



**Financial Reporting Stocktake: An Assessment of Accountability through  
Charities' Filing on New Zealand's Charities Register.**

Report for Ministry of Economic Development, Accounting Standards Review  
Board and Charities Commission

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## Contents

Executive Summary .....	iv
List of Tables .....	v
List of Figures .....	v
1. Introduction .....	1
2. Research Method .....	2
3. Charities involved in this research.....	3
3.1 Basis of financial statement preparation: Cash or accrual.....	8
3.2 Entity Type.....	10
4. Efficacy of the charity register.....	11
4.1 Errors and omissions.....	11
4.1.1 General Errors.....	12
4.1.2 Accrual Errors.....	14
4.1.3 Internal Errors.....	15
4.2 Delays in filing.....	15
5. Charity financial reporting .....	16
5.1 Reporting style adopted by charities preparing cash-based accounts .....	16
5.1.1 Standard layout.....	16
5.1.2 Receipts and Payments format.....	17
5.1.3 T-account format: .....	17
5.1.4 General comments.....	17
5.2 Reporting style adopted by charities preparing accrual-based accounts .....	18
5.2.1 Inclusions in charities' financial statements compiled on an accrual basis.....	20
5.2.2 Specific not-for-profit inclusions in charities' accrual-based financial statements .....	21
5.3 Comparability of charities' financial statements .....	22
5.4 Assurance on charity reporting .....	23
5.5 Non-financial reporting.....	26
6. Discussion and Conclusion .....	28
6.1 Quality of charity financial reporting.....	28
6.2 Cash and/or accrual based financial statements.....	30
6.3 Conclusions.....	30
6.4 Recommendations.....	31
6.4.1 Charities Commission.....	31

6.4.2 Ministry of Economic Development/Accounting Standards Review Board (ASRB).....	31
6.4.3 The Accounting Profession (NZICA).....	32
Appendix 2: Literature review on charity environment and charity financial reporting issues .....	34
The charity environment .....	34
Charity financial reporting .....	34
Unreliable accounting .....	35
Cash-based and accrual-based financial statements.....	37
Summary .....	38
Appendix 3: Examples of cash statements .....	39
Appendix 4: Charities whose filings were used in this research .....	46
Appendix 5: Charities Commission Annual Return Q 25 and help notes .....	53
References .....	58

## **Executive Summary**

This research was undertaken to assess the veracity of financial filings at the Charities Commission by charities which are “small” (expenditure less than \$40,000 pa) or “medium”-sized (expenditure between \$40,000 and \$2,000,000 pa). The veracity of this information is important as it should lead to increased transparency and accountability by charities and thus to increased trust and philanthropy in New Zealand. This information also contributes to policy-making. Yet, the research found a very high number of errors in the filings. While some errors and omissions were of a minor nature, 49% of these charities’ filings required corrections. The registrar should instigate improved checking procedures and educate charities as to their filing responsibilities.

This report also provides analysis on these charities’ financial reporting – its attributes and quality. We found that fewer than 5% of charities produced reporting that could be classified as “good” or “very good” despite more than half of these financial statements having independent assurance (an audit or review). In making this assessment we considered the presence and quality of non-financial reporting and, where it was required by the charity’s rules, evidence of an assurance engagement. The failure to report well is likely to further impinge on charities’ transparency and accountability. The accounting profession has a significant role to perform in improving charities’ reporting by ensuring its members provide appropriate services and advice to charities.

An important aspect of this research was to explore how charities currently report, in light of the proposed changes to New Zealand’s framework for financial reporting. We found that just under 30% of charities prepared financial statements on a cash basis, with the majority using one of two different layouts (“standard” and “receipts and payments”, see section 5.1). The remainder compiled their financial statements on an accrual basis. Over 56% of our sample of 300 charities appeared to comply with New Zealand GAAP, with a further 4 charities using NZ-IFRS and appearing to comply with its requirements. Clear rules are required to improve charity reporting and increase comparability between charities.

Due to the lack of requirements for charities to follow guidance that already exists, we found very little reporting of charity-specific items, such as explanations of grants, details around the expenditure incurred in fundraising, and information on volunteers and gifts-in-kind. We also found only 10 charities provided information on their budget vs. actual results. This comparison is often considered important for those who seek to assess charities’ stewardship, but it was not available.

Over half of the sample in this research received assurance on their financial statements and 108 of these were provided by Members of the New Zealand Institute of Chartered Accountants (NZICA). However, over a quarter of the assurance reports that we considered were not in the appropriate format. Again, the accounting profession needs to ensure that members accepting these engagements are appropriately skilled, while ensuring the ongoing supply of members to carry out this necessary work.

This research has been undertaken to fill the gaps in knowledge about how New Zealand charities fulfil their responsibilities to complete Charities Commission annual returns and prepare financial statements. In selecting a random sample of charities within discrete expenditure bands, it is bound by the limitations of similar research. However we believe that these findings and our recommendations have validity.

## List of Tables

Table 1: Main beneficiaries of charities sampled.....	3
Table 2: Main sector of charities sampled.....	4
Table 3: Geographic area of operation for charities sampled .....	5
Table 4: Domicile of charities sampled by postcode .....	5
Table 5: Average number of hours worked by volunteers and paid staff .....	7
Table 6: Form of financial statements (cash or accrual).....	8
Table 7: Breakdown of form of financial statements (\$10,000 bands to \$150,000) .....	9
Table 8: Reporting entity in sample .....	10
Table 9: Errors between financial statements and Charities Commission filing.....	11
Table 10: Misstatement errors by financial statement and charity size .....	13
Table 11: Break down of errors in accounting basis by charities (filed as being on a cash basis when they were on an accrual basis).....	14
Table 12: Length of time from charity year end until filing at Charities Commission .....	15
Table 13: Style used in charities' financial accounts prepared on a cash basis .....	16
Table 14: Inclusions in charities' cash accounts .....	18
Table 15: Style used in charities' financial accounts prepared on an accrual basis .....	19
Table 16: Inclusions in charities' accrual accounts .....	20
Table 17: Specific not-for-profit inclusions in charities' accrual accounts .....	21
Table 18: Prior years' and budget comparisons in charities' financial statements.....	22
Table 19: Audit reports required and filed or received .....	23
Table 20: Review engagement reports required and filed or received.....	24
Table 21: Either an Audit or Review is required and filed or received .....	24
Table 22: No assurance required .....	25
Table 23: Designation of assurance provider.....	25
Table 24: Non-financial information provided by charities .....	26
Table 25: Non-financial information format .....	27
Table 26: Grading scheme used for charity financial reporting.....	28
Table 27: Assessment of quality of charity financial reporting from sample .....	29
Table 28: Comparison of charity reporting requirements (adapted from Breen, Ford, & Morgan, 2009).....	33

## List of Figures

Figure 1: Total number of Full time employees, Part time Employees and Volunteers per week from charities sampled. ....	6
Figure 2: Total number of paid hours and volunteer hours from charities sampled. ....	7

## **1. Introduction**

The New Zealand Charities Commission was established in 2005 to help foster a culture of philanthropy by promoting the public's trust and confidence in charitable organisations. Thus, the Charities Commission registers charities and maintains a website containing information on charities' activities. Charities are required to make returns of their financial information for three reasons. First, agency theorists argue that increased transparency will highlight potential agency problems; while those who subscribe to the stewardship hypothesis contend that information on a public register can fulfil users' information needs. Thirdly, the Working Party on Registration, Reporting and Monitoring of Charities (2002) noted that charities returns will "provide much needed data to better inform government policy making" and lead to the development of better policies and practices in the charities sector. While there is obviously a demand for information, there is also a belief that providing such information should not be too costly for charities.

To meet these information demands, charities' filings should highlight their activities and prospects to potential and past donors and other stakeholders. However, for this to occur, the filings need to be accurate, timely and informative. One objective of this research was to analyse the veracity of the charities register in respect of the financial information provided by charities. A second objective was to analyse the quality of the information currently provided by NZ charities.

Information on charities' current reporting is also useful as little is known about how charities currently report. For example, no data exists on the basis of charity accounting (cash or accrual), the extent to which non-mandatory data is reported voluntarily, or the nature of any assurance provided on the financial information. New Zealand's financial reporting framework is being reconsidered by the Ministry of Economic Development (2009) and the Accounting Standards Review Board (2009). It is likely that charities will face differing requirements on a basis of size (for a comparison of the proposed requirements to those for charities in the United Kingdom (UK) see Appendix 1). In light of the proposed changes in charities' financial reporting, the data in this report reveals the type of reporting that is currently provided. It also makes recommendations for the development of new standards based on the filings analysed.

The report is structured as follows. First the research is described. The results are then presented in two main sections on the efficacy of the register and the observations on financial reporting. The final section contains an assessment of the quality of that reporting as well as conclusions and recommendations. A number of appendices are also included, including a brief literature review on the charity environment and financial reporting issues, examples of financial reporting, and a list of the charities analysed.

We acknowledge the support of Victoria University of Wellington who provided a Summer Scholarship to enable this research. We also appreciate the help of the Charities Commission in providing a random sample of charities' names and their annual return data in searchable format, and advice on the research design from Professor Kevin Simpkins and Tony Dale from the Accounting Standards Review Board.

## 2. Research Method

Charities' filings with the Charities Commission formed the foundation of this research. This required us to access the publicly available data from charities' annual returns to the Charities Commission, as well as the financial statements charities file with their annual return. We also sought to access non-financial data and assurance (audit or review) reports that may have been filed. This was to provide an understanding of current practice in charity reporting in light of the impending regulatory changes by the Ministry of Economic Development (2009) and the Accounting Standards Review Board (2009).

This research was supported by the Charities Commission who provided raw annual return data to speed the initial process of selection and sorting of charities. They randomly selected 400 charities from their database. Two hundred of those charities had expenditure of less than \$40,000 and the other 200 had expenditure between \$40,000 and \$2,000,000. These ranges were selected as they were deemed most likely to be the ranges for "small" and "medium" charities in the future. From this list, we selected 300 charities for further study (150 from small and 150 from medium charities), being careful to include charities that were dispersed across regions and charitable aims (as shown in *Tables 1-3*). The sample used for this research is listed in Appendix 4.

Following the downloading of financial statements from the Charities Commission ([www.charities.govt.nz](http://www.charities.govt.nz)), we checked the efficacy of the charities' answers to Questions 24 and Question 25 against the financial statements that charities provided. (Question 24 asks whether the financial statements are in cash or accrual format and Question 25 asks charities to file a summary of their financial statements in prescribed categories/boxes. Appendix 5 shows the detail of Question 25 and the advice given on how to complete it.) The results of this analysis are in section 4.

Our research then focused on the charities' financial statements only, rather than the figures filed with the Charities Commission. We analysed the charities' financial statements for a number of different categories that had been highlighted by our brief literature review in Appendix 2 (see sections 5.1-5.3).

In addition, we accessed charities' rules filed with the Charities Commission to ascertain the type of assurance each charity was required to obtain over its financial statements (if any). Where an assurance report was not filed with the Charities Commission but was required, we wrote to the charity and requested this be sent to us. These reports are analysed in the section 5.4 of this report.

Given the importance of non-financial information to understanding charities' activities and performance, we were also interested in filings of non-financial data. Again, we downloaded this from the Charities Commission, but where charities had not filed non-financial information, we also wrote to the charity and requested they send us any non-financial data typically provided for their members and other stakeholders (for example at an Annual General Meeting). Data received was then included in our analysis (see section 5.5).

This research was undertaken between November 2010 and February 2011. It included charities' financial statements for years ended 2009 or 2010 but that were filed in 2010. The analysis is informed by relevant academic literature. Our findings and conclusions are provided below, along with recommendations to inform practice.

### 3. Charities involved in this research

This section describes the random sample of the organisations analysed in this research in a number of different ways. First, demographic details are provided about these charities: their beneficiaries (see *Table 1*), their main sector of operations (see *Table 2*), the geographic area of operation and the domicile of their registered office (by postcode). Following this is an analysis of the number of volunteers and paid staff, along with the estimated hours they work. Finally, the basis of accounting is discussed. The manner in which these charities' financial statements are presented in Question 25 of the Charities Commission return and their contents are described in sections 4 and 5.

As noted above, the terminology "small" is used for charities whose 2009/10 expenditure was less than \$40,000 and "medium" for charities whose annual expenditure in 2009/10 was between \$40,001 and \$2,000,000.

**Table 1: Main beneficiaries of charities sampled**

Main beneficiaries	Small	Medium	Total sample	Percentage of total sample population	Percentage of all registered charities <sup>1</sup>
Children / young people	24	31	55	18.3%	20.8%
Other charities	10	4	14	4.7%	5.4%
Voluntary bodies other than charities	0	2	2	0.7%	1.2%
Older people	4	12	16	5.3%	3.5%
Animals	2	1	3	1%	0.6%
People with disabilities	9	9	18	6%	4%
People of a certain ethnic / racial origin	2	2	4	1.3%	2%
General public	45	45	90	30%	30%
Family / whanau	10	20	30	10%	6.9%
Migrants / refugees	0	1	1	0.3%	0.5%
Religious groups	9	12	21	7%	8.3%
Other	25	21	46	15.4%	16.8%
<b>Total</b>	<b>140</b>	<b>160</b>	<b>300</b>	<b>100%</b>	<b>100%</b>

While the sample populations representation of the main beneficiaries is not an exact mirror image of the population from which it was drawn, *Table 1* shows that the differences between the two are minimal.

<sup>1</sup> Percentages calculated from "A snapshot of New Zealand's charitable sector" downloaded from the internet from: <http://www.charities.govt.nz/LinkClick.aspx?fileticket=1342VRN6nVk%3d&tabid=92>.

**Table 2: Main sector of charities sampled**

Main Sector	Small	Medium	Total sample	Percentage of sample population	Percentage of all registered charities <sup>2</sup>
Accommodation / housing	2	28	30	10%	1.7%
Religious activities	18	49	67	22.4%	15.7%
Education / training /research	24	2	26	8.7%	20.7%
Arts / culture / heritage	10	4	14	4.7%	8.2%
Health	9	1	10	3.3%	7.1%
Sport / recreation	4	18	22	7.3%	5.5%
Environment / conservation	3	2	5	1.6%	2.5%
Care / protection of animals	2	0	2	0.7%	0.6%
Marae on reservation land	3	19	22	7.3%	0.8%
International activities	0	0	0	0%	0.20%
Community development	12	12	24	8%	5.6%
economic development	1	0	1	0.3%	0.4%
Emergency / disaster relief	6	5	11	3.7%	2.3%
Fund-raising	4	0	4	1.3%	3.3%
Social services	4	10	14	4.7%	7.3%
People with disabilities	7	0	7	2.3%	3.1%
Employment	0	9	9	3%	0.2%
Promotion of volunteering	1	0	1	0.3%	0.2%
Other (please state)	30	1	31	10.4%	14.6%
<b>Total</b>	<b>140</b>	<b>160</b>	<b>300</b>	<b>100%</b>	<b>100%</b>

However, *Table 2* shows that the sample used is dissimilar to the main sectors represented by the total population of registered charities. Compared with the total population, our sample comprised more charities with religious activities and fewer charities that provide education, training and research. This may be due to the size parameters of the charity population, or the sample selected. We do not have data from the population of registered charities to show how size and main sector are related.

*Tables 3 and 4* show the geographic areas in which the sample of charities operated. Charities may select a category “nationwide” or a particular region of their prime operation. They may also select more than one area of operation, and for this reason, *Table 3* sums to more than the sample. In *Table 4*, the sample is sorted by the domicile of their registered office by postcode.

<sup>2</sup> Percentages calculated from “A snapshot of New Zealand’s charitable sector” downloaded from the internet from: <http://www.charities.govt.nz/LinkClick.aspx?fileticket=1342VRN6nVk%3d&tabid=92>.

