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The Accountability of New Zealand's Charities:

Meeting the Needs of Charity Stakeholders through Information Disclosure

A thesis

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Abstract

For decades, New Zealand's charity sector has been able to operate, unfettered by regulation and with low levels of accountability. For this reason, gaining any information from charities about the work they do has been historically difficult, because charities have not been required to provide any reports. The New Zealand government sought to increase the accountability from the charity sector with the introduction of the Charities Act (2005) and basic reporting requirements, but ultimately, the accountability from the sector continues to be an issue. With limited charity disclosure literature in the New Zealand context, and no information disclosure practice model to guide New Zealand's charities, the current provision and the quality of the information disclosures from charities are low, leaving the information needs of charity stakeholders unmet.

The overall aim of this investigation is to improve the accountability from New Zealand's charities by developing a charity information disclosure practice model from a charity stakeholder perspective. This was achieved by three main objectives:

1. To develop a qualitative disclosure index from the perspective of charity stakeholders
2. To assess the extent and quality of the information disclosure made by thirty registered charities
3. To make recommendations to improve the accountability by New Zealand's charity sector

To achieve this purpose, a disclosure index, which contained 136 information items was created with the assistance of 86 charity stakeholders. The index was then applied to three publications from thirty charities that were randomly selected from the Charity register. The three publications used in this investigation are the Charity register, the charity's website and the charity's annual report/annual review. The collected data was then quantified and analysed to determine the extent and the quality of the information disclosures from the charities.

The investigation findings indicated that the current level of charity disclosures was poor both in extent and quality and that there was an information gap between the expectations of charity stakeholders and the actual disclosure practices of the charities. It was found that the top-performing information items were the mandated and the best-practice information items were either missing or inadequately disclosed. No charity within the sample managed to achieve an index score of 50%.

The annual return summary found on the Charity register was the best disclosure document for both financial and non-financial information items from a charity stakeholder perspective. However, this document, along with the other publications still lacked sufficient detail to be useful for a charity stakeholder. To improve the accountability of the New Zealand's sector, it is recommended that the New Zealand Parliament look at expanding the current annual return summary to include information items more relevant to charity stakeholders. Finally, it is recommended that the charities should be compelled to produce an annual report and use the disclosure index created by the charity stakeholders in this investigation to improve their current information disclosures.

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And now abideth faith, hope, charity, these three; but the greatest of these is charity

Apostle Paul, I Corinthians 13:13

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List of Abbreviations

ACNC	Australian Charities and Not-for-Profit Commission
ATO	Australian Tax Office
CCEW	Charity Commission in England and Wales
CCNZ	Charities Commission New Zealand
CD	Charities Directorate (Canada)
CRA	Canada Revenue Agency
DIA	Department of Internal Affairs
GAAP	Generally accepted accounting practices
GPFR	General purpose financial reporting
IRD	Inland Revenue Department (New Zealand)
ISC	Independent Schools Council (England)
MMM	Mixed methods methodology
OECD	Organization for Economic Cooperation and Development
PBE	Public Benefit Entity
PBEAS	Public Benefit Entity Accounting Standards
SORP	Statement of recommended practice
TRONT	Te Runanga o Ngai Tahu
UK	United Kingdom
UN	United Nations
XRB	External Reporting Board

Statutes

Canada Not-for-profit Corporations Regulations (2011) *Canada)*

Charities Act (2005) *(New Zealand)*

Charities Act (2013) (Cth) *(Australia*)

Charities Act (2006) *(United Kingdom)*

Charities Act (2011) (*United Kingdom)*

Charities (Accounts & Reports) Regulations (2008) *(United Kingdom)*

Charitable Trustee Act 1957 (*New Zealand)*

Charities Registration (Security Information) Act (S.C. 2001, c.41, s 113) (*Canada)*

Companies Act (1993) *(New Zealand)*

Financial Reporting Act 2013

Income Tax Act (R.S.C., 1985, c. 1 (5th Supp.)) (*Canada)*

Income War Tax Act (1917) *(Canada)*

Statute of Charitable Uses 1601 43 Eliz. I

The Salvation Army Act [1980] *(United Kingdom)*

Case Law

AID/WATCH Incorporated v Commissioner of Taxation [2010] HCA 42 (High Court of Australia, 1 December 2010)

Domb v. Owler [I924] N.Z.L.R. 532 at 538

Income Tax Special Purposes Commissioners v Pemsel [1891] All ER Rep 28; [1891] AC 531

Re Greenpeace of New Zealand Incorporated [2014] NZSC 105

Chapter One
Introduction to the investigation

1.1 Introduction

There have been increasing concerns from the public, academics and the State that the New Zealand charity sector is not as transparent as it could be, and there is growing demand for improved charity accountability (Cordery, 2011; Fraud Advisory Panel, 2008; Gousmett, 2012). Information disclosures from charities are at the centre of the public's trust, and confidence and charity accountability is now inextricably linked to information disclosure (Dhanani & Connolly, 2012). However, New Zealand's charities face challenges regarding discharging their accountability because they are reluctant to publish information about their activities and governance (Cordery & Baskerville, 2011).

Charities are one of New Zealand's largest sectors, accounting for approximately 6.8% of New Zealand's GDP (Charities Commission: Department of Internal Affairs (NZ), 2014)[1]. Currently (2016) there are more than 27,800 charities operating in New Zealand that earn revenues of more than $18 billion (Edmunds, 2016) .

This introductory chapter outlines the key issues of charity accountability for New Zealand charity stakeholders. It presents the research problem statement followed by research objectives. This is followed by a brief description of the research methodology and method. Finally, it concludes by presenting an outline of the thesis presentation together with the scope and limitations of this investigation.

1.2 Context of this research investigation

Charities belong to the not-for-profit sector, a sector that is poorly defined and poorly understood (Connolly, Hyndman, & McConville, 2012; Mautz, 1994; Salamon & Anheier, 1997). Therefore bringing charities to account is challenging, as they are neither public sector bodies nor private sector bodies (Anthony & Young, 2003; Connolly et al., 2012). New Zealand's charities have operated in an

[1] The equation for this is $15,756 billion charity revenue – divided by New Zealand's GDP 2014 of $231.0 billion – multiplied by 100.

environment that, historically, has been poorly monitored and unregulated until (2005) (Cummings, Dyball, & Chen, 2010).

The diversity and the scope of the work that charities undertake are hugely varied (Lynn Jnr, 2002; Panel on Accountability and Governance in the Voluntary Sector, 1999; Tennant, Sanders, O'Brien, & Castle, 2006). This is because charities take on grim, challenging social welfare work that is not well addressed by the State, yet these areas need [often urgent] assistance (Cohen, 2005). The work they do, leaves no doubt in the minds of both the State and the public, that the charity sector is vital (Connolly et al., 2012; Lynn Jnr, 2002).

However, the modern charity has changed dramatically from its traditional beginnings (Cohen, 2005). In the past, a charity was considered a small organisation that was funded by a benevolent person to address a local, social problem. These historical charities fed the poor, gave beds to the homeless, provided education and generally tried to improve the social welfare of the population in their local area (Cohen, 2005; Vinten, 1997). They were applauded and supported both by the State and the public (Cohen, 2005; Lynn Jnr, 2002). There was no need for the State to hold these small charities to account because they were filling a social need that no one else could (Cohen, 2005). Any accountability that was demanded from these small organisations came from the benevolent provider. As long as that person was satisfied – the charity continued to operate (Cohen, 2005).

As the demands on charities continued to increase, and the benevolent providers could no longer cope with the demands made upon them, the State intervened (Benjamin, 2008). The State gradually replaced the benevolent provider and became the main fund provider to charities. However, the accountability demanded from the charities, even when the State became the main fund provider, remained low (Benjamin, 2008; Daniels, Braswell, & Beeler, 2010) because charities continued to provide services that, the State could not. Furthermore, as long as the charities continued to provide essential social services, the State and public would continue to support them (Lynn Jnr, 2002; Mueller, Williams, Higgins, & Tou, 2005).

Consequently, low accountability has been the case for charities across many countries; a factor that has endured for centuries (Cohen, 2005; Lynn Jnr, 2002). Bringing the charity sector to account was not a priority, but maintaining the charity sector was (Cohen, 2005; Lynn Jnr, 2002). Charities filled an important space in the communities in which they operated, and that was enough. Accordingly, charities received special tax benefits to assist their operations – benefits that New Zealand charities continue to receive (Gousmett, 2009). However, what was not foreseen was how the sector would grow, so that charities would become both significant economic and social entities that hold significant resources (Gousmett, 2013).

Nevertheless, there is still acceptance that both the State and the public must continue to support the charity sector (Ebrahim, 2010b; Lynn Jnr, 2002). However, it has become evident that the sector can no longer operate without providing some form of accountability (Connolly & Hyndman, 2013b; Gray, Bebbington, & Collison, 2006). This is in part due to four critical areas where the accountability of charity sector has been called into question.

Firstly, charities have been exploited by individuals, involved in fraud, been victims of fraud, been involved in money laundering, have failed financially, have failed in their missions and have failed their beneficiaries (BDO, 2014; Fraud Advisory Panel, 2008; Twose, 2014). More recently, New Zealand charities have been implicated in terrorism funding (Barret & Mendick, 2014). These events have been seen by the public as an abuse of the trust and the special privileges afforded to charities, and highlights the need for greater charity accountability and transparency.

Secondly, the public expectation that the State should regulate the sector and improve its accountability has not been fulfilled (Cordery & Baskerville-Morley, 2005). Some countries have had better outcomes than others, but despite some successes, the charity sector continues to provide challenges for the State (Dal Pont, 2000; Patel & Cordery, 2011). To regulate a significantly large, diverse sector that has been able to operate largely unfettered is not easy (O'Halloran, McGregor-Lowndes, & Simon, 2008; Salamon & Anheier, 1997). New Zealand's government

has undertaken more than a decade of charity legislative reforms. However, this has not been without challenges (Cordery, 2013).

Thirdly, while the State has continued in its attempt to regulate the sector, the charity sector has continued to grow (O'Halloran, 2014). Year upon year, in most countries, the charity sector becomes more significant both economically and socially (Connolly et al., 2012; Mueller et al., 2005; Salamon, 1998). New Zealand's charities are not unlike their international counterparts and the annual income from the charity sector in (2016) was more than $18 billion dollars – about the same as New Zealand's largest dairy company Fonterra (Edmunds, 2016). The sector's wealth demands greater accountability, and this alone has led to greater scrutiny by the State, the media and the public at large (Gousmett, 2013).

Fourthly, the public has become concerned about the activities of some charities, and this has affected the public's trust and confidence in the sector (Szper & Prakash, 2011; UMR Research, 2012). A fundamental issue is the difficulty of charity stakeholders in getting access to a charity's information because of the New Zealand's charity reporting practices (Hooper, Sinclair, Hui, & Mataira, 2007; Sinclair, 2010; Sinclair & Bolt, 2013). As the New Zealand public's trust and confidence continue to vacillate; this has become another concern of the State. The State has to contend with a sector that continues to be challenging but remains intrinsically important socially and economically. It also has to contend with the prospect of failing support, both regarding funding and time, from a disgruntled public (Cribb, 2005, 2006; Taylor, 2013). The importance of the sector means that neither the State nor the public can afford to let the sector fail (Broadbent & Laughlin, 2003; Clarke & Glendinning, 2002; Cordery, 2013).

My thesis is about improving the accountability of New Zealand's charities by improving the information disclosures from them. New Zealand's experience of bringing charities to account is not unlike the experiences of other countries. So even though New Zealand is a small country in comparison to countries such as Australia, Canada, England and Wales, our charity sector is as important to us as theirs is to them.

Charity accountability is difficult to define as demonstrated by the work of the State, academics and the charities themselves (Connolly et al., 2012; Ebrahim, 2003b;

Gray, Dey, Owen, Evans, & Zadek, 1997). Part of the issue is the lack of a charity definition (defining a charity is discussed in the next chapter). A layman's understanding of a charity, which is any organisation that performs charitable work, is different from the formal [legal] understanding of a charity. Few would understand that a charity is a legal status that arises from registration with Charities Services, Department of Internal Affairs ("DIA") (Chevalier-Watts, 2009).

Charities, work independently of both the State and their beneficiaries, and the donating public has generally not looked beyond their collection tins (O'Halloran et al., 2008). New Zealand's charities have been able to ignore the regulatory framework, produce reports with shoddy bookkeeping and foster a culture of hiding assets (Cordery, 2013; Sinclair, 2010; Stevenson, 2013). They have resisted any change in the status quo (Cribb, 2006).

New Zealand charities have grown into entities accumulating millions of dollars of assets, formed large company groups, entered into cross-sector partnership arrangements with other charities and siphoned funds into financially significant for-profit subsidiaries (both nationally and internationally) (Gousmett, 2012; Sinclair, 2010; Sinclair, Hooper, & Ayoub, 2010). Furthermore, it is not uncommon for New Zealand charities to receive public funding from several separate government agencies in one financial period (Office of the Auditor General, 2003, 2008).

New Zealand's Auditor General has noted that New Zealand's charities are party to complex arrangements and transactions that are difficult to unravel; the difficulties may be purposefully exacerbated by the charities themselves (Cribb, 2006; Gill, 2005; Office of the Auditor General, 2003). This behaviour is tolerated because of the long-held idea that charity matters are private and often the charities are reluctant to disclose what they consider to be confidential information (Gousmett, 2012; Low, Davey, & Hooper, 2008).

Few would deny the provision of information is considered an important aspect of accountability (Coy, Fischer, & Gordon, 2001; Keating & Frumkin, 2003). Yet, New Zealand charity stakeholders struggle to find out how a charity spent its money and what impact its work has on New Zealand society (Gousmett, 2012; Sinclair & Bolt, 2013).

