preparation (External Reporting Board, 2021). Tiers 3 and 4 have around three standards each to be compliant with and a lot of standards providing them with exemplars to assist them (External Reporting Board, 2021). Figure 1 outlines the different standards available for use by Tiers 3 and 4⁹. The Charities Services are more focused on providing assistance for Tiers 3 and 4 because they make up almost 97 percent of the Charity Register and they are less resourceful in comparison to Tiers 1 and 2 in regards to having professional accountants to prepare their work (Charities Services, 2021c). Tier 1 and 2 charities prepare reports that are different from Tier 3 and 4, given they are that the provision of non-financial information in their reports is not required. However, Tier 3 and 4 charities are to prepare reports which consist of both financial and non-financial information. The non-financial information that they are to provide is service performance information in the form of Entity Information and a Statement of Service Performance.

Figure 1: Tier 3 and 4 standards

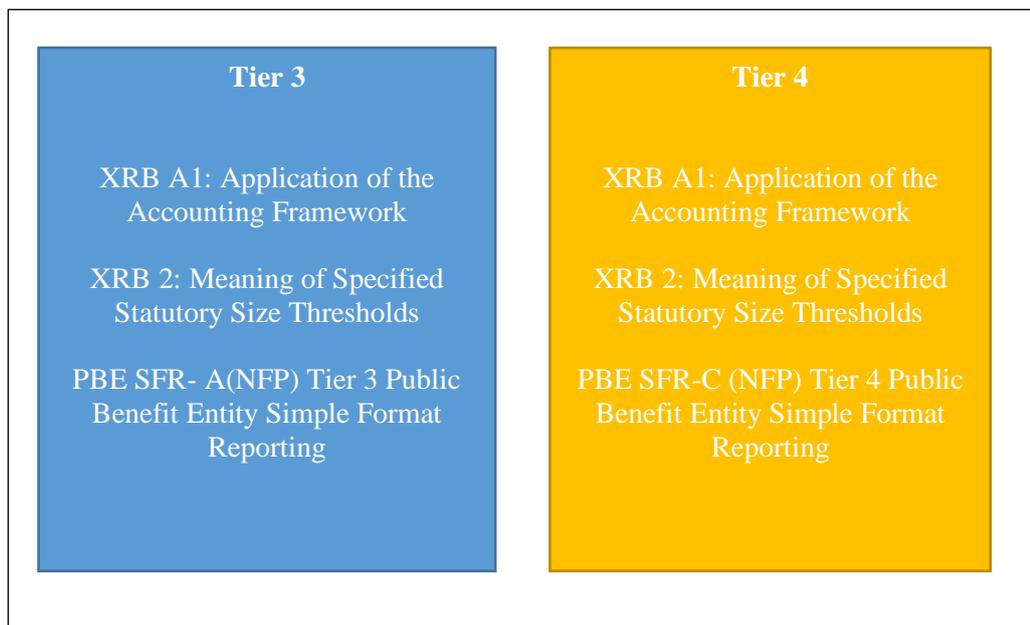


Figure 1 shows that standards that are expected of Tier 3 and 4 charities to comply with. The main difference between the two is seen, is that Tier 3 prepare in assumption with accrual accounting and Tier 4 are cash basis.

3.2 Performance reporting statutory requirements

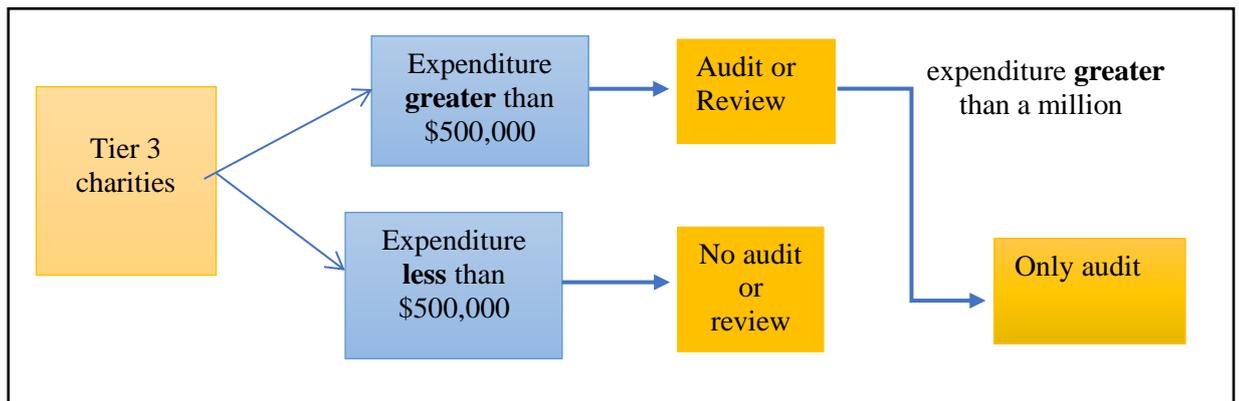
Expanding on Figure 1, PBE SFR-A (NFP) was issued in 2013, and was not until effect within the Tier 3 charities on 1 April 2015. The main objective behind introducing performance reports was to facilitate financial reporting within the Tier 3 charities by aiming to improve the quality and congruity in the information they report (External Reporting Board, 2013). Under the requirements of a performance report, charities are expected to report every financial year the following elements: “Entity Information, a Statement of Service Performance, Statement of Financial Position, a Statement of Cash Flow, a Statement of Accounting Policies and Notes on the Performance Report”, which focuses on the non-financial aspects of the performance reports (External Reporting Board, 2013, pp 10-11) Under the Entity Information section a charity must disclose what the charity is and why it exists. It should report the name, the type of entity, its mission statement, the governance structure, the main source of cash and resources, information about its volunteers and any additional information that is important to the understanding of the overall aim and activities performed by the entity (External Reporting Board, 2013). The introduction of entity information in performance reports is to help summarise to users the purpose of the charity and what they are currently doing, from this is helps stakeholders get a better understanding and interpretation of the performance report (External Reporting Board, 2013). The Statement of Service Performance (SSP) aims to provide non-financial information to help stakeholders build a picture as to what the charity achieved and carried out during the reporting period (External Reporting Board, 2013). The statement of service performance has two main elements: Outputs and Outcomes. Outputs is defined as the service or goods that the charity provided throughout the period, and outcomes is defined as the goals that were set out during the reporting period that the charity aimed to achieve in relations to its impact on society (External Reporting Board, 2013). The statement of service performance is meant to describe the outcomes they seek to achieve, as the outcomes should be linked to the

charity's mission and its service performance information should reflect well on the charity and its short term to medium term performance and goals. The expression of outputs in a service performance should express what was provided through the accounting period and quantified to an extent which is realistic (External Reporting Board, 2013). The tiers 3 and 4 have exemplars provided and are advised by the Charities Services (2020) Act that states that if these templates are met with the relevant information then compliance is achieved.

3.3 Audit and review requirements

Many registered charities in New Zealand have had to comply with the statutory audit and review requirements in their financial and non-financial performance information since its introduction on the 1 April 2015 (Charities Services, 2020b). Assuming that performance audits will benefit the quality of charity reporting, New Zealand has mandated performance audits for many registered charities and has developed audit guidelines and standards such as the ISAE 3000. It is also important to note that this is the first time specific audit and review requirements have been established for registered charities in New Zealand. The audit requirements for charities are divided into two types: a charity is either due for an audit or its performs a review on its reports. If a charity has an operating expenditure over \$500,000 the financials are either audited or reviewed; however if it has expenditure greater than a million, performance reports are to be audited by a qualified auditor (Charities Services, 2021be). Interestingly, given the fact the charity sector is divided into reporting tiers, the idea behind auditing is not determined based on what tier the charity belongs to but instead is based on the level of expenditure. Therefore, tier 3 is seen to have the option of either getting audited or reviewed or neither. This is due to its expenditure span being above \$125,000 and less than \$2 million, while the tier 3 charities operating between \$125,000 and less than \$500,000 do not require an audit, the remaining tier 3 charities are left with the decision to choose between an audit or a review. Figure 2 is a depiction of how determining whether an audit or review for a tier 3 charity is determined.

Figure 2: Tier 3 - To audit or review?



What is the difference between an audit and a review? According to Charities Services (2021be), an audit has a reasonable or higher level of assurance, whereas a review is only bound to a limited assurance to determine the material errors of the financial statements. Both still provide a report specific to whether it is an audit or review. An audit report is framed positively, whereas in a review the conclusion is expressed in a negative form¹⁰. In regards to the nature of procedures, a review is primarily based on inquiry and analytical reviews. An audit includes both an inquiry and an analytical review, but it involves more detailed testing of accounting records such as performing inspections, observations, re-calculations and re-performance (External Reporting Board, 2014). The assurance standards where both are used are also different. A financial audit has to comply with all 36 International Standards¹¹ on Auditing as made available through the External Reporting Board. Reviews, on the other hand, only have to comply with the International Standard on Review Engagements (New Zealand) 2400 for its reviews. Figure 3 provides an overview of the current standards that are of use. Due to the fact this study focuses on the audit and review of service performance information, the main standards of focus are shown in the Figure below (Figure 3), highlighted in the green box.

¹⁰ “Examples of a positive form of opinion expression are: ‘The financial statements are free from material misstatement’. A review as aforementioned is seen as expressing the conclusion in a negative form, the example for this is: ‘Nothing has come to the attention that causes the independent reviewer to believe that the financial statements aren’t free from material misstatement” (External Reporting Board, 2014, p 7).

¹¹ Although there are a total of 36 standards available, the main focus will be on the International Standard on Assurance Engagements (New Zealand) 3000 (revised), which is the main standard that charities going under audits have to comply with. Even the reviews of the charities that fall under the more than \$500,000 operating expenses (tier 3) are audited according to this standard (External Reporting Board, 2014).

Figure 3: Overview of the current Auditing and Assurance Standards used



When it comes to the audit of information that is not financially related, both audits and reviews of non-financial information is audited in accordance with ISAE 3000. This standard helps outline and assist auditors on how to plan, execute and conclude their audits or reviews in accordance with the relevant standards. The ISAE 3000 was first adopted as early as the 1st of January, 2015. The main objective is to help provide either a reasonable assurance¹² or limited assurance¹³ about the performance reports being free from material misstatements. Within the standards, regardless of whether it is an audit or a review, the requirements are different as auditors are required to perform more procedures and form a conclusion. Both a review and an audit are required to provide assurance reports. Each assurance report must contain the following: a headline that outlines that this is the independent auditors report; an address; an

¹² “Reasonable assurance means an engagement where the auditor reduces engagement risks to a level that is acceptably low in the circumstances of the engagement as the basis for the auditors conclusion. The conclusion is framed in a way that shows the auditee the opinions expressed by the auditor and their evaluation of the underlying subject matter” (External Reporting Board, 2014, p.9).