**Table 3: Geographic area of operation for charities sampled**

<b>Geographic areas of operation</b>	<b>Small</b>	<b>Medium</b>	<b>Total sample</b>
<b>New Zealand</b>			
Nationwide	32	29	61
Northland	7	9	16
Auckland	16	34	50
Waikato	13	16	29
Bop	12	15	27
Gisborne	4	7	11
Hawkes Bay	6	3	9
Taranaki	5	3	8
Manawatu – Wanganui	11	11	22
Wellington – Wairapa	15	24	39
Nelson – Marlborough- Tasman	10	7	17
West Coast	4	2	6
Canterbury	16	19	35
Otago	14	9	23
Southland	10	5	15
Catham Islands	0	1	1
<b>Overseas</b>			
Oceania	3	3	6
Asia	3	1	4
Africa	1	0	1
Europe	1	0	1
Antarctica	0	1	1
South America	0	0	0
North America	1	2	3
<b>Total</b>	<b>184</b>	<b>201</b>	<b>385</b>

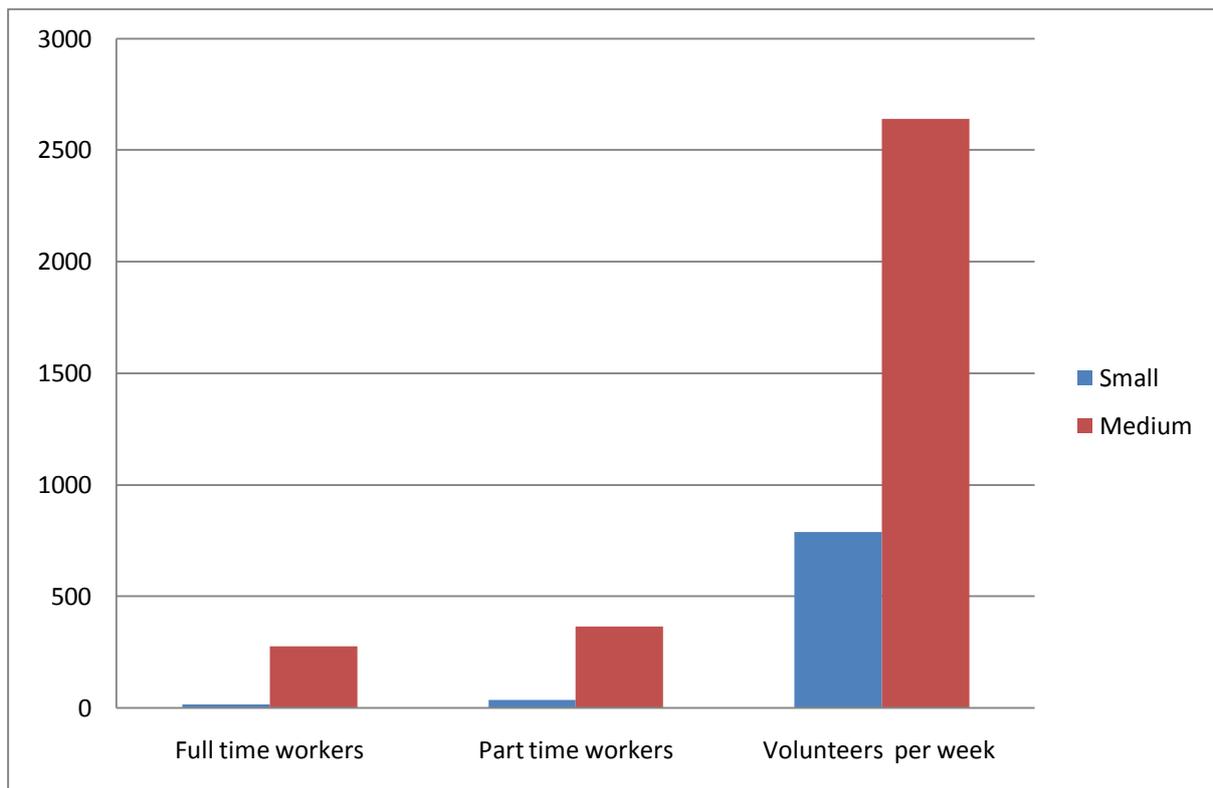
**Table 4: Domicile of charities sampled by postcode**

<b>Postcode</b>	<b>Small</b>	<b>Medium</b>	<b>Total sample</b>	<b>Percentage of sample population</b>
0001-0999	15	16	31	10.3%
1000-1999	9	22	31	10.3%
2000-2999	7	13	20	6.7%
3000-3999	19	18	37	12.3%
4000-4999	14	17	31	10.3%
5000-5999	10	9	19	6.4%
6000-6999	10	14	24	8.0%
7000-7999	15	10	25	8.3%
8000-8999	13	20	33	11.0%
9000-9999	17	10	27	9.0%
Post code not divulged	11	11	22	7.4%
<b>Total</b>	<b>140</b>	<b>160</b>	<b>300</b>	<b>100.0%</b>

It can be seen from *Tables 3 and 4* that the charities selected in the sample operated across the country and included some charities operating overseas. On average small charities noted they spent 1% of New Zealand funds overseas, while medium-sized charities spent 0.7% on average overseas.

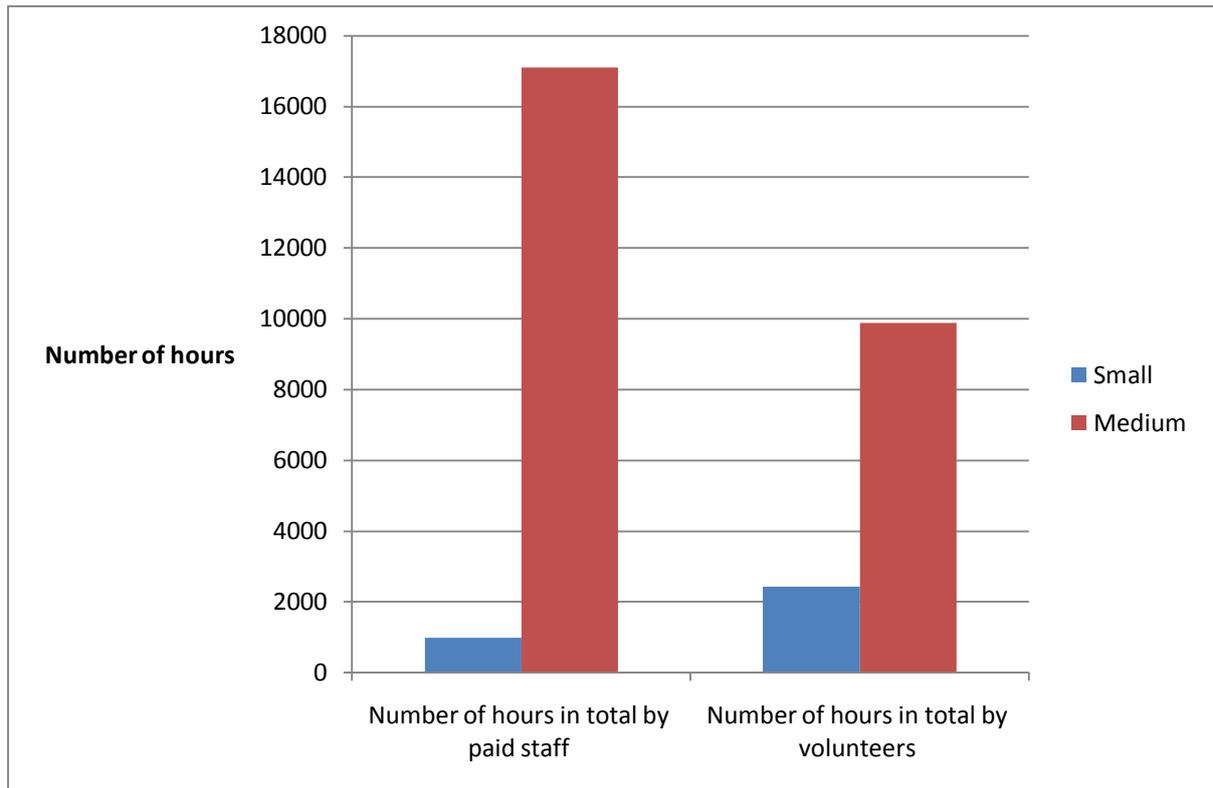
In addition to being widespread geographically, we found that these charities employ a significant number of staff in paid and unpaid roles. The number of staff employed on average per week is shown in *Figure 1*, in relation to full time and part time paid staff and volunteers.

**Figure 1: Total number of Full time employees, Part time Employees and Volunteers per week from charities sampled.**



It can be seen from *Figure 1* that the number of staff in the total sample was large. Further, the small charities were less likely than the medium charities to have paid full time or part time staff. It is not surprising to see that the number of volunteers working per week outstrip the number of full time and part time employees in these charitable organisations as this finding confirms the Johns Hopkins study of New Zealand’s not-for-profit sector (Statistics New Zealand, 2007). However, on average small charities had fewer volunteers; averaging 6 volunteers compared to 17 volunteers for every medium-sized charity.

**Figure 2: Total number of paid hours and volunteer hours from charities sampled.**



It can be seen in *Figure 2* that paid staff in medium-sized charities undertook more hours of work per week in total than their counterparts in small charities. Further, the average hours of work undertaken by charity size is significantly different as shown in *Table 5*, with paid staff in medium-sized charities working on average almost 7 hours a week more than those in small charities. This result is likely to be related to the increased capacity to pay staff in larger charities. The number of hours worked by volunteers on average between the small and medium charities did not vary significantly.

**Table 5: Average number of hours worked by volunteers and paid staff**

Data on staff	Small		Medium	
	Volunteers	Paid staff	Volunteers	Paid Staff
Number of hours worked	2434	1027	9888	17071
Number of people in group	792	52	2637	641
Average hours worked/# of people in group	3.07	19.75	3.7	26.6

### 3.1 Basis of financial statement preparation: Cash or accrual

In Question 24 of their Charities Commission return, charities are asked to state whether their financial statements are prepared on a cash or accrual basis.<sup>3</sup> In the sample selected for this research, both small and medium charities used cash accounting, others prepared their financial statements on an accrual basis, as noted in *Table 6*. In New Zealand, there are no specific requirements as to format for charities' filed financial statements. This is dissimilar to other jurisdictions with a charity regulator (see Appendix 1 for a selective comparison). For example, in England and Wales charities are required to file financial statements that comply with a Statement of Recommended Practice if their revenue is over £25,000. However, only the top 5% of charities in England and Wales are required to use full accrual accounting.

**Table 6: Form of financial statements (cash or accrual)**

Form of financial reports	Small		Medium		Total sample*	
	No.	%	No.	%	No.	%
Cash	65	46.4%	23	14.4%	88	29.3%
Accrual	75	53.6%	137	85.6%	212	70.7%
<b>Total</b>	<b>140<sup>4</sup></b>	<b>100%</b>	<b>160</b>	<b>100%</b>	<b>300</b>	<b>100.0%</b>

\*5 charities did not provide a statement of financial performance in their filing. It has been assumed for classification purposes that their filed expenditure figures were correct.

It is clear from *Table 6* that the majority of charities prepared financial statements on an accrual basis. Yet, a significant percentage of small charities use cash-based accounting (46.4%), whereas only 15% of medium-sized charities prepared financial statements on a cash basis.

We sought to ascertain whether there was a particular cut-off for the switch from a cash basis to an accrual basis. *Table 7* provides an analysis of the number of charities in particular expenditure brackets and whether they prepared financial statements on a cash or accrual basis.

As accrual accounting is considered best accounting practice for General Purpose Financial Reporting (GPFR), it would be expected that as charities grow in size, they would aspire to use it. Larger charities are more likely to obtain professional advice (or employ professional staff) and these professionals should demand that the charities prepare GPFR on an accrual basis for their Charities Commission filing. While intuitively one would expect a higher concentration of cash based accounting at lower expenditure levels (due to the ease of preparing accounts under a cash basis), *Table 7* shows this was not necessarily the case.

<sup>3</sup> The advice provided to charities is that the cash system records transactions when money changes hands, either when it is received or paid out. The Charities Commission notes advise that the accrual system records transactions in the period to which they relate, either when income is earned or expenses are incurred.

<sup>4</sup> It can be seen that the sample of charities that are small has now dropped to 140 (from an initial 150 that were chosen). This is due to the presence of filing errors (see section 4). We continued to use the same charities, although inspection of the financial statements showed that their expenditure had moved them from being small charities to being medium-sized.

**Table 7: Breakdown of form of financial statements (\$10,000 bands to \$150,000)**

Expenditure in \$10,000 bands	Used cash accounting		Used accrual accounting		Total in sample population
	No.	%	No.	%	
0-10	34	46.6%	39	53.4%	73
10-20	13	54.2%	11	45.8%	24
20-30	14	45.2%	17	54.8%	31
30-40	4	33.3%	8	66.7%	12
40-50	6	25.0%	18	75.0%	24
50-60	0	0	8	100%	8
60-70	3	33.3%	6	66.7%	9
70-80	1	20.0%	4	80.0%	5
80-90	2	28.6%	5	71.4%	7
90-100	2	40.0%	3	60.0%	5
100-110	1	14.3%	6	85.7%	7
110-120	2	33.3%	4	66.7%	6
120-130	0	0	5	100%	5
130-140	1	20.0%	4	80.0%	5
140-150	3	30.0%	7	70.0%	10
150+	2	2.9%	67	97.1%	69
<b>Total</b>	<b>88</b>	<b>29.3%</b>	<b>212</b>	<b>70.7%</b>	<b>300</b>

*Table 7* shows that a slightly smaller percentage of charities with expenditure up to \$10,000 prepare their financial statements on a cash basis than the average for the small charity sample. A possible reason for this may be that, since the charities are small in size, the preparation of financial statements on an accrual basis would be simple because of the lack of complexity in their financial structure and operation. Effectively, their cash based financial statements would be synonymous to their accrual based financial statements (bar some simple accrual adjustments). Charities that use an accountant or someone with a good knowledge of accounting would be able to prepare financial statements on an accrual basis in such situations without too much difficulty or cost.

As expenditure levels increase, it can be seen in *Table 7* that the ratio of financial statements prepared on an accrual to cash basis fluctuates, with fewer charities overall using cash accounting as the total expenditure increases. With the data on medium charities covering a broad expenditure range, the number of charities in each \$10,000 category declines so it would be unwise to make generalisations about the population as a whole from the 67 charities in the \$50,000 to \$150,000 range. However, it should be noted that the total number of charities preparing financial statements on a cash basis in this range is 15 (22.4%).

### 3.2 Entity Type

Financial statements are prepared for a specific reporting entity. New Zealand charities are not required to incorporate in a particular way and may file financial statements for a single registered entity or; alternatively, charities registered as a group may file financial statements that amalgamate a number of reporting entities, or they may file a full set of consolidated financial statements. A registered charity may also choose to file consolidated financial statements (or make an amalgamated return) on behalf of a number of individually registered charities that together comprise the one reporting entity. In that case, the other registered charities would not make a return.

We did not specifically request the Charities Commission to include or exclude from our sample charities with a group registration, but it appeared that our sample was dominated by single entity registrations. *Table 8* details the reporting entity for which financial statements were filed and whether the reporting entity was incorporated (and how) or unincorporated.

**Table 8: Reporting entity in sample**

Reporting Entity	Small		Medium		Total sample	
	No.	%	No.	%	No.	%
Financial statements for a single registered entity	138	98.6%	153	95.6%	291	97%
Consolidated financial statements	2	1.4%	5	3.1%	7	2.3%
Many financial statements	0	0	2	1.3%	2	0.7%
<b>Total</b>	<b>140</b>	<b>100%</b>	<b>160</b>	<b>100%</b>	<b>300</b>	<b>100%</b>
Incorporated Society	46	32.9%	46	28.8%	92	30.7%
Limited Liability Company	1	0.7%	2	1.2%	3	1%
Other Charitable trust	93	66.4%	112	70%	205	68.3%
<b>Total</b>	<b>140</b>	<b>100%</b>	<b>160</b>	<b>100%</b>	<b>300</b>	<b>100%</b>

We found that a very small number of charities provided consolidated accounts that included subsidiaries. In addition, a small number of charities amalgamated the totals from a number of sets of financial statements and then filed these statements as separate documents. We have called this type of filing “Many”.