Continued support from the New Zealand public is vital to ensure a vibrant and sustainable charity sector (CathNews New Zealand, 2013). This thesis seeks to establish what information a charity should disclose to discharge its accountability adequately. It does this by establishing what the New Zealand public, in the form of charity stakeholders, expect charity information disclosures to be.

The annual World Giving Index (2012) ranked New Zealand 4th, behind Australia, Canada and Ireland, as one of the world's most charitable nations (Charities Aid Foundation, 2012). In that year (2012), the survey showed that 68 percent of New Zealanders had made a donation to a charity and 41 percent had donated their time (Newman, 2013).

1.3 Key Issues of New Zealand's charity sector

The New Zealand public's trust and confidence in the sector have consistently fallen in previous years[2] (UMR Research, 2012) and has remained flat since 2012[3]. The latest Horizon Research (2016) report establishes that this situation has not changed (Horizon Research, 2016). It is one of New Zealand's least trusted sectors, potentially harming the charity sector's continued financial support and reputation.

New Zealand's public expectation that the charity regulator will bring charities to account has been met with disappointment (Rittelmeyer, 2014). Although Department of Internal Affairs ("DIA") acknowledges that **greater transparency and accountability of the sector** is needed to reduce risk areas such as fraud, terrorism funding and money laundering, their focus has continued to be on statutory compliance (Charities Services, 2014). While fraud is not a significant problem in New Zealand, the cost of fraud to the New Zealand charity sector was approximate $3,229,400 in the last year (BDO, 2014). The publicity of charity frauds has seen increasing numbers of New Zealanders, who donate to charities, concerned that they are being exploited and their donations are being misused (Taylor, 2013).

[2] The 2012 survey found that 44% of respondents had a high level of trust and confidence in charities, down by 11% since 2010, and 14% since 2008.
[3] The 2014 survey found that public trust and confidence had barely increased by 02% from the 2012 survey

New Zealand charities are renowned for providing abbreviated and substandard accounts, which reveal very little critical information about the charity and its activities (Sinclair, 2010). Moreover, prior research suggests that the approaches New Zealand charities have taken to reporting, have resulted in diverse accounting practices, information asymmetry, flawed information and reporting inconsistencies (Cordery & Baskerville-Morley, 2005; Cordery & Baskerville, 2011; Grant Thorton, 2010).

In 2012, the **External Reporting Board[4] ("XRB") undertook reforms of not-for-profits financial reporting** based on the public benefit entity framework ("PBEAS") for the production of general purpose financial reporting ("GPFR"). However, New Zealand charities used the former PBE system that was established in 2007, and it is very similar to the new framework. The key difference between the old and the new framework is mandated audit/assurance for the top tier charities (Charity tiers are described in chapter 2). The new framework affects the largest of New Zealand's charities (approximately 3000 of the approximately 27,000 registered charities); the majority of which are more likely than not, already compliant with GAAP (Murray, 2013).

Proponents believe that subjecting the largest charities to mandated audit requirements will improve the accountability of these charities with the public. However, Cordery found that audit and assurance have been a part of New Zealand's charities for many years as grantmakers and funders require them (Cordery, 2012). The current financial reporting reforms are focused on the format of charity reporting rather than on improving the quality of disclosures, and it is unlikely that the financial reporting practices of New Zealand's charities will change with any significance (Murray, 2013).

In 2012, the New Zealand government decided to **disestablish New Zealand's independent charity regulator,** the Charities Commission (NZ) ("CCNZ"), as part of a cost-cutting exercise and amid heavy criticism that accountability in the charity sector was failing to improve (Rittelmeyer, 2014). T**here have been calls for**

[4] This became New Zealand's independent crown entity that sets the accounting standards, audit and assurance standards, provides a financial reporting strategy for New Zealand and finally liaises with international counterparts (McBride, 2012).

greater accountability from charities since 2004[5]**,** and as a result, there have also been regular reforms in New Zealand's charity legislation since then (Salamon & Anheier, 1997; Tennant et al., 2006, pp. 1-2). New Zealand's experience is that having an independent charity regulator has not been an effective way to regulate the sector nor improve the accountability of charities (Rittelmeyer, 2014) (Charity regulators are discussed more fully in Chapter 2).

An early study by Newberry called for greater accountability from New Zealand charities, but the findings of this study were largely ignored (Newberry, 1994). In a current study, Cordery and Sinclair (2014a) highlighted significant gaps in the current legislative changes and suggested the accountability of New Zealand's charities will remain inadequate. The **current legislation changes do not commit New Zealand's charities to regularly disclose significant information** to the public and therefore the reporting requirements of New Zealand's charity sector are far from satisfactory.

Information disclosures should be viewed as very important by the charity sector; however, this is an area that has remained largely undeveloped in New Zealand's charity sector. Effective information disclosures should provide information upon which New Zealand's public can rely and which they can utilise. Studies in the for-profit sector have shown that increased voluntary disclosures serve the stakeholders' best interests leading to better outcomes for a firm (Greiling & Spraul, 2010; Yi & Davey, 2010). It is from this perspective, that if New Zealand charities show a willingness to publish relevant information about their operations and explain their actions, they are more likely to be perceived as trustworthy by the New Zealand public.

1.4 Problem Statement

It is contended the current level of disclosures made by charities within New Zealand does not adequately discharge accountability to their stakeholders. Few studies have explored how best to improve the extent and quality of information in those disclosures. To date there has been no New Zealand charity best practice reporting model developed from the perspective of charity stakeholders, to guide

[5] enacted in 2005 – Charities Act 2005

the charities. Therefore, the information needs of many of New Zealand's charity stakeholders are not being met. This thesis investigates this important issue and seeks to improve the information disclosures of New Zealand's charities so that a more adequate discharge of accountability and transparency can be met by these charities.

1.5 The Research Purpose and Objectives

This research will develop a best practice model of information disclosures and make recommendations about the future information disclosure practices from New Zealand's largest charities. To assess the quality of the current information disclosures made by New Zealand largest charities, three specific objectives were established.

- To develop a qualitative disclosure index from the perspective of charity stakeholders
- To apply the disclosure index to the Charities Services website, annual reports/annual reviews and websites of 30 charities
- To make recommendations to improve the accountability of New Zealand's charity sector.

1.6 Methodology and Method

This research adopts a qualitative research approach, which combines both qualitative and quantitative methods (Mason, 2006). This mixed method methodology ('MMM) approach is appropriate for this research because it is unlikely that a quantitative measurement process would adequately capture the range of in-depth issues related to charity accountability. MMM provide more choices, options and approaches in research (Creswell, 2009) because the research can involve both quantitative and qualitative approaches to data collection, analysis and interpretation (Tashakkori & Teddlie, 2008). MMM designs have been increasingly used in information disclosure research (Coy & Dixon, 2004; Marston & Shrives, 1991).

The items that appear in the initial disclosure index are constructed on the basis of previous literature. Then the initial list of items is circulated to charity stakeholders

who refine the items in the disclosure index. The charity stakeholders assign a weight to each of the items in the disclosure index. The assigned weights indicate the importance of each item. The finalised disclosure index is then applied to the selected publications of the charities. Once the findings are compiled, the findings will be circulated to those charity stakeholders who indicated that they would like to comment on the findings[6]. Further discussion of methodology and methods can be found in chapter 5.

1.7 Scope and Limitations

In this study, the research focuses on the accountability information disclosures made by 30 New Zealand registered charities. The sample charities are selected from the 200 charities (ranked on annual income) from the DIA on-line register.

This investigation focuses on humanitarian (helping) charities. The sample of charities covers a range of categories and causes, such as children's' charities, relief-aid and community development. The outward expression of helping is an essential facet of humanitarian charity values, and therefore the public expects more from these charities when to compared to other charities (The Sphere Project, 2004). Charities such as universities, Maori entities, health boards and private hospitals, charities that do not involve explicit helping activities, were excluded.

This investigation is subject to some limitations. Firstly, there is no intention for this investigation to provide a comprehensive commentary on all aspects of the law that may apply to charities, it is acknowledged that the charity legal framework is complex and there are different legal obligations depending on the charity's constitution, the legal form it uses and the type of activities it undertakes. Secondly, this investigation examined the information disclosures of only the 30 selected humanitarian charities that are registered with the DIA, and the findings cannot be generalised. Nevertheless, it is expected the findings will provide some understanding of how future research might determine the importance of certain data items in improving the reporting of charity accountability in New Zealand.

[6] These are the charity stakeholders, who at the end of the development of the disclosure index, indicated they would like to see the results and provide feedback.

1.8 Outline of the Thesis

The thesis is presented in eight chapters as follows:

Chapter One: Introduction to the Research. This provides the context of the research. The issues of charity accountability are introduced along with the motivations for this research. The following sections introduce the problem statement, the research purpose and objectives and the research methodology. Finally, the scope and limitations of this research are presented.

Chapter Two: The charity legal framework with an international comparison. This chapter provides the background of the New Zealand charity sector and then reviews the overall regulatory landscape of New Zealand's charity sector because the regulatory framework has had an impact on charity accountability. Finally, an international comparison is provided which identifies the differences in charity regulatory frameworks between three other common law countries; Australia, Canada and England and Wales.

Chapter Three: Improving the accountability of New Zealand's charities. This chapter will consider the dimensions and meanings of accountability. Firstly, this chapter includes a review of charity monitors, then goes on to define charity accountability for this investigation. Secondly, this chapter explores to whom charities owe accountability and introduces stakeholders. Finally, this chapter explores the scope of accountability owed by charities and links this to an accountability framework.

Chapter Four: Research Methodology and Methods: This chapter discusses the methodological assumptions and methods that are used in this research. A qualitative methodology was used in this research that combined both qualitative and quantitative methods. This chapter explains the methods used in the empirical aspect of this research, specifically the stakeholder exercise, the collection and analysis of the selected published material and the feedback comments. A systematic literature review of charity stakeholders is provided so that the stakeholders are identified for this investigation. Finally, a discussion on the measurement of information disclosure is also presented along with the use of disclosure indices. The procedure in developing the disclosure index and the

scoring process is also discussed. The results from the application of the disclosure index are discussed in chapters six and seven.

Chapter Five: The development of the disclosure index used in this investigation: This chapter reports how the initial disclosure index was constructed and the results from the stakeholder exercise. The charity stakeholder exercise seeks to bring consensus between the charity stakeholders to identify what items are necessary for stakeholders to assess and evaluate the accountability of a charity's information disclosures. The importance of each item as agreed by the charity stakeholders is also reported. The finalisation of the disclosure index is also presented along with the determination of the quality criteria.

Chapter Six: Results, analysis and discussion: This chapter presents the results by applying the disclosure index. The scores for the extent and quality of the selected published material are obtained for each publication, and for each charity. Using the accountability framework for guidance, the accountability of the charities is evaluated for both quantity and quality. Finally, the best performing charities are identified.

Chapter Seven: Discussion and stakeholder feedback: This chapter presents the critical discussion of the findings obtained in chapter six. The strength and weakness of the information disclosures from top-ranking and lowest-ranking charities are identified. The findings are also summaries along with recommendations for improving the accountability of the charities. Using the accountability framework, the gaps in the information disclosures from the thirty charities is also discussed. Finally, to close the research cycle loop, stakeholder feedback is also presented.

Chapter Eight: Review, conclusion and recommendations of the investigation. A summary of this thesis is presented in this chapter along with how the research objectives were achieved. This is followed by recommendations to charities on how they can improve their information disclosure to better meet their stakeholder expectations. An overall conclusion of this thesis is also presented in this chapter.

1.9 Conclusion

This chapter establishes that New Zealand's charity sector needs to have greater accountability and transparency especially because the sector has had years of falling public trust and confidence. It is one of New Zealand's most important sectors, receiving millions of public funding yet it is also a sector that provides very little accountability. It is from this viewpoint that this research is both timely and necessary. Currently, New Zealand charities disclose insufficient information regarding their entities, activities and the value and use of their resources. Traditionally charity stakeholders struggle to obtain relevant information from New Zealand charities. This investigation aims to improve the accountability of New Zealand's charities by improving the information disclosures expected from them.

The following chapter introduces the background of New Zealand's charity sector and examines the regulatory framework that regulates and monitors it. An international comparison to similar common law jurisdictions is also included.

Chapter Two:
The charity legal framework with an international comparison

2.1 Introduction

The public believes that improving the accountability of the charity sector is linked to the legal framework (Rittelmeyer, 2014) because it compels charities to engage in appropriate activities (Charities Commission (NZ), 2010; O'Halloran et al., 2008). Not surprisingly, trying to get a legal framework that improves the accountability of the charities but does not overburden the sector is a difficult task (Hind, 2011).

In this chapter, the focus of attention is on New Zealand's charity legal framework and how it connects to the accountability of New Zealand's charities. The modern charities are legacies from the past, therefore understanding the historical development of the modern charity and charity law is essential to understanding why charity accountability remains a persistent and enduring issue.

New Zealand's legal framework, including the charity regulator, is examined and compared to that of Australia, Canada and England and Wales (Cordery & Baskerville, 2011)[7]. The common law legal framework inherited from England and Wales remains the starting point for charity law in Australia, Canada, and New Zealand. Therefore they share a similar in their approach to charity regulation (McGregor-Lowndes, 2009). This chapter develops an international comparison between the jurisdictions and provides a background against which New Zealand's charity legal framework should be viewed.

2.2 The Legal Framework

Accountability is used at all levels of society, by legislators, regulators, advocacy groups, bosses, media pundits and such like (Gruder, 2010). Though the definition of accountability is widely contested (Ebrahim, 2010b; Mulgan, 2000), nevertheless it is used as a mechanism where institutions are made responsive to their particular publics by giving an account of their actions (Brandsen, van Hout, Oude Vrielink,

[7] England & Wales are treated as one country as they share the same charity regulator.