¹³ “Limited assurance is an engagement where the auditor reduces engagement risks to a level that is acceptable in the circumstances of the audit but where the risk is greater than for a reasonable audit as the basis for forming a conclusion is in a form that expresses whether, based on the evidence and procedures conducted, a matter has come to the auditor’s attention to make the auditor believe the reports provided are materially misstated. Although the timing and nature of a limited assurance is different than that of a reasonable one, the level of assurance given has to be one provided by the professional judgment of the auditor and one that is meaningful. Making it meaningful means the level of assurance provided by the auditor is likely to affect the confidence of the performance report’s users” (External Reporting Board, 2014, pp 9-10).

identification of the whether it is a reasonable or limited level of assurance¹⁴. It also has to, where appropriate, describe any of the significant limitations in the assessments of the underlying subject matter. The assurance report should also name the parties who play a role in the audit, and the different evaluators, outlining what each parties responsibility as an auditor. A statement must also be made to identify the set of standards that the auditor used to conduct its audit. Auditors must also show their independence and ethical requirements in accordance with the *Professional and Ethical Standard I* relating to assurance engagements. A summary of the audit performed must also be provided. Limited assurance engagements are to summarise in a manner which showcases that the assurance provided is of a different nature, timing and that the procedures performed are not as extensive as audit procedures. Therefore, what must be summarised in a limited assurance are the procedures that were conducted under a limited assurance, showing the nature and timing, and how to less of an extent, it comes from a reasonable assurance engagement¹⁵. In an audit report, the auditor must also provide a conclusion and conclusions may vary. In a reasonable assurance engagement conclusions are to framed positively. While conclusions under a limited assurance engagement is framed in a way that show cases the processes and evidence gathered to form that conclusion. Depending on whether it is either a reasonable or limited assurance engagement, the conclusion must be phrased in appropriate words “in terms of the underlying subject matter, the subject matter information” and a statement made by the appropriate parties (External Reporting Board, 2014, p 73). If, in the case that an auditor provides a modified conclusion, the audit report must contain a section describing the matters that have led to this conclusion and a paragraph with the auditor’s modified conclusion¹⁶. After a conclusion is made, the last few things required in an

¹⁴ Additional requirements to this part include auditors are to also mention the level of assurances for the subject matter and the underlying subject matter where appropriate (External Reporting Board, 2014).

¹⁵ In a limited assurance there must be a mention of the limitations of the timing and the nature and extent of the procedures performed. The main reason behind addressing this is to emphasise the understanding that the conclusion is made based on whether the auditor thinks there are material misstatements within the subject matter. It is also appropriate to provide the summary of the work and what was not performed as that is seen as a more reasonable engagement procedure as opposed to a limited assurance. A complete identification of all procedures may not even be entirely possible, based on the auditors required understanding of an engagement risk rather than that of a reasonable assurance engagement (External Reporting Board, 2014, pp 31-32).

¹⁶ In the case of a modified audit conclusion, there must be headings above the paragraphs such as qualified conclusion, adverse conclusion, disclaimer of conclusion, or basis for qualified conclusion (External Reporting Board, 2014).

audit report are the auditors signature, the date of the audit¹⁷ and the location at which the auditor practices.

3.4 New regulatory introductions

Although these new regulations have not been put into practice it is still important to mention them. There are two new standards relating to Service Performance information that have been introduced but have yet to be fully utilized. As mentioned earlier, only charities within tier 3 and tier 4 are required to provide Service Performance information. The “PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 48 SERVICE PERFORMANCE REPORTING (PBE FRS 48)” was issued on 9 November 2017 (External Reporting Board, 2017, p.1) , and contained new amendments that were introduced in August 2020. These new amendments have been deferred for use until 1 January 2022. The new introductions to this standard will require tier 1 and tier 2 charities to provide Service Performance information. In addition, despite the number of standards available for the provision of assurance of non-financial information, the XRB has issued a new standard that is created specifically for the Audit of Service Performance information: “NZ AS 1: THE AUDIT OF SERVICE PERFORMANCE INFORMATION” (External Reporting Board, 2019). This audit standard was introduced on the 21st of February 2019, and was required to be applied from 1 January 2021 (External Reporting Board, 2019). The practice of this audit is one that is still unknown given that its introduction is fairly new and the full impact will not be seen till the end of the reporting periods of the charities. The difference between the introduction of NZ AS 1 and the use of ISAE 3000 is that the new standard will require auditors to provide a separate opinion on the service performance information apart from the overall financial information.

Chapter summary

The regulations embedded within the charity sector of New Zealand are very new. The introduction of Performance Reporting and now the Audit of Service Performance are

¹⁷ The date of the audit is to be no earlier than the date the auditor obtained the evidence (External Reporting Board, 2014).

introductions that not only demand a lot of changes for charities, but have also caused changes in the practices for audit and review practitioners. From this context alone, New Zealand is a valuable setting for research, given that the introduction of the standards that now regulate the audit of Service Performance information. The question left to ask is, what are the current practices involved in the audit and review of Service Performance using the current standards and what does this mean for the new introduction of NZ AS1? It is important to look closely into these practices, especially given the operating level of tier 3, which consists of small to medium charities. In the literature review, Thompson and Morgan (2020) state that small to medium charities are usually at fault when it comes to new regulations being set due to the inadequate skills available to build an understanding of the information being provided. The current assurance standard at use, ISAE 3000, caters to both audit and review assurances. This standard only provides advice for the auditing of information that is non-financial and not specific to Service Performance, though the introduction of the new NZ AS 1 standard will help to cater for specific information in the Service Performance. However, despite the recent introduction of the Service Performance information specific audit, assurance practitioners are already providing assurance based on Service Performance information. An understanding of the current practices will help build a greater understanding of the implications of the new standards.

Chapter 4: Research Methodology and Method

4.1 Introduction

The aim of this study is to examine the practices of the Audit and Review of Service Performance information in the New Zealand charity sector. In order to understand the practices of a Service Performance audit, this study has employed a qualitative method approach, using document and thematic analysis to help collect and analyse information to inform the research questions of the study. This chapter details the methods that have been employed to achieve the aim of the research. It is divided as follows: Section 4.2 reintroduces the aim and the research question. Section 4.3 discusses the methodologies used in outlining the paradigms. Section 4.4 discusses the data collection process and Section 4.5 covers the data analysis methods that were employed.

4.2 Research question

As mentioned earlier, this study aims to examine the practices of audit and review of service performance information within the New Zealand charity sector. With this aim in mind, the following research question was proposed: How is the audit and review of service performance information currently being practised within the charity sector?

In response to the gaps in the literature that were discussed in Chapter 2, the following research question have been set to help address the current void. As mentioned in Chapter 3, the introduction of the Audit of Service Performance is a new concept and in order to understand the nature of its practice, there is a need to find out how audit and review of service performance information are being currently practiced, given that the current audit standards of use are not specific to Service Performance information. In addition, as mentioned earlier, performance audit practices vary across multiple jurisdictions whether it be by country or by sector. This question aims to look into the differences in the current practices within the charity sector, using both the audit and review standards that are available now to formulate an understanding into what the Audit of Service Performance may mean in terms of terminology, practice and focus. To answer this question the following procedures were employed.

4.3 Research Methodology

This study employed a qualitative methodology approach to provide an understanding of the reality of Audit and Review of Service performance information and how it is being practiced within the charity sector. Qualitative methods are useful when aiming to answer questions targeted towards understanding the meaning and experiences of social worlds (Fossey et al., 2002). The use of qualitative methods in this study is seen as useful as it helps to provide a more in-depth understanding of issues within a particular phenomenon, which in this case is the understanding of the realities of the practices of the Audit and Review of Service Performance information (Bowen, 2009; Fossey et al., 2002).

This study has produced information in alignment with the interpretivist paradigm. The following ideology helps to navigate the findings and the analysis content of this study. Using the interpretative paradigm, it allows researchers to take the collected data and create an interpretation and an understanding based on the information thus provided (Fossey et al., 2002). This paradigm suits this study, given that through the qualitative methodologies selected the information collected will be used to help build an interpretation that results in an understanding of Service Performance information audit and review practices within the charity sector.

4.4. Data collection

4.4.1. Sample size and selection

Sampling is important and the key aspect is information richness. To achieve information richness, the sample size should be one that is deemed appropriate and adequate (Fossey et al., 2002). For this study, a sample size of 200 charities was selected from the Tier 3 charities who are required to be audited or reviewed. This sample was seen as adequate, as a total of 200 charities meant a total of 400 performance reports, as for each charity the performance report for the most recent two years was collected. 200 charities as a sample size was also seen as appropriate given that the aim of the study was to analyse practices and with the charity performance reports accessible online, performing a document analysis to help collect

information that is relevant to the identification of current practices was seen possible with this sample.

The selection of the 200 charities was made by downloading an excel sheet that was made available by the Charities Register, an online database that has relevant information relating to all registered charities. This excel sheet is accessible under an advanced search as financial. When accessed, the excel sheet can be filtered to consist only of the relevant information that you desire. In order to capture the information that relates to this study, the excel sheet was filtered to contain only the charity name, charity registration, location, charitable purpose, and expenditure. The first excel sheet was filtered by creating a range for the expenditure level, which was adjusted to be greater or equal to \$500,000 and less than or equal to \$2 million, and this was to capture the total population of Tier 3 charities which the statutory audit and review regulation are applicable towards. From the initial excel sheet, a total of 2564 charities were identified as Tier 3 charities who were to provide assurance on their performance reports. From this excel sheet, it was then further divided into two groups, one showing the Tier 3 charities to be audited and another excel sheet consisting the groups of Tier 3 charities that were to be either be audited or reviewed. Figure 4 and Table 3 provides a simplified depiction of the division.

Figure 4: How Tier 3 charities are divided under the statutory audit requirements

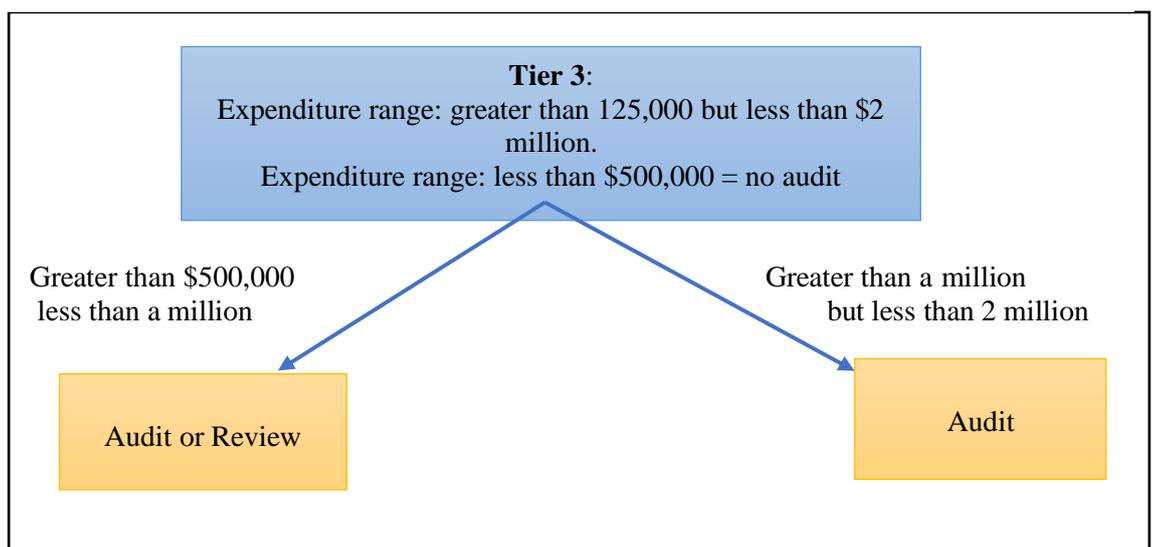


Table 3: The division of the target population into groups

	Tier 3 charity categorization	Totals
The audit or review group	With expenditure greater than \$500,000 but less than a million	1613 charities
The audit group	With expenditure greater than a million	951 charities
Total Tier 3 charities		2564 charities

In dividing the initial group, into the two different groups according to their expenditures what was revealed was that the ‘audit or review’ group had a total of 1613 charities and the remaining 951 charities belonged to the ‘audit group’. From these two groups, 100 charities were selected from each group to collect an equal sample collection of 100 reviewed charities from the audit or review group and 100 audited charities from the audit group. The selection process for the samples was done selectively, which was seen as appropriate for this study, given its aim. Selective sampling is used for studies in order for information richness to be established; purposely selecting samples can contribute to the central importance of the aim of the study (Coyne, 1997). In relation to this study, the main focus is on understanding the practices of the Audit and Review of Service Performance and in order to collect information that can cover that aim the sample needs to be representative of both audits and reviews. Therefore, selective sampling was seen as appropriate because identifying the reviewed charities from the audited charities is not easy. In selecting the samples, both groups went under the same processes. Each excel sheet for each group was ranked from the highest to the lowest in regards to their annual expenditures. Once this was done, for each group, every charity starting from the highest was entered into the charity register search to locate its performance report for the year including the year prior. Each charity had their Performance reports screened to identify whether it was audited or reviewed. Each time a charity from the audit group was screened as audited, it was added into the sample. This process took a total 110 charities to identify the first 100 audited charities. In comparison to the audit or review group, a total of 1089 charities had their performance reports screened to identify the first 100 charities who had their performance reports reviewed.