It can be seen from *Table 8* that 97% of all charities in our sample filed financial statements for a single entity. Two small charities filed group (consolidated) financial statements; one of these provided only their notes to the accounts (i.e. no financial statements) and we inferred the financial statements were consolidated from those notes. The other set of financial statements were from a Plunket Society which also confirmed in the notes that the financial statements consolidated the activities of the area.

*Table 8* also shows that almost 70% of our sample was charitable trusts, with most of the remainder being incorporated as Incorporated Societies.

We note that all the financial statements in our sample were in New Zealand dollars, although we are aware from the Charities Commission’s summer interns that some charities file financial statements in other languages and currencies.

## 4. Efficacy of the charity register

One objective of the research was to ascertain the efficacy of the charities filings on the register. Over 61% (184) of filings contained errors or omissions. The details of these errors are explained in more detail below.<sup>5</sup>

### 4.1 Errors and omissions

As noted in Appendix 2, charities' filings around the world have been beleaguered by errors and omissions.<sup>6</sup> It appears that this New Zealand data is no different. *Table 9* shows the general categories of these filing errors and the number of filings that were affected. Errors were counted as being present or not present ('1' or '0'). Therefore, where the same error occurred more than once in a charity's filing it was counted only once, rather than as multiple occurrences.

As filing unreliability is likely to frustrate financial statement analysis, subsequent to our check of the filings, all further analysis was undertaken using the raw financial statement data only. All errors that were not solely an error in the basis of accounting (i.e. cash or accrual) were also communicated to the Charities Commission.

**Table 9: Errors between financial statements and Charities Commission filing**

Errors types	Number of filings with errors *
<b>General errors</b>	
Missing figures - other	28
Incorrect figures/figures do not match	72
000"s missing	9
Misclassification / no separation	25
<b>Accrual errors</b>	
Grants disbursement as equity in financial statements, but inconsistently treated as an expense in the filing.	10
Charities noted that they were filing cash based accounts but they filed accrual based accounts instead	77
Missing equity figures	43
<b>Internal account errors</b>	
Errors in actual accounts	2

\* Numbers are based on the type of errors found in each account – hence they do not add up to 184

In *Table 9* the errors are classified into 'General', "Accrual" and "Internal account" errors. General errors were errors that were applicable to filings, or whether the financial statements were prepared on a cash or accrual basis. Accrual errors were those errors occurring in filings where the underlying financial statements were prepared on an accrual basis, and Internal errors are errors in charities' financial statements, rather than the filing.

<sup>5</sup> A copy of the internet format charities use for filing is provided in Appendix 5 (a paper form also exists).

<sup>6</sup> See for example, from the UK: Morgan (2010), Office of the Scottish Charity Regulator (2010), and from North America (the US and Canada): Froelich and Knoepfle (1996), Keating and Frumkin (2003) and Ayer, Hall and Vodarek (2009).

#### 4.1.1 General Errors

The most common of the general errors reported in *Table 9* was that the figures filed did not match the figures reported in the charity's financial statements. The next most common error was missing figures, followed by figures filed with the correct numbers, but with the "000"'s missing so they were in the wrong category of small, medium or large. We recognise that in the past year, the internet form for filing charities' annual returns has been amended to require charities to include dollars and cents and there is no longer a request to round to the closest thousand. This would account for the small number of errors in that category.

Filing should theoretically be as simple as transferring numbers from the charities' statements onto the Charities Commissions template; however we were surprised at the significant number of errors. We considered that some charities may file their annual return before their financial statements are complete. However, charities have six months in which to file after year end and time should not be a pressure on those required to complete their annual return (*Table 12* shows that filing is tardy). While some charities may wait long periods for an audit or a review to be completed, we note that many charities are not required by their own constitution to have their financial statements audited (see *Table 22*), so this is also unlikely to be an explanation for the high rate of error.

Another possible explanation for the errors is that the person who completes the charity filing has little or no accounting knowledge. Filing is more complex than a simple transfer of figures, and requires the charity to undertake classification and reduction of the financial statements in order to fit the required categories. If the person filing the return has no accounting experience or knowledge, filing errors could eventuate.

The form of the annual return template may exacerbate filing problems.<sup>7</sup> It is not very 'user friendly' for those who do not understand accounting. For example, the term "gross income" created two types of errors which we believe arose from confusion. Some charities did not disclose other income in their filings as, since the template asked for "total gross income", they took the income after cost of goods sold figure (often called gross income), and omitted other income. This error also occurred with a filing whose set of accounts had "gross income" as a separate heading to "other income" and hence "other income" was omitted.

The annual return template appears to be ambiguous even to those who have a grasp of accounting concepts.<sup>7</sup> For example, "cost of service provision" and "cost of trading operations" could be ambiguous. Some charities interpreted the headings as meaning the cost for them to provide their service (or for them to trade) and classified their expenses accordingly. Others interpreted it as the cost for them to receive services (or for them to receive goods). The vast majority of charities omitted figures from these two categories, disclosing separately only wages, depreciation and interest with the remainder of their expenses filed as "all other expenditure", but it was unclear as to whether they had expenditure within this category.<sup>8</sup>

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<sup>7</sup> A copy of Q25 is provided, along with the advice from the Charities Commission as to its completion, in Appendix 5.

<sup>8</sup> Keating and Frumkin (2003) found similar problems with the US Form 990 in that the filing requirements did not comply with GAAP and therefore the filer needed to 'translate' their financial statements.

The Charities Commission input screen also has no balancing check. A fundamental premise in accounting is that total assets equal total liabilities and equity. While the template does have a “liabilities and equity total” box and a “total assets” box – there is no express statement saying “box X should equal box Y”. A simple tick box requirement that the filer ticks to check that it balances could ensure many errors are identified before they are even filed, ensure balanced filings and reduce the number of errors in missing figures and incorrect figures that we found in this study (see *Table 9*).

*Table 10* shows more detail on where the errors lie, broken down by accounting statement (Income and Expenditure and Balance Sheet). It can be seen that, while there was a small number of charities that did not provide an Income and Expenditure statement or Balance Sheet, the majority of errors was from a disagreement of particular totals (Equity in 31% of filings; Surplus/Deficit in 24% of filings). This is a much higher rate than was found by Froelich, Knoepfle and Pollack (2000) as balance sheets were incorrect in only 1% of their sample and only 1% income and expenditure statements were incorrect.

**Table 10: Misstatement errors by financial statement and charity size**

Financial statement exclusions	Small		Medium		Total sample	
	Cash	Accrual	Cash	Accrual	No.	%
<b>Income and Expenditure Statement</b>						
Non-existent		4		1	5	1.7%
Gross income doesn't agree to financial statements	7	13	4	28	52	17.3%
Total expenditure doesn't agree to financial statements	14	14	5	27	60	20.0%
Surplus/deficit doesn't agree to financial statements	14	18	5	35	72	24.0%
<b>Balance sheet</b>						
Non-existent		3		1	4	1.3%
Total assets doesn't agree to financial statements	9	13	8	27	57	19.0%
Total liabilities doesn't agree to financial statements	6	14	5	18	43	14.3%
Total equity doesn't agree to financial statements	10	30	9	45	94	31.3%

While Newberry (1992) found that charities' accounts omitted a Statement of Cash Flows, this statement is no longer required of small and medium entities in New Zealand due to Differential Reporting. Therefore the lack of a Statement of Cash Flows was not noted as an error. However, many of the other errors reported in *Table 10* have also been reported in prior studies. For example, in Appendix 2, we note that Bird and Morgan-Jones (1981) found a number of charities omitted to provide notes of accounting policies used, nor did they file their Balance Sheets.

#### 4.1.2 Accrual Errors

Accrual errors were also significant, given that the majority of charities filed accrual-based financial statements. It can be seen from *Table 9* that the most common error in this category was that charities filed their statements as being prepared on a cash basis, when on examination of their accounts they were actually prepared on an accrual basis (77 charities of the 184 who filed errors).

*Table 11* breaks down this cash/accrual preparation error distribution into bands of \$10,000 of expenditure. More than 76% of the errors in accounting basis occurred within \$120,000 in expenditure. 26% of the total errors were found in charities whose expenditure was between \$0 and \$10,000. The error was one-sided as only 2 charities noted that they had filed financial statements prepared on an accrual basis when in fact their financial statements had been prepared on a cash basis. One of these charities stated that they recorded income and expenditure on a cash basis except for some debtors and creditors as at balance date (a “standard layout” as explained in section 5.1). The other charity filed financial statements that included assets purchased as expenditure in the Income and Expenditure Statement.

**Table 11: Break down of errors in accounting basis by charities (filed as being on a cash basis when they were on an accrual basis)**

Expenditure in \$10,000 bands	Total in sample population	Number of Charities that incorrectly filed their preparation basis	Percentage of Charities that incorrectly filed their preparation basis
0 – 10	73	20	27.4%
10 – 20	24	5	20.8%
20 – 30	31	6	19.4%
30 – 40	12	3	25.0%
40 – 50	23	7	30.4%
50 – 60	9	3	33.3%
60 – 70	9	3	33.3%
70 – 80	5	0	0
80 – 90	7	2	28.6%
90 – 100	4	2	50.0%
100 – 110	7	4	57.1%
110 – 120	6	4	66.7%

The second most common accrual error in *Table 9* was from the non-disclosure of Equity. Non-disclosure could partially be attributed to those charities that incorrectly filed their accounting basis as cash and accordingly did not disclose Equity in their filings, despite having financial statements prepared on an accrual basis.

The last common error relating specifically to financial statements prepared on an accrual basis arose from charities filing their grant distributions inconsistently. They had treated grants as an equity distribution in their financial statements, but filed the figure in the box “grants/donations paid” which is in the expenditure category of the Annual Return (see Appendix 5). This error in filing effectively raised the charity’s expenditure in their filing above that reported in their financial statements and also increased the deficit (or reduced the surplus) on their annual return to an

amount not equal to that reported in their financial statements. We are unsure of the effect on potential donors or funders of this filing inconsistency.

#### 4.1.3 Internal Errors

The third error type highlighted in *Table 9* is Internal errors; those where the statements filed (not the filings themselves) had some sort of error within them. Two charities made these errors. One charity's note for assets had an error in the step by step calculation of the carrying amount. The other charity in this category had an error on their previous year's comparison figures. Neither of these statements had been audited.

#### 4.2 Delays in filing

A further problem with annual return filings was timeliness. Charities are required to file within six months of year end. Yet, it can be seen in *Table 12* that 102 (34%) of charities filed their financial statements more than 6 months after their year end. This can be compared to charities in England and Wales which have 10 months in which to file their annual return. Despite the longer period, a significant number of English and Welsh charities also do not file on time (in 2009/10 financial year 18% of English and Welsh charities did not file within 10 months).

**Table 12: Length of time from charity year end until filing at Charities Commission**

Time in months	Small		Medium		Total in sample*	
	No.	%	No.	%	No.	%
1	1	0.7%	-	0	1	0.3%
2	2	1.4%	2	1.3%	4	1.3%
3	5	3.6%	3	1.9%	8	2.7%
4	10	7.2%	11	6.9%	21	7.0%
5	25	17.9%	26	16.4%	51	17.1%
6	42	30.0%	70	44.0%	112	37.5%
7	39	27.9%	33	20.8%	72	24.1%
8	7	5.0%	5	3.1%	12	4.0%
9	2	1.4%	4	2.5%	6	2.0%
10	3	2.1%	3	1.9%	6	2.0%
11	-	0	-	0	-	-
12	-	0	1	0.6%	1	0.3%
13	3	2.1%	1	0.6%	4	1.4%
14	1	0.7%	-	0	1	0.3%
<b>Total</b>	<b>140</b>	<b>100%</b>	<b>159</b>	<b>100%</b>	<b>299</b>	<b>100.0%</b>

\* One charity had a filing date that was before their balance date

It can be seen from *Table 12* that 30% of small charities and almost 44% of medium-sized charities filed their financial statements in the sixth month after their year end. The high number of filings for charities during the sixth month can be explained by a last minute influx to meet the submission deadline. The high number of filings during the seventh month is likely due to charities receiving a warning letter from the Charities Commission. We note that one charity filed its financial statements before their balance date. On further inspection, we found these financial statements were for the prior year. However this filing appeared to be acceptable to the Commission.

We now turn to the detail of the financial statements that were filed.

## 5. Charity financial reporting

As noted above, the financial statements uploaded to the Charities register were further analysed to understand the manner in which charities typically report. This section begins with an overview of the type of reporting style adopted by charities in two expenditure bands where small charities are those with expenditure less than \$40,000 and medium charities have expenditure between \$40,001 and \$2,000,000. The section also provides detail on the types of activities that are voluntarily reported in these financial statements as well as assurance provided and non-financial reporting. We assess the quality of financial reporting in section 6.

### 5.1 Reporting style adopted by charities preparing cash-based accounts

In section 4 (efficacy of the charities register), we noted that charities prepared financial statements on either a cash or accrual basis. In this subsection we provide the analysis from a deeper interrogation of charities' financial statements prepared on a cash basis.

Examination of cash accounts show that they can be classified into three categories of layout as shown in *Table 13*; these are Standard layout, Receipts and Payments format and T-account format.

**Table 13: Style used in charities' financial accounts prepared on a cash basis**

Cash-based financial accounts	Small		Medium		Total in sample*	
	No.	%	No.	%	No.	%
Standard Layout	30	46.1%	13	54.2%	42	48.3%
Receipts and payments only	24	36.9%	5	20.8%	29	32.6%
T-account format (two columns)	5	7.7%	4	16.7%	9	10.1%
Other	6	9.3%	2	8.3%	8	9.0%
<b>Total</b>	<b>65</b>	<b>100%</b>	<b>24</b>	<b>100%</b>	<b>88</b>	<b>100%</b>

The terminology used in *Table 13* is explained in the following subsections. In addition, examples of the styles of financial accounts are provided in Appendix 3.

#### 5.1.1 Standard layout

Features of the standard layout are:

- Receipts and payments are listed under the headings “income” and “expenditure”;
- These are netted to include a line which calculates a “net surplus/deficit”; and
- The statements also include a list of assets and liabilities. In some cases these are further sub-classified as being current and noncurrent.

The majority of these standard cash-based financial statements appear identical in appearance to those prepared on an accrual basis. Charities using the standard form are also more likely to include notes and/or policies in their financial statements (including a note stating that the cash basis is used). We also found no other evidence to persuade us that the financial statements had been compiled on an accrual basis (e.g. there were no prepaid expenses or depreciation).

### 5.1.2 Receipts and Payments format

The Receipts and payment format involves:

- The financial statements beginning with an opening bank balance;
- Cash payments and receipts being listed under their respective headings;
- Occasionally there is a line where excess receipts over payment is calculated;
- Unpresented cheques are listed;
- The closing bank figure as at balance date is provided; and
- There is a simple list of any other asset(s) or liability(ies) – classified under those headings respectively.

This format is often produced vertically and, at times, is indistinguishable from the standard format (see above). When produced horizontally, they are often hard to distinguish from the T format (see below), bar the fact that no balancing occurs at the bottom of each column.

### 5.1.3 T-account format:

T-accounts generally have the characteristic of:

- The left column contains opening bank balance and income/receipts during the year;
- The right column contains expenses and the closing bank balance;
- The two columns are summed to show that the columns balance; and
- No line stating the excess receipts over payments is provided.

These are similar in style to the receipts and payments format.

### 5.1.4 General comments

*Table 13* shows that the most preferred format for cash accounts is the standard format, with over 48% of the cash-based financial statements prepared by charities in our sample using this format. The second most preferred format is the receipts and payments format which almost 33% of our sample used.

The standard format has the benefit of being comparable in layout with the majority of financial statements produced on an accrual basis. This creates consistency between financial statements prepared on an accrual basis and cash basis, thereby improving comparability (at least in terms of layout) and improves understandability as users will need to familiarise themselves with a single format only.