& Schillemans, 2008; Schillemans, 2011) (accountability is explored more fully in the next chapter). Furthermore, accountability within the charity context has proven to be difficult to implement (Kearns, 1996).

In New Zealand and elsewhere, regulation has been the main method used to improve charity accountability (Cordery & Baskerville-Morley, 2005) and while some gains have been made by regulation, there has been insufficient improvement in the accountability of charities (Cordery & Baskerville, 2011). This has led to significant reforms of New Zealand's charity law in the last decade (Office of the Minister of Commerce, 2013). Australia, Canada and England and Wales have also undergone charity law reforms, highlighting the widespread concerns that the charity regulators need to adopt a more rigorous approach for monitoring the sector. The charity regulatory framework[8] for each country is summarised in Appendix Two.

In another effort to improve the accountability of New Zealand's charity sector, the charity-specific financial reporting framework, Public Benefit Entity Accounting Standards ("PBEAS") was introduced in April (2015). In particular, the PBEAS addresses the issues of charity compliance with financial reporting obligations (PBEAS ss 14.1 & 14.2 External Reporting Board (NZ), 2015b)[9]. Implicit in the PBEAS is an overall goal of improving the financial reporting of charities and together with information from other sources, this addresses the poor quality financial reports that charities have provided in the past (Sinclair, 2010) (the PBEAS are discussed more fully later in the chapter). This move alone should see some improvement in the accountability of New Zealand's charities.

In particular, legal accountability relates to the compliance with legislation (both enactments and delegated) (Romzek, 2000) and is considered to be an external form of accountability (Shafritz & Hyde, 1997). For this reason, the popular presumption is that the accountability of the charities can be improved by improving the legal framework that governs them (Pratten, 2003).

[8] Statutory requirements make up the legal framework, while regulation are the standards and rules
[9] The provision of non-financial and supplementary information to provide context to the financial statements and any notes to enhance the understanding of the financial statements are also included in the new financial reporting framework (PBEAS ss 20 External Reporting Board (NZ), 2015b).

However, in an attempt to make charities more accountable, the legal framework which governs charities has become a very complex area of law in New Zealand (Poirer, 2013). Moreover it has become impossible to rely on any general set of legal principles as an over-arching umbrella - instead a complex matrix of interrelated statutes, regulations and case law has evolved.

Moreover, as with anything legal, a legal definition often sets the boundaries of the law. But in the case of charities, the definition of 'charitable purpose' has become paramount to New Zealand's understanding of a charity with little attention paid to the construction of the broader legal framework required for effective charity compliance (Chevalier-Watts, 2009).

However it is important to realise that the problems inherent in bringing charities to account are related to how charities have evolved over time and how the introduction of law has impacted upon them. For this reason, trying to unpack the historical context of charities is important.

2.3 The historical context of defining charities

The growth of the not-for-profit sector is widely recognised through most developed countries but there has been considerable confusion about how to define the sector (Salamon & Anheier, 1997; Sanders, O'Brien, Wojciech Sokolowski, & Salamon, 2008). Charities are part of the not-for-profit sector. However the term "not-for-profit" is a broad umbrella term for any entity that is *not* a "for-profit" entity, (Salamon & Anheier, 1997; Sanders et al., 2008). The distinction between not-for-profit entity and a registered charity is legal status; legal status as a charity is conferred upon an entity achieving charity registration (Chevalier-Watts, 2009).

However, charities can also be described as voluntary organisations, non-profit organisations, non-governmental organisations, donee organisations, social enterprises, and public benefit entities; all of which are also not-for-profits. It is not surprising then that the understanding of what a charity is, can often be viewed in a variety and often, contradictory ways. Furthermore, all these terms are used extensively and interchangeably in the not-for-profit literature and given the paucity of charity literature – some of this literature is used in this chapter.

The word "charity" is derived from the Latin word 'caritas' which means care, and for centuries, this involved providing care to the poor and needy (Malik, 2008). Gousmett (2009) argues that the first State recognition of charities occurred in the UK when the British Prime Minister William Pitt the Younger introduced income tax in 1798; this included a taxation exemption for royal and public hospitals (p. 4.). This legislation introduced the notion of *charitable purposes* and linked the State's recognition of it being a public good. Gousmett (2009) goes further to state that in,

> *"1798 Pitt applied the charitable purposes exemption to Royal and public hospitals and, a year later, an exemption was provided for corporations, fraternities, and societies of persons established for charitable purposes only in Pitt's Duties upon Income Act 1799".*
>
> (Gousmett, 2009, p. 5)

It is important to note that there has been much conjecture around why the legislation in 1798 is different from 1799. Prof Cookson states that,

> *"the [charitable purposes] exemption of 1799 is closely tied up with the growth of voluntarism, in that the [Assessed Taxes Act] of 1798 relieved charitable institutions whereas the [Duties upon Income Act] of 1799 was well disposed towards voluntary societies which relied on subscriptions and did not have [in many cases] large capital investments and [land] and buildings".*
>
> (Professor Cookson in (Gousmett, 2009, p. 5))

This distinction is important to note for the earlier understandings of *charitable purposes* tended to reflect the values and ethics of the ultra-rich (in the seventeenth century) that were making the genuine benevolent donations rather than the social engineering we see today (Lynn Jnr, 2002). Modern philanthropy has been largely eclipsed by the public funding [government funding] of charitable organisations in most first world countries (Lynn Jnr, 2002). As a result, charities have undergone an enormous transformation over the last century.

The shaping of charity law in New Zealand has been largely inherited from the British legal system[10] (Dal Pont, 2000, p.5) – based on the Elizabethan *Statute of Charitable Uses 1601*[11]. However the statute never intended to define charity – instead it was considered to be a collection of charitable instances that inferred the antecedent for charitable causes (Dal Pont, 2000, p. 6). Despite this, the preamble to the Elizabethan statute has been used by the Courts in determining what is a charity, a charitable object or a charitable purpose (Bourgeois, 2006, p.2); functioning as classification that both limits and yet creates a discourse around *charitable purpose*. However, the modern, legal understanding of "charity" is much more complicated and grounded in the common law categories derived from the House of Lord's case, commonly known as Pemsel's case[12].

The Pemsel's case formulated the first decisive judicial interpretation of *charitable purpose.* This case establishes the four heads (principles) of *charitable purpose* which have travelled through time and across national jurisdictions and cultures (O'Halloran et al., 2008, p. 449; Turnour & McGregor-Lowndes, 2012). Lord Macnaghten determined the four heads of charity were;

- The relief of poverty
- The advancement of education
- The advancement of religion
- Other purposes beneficial to society[13]

The heads of charities are considered to be categories rather than a definition of a charity but also include other key elements of which the public benefit test is the most important. Before an organisation can be registered as a charity, it must satisfy the public benefit test[14]. Therefore, a charity must have a *charitable purpose* as well as a publicly beneficial one. This legal test captures (and prevents) individuals/organisations from registering as a charity if their activities have no public benefit to the community. All common law countries have developed and codified this test into their charity statute[15].

[10] A common law legal system as opposed to a codified law system such as the German or French system
[11] Statute of Charitable Uses 1601 43 Eliz. I
[12] *Income Tax Special Purposes Commissioners v Pemsel* [1891] All ER Rep 28; [1891] AC 531
[13] *Income Tax Special Purposes Commissioners v Pemsel* [1891] All ER Rep 28; [1891] AC 531.
[14] Charities Act 2005, s5(2)(a)
[15] The public benefit test and its subsequent application is beyond the scope of this investigation

For many entities such as churches and educational institutions, the presumption is that their purpose will always be charitable[16]. As long as an entity can fall within the scope of the heads of charity (one is sufficient for registration purposes), it can register and benefit from charity status. The Pemsel's categories are often understood as the common law definition of a charity, but in New Zealand, case law also plays an important role in the defining whether an organisation is a charity or not. For example, there has been a shift to include political lobbying or agitation to bring about political change that is considered beneficial to the community – a stand that has been rejected for decades. Both Australia[17] and New Zealand[18] have had recent cases which reflect this shift.

Nevertheless, the common law definition of a charity matters in New Zealand because it provides a gateway to benefits, such as tax concessions. Moreover, the growing debates about the adequacy of the common law definition of a 'charity' have troubled most common law countries, including New Zealand, in the last few decades because the modern charity bears little resemblance to the charities that existed at the time of the Pemsel's case ruling (Harding, O'Connell, Stewart, & Chia, 2011).

Therefore, New Zealand follows the common law position and has developed a technical legal definition of a "charity" through case law. Furthermore, New Zealand does not have a statutory definition[19] of a charity, and it seems unlikely to develop one in the near future. Both Australia and England and Wales, on the other hand, have both expanded the 19th century understanding of *charitable purpose*, as well as introduced a statutory definition of a charity. The statutory definitions are broadly defined in both these jurisdictions as those entities that are established for a *charitable purpose*, which retains the common law flexibility. Australia has had 12 separate heads of charity[20] since 2013, and *charitable purpose* now includes the protection of human rights, the environment, the security or safety of Australia or the Australian Public, and lobbying for law changes for example. Whereas England

[16] This is no longer the case in Australia
[17] AID/WATCH Incorporated v Commissioner of Taxation [2010] HCA 42 (High Court of Australia, 1 December 2010)
[18] Re Greenpeace of New Zealand Incorporated [2014] NZSC 105
[19] A statutory definition is a formally drafted legal definition that is written into law
[20] Charities Act 2013 (Cth) *(Australia*) Pt2,s5

and Wales has 13 separate heads of charity, including similar expansions to Australia but explicitly includes amateur sports[21].

Without a statutory definition, the New Zealand charity regulator has to rely on case law, often hundreds of years old, to determine whether an entity is charitable or not (Chevalier-Watts, 2009; Turnour & McGregor-Lowndes, 2012). To register as a charity in New Zealand, an entity must have at least one of the heads of charity central to its objectives and once achieved, confers the legal status of a *registered charity*[22]. While the New Zealand Courts have taken a purposive, flexible approach to interpreting the *charitable purposes* list derived from the Pemsel's case, a statutory definition would provide clarification of what constitutes a modern charity. In conclusion, New Zealand's current legal framework continues to rely on the 19th century understanding of charitable purpose; as does Canada.

2.3.1.1 Registration and accountability

One of the main purposes of registration is to provide a public register of charities and to give the public access to a charity's information (Law Commission, 2007). The New Zealand public should have confidence in knowing that a charity is truly charitable because it is verified by the New Zealand's charity regulator (Charities Services, Department of Internal Affairs, 2015; Rittelmeyer, 2014). The charities benefit by using a charity registration number on its documents (Charities Services, Department of Internal Affairs, 2015) and receiving tax benefits (Gousmett, 2012).

However, there is limited literature on the accountability provided by public registers (Law Commission, 2007; Stewart, 2007) and there appears to be even less literature about the accountability provided by charity on-line registers. Nonetheless, charity registration and maintaining the charity public register is the main focus of any charity regulator's work (Dhubhghaill, 2014).

Understanding the role of the charity regulator is critical to understanding how New Zealand charities have responded to the regulatory framework. Therefore a brief discussion on the nature of the New Zealand's charity regulator is provided next,

[21] Charities Act (2011), s3(1)
[22] It is illegal for a charity to call itself a registered charity when it is not registered with the Charities Services, Department of Internal Affairs

along with a comparison to the charity regulators in Australia, Canada, and England and Wales[23].

2.4 The Role of Charity regulators and charity accountability

As an academic topic, charity regulators have received little attention in the literature (Hind, 2011) even though appointing a charity regulator has been the starting point to improve the accountability of charities for most common-law countries (Rittelmeyer, 2014). Moreover, the role and functions of the charity regulators are poorly understood by the public (Hind, 2011; Rittlemeyer, 2014). Consequently seven charity regulators from common law backgrounds, including New Zealand, meet on a regular basis to discuss key issues and developments within their own charity sectors (Australian Charities and Not-for-Profits Commission, 2015). The challenge for any charity regulator is to address the tension between monitoring the sector and at the same time, trying to support and encourage the sector (Rittelmeyer, 2014).

In practice, this is difficult to achieve, and to date, no charity regulator has managed to get this balance right (Hind, 2011; Rittelmeyer, 2014). As a result, the charity regulators in many countries have consistently attracted criticism for failing to improve the accountability of the sector and the continued vacillation of the public's trust and confidence (Szper & Prakash, 2011).

New Zealand, as well as Australia, Canada and England and Wales, have all had numerous enquiries into their charity sector for several decades (See Appendix Three for the government reports into the charity sectors from these countries). Looking at the history of some of the charity regulators is instructive in showing some of the challenges they have faced.

2.4.1 New Zealand

The prior Charities Commission NZ ("CCNZ") regulated the sector for seven years and had oversight of approximately 27,000 charities. CCNZ was a standalone entity which was run by a Chief Executive who was supported by a registration board. During that time, three charities were removed from the register for serious

[23] It is noted that Australia, New Zealand, Canada and England & Wales do have different political systems – however these are beyond the scope of this investigation.

wrong doing; another 30 charities were removed because questions arose as to whether they were charitable or not (Barker, 2014)

In 2010, the Cabinet Social Policy Committee reviewed the CCNZ and Charities Act (2005) (Barker & Yesberg, 2011). As a result, CCNZ was disestablished and its functions transferred to the DIA. It was the first charity regulator to be disestablished in the Commonwealth (Rittelmeyer, 2014) and New Zealand's charity regulator is now Charities Services (a portfolio in DIA). Charities Services is run by a General Manager and supported by a registration board. Furthermore, Charities Services is no longer a standalone commission, and DIA regulates six other portfolios along with the Charities Services.