4.4.2 Document analysis

Using document analysis allows researchers to perform an ordered procedure to review and further evaluate documents. The use of documents allows researchers to develop meaning and in-depth insight into the research problem (Bowen, 2009). Through document analysis, researchers are able to identify underlying meaning, patterns, and processes rather than numerical relationships, which is what is needed to help answer the research question.

Following the document analysis method as described by Bowen (2009): he laid out that in order for a document analysis to be made successful, there are steps. First, is to determine the right documents to be used for analysis. Documents need to cover the five functions of documentary material, and keeping these five functions in mind, the document of the selection for the document analysis were the Performance reports¹⁸ for each charity. The Performance report was seen as the most appropriate document to be used as it satisfied all five functions, which are:

1. Provide data relating to the research context., i.e. the New Zealand charity sector
2. Provide information that can lead to more questions that need to be asked and further observation if needed (a thematic analysis can be further explored using the data extracted)
3. Provide supplementary research data (for future research purposes)
4. Provide a means of comparability to track development (the documents can be traced back to prior years)
5. Allow for its analysis to corroborate findings and evidence from other sources

Following the document analysis process as described by Bowen (2009), the performance reports were further explored using the following three steps together: Superficial examination, Thorough examination and Interpretation. Superficial examination is the process wherein the

¹⁸ Performance reports are reports that tier 3 and 4 charities are to produce annually. They are reports that are comprised of both the financial information and non-financial information that can be disclosed. For tier 3 and 4 charities, these performance reports require them to disclose service performance information that outlines their outcomes and outputs for the year alongside their financial statements.

researcher initially skim reads through the documents to make sure the correct information¹⁹ is within the document. The superficial examination performed in this study was the identification as to whether the Performance reports consisted of either a review report or an audit report and whether there was a statement of service performance as well. The next step was to do a thorough examination, which refers to reading the documents to gain an understanding as to which parts of the document will be collected for the final step, which is interpretation. Table 4 details what the thorough examination process consisted of. To collect a sufficient amount of information, this study used the following guidelines. This process was considered a thorough examination of the documents²⁰.

Table 4: Thorough examination process

Guidelines	Codes/ how the information was documented for the analysis
1. Is the performance report for the previous two years available?	Yes or No
2. What are the available years?	19/20 and 18/19
3. Did the performance report undergo an audit or a review?	Audit or Review
4. What was the conclusion/opinion for the audit or the review?	QP = Qualified opinion UNQP = unqualified opinion UnMOD = unmodified opinion MOD = modified opinion NO = no opinion clearly stated
5. Who is the auditor?	Name of the auditor/ assurance practitioner
6. What are the statutory requirements used within the audit or review?	ISAE 3000 + ISRE 2400 ISAE 3000 + ISAs ISAE 3000 only ISRE 2400 + ISAs ISRE 2400 only NZSRE 2410 Others
7. What are the words used to describe the audit or the review of service performance information?	<ul style="list-style-type: none"> • List the words to describe the outputs and the outcomes • List the headings for the audit/ review report
8. Were any recommendations made?	Yes - further explain what were the recommendations No
9. Were there any changes seen over the years?	Yes – further explain the changes No

¹⁹ Correct information refers to the completeness of the document, identifying whether or not the information needed for thorough examination and interpretation is within the document being used.

²⁰ In the Appendix there is an example of how some of these guidelines were applied in different areas of the audit report

From the performance reports, the main focus was on the audit and review report and the Statement of Service Performance. From guidelines 3 to 11, the audit report was used to extract the relevant information. Guidelines 1 and 2 were collectable just from the cover page of the performance report. Guideline 9 was achieved through the dual use of both the assurance report and the Statement of Service Performance. Using a new excel sheet to collect the information, the following steps were performed for each step of the guidelines in order to determine what code it was given.

Guideline 1: Determining whether the answer was yes or no was made in the attaining of the report. When searching for the charity on the Charity Register, if it had reports prior to the recent year, it was given yes and if there were none, it was labelled no. **Guideline 2** was done alongside Guideline 1, because in identifying whether a previous year was available, identifying what year the two reports were reported in was simultaneously done. Where the charity's most recent report was for the year 2020, it was coded as 19/20, and where the most recent report was 2019, it was coded 18/19.

Guideline 3: identifying whether a charity was audited or reviewed was done by identifying whether the report contained either an audit report or a review report. This was done simultaneously with obtaining the sample size as there was a need to gather 100 reviewed charities and 100 audited charities, and in identifying that the performance report had to be skimmed to identify whether an audit or review report was provided.

Guideline 4: identifying the conclusion/opinion that was given was done by reading the audit/review conclusion and identifying the headings. For the reports that undergo audits, the opening paragraph in the audit report provides the conclusion of what the opinion was. The opinion of the audit tends to reflect the heading in the opening paragraph. The title of the conclusion identifies whether it is a qualified, unqualified, modified, unmodified opinion. In cases where no headings were given it was recorded as no opinion was provided. The charities that had their performance reports reviewed were identified by the conclusion of the review provided at the end of the report, in comparison to audits where the conclusion is at the start. The same process performed in identifying the conclusion for audits was performed for the reviews.

Guideline 5 is identifying who performed the audit or review. This was found in the assurance reports, either on the front page or on the sign off at the end of the report. **Guideline 6** refers to identifying the standards used to draw the conclusions. Identifying the standards the audit or review practitioner used is found under the Basis for Opinion/Conclusion paragraph of the assurance report. **Guideline 7** assists in identifying the terminology used in practice: this was done by referring to the conclusion of the audit or review and recording the terminologies used to explain the assurance on Service Performance information. **Guideline 8** was used to identify if the audits or review reports provided any recommendations for the charity. This was only made identifiable in the basis for the opinion/ conclusion paragraph. If no recommendations were noted it was recorded as a no. The last guideline was applied for the reports that had provided an ‘other matter or emphasis of matter’ paragraph in their report. An ‘other matter or emphasis of matter’ paragraph is only provided when there are issues or matters that the audit or review practitioner believes should be made known. If there were any notable changes over the period, this paragraph discloses it. The last guideline is to list any notable changes being made. Using the information collected from the audit and review reports followed the guidelines above. **Guideline 7** was further analysed by referring back to the Statement of Service Performance. By using the terminology identified in the initial phase of data collection and referring back to the statement of service performance meant looking more closely into the outcomes and outputs of the charity to help identify what the terminology disclosed in the audit and review report meant. Table 6 shows the steps that were performed to identify how Service Performance information was being analysed to collect information.

Using guidelines similar to table 4, an additional criteria was formulated to help assess how the audit of Service Performance information was being put into practice by audit and review practitioners. This table was formulated in accordance with the definitions of the qualitative characteristics of information as defined in the ISAE 3000, given it is the current standard being used. The new standard, NZ AS 1, has yet to be used since the majority of the reports available are between the years of 2018 – 2020, but given that the same qualitative characteristics are used it will be interesting to see how the current standards are seen to define it with the current

practice. The criteria shown in Table 6 was used across the outcomes and outputs in the Statement of Service Performance of both the reviewed charity reports and the audited charity reports, given that the ISAE 3000 is a standard available for both assurance engagements.

Table 5: Guidelines formulated to determinate how the statutory requirements were put into practice

Qualitative characteristics	Audit and Review of Service Performance information
Relevance	Do the outputs and outcomes provided in the Statement of Service Performance assist in decision making?
Reliability	Do the outputs and outcomes show consistency in the measurements, i.e, outcomes are measured by the same outputs across both years?
Completeness	Are the important factors that are material to the Service Performance information being disclosed? Are there any omissions of any material information? Can the outputs disclosed be benchmarked across other similar charities?
Neutrality	Do the outputs and outcomes reflect balance and are they free from bias? Is a balance in the positive and negative information being disclosed?
Understandability	Are the outputs and outcomes easily understood?

The information collected through the thorough examination process was then taken through to the last step, which is the interpretation stage. The interpretation process of the document analysis in this study was done in combination with the thematic analysis, which will be further detailed in Section 4.5

4.5 Data analysis

Following the interpretivist approach mentioned earlier, this study employed thematic analysis to help provide further understanding of the data collected through document analysis. The use of thematic analysis is used to create themes based on the understanding of information that is quite repetitive or presents itself multiple times. This study employed a qualitative approach and collected information from secondary sources. Performing a thematic analysis was seen as a beneficial methodology as it helped to build an understanding of the historical roots of the use of the audit and review of Service Performance information, given its recent introduction.

Thematic analysis is the process of formulating emerging themes based on the information collected. The themes were created based on their recurrence in the literature and their relation to the data collected. All the information collected based on the guidelines laid out in Tables 4 and 6 were further divided into themes to help lay out the information in a more comprehensive and understandable way (Atheide & Schneider, 2017). By using the excel sheets that were created to record all the categorised information, themes needed to be formulated to help answer the research questions. The themes for the study were formulated by finding connections between the information available. For instance, Guidelines 4, 10 and 11 relate to each other. The recommendations and changes correlate with the conclusion and opinions provided. In analysing the three together we can identify what current impacts the conclusion and type of opinion a charity is given. A large amount of information was collected and to simplify the data collection it was grouped into the following themes.

- i. Changes: This theme referred to any changes that were noted in the data collection. It included any changes in auditor, changes from audit to review or changes from review to audit. It also grouped any of the charities that were seen to change in the conclusion/ opinion of the year.
- ii. Quality: This theme referred to information that correlated to the factors that would impact the perceptions on the quality of the assurance provided. This included the tone of the audit review as well as the conclusions/opinions that were given.
- iii. Outcomes and outputs: This group was the combination of the terminologies used to make conclusions about the assurance of outcomes and outputs and the matching of these against the qualitative characteristics described in Table 6.
- iv. Standards: This theme was created to represent the groups of information that related back to the standards. This included the types of standards used and the assurance providers and the standards they used.
- v. Inconsistencies: This theme showcases the areas in the data collection to any of the outliers. The majority of these contained any inconsistencies in the standard use.

These groups of themes were further analysed and divided into two bigger themes to help answer the research question. From the themes, two of these themes were seen dominant with

much more data in comparison to the others. This was the outcomes and outputs, and the Standards theme. The other themes such as quality, inconsistencies, changes only had a few information but not as much in comparison to outcomes and outputs. However, the information that was grouped under each theme was seen complementing the other theme. For instance, Standards and outcomes and outputs, Standards and change, Inconsistencies, quality and standards. These themes and their interlinks are seen in Chapter 5.

Chapter 5: Audit and Review of Service Performance Information

5.1 Introduction

This chapter documents the findings that were gathered as a result of the document and thematic analysis that was conducted as described in the previous chapter. The analysis addresses the research question as laid out in Chapter 1: How is the Audit and Review of Service Performance information currently being practised? The investigation aimed to provide an overview on how the Audit and Review of Service Performance information is currently looking within the charity sector. The answers to this question are divided into three sections: Section 5.2 outlines the statutory regulation use; Section 5.3 looks into the audit and review of outputs and outcomes, drawing on the current practice of audit and review practitioners who use the statutory regulations, while Section 5.4 compares the current standards being used versus the new audit standards.