The receipts and payments format has the advantage of being easily understandable to both preparers and users of the statements. It is also noted that some preparers find it easier to prepare a receipts and payments statement. This is because the receipts and payments statement appearance and layout is similar to balancing a personal bank account (as made clear by Gavin Hampton in Cordery 2010). This is the main difference between the receipts and payments format and the standard format – they both essentially have a similar layout, but one is more tailored towards a reconciliation format.

The compilation of cash-based financial statements is also often recommended because (anecdotally) “cash is king”. Further, earlier versions of NZ GAAP required a Statement of Cash Flows (Newberry, 1992), as did the early Discussion Document on IFRS for SMEs and IPSAS 4 *Financial*

*Reporting under the Cash Basis of Accounting.* Hence, in our analysis of the cash-based financial statements, we analysed whether they were presented in a Statement of Cash Flows format and what other supplementary information was presented that might be of use to readers (IPSAS 4 requires explanatory notes and disclosure of accounting policies). This data is presented in *Table 14*.

**Table 14: Inclusions in charities' cash accounts**

Voluntary disclosures/formatting	Small		Medium		Total in sample	
	No.	%	No.	%	No.	%
Cash accounts segregated into operating/financing/investing	0	0	0	0	0	0
Unpresented cheques included in the cash accounts	4	6.2%	1	4.3%	5	5.7%
Supplementary information provided on assets	7	10.7%	0	0	7	7.9%
Supplementary information provided on liabilities	4	6.2%	1	4.3%	5	5.7%
No other information provided	50	76.9%	21	91.4%	71	80.7%
<b>Total</b>	<b>65</b>	<b>100%</b>	<b>23</b>	<b>100%</b>	<b>88</b>	<b>100.0%</b>

It can be seen from *Table 1*, that no charities presented their cash-based financial statements in a Statement of Cash Flows format. Further, there were very few charities that provided voluntary disclosures that could further inform users of their financial situation beyond the figures provided.

## 5.2 Reporting style adopted by charities preparing accrual-based accounts

More than 70% of our sample prepared their financial statements on an accrual basis (see *Table 6*). In this subsection we provide the analysis from a deeper interrogation of that financial reporting.

Although the financial statements of 212 charities were examined in this section (based on accrual accounting), five did not produce a full set of financial statements as they did not file an Income and Expenditure statement or a Balance Sheet (or both). Hence these charities were not included in the analysis of the accrual based layout.<sup>9</sup>

Also included in the accrual-based financial statements analysed in this section were six charities that stated they produce accounts on a cash basis in their accounting policies, but which charged depreciation on assets. Some of these also recognised revaluation of assets.

In addition, while we have assumed that the charities financial statements that were filed were GPFR, 25 charities explicitly stated this in the accounting policies, but 21 charities considered their accounts to be special purpose reports. As these financial statements were on a public register, it seems the preparers are under a misunderstanding of when the term “special purpose” could be used.

Of the whole sample of financial statements prepared on an accrual basis, we found 25 had been

<sup>9</sup> We note that without a balance sheet it is difficult to know if assets have been expensed or capitalised (as also found by Bird and Morgan-Jones, 1981).

specifically produced under a formal compilation engagement with a Chartered Accounting firm.

**Table 15: Style used in charities' financial accounts prepared on an accrual basis**

Accrual based financial statements	Small		Medium		Total in sample	
	No.	%	No.	%	No.	%
<b>Income and Expenditure</b>						
Simple list of income and expenses layout	62	84.9%	94	70.0%	156	75.4%
Classification of income and/or expenses on face of the Income and Expenditure statement	11	15.1%	33	24.8%	44	21.3%
Classification of income and/or expenses in notes	0	0%	7	5.2%	7	3.3%
<b>Total</b>	<b>73</b>	<b>100%</b>	<b>134</b>	<b>100%</b>	<b>207</b>	<b>100%</b>
<b>Balance Sheet</b>						
Assets and liabilities are listed only with no classification	4	5.6%	1	0.8%	5	2.4%
Items are classified under the headings assets and liabilities only	3	4.2%	3	2.2%	6	2.9%
Items are classified into current/noncurrent assets and liability headings	65	90.2%	131	97%	196	94.7%
<b>Total</b>	<b>72</b>	<b>100%</b>	<b>135</b>	<b>100%</b>	<b>207</b>	<b>100%</b>
<b>Accounting Polices &amp; Notes</b>						
Not provided	20	26.6%	17	12.4%	37	17.5%
Poor: insufficient policies to be able to ascertain a proper understanding of accounts	5	6.7%	6	4.4%	11	5.2%
Adequate: sufficient accounting polices/notes made to get a reasonable understanding or accounts	11	14.7%	16	11.7%	27	12.7%
Good: Comprehensive and complete Policy/notes to understanding the accounts	39	52%	98	71.5%	137	64.6%
<b>Total</b>	<b>75</b>	<b>100%</b>	<b>137</b>	<b>100%</b>	<b>212</b>	<b>100%</b>

As can be seen from *Table 15* the great majority of accrual-based financial statements were prepared with a simple list of income and expenditure. Within this, 13 small and 25 medium-sized charities presented their income and expenditure in alphabetical order. However, the remaining quarter of charities using this method classified income and expenditure into programme or other categories. A small percentage of these provided this breakdown in the notes, but 44 charities provided these explanations on the face of the financial statements.

With respect to the Balance Sheet in these financial statements, *Table 15* shows that almost 95% of the charities reported their assets and liabilities in the usual manner, broken down into current and noncurrent categories.

Our analysis also included the notes to the accounts and an assessment of how they might provide increased understanding of the financial statements. Fewer than 65% of the charities provided appropriate notes and/or accounting policies to enable the financial statements to be understood.<sup>10</sup> From *Table 15* it can be seen that 37 of the financial statements did not contain accounting policy statements, nor did they contain notes. A further 27 of the charities provided accounting policies or

<sup>10</sup> This is similar to the New Zealand findings of Newberry (1992) and in the UK by Bird and Morgan-Jones (1981).

notes that were insufficient to gain an adequate understanding of the accounts produced. While 12.8% of the charities had policies which were adequate to gain an understanding of the financial statements, the policies were brief, lacking detail about such items as contingencies. These policies and notes could have been made more comprehensive to eliminate doubt as to the existence of specific accounting matters.

### 5.2.1 Inclusions in charities' financial statements compiled on an accrual basis

In this sub-section we consider charities' activities and factors that are reported in the financial statements. A number of the items are not required by current New Zealand regulation, but would normally be considered to be good practice and are covered in the Not-for-Profit Financial Reporting Guide produced by the Financial Reporting Standards Board (New Zealand Institute of Chartered Accountants, 2007) which are based on New Zealand International Financial Reporting Standards (NZ-IFRS).

*Table 16* is broken into two distinct parts. The first is a consideration of the items included that would be expected in accrual-based financial statements. The second part is the conceptual basis and standards used to prepare the statements.

**Table 16: Inclusions in charities' accrual accounts**

Standard Items included	Small		Medium		Total in sample	
	No.	%	No.	%	No.	%
Depreciation charged on applicable assets	73	97.3%	133	97.8%	206	100%
Note about future commitments provided	37	49.3%	95	69.9%	132	64.1%
A separate Statement of Movements in Equity provided (however described)	67	89.3%	126	92.6%	193	93.7%
Equity separated into discretionary funds and non-discretionary funds	11	14.7%	22	16.8%	33	16.0%
<b>Conceptual/Standards Basis of Financial Reporting</b>						
Number of organisations that state these accounts comply with NZ GAAP	30	40.0%	68	50.0%	98	47.6%
Number of organisations that appear to comply with NZ GAAP (including those that state they comply with NZ GAAP)	58	77.3%	112	65.9%	170	82.5%
Number of organisation state these accounts comply with NZ IFRS (and all of these organisations' financial statements appeared to comply with NZ IFRS)	1	1.7%	3	2.3%	4	1.9%

*Table 16* shows that all of the charities using accrual accounting and who provided complete financial statements depreciated at least some of their fixed assets. As we were not privy to intimate details of their operations, we do not know if all assets were depreciated. However, our finding is at odds with prior New Zealand literature (see Appendix 2) where studies have found charities which do not depreciate capitalised fixed assets (Hooper, Sinclair, Hui, & Mataira, 2008; Newberry, 1992; Sinclair, 2011).

Further, *Table 16* shows that more than 47% of the accrual-based financial statements were compiled to comply with NZ GAAP and a great majority (82.5%) appeared to comply with NZ GAAP

even if they did not state that these practices were underpinning the compilation (this assessment was made from a careful reading of the financial statements and accompanying notes). A remaining four charities filed financial statements that appeared to comply with NZ-IFRS and stated they did so.

### 5.2.2 Specific not-for-profit inclusions in charities' accrual-based financial statements

In addition to the standard inclusions that would be expected of accrual-based financial statements for any entity, we expected the activities of not-for-profit organisations would be represented with specific disclosures. These disclosures are at present voluntary and include reporting on:

- grants received and unspent at year end;
- fundraising income and expenditure
- volunteers' efforts; and
- gifts-in-kind received.

*Table 17* provides analysis of the level at which these voluntary disclosures were made in the accrual-based financial statements in this research.

**Table 17: Specific not-for-profit inclusions in charities' accrual accounts**

Organisations including specific disclosures	Small		Medium		Total in sample	
	No.	%	No.	%	No.	%
<b>Grant reporting</b>						
Received grants	46	61.3%	101	74.3%	147	71.4%
Included unspent grants at year end	5	6.7%	36	26.5%	40	19.4%
Accrued unspent grants	4	5.3%	36	26.5%	40	19.4%
Notes explaining unspent grants at year end	4	5.3%	28	20.6%	32	15.5%
<b>Fundraising reporting</b>						
Fundraising income disclosed	37	49.3%	38	27.9%	75	34.6%
Fundraising expense recognised	19	25.3%	25	18.3%	44	21.4%
Fundraising expenses include allocation of staff time/asset usage/depreciation/running costs	0	0	0	0	0	0
<b>Volunteer reporting</b>						
Volunteer time recognised as revenue and expense	0	0	0	0	0	0
Separate expenditure lines for volunteer expenses reimbursed/incurred	3	4.0%	16	11.8%	19	9.2%
Notes explaining volunteer contribution during the year	0	0	4	2.9%	4	1.9%
Notes that estimated volunteers' value	0	0	0	0	0	0
<b>Gifts-in-kind received</b>						
Gifts-in-kind recognised as revenue and expense	0	0	1	0.7%	1	0.5%
Note explaining gifts-in-kind contributions during the year	0	0	1	0.7%	1	0.5%
Notes that estimate gifts-in-kind value	0	0	1	0.7%	1	0.5%

It can be seen from *Table 17* that over 70% of charities whose accrual-based financial statements we analysed, received grants as revenue. Of those, slightly fewer than 20% had not spent their entire

grant receipts at year end. Eight of these charities did not include explanatory notes in respect of these unspent grants, while the remaining 32 did.

There was less disclosure around fundraising. Hooper et al. (2008) and Sinclair (2011) noted there was little specification of fundraising expenses in New Zealand a findings also borne out by this research, as shown in *Table 17*. However, 21.4% of charities did disclose fundraising expenses, a common practice overseas where fundraising efficiency is assessed through percentages and ratios.<sup>11</sup>

It is interesting to note the amount of volunteer reporting undertaken by organisations compared to the amount volunteers contribute to the sector. Comparing figures 1 and 2 to *Table 17*, the amount of reporting undertaken by charities on volunteers does not reflect the proportion of contribution volunteers make to the sector. No charities in this sample recognised volunteer time as value-adding to the Statement of Financial Performance, although four charities did include a discussion of the addition that volunteers make to their charity in the notes to the financial statements. Further, just over 9% of charities recognised expenditure on volunteers (either direct or as reimbursement of volunteers' expenses) as a separate line item in their financial statements.

### 5.3 Comparability of charities' financial statements

Comparability of charities' financial statements is likely to aid transparency and accountability. The data analysed above shows that comparability between charities may be currently difficult to achieve, given the wide variety of formats and bases used for financial statement compilation. However, internal comparability can be achieved when charities provide prior years' comparative figures. Further, transparency and accountability can be improved when the actual results are compared to the budget for the same year. Users can obtain a deeper understanding of the charity if charities provide a future budget with their financial statements. *Table 18* shows the extent to which our research sample met these expectations.

**Table 18: Prior years' and budget comparisons in charities' financial statements**

All Charities	Small		Medium		Total in sample	
	No.	%	No.	%	No.	%
<b>Prior years' comparison</b>	103	73.6%	136	85.0%	239	79.7%
Number of prior years provided:						
1 year	101	72.1%	136	85.0%	237	79.0%
2 years	1	0.7%	0	0	1	0.3%
3 years	1	0.7%	0	0	1	0.3%
<b>Budget comparisons</b>						
Results compared to the budget for the same year	2	1.4%	8	5.0%	10	3.3%
Future budget provided	1	0.7%	0	0	1	0.3%

<sup>11</sup> We note the unusual behaviour that can result from the requirement to show efficiency in this way. For example, Morgan (2010) found charities reported fundraising net of expenses even where they were required to separate out revenue and expenditure, and Froelich and Knoepfle (1996) found misunderstanding and shifting of expenses to other categories to improve efficiency measures.

It can be seen from *Table 18* that almost 80% of the charities in our sample provided a comparison to the prior years' accounts. All but two of these charities provided one year's comparisons, while the remaining two provided 2-3 years' comparative figures. However, very few charities provided a comparison with the budget for the same year (3.3% of charities). One charity provided a future budget.

As a number of commentators expect independent assurance will improve the quality of financial reporting (for example, Palmer and Vinten, 1998), the following sub-section considers this aspect of our sample.

## 5.4 Assurance on charity reporting

Unlike other jurisdictions, the Charities Commission does not require charities to have assurance on their financial statements (see Appendix 1). However, charities' rules often include the requirement that financial statements must be audited or reviewed by an independent Chartered Accountant, or other accounting expert.

Accordingly, first we analysed the charities' constitutions and sorted the sample into those that required an audit, those that required a review, those who required assurance but it could be either an audit or a review, and those for whom no assurance was required. The data on the compliance of the charities with their rules is provided in *Tables 19-22* below.

**Table 19: Audit reports required and filed or received**

Audit	Small (140)		Medium (160)		Total sample (300)	
	No.	%	No.	%	No.	%
Charity requires an Audit by their own Constitution	70	50.0	103	64.4%	173	57.7%
Charity filed an Audit report with their annual return (% of # who required it)	39 Audits 7 Reviews	55.7% 10.0%	70 Audits 6 Reviews	68.1% 5.8%	109 Audits 13 Reviews	63.0% Audits 7.5% Reviews
Assurance report format was not acceptable according to auditing standards	11 (23.9% of 46)		0 (0% of 69)		11	10.1% (of 109)

*Table 19* shows that the constitutions of more than 57% of the charities in this sample required an audit. Of these, more than half obtained an audit and filed them with the Charities Commission at the time of their annual return. A further 13 charities whose rules required them to obtain an independent audit, instead obtained a negative assurance or review report. This is an inappropriate response and the reviewer should have ensured that the charity's rules were changed to allow a review to take place.

The remaining charities, whose rules required them to have an audit but had not filed them with the Charities Commission, were written to with a request for their audit report for 2010. Seven of these have replied to date, and all included appropriately formatted audit reports.

**Table 20: Review engagement reports required and filed or received**

Review	Small (140)		Medium (160)		Total sample (300)	
	No.	%	No.	%	No.	%
Charity requires a review engagement by their own Constitution	2	1.4%	0	0	2	0.7%
Charity filed a Reviewer's report with their annual return (% of # who required it)	2 Reviews	100%	0	0	2	100%
Review engagement report format was not acceptable according to review engagement standards	1 (50% of 2)		0		1	50% (of 2)

From *Table 20* it can be seen that only 2 charities had constitutions requiring them to have an independent reviewer provide negative assurance on their financial statements. Both of these charities (which were small) had obtained and filed their reviewer's reports. One of these reports was not in an appropriate format.