DIA was given new powers of enforcement and penalties which CCNZ lacked. Notably, the changes provide DIA with the powers to investigate and penalise any officer of the charity (or associated persons) with fines up to $10,000[24]. However, to date, there have been no prosecutions or penalties against New Zealand charities or a person since DIA replaced CCNZ and deregistration is still considered the main tool in the DIA's enforcement powers.

While the tax implications of deregistered charities are addressed by the Inland Revenue Department ("IRD") (Inland Revenue Department (NZ), 2015), there is concern that deregistered charities effectively become invisible in New Zealand (Barker, 2014). This means that a deregistered charity can continue to operate without any oversight from DIA, apart from the scrutiny of IRD (which is merely focused on the tax implications) (Barker, 2014). This is of particular concern in New Zealand, as more than 1800 charities were deregistered by DIA in its first 18 months of operation (Department of Internal Affairs, 2015).

The DIA has little power to influence other charity practices, such as charity board decision-making, the production of non-financial information, and the charity affiliations. This highlights a significant gap in New Zealand's legal framework (these are discussed more fully later in this chapter). The goals of the DIA are almost exclusively focused on charity compliance with the Charities Act (2005).

[24] Charities Act (2005), s50-55 – these sections are part of the amendments that occurred as part of the review of the Charities Act 2005 and were enacted in 2013

2.4.2 Australia

Australia and New Zealand share very similar historical and cultural backgrounds, but they have taken different approaches to improving the accountability of charities. Even though Australia has more than double the number of charities when compared to New Zealand, most of the charity regulation reforms have occurred in the last five years (whereas New Zealand embarked on reforms in 2004).

At the same time that New Zealand was disestablishing its CCNZ; the Australian Federal government was setting up the Australian Charities and Not-for-Profit Commission ("ACNC"). It is a federal, independent body, which required all charities to be registered by 1st October 2012; there are approximately 60,000 registered Australian charities.

The oversight of the ACNC is set to broaden to include all not-for-profits including sporting groups (Australian Institute of Directors, 2013); something that does not yet occur in New Zealand. Moreover, ACNC has sole responsibility for determining charitable status for other Australian government agency purposes, like the Australian Tax Office ("ATO") for example (ProBono News Australia, 2012) (so, therefore, donee organisations[25] don't exist in Australia). As a consequence, there are greater numbers of not-for-profits forced to register in Australia than ever before.

ACNC uses a statutory definition of a charity which is a significant step away from the common law approach used in New Zealand. This means that institutions such as churches and educators (such as Universities) can no longer rely on the presumption that they will be charitable[26]; instead, they have to prove their public benefit to the Commissioner of the ACNC to retain their charitable status (Australian Christian Churches, 2012; Ridge, 2011).

ACNC is led by a Commissioner who is supported by two Assistant Commissioners and an 8-panel Advisory Board. The Advisory Board regularly holds community

[25] Donee organisations are discussed later in this paper
[26] This does not apply to closed religious orders, self-help groups, or traditional indigenous land rights or relief of necessitous circumstances

forums in each state and filters important issues back to the Commissioner for consideration (Australian Charities and Not-for-Profits Commission, 2015).

ACNC has extensive investigative, monitoring and enforcement powers, such as enforceable undertakings, injunctions, penalties, suspension and deregistration; these provide the ACNC with the required authority to ensure compliance from the charity sector (Mills Oakley Lawyers, 2012). These powers are much wider than those held by DIA. The sector is monitored and regulated more closely by ACNC; for example, late filings of statutory documents will automatically attract penalties[27].

However, by the end of 2013, ACNC was accused of ineffective management with key investigative staff resigning (Guilliat, 2013; Rittelmeyer, 2014). In its short term, ACNC had received 245 complaints from the public about charities. However, only 56 were investigated, and none were prosecuted. Furthermore, claims that ACNC did not pursue criminal investigations only incurred more criticism inferring ACNC was unlikely to be an effective regulator of the charity sector (Guilliat, 2013; Rittelmeyer, 2014). However, since the accusations against ACNC, an Australian business 'charity' was fined a record AUS$1.5 million for evading tax by using a charity as a guise (Pro Bono Australia, 2014).

As part of Australia's election process in September 2013, the incoming political party promised to disestablish the ACNC stating that '*it imposes an unnecessary and ponderous compliance burden on the sector*' (Hutchens & Ireland, 2014). This move has been seen by the some as a step backwards for the accountability of Australian charities (Hutchens & Ireland, 2014; Towell, 2013) while others, such as the churches and educators, welcome the move (Millar, 2013). Currently, the Australian government is reviewing the effectiveness of the ACNC, but currently it is still operating.

2.4.3 Canada

Canada has taken a *black letter law* approach[28] to the regulating the charity sector in its attempt to improve the accountability of its sector. Canada has a long history

[27] In comparison to New Zealand, where more than half the registered charities either fail to file their financial statements or are late in filing their financial statements; this is a huge improvement.
[28] The black letter law approach means that the only the written law is applied

of charity regulation, and much of it links to Canada's *Income Tax Act (R.S.C., 1985, c. 1 (5th Supp.))* - (before this it was the *Income War Tax Act (1917)).* As a consequence, the charities were regulated by Canada's tax regulator until its charity regulator was created in 1967. Registration is enacted in the Charities Registration (Security Information) Act[29] . However, charities are mostly regulated directly from Canada's Income Tax Act. Unlike New Zealand, Canada does not have a separate legal framework for charities (Cordery, 2011). Therefore much of the Canadian charity literature reflects the close link between Canadian charities and its taxation legislation (Watson, 1985). Also, each State within Canada has its own (provincial) charity regulation, so Canada's charities have to comply with both State and Federal law.

Canada has a federal agency called the Charities Directorate (rather than a Charities Commission) ("CD") which has oversight for charities; this is part of the Canada Revenue Agency ("CRA") and thus is not a standalone commission (Canada Revenue Agency, 2011). The CD reports directly to the Commissioner of Taxation and regulates approximately 86,000 charities. Arguably having the charity regulator as part of an existing government department does reduce its costs when compared to a standalone charity regulator, a point noted by the New Zealand government when it decided to move its regulator to the DIA (Barker & Yesberg, 2011).

The Income Tax Act does not provide a statutory definition of a "charity" and therefore Canada, like New Zealand, continues to rely on the Pemsel's case categories and case law interpretation of *charitable purpose*. There have been no less than seven [failed] bills introduced to the Canadian Parliament since the early 1970's which attempted to address this issue[30] (Blaikie, 2012). As a result, much of the federal charity regulation in Canada has remained unchanged from 1917 until 2011.

When, in 2009, the OECD internationally criticised Canadian charities for evading tax, involvement in tax crimes and money laundering, the Canadian Federal government undertook significant changes to the regulatory framework to improve

[29] Charities Registration (Security Information) Act (S.C. 2001, c.41, s 113)
[30] The Canadian Parliament failed to come to a consensus

charity accountability (Bromley, 2011; Centre for Tax Policy and Administration (OECD), 2009; Charbonneau, 2009). Spurred on by the international criticism, the Canadian Federal government introduced the *Canada Not-for-profit Corporations Regulations 2011* ("2011 Act"), legislation that applies to all charities registered with the CD. The 2011 Act severely restricts the activities that Canadian charities undertake (Dentons Law Firm, 2013) so that few Canadian charities undertake commercial operations or projects unless they are predominately charitable. Nevertheless, some of the provincial laws also changed to reflect the higher threshold of accountability required by the 2011 Act. For example, charities formed by Letters Patent (Ontario) had until 2014 to transition to the new requirements of the 2011 Act.

As a consequence of these wide-sweeping changes, it is very difficult for Canadian charities to accumulate great wealth or undertake strictly commercial activities[31]. In contrast, New Zealand's charities have amassed enormous fortunes; the top 10 charities, for example, hold more than $7 billion of charity assets (Newman, 2013) as New Zealand takes a very lenient approach to a charity's commercial activities.

The 2011 Act provided the CD with significant enforcement and penalty powers; for example, CD has the power to make the charity's governance personally liable (Blumberg, 2012). Again these powers are much wider when compared to New Zealand, as only some New Zealand charitable legal forms make the governance personally liable (for example incorporated societies and charitable trusts have limited personal liability). As a result, CD is more actively monitoring the charity sector than it has in the past but like New Zealand, it continues to use deregistration as its main tool. This has been costly in terms of time and expense for CD – an example is the case of the Human Society of Canada ("HSC"). CD picked up irregularities with the charity's accounts in 1998 and then began proceedings in February 2010 to revoke HSC's charitable status (Brazao & Ormsby, 2015; Butler, 2015). The proceedings have taken more than five years to conclude[32].

Despite these law changes, increasing claims that the CD targets specific charities that are critical of the current government, has raised alarms in the last 12 months

[31] This is discussed more fully later in the chapter
[32] Humane Society of Canada v. Canada (National Revenue), [2015] FCA 178

(Beeby, 2014). This has led to a deterioration of the relationship between the charity sector and CD (Gilchrist, 2015; McRae, 2015). Furthermore, because the charities are essentially 'filing a tax return' every year with the CRA, its information is not made available except T3010 (this is the annual return[33]). Therefore a charity's full financial reports or any cases of wrong-doing or misconduct are not released to the public unless a charity voluntarily discloses the information (Blumberg, 2012). Commentators that work in the charity sector argue that currently there is no real transparency or accountability in the Canadian charity sector (Gilchrist, 2015) and CD is said to be no more than an arm of Canada's tax agency.

2.4.4 England and Wales

England and Wales has a long history of charity regulation dating back to the *Statute of Charitable Uses Act 1601*. Furthermore, England and Wales had led the common law reform process for the accountability of charities for more than thirty years when the National Council of Service reviewed the effect of charity law on voluntary organisations in 1976 (Chairman: Lord Goodman, 1976).

The *Statute of Charitable Uses Act 1601* established the Charity Commission ("CCEW") in England and Wales[34] and provided it with the authority to oversee that charitable gifts were used as intended (Elson, 2010). The structure of the CCEW has remained essentially the same from 1835 until the beginning of the 1980's; it is a standalone commission. It has a Charity Commissioner who reports directly to Parliament. This is one of the largest and oldest charity regulators, overseeing more than 165,000 charities and going back more than 150 years (Australian Charities and Not-for-Profits Commission, 2015).

The CCEW has wide powers to regulate the activities of registered charities[35], but it does not have powers of prosecution. Instead, it works very closely with other government agencies to prevent duplication of services[36]. In 2012, CCEW introduced the *Risk framework;* it is used to decide whether the CCEW should

[33] Annual returns are discussed more fully later in the chapter
[34] The Charities Commissioner in England and Wales does not regulate the charities of Scotland.
[35] Charities Act (UK) Pt 2, ss13-21
[36] For example, services such as investigating criminal breaches are undertaken by law enforcement agencies rather than the CCEW

intervene in a charity's activities, especially if there are risks involved to a charity's beneficiaries and/or assets (Charity Commission (England and Wales), 2012). Intervention by the CCEW can include placing an administrator into the charity and while this does not happen often; it does occur. For example, in October (2015), CCEW administrators were placed into the charity Legal Action (Cooney, 2015).

The removal of the presumption of public benefit in the Charities Act 2006 (UK) for certain charities[37] also had an impact on the accountability of charities. A report commissioned by the Charity Commission (UK) found that the charities re-examined their charitable objects, changed the way they worked to make sure they were targeting their beneficiaries and the programs they provided to meet the new public benefit threshold (Institute for Voluntary Action Research & University of Sheffield Hallam University, 2012). As a consequence, this affected the charities' transparency and accountability by making the charities report more explicitly about their activities (Institute for Voluntary Action Research & University of Sheffield Hallam University, 2012).

However, CCEW has also endured lengthy court cases in trying to enforce this change as well as public humiliation. This is evidenced in the case it took against the Independent Schools Council ("ISC") in 2008. ISC refused to CCEW's guidance as it meant a significant number of their schools would have lost their charitable status and legal action ensued. In 2011, the Courts determined that ISC could retain its charitable status but also that CCEW had to withdraw its guidance on public benefit[38]. As a consequence there have been increasing legal disputes relating to the CCEW interpretation of public benefit, placing a financial burden on both CCEW and the charities involved (Public Administration Select Committee, 2013).

In 2013, CCEW was accused of not being 'fit for purpose' by the Public Accounts Committee (Meade, 2015). This triggered government enquiries and public debates about its future that lasted for more than 12 months (Smedley, 2015) Furthermore, claims that the CCEW failed to identify and deal with serious misconduct of

[37] Such as religious orders
[38] The Independent Schools Council -v- The Charity Commission and others, The Upper Tribunal Tax and Chancery Chamber decision, TCC-JR/03/2010, 14 October 2011

specific charities resulted in it being described as a feeble charity watchdog (Meade, 2015). The National Audit Office (UK) argued in its 2015 follow-up report on the Charity Commission that the CCEW had to 'up its game (Atkinson, 2015). The intended legislative changes to CCEW's powers of investigation and prosecution are likely to see a shift in more aggressive monitoring of charities, than in the past (National Audit Office (UK), 2015).

2.4.5 Summary

In all four countries, including New Zealand, the charity regulator has been heavily criticised for failing to bring the charity sector to account, despite the law reforms and restructuring. The international comparison has identified an expectation gap between what the charity stakeholders expects of a charity regulator and what it actually does; as a result, public trust and confidence in the charity sector are also impacted by the how well the charity regulator monitors the charity sector.

As a response to the expectation gap, it is widely accepted that the charity regulators should be monitoring the sector more closely; this is evidenced and supported by legislators when they provide more powers to the charity regulators. However, it is not clear how closely involved the charity regulators should be involved with the charities and while that is beyond the scope of this investigation, it is important to note that there have been studies (for example Hind (2011)) that have looked at how to close the expectation gap so that public trust and confidence in the sector can be restored.