5.2 Audit and Review Statutory regulation use

5.2.1 Overview of compliance with statutory regulation

As outlined in previous chapters, both auditors and reviewers are provided with statutory regulations to assist in the audit and the review of the performance report. Currently there are a number of statutory regulations but the only ones that address non-financial information are the ISAE 3000 and the NZ AS 1, which is the new statutory regulation that has yet to be fully used. Despite having the ISAE 3000 as the statutory regulation for use in the case of non-financial information, not all auditors and reviews are seen to be using it to account for Service Performance information. Figure 5 provides an overview of the current statutory regulations being used by auditor and review practitioners to practice their audits. Figure 5 updates the Figure 3 as laid out in Chapter 3. What has been identified in the sample is that out of all the statutory regulations available, not all the statutory regulations are being used and there are some that are more commonly in use. Figure 5 shows that there is a new statutory regulation

that is an addition to the current audit statutory regulations. What is also seen is that only one of the Other Assurance Engagement standards is being used.

Figure 5: Updating the current statutory regulations as displayed in Figure 3



To better picture the figure above, the tables below depict the use of the current statutory regulations. Tables 7 and 8 outlines the total charity reports with respects to the statutory regulations that the audit and review practitioners use to perform their audit or review and the total of charity performance reports. Table 7 and Table 8 is arranged in relation to the total number of review and audit reports and statutory regulations their preparers used to form their opinions.

Table 6: Statutory regulations used by audit practitioners

Statutory requirements used by auditors	Number of reports
ISAs only	62
ISAs and ISAE 3000	126
ISAs and ISRE 2400	2
Auditor-General's Auditing standards	10
Total	200

Notice that this table still includes the ISAs in the table, and this is to put emphasis on the charities who currently provide service performance information however the audit practitioner is auditing using only financial statutory regulations.

Table 7: Statutory regulations used by review practitioners

Statutory requirements used by reviewers	Number of reports
ISRE 2400	44
ISAE 3000 and ISRE 2400	140
NZ SRE 2410	6
Auditor-General's Auditing standards	10
Total	200

The addition of the Auditor General's auditing standards is a new addition to the current pool of statutory regulations that audit, and review practitioners use for the audit and review of performance reports. It is interesting to note that despite the fact that the NZ SRE 2410 is a standard used in the reviewing of charity performance reporting, it is unpopular in comparison to the use of the Auditor General's auditing standards, which are not even part of the pool of audit and review standards as outlined in Chapter 3, Figure 3.

In addition to the current use of audit and review statutory regulations, there are a few inconsistencies in their practice. The most interesting notable inconsistencies were the following:

- (1) The use of ISAE 3000 for audit or review did not necessarily mean that there were any conclusions and comments being made on the Service Performance information.

There are currently two financial audit related statutory regulations, two financial review statutory regulations and three other assurance engagement standards. In the sample, all the financial audit and review statutory regulations are used, with the new addition of the Auditor General Auditing standards, while the only other assurance engagement statutory regulation used is the ISAE 3000. Table 9 outlines a brief summary of the total reports that are audited and reviewed using only the statutory regulations for the audit and review of financial information, and the reports that are audited and reviewed using as the statutory regulations for the audit and review of financial information and for Other Assurance engagement standards.

Table 8: Financial information audit and review statutory regulations vs both financial and non-financial audit and review statutory regulations

	Total number of reports	Percentage
Audit and review of historical financial information standards	134	33.5%
Both audit and review of historical financial information standards and Other Assurance engagements	266	66.5%
Total	400	100%

From the 266 reports that used the ISAE 3000 to audit and review their performance reports, a total of 13 reports made no comments on the service performance information within the performance reports. Further analysis of this is outlined below in Section 5.3, where this will be further linked to the reasons behind the non-disclosure of service performance information.

(2) The inconsistency in the use of standards from the same assurance providers.

What is currently seen is that there is more than one audit and review statutory regulation that is available for use and there is not one set statutory regulation that is seen as the ‘you must use’ statutory regulation, hence the inconsistency amongst various assurance providers. However, when this is seen as happening within the same assurance provider, it begs the question of why. Table 10 provides an overview of the current popular audit and review practitioners in use amongst charities. Amongst these audit and review practitioners, it is evident that BDO is popular amongst charities for the audit and review of their performance reports. However, it is interesting to note that BDO was not using the same statutory regulations for the conducting of its performance audit across its multiple regions of operation. The inconsistencies in the standards and the addressing of service performance information was seen varying depending on location. Table 11 depicts the standards used in each BDO region.

Table 9: Distribution of audit and review practitioners over the audit and review sample

Audit and Review practitioners	Total of performance reports audited	Total of performance reports reviewed	Percentage
BDO	18	24	10.5%
Charity Integrity Audit	4	24	7%
KPMG	12	8	5%
Crowe Horwath	12	8	5%
RSM Hayes	8	4	3%
PKF	8	8	4%
PWC	8	4	3%
Moore Markham	8	2	2.5%
William Buck	6	4	2.5%
Other 56 independent auditors	116	114	57.5%

From table 10, we can see that there is one dominant assurance provider amongst both audit and review charities, which is BDO. The Charity Integrity Audit is also seen as a popular assurance provider amongst the reviewed charities. In comparison to the Charity Integrity audit, they are consistent in the standards they use. Table 11, as mentioned earlier, is a depiction of inconsistencies in the use of audit and review statutory regulations within BDO. It is divided according to the region of operation.

Table 10: The use of statutory regulations by BDO in different regions of operation

BDO Locations	ISAs only	ISAE 3000 + ISAs	ISRE 2400	ISAE 3000 + ISRE 2400	Auditor general audit standards
Auckland	4	2			2
Christchurch			2	2	
Northland			2		
Taranaki				2	
Tauranga	2	2		2	
Wellington	2	2		14	

In reference to Table 11, BDO Northland and Christchurch are the ones that seem to use the historical financial reporting audit statutory regulation (ISRE 2400) on its own to perform a review, despite the provision of the service performance information. BDO Auckland audited the charities performance reports with the Auditor General Audit Standards. In the audit report of that charity, no comment was made on its Statement of Service Performance despite it being provided. The ulterior motive behind its use is unclear, given that they prepare their

performance reports in the correct template and other BDOs located in other regions audited charities using the same standards as outlined in the context.

Keeping the focus on standard use and the acknowledgement of Service Performance information and focusing only on the use of the ISAE 3000, the ISRE 2400 and the NZ SRE 2410, the next section will help to depict how auditors and reviewers have used the standards to formulate the opinions on the outcomes and outputs and Service Performance information overall.

5.3 The audit and review of outcomes and outputs

5.3.1 Service Performance information

Service performance information refers to the non-financial information provided in order to further understand what the charities performed during the reporting period. The Statement of Service Performance has two main elements: the outcomes and the outputs. In the current audit and review statutory regulations in practice, the ISAE 3000, the ISRE 2400, the NZ SRE 2410 and the Auditor General audit standards, there is no mention within the statutory regulations that suggest that in order to audit or review Service Performance information, the specific procedures similar to the audit of financial information should be followed. However, based on the analysis made, it has been seen that both audit and review practitioners have provided conclusions on Service Performance information similarly.

The use of all the statutory regulations outlined earlier in 5.2 are shown in Table 7 and Table 8. From the use of these statutory regulations what was found is that there are two different ways that Service Performance information is being addressed in the audit and review reports.

- 1) The indirect mention of the Statement of Service Performance as being presented fairly and free from material misstatement. Majority of the reports do not mention Statement of Service Performance but conclude that the performance report is presented fairly, which assumes that the Statement of Service Performance is included.
- 2) There is a mention on whether the outcomes and the outputs of the charity is deemed practicable and suitable within the Statement of Service Performance.

Conclusion 1 is the type of conclusion made by audit and review practitioners who use audit statutory regulations other than the ISAE 3000. This involves the charities that are being audited and reviewed using the ISRE 2400 and the NZ SRE 2410. Figure 6 shows an extract from a charity performance and the review conclusion showing how the ISRE 2400 and the NZ SRE 2410 tend to make a conclusion based on Service Performance Information.

Figure 6: ISRE 2400 and NZ SRE 2410 conclusions on the overall review (Wanaka Golf Incorporated, 2020)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the performance report on pages 8 to 17 does not present fairly, in all material respects, the financial position of Wanaka Golf Club Incorporated as at 31 August 2020, and of its financial performance ended on that date in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not For Profit).

Figure 6 shows the common conclusion type that review practitioners use to make a conclusion about the overall review performed. Although there is no mention of service performance information, the conclusion mentions that “nothing has come to the attention of the auditor to believe that the performance report on pages 8 to 17 does not present fairly, in all material respects” in relation to this charity their Service Performance information was located on pages 9 and 10, meaning that the review practitioner finds that the Statement of Service Performance and Entity information is presented fairly. From the sample, a total of 60 reports concluded in the same manner.

In reference back to conclusion type 2, the only statutory regulation used currently that concludes in that manner is from those audit and review practitioners who used the ISAE 3000. The conclusion is that the reported outcomes and outputs and quantification of the outputs are to the extent practicable are suitable in the Statement of Service performance. The main question here is: What does it necessarily mean when outcomes and outputs are seen as suitable?

5.3.2 Suitability of Outcomes and Outputs

According to ISAE 3000, items are disclosed as suitable if they exhibit the following characteristics:

- 1) Relevance: the information provided should assist with decision making by users
- 2) Completeness: no relevant information is omitted and where relevant mention is made of benchmarks for presentation and disclosure
- 3) Reliability: measurement or evaluation is able to be made on the subject matter
- 4) Neutrality: the information is provided free from bias as appropriate in the engagement circumstances
- 5) Understandability: information provided can be understood by users

Table 12 shows the total of reports that were concluded with their outputs and outcomes as being suitable according to their audit and review reports.

Table 11: Suitable and practicable outputs and outcomes

Words used to describe the outputs and outcomes	Total number of reports	Percentage of total reports	Audited reports	Percentage of audited reports	Reviews reports	Percentage of reviewed reports
Suitable and practicable	253	63.25%	119	29.75%	134	33.5%
No mentions	147	36.75%	81	20.25%	66	16.5%

From this table it can be seen that the use of the terms suitable and practicable are the most common terms used to express the suitability of the outputs and the outcomes in the Statement of Service performance. From the sample, 63.25% of the reports conclude that the outcomes and the outputs are practicable and suitable. 36.75% represent the reports that mentioned nothing relating to the outputs and the outcomes and their suitability and practicability in the Statement of Service Performance.

Looking beyond the numbers, the reports that were classified as no mentions can be divided into two different groups, which can help identify the reasons as to why there is no mention of the outputs and outcomes.

- 1) The charity is reporting in the incorrect Tier 3 format
- 2) The charity is being audited/ reviewed using standards that are not required to comment on the suitability of the outputs and the outcomes of the Statement of the Service Performance

From the 36.75% who did not mention the suitability of the outcomes and the outputs, 21.77% (32 reports) of those reports represent the charities that were reporting in an incorrect style. This practice was seen to be more common amongst the audited charities, who were reporting in the Tier 1 and 2 style. One logical reason that can be seen to explain why there are few charities reporting outside of the Tier 3 format would be the fact that they have an expenditure greater than 1.5 million, which is not too far off the cut off point for Tier 2. Only one charity reviewed was seen to also not report in the correct format; it was reporting in neither of the formats as it only provided a profit and loss statement and the balance sheet.