**Table 21: Either an Audit or Review is required and filed or received**

Either Audit or Review	Small (140)		Medium (160)		Total sample (300)	
	No.	%	No.	%	No.	%
Charity requires an Audit or Review by their own Constitution	5	3.6%	5	3.1%	10	3.3%
Charity filed an assurance report with their annual return (% of # who required it)	1 Audits 1 Reviews	20.0% 20.0%	2 Audit 3 Reviews	40.0% 60.0%	3 Audits 4 Reviews	30.0% 40.0%
Assurance report format was not acceptable according to relevant assurance standards	0		0		0	0 (of 7)

*Table 21* shows that the constitutions of only ten charities in this sample required either an audit or a review to be undertaken as an independent check on the financial statements. Of these, 7 (70%) met the expectations with 3 filing an audit and 4 a review engagement report with the Charities Commission at the time of their annual return. These were all in an acceptable format. The remaining three charities, whose rules required them to have either an audit or a review but had not filed the reports with the Charities Commission, were written to with a request for the relevant report for 2010. None has replied.

From *Table 22* it can be seen that the remaining 115 charities either did not require independent assurance or they had not filed their constitutions with the Charities Commission (and therefore we could not check what they required). Seven charities did not file their rules (4 small and 3 medium) and the rules of 108 charities did not require the charity to have an audit or review. Of these, 26 charities filed an audit report with their annual return and 5 filed a review engagement report. Many of these (32.3%) were in an incorrect format. This confirms the statement by Sinclair (2011) that there is a lack of professionalism in charity assurance engagements. We are unsure if this is of concern when the charity does not require an audit, but that is no excuse to undertake a sub-

standard engagement.

**Table 22: No assurance required**

No assurance required, or no rules on file at Charities Commission	Small (140)		Medium (160)		Total sample (300)	
	No.	%	No.	%	No.	%
Charity did not require assurance or no rules on file at Charities Commission	64	45.7%	51	31.9%	115	38.3%
Charity filed an assurance report with their annual return (% of # who required it)	12 Audits 4 Reviews	18.8% 6.3%	14 Audits 1 Review	27.5% 2.0%	26 Audits 5 Reviews	22.6% 4.3%
Assurance report format was not acceptable according to relevant assurance standards	7		3		10	32.3% (of 31)

In addition to assessing the type of assurance that was provided and also comparing this to the charities' rules, we also noted the designation of the assurance providers. These are shown in *Table 23*.

**Table 23: Designation of assurance provider**

Auditor's/Reviewer's details (per report)	Small		Medium		Total sample	
	No.	%	No.	%	No.	%
Individual	36	54.5%	36	37.5%	72	44.4%
Firm	30	45.5%	60	62.5%	90	55.6%
<b>Total</b>	<b>66</b>	<b>100%</b>	<b>96</b>	<b>100%</b>	<b>162</b>	<b>100%</b>
<b>Designation</b>						
FCA	0	0	2	2.1%	2	1.2%
CA	36	54.4%	81	84.4%	117	72.2%
ACA	0	0	2	2.1%	2	1.2%
CA Retired	4	6.1%	1	1.0%	5	3.1%
ACA Retired	1	1.5%	0	0	1	0.6%
University degree	2	3.0%	0	0	2	1.2%
MTINZ <sup>12</sup>	2	3.0%	0	0	2	1.2%
Other	6	9.1%	4	4.2%	10	6.2%
Not disclosed/available/illegible	15	22.7%	6	6.2%	21	13.1%
<b>Total</b>	<b>66</b>	<b>100%</b>	<b>96</b>	<b>100%</b>	<b>162</b>	<b>100%</b>

To date, this sample has considered 162 audits or reviews by charities – either those that were filed with the annual return or those that were received later. From *Table 23* it can be seen that the number of audits and reviews undertaken by individuals was almost the same as the number of assurance engagements undertaken by Chartered Accounting firms. Small charities were more likely to have an individual undertake their assurance, while medium-sized charities were more likely to have a firm undertake their assurance; on average firms provide the majority of assurance.

<sup>12</sup> Member of the Tax Agents Institute of New Zealand.

While assurance providers should include an address and designation along with their report, we did find that a number had omitted this information (or it was illegible). *Table 23* shows that the great majority of providers were had designations that showed they were members of the NZICA.

Additionally, we were asked to provide data about the assurance pattern of the 69 charities whose expenditure was greater than \$150,000. We note that 44 (63.8%) of these charities had their financial statements audited and 4 (0.6%) were reviewed. Of these 48 engagements, 44 were undertaken by Chartered Accountants; the others had no designation that would indicate they were members of the NZICA.

The final analysis section of this report considers the filing or provision of non-financial reporting.

## 5.5 Non-financial reporting

In addition to financial information, best practice suggests that non-financial information (information on the difference an entity makes) necessary. While the Charities Commission does not require this to be filed, *Table 24* shows the extent to which non-financial reporting was prepared by the charities in our sample.

**Table 24: Non-financial information provided by charities**

	Small (140)		Medium (160)		Total sample (300)	
	No.	%	No.	%	No.	%
Non-financial information is provided with annual return	7	5.0%	14	8.8%	21	7.0%
Non-financial information was requested by researchers	133	95.0%	146	91.2%	279	93.0%
Response obtained from charity (% of information requested)	16	12.0%	30	20.5%	46	16.5%
Non-financial information provided with response % of information requested)	8	6.0%	20	13.7%	28	10.0%

It can be seen from *Table 24*, that there was very little non-financial information filed with charities' annual returns. Most of the non-financial information that was provided by charities was AGM reports which contained chairman's and treasurer's reports. These documents gave an overview of charities' activities and acknowledged the support and contribution by staff (paid and unpaid) and donors.

A few charities (mainly medium-sized charities) produced full annual reports which included in-depth details of the activities. These reports often included membership data the number of services provided, to show performance from a non-financial viewpoint.

Most of the 48 charities, who replied to our request for non-financial information but did not give any, 20 either stated that they did not produce any non-financial information, or they sent in information that could not be construed as non-financial information. One charity replied that as it was not required by the Charities Commission, they did not want to send us any non-financial information.

Finally, the format of the non-financial information that was received (either filed or received later) was considered. The results are displayed in *Table 25*.

**Table 25: Non-financial information format**

Type of non-financial reporting	Small		Medium		Total sample	
	No.	%	No.	%	No.	%.
Narratives	11	64.7%	22	68.7%	33	67.3%
Figures	1	5.9%	0	0	1	2.0%
Mixed	5	29.4%	10	31.3%	15	30.7%
<b>Total</b>	<b>17</b>	<b>100%</b>	<b>32</b>	<b>100%</b>	<b>49</b>	<b>100%</b>

It can be seen in *Table 25* that a great percentage of the non-financial reporting is in a narrative format. Only a very few charities provided numerical non-financial reporting, with the great majority of those who do so, including a mixture of narrative and figures. While we initially sought to analyse the presence or otherwise of outputs or outcomes in charities' non-financial reporting, we found that none of the information provided met these definitions as would normally be expected in a Statement of Service Performance report. The lack of good non-financial reporting affects the quality of charities' annual reports overall.

## 6. Discussion and Conclusion

As noted in the Introduction, the Charities Commission was established to promote public trust and confidence. This research has analysed a snapshot of charities' filings with the Charities Commission in 2010 and the state of their financial and non-financial information. Overall, the filing accuracy by charities in New Zealand is extremely poor. It seems unlikely that this unreliable data will assist the fostering of a culture of philanthropy or promote the public's trust and confidence in charities. Further, as the data is not checked and corrected at the time it is filed, incorrect conclusions are likely to be drawn from this data in aggregate. For example, although we carefully selected 150 charities in each expenditure band, 6.7% (10) of our "small" charities revealed themselves as "medium" charities when their financial statements were checked. That the data is further used by government agencies for policy-making and to make decisions on grants and contracts results in the proliferation of incorrect information.<sup>13</sup>

The establishment of the Charities Commission has encouraged charities to provide transparent reporting to the public. Yet, the analysis in this report enables us to consider the quality of reporting in this section. This section also summarises our findings about financial statements prepared on a cash or accrual basis, and provides conclusions and recommendations to improve practice.

### 6.1 Quality of charity financial reporting

In this sub-section we outline the schema we used to assess the quality of charities' financial reporting. *Table 26* provides the schema that was used for this assessment. It is based on the manner in which the Office of the Scottish Charity Regulator (2010) assesses the quality of Trustees' Annual reports (which include non-financial data), but we have adapted it to include the financial data and assurance that was analysed in this research.

**Table 26: Grading scheme used for charity financial reporting**

Grading	Description
Very Good	All key information and policies present, demonstrated transparency and accountability
Good	All key information and policies present, informative in relation to performance in current year
Adequate	All key information and policies present but lacking insight
Poor	A key policy statements such as reserves statement, risk statement or investment policy is missing
Very Poor	Token report or report adopts incorrect format

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<sup>13</sup> The Australian proposal for a not-for-profit regulator promotes the use of Standard Business Reporting (SBR) based on eXtensible Business Reporting Language (XBRL) which could overcome data input errors. SBR requires organisations to code the accounts in their accounting information system with tags that are linked to a template-requirement (see, for example, Cordery, Fowler, & Mustafa, forthcoming). However, installing SBR requires compliant software linked into entity financial reporting systems. It is a sophistication which has not previously been discussed in the not-for-profit literature but which is likely to increase costs for charities both in terms of software and also in training requirements.

Charities’ financial statements graded “very good” provided complete and comprehensive accounts. They included non-financial information detailing their activities and provided key figures and statistics that appeared to be synonymous to the intended outcomes and outputs of the charity. Some charities in this grade also provided information as to the charities’ prospects.

Charities graded “good” were those that provided comprehensive and complete financial statements and some form of non-financial information. These charities’ reports give some data on charities’ activities during the year, allowing an insight as to their performance. All accounts graded “good” also had assurance where their constitution required it.

Those graded “adequate” provided financial statements that had adequate accounting policies, notes and statements, but had not provided any non-financial information. Non-financial information is important because charities by nature are not profit-orientated. Charities are accountable for using their funds for the purpose which they are established to achieve. This distinction is what makes non-financial information crucial to determining the performance of a charity in achieving its goals and, just as importantly, assuring donors that their funds are being used to undertake the activities or services for which the funds were given. Charities’ financial statements do not achieve their task of being informative, transparent and relevant without this information.

Charities graded in the “poor” categories were those whose financial statements alone did not meet a high enough standard to be understandable. One determinant of this was whether accounting policies were present. The importance of accounting policies in charities’ financial statements has already been discussed (see section 5.2), and therefore to be adequate, financial statements were required to be accompanied by statements of accounting policies.

“Very Poor” accounts were often those that did not produce any financial statements at all or were missing essential components (e.g. they were lacking an Income and Expenditure statement).

Based on this schema, our assessment of charity reporting is provided in *Table 27*.

**Table 27: Assessment of quality of charity financial reporting from sample**

Charity Size by expenditure	Very Good		Good		Adequate		Poor		Very poor		Total
	No.	%	No.	%	No.	%	No.	%	No.	%	No.
Small	0	0	3	2.1	66	47.2	65	46.4	6	4.3	140
Medium	6	3.8	5	3.1	102	63.8	43	26.8	4	2.5	160
<b>Total</b>	<b>6</b>	<b>2.0</b>	<b>8</b>	<b>2.7</b>	<b>168</b>	<b>56.0</b>	<b>108</b>	<b>36.0</b>	<b>10</b>	<b>3.3</b>	<b>300</b>

From *Table 27* it can be seen that only 14 charities provided reporting that could be considered “good” or “very good”. While 56% were adequate, almost 40% of charities supplied reports that were “poor” or “very poor”. These assessments were made on the whole package of financial and non-financial statements that we had to hand. As noted, a number of charities were written to with a request that they provide us with their non-financial information and/or an assurance report, but some have not responded as yet. While these assessments are made on the information that was filed and also received later, it should also be noted that when the extra data we requested is not filed with the Charities Commission, it is not available to the public. Therefore these charities’ reporting is not fully transparent.

In the UK Palmer and Vinten (1998) stated that auditors should qualify financial statements to encourage charities to improve their reporting. *Table 23* suggests that professionals are engaging with charities to provide audits and/or reviews. Forty-six percent (138) of the charities in our sample had financial statements that were audited and 24 (8%) had review reports, yet the financial statements produced were on average, only “average”. Local literature is replete with encouragement to perform these engagements to a high standard and yet, similarly to Sinclair (2011), we found that NZICA members were as likely as any auditor to contribute to poor quality reporting.

## **6.2 Cash and/or accrual based financial statements**

We found in this research that, while a significant minority of small charities used cash as a basis for their financial reporting, the majority of small charities and the great majority of medium-sized charities use accrual accounting. It would appear that imposing accrual accounting on charities even at a low level, would be implementing a regime that reflects the preparation basis already being used.

Where charities are producing cash-based financial statements, a significant minority use a standard layout (for an example, see Appendix 3) and also a good percentage use Receipts and Payments (for an example, see Appendix 3). The standard layout includes a statement of assets and liabilities and provides a deal of information for users. However, few charities that prepare financial statements on a cash basis include a statement of accounting policies or notes to the financial statements. This means that it is difficult to understand the underlying premises that have been made in the preparation of the financial statements.

Volunteers provide services for no cost. Charities would not be able to exist without their contribution to the sector. The financial benefit of this is not currently reflected in the financial statements of any charities we analysed. This is disappointing. At a minimum, charities should disclose the number of volunteers in their notes and their input to the charity during the year. This provides users with relevant information to assess the organisation’s dependency on volunteer services. While it is not possible to measure volunteer services reliably, charities should be able to provide narrative about the outcomes volunteers help them to achieve (Cordery, Proctor-Thomson, & Smith, forthcoming).

More grant information also needs to be disclosed by charities. Charities that receive grants should disclose by notes whether they have spent their grants or not, and if not, how they are treated. The number of charities that received grants and the number that produced a grant note are inadequate.

## **6.3 Conclusions**

This has been an interesting and sobering exercise. Overall we found that a significant number of charities provide “poor” or “very poor” financial statements with most being only “adequate”. This finding is unfortunately similar to those in overseas jurisdictions and also as found locally by Newberry (1992), Hooper et al. (2008) and Sinclair (2011).

This research has been undertaken to fill gaps in our knowledge about how New Zealand charities fulfil their responsibilities to complete annual return information and prepare financial statements. In selecting a random sample of charities within discrete expenditure bands, it is bound by the limitations of similar research. However we believe that these findings can be generalised

specifically to small charities where our sample of 140 charities was condensed over a small expenditure range. Further, the evidence we have gleaned from the Charities Commission's own exercise (using interns) to assess the veracity of the register suggests that our findings are very similar.

It is to be hoped that the new financial reporting framework under discussion by the Ministry of Economic Development (2010) and the Accounting Standards Review Board (2009) will go some way to ameliorating the issues we have raised in this report, but it is incumbent on all associated with the charitable sector to improve their accountability and transparency. Our recommendations follow.

## **6.4 Recommendations**

We provide our recommendations according to whom they are most relevant: to improve Charities Commission filing, for the development of a new framework for financial reporting in New Zealand and for the accounting profession.

### **6.4.1 Charities Commission**

Our findings are similar to those from the Summer Interns that the Commission has had during 2010/11 and 2009/10. We recommend the Charities Commission:

- Check the filings of charities and where these are incorrect; send them back. This should cover incorrect figures being entered and also financial statements for incorrect years being filed for an annual return. This tactic is used by the Office of the Scottish Regulator.
- Update the annual return Q25 to include a balancing check. This could include requiring charities to confirm that the totals filed agree to their financial statements. Technology could also be used to check filing accuracy (e.g. on-line checking of totals).
- Educate through extra, more detailed, in-depth instructions on how charities should complete their annual return Q25. These would include notes about the need to balance the totals in each column with the charities' financial statements. It should also include notes to ensure that, for example, grants paid from equity are not included in the "expenses" column, an explanation of "gross income" and a referral to charities' notes to check whether statements are prepared on a cash or accrual basis. The UK Charity Commission fact sheet may be of assistance in developing this.
- Ensure that all registered charities have filed their rules.
- Require charities whose rules call for an audit or review to file these reports along with their financial statements.
- Continue to work to improve the quality of charities' non-financial reporting.
- Re-consider the parameters for the 'Open Data' project to ensure that the data that is made available is accurate. Incorrect filings will further confound, rather than increase the transparency of charity data.