Clearly, having a standalone charity regulator does not necessarily lead to improved accountability from charities, nor greater public trust and confidence in the sector (Rittelmeyer, 2014). The everyday challenges of monitoring the charity sector are compounded if the charity regulator lacks investigative, enforcement and penalty powers; all four charity regulators are focusing more efforts in these areas. Moreover, the larger the sector, the greater the challenge faced by the charity regulator as it needs to greater resources (Hind, 2011). Overall New Zealand's DIA compares favourably with the other countries regarding powers of enforcement and penalties however investigation powers are weak in New Zealand.

This makes New Zealand unique among the group of four countries; the other three countries have extensive authority to investigate, intervene and restrict a charity's activities. One interpretation that can be taken from this finding is that New Zealand has something to learn from the experience of the other charity regulators.

Re-building the publics' trust and confidence in the charity sector is reliant upon a legal framework that brings the charities to account. Against this background, the next section turns to consider the effectiveness of the New Zealand's legal framework that regulates charities – focusing on particular areas, and then compares it to that of Australia, Canada and England and Wales.

2.5 Key issues of New Zealand's charity legal and regulatory framework

New Zealand's original Charities Act (2005) could not have anticipated the sheer diversity of the entities that are currently registered charities (Poirer, 2013). As noted in the background of the charity sector, there are over 27,000 charities operating in New Zealand, using all types of legal forms, operating as groups, large commercial entities and/or umbrella organisations[39], some are local, national and international, and spread over the whole range of New Zealand society. It is this diversity that makes it difficult to make one statute cover this broad range of charities and motivated the review of the Charities Act in 2010 (Goodhew, 2012). It also exacerbates the challenge of improving the accountability of the charity sector. The following section reviews key areas and provisions of the legal framework that relate to charity accountability

2.5.1 Annual Returns

The annual return is one of the main documents that the charities can use to demonstrate compliance accountability of the governance board to external stakeholders. DIA considers it as providing on-going accountability because the charity regulator has to be able to continually assess if a charity continues to be charitable and verify a charity's records so that a charity can maintain its

[39] An umbrella organisation is where there is a main face to a large group of independent charities that all offer the same service – an example of this would be New Zealand Riding for the Disabled ("NZRD"). A 'national office' provides the training, support, marketing, standards and certification to all the independent 'branches' across the country. Each independent entity of the NZRD is an incorporated society which are governed by the Incorporated Society Act 1908

registration (Barker, 2014; Rittelmeyer, 2014). The annual return is the main document that a charity files every year to maintain its charity registration[40] and when it is lodged on the public on-line register by the charity regulator, it provides open access to charity stakeholders[41]. The annual return provides the most basic of information; a statement from the charity of who it is, where it operates, who is operating it and what activities it undertakes. It contains both financial and non-financial information. New Zealand's charity annual return has undergone a few minor changes in the last twelve months. However, New Zealand compares favourably to the other countries used in the international comparison as all they all use similar annual return formats.

However, when the annual return format used by common law countries and specifically New Zealand, is compared to that of the United States of America ("USA"), there is a significant difference. The USA uses a more comprehensive, detailed annual return (Form 990). An American charity's 990 form compels a charity to disclosure its governance (board (names and compensation), policies and practices); to declare all funds/income received and spent (expenditure is broken into three categories); programs, management and general, and fundraising (this includes the purchase and sale of assets, a fixed asset register; declaration of business investments and such like); to demonstrate its public support [benefit] test (this differentiates it from private foundations which are treated differently by the USA tax agency) and to make all the appropriate filings required by the USA tax collection agency (financial reports and annual report for example). Filling out a form 990 is considered to be a time-consuming and complicated process (Karafin, Citino, & Katz, 2014). However it is also considered to be the main accountability document from American charities because it is the primary source of information about a charity that the American charity stakeholders can rely upon (Internal Revenue Service (USA), 2014). Therefore the charities are encouraged to regard the form 990 as an information disclosure opportunity and to use it as a valuable marketing and development tool (Karafin et al., 2014). Furthermore, the form 990 is used extensively by charity monitoring organisations (Charity Navigator for

[40] Charities Act 2005, s41
[41] Charities Act 2005, s24

example) and in the literature as the basis for research (for example Heutel & Zeckhauser, 2014)

However, the format of the form 990 is not a trend followed in New Zealand nor any other common law country. Many of the concerns centred on the general publics' poor understanding of charity information disclosures. A UK report concluded that "*Greater disclosure might risk being at best, of little interest or, at worst, of misinterpretation and even suspicion, possibly leading to damage to public trust and confidence"* (Independent Expert Group on Expenses, 2010, p. 9). Many in the (UK) charity sector highlighted the potential damage that the media, social media and public attention that could eventuate with greater information disclosure (p.9-10) and therefore the charity sector in England and Wales have followed a conservative approach to information disclosure; a position that has attracted much criticism (Connolly, Hyndman, & Dhanani, 2013). New Zealand's charity regulator has also followed the conservative approach to information disclosure and therefore the expectations from New Zealand's charities is legal compliance and no more (Cordery, 2011).

However, the annual return provides an opportunity to improve the information disclosures from charities. The current annual return can be overturned by regulation so that comprehensive up-dated information about a charity is released to the public on an annual basis.

2.5.2 Charity Deeds

The charity deed is one of the documents made available on the Charities Services website[42] and a charity needs one for registration purposes. However the Charities Act (2005) does not specify the format of a charity's deed, even though Charities Services encourages charities to include specific details, such as stated purposes, powers clauses, governance and winding up clauses[43] .

This is an area where there has been little or no research but where all four jurisdictions provide similar advisory information to new and existing charities. Some have the minimum legal requirements to be met by the charity deed (Australia

[42] Charities Act (2005), s24 – it is called a charity's 'rules' in the Act.
[43] Charities Services has a section on its website dedicated to the charity's deed. https://www.charities.govt.nz/apply-for-registration/rules-and-the-charities-act-2005/

and England and Wales) while others do not (New Zealand and Canada). Nevertheless, all four jurisdictions require a charity deed if a charity is to achieve registration status.

2.5.3 Charity Boards and Governance

Charities are organisations run by a charity [governance] board ("board"). The board hold primary responsibility of the charity and therefore should be held accountable for their actions (Charity Commission (England and Wales), 2015). It then follows that board members should not be able to personally profit from the activities of the charity.

The Charities Act (2005) does provide a list of excluded individuals that cannot take Board positions, such as undischarged bankrupts, a person with criminal convictions of dishonesty and such like[44]. New charities have to provide a declaration of a person's suitability to hold a charity board position[45] - it not clear whether new appointments to existing charities have to make the same declaration. However, the charity does not have to provide any evidence that vetting of potential board members was undertaken to charity stakeholders. Furthermore, the Charities Act (2005) is silent on the basic duties and responsibilities of the Board members[46] such as;

- The recruitment, appointment or removal of a Board member
- Procedures for the conflict of interest – including financial conflicts of interest
- Compensation of the board members
- Review of a board member's performance
- Disputes procedures

In New Zealand, the contact details of the board members, like phone numbers and email addresses, are optional and not included on the Charity register. Moreover, there is very little information about how a New Zealand charity board member is

[44] Charities Act 2005, s16
[45] This is called *Officer certification*
[46] It is noted that the Trustee Act 1957 does cover this for charitable trusts but does not apply to other legal forms of charities

compensated, their qualifications to hold a charity board position and whether that person holds multiple charity board positions (both within the charity and in other charities).

In Te Runanga o Ngai Tahu ("TRONT"), for example, there are a small number of board members that each earned more than $1.7 million annually in 2013 (Gousmett, 2013). The TRONT company reports that more than 44 directors (board members) earned in total, more than $5m in compensation and short-term benefits (Newman, 2014). One received a 38% annual increase in their waged salary (Gousmett, 2013). These are astonishingly high board salaries paid by a New Zealand registered charity. However, there are few ways in which an external stakeholder can either confirm or get access to this information (Newman, 2014). This demonstrates the poor transparency and accountability of charity boards in New Zealand.

In contrast, Australia and England and Wales demand evidence from a charity that a banned board member/director search was undertaken before every board appointment is made. Only England and Wales, where board compensation is discouraged, demands that the charity reveals how charity board members are compensated, and their performance reviewed. Canada demands that the top 10 paying positions are listed.

Furthermore, Australia and England and Wales have accountability expectations of a charity's board. England and Wales demands charities produce a Trustee Annual Report. This is not unlike an annual report expected from the directors of a company. It is an extensive document that communicates all the non-financial information about the charity (this is discussed later in this chapter).

In the case of Australia, five governance standards [principles] compels the governing body of the charity to make more information publicly available; however, this does not always result in a report that has to be submitted to ACNC. The governance rules are detailed in Table 1. It is similar to a best practice guide that can have implications if the board fail to follow it. As a result, Australian charities are disclosing more non-financial information under the new regime.

New Zealand does not compare favourably in this area; board members are not held to the same high standards of accountability used in England and Wales and

Australia, and New Zealand continues to rely on the common law approach. Listing the compensation made to board members is disclosed on a voluntary basis in New Zealand however there are likely to be significant changes to this area of law in the near future given the Law Commission has released recommendations for a new Trustee Act but also considered changes to charitable trusts and corporate trustees (Law Commission, 2013).

Table 1 Australian governance standards for charities

Standard One	Purposes and Not-for-profit nature	Charities must be not-for-profit and work towards their charitable purpose. They must be able to demonstrate this and provide information about their purposes to the public.
Standard Two	Accountability to members	Charities that have members must take reasonable steps to be accountable to their members and provide them with adequate opportunity to raise concerns about how the charity is governed
Standard Three	Compliance with Australian laws	Charities must not commit a serious offence (such as fraud) under any Australian law or breach a law that may result in a penalty of 60 penalty units (currently $10 200) or more.
Standard Four	Suitability of responsible persons	• be satisfied that its responsible persons (such as board or committee members or trustees) are not disqualified from managing a corporation under the *Corporations Act 2001 (Cth)* or disqualified from being a responsible person of a registered charity by the ACNC Commissioner, and • remove any responsible person who does not meet these requirements.
Standard Five	Duties of responsible persons	Charities must take reasonable steps to make sure that responsible persons are subject to, understand and carry out the duties set out in this standard.

(As quoted from Australian Charities and Not-for-Profit Commission, 2015)

2.5.4 Protection of the Charity Assets

The accountability and management of charity assets are necessary because all charities, whether large or small, have assets. A significant part of charity accountability is the charity effectively employing its assets and resources if it is to meet its objectives. Moreover, a charity stakeholder will track a charity's assets over time so a charity needs to have accountability mechanisms to ensure effective protection of its assets (UK Parliament, 2015). Namely, there should be express procedures for the management of charity assets such as

- A statutory lock on all charity assets
- Up-to-date valuations of charity assets such as land and buildings
- Procedures for the sale and purchase of charity assets
- Procedures for the disposal of charity assets if the charity is dissolved/winds up.

The Charities Act (2005) appears to have no express provisions that lock a charity's assets [47] so as to prevent either a person or organisation from gaining an inappropriate benefit from the charity's assets (Cordery & Sinclair, 2014b). Furthermore, there is no regulation that monitors the transfer of charity assets or the disposal of charity assets (Barker, 2014; Cordery & Sinclair, 2014b). If charity status is revoked or ceases to operate, there is neither regulation nor guidance for a charity to pass on its charitable assets to another nominated charity (unless it is stated in the charity's deed or mandated by its legal form) (Young, 2010). Finally, there is no supporting document that can be accessed by the public that explains what happened to a de-registered charity's assets.

In contrast, an Australian registered charity will automatically have a statutory asset lock placed upon its assets, and if that charity ceases to operate, then the assets must be disposed of within its charitable purpose objectives (Australian Charities and Not-for-profits Commission, 2013b). This statutory asset lock applies even if the charity does not have it written into its charity deed.

In Canada, there is a limited asset lock; it is dependent on whether the charity is considered a social enterprise. This relates to the charity's legal form rather than a statutory lock in any part of Canada's tax legislation.

In the case of England and Wales, an automatic statutory lock is placed on all charity assets[48]. It's a comprehensive asset lock (more commonly known in the England and Wales as a 'hard lock') so even the transfer of assets out of an

[47] It is noted that certain legal charity forms, such as incorporated societies and charitable trusts, have asset lock provisions in the charity deed. The Trustee Act 1957 s27 also prevents any charity trustee from gaining any personal benefit from the charity assets inappropriately. However this does not apply to the ordinary charity board members.
[48] Charities Act s20-21

operating charity are prevented unless the transfer meets certain requirements and is approved by the Charity Commission (UK) (Barlow, 2013; Case Kent, 2015).

This is an area where New Zealand compares unfavourably; the board has the ultimate responsibility of safeguarding a charity's assets, but in New Zealand, this is not a legal obligation unless it is written into the charity deed. The present charity legal framework is silent on this point in New Zealand. An intervention into any inappropriate transfers of charity assets can only occur via the common law framework or if the charity is caught by the Charitable Trustee Act 1957.

2.5.5 Financial Reporting

The production of financial reports is an important aspect of charity accountability simply because it has a bearing on how well a charity is doing financially. However, historically charities in common law countries have had to provide little accountability by way of financial reports because initially they were not required and even when they were required, few charities complied (Bird & Morgan-Jones, 1981; Charities Commission (NZ), 2010). Hence, this is another area where there have been some significant law reforms in most common law countries.

Some New Zealand charities regularly declare in the notes to their financial reports that '*the charity is not publicly accountable'*. The basis for this declaration lies in the application of the accounting standards used by the charities – Public Benefit Entity Financial Standards ('PBEAS'). Therefore before we proceed to examine the financial reporting of charities, we need to clarify why some of New Zealand's charities consider themselves not publicly accountable.