The remaining 115 reports²¹ correctly reporting in the Tier 3 charity reporting style were seen to not comment on the outputs and outcomes based on the statutory regulations that were used, despite providing a Statement of Service Performance Report. In these review and audit reports the conclusion does not comment on the outputs and outcomes and their suitability, other than a mention that the service performance is being presented fairly. Out of the 66 reports²², 26 were reviewed in accordance with the ISRE 2400. Under the ISRE 2400 there is no requirement to acknowledge the suitability of the outputs and the outcomes. Four of those reports were also reviewed in accordance with the NZ SRE 2410 and no commentary was made in regard to the suitability of the outputs and the outcomes. However, one audited charity used the same standard and has comments on the outputs and outcomes. 18 of the reports were seen to use

²¹ 147-32 = 115, 147 represented the total reports that do not comment on the suitability of the outcomes and outputs. 32 represents the total reports that reported in the incorrect tier template.

²² This the total of reviewed reports that did not mention anything relating to the suitability of the outcomes and outputs.

both the ISAE 3000 and the ISRE 2400 to review the performance reports, yet still there was no comment on the outputs and outcome suitability. From these 18 reports, one disclosed a qualified conclusion and therefore the question arises as to whether it was not mentioned because the outcomes and outputs were not suitable.

5.3.2.1 Practices of suitable outcomes and outputs

The audit and review of the Service Performance information is based on the judgement of the assurance provider as to how they see the outcomes and outputs as fit, relevant, reliable, neutral, complete and understandable. In saying this, the following sequences show a variety of outputs and outcomes showing how the judgement of the characteristics vary.

i. Relevance

According to the ISAE 3000, the relevance component refers to determining whether the information disclosed is important and useful for the decision-making process of its users. The vagueness in the definition of relevance in the ISAE 3000 is shown in its practice by audit and review practitioners. In practice, what is seen is that relevance is closely tied to completeness. In order for it to be relevant, all the information provided should be complete and not omit any material information. From the total sample, 82.75% (331 reports) of the reports that concluded with suitable outcomes and outputs that were considered relevant. The rest of the 69 reports were seen to provide a lot of information that was either not enough, way too much, or had information that did not relate to the outcomes and outputs, therefore making it irrelevant. Figure 7 and 8 are examples of relevant and irrelevant outcomes and outputs. Figure 7 is a representation of outputs which lack relevance.

Figure 7: Example of irrelevant information provision (Centre for Social Impact New Zealand Limited, 2020)

Statement of Service Performance
For the Year Ended 31 March 2020

Client-centred and open source

CSI delivers client-centred fee for service work directly to our partners in the philanthropic, community and government sectors, in response to their specific needs. Since 2019, the Centre has also led Te Pūaha o te Ako – a multi-disciplinary social impact knowledge and practice hub based in CSI. Te Pūaha o te Ako was established through a dedicated funding grant from Foundation North, to provide open source insights, learning, research and resources across the philanthropic and community sectors.

Who we work with

As societal issues become more complex, philanthropic, government and corporate funders need to know that their grants and investments are making the difference they expect them to make. On the delivery side, community organisations often require support to be sustainable, effective and relevant as demand for their services increases and client needs diversify.

Our work with funders and community partners is designed to help them build powerful partnerships, strengthen their internal capabilities, and design frameworks to track their progress. All of these services are critical factors to help them achieve the outcomes they want for communities in greatest need.

CSI and its team of associates have worked extensively with funders and community partners to support diverse communities' aspirations, and challenge inequalities. These include a focus on supporting tino rangatiratanga and addressing Māori and Pacific inequities in accessing affordable housing, education, arts and culture, sport and physical activity, and youth development programmes.

The extract in Figure 7 is only one out of the five pages of Service Performance information disclosed in the entire performance report. The information disclosed is worth knowing, however it is not information that belongs in the Statement of Service Performance as outlined in PBE-SFR A NFP. The above charity has provided an overview of their client base and who they work with, rather than the provision of the outcome and output of the performance for the period, which is the purpose of the Statement of Service Performance. The information that is disclosed here belongs in the Entity information of the charity. However, despite the amount and the extent of the disclosure, the audit practitioner has concluded with the outputs and outcomes being suitable despite the fact that the Statement of Service Performance contains more than what should be reported. This suggests that the audit practitioner views the following information disclosed as relevant.

Figure 8: Example of relevance (La Vida Trust, 2020)

Description of the Entity's Outcomes:

Knowing God

Nurture and grow a community of faith where people can grow in their relationship with God.
Facilitate weekly contemporary church services for members and public to attend.
Provide teaching related to living the Christian faith in a relevant and faithful manner.
Organise and support opportunities for prayer - corporately and individually.

Loving Others

Being a church that is characterised by grace, acceptance, forgiveness and encouragement.
Being a community that honours the diversity of cultures and generations in our midst.
Helping people to grow and mature, develop their giftings and ministry and live lives of service to others in family, workplaces and communities.
Nurture and support small groups and relational community networks.

Changing Lives

Encouraging and equipping people to live in the light of the Good News of Jesus Christ.
Training people to enable healthy, functioning marriages and families.
To model and encourage integrity, honesty and exemplary behaviour in all areas of life so church members serve in society as good, productive and positive citizens.
Provide financial, operational and pastoral support to La Vida Youth Trust.

Description and Quantification of the Entity's Outputs:	2020	2019
Average attendance at weekly services	732	795
Average attendance at weekly Life Kids	130	150
Average attendance at fortnightly life groups	303	370
Average attendance at youth groups	65	80
Average attendance at community groups:		
Craft Group	15	12
Conversational English classes	20	20
Mothers Group	6	8
Number of attendees at life skills courses	21	65
Number of church services conducted at Christchurch Women's Prison	30	30
Average attendance at Women's Prison church service	23	23
Number of Christmas boxes delivered to community	2300	2000

Figure 8 is a good reflection of relevance in outcomes and outputs disclosure. The outcomes are laid out clearly and the outputs disclosed align with the outcomes. All the information provided is straightforward and beneficial towards decision making regarding this charitable organization. What can be seen across Figure 7 and Figure 8 is the difference in information provision and what is perceived as relevant.

ii. Completeness

The meaning of completeness lies in its literal sense. It is an evaluation of whether the information that is being disclosed is complete and not excluding information that is valuable for financial decision making (External Reporting Board, 2014). Identifying the completeness of Service Performance information is quite difficult and further exploration of the information would be needed to determine the completeness of the Service Performance information disclosed. In order to determine the completeness of these charities' information a comparison across its sectors had to be made. The comparison showed there were a number of differences.

For instance, with charities in the same sector who performed similar charitable activities, a number provided a sufficient amount of information while the others had insufficient information, which begs the question of why a difference in output measures is there is there, when they provide the same type of charitable service. From the entire sample, what can be seen is that 17.55% (38 reports) from the total number that reported having suitable outcomes and outputs were seen as incomplete. As mentioned earlier, relevance and completeness seem to work hand in hand, given that in order for the information to be considered complete, everything relevant for decision-making should be disclosed. Figures 9 to 13 provide different examples of the completeness that was seen in the outcomes and outcomes that were disclosed as suitable. Figure 9 shows an extract that reflects completeness in its outcomes and outputs being disclosed. Completeness is identified here given that the outcome of this charity is to support other organizations that aim to improve the life of New Zealanders; the outputs that are also reported show completeness by outlining specifically the names of the organizations that it contributed towards with the respective financial amounts.

Figure 9: Examples of outcomes and outputs that reflect completeness (Lloyd Morrison Foundation, 2020)

STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2020

Our Outcomes:

The Lloyd Morrison Foundation was established to support organisations that seek to improve the life of New Zealanders.

Description and Quantification of the Entity's Outputs:

	2020 \$	2019 \$
Wellington Free Ambulance	500,000	500,000
Nikau Foundation	Nil	10,000
Kaibosh	100,000	Nil
Challenge 2000 Trust	53,760	Nil

In comparing Figure 9 to the outputs and outcomes reported in Figure 10, the difference seen is that Figure 10 lacks completeness in the information being disclosed. Both charities aim to

create either services or money that caters towards the betterment of other organizations. However, the disclosure of output in Figure 10 is not as detailed as that in Figure 9, as the information is only financially related and does not outline where exactly the donations were being given or who they were divided amongst. Just as in the charity in Figure 9, the charity described in Figure 10 concluded that the outcomes and outputs were suitable, despite the lack of completeness of information.

Figure 10: Example of outputs that lack completeness (The Greenlea Foundation Trust, 2020)

Statement of Service Performance For the year ended 30 September 2020		
Description of the Entity's Outcomes: Makes grants to organisations (including schools and/or other charities)		
Description and Quantification (to the extent practicable) of the Entity's Outputs:	Actual*	Actual*
	This Year	Last Year
Donations made	\$611,105	\$575,000

Furthermore, on the completeness characteristic, Figure 11 provides an example incompleteness in the outcomes reported by the charity. What is seen in this extract is an outline of the main focus areas in which the charity aims to contribute towards; however, it does leave the readers wondering as to what it aims to connect, empower, accelerate, and celebrate. This shows a lack of completeness in information, which is necessary to complement the outcomes that are disclosed.

Figure 11: Example of outcomes that do not reflect completeness (Predator Free New Zealand Trust, 2020)

Description of Entity's Outcomes

The Trust has three major focus areas:

- ☒ Connect
- ☒ Empower and accelerate
- ☒ Celebrate

So far, we have seen examples of the current outcomes and outputs that lack supplementary information to make the disclosures complete. The next two extracts show examples of charities that have either reported no outcomes or no outputs, which is already a clear indication that the disclosure is incomplete.

Figure 12: Example where there are no outcomes reported (Waiheke Community Art Gallery Incorporated, 2020).

**Statement of Service Performance
For the Year Ended 30 June 2020**

Outputs and Measures

28 Exhibitions

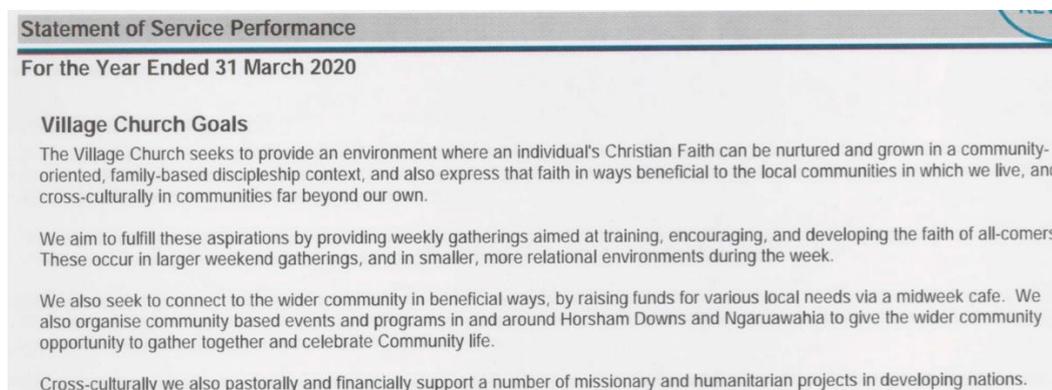
- Five exhibitions involving young people
- Five exhibitions involving Maori artists
- Three exhibitions involving older people
- Two exhibitions expressing cultural and ethnic diversity
- Two exhibitions profiling work by recent arts graduates
- One exhibition for outsider artists

Throughout the year our exhibition calendar regularly presents work created by Waiheke artists and also showcases work by artists from other parts of New Zealand. A full range of visual arts media, painting, sculpture, ceramics, glass, photography and design is profiled, and annually we feature an exhibition for works made from recycled materials. Support for Waiheke artists includes production of the Waiheke Art Map and an annual summer exhibition that coincides with the Art Map publication.