### **6.4.2 Ministry of Economic Development/Accounting Standards Review Board (ASRB)**

Cash accounting is used by fewer than half of the charities in this research (46.4% of small charities and 14.3% of medium-sized charities). While there is no specific cut-off point for financial statements being prepared under a cash or accrual basis, the delineation in this report (<\$40,000) captures the majority of those reporting on a cash basis. (Examples of financial statements produced on a cash basis are provided in Appendix 5 of this report.) From this research we recommend that the ASRB:

- (for cash accounting) Mandate reporting based on the ‘standard layout’ used by over 48% of the charities compiling their financial statements on a cash basis. It includes the calculation of net surplus and deficit and information on assets and liabilities. This assists transparency and accountability as well as comparability.
- (for cash and accrual accounting) Provide a set of standard notes to reduce uncertainty on how to accomplish quality reporting and to provide users with relevant information about the setting and situation of the charity.
- Allow charities who fit within the cash accounting expenditure level to “move up” to preparing financial statements on an accrual basis regardless of their small size if they desire.
- Provide authoritative advice on accounting for specific features such as grants, fundraising, volunteers and gifts-in-kind.
- Provide examples of non-financial reporting for charities to develop their own and encourage charities to file this with the Charities Commission. Users should be primed to expect good quality narrative and numerical data on outputs and outcomes.
- Require charities to provide comparisons not just to the prior year, but to budgets to assist stewardship.
- Encourage auditors and reviewers to up-skill so that they can contribute towards improved charity reporting.
- Consider whether the application of an Independent Examiner regime may provide appropriate support and assurance to charities that are smaller and for whom the benefits of an audit are outweighed by the expense.

#### **6.4.3 The Accounting Profession (NZICA)**

The burden of improving financial reporting cannot sit with regulators alone. The findings of this report show a lack of support from the NZICA to the charities sector. Yet, many members are involved in providing assurance as shown by this report. We recommend NZICA:

- Publicise more broadly the existing advice to those preparing financial statements for charities (e.g. the Not-for-Profit Reporting Guide, pages on the NZICA website, etc). NZICA should mandate the use of authoritative guidance in the charities sector by its members.
- Provide advice to improve the quality of financial and non-financial reporting in the charities sector, providing examples of quality reporting, of non-financial reporting and taking steps to ensure transparency and accountability). This will also include encouraging debate on and development of schemas to help small and medium charities to report on grants, fundraising, volunteers and gifts-in-kind
- Ensure members who provide assurance into the charity sector undertake competent audits and reviews leading to the improvement the quality of the financial statements. This will occur only when there is advice on how to undertake review engagements, and education on the appropriateness of members undertaking audits.
- Advise charities on the appropriate style of assurance they require (noting that many charities that require audits received instead a review engagement). This also extends to the requirement that funders and donors understand what the audit or review engagement will bring them.
- Work with the regulators and the ASRB to support a robust and accountable charitable sector.

## Appendix 1: Comparison of New Zealand proposals for charity reporting with the UK and Ireland

Table 28: Comparison of charity reporting requirements (adapted from Breen, Ford, & Morgan, 2009)

Requirement	Income threshold England & Wales	Income threshold Scotland and Ireland	Income threshold Ireland	NZ proposed expenditure threshold
To keep proper accounting records	£0	£0	€0	\$0
To publish annual financial accounts	£0	£0	€10,000	\$0
To register with regulator	£5,000	£0	€0	\$0
File annual report and accounts with regulator	£25,000	£0	€10,000	\$0
To have accounts independently examined	£25,000	£0	N/A	N/A
Prepare accounts on accrual basis to comply with SORP	£250,000*#	£100,000	€100,000	\$40,000
Independent examiner to be professionally qualified**	£250,000	£100,000	€10,000	N/A
Full Audit required by registered auditing firm.	£500,000	£500,000	€500,000	\$2,000,000 (but auditor not registered)

\* Increased from £100,000 from April 2009

# Up to 500,000GBP charities are able to use a reduced accruals disclosure regime, including not being required to use headings for specific financial expenditure.

\*\* The National Council of Voluntary Organisations (<http://www.ncvo-vol.org.uk/advice-support/funding-finance/financial-management/audit/what-is-an-independent-examination>) describes an independent examiner in England and Wales as someone who gains an understanding of the charity, reviews accounting records and trustees reports, undertakes analytical procedures and writes an independent report for circulation with the financial statements. This is similar to a review engagement, as it provides negative assurance on the financial statements, but the procedures are directed by the Charity Commission and have the force of law. For charities with income of less than £500,000 but greater than £250,000, an independent examiner is an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts (i.e. they may not necessarily be a qualified accountant). For charities with income greater than £500,000, the independent examiner must be a member of a specific accounting body (as detailed by the rules).

## **Appendix 2: Literature review on charity environment and charity financial reporting issues**

### **The charity environment**

Internationally, there has been a steady increase in the number of countries employing charity regulators. As examples of independent regulators, the Charity Commission for England and Wales dates back to the Charitable Trusts Acts of 1853 and regulates over 160,000 charities, while the much smaller Office of the Scottish Charity Regulator, Charity Commission for Northern Ireland and the Singaporean Charity Council were established almost contemporaneously with New Zealand's Charities Commission. Other countries (such as Canada and the United States) operate a separate area of their tax authorities which register and monitor charitable activity. Charity watchdogs (such as GuideStar and Better Business Bureau's (BBB'S) Wise Giving Alliance) have also arisen in recent years. As Szper and Prakash (2011, p.116) note "there is a perception, correct or incorrect, that nonprofits have transparency issues".

Szper and Prakash (2011) note that, while charity watchdogs often provide information to donors, to be effective it must be relevant to donors and lead to a change in their behaviour. We make the case that the information should also be reliable.

### **Charity financial reporting**

The underlying reason for charity financial reporting is to meet users' needs for accountability and to make decisions about future donations and relationships with charities. In other words, financial reporting should be both relevant to users and also reliable. The users of charity financial statements are potentially many and varied. In early research into the charities sector in the United Kingdom (UK), Bird and Morgan-Jones (1981) asserted that there six different categories of users of charities' financial reports. These were the:

- Governing body of the charity;
- Donors who wish to support a particular cause;
- Recipients of services;
- Government and the community who seek accountability;
- Creditors; and
- Donors who wish to compare charity efficiency before providing funds (this includes corporate donors and grant-making trusts).

Other commentators have introduced different users for analysis, for example the New Zealand Institute of Chartered Accountants' (2007) Not-for-Profit Financial Reporting Guide lists 13 different users who will rely on General Purpose Financial Reports for financial information about charities. Users are sometimes internal, may provide resources to the organisation, and/or seek accountability for external support such as tax relief.

In respect of reliability, problems with charity accounting date back to the earliest commentaries. The section below summarises the main issues that have arisen in research both in New Zealand and overseas.

## **Unreliable accounting**

### ***New Zealand:***

While New Zealand has only recently had a charities regulator, the identification of issues in financial reporting dates back to Newberry (1992). She found that the largest failures in charity reporting were:

- lack of a Statement of Cash Flow
- not capitalising some or all fixed assets
- not depreciating capitalised fixed assets
- lack of a Statement of Accounting Policies.

Newberry (1992) was concerned that many of these failures had not been highlighted by auditors.

More recent research has been undertaken by Hooper, Sinclair, Hui and Mataira (2008). Their research differed from Newberry (1992) as it was more concerned about the content (rather than the presence) of financial statements. By undertaking interviews of individuals involved in charities and charity reporting, Hooper et al. (2008) found that:

- a number of charities did not capitalise fixed assets (especially when they were donated),
- charities use fund accounting which is not supported by current Generally Accepted Accounting Practice (GAAP) and therefore it can be opaque; and
- there was little specification of fundraising expenses in New Zealand charities.

While that was a small study (8 interviews), Sinclair (2011) found similar results in her PhD thesis which was informed by 75 interviews with 84 participants.

### ***Overseas:***

This section initially considers issues that have arisen in the United Kingdom (UK) before providing an overview of North American literature on the unreliability of charity reporting.

England and Wales has had the most experience in developing accounting structures for charities. From 1960 charities were legally required to file accounts, yet Bird and Morgan-Jones (1981) found that charity reporting was extremely diverse, and that charity employees and trustees were the least likely to seek to standardise their practice. Bird and Morgan-Jones (1981) highlighted:

- *Ad hoc* use of accrual and cash accounting (especially in smaller charities);
- Disparate treatment of funds (unrestricted, restricted and custodial);
- Lack of consolidation with regards branches and trading activities;
- Fundraising receipts often shown net of the costs involved;
- No notes of accounting policies used;
- No balance sheet provided (and subsequent expensing of asset purchases); and
- A lack of appropriate audit reports.

While initially they had supported diversity in practice, Bird and Morgan-Jones (1981) found such severe inconsistencies in charity reporting that they argued strongly for founding principles and regulation to encourage compliance. From 1988 a Statement of Recommended Practice (SORP) governed the preparation of charity accounts. However, ten years following the release of the SORP,

Williams and Palmer (1998) found charities were ignorant of the reporting guidelines and Palmer and Vinten (1998) confirmed that poor reporting was in effect encouraged by the failure of auditors to qualify accounts. Practices have since improved markedly (Palmer, Isaacs, & D'Silva, 2001). Requirements have also increased and the SORP is regularly updated to ensure it does not lag too far behind the UK GAAP. These moves show that the Charity Commission values comparability of financial statements.

The Charities Commission in England and Wales continues to have very little resource to undertake detailed checking of charities' filings. Morgan (2010) noted particular problems relevant to this research, including:

- 'Accrual' accounts often have substantial debtors or creditors missing;
- Deferred income is not reported appropriately;
- Income is allocated across categories such as grants and generated income incorrectly;
- Fundraising income is often reported net, without the cost of fundraising;
- Substantial income amounts are reported as "other" ; and
- Estimations of value for gifts in kind are not properly disclosed in the notes to the accounts.

Further, the use of different versions of the SORP means that financial statements are not comparable across different charities, or from year to year in the same charity (although the latter is more likely).

In Scotland, the Registrar undertakes a comparative study into 'small charity accounts' using a sample of 300 charities with income under £25,000. In the most recent study, they found that one in six charities produce accounts that do not show the total income, expenditure and/or the resultant surplus or deficit. Approximately one in three charities files non-compliant balance sheets (Office of the Scottish Charity Regulator, 2010), although Morgan (2010) notes that the Office of the Scottish Charities Regulator (OSCR) sends back accounts which do not balance.

It appears that despite the increasing demand for transparency and accountability, there remain a number of issues in charity reporting in the UK. Users of financial statements of North American charities (and not-for-profit organisations generally) also find that financial reports filed are of poor quality.

Early research in the United States (US) by Froelich and Knoepfle (1996) compared not-for-profit organisations' financial statements with their Internal Revenue Service (IRS) filing. Froelich and Knoepfle (1996) noted that the most frequent misstatement was in the expense categories, where organisations shifted salaries to Cost of Goods Sold in order to understate administration expenses. However other significant errors occur in defining fundraising expenses. From interview data they found that errors in filing of the IRS 990 were due to organisations lacking understanding of the guidelines. Further, while financial statements were quite often prepared by accounting firms, the IRS 990 was filed by the organization itself and errors indicated a lack of understanding of the financial statements within the organisation.

Keating and Frumkin (2003) note that not-for-profit organisations' filing of IRS 990's is seldom checked (around 1.3% of filings were checked in 1999). Further, filings are typically one to two years out of date and contain "high rates of mathematical errors, transposed digits, omitted information

and information inserted on the wrong lines” (Keating & Frumkin, 2003, p.7). Overall, a significant minority of filings omit important documents. Keating and Frumkin (2003) highlight the difficulties of requiring organisations to fill out a form (the IRS 990) that does not comply with GAAP and requires extrapolation from a set of financial statements into a number of pre-defined categories.

Their relevance of Form 990 for users of financial statements was also raised by Froelich, Knoepfle and Pollak (2000). However, their study found higher levels of reliability of the totals in filed data than Keating and Frumkin (2003). Froelich et al. (2000) stated that balance sheet items were correct 99% of the time, income statements 90% of the time and that minor errors (+/- 10%) were unimportant. Interestingly they found that small not-for-profit organisations filed correctly more often than large organisations and this appeared to be related to the inherent relative lack of complexity.

In a study of charities that submit financial statements for reporting awards in Canada, Salterio and Legresley (2010) identified that organisations with the greatest problems in developing transparent annual reports were those in the \$1 million to \$10 million in revenue category. These findings built on those of Froelich et al. (2000). They hypothesised that charities in this range had a small number of staff but that they lacked the expertise to undertake the reporting process which was complex. Smaller organisations may well have used volunteers to develop their annual report, but their organisations were less complex.

Whether GPFR should be cash-based or accrual-based is also debated. The following section summarises research in this area.

### **Cash-based and accrual-based financial statements**

Again there is diversity in requirements for cash or accrual reporting. In the US, all NFP organisations must file accrual accounts with the IRS if they have revenue in excess of US\$25,000, whereas in the UK the level is much higher (see Appendix 1). Charities can use cash-based accounting in Scotland and Northern Ireland if their revenue is less than £100,000 and in England and Wales if revenue is less than £250,000 (except if the charity is registered as a company). It is estimated that 80-85% of charities are therefore eligible to produce cash-based accounts in the United Kingdom. Concern has been expressed from UK research (Morgan, 2008) that the levels set by the regulators are far too high. Interviewees believed the limit for cash-based accounts should be £15-25,000 revenue at the most.

Morgan’s (2008) research for the Association of Charity Independent Examiners found that most people believe cash-based accounting is easier to prepare and to understand. This is likely to lead to the ready availability of treasurers to charities, as the treasurer will not have to understand the nuances of accrual accounting, As Gavin Hampton noted recently, cash accounts are similar to balancing a personal bank account and are therefore more understandable to both members and preparers who lack accounting experience (Cordery, 2010). It should be noted that in England and Wales charities providing cash-based accounts are required to provide information on their assets and liabilities, but they do not have to value them. However, that there are no standardised minimum requirements for this accounting, making it very difficult to ensure that cash-based accounts are of a high quality.

While Morgan's (2008) interviewees believed cash-based accounts were useful for small charities, there was strong concern (as also noted by Kerry Price in Cordery, 2010) that cash-based accounts do not give a true and fair view and that they omit crucial information. For example, the financial statements could cover only 11 of the 12 months in a year if they lack accruals. Furthermore, charity accounts may be incorrect in respect of grants received in advance. They also omit liabilities, assets and reserves and therefore users are unable to ascertain the funding needs of the charity. Arguably this information will be needed most by the charity's governance team, but they will also be of interest to resource providers and to the public at large.

## **Summary**

It can be seen that similar problems with the reliability of charities' financial reports have been highlighted in a number of jurisdictions. There is a lack of GAAP-compliant GPFR filings, with charities regulators. Filings lack totals and segmentation especially where expenses and revenues are sensitive (e.g. fundraising). Sinclair (2011) suggests this can be attributed to charities' desire to "look poor".

A second argument is that charities lack expertise to file appropriate financial statements. There is little research on capacity in this area, but it is to be expected that smaller organisations without accounting staff may have problems in correctly compiling returns (Froelich, et al., 2000)

## **Appendix 3: Examples of cash statements**

Standard Layout

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**RYMAN HEATHCARE CHARITABLE TRUST**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2010**

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**RYMAN HEALTHCARE CHARITABLE TRUST  
ANNUAL REPORT  
FOR THE YEAR ENDED 31 MARCH 2010**

**Approval by Trustees**

The trustees are pleased to present the financial statements of Ryman Healthcare Charitable Trust for the year ended 31 March 2010.