2.5.5.1 The public accountability of New Zealand's charities

The new [revised] PBEAS introduced on 1st April 2015, uses the definition of public accountability found in the public sector where the importance of public accountability is recognised. New Zealand has a number of Acts that provides 'public accountability'[49]. Regardless, most of New Zealand's charities do not meet the External Reporting Board ("XRB") criteria set out the guidance sections 71 – 74 that would make them publicly accountable (External Reporting Board (NZ),

[49] These include the Judicature Amendment Act 1972, the Ombudsmen Act 1975, the Official Information Act 1982, the Public Finance Act 1989, the New Zealand Bill of Rights Act 1990, the Fiscal Responsibility Act 1994 and the Public Audit Act.

2015a). Only those charities that work in the area of public financing such as credit unions, co-operative banks and superannuation schemes are held to be publicly accountable[50],[51].

As a result, most New Zealand charities are not held to be publicly accountable and a declaration is usually found in their financial reports. For example, in the financial notes of the *New Zealand Red Cross Foundation Incorporated* is the following declaration '*The Foundation is a qualifying entity within the Framework*[52] *.....as it qualifies on the basis that it is not publicly accountable……'* (New Zealand Red Cross Foundation, 2014, p. 8)[53].

However, the PBEAS (2015) have placed higher reporting and disclosure requirements upon the charities, and these have grown the public's expectations of greater accountability from the charities (Grant Thornton, 2012). Furthermore, the commentary to the Financial Reporting Act 2013 expressly states that '*the indicators of financial reporting are public accountability*…" (Chartered Accountants Australia + New Zealand, 2015). Therefore the criteria for public accountability found in the new PBEAS runs counter to those expressed by the Financial Reporting Act 2013. This is an unintended consequence and undesirable outcome of the (2015) PBEAS.

Moreover the more common understanding of public accountability is found in the public sector, where any public entity is required or expected to explain or justify its actions or decisions (Controller and Auditor-General, 2016, p. 9). Despite the legal status of charities, many charity stakeholders perceive charities as public sector organisations, especially because many are service providers (Chapman, 2006). While the activities of charities are conceived to be in the public interest, it is important to note that charities are not public sector bodies. Therefore, even though they may be largely funded from the public purse to perform public functions, their activities are outside the accountability mechanisms used to hold

[50] Public Finance Act 1989 and Amendment Act 2013
[51] Reserve Bank Act of New Zealand Act 1989
[52] The qualifying entity with the framework refers to the PBEAS
[53] This charity is different from the *New Zealand Red Cross Incorporated*

public sector bodies to account. Therefore the declaration found in the charity financial reports creates confusion for New Zealand's charity stakeholders.

Charities that show a willingness to make relevant information disclosures about their operations and explain their actions to stakeholders are more likely to perceived as trustworthy by charity stakeholders (Gousmett, 2013). Charity stakeholders can only make informed decisions as to whether they support, continue to support or cease supporting a charity based on the information provided to them by the charity. It is from this perspective that charities then have an [moral] obligation to provide access to the information needed by their stakeholders. Nevertheless New Zealand's charity stakeholders face a double challenge in trying to gain access to relevant information from charities. In the first instance, charities restrict access to information on the basis of their right to provide only that information that is required by the regulators, and secondly charities surmise that full information disclosure could potentially harm future commercial public-private contracts and fundraising activities (Forrer, Kee, Newcomer, & Boyer, 2010; Sinclair, 2010).

Significantly, the financial reports of charities examined in Australia, Canada and England and Wales, have no such declaration and therefore New Zealand compares unfavourably in this area. We now turn to consider the financial reporting regulations of New Zealand's charities and compare it to those of Australia, Canada and England and Wales.

2.5.5.2 Financial reporting regulation

A high level of transparency and accountability in the financial reporting of charities helps to maintain public confidence in the charity sector (Hayes-Knight (Accountants), 2014). However, New Zealand's charities have historically failed to provide financial reports or alternatively have provided a mish-mash of formats that revealed little about the charity and its financial activities (Patel & Cordery, 2011). Consequently, New Zealand introduced a new financial reporting regime for charities in 2015.

This new regime should eventually see a much improved level of financial accountability, transparency and comparability (External Reporting Board, 2013;

Hayes-Knight (Accountants), 2014). The production of financial reports provides charities with the opportunity to demonstrate the accountability for the resources entrusted to it (External Reporting Board (NZ), 2015b, ss 14.1 & 14.2). Moreover, to make sense of the financial reports, non-financial and supplementary information may also be included (External Reporting Board (NZ), 2015b, ss 20).

The XRB[54] took a multi-standard approach to charity financial reporting because it is expected to align better the cost of producing financial reports with the user benefits. The intention is to make it easier and cheaper for charities to prepare their financial reports (Controller and Auditor-General, 2013).

There are four tiers; '1' contains New Zealand largest charities, Tiers, '2', '3' and '4' are respectively smaller (Grant Thornton, 2012). The reports must be GAAP compliant[55]. The smaller charities will prepare very simple accounts in contrast to the large charities in Tier '1', who have to provide a full set of financial reports[56] as well as an independent audit or review engagement assurance (Hayes-Knight (Accountants), 2014; Tod, 2014).

Tier '1' charities now have to include all their trading transactions, bank accounts balances, trading activities and consolidate their accounts if they belong to a charity group (i.e. a group of related charities). In the past, CCNZ allowed charity group registrations and the IRD (NZ) provided tax exemption status to charity groups (on notification from the CCNZ) (Inland Revenue Department (NZ), 2008). However, few New Zealand charity groups published consolidated accounts. Also, there was little or no disclosures about the financial reporting from charity groups which contain commercial, and/or special purpose entities[57].

New Zealand's charities historically do not disclose information about any cross-sector funding (Gill, 2005) or related party transactions unless there is a 'control' relationship (an accounting term which relates to consolidation). Both issues have been identified as a problem within New Zealand (Office of the Auditor General, 2003). Moreover, New Zealand's charities need not disclose if they are working

[54] XRB is responsible for the setting of New Zealand's accounting standards
[55] Generally accepted accounting practices
[56] These are a statement of financial position, comprehensive revenue and expense, net changes in assets/equity, a cash flow statement and notes to the financial reports
[57] These can include investment entities for example

with or for another charity(s). New Zealand's legal framework is silent on these matters. However, the (2015) PBEAS will address both the issues of subsidiaries (both commercial and investment) and related party transactions.

England and Wales is the only jurisdiction that has developed an accounting framework that is conceptually appropriate for charities. All the other countries use the same or similar conceptual framework[58] for both the charity and for-profit sectors. A discussion paper by the Accounting Standards Committee (UK) (1984) recommended that charities need their own conceptual framework and this ultimately led to the development of the Statement of Recommended Practice ("SORP") in 2005 by the CCEW. SORP establishes the benchmarks for financial reporting and annual report production for all charities regardless of their size or complexity.

Over time, separate SORP's have been developed and produced to provide guidance to particular classes of charities (for example, SORPs applicable to Registered Social Landlords) (Charity Commission (England and Wales), 2013b; Productivity Commission (Australia), 2010). Moreover, SORP continues to be regularly reviewed and amended (Hyndman, 1990; Williams, 2004) and the Charities (Accounts & Reports) Regulations (2008) now complements SORP. The reporting regulations set out the reporting standards (financial and non-financial) that a charity must achieve to be compliant; the reports result in an open and honest approach to reporting on the how the charity worked, collected funding, spent funds and how it paid its staff.

Similar to New Zealand, Australia and the Canada have introduced new accounting standards for charity financial reporting; which include tiers and uses a GAAP[59] approach. While this is an improvement, this approach is still not specifically designed for charities. This means that charities in New Zealand, Australia and Canada have to use an accounting conceptual framework that does not enable charities to communicate their operations as effectively as their counterparts in

[58] An accounting framework provides the objectives of financial reporting, identifies the users, the characteristics of financial reporting, the definitions (like assets, liabilities for example), and the concepts for recognising and measuring these elements in financial reports
[59] Generally accepted accounting practices

England and Wales. However consolidated or group accounts and audit certificates are required by all four countries for their largest charities.

Also, all four countries have similar approaches to business activities, which impacts on the cross-sector funding and related party transactions of charities however their outcomes are quite different. In Canada, business activities are severely restricted by Canada's tax legislation and the disbursement quota regulation[60]; a charity has to be exclusively charitable, even to the extent that its for-profit subsidiaries must directly further the charity's objectives (*related business)* or the charity risks losing its registration status (Canada Revenue Agency, 2013a, 2013b). By implication, Canada's charities can only carry out related business because the charity will automatically lose its charitable status if it operates an unrelated business.

Australia takes a similar position to Canada in its approach to the business activities of a charity, however, Australia does not have disbursement quota regulation or restrictive tax regulation like Canada does. Despite the lack of regulation in Australia, ACNC follows the policy of aggressively monitoring cross-sector funding and related party transactions and there is a clear expectation of transparency and disclosure from charities in regards to this aspect of the financial reports. Regardless, Australian charities receive their revenues tax-free, even from their commercial subsidiaries (Harding et al., 2011). However, since the significant reform of Australia's charity and the not-for-profit legal framework, and the creation of the ACNC, Australian charities are compelled to disclose their wealth for the first time. As part of the reforms, the charities have to prove that they provide public benefits in return for their charitable status and this has had an impact on the business-related activities of Australia's charities (Ridge, 2011).

In contrast, England and Wales does not allow all the profits of a charity's for-profit [subsidiary] arms to go untaxed; only the portion (gift aid) from the for-profit subsidiary given to the parent charity is untaxed, all other incomes are taxed. Cross-sector and related party funding is also closely monitored in England and Wales,

[60] More than 80% of revenues earned must be spent on its charitable objectives.

with a greater expectation of transparency and disclosure from charities in regards to these matters.

New Zealand's unique approach means that charity commercial business arms incur no tax liability (Gousmett, 2013); New Zealand's largest charities banked more than $1 billion in retained profits in the 2013-14 financial year (Newman, 2014). It is estimated that 4000 charities in New Zealand hold more than $7.3 billion in assets (Wallace & Nola, 2013). Furthermore, there is no cap on the wealth a charity can accumulate in New Zealand and more than 52% of charities that receive government grants have accumulated reserves of at least half of their total asset value (Donaldson, 2014). As a result, New Zealand has become an on-shore tax haven for charities.

New Zealand's legal framework is silent in significant areas of financial reporting including cross-sector funding, gifting between charities and wealth accumulation. The consequence of which are that New Zealand's charities are not as transparent about their activities as charities in Australia, Canada and England and Wales. Transparency is a necessary condition of exercising accountability; without it, it is impossible to judge whether charities have discharged their financial accountability appropriately. So while regulation has made some gains in this area in New Zealand, there is still further work to be done.

2.5.5.3 Annual Report

Coy et al (2001) stated the accountability aspects of an annual report includes it accessibility and distribution. Stakeholders should be able to easily get a copy of an annual report if necessary. Hooks et al. (2001) also stated that beneficiaries should be able to get a full annual report rather than pamphlets with summarised financial statements and performance highlights. However, the effectiveness of information disclosure is to some extent, reliant on whether a charity has a guiding regulatory framework that signals the appropriate levels of disclosures it must make (Beattie & Jones, 1994; Beattie & Pratt, 2002). This section specifically evaluates whether a charity has to provide an annual report, and if not, whether there are other supplementary documents in its place.

2.5.5.3.1 New Zealand

New Zealand's charities are not required to file an annual report with DIA, and this is another significant gap in the Charities Act (2005). The absence of an annual report means that there is no single place where the public can go to for information about a charity or its activities. Registered charities are not forthcoming with information unless they are compelled to by regulation (Hooper et al., 2007; Sinclair et al., 2010). The only reports New Zealand's charities are required to file is its annual return and a set of financial reports[61].

Some New Zealand charities use a Statement of Community Contribution, a Statement of Objectives and Outcomes and a Statement of Social Responsibility. These statements communicate what the charity is doing, the year's successes and the future intentions of the charity (Fisher & Jones, 2010). However, it is important to note that productions of these statements are voluntary, and for the most part – New Zealand's charities do not produce them. Furthermore, there is no space on the Charity register to gain access to these reports even if a charity produces one.

2.5.5.3.2 Australia

Australian charities do not have to produce an annual report either, but the record keeping obligations of Australia's charities have increased since the establishment of ACNC. In essence, a charity will have to submit an annual information statement along with an annual financial report. These documents record all the charity's charitable activities, programs and service records as well as financial records. Furthermore, the governance body of the charity has to explain the charity's activities and financial records on request by the ACNC (Australian Charities and Not-for-profits Commission, 2013a).

2.5.5.3.3 Canada

Charities in Canada at a federal level are not required to file an annual return as such, however on a provincial level, this differs from state to state (Quebec, for example, requires an annual return). At a federal level, all charities are required to file a Registered Charity Basic Information Sheet (TF725) on registration, and a

[61] These are filed annually

Registered Charity Information Return (T3010 (13)) annually (*this is effectively an annual return)*.

The Registered Charity Information Return includes information about the charity's programs and general information. Charities are required to describe how they operated, how their programs (on-going and new) met its [registered] charitable purposes, whether they worked with another organisation and if there were any significant gifts made to other donees or charities. While the information looks extensive, this return is made on a 2-page form supplied by the CRA; any additional information or details have to be attached to additional pages provided by the charity. Included in this annual information return are the financial statements for that period.

2.5.5.3.4 England and Wales

England and Wales is unique from other jurisdictions in that it requires the board members to produce an annual report; it is called the *Trustees Annual Report.* This report is not a form-filling affair; rather the board members have to report what the charity is doing, where the funding came from and how they spent the charity money – in the same manner as a company's annual report. Also the board members must demonstrate the public benefit that ensues from the charity's activities; the greater the earning capacity of the charity, the greater detail demanded in the *Trustees Annual Report*. This places an [accountability] obligation upon the board to make sure that the charity is solvent, well-run and delivering the public outcomes that the charity was set up to do (Charity Commission (England and Wales), 2013b).