Given that outcomes and outputs are complementary in the Statement of Service Performance, Figure 12 provides an example of one of the charities who have only reported the outputs of its performance for the year, and there is no outline of its outcomes to know what exactly what the charity had ought to achieve during the period. Despite This charity still had its outcomes and

outputs concluded as suitable by the review practitioner, despite no record of outcomes in the Statement of Service Performance.

Figure 13: Example of incomplete information with no outputs (The Village Church Trust, 2020)



Following the similar dilemma in Figure 12, this charity reported its goals as its outcomes and there is no record of any outputs being disclosed. These explanations provide no proof of execution; therefore, the information provided is incomplete and nor is it reliable. We cannot simply rely on the mention of what they did and assume that was performed. Although users may want to read this information, it is incomplete and lacks any output measures and quantifications of any kind. From this extract, we can see how completeness and reliability tie together. In order for information to be reliable it needs to be complete. This example alongside other charities were concluded by the review practitioner as suitable, despite no output disclosure.

iii. Neutrality

As defined earlier, neutrality refers to the provision of information in a manner that is free from bias. This involves reporting both negative and positive outcomes and outputs (External Reporting Board, 2013). From the sample, only 2% (5 reports) were seen to emphasize any of the unfavorable outcomes and outputs made throughout the year, while the rest of the reports were all positive. This component could not be captured completely as this would require the audit practitioner to run more information on the outputs; however, based on what has been seen so far, it seems that the charities are more likely to only present the positive outcomes and

outputs. Figure 14 is an example of neutrality in practice. In this example, the charity expressed how they did not meet their outcome for the year, which is a representation of neutral as it is representing the good and the bad and, in this case, the bad is presented.

Figure 14: An example of neutrality being put into practice (The Kennedys Ltd, 2020)

Statement of Service Performance For the year ended 31 December 2020

Description of the Entity's Outcomes:

Unfortunately due to the impacts of Covid-19 in 2020, The Kennedys Limited has not met its objective of generating a profit to support the Auckland University Students' Association Incorporated in this financial year.

The neutrality of the information ties together with relevance and reliability. In order for information to be seen as neutral or balanced, all the relevant information needed for decision making needs to be reported, while at the same time being consistent with the reporting to emphasize its reliability.

iv. Understandability

This is one of the more important aspects of Service Performance Information: the whole purpose of providing Service Performance Information is to promote accountability to its stakeholders. Therefore, the understandability aspect is crucial, as from the outcomes and outputs they disclose, the act of decision making is made from it and if it lacks understandability from its users than it has defeated its purpose. From the sample, 11.46% (29 reports) were seen to lack the understandability concept. The issues in understandability were due to a few reasons; either the formatting and laying out of the outputs and outcomes caused confusion, or the provision of more information than was needed to fully grasp what was disclosed. The figures below provide an example of the understandability issues seen in outcome and output disclosure. Figure 15 is an example of too much information that is not properly formatted

which impacts the readability and thus the understandability of what the charity is aiming to disclose.

Figure 15: An example of improper formatting leading to understandability issues (Zero Waste Network Group, 2020)

Statement of Service Performance

For the Year Ended 31 March 2020

Description of the Charitable Trust's Outcomes

To create connections between ZWN members and other stakeholders, enable and educate our members and to actively represent our members and the zero waste kaupapa locally, regionally and nationally.

Projects being delivered or developed by Zero Waste Network in 2019/20:

Auckland Inorganic Reuse - Contract with Auckland Council - looking after community groups access to the ReUsable goods at the Auckland Inorganic Warehouse facility, training and auditing inorganic collection staff on identifying, collection and care of ReUsable items.

Supporting Development Role for Community Recycling Centres in Auckland - Contract with Auckland Council - working with community groups in the Auckland Region that are operating or wanting to operate a Community Recycling Facility to further develop their staff (workshops and management mentoring), capacity and collectively exploring opportunities. Work with both Auckland Council and the CRC's to assist with developing and implementing better working collaborative relationships and contracts based on impact and outcomes.

Buyers Group (In collaboration with the Community Energy Network and Environment Hubs Aotearoa) - currently have an insurance buyers group operating and looking at adding in other opportunities as they arise

Product Stewardship and Container Deposit System Advocacy - promotion of smarter and more inclusive economic and environmental systems that better place responsibility with the producers and brand holders as well as better reward those that do the work at ground level. These systems are also about building and supporting a national network of facilities for take back opportunities.

Communications Strategy Development and Delivery - developing an internal and external strategy for better promoting Zero Waste opportunities and benefits to our members and their communities

Ewaste Advocacy (in development) - ensuring we are actively involved in national discussions on E-Waste product stewardship and take back proposals

Getting to Zero - Contract with Auckland Council - a monthly Zero Waste newsletter for Auckland communities and an information sharing process

Strengthening Communities Hui (in collaboration with the Community Energy Network and Environment Hubs Aotearoa) - our Annual combined hui which has been successfully running under this structure for 4 years. Held in Kaitia in November 2019.

Impact Initiative - working with Akina and Central Government to ensure that community enterprises are factored into the current discussion around support for developing frameworks and resources that better support social and community enterprises in New Zealand

Shared Impact Measurement - supporting research that specifically looks at impact measurement for our sector and how this can be shared

Low Carbon (in development with the Community Energy Network and Environment Hubs Aotearoa)

Resource Recovery Training - contracted to the Ministry for the Environment to deliver a number of Resource Recovery Training courses (for operators and managers) around New Zealand based on the courses that we are delivering in Auckland for the Auckland Community Recycling Centre operators. Includes local workshops on Circular Economy.

This extract provides information that can be understood; however, it is how the information is laid out that leads to a lack of understandability. From this example, it seems that the charity aimed to try and simplify the information, but the way has been laid out creates confusions for readers and thus the understandability of the outcomes and outputs is lost.

In addition to understandability, there are instances where the information provided makes sense, but it lacks clarity due to the incompleteness of the information. Figure 16 provides an

extract from a charity that outlines its outputs and outcomes clearly; however, there are missing aspects that make it hard to formulate a further understanding. Again, as identified in other characteristics, completeness plays a role together with understandability. Figure 16 provides a table with an overview of outcomes and indicators and provides percentages to indicate the outputs of the charity's performance. However, what is missing in this Statement of Service Performance is the absolute values for these percentages. Information like this can be misleading if the entire total is 10 while one may assume it to be 50.

Figure 16: Another example of how incomplete information affects the concept of understandability (Island Child Charitable Trust NZ, 2019)

2017-2019

OUTCOMES	OUTCOME INDICATORS	2017-2018		2018-2019	
<ul style="list-style-type: none"> ▪ Assist residents in locating, obtaining and retaining housing 	<ul style="list-style-type: none"> ▪ Percentage placed in long-term housing 	91% 2 evictions theft : addictions		97% 1 eviction unsafe behaviour	
	<ul style="list-style-type: none"> ▪ Percentage living in housing of their choosing for up to one year after leaving Island Child 	91%		97% 1 suicide post-exit	
<ul style="list-style-type: none"> ▪ Enhance economic and employment status of residents 	<ul style="list-style-type: none"> ▪ Percentage unemployed but seeking work 	At entry	46%	At entry	19%
		At exit	73%	At exit	51%
	<ul style="list-style-type: none"> ▪ Percentage employed 	12%		21%	
<ul style="list-style-type: none"> ▪ Increase residents' access to services and other agencies 	<ul style="list-style-type: none"> ▪ Percentage who report successful budgeting of finances 	At entry	0%	At entry	0%
		At exit	38%	At exit	31%
<ul style="list-style-type: none"> ▪ Assist residents in obtaining entitlements for which they are eligible 	<ul style="list-style-type: none"> ▪ Percentage fully engaged in their case management 	At entry	59%	At entry	52%
		At exit	91%	At exit	89%
	<ul style="list-style-type: none"> ▪ Percentage reporting satisfied with emergency housing programme 	91%		94%	
	<ul style="list-style-type: none"> ▪ Percentage acquiring additional benefits and service referrals while enrolled with Island Child 	100%		96%	

v. Reliability

The identification of reliability in the information lies in its measurements and consistency over the period. What was seen is that over the entire sample, whatever measures a charity used the prior year they employed again in the current year, which suggests consistency in its output measures. However, there are instances where a number of changes were seen in which the

reliability of the outcomes and outputs are questionable. For instance, there were changes in audit practitioners or changes in the review practitioner. From the sample, only 6% (8 charities) were seen to have changed audit or review practitioners over the two-year period. The reliability characteristic is hard to pin-point in regard to the chosen methodology. The identification of reliability from the document analysis springs from the comparability of the outcomes and outputs. All the reports provided information that is comparative, giving the same outcomes and outputs from the years prior. However, a few charities were seen to have the reliability questioned. Figure 17 is an interesting case where the review practitioner gave the charity a qualified conclusion, while also concluding that the outcomes are to an extent practicable and suitable. However, given a qualified conclusion, what was concluded is that there is an issue with entity controls and transactional recording due to employee changes, which has impacted their ability to collect a sufficient amount of information to run procedures to test the accuracy of the reported outcomes and outputs. The question here is why are there still comments on the conclusion about the outcomes and outputs being suitable when the basis for the opinion suggests that reliability was not met. Does this mean that suitable in this situation is still regarded as all the other characteristics being met despite the lack of one?

Figure 17 is an extract of the independent reviewer report that outlines in the conclusion that the outcomes and outputs are suitable, despite the comment about employee changes and the inability to collect sufficient data to confirm the suitability of outputs and outcomes. The reliability of the outcomes and outputs here is seen as questionable.

Figure 17: An example of questionable reliability (Auckland Student Movement at Auckland University of Technology incorporated, 2019).

Qualified opinion on the financial information and statement of service performance

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph

- (a) the reported outcomes and outputs, and quantification of the outputs to the extent practicable, in the statement of service performance are suitable; and
- (b) the accompanying performance report presents fairly, in all material respects, the financial position of the Association as at 31 December 2019, and its financial performance and cash flows for the year then ended,

in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) issued by the New Zealand Accounting Standards Board.

Opinion on the entity information

In our opinion the performance report on pages 1 to 16 presents fairly, in all material respects, the entity information for the year ended 31 December 2019 in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit).

Basis for qualified opinion

As stated in note 11, controls over the recording of the relevant outputs identified to be reported in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) was limited during the period. The entity's controls have not been in operation throughout the year due to employee changes. Because of these limitations, we have been unable to obtain sufficient appropriate audit evidence to support the reported outputs for the year. Consequently, we are unable to determine whether any adjustments to these amounts are necessary.

In addition to the current findings on reliability, Figure 18 is also another extract from the independent reviewer report of a charity. Under the basis for a qualified conclusion the reviewer mentions that there is comparative information in which no procedures were performed on. The lack of explanation as to which comparative information it is referring to questions the reliability of the outcomes and outputs disclosed.

Figure 18: An example showing how reliability is questionable (Adson Trust, 2020).

Basis for Qualified Conclusion

The performance report also includes comparative information for which no procedures have been performed over.

Based on the individual analysis of the application of each qualitative characteristic, the question is: how the qualitative characteristics are applied in use to determinate that the reported outcomes and outputs can be defined as “suitable”. In identifying its application, discussing the mismatches of practice and statutory regulations will help to provide the outline as to what suitable really means.