The trustees authorised the issue of these financial statements on 24 September 2010.

**Directory**

**Registered Office**

Level 11, Clarendon Tower  
Cnr Worcester Boulevard & Oxford Terrace  
P O Box 771, Christchurch

**RYMAN HEALTHCARE CHARITABLE TRUST  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2010**

**SUMMARY OF ACCOUNTING POLICIES**

**Purpose of the Trust**

The financial statements presented are those of Ryman Healthcare Charitable Trust. The Trust was established to distribute funds raised by the Ryman Group to nominated charities. The Ryman Group consists of parent company Ryman Healthcare Limited and its subsidiaries.

**Basis of preparation**

The accounts have been prepared on a cash basis.

**GST**

Revenues, expenses and assets and liabilities are recognised net of the amount of GST except that:

- Receivables and payables are stated with the amount of GST included.

**Changes in accounting policies**

There have been no changes to existing accounting policies during the year.

**NOTES**

**1. DONATIONS EXPENSE**

During the year all retirement villages owned and operated by Ryman Healthcare Limited raised funds to donate to a staff nominated charity of the year. Following on from this fundraising a donation of \$150,000 was made to Arthritis New Zealand. (2009: \$140,000 donated to the Neurological Foundation of New Zealand).

**RYMAN HEALTHCARE CHARITABLE TRUST  
FOR THE YEAR ENDED 31 MARCH 2010**

	Note	2010	2009
Fundraising from villages received		150,040	140,500
Interest received		-	-
<b>Total income</b>		<b>150,040</b>	<b>140,500</b>
Donations	1	150,000	140,000
Bank Fees		-	-
<b>Total expenses</b>		<b>150,000</b>	<b>140,500</b>
<b>Total Surplus</b>		<b>40</b>	<b>500</b>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2010**

	2010	2009
<b>Equity at beginning of period</b>	<b>5,370</b>	<b>4,870</b>
Net surplus for the period	40	500
Total recognised income and expense	40	500
<b>Equity at end of period</b>	<b>5,410</b>	<b>5,370</b>

The accompanying notes form part of these financial statements.

**RYMAN HEALTHCARE CHARITABLE TRUST  
BALANCE SHEET  
AS AT 31 MARCH 2010**

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	5,410	5,370
<b>Total assets</b>	<b>5,410</b>	<b>5,370</b>
<b>Equity</b>		
Retained earnings	5,410	5,370
<b>Total equity</b>	<b>5,410</b>	<b>5,370</b>
<b>Liabilities</b>		
Trade and other payables	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>
<b>Total equity and liabilities</b>	<b>5,410</b>	<b>5,370</b>

The accompanying notes form part of these financial statements.

**Receipts and payments**

26 JAN 2010

Heather

**MAUNGATAUTARI HALL SOCIETY (Inc)**

**RECEIPTS AND PAYMENTS**

**For the Period 1 July 2008 to 30 June 2009**

Cash Balance as at 1 <sup>st</sup> July 2008		13542.13	
<b>Receipts</b>			
Hall Hire	2530.00		
Hire Equipment	70.00		
Interest	88.55		
Rates	3920.00		
Playgroup Contribution to Chemwash Clean	40.00		
		6648.55	
<b>Payments</b>			
Revamp Work	1338.25		
Cheque Books	1.50		
Lawn Mowing	1220.65		
Maintenance - General	1222.20		
- Steve Kreebone Flooring Contractor	2520.00		
- Chemwash	378.00		
Power	1198.22		
Water Rates	268.63		
		8147.45	
Excess Receipts over Payments			-1498.9
			<u>12043.23</u>
<b>Plus Unpresented Cheques</b>			
Reimburse H Signorini Chq No.147691	260.48		
			260.48
Closing Balance - Trading Account @ 30 June 2009			<u>12303.71</u>

A review of the accounts was completed 22 September 2009

  
P Shaw - Chartered Accountant

T Balance

05 JAN 2010

POROUTAWHAO HALL SOCIETY INCORPORATED  
ANNUAL ACCOUNTS  
1ST JULY 2008 -30TH JUNE 2009

Balance	2029.29	Contact Energy	590.58
HDCouncil Insur. Rebate	302.63	HDC Rates	498.53
Levin MCC 2009 Ride	9843.04	Horizons	104.84
HDCouncil Grant	6482.00	Transferr to fixed deposit	14000.00
Power Rifle Club	300.00	Trail Ride Expenses	1262.47
Donation H Heron	1000.00	Balance	3507.24
Interest	6.70		
	<u>\$19963.66</u>		<u>\$19963.66</u>

RELOCATION ACCOUNT

Balance		HDC Building Permit	400.00
<del>Transfer from general A/c</del>	50145.33	HDC Consent Fee	250.00
Horowhenua D C	10000.00	HDC Consent Fee	100.00
Eastern and Central	20000.00	Caldow Builders Plans	79.31
Interest	146.22	Steve Stradling Drainage plans	1350.00
Endeavour Trust	2000.00	HDC Resource Consent	1503.13
Stewart Family Trust	1000.00	HDC Building Consent Fee	1705.46
Ian Stewart	1000.00	Caldow Builders Plans	372.94
Levin Community Trust	5000.00	J Huria Relocation Cost	17212.50
		Truebridge Survey	545.63
		J Huria Progress Payment	4500.00
		J Huria Progress Payment	5860.12
		J Huria Progress Payment	11944.13
		Balance	43468.33
	<u>\$89291.55</u>		<u>\$89291.55</u>

Other Balances:

Term Deposit 1	Term Deposit 2	Term Deposit 3
Opening Balance 13718.03	Opening Balance 12000.00	Balance \$14000.00
Interest 1063.25	Interest 678.08	
Closing Balance <u>14781.28</u>	Closing Balance <u>12678.08</u>	

  
MICHAEL WHITE  
AUDITOR

  
J. Bernard  
Treasurer

## Appendix 4: Charities whose filings were used in this research

CC10066	The H M Hancock Charitable Trust
CC10325	The Arnold A R Cox Charitable Trust
CC10054	Palmerston North City Neighbourhood Support Groups Incorporated
CC10095	Substance Abuse Education Trust
CC10222	Shine Montessori Educare
CC10131	Hawkes Bay Agricultural and Pastoral Society
CC10616	Phoenix Club Of New Zealand Incorporated
CC10597	Diabetes Southland Incorporated
CC10511	The Molly Knox Foundation
CC10473	K2 Youth Development Trust
CC10526	Pakuranga Athletics Charitable Trust
CC10535	Palmerston North Street Van Incorporated
CC10709	The Auckland Medical Benevolent Fund
CC10710	The Rangiora Budget Advisory Service Incorporated
CC10781	Estate C H Iazard
CC10559	Search And Rescue Institute New Zealand (SARINZ) Trust
CC10925	The Entrust Foundation
CC10564	Karori Community Centre Incorporated
CC11105	Kotahi Foundation
CC10610	Waikato Institute for Leisure & Sport Studies
CC10664	Te Aro Health Centre Trust
CC11450	Brian Wilkinson Charitable Trust
CC10692	Communicare-Civilian Maimed Association (Auckland) Incorporated
CC20143	Totara Park Equestrian Centre Trust Board
CC11330	Te Runanga A Rangitane O Wairau Trust
CC20268	Society for Promotion of Community Standards Incorporated
CC11019	Ngairi Ave Bible Chapel
CC10803	Calvary Hospital Southland Foundation
CC20366	Margaret King Spencer Writers Encouragement Trust
CC20494	The Cottle Family Charitable Trust Incorporated
CC20815	St Oran's College Foundation Trust
CC10718	Northland Disabled Charitable Trust
CC11190	The Hawkes Bay Teenage Parents Trust
CC11098	Cannon's Creek Fanau Centre Trust
CC11230	The Densem Animal Trust
CC11323	Restaurant Association Education Trust
CC20003	The Elms Foundation
CC20222	Tainui Taranaki Ki Te Tonga Limited
CC20861	Te Aroha Citizens Advice Bureau Incorporated
CC20882	Hibiscus Coast Citizens Advice Bureau Incorporated
CC21009	Young At Heart Stroke Group
CC21055	Diabetes New Zealand Taupo Incorporated
CC21205	New Zealand Children's Transplant Support Trust
CC20276	Parent Aid Kaipara Incorporated

CC20430 Masterton Trade Aid Society Inc  
 CC20525 Bay Of Islands Coastguard Incorporated  
 CC20526 Otumoetai Baptist Church  
 CC21312 The Cowan and Mallett Endowment Fund  
 CC21534 Beatrice Georgeson Trust  
 CC21561 The Drury Theatre Organ Charitable Trust  
 CC20532 Wellington Trade Aid Trust  
 CC21599 Grace Books & Gifts Limited  
 CC20533 Feilding Trade Aid Trust  
 CC20616 Hastings Samoan Assembly Of God Trust Board  
 CC20642 Flaxmere Baptist Church  
 CC20697 Capital Blues Incorporated  
 CC20735 RYMAN HEALTHCARE CHARITABLE TRUST  
 CC21750 Blackmount Community Pool Society Incorporated  
 CC21799 Covenant Keepers New Zealand Trust  
 CC21962 Friends of St Mary of the Angels Charitable Trust  
 CC22190 Auckland Maon Trust  
 CC22194 Life's Way Bible Church  
 CC20824 Adult Learning Support Nelson Incorporated  
 CC21023 Life Education Trust Kapiti Horowhenua  
 CC21243 The Friendship House Trust  
 CC21251 New Dawn Partnership Incorporated  
 CC21479 The Hastings Swimming Charitable Trust  
 CC22364 Patea District Rest Home  
 CC22525 New Lands Trust Board  
 CC22555 Nor-West Community Patrol Trust  
 CC22597 The Brian Johns Fellowship Trust  
 CC22628 Greenlane Christian Fellowship Trust Board  
 CC21509 Bone Marrow Cancer Trust  
 CC21512 Volunteer Marlborough Charitable Trust Incorporated  
 CC21781 Grace Chinese Mission Church Incorporated  
 CC21857 South Kaipara Men's Trust  
 CC22729 Drikung Kagyu Vajra Charitable Trust  
 CC22744 Mairangi Players Inc  
 CC22801 The Levin Interchurch Association  
 CC23186 The Four Sherpa Trust  
 CC23625 Well Spring For Life Trust  
 CC21932 The Gordon Walters Charitable Trust  
 CC22146 The New Zealand War Graves Trust  
 CC22189 Life Education Trust Hamilton  
 CC22382 Life Education Trust Eastern Bay of Plenty  
 CC23756 Saint Albans Baptist Church  
 CC23766 Circuit 2B Of Jehovah's Witnesses  
 CC23821 Found Incorporated Society  
 CC24159 LEAP Charitable Trust  
 CC24253 New Edinburgh Folk Club Incorporated

CC22384 Life Education Trust Wellington City  
 CC22532 AFS Educational Trust  
 CC22590 The Parihaka Management Trust  
 CC22733 Ashburton Safer Community Council Trust Board  
 CC22887 Dial A Ride Auckland Incorporated  
 CC24462 Travis Wetland Trust  
 CC24690 Royal Dunedin Male Choir Incorporated  
 CC24752 Friends of Baycourt Incorporated  
 CC24763 Southern Region Lions Air Ambulance Trust  
 Asthma And Respiratory Foundation of New Zealand (Incorporated) Te Taumatua  
 CC22906 Huang, Mate Ha O Aotearoa Incorporated  
 CC22999 Halswell Baptist Church  
 CC23004 St Joseph's (N.Z.) Foreign Missionary Society Mill Hill  
 CC23056 Coastguard Kapiti Coast Incorporated  
 CC23206 New Horizons For Women Trust Inc  
 CC25021 Margaret Dunn Charitable Trust  
 CC25193 Guardians of the Bay of Islands Incorporated  
 CC25214 Estate of Mildred Adeline Wolstencroft  
 CC25250 Seniornet Dargaville Incorporated  
 CC25320 Religious Society Of Friends Kapiti Monthly Meeting  
 CC23230 Sunnynook Community Centre Incorporated  
 CC23427 Age Concern Southland Incorporated  
 CC23483 Rongotea Uniting Parish  
 CC23513 The Taupo Budget Advisory Service Incorporated  
 CC23515 The Oamaru Whitestone Civic Trust  
 CC25463 Golder Homestead Museum Society Incorporated  
 CC25513 Palmerston North Central Baptist Church Trust Incorporated  
 Holy Apostolic Catholic Assyrian Church of the East Diocese of Australia and New  
 Zealand  
 CC25677  
 CC25734 Alan D Harvey Estate Re St John Ambulance Assn  
 CC25736 Nelson Haven Lioness Club Charitable Trust  
 CC23566 Silver Lining Charitable Trust  
 CC23698 Ecoquest Education Foundation  
 CC23717 Diabetes NZ Wellington Incorporated  
 CC23760 Porirua Grand Traverse Trust  
 CC23758 Volunteering Auckland Trust  
 CC25808 Lawrence Chinese Camp Charitable Trust  
 CC25977 Lions Club of Balmacewen Charitable Trust  
 CC25978 Lions Club of Clevedon Charitable Trust Board  
 CC26002 The Post Natal Psychosis Charitable Trust  
 CC26049 Trentham Sports Centre Trust  
 CC23792 Auckland Regional Physical Activity and Sport Trust  
 CC23858 Hamilton Central Baptist Church  
 CC23899 Sport Waitakere Trust  
 CC23991 Western Districts Budgeting Service Incorporated  
 CC24003 Deafness Research Foundation Incorporated

CC26228 Seniorcare Taranaki  
 CC26273 Legion of Frontiersmen Paritutu Troop L Squadron Incorporated  
 CC26383 Canterbury Underwater Club Incorporated  
 CC26442 The Royal New Zealand Plunket Society Grey District Branch Incorporated  
 CC26449 The Waipawa Building Society Scholarship Trust  
 CC24016 Victoria House Incorporated  
 CC24155 Housing Foundation Limited  
 CC24174 South Otago Historical Society Incorporated  
 CC24178 Howick Baptist Church Kindergarten  
 CC24243 Princess Alexandra Medical Trust  
 CC26539 E M Elder Presentation And Bursary Trust Fund  
 CC26627 The L B Wood Travelling Scholarship Fund  
 CC26679 Waikato, Hauraki/Coromandel Rural Support Trust  
 CC26869 Meadowbank Community Toy Library Incorporated  
 CC27120 Adopt A Standardbred (NZ) Charitable Trust  
 CC24296 CCS Disability Action Southland Incorporated  
 CC24331 That Was Then This Is Now Charitable Trust  
 CC24349 Papakura Community Trust  
 CC24364 St James Theatre Charitable Trust  
 CC24375 RMH South Island Trust  
 CC27257 West Coast Development Trust  
 CC27288 Diabetes NZ Tauranga Incorporated  
 CC27331 Gisborne Volunteer Coastguard Association Incorporated  
 CC27365 Nelson Tasman Charitable Trust Limited  
 CC27372 The German Shepherd Rescue Trust  
 CC24379 Raglan Community Arts Council  
 CC24393 Auckland Heart Group Charitable Trust  
 CC27497 The Otago Kidney Society Incorporated  
 CC27599 Gore Congregation Of Jehovah's Witnesses  
 CC27705 Ahmadiyya Muslim Jamaat New Zealand Incorporated  
 CC27756 Lions Club of Tauranga City Sunrise Charitable Trust  
 CC27865 Wanganui Group Of The Riding For The Disabled Association Incorporated  
 CC28288 Windflower Farm Charitable Trust  
 CC24541 New Plymouth Parents Centre Incorporated  
 CC24592 Disabilities Resource Centre Queenstown Charitable Trust  
 CC24672 City Impact Church Queenstown Incorporated  
 CC24790 The Palmerston North Women's Health Collective Incorporated  
 CC24948 Manawatu Access Radio Charitable Trust  
 CC28383 St Patrick's Festival Trust  
 CC28502 Temuka District Lions Club Charitable Trust  
 CC28555 A Living Trust  
 CC28578 Pandemonium  
 CC28615 Assembly of God (Whakatane) Trust Board  
 CC24956 Belmont Baptist Church  
 CC25123 St Anselms Union Church  
 CC25407 New Wine New Zealand Trust