2.5.5.3.5 Summary of Annual Reporting

This is also developing area for charity accountability and one that was addressed by at the International Meeting of Charity Regulators 2014 (Australian Charities and Not-for-Profits Commission, 2015). England and Wales is the only jurisdiction that has made significant progress in this area however it is also noted that it has the most mature charity sector. This is one area where the jurisdictions of Australia, Canada as well as New Zealand could learn much from England and Wales, even though there have been significant improvements made by all the jurisdictions.

In (2015), under-reporting by the charity sector was identified as an on-going issue by a charity expert panel in England and Wales, and further reform of the regulatory frameworks was needed to address this gap (Isaac, 2015). The charity expert panels considered this as a very important issue, however, this is an area which has been largely ignored by the regulators in all the other jurisdictions (Isaac, 2015).

2.6 Summary of the Chapter

This chapter presented New Zealand's charity legal framework and compared it to that of Australia, Canada and England and Wales. The international comparison showed that all four countries are using their legal frameworks in moving charities towards greater transparency and accountability of the charity sector.

The effectiveness of charity regulators relies to some extent on the authority they have; the more authority, the better the accountability of the sector; this also improves the public's trust and confidence in the sector. Deciding the scope of the charity regulators' authority is an on-going challenge for all jurisdictions and not just New Zealand. Further research into the effectiveness of charity regulators and their relationship to their authority could provide more insights to this area. The comparison of the charity regulators is summarised in Table 2.

Table 2 Summary of International Comparison of Charity Regulators [62]

Elements of Charity Regulators	New Zealand	Australia	Canada	England & Wales
Model of Regulation	Part of Government office - attached to DIA	Independent regulator - with support functions of tax office	Part of Government office - attached to CRA	Standalone Commission
Sole decision-maker of charitable status	×	✓	✓	×
Registration	Voluntary	Voluntary - but pre-requisite for tax benefits	Voluntary - but pre-requisite for tax benefits	Voluntary - exception for charities with income <£5K
Statutory reports Available via Public On-line Register	✓	✓	✓ - however there are limitations on information disclosed	✓
Deregistration	✓	✓	✓	✓
Enforcement Penalties	✓	✓	✓	✓
Use of Charity's formal Name on register	✓	✓	✓	✓
Charity Tax Exemption Benefits	✓	✓	✓	✓
Other Entity's Enjoying Tax Exemption Benefits	✓ (donee organisations*)	×	×	✓ (qualifying bodies*)

Some gaps in the current New Zealand legal framework were identified in this chapter. New Zealand lags behind all other countries (Blumberg, 2012). Part of the problem lies in the fact that there has been little charity stakeholder participation in the development of the New Zealand's charity legal framework. The comparison of the charity regulations is presented in Tables 3, 4, 5 and 6.

[62] * Donee organisations are registered with the IRD (NZ) and not with DIA; similarly qualifying bodies in the UK are also registered with the tax agency (UK) and not with the Charity Commission (UK)

Table 3 International Comparison of Annual Return Content – Charity Details

		New Zealand	Australia	Canada	England & Wales
Annual Return		□	□	□	□
1.0	**Charity's legal name**	✓	✓	✓	✓
	Any other names it is known by	✓	✓	✓	✓
		□	□	□	□
2.0	Charity Deed	×	✓ (not publicly available)	✓ (not publicly available)	✓
		□	□	□	□
3.0	**States the charity's registered number**	✓	✓	✓	✓
		□	□	□	□
4.0	**Names the officers of the Charity**	✓	✓	✓	✓
	Full name	✓	✓	✓	✓
	Date of Birth	×	✓	✓	✓
	Address	×	✓	✓	✓
	Telephone	×	✓	✓	✓
	Email	×	✓	✓	✓
	Details of compensation	×	×	× (the 10 highest paid positions are listed)	✓
	Duration of appointment	×	✓	✓	×
	Lists the methods for recruitment, appointment and removal of charity board members	×	×	×	×
	Identify if a search for a banned or disqualified person was done for each officer	×	✓	✓	×
	List the details of how compensation for board members is approved and reviewed	×	×	×	✓
	Arm's length status to other board members	×	×	✓	×
		□	□	□	□
5.0	**Charity Contact Details**	✓	✓	✓	✓
	Address	✓	✓	✓	✓
	Telephone	✓ (optional)	✓	✓	✓
	Email	✓ (optional)	✓	✓	✓
	Website Address	✓ (optional)	✓	✓	✓

Table 4 International Comparison of Annual Return Content – Charity Board Reporting

		New Zealand	Australia	Canada	England & Wales
Board Members/Governance Report					
6.0	Provide a Board Members/Governance Report	×	✓	×	✓
7.0	List the charity's activities for the last 12 months	×	✓	✓	✓
8.0	Reveal whether they work with a government agency	×	✓	✓	✓
9.0	Present a report to that agency (not DIA)	×	×	✓	×
10.0	Reveal whether they work with another charity(s)	×	✓	✓	✓

Table 5 International Comparison of Statutory Regulations

		New Zealand	Australia	Canada	England & Wales
11.0	**Provides the Legal Form Used**	×	✓	✓	✓
	Provides the registered number if listed on another register	×	✓	✓	✓
		□	□	□	□
12.0	**The charitable purposes are provided**	✓	✓	✓	✓
	Information about what the charity does (*How the charity helped)*	✓	✓	✓	✓
	List the charitable category (*What does the charity do?)*	✓	✓	✓	✓
	Regions and/or countries where the charity works	✓	✓	✓	✓
	Names the beneficiaries of the charity (*Who the charity helped)*	×	✓	✓	✓
	Names the number of gifts made and to whom	×	✓	✓	✓
	Number of paid full-time and part-time employees	✓	✓	✓	✓
		□	□	□	□
13.0	**List the number of volunteers involved in the charity during the year**	✓	✓	✓	✓
		□	□	□	□
14.0	**Serious Incident report**	×	×	×	✓
		□	□	□	□
15.0	Statutory Lock on Charity Assets	×	✓	✓	✓

Table 6 International Comparison of Annual Return Content – Financial Reporting Details

		New Zealand	Australia	Canada	England & Wales
Financial Reports		✓	✓	✓	✓
16.0	GAAP Approach	✓	✓	✓	✓ (SORP Approach)
17.0	Group/Consolidation	✓	✓	✓	✓
18.0	Audit Certificate	✓	✓	✓	✓
19.0	**Statement of Performance**	✓	✓	✓	✓
	List items of income	✓	✓	✓	✓
	List items of expenditure	✓	✓	✓	✓
	Provides details of fundraising expenses separately	×	×	✓	×
	Provides details of program costs	×	×	✓	×
	List any details of overseas income received	✓	✓	✓	✓
20.0	**Statement of Position**	✓	✓	✓	✓
	List of current and non-current assets	✓	✓	✓	✓
	List the charity's policy for level of reserves held	×	×	✓	×
	List of current and non-current liabilities	✓	✓	✓	✓
	List any details of overseas expenditure	✓	✓	✓	✓
21.0	**Cash flow Statement**	✓	×	×	×
22.0	**Consolidated Accounts**	✓	✓	✓	✓
23.0	Reveals Cross-sector Funding	×	✓	✓	✓
24.0	Reveals Related Party Transactions	×	✓	✓	✓
25.0	Has A Disbursement Quota	×	×	✓	×
26.0	Allows wealth Accumulation	✓	✓	×	✓
27.0	Statements posted on the register	✓	✓	×	✓
28.0	Statements signed off by Board	✓	✓	✓	✓
29.0	Filing date after Balance Day	6 months	6 months	6 months	10 months

The regulation provides the most basic of accountability because reports and information disclosure statements are often produced simply for compliance purposes. While targeted regulation raises the accountability of the charity sector, weak regulation or gaps in the legal framework do not improve the accountability of the charity sector.

New Zealand continues to lag behind the other countries in its approach to regulating the charity sector, taking a light-handed approach to introducing regulation (Cordery, 2011). This has resulted in unintended outcomes; the ability of charities to declare themselves not publicly accountable for example, gaps in the regulation such as the failure to lock charity assets, poor accountability from the charity board members, lack of transparency about board member recruitment/appointments/removals, gaps in the financial information reporting and gaps in general information from charities (the absence of the annual reporting requirement for example).

It is acknowledged that New Zealand's charity legal framework is not as mature as that of England and Wales nor Canada; both those countries have a long history of charity regulation. However, Australia's charity regulation is relatively new in comparison to New Zealand, yet it has proven to be more effective despite the threat to ACNC's existence.

The broader conclusion is that New Zealand's charity legal framework needs to be amended to remove the weak regulation or gaps in the legal framework if the accountability of the charity sector is to improve. Furthermore, the accountability of New Zealand's charities are deeply connected to the public trust and confidence in the charity sector, yet there have been few studies that look at how charity stakeholders believe the accountability of the charity sector could be improved. The purpose of this study is, therefore, to ascertain what information charity stakeholders want to see disclosed if charities are to discharge their accountability adequately. Therefore the next chapter presents the stakeholder perspective as the theoretical lens for this study and seeks to understand how this is connected to the accountability of the sector.

Chapter 3
Improving the accountability of New Zealand's Charities

3.1 Introduction

In the preceding chapter, we set out the charity regulatory framework for charities in New Zealand. I concluded that the accountability of charities had been limited to whatever regulations demanded of them. Furthermore, New Zealand's charity regulator has, for years, failed to challenge the charities' claim of compliance and while this landscape is changing; the information needs of New Zealand's charity stakeholders are currently not being met. I also argued that despite the reforms of the regulatory framework, there is compelling public interest that the accountability of New Zealand's' charities needs to improve.

To achieve genuine changes in charity accountability, it is essential the charities need to be a great deal more involved. And while the charities have for the most part agreed with the need to improve their accountability, this has not been supported by research in New Zealand's charity sector (Hooper et al., 2007; Sinclair, 2010; Sinclair et al., 2010). The questions that are turned to now are; what is charity accountability?; to whom is accountability owed and finally what form this accountability should take?

This chapter is presented as follows

3.2 Accountability of charities

3.3 Accountability to whom

3.4 The scope of accountability

3.5 Summary of the chapter

3.2 Accountability of charities

Accountability has been the focus of donors, taxpayers, the regulators and general public in New Zealand since the investigation by the Ministry of Social Welfare highlighted the issues of accountability in the charity sector in 1989[63]. Subsequent studies carried out by Newell in 1994 went further to make recommendations to

[63] Ministry of Social Welfare, (1989). *Working party on charities and sporting bodies.*

bring improved charity accountability. However these recommendations went largely ignored by New Zealand's government. Regardless, these studies has led to the emergence of common accountability norms for charities, such as financial reporting (Sinclair, 1995). As a consequence, accountability is becoming an integral part of charity reporting systems (Ebrahim, 2010a).

However, there are no basic, widely promoted and co-ordinated accountability standards that the charities can use (Ferronato, 1998) even though there have been many different accountability frameworks that have been developed in the literature (see Williams & Taylor, 2013 for a review of the different accountability frameworks). For this reason, independent charity monitors [watchdogs] is an emerging industry in countries like the United States and Great Britain even though they do not have a strong presence in New Zealand yet. Voluntary regulatory bodies such as charity monitors are considered to be better able to evaluate the complexities of charity accountability (Szper & Prakash, 2011).

3.2.1 Charity monitors

Charity monitors[64] are considered to be voluntary regulatory bodies that could address the accountability of the charity sector (Szper & Prakash, 2011). Charity monitors are attempting to bring the charities to account according to accountability standards which they have created. Each year, the web traffic through charity monitors increases by at least 20%, with the largest US-based charity monitor exceeding more than 9 million visitors a year (Norris, 2016). Furthermore, charity monitors are also considered as a low cost option in comparison to increased regulation because usually charities will respond to a poor rating from a charity monitor (Szper & Prakash, 2011; Tinkelman, 2009).

Arguably charity monitors go to great expense to compare, evaluate and recommend charities – even if they do not have complete information about the organisation (Bialik, 2008). Much of the information sourced for the evaluations comes from both the charity's annual return (in the case of the USA – this is the form 990) and the charity's voluntary disclosures. The endpoint for most charity monitors is a ranking of the charities however this is not the case of all charity

[64] Also known as charity watchdogs

monitors. The definitions of charity accountability are a good indicator of what the charity monitor's overall purpose.

For example, Charity Navigator, a United States based charity monitor, which ranks the charities, uses the following definition; *"Accountability is an obligation or willingness by a charity to explain its actions to its stakeholders and transparency is an obligation or willingness by a charity to publish and make available critical data about the organization"* (Charity Navigator, 2015). In contrast, GuideStar, another United States based charity monitor, does not rank the charities. Instead, GuideStar collects the published information about a charity – then reformats the information into an easy-to-read user friendly format. Hence GuideStar does not have an accountability definition – instead, it has a mission statement; "*to revolutionize philanthropy by providing information that advances transparency, enables users to make better decisions, and encourages charitable giving"* (GuideStar, 2015).

Most charity monitors work within their national jurisdiction. Some examples are *Charity Awareness Monitor (UK), Charity Navigator (USA), Givewell (USA), Charity Guide (USA), and American Institute of Philanthropy (USA), RememberMe.com (Australia), The Charities Book (Australia), CharityRank.ca (Canada)* and *Charity 100 (Canada).*

What is evident is that charity monitoring organisations are, as an emerging industry, experiencing rapid growth and reflecting the public's need for greater accountability from charitable organisations. On the one hand this emerging industry is commended for attempting to bring charities to account, yet, on the other hand, the industry itself is facing growing criticism and condemnation (Bialik, 2008). The main issues are the benchmarks that the charity monitoring organisations are using. Each charity monitor constructs their benchmarks and then provides their ranking methodology. As a consequence, significant information gaps exist in the way the charity monitors arrive at their results and currently no direct comparison between them possible.

This was illustrated by Bialik (2008) who took five charities and then proceeded to rank them using three different charity monitor's benchmarks. In that study, Bialik (2008) was able to show that where one charity gained A+ ranking by one charity

monitor – the same charity failed when ranked by a different charity monitor. Furthermore, an earlier study at Stanford University found that the charity monitors lack a clear accountability framework for their ranking/rating systems. The Stanford study commended the charity monitors for their initiative. However, the researchers felt that there is a lot more work to be done '*before they, or anyone else, can provide meaningful guidance to donors'* (Lowell, Trelstad, & Meehan, 2005, p. 45). Another critic described the charity monitors of grossly oversimplifying the charity information resulting in the charity stakeholders being misled (Soper, 2007). This was reiterated when a study examined 12 charities profiled by the Financial Times as being excellent and found that there was no correlation between their study and that of the rankings by the biggest charity regulator in the country (Stannard-Stockton, 2007).

For this reason, this review of the charity monitors questions whether the benefits derived from charities monitors signal improved charity accountability or just adds more noise to the calls for accountability from charities. One of the biggest charity monitors in the United States, Charity Navigator, has revamped its rating system several times since it was established (Blumberg, 2011) and attracted criticism for attempting to manipulate charity performance measurements (Norris, 2016). In particular, charity stakeholders need to be able to trust the information coming from the charity monitors, and currently, this is an area of debate because of the adversarial positioning between the charities and the charity monitors (Norris, 2016; Szper & Prakash, 2011).

Despite these criticisms, Dhanani (2009) used a charity monitor's data collection for the basis of her study in England and Wales. Furthermore, charity monitors are gaining greater coverage with the charity stakeholders because the regulators are proving ineffective in elucidating information from charities (Lowell et al., 2005). So there is some suggestion that charity monitors do enhance charity accountability but as yet there is no standardised accountability framework that contains both mandated and voluntary disclosures that can be taken from the work of charity monitors.

Moreover, New Zealand does not have a specific charity monitoring organisation. There are opportunistic organisations (these are not charity monitors) that have

taken up the ranking of charities as a way of extending their media reach, and this tends to be the approach that is followed in New Zealand[65]. These organisations do not provide an accountability framework at how they arrive at their rankings.

Yet, discharging accountability means the charity stakeholder's information needs are met; a normative objective that has been widely accepted for financial reporting but one that is not yet established for charity accountability (Connolly & Hyndman, 2013a). Therefore it is necessary to provide clarity on what constitutes 'charity accountability'.

3.2.2 Defining Accountability

Ebrahim (2003b) contended that accountability 'i*s an abstract and composite concept, the term offers a range of possible meanings'* (p. 193). This definition suggests that accountability is a complex concept that covers a variety of different perceptions. Not surprisingly, it has been difficult to find a simple, working definition of accountability that fits within the charity sector (Williams & Taylor, 2013). By its very nature, the charity sector involves many differing roles and tasks, with diverse and conflicting expectations. It is these layers of complexity that make improving the accountability of the charity sector without adversely affecting the work of charities so difficult (Plummer, 1996). However, trying to unpack the complexity of charity accountability is important to both the charities so that they can determine what is expected of them, and the charity stakeholders, who have information needs that are currently unmet (Charities Commission (UK), 2004).

Several academics use the French term compres a rendre – 'to render accounts' [providing accounts] as their starting point to defining accountability (Dubnick, 2011; Mulgan, 2003) while others such as Mulgan (2003) state that accountability '*is the obligation to give an account of what one has done*' (p.10) [held to account]. This view is supported by Brandsen et. al. (2008) who point out the '*actors [accountors] must provide reasons for their actions*' (p.3) and Bovens (2007) who states that accountability is a mechanism where institutions are made responsive to their particular publics by giving an account of their actions. All these factors

[65] Some examples of this are TVNZ and Consumer NZ

imply that a charity must give consideration to its external stakeholders if it is to discharge its accountability. Therefore, charity accountability is much more than legal compliance; it should enable a stakeholder to understand a charity's activities and achievements, its performance, organisational structure, and provide an understanding of a charity's financial position and financial relationships (Connolly & Hyndman, 2013a, 2013b).

Unerman and O'Dwyer (2006) state that '*accountability can be broadly conceived of as a relational issue*' (p. 353) and the exchange between the accountor and the accountee invoke notions of answerability. The accountability relationship affords the accountee rights to question and demand answers from the accountor; the right to be informed and demand further information if need be. As Brinkerhoff (2004) noted, accountability from this perspective means '*having the obligation to answer questions regarding decisions and/or actions'(p. 372).* Although this may be true for most organisations, in the context of charities, this adds another layer of complexity to trying to improve charity accountability.

Notable academic Leat, believes that charities regard themselves accountable differently from other types of entities. In Leat's study, she found that the charities categorised their relationships in three ways.

1. Explanatory accountability – where the charity may have to discharge accountability to these stakeholders, but the stakeholders have no powers to sanction the charity if it does not
2. Full accountability – where the charity is required by law to discharge its accountability or face sanctions from these stakeholders
3. Responsive accountability – where the charity management responds to those who they believe that they have to account to – like funders for example. The worse outcome is possibly a loss of support – so, therefore, this is considered the weakest form of accountability.

(Leat, 1986)

The implications from Leat's study are charities tend to take a narrow view of accountability, dealing primarily with those who have oversight of the sector because they have the powers to sanction (the charity regulator for example). In essence, Leat believed the charities viewed compliance and regulatory enforcement

as the main reason for accountability. For unlike for-profit entities, charities are not subject to the threat of shareholder actions, or oversight from other government agences (apart from the charity regulator). Furthermore, the charity regulator tends to act only if the matters within a charity are serious – and often this a failure of compliance. Therefore there is a lack of incentives for the charity sector to improve its accountability. For this reason, more scrutiny needs to be placed upon the charities by funders, other individuals and other institutions (Anonymous, 2015).

A broader view of charity accountability was adopted by The Panel on Accountability and Governance in the Voluntary Sector (1999)[66] who said the *accountability of charities was the requirement to explain and accept responsibility for carrying out its assigned mandate* because an accountee [charity stakeholder] is then able to make judgements about the information provided to them from the accountor [charity].

Similarly, Kearns (1996), also took a much broader view of a charity's accountability. Kearns believed that charities had a *broad spectrum of public responsibility* and that answerability begins as an important base for charity accountability. Therefore answerability is regarded as an important feature of accountability in that the accountor [the charity] is required to answer for its conduct by providing answers and justifications (Romzek & Dubnick, 1987) and therefore accountability is expanded beyond providing accounts and being held to account.

Consequently, the substantive rationale for information disclosures by providing answers and justifications lies in the fact that the charities will produce information that will lead to greater understanding and new insights of the social issues they succour and how best to remedy them (Candler & Dumont, 2010). From this perspective, the process of collecting information may provide charities with the opportunities to improve their impact and therefore improve their accountability (Ebrahim, 2010a).

The notion that stakeholders can make judgements about which charities they will support has gained greater appeal in the literature more recently (Connolly,

[66] A Canadian study

Hyndman, & Dhanani, 2013; Gray et al., 2006; Unerman & O'Dwyer, 2006). Ebrahim (2010b) argued that accountability as being "*answerable to stakeholders for the actions of the organization, whether by internal or external initiation*" and therefore a charity can be accountable at different levels within and external to the organisation (upward, downward and lateral accountability); a similar approach taken by Dhanani (2009). This approach expands the number of stakeholders that a charity is accountable to (charity stakeholders are discussed more fully in Chapter Four). However, before a stakeholder can make a judgement – they must have access to a charity's information.

The charities have to be willing to act in a transparent, fair and equitable manner by disclosing information to their stakeholders (Bovens, 2007b). However, in the case of charities, this has not been easy to achieve because many charities are reluctant to disclose information about their activities and governance. Part of the issue relates to the fact that New Zealand's charities have been able to operate largely autonomously with little or no legal constraints until the introduction of the Charities Act (2005). Also, charities sit outside the public sector and therefore are beyond the authority of the Auditor-General's Office[67] - even if they receive funding in the way of government grants or service provider contracts. Yet the instrumental rationale for information disclosures is that it improves the lives of the charity's beneficiaries – charity stakeholders want to know their donations have made a difference (Ebrahim & Rangan, 2010)

As a result, the literature identifies a lack of mechanisms provided by the accountor [charities] to the accountee [charity stakeholder] to access types of information; in particular information about decision-making [both procedural and processes], various types of outputs and outcomes, compliance with regulations, financial management and any other relevant activities that the charity is involved in (Gousmett, 2013; Jamali, 2010; Luo, 2005). Without the intervention of legislation, access to a charity's information is difficult to achieve for New Zealand's charity stakeholders (Cordery, 2011).

[67] The Auditor-General carries out annual audits, performance audits and may enquire into any matter relating to a public entity's use of its resources. Retrieved from the Controller and Auditor General (NZ). http://oag.govt.nz/about-us/frequently-asked-questions/type-of-work

However, charities can be economically important and/or have significant infrastructures and operations in the communities in which they operate (Coy et al., 2001; Koenig-Archibugi, 2004). Under these circumstances, Coy et. al. (2001) argue accountability implicitly relates to the accountee's right to information; a normative rationale that recognises relevant [quality] information about the charity [and their operations] should be provided in a timely, convenient (accessible) manner to the accountee (Connolly & Dhanani, 2009; Cordery & Baskerville, 2005; Cordery & Baskerville, 2011; Dhanani, 2009; Hyndman, 1991).

Specifically, transparency relates to information disclosure from a charity; the extent to which a charity reports to the wider public about its activities and how transparent its decision-making is vis-à-vis to its stakeholders (Jordana & Levi-Faur, 2004). This is a new reality for New Zealand's charity sector; there is no doubt that the charity sector needs to respond to the charity stakeholder demands for more information disclosures if it is to discharge its accountability.

3.2.3 The definition of accountability for this investigation

The definition from the Panel on Accountability and Governance in the Voluntary Sector (1999) is adopted for this investigation. Accordingly, charity accountability involves three aspects:

- Taking into consideration the public trust in the exercise of its responsibilities
- Providing detailed information showing how its responsibilities have been carried out and what outcomes have been achieved, and
- Accepting the responsibilities of its outcomes, including problems created or not corrected by the charity, or its officials or staff.

(p.11)

In essence, the accountor [individual or organisation] has an obligation to provide explanations and justifications for the reasonableness of their actions [conduct] to the accountee [individual or organisation] – and that the accountee can demand further information, pass judgements and impose sanctions. This is more than consultation and participation which Bovens (2007a) describes as inputs (p. 453).

3.3 Accountability to whom

Charities must manage an increasingly complex web of relationships with stakeholders (that is groups, individuals or other organisations that have a stake in the decision-making or actions of a charity[68]) (Connolly, Hyndman, & Dhanani, 2013). Accordingly, charities, should recognise that they should be accountable to a wider community (Buse, 2010).

Consequently, there is much in the literature that champions charities developing stakeholder relationships (Beattie & Pratt, 2002; Connolly & Hyndman, 2013b). The literature also raises the issue of to whom charities should be accountable and more importantly who has the right to information about the charity (Ebrahim, 2003a; van Iwaarden, van der Wiele, Williams, & Moxham, 2009).

Stakeholder theory therefore has two significant implications for this investigation. The first is that charities are separate from their stakeholders (Freeman, 1984; Laplume, Sonpar, & Litz, 2008) and this separation imposes an accountability responsibility on charities (Ebrahim, 2003b). For this reason, stakeholder engagement is identified by charity regulators as an appropriate response from charities so the legitimate information needs of its stakeholders are met (Connolly, Hyndman, & McConville, 2013).

Secondly, charities have to recognise that stakeholders have a stake in charities (Child & Marcoux, 1999; Freeman, 1984) and through stakeholder engagement, a charity can evaluate what is important to stakeholders so that a charity can discharge its accountability appropriately. It is from this perspective, that the Charity Commission (England and Wales) has linked the accountability of charities to charity stakeholders in several of its reports (Charities Commission (UK), 2004), something DIA has not undertaken to date.

The Charity Commission (England and Wales) goes further by insisting charities that engage with stakeholders will build a relationship of mutual trust and co-operation which ultimately increases the public's trust and confidence in the sector; a common goal for both the charities and Charity Commission (Connolly,

[68] Freeman (1984) described stakeholders as parties that are affected or can affect the operations of a firm

Hyndman, & McConville, 2013). Consequently, the regulator in England and Wales has worked towards the development of a positive relationship with charity stakeholders. For example, formal consultation with charity stakeholders is the basis for SORP development; the revision of the (2005) SORP resulted in significant stakeholder engagement (more than (1000) stakeholders) and took almost a year (Connolly, Hyndman, & McConville, 2013).

This investigation recognises the responsibility of charities to give account to a broad range of charity stakeholders[69] even though by law, the charities have to only account to the charity regulator in New Zealand. Stakeholder theory is particularly relevant for this investigation because it identifies the accountability owed by charities to a broad range of stakeholders (Donaldson & Davis, 1991; Freeman, 1984).

As previously stated, New Zealand's charities have been able to operate largely unfettered until the introduction of the Charities Act (2005). One of the enduring results from this state of affairs is that New Zealand's charities have regarded their affairs as largely private (Cordery & Baskerville-Morley, 2005; Cordery & Halford, 2010) and furthermore, they have had access to certain privileges like tax exemptions (Gousmett