5.3.2.2 Application of the qualitative characteristics in identifying outcome and output suitability.

Based on the analysis above what can be seen is the application of the qualitative characteristics being performed loosely on whatever the charity is disclosing under their Statement of Service Performance. Figures 12 and 13 are examples of how, despite the charity not disclosing both outcomes and outputs, the audit and review practitioner still concludes that the outcomes and outputs are suitable. These findings prove that the application of the qualitative characteristics is not specific to only outcomes and outputs, but it is be applied to whatever information the charity has disclosed as their Service Performance information under the Statement of Service Performance. From the analysis of the reports the following are all being deemed as suitable:

- vi. Both the outputs and outcomes that are disclosed have been presented clearly (Figure 8, Figure 9 and Figure 14 present this)
- vii. There is no mention of any outcomes or outputs but there is information provided under the Statement of Service Performance (Figure 10, Figure 11 and Figure 13 present this)
- viii. Not all characteristics need to be satisfied to be viewed as suitable. At least three or four out of five characteristics are to be satisfied to be seen as suitable (Figure 6, Figure 7, Figure 12, Figure 15 and Figure 13).

5.3.2.3 Practice versus statutory regulations

There is a difference and a misconception seen between practice and the statutory regulations. The current use of the ISAE 3000 has oversimplified the determination of suitability. There is no identification as to what must be covered by the qualitative characteristics in order for them to be classified as suitable. It is also interesting to note is that when the characteristics are provided, what can be seen is that there is an overlap amongst the qualitative characteristics; for instance, the information reported should reflect completeness in order to be considered relevant and the same goes for neutrality and reliability. In order to emphasize its lack of bias, the information provided should be also be reliable enough to be considered neutral, all while remaining complete.

Alongside determining its suitability within the practice, audit and review practitioners tend to report outcomes and outputs as being practicable and suitable. Interestingly there is no mention in the standards about practicability and its introduction into the audit and review reports raises questions as to where the term originated and what it means. The term practicable is seen to be used complementarily alongside suitable. Every time the term suitable is mentioned, practicability is also mentioned at the same time. The assumption seems to be that if the two coincide, that if it is suitable then it is also practicable. The identification of what it means is still hard to articulate based on the documents alone; however, what is certain is that when outcomes and outputs are deemed suitable, it can be seen as simultaneously practicable. What is seen with the conclusions for the suitability of the outputs and outcomes is that the conclusion on suitability seems as though there is no agreement that has been made as, that in order for it to be suitable, it should account for all five qualitative characteristics. However, it seems that even if it only achieves three out of the five characteristics it is still seen as being suitable. These conclusions are based only on the analysis of the ISAE 3000 alone and there are not enough charities who have been audited against the new NZ AS 1 yet, given its recent introduction this year.

5.4 Current statutory regulations versus the new statutory regulations

5.4.1 ISAE 3000 versus NZ AS 1

From the findings above, the introduction of NZ AS 1 is an extension of what is currently being practiced by audit and review practitioners using the ISAE 3000, therefore making the current practices a norm. The reason behind saying ‘norm’ is because the ISAE 3000, does not specify that in order to audit or review service performance information you must comment on the suitability of the outputs and outcomes. In introducing this new statutory regulation, the NZ AS 1, the procedures outlined in it is specific to service performance information alone. Based on the findings above it will be interesting to compare the differences between the current practice of the ISAE 3000 and compare it to the new standard that is soon to take effect and see whether the current issues present with the ISAE 3000 is carried forward into the NZ AS 1. The differences and similarities in the two are laid out in Table 13

The major differences between the NZ AS 1 and the ISAE 3000 is that auditing under the NZ AS 1 will require auditors to provide a final opinion as to whether it is qualified, unqualified or adverse. The use of the NZ AS 1 also provides an opportunity for charities to improve their performance by having audit practitioners provide recommendations on its current performance. The current issues with the ISAE 3000 currently lies in the ambiguity of the definitions for the qualitative characteristics and the introduction of the NZ AS 1 extends the definition of each characteristic. Implying that the NZ AS 1, addresses the issue that is seen present with the practice of the ISAE 3000.

The findings of this study also show that both audit and review practices are the same when using the ISAE 3000 to provide assurance on service performance and given that the NZ AS 1 is the more improved version of the ISAE 3000, this is good news for audit practitioners, as the introduction of the NZ AS 1 is specifically for audit and not review. This is interesting given that the majority of the reviewed reports comment on the suitability of its outputs and outcomes, as mentioned in Table 12, where 67% of the total reviewed reports reflect this despite 22% of the reports reviewed used the ISRE 2400 on its own. Drawing on the benefits and issues of the ISAE 3000 and the NZ AS 1, Table 13 provides an overview.

Table 12: ISAE 3000 versus NZ AS 1

	ISAE 3000	NZ AS 1
Advantages	<ul style="list-style-type: none"> • This standard is inclusive of review practices • Provides a guide for audit or review practitioners to assess non-financial information 	<ul style="list-style-type: none"> • The identification of each qualitative characteristic is laid out more clearly • There will be a separate column for audit practitioners to provide an opinion on the Service Performance information that is separate from the financial audit opinion. • This standard allows for auditors to provide recommendations to improve service information

Disadvantages	<ul style="list-style-type: none"> The qualitative characteristics defined are very vague causing confusion for practitioners 	<ul style="list-style-type: none"> Exclusive only for audit The new implementations will add a greater workload to current auditors. This may impact the audit costs The benefits of this statutory regulation will not be reaped by the charities who are reporting under the PBE SFR-A NFP, which is basically the entire Tier 3 population. This because the service performance information that is required to disclosed is different from Tier 1 and Tier 2 charities.
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Chapter summary

This chapter outlined the findings that were gathered as a result of the methods that were described in the prior chapter. This chapter aimed to provide insights to answer the research question: How is the audit and review of Service Performance Information currently being practiced? In attempt to answer the research question of this study the findings will be further discussed in the next chapter using the current literature as identified in Chapter 2 to help formulate meaning in answering the questions and identifying the contributions of the study findings.

Chapter 6: Discussion and Conclusion

6.1 Introduction

This study has examined the current practises of the Audit and Review of Service Performance information practised in the New Zealand charity sector. This study has collected data from charity documents to help formulate an understanding of the current practises of the Audit and Review of Service performance information to help address this gap in contemporary performance audit practises. As explained in Chapter 4, a total of 400 performance reports were gathered from 200 charities in order to perform the document and thematic analysis that formulated the answers to the research questions, as addressed in Chapter 5.

This chapter extends on Chapter 5, with the aim of discussing and merging the findings of the study, and to relate it to the existing literature. This chapter is structured as follows: Section 6.2 discusses the key findings of the study in relation to the audit and review of Service Performance information. Section 6.3 aims to provide additional insights into the current literature. This will highlight the contribution of study to the existing body of knowledge, accounting for the existing literature and practice, while taking into consideration the limitations of the research study and suggesting new avenues for future research. The concluding remarks are covered under section 6.4.

6.2 Answering the research question

As highlighted in Chapter 1, the research question was: ‘How is the Audit and Review of Service Performance information currently being practised?’ This question is addressed with respect to the findings gathered, based on the methodology and methods described in Chapter 4. The outcomes from the analysis of audit and review of service performance information practice and the statutory regulations at use will be discussed below. The answer to the research question has been divided into three themes.

6.2.1 Audit versus the review of service performance information

This study finds that the statutory regulations that are currently available for auditing and reviewing non-financial information major difference lies in the magnitude of assurance being provided. While both the audit and review both make comments on the true and fair view of the Statement of Service performance and the suitability of outputs and outcomes, the assurance level as to which the audit or review is made upon is the difference; hence the tone in which the conclusions are being written. In addition to the differences, the standards at use also vary; the ISAE 3000: INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (NEW ZEALAND 3000 (REVISED)) is most common amongst the audit of Service performance information, where as the ISRE 2400: INTERNATIONAL STANDARDS ON REVIEW ENGAGEMENTS 2400 is the most commonly used for the provision of a review conclusion. While the review engagements have its own standard, this standard alone does not account for the non-financial information, at times where there is an opinion formulated on the Service Performance information, assurance providers tend to use both the ISRE 2400 and ISAE 3000 to help form a basis of conclusion.

Figure 19: Audit and Review practise on Service Performance information

	Audit	Review
Conclude on the true fair view of the Statement of Service Performance	☑	☑
Comment on the suitability of the outcomes and outputs	☑ *	☑ *

6.2.2 The current practises of Audit and Review of Service Performance information

Inside the Performance report, only the Statement of Service Performance was seen to have a commentary within the audit and review reports provided, which is interesting given that the Entity information that charities are to provide is non-financial information that connects with the outcomes and outputs disclosed in the Statement of Service performance. The application of the ISAE 3000 is not applied to the Entity information. The only common practise currently seen is the providing of assurance as to whether the outcomes and the outputs being described

by a charity in their Statement of Service Performance is suitable. In accordance with the ISAE 3000, identifying whether outcomes and outputs are suitable refers to when the criteria (outcomes/outputs) cover the following five characteristics: Relevance, Reliability, Completeness, Neutrality and Understandability. Currently, the following characteristics seem to have caused confusion in its application which suggest that the conceptualisation of the current qualitative characteristics is not being understood well. The findings show that there are a number of audit and review practitioners have been seen to conclude outcomes and outputs as being suitable for the Statement of Service Performance, despite it not covering all five characteristics. While a big number of charities have applied all the five characteristics well, some charities were seen to either lack in one or in two of the qualitative characteristics. Out of all five characteristics, the conceptualisation of relevance, completeness and reliable was seen most problematic in comparison to neutrality and understandability. Although the service performance information disclosed may be relevant for decision making, the information lacked reliability, or the information was relevant, but it lacked completeness. From this what can be concluded is that it does not take all the qualitative characteristics to be achieved to confirm that it is suitable. What seems to be the case is that at least three of the qualitative characteristics are seen in the outcomes and outputs in order to be classified as suitable. In addition to the term suitable, the term 'practicable' seems to be used loosely alongside the conclusion of outcomes and outputs. The definition behind what practicable may mean in this context is still unknown, however the term is used alongside suitable. The conclusions on outcomes and outputs seem to show that what is suitable is also practicable.

6.2.3 Issues with the Audit and Review of Service Performance Information statutory regulations

The output that is produced currently from the use of the audit and review standards has not been seen to provide the benefits that are associated with its implementation in the public sector. This may be partially explained by the fact that the current use of the ISAE 3000 is not made specifically for Service Performance Information, and currently the reporting of the audit of

service performance information is only two sentences worth of the entire audit or review report provided. The current standard being used, the ISAE 3000, does not provide an opportunity for charities to gain insights into areas of improvement in its service performance. Instead, their reported outcomes and outputs are being assured to prove that they are suitable. However, the current issue with the ISAE 3000 is that it does not recognize the inclusion of non-outcome or output related information and audit and review practitioners seems to undergo the suitability criteria on that information, which suggests an issue with the templates used for concluding audits and reviews. Meaning, if there are no outputs disclosed, the audit report should conclude an opinion only the suitability of the outcome alone and not mention the term output as it is misleading. This was seen in a few of the charities that received conclusions of suitable outcomes and outputs despite the Statement of Service Performance not containing any outcomes or outputs. From the findings, it is seen that the majority of the issues in the ISAE 3000 are catered for in the NZ AS 1. The downside to the introduction of the NZ AS 1 is the fact it is currently unexclusive of review engagements, which is not ideal given that from the findings, the charities that underwent review engagements a bigger number of them received conclusions on the suitability of the outcomes and outcomes in comparison to charities that had audit engagements.

6.3 Reflecting on the findings

The previous section was an outline of the key findings of this study and an answer to the research question. This section reflects on the key findings by comparing and contrasting the practises of the audit and review of Service Performance information with the existing body of literature on performance audits and charity regulation. In addition, this section will further highlight the contributions of this study to the existing literature and practice, as well address the current limitations of this study and identify opportunities for further research.