CC25433 Te Menenga Pai Charitable Trust  
 CC25546 Habitat For Humanity Rotorua Ltd  
 CC28638 South Congregation Of Jehovah's Witnesses, Dunedin  
 CC28640 Ngai Te Ao Kapiti Hapu Incorporated  
 CC28781 Benneydale Volunteer Fire Brigade  
 CC28971 Rotary Club of Hornby Charitable Trust  
 CC29109 St Helens Recreation Board Incorporated  
 CC25548 The Joe Aspell Trust  
 CC25573 The Cardiology Department Charitable Trust (Waikato)  
 CC25732 Ernest Price Estate  
 CC25819 Kidz Need Dadz Incorporated  
 CC25828 Poroutawhao Hall Society Incorporated  
 CC29409 Christian Science Society Hamilton Incorporated  
 CC29412 Te Puru Community Centre Trust  
 CC29509 Westbrook Congregation Of Jehovah's Witnesses, Rotorua  
 CC29459 Golden Bay Toy Library Incorporated  
 CC29744 Community Enterprise Network (NZ) Trust  
 CC26043 David Johnstone Charitable Trust  
 CC26107 The Air New Zealand Environmental Charitable Trust  
 CC26182 Royal New Zealand Plunket Society Timaru Branch Incorporated  
 CC26327 Royal New Zealand Plunket Society Wellington Branch Incorporated  
 CC26423 The Marist Brothers Alternative Education Trust  
 CC29937 Mawhera Ministers Association  
 CC30078 Manawatu Music for Youth Charitable Trust  
 CC30146 Richmond Younger Stroke Club  
 CC30173 Eketahuna Community Charitable Trust  
 CC30251 Bay Of Plenty Music School  
 CC26444 Royal New Zealand Plunket Society Counties Manukau Area (Incorporated)  
 The Methodist Church of New Zealand Te Haahi Weteriana O Aotearoa Waimea  
 CC26567 Parish - Parish (7030)  
 The Methodist Church of New Zealand Te Haahi Weteriana O Aotearoa Blenheim  
 CC26570 Methodist Parish - Parish (7070)  
 CC26658 Chelsea Day Care Trust Board  
 CC26714 Northern Rural Nursing and Allied Health Professionals Consortium Incorporated  
 CC30288 Kaeo Playcentre  
 CC30826 Medbury School Foundation  
 CC30943 Samaritans of Horowhenua Incorporated  
 CC31183 Amputee Society of Manawatu Incorporated  
 CC31185 Waihi and Districts Pakeke Lions Club of Waihi Charitable Trust  
 CC26797 40+ Employment Support Trust  
 CC26892 Royal New Zealand Plunket Society North West Christchurch Branch Incorporated  
 CC26951 The Robert and Barbara Stewart Charitable Trust  
 CC27167 New Zealand Music Examinations Board  
 CC27267 Lions Club Of Waikanae Charitable Trust  
 CC31205 Palmerston North Community House Trust  
 CC31223 Vision Harvest Trust Board

CC31348 Canterbury Arts and Heritage Trust  
 CC31412 Longnor Trust  
 CC31483 New Zealand Conservation Management Group: Australasian Regional Association of  
 Zoological Parks and Aquaria NZ Incorporated  
 CC27298 Arohanui Christian Trust  
 CC27351 Tag Out Trust  
 CC27401 Parkinsonism Society Wellington Incorporated  
 CC27471 Hamilton Civic Choir Incorporated  
 CC27724 Ranui Samoan (Assembly Of God) Trust Board  
 CC31729 Rotary Club of Harbour City Wellington Charitable Trust  
 CC31742 Joyce Skilton Memorial Trust  
 CC32332 Southfield Charitable Trust  
 CC32405 Friends Of Hikuai School  
 CC32774 The North Otago Agricultural And Pastoral Association  
 CC27894 The Air Training Corps Association of New Zealand Incorporated  
 CC28177 Royal New Zealand Plunket Society Wanganui Branch Incorporated  
 CC32905 Wearable Art Development Charitable Trust  
 CC33358 The Lodge Homewood Charitable Trust  
 CC33160 The Friends Of The Gallery Incorporated  
 CC32601 Maungatautari Hall Society Incorporated  
 CC26514 North Shore Chinese Society Incorporated  
 CC32077 Pukepoto Church Committee Anglican  
 CC28374 Waiora Community Trust (Taupo) Incorporated  
 CC33036 Tasman Area Community Association Society Incorporated  
 CC33707 Reciprocate Biocapacity Limited  
 CC34232 Island Bay Home and School Association Incorporated  
 CC33520 Friends of the Film Archive Incorporated  
 CC34238 Yogi Divine Society (NZ) Incorporated  
 CC34247 Rotary Club Of Newmarket Charitable Trust  
 CC34445 Rawhitiroa Hall Committee  
 CC33649 Kauri Coast Surfcasting Charitable Trust  
 CC27319 Spring Creek Districts Lions Club Incorporated Charitable Trust  
 CC27162 Christchurch Resettlement Services Incorporated  
 CC33760 Totara Grove Playcentre  
 CC34454 Bridging Waitaki Group Trust  
 CC32408 Turangi Volunteer Fire Brigade  
 CC28463 Rotorua Budget Advisory Service Incorporated  
 CC28510 Te Runaka Otakou Limited  
 CC28540 The New Zealand Thirumurugan Temple Society Incorporated  
 CC28752 North King Country Family Support Society Incorporated  
 CC28826 Takanini Church of Christ Life and Advent  
 CC28830 Word and Spirit World Ministries Trust  
 CC29543 Brain Injury Association Central Districts Incorporated  
 CC28696 Assembly Of God Church Of Samoa Cannons Creek Trust Board  
 CC30483 The Catholic Cathedral College Trust Board  
 CC30488 Coromandel Elim Church Trust

CC30603 Playhouse Theatre Incorporated  
CC30657 Whare Mauri Ora Trust  
CC30784 Allenvale Residential Charitable Trust  
CC34501 Waimarino Budget Service Incorporated  
CC34544 Knox Church Foundation Incorporated  
CC34658 St John Benneydale Area Committee  
CC34659 St John Bluff Area Committee  
CC30797 Pinehaven Playcentre  
CC29036 BlueOrb Charitable Trust  
CC29091 Kapiti Vaulting Club Incorporated  
CC29464 Auckland Air Cadet Trust  
CC30840 Punavai O Le Gagana Samoa Trust  
CC30878 Len Lye Foundation  
CC30946 Life Christian Centre Rangiora  
CC31049 The Blenheim Lighthouse Ministries Trust Board  
CC31175 Dallington Out Of School Care and Recreation Incorporated  
CC31209 Rotokare Scenic Reserve Trust  
CC31380 Eden Korean Presbyterian Church  
CC31561 Otago Hospice Foundation Trust  
CC31731 Blackball Museum of Working Class History Charitable Trust  
CC31753 Hope Unlimited Trust  
CC32556 Twizel Community Care Trust  
CC32969 Life Education Trust Otago  
CC36748 Clean Air Society Of Australia And New Zealand (New Zealand Branch)  
CC35936 Joe and Eve Major Trust  
CC35847 The Harp Society of New Zealand Incorporated  
CC35321 R And G Charitable Trust  
CC33711 Eden Arts: Maungawhau Mount Eden Community Arts Trust  
CC35674 Patumakuku Incorporated  
CC35384 Marlborough Parents Centre Incorporated  
CC35193 Tararua District Radio Club Incorporated

# Appendix 5: Charities Commission Annual Return Q 25 and help notes

F4/OCT10

**25** Complete the financial information below entering '0' if applicable. *Note: enter your amounts in whole dollars by dropping off any cents. Read the guidelines on the left-hand page for more details.*

**Part 1: Statement of financial performance**  
for the year ended ----->

/   /    
Day Month Year

**Gross income**

Government grants / contracts	<input type="text"/> .00
All other grants and sponsorship	<input type="text"/> .00
Income from service provision / trading operations	<input type="text"/> .00
Membership fees	<input type="text"/> .00
Donations / koha	<input type="text"/> .00
Bequests	<input type="text"/> .00
New Zealand dividends	<input type="text"/> .00
Other investment income	<input type="text"/> .00
All other income	<input type="text"/> .00
<b>Total gross income</b>	<input type="text"/> .00

**Expenditure**

Grants / donations paid—within New Zealand	<input type="text"/> .00
Grants / donations paid—outside New Zealand	<input type="text"/> .00
Salaries and wages	<input type="text"/> .00
Depreciation	<input type="text"/> .00
Interest paid	<input type="text"/> .00
Cost of service provision (excluding salaries and wages)	<input type="text"/> .00
Cost of trading operations (excluding salaries and wages)	<input type="text"/> .00
All other expenditure	<input type="text"/> .00
<b>Total expenditure</b>	<input type="text"/> .00
<b>Net surplus / deficit for the year (Total gross income less total expenditure)</b>	<input type="text"/> .00

**Part 2: Statement of financial position as at ----->**

/   /    
Day Month Year

**Current assets**

Cash and bank balances	<input type="text"/> .00
Inventory	<input type="text"/> .00
All other short-term assets	<input type="text"/> .00
<b>All current assets</b>	<input type="text"/> .00

**Non-current assets**

Land	<input type="text"/> .00
Buildings	<input type="text"/> .00
Computers and office equipment	<input type="text"/> .00
All other fixed assets	<input type="text"/> .00
Investments	<input type="text"/> .00
<b>All non-current assets</b>	<input type="text"/> .00
<b>Total assets (Total of all current and non-current assets)</b>	<input type="text"/> .00

**Liabilities**

All current liabilities	<input type="text"/> .00
All non-current liabilities	<input type="text"/> .00
<b>Total liabilities</b>	<input type="text"/> .00

**Equity**

Endowment funds	<input type="text"/> .00
Restricted purpose funds	<input type="text"/> .00
General accumulated funds	<input type="text"/> .00
<b>Total equity</b>	<input type="text"/> .00
<b>Total liabilities plus total equity</b>	<input type="text"/> .00

## Guidelines for question 25

25

You have been asked for this information, in addition to providing your financial statements, for statistical purposes.

Before you begin, check that you have a copy of your accounts to work from for the correct period. You must also send a copy of your accounts with this Annual Return.

Enter your amounts in **whole dollars** by dropping off any cents.

For example, write \$295,000.32 like this:

295000.00

or write \$1,370.43 like this:

1370.00

**Don't** enter dollar signs, commas or decimal points.

**Do** include the zeros to indicate thousands.

Please make sure you enter a number in *every* box. Enter '0' if applicable rather than leaving a box empty.

Part 1 relates to your statement of financial *performance*.

Part 2 relates to your statement of financial *position*.

Our information sheet *Help notes for completing the financial information in our Annual Return* has more details about how to complete question 25.



## Help notes for completing the financial information in our Annual Return

You may find these help notes useful when you complete the financial information part of your Annual Return (question 25 in the Commission's hard copy *Annual Return Form – Form 4*).

### Introduction

Our Annual Return asks for financial information about your charity, in addition to providing your financial statements, for statistical purposes.

You may find these help notes useful when you complete the financial information part of your Return (question 25 in the hard copy *Annual Return Form – Form 4*).

The financial information we ask for relates to the year ended on your last balance date – for example, for the year from 1 April to 31 March if your balance date is 31 March.

Make sure you have a copy of your accounts to work from

Before you begin, check that you have a copy of your accounts to work from for the correct period. You must also send us a copy of these accounts with your Annual Return.

Please enter a number in every box

Please make sure you enter a number in every box. Enter '0' if applicable rather than leaving a box empty.

### Drop off any cents

Enter your amounts in **whole dollars** by dropping off any cents.

For example, write \$295,000.32 like this:

or write \$1,370.43 like this:

*Don't* enter dollar signs, commas or decimal points. *Do* include the zeros to indicate thousands.

### Part 1: Statement of financial performance for the year ended

Write the date in the space provided so it is formatted like this – XX/XX/XX

**Government grants/contracts** – include all income you received from central and local government sources including grant payments or payments for contracted services. For example, Lotteries Commission, SPARC, COGs, WINZ.

**All other grants and sponsorship** – include non-government grants and sponsorships not entered above.

**Income from service provision/trading operations** – do not include income from rent or lease of land and buildings and income already entered above.

**Membership fees** – fees and subscriptions received from your members.

**Donations/koha** – this is money given to you without an expected return. Do not include payment received for goods or services such as the sale of raffle tickets or money already included above.

**Bequests** – any amount of money received after being left to your charity by someone in their Will.

**New Zealand dividends** – dividends from NZ based companies.

**Other investment income** – for example, interest on term deposits and bank accounts.

**All other income** – include rent or lease of land and buildings and any other income not already entered.

#### Expenditure

**Grants paid – within New Zealand** – include donation/koha and sponsorships.

**Grants paid – outside New Zealand** – include donation/koha and sponsorships.

**Salaries and wages** – include all payments to employees. For example, bonuses and KiwiSaver contributions. Do not include payments made to volunteers such as petrol costs.

**Depreciation** – any amount calculated to write off the cost of an asset over its expected life and shown in your accounts as “depreciation” or “depreciated assets” or similar.

**Interest paid** – interest paid on money you have borrowed.

**Cost of service provision (excluding salaries and wages)** – include volunteer costs (including honoraria and reimbursements), staff training, licence fees, facility and equipment costs, vehicle costs, phone, power, insurance, stationery, professional fees, and so on. Do not include expenditure already entered.

**Cost of trading operations (excluding salaries and wages)** – include cost of stock, premises, packaging, advertising, staff training, insurance, cleaning services, professional fees, power, insurance, stationery and so on that relate to any trading operation you run. For example, a shop or mail order business.

**All other expenditure** – any other expenditure not already entered.

**Net surplus/deficit for the year (Total gross income less total expenditure)**

**Helpful tip** – this figure should be the same as the surplus or deficit (profit or loss) in the financial accounts you send with this Annual Return.

## Part 2: Statement of financial position as at –

Write the date in the space provided so it is formatted like this –  
XX/XX/XX

### Current assets

**Cash and bank balances** – include petty cash, cash held at the bank and short term bank deposits (where the term is for less than 12 months).

**Inventory** – value of goods held for sale.

**All other short-term assets** – include debtors or accounts receivable – for example, unpaid subscriptions, prepaid expenses – for example, an expense for the following year paid in advance such as insurance and any GST refund receivable at balance date.

### Non-current assets

**Land** – original cost or the most recent valuation.

**Helpful tip** – for your most recent valuation you may use the rateable value from your council or from Quotable Value ([www.qv.co.nz](http://www.qv.co.nz)).

**Buildings** – original cost or the most recent valuation.

**Helpful tip** – for your most recent valuation you may use the rateable value from your council or from Quotable Value ([www.qv.co.nz](http://www.qv.co.nz)).

**Computers and office equipment** – include computers, printers, copiers and so on. Generally, the value will be original cost less depreciation.

**All other fixed assets** – Include anything not already entered – for example, furniture and fittings. Generally, the value will be original cost less depreciation.

**Investments** – Include term deposits with a term of more than 12 months, share investments and investments in other businesses.

### Liabilities

**All current liabilities** – Include creditors and accounts payable – for example, unpaid expenses, income in advance – for example, subscriptions for subsequent years received in advance, GST payable at balance date and bank overdrafts.

**All non-current liabilities** – bank loans, mortgages, loans from other third parties.

### Equity

**Endowment funds** – funds gifted for general or non-specific purposes (un-tagged funds).

**Restricted purpose funds** – funds gifted for a restricted or specific purpose – for example, a scholarship (tagged funds).

**General accumulated funds** – net-operating surpluses built up over past years, not entered above.

**Helpful tip** – *Total assets must equal Total liabilities plus total equity.*



This information sheet was published in December 2009. Please refer to [www.charities.govt.nz](http://www.charities.govt.nz) for any new developments or updates.

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