6.3.1 Contribution to existing studies

The study finds that the current practice of performance audit lies on the conceptualisation of the qualitative characteristics made by the assurance provider who assesses the relevance, reliability, completeness, neutrality and understandability of the outputs and outcomes of the charity disclosed in their statement of service performance for the year. While the findings are interesting, the question is; what do the results of this study add to the current existing knowledge on charity performance audit. The findings of this study contribute to the current existing body of knowledge on the charity regulation literature. Adhering to the current issues identified in the regulating of small to medium charities, this study aims to reflect on the current practices of audit and review of service performance information to help build an understanding on the practices that are being performed within the small to medium charities within the New Zealand charity sector

6.3.1.1 *Charity regulation literature*

The study by Yang & Northcott (2021), is an extension of how charity regulators build public trust. Public trust, as mentioned in Chapter 1, is an important part of a charity's existence. The charity sector thrives on public trust and over the years charity regulators have been trying to play their part in maintaining the trust of the public by putting different mechanisms in place, either by investigating suspected fraudulent activities, advocating for public awareness of their roles, and by implementing charity regulations. Yang & Northcott (2021), explain using the institutional work theory, that charity regulators are seen to play multiple roles in maintaining public trust, which includes advocacy, education, policing, embedding and routinising. The findings show the policing role of charity regulators, in their implementation of the audit and review requirements for charities to audit or review their service performance information. This study provides an insight into the outcomes of their decision to regulate audit and reviews of service performance information within the small to medium charities. From the practices seen in the current audit and review of Service Performance information, there were a number of inconsistencies that were seen in the findings. This was seen through the outputs and outcomes

not reflecting the qualitative characteristics as set out in the ISAE 3000. The initial responsibility, in making sure the service performance information reflects relevance, reliability, completeness, neutrality and understandability lie within the preparers of the performance report. The failure for the audit and review practitioner to draw the appropriate conclusions based on these characteristics are at fault of the preparer of the performance report as the information that they are providing either is incomplete or is irrelevant in its placement in the Statement of Service Performance. There are number of templates and resources being provided by Charity regulators for the outlining of how small to medium charities can prepare their performance reports, however this study suggests that some of these charities are still confused as to what necessarily is referred to as outputs and outcomes and what should be disclosed in the Statement of Service Performance. The findings of this study suggest that a new approach in assisting these charities in the preparation of their performance reports is needed, so therefore there is a need for emphasis on the educating role of charity regulators when it is acting upon its policing role. Despite the effort currently provided by charity regulators in the educating role, their role as policing has made the introduction of audits and the review of service performance information to provide assurance on the effectiveness of the Service Performance, which in turn helps build transparency and accountability in charity information, which thus will result in greater public trust. In addition to this, the struggle seen with auditors and determining the relevance, reliability, completeness, neutrality and understandability is mainly due to the current standards and its definitions laid out for audit and practitioners to follow, similarly to charity regulators, standards setters and accounting professional bodies need to put emphasis on their educating role. Due to these introductions of audit of service performance information being new and different in comparison to the traditional financial audit, there is a need for audit and review practitioners to be provided with additional support to help aid them in the performing these performance reports.

6.3.2 Contribution to practice

In addition to the academic contribution of this research, this study also provides insights into the practices of audit and review of Service Performance Information. The findings of this study

are useful for accounting standard setters, which will in turn impact audit and review practitioners. This study found out through the analysis of both charity audit and review reports, and the current statutory regulation at use, the ISAE 3000, have issues with its use and was seen evident through its practice. Some of these issues are accounted for through the introduction of the NZ AS 1. However, despite the introduction of this new statutory regulation there are some issues that are worth noting:

- (1) The introduction of the NZ AS 1 is unexclusive of the review of Service Performance Information. This standard is only applicable for the auditing of service performance information. The issue seen in this is that based on the findings of this study, there is no difference between the audit and review of Service Performance Information procedures that have been performed. The explanation in the standards outlining the determination of outcome and output suitability is the same for both. The new introduction of the NZ AS 1 outlines a detailed explanation of the qualitative characteristics: relevance, reliability, completeness, neutrality and understandability. This leaves review practitioners with the vague descriptions of the characteristics of the ISAE 3000, meaning the issues identified with the current version of the ISAE 3000 will remain for review practitioners unless the qualitative characteristics for the ISAE 3000 are revised.
- (2) The NZ AS 1 is more catered towards the new statutory regulation for the provision of service performance information for Tier 1 and Tier 2 charities. As mentioned in Chapter 3, as of 1 January 2022, Tier 1 and 2 charities will be required to prepare service performance information. However, the service performance information that they will be preparing is different than the required service performance information that Tier 3 and 4 charities currently report. While Tier 3 and 4 charities report only their outcomes and outputs to outline their service performance, Tier 1 and 2 charities are required to provide full reports outlining a list of information. What can be said is that they are not required to prepare outcomes and outputs. The benefits of the use of the NZ AS 1 to audit service performance information includes providing a separate opinion on the service performance information disclosed and the potential recommendations given to a charity to help improve areas of performance. This benefit will only be valuable

towards the Tier 1 and 2 charities and given the Tier 3 charities are only reporting outcomes and outputs this benefit will not be fully captured.

- (3) There is a need to address the issues in the templates used for the audit and review conclusion. In the findings what was seen is that a few charities either reported no outcomes or no outputs and in the conclusion at the end of the audit or review report, it was still mentioned that the reported outcomes and outputs are suitable when the SSP did have an output or outcome. In addressing the templates and the wording for this conclusion it will avoid misleading information in the audit or review reports.

6.3.3 Limitations and future study opportunities

This study does have limitations that are worth noting. First, it is limited to the analysis of charity data that were attained through document analysis, which mean that an understanding built from the point of view of audit and review practitioners was unable to be captured. Future studies may want to employ other methodologies, such as interviews. The current study provides a light on the current practises of Audit and Review of Service Performance information using only document and thematic analysis. The study builds an avenue for future studies to look further into the procedures that audit, and review practitioners go through in the identification of suitable conclusions as this may work to form a better definition of suitability. In addition, this study only focuses on Tier 3 charities and is not inclusive of any charities that may be in other tiers who are reporting in a Tier 3 format and have been audited or reviewed. This provides a future research opportunity to further investigate the practises of audit and review of service performance information when the introduction of the new standards come into effect. This will require Tier 1 and Tier 2 charities to prepare service performance information in accordance with PBE FRS 48: PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARDS and the use of the NZ AS 1: NEW ZEALAND AUDITING STANDARD 1: *The Audit of Service Performance Information*. The efficiency and economy element are seen to be lacking in the audit and review of service performance information. Tier 1 and 2 charities are due to report Service Performance Information next year and since Tier 1

charities are the only ones that have public accountability, this requirement may capture the economy and efficiency effects that are not captured in the current performance audit practiced in the charity sector.

6.4 Concluding remarks

This study aimed to investigate the practises of the Audit and Review of Service Performance Information to build an understanding about how it is currently being carried out. In attempting to achieve the aim, this research study investigated the performance reports of 200 charities to help gain insights that aimed to help fill the void in the literature as outlined in Chapter 2, and the need to look into settings that will provide evaluations on the nature and practises of contemporary performance audits. In the case of this study, that is the Audit and review of Service Performance Information in the New Zealand Charity Sector.

By extracting data from 400 performance reports from a total of 200 Tier 3 charities, this study was able to draw findings that contribute both to the existing body of literature and to the practice of performance audit. This study found that in the audit and review of service performance information that while the differences that reviews and audits have hold, it is seen the performing audits are much more popular amongst these small to medium charities despite reviews being cheaper. It was also seen that despite the fact that ISAE 3000 being used for the provision of audit and review reports, the new NZ AS 1, does not account for review engagements which can be seen as a recommendation given the ISAE 3000 does not detail as much for reviewers. Given that the current statutory audit regulation, the ISAE 3000 has very minimal guidance in the determination of the suitability of the service performance criteria. This study also found that the current practises of audit and review of service performance information is inconsistent in terms of audit and review practitioners and how they determine their conclusions in their independent audit and review reports.

This study has made two main contributions. First, this study contributes to the charity regulation literature. Building on the discussions of Yang & Northcott (2021), this study extends the current discussion on charity regulators and their roles towards public trust by emphasising

the need for charity regulators to promote its educating role while advocating its policing role. The findings suggest that there is a need for charity regulators to further exercise their educating role to help charity reporting preparers in building an understanding as to what is classified as service performance information that is related to the outcomes and outputs. Last but not the least, as this study contributes to academia it contributes to practice. The study finds that there is a need to revise the current practices of the audit and review of service performance as currently there is confusion with the conceptualisation of the characteristics in which the audit or review practitioner is to use to analyse and identify the suitability of the service performance information. This study provides useful insights into understanding the practises that have been carried out in the audit and review of service performance information that is useful for charity regulators, standard-setters and accounting professional bodies. audit and review practitioners, and other charity regulators in other jurisdictions who are looking into mandating the audits of performance reporting.

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Appendices

Appendix 1: How the guidelines were used in collecting data from the audit report

Guideline 3

INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT

To the Trustees of

Report on the Performance Report

We have reviewed the performance report of _____ on pages 4 to 15, which comprises the entity information, the statement of service performance, the statement of financial performance and statement of cash flows for the year ended 31 July 2020, the statement of financial position as at 31 July 2020, and the statement of accounting policies and other explanatory information.

Trustees' Responsibility for the Performance Report

The Trustees are responsible on behalf of the Trust for:

- (a) Identifying outcomes and outputs, and quantifying the outputs to the extent practicable, that are relevant, reliable, comparable and understandable, to report in the statement of service performance;
- (b) The preparation and fair presentation of the performance report, which comprises:
 - the entity information;
 - the statement of service performance; and
 - the statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies and notes to the performance report

in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit) issued in New Zealand by the New Zealand Accounting Standards Board; and

- (c) For such internal control as those charged with governance determine is necessary to enable the preparation of the performance report that is free from material misstatement, whether due to fraud or error.

In preparing the performance report, the Trustees are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on the performance report. We conducted our review in accordance with International Standards on Review Engagements (New Zealand) ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor*

Guideline 1 and 2



of the Entity, and the review of the entity information and statement of service performance in accordance with the International Standard on Assurance Engagements (New Zealand) ISAE (NZ) 3000 (Revised). Those standards require us to conclude whether anything has come to our attention that causes us to believe that the performance report, taken as a whole, is not prepared in all material respects in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit). Those standards also requires that we comply with relevant ethical requirements.

Guideline 6

A review of the performance report in accordance with ISRE (NZ) 2400 and ISAE (NZ) 3000 (Revised) is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained. The procedures selected depend on our judgement, including the areas identified where a material misstatement is likely to arise and includes performing procedures to obtain evidence and evaluating whether the reported outcomes and outputs, and quantification of the outputs to the extent practicable, are relevant, reliable, comparable and understandable.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and ISAE (NZ) 3000 (Revised). Accordingly, we do not express an audit opinion on this performance report.

Our firm provides accounting and taxation services to the Trust. The firm has no other relationship with, or interests in, the Trust.

Conclusion

Guidelines 4 and 7

Based on our review, nothing has come to our attention that causes us to believe that:

- a) the reported outcomes and outputs, and quantification of the outputs to the extent practicable, in the statement of service performance are not suitable; and
- b) the performance report on pages 4 to 15 does not present fairly, in all material respects:
 - the entity information for the year then ended;
 - the service performance for the year then ended; and
 - the financial position of [redacted] as at 31 July 2020, and its financial performance, and cash flows for the year then ended

in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit).

Crowe

Crowe New Zealand Audit Partnership

Guideline 5

CHARTERED ACCOUNTANTS

4 February 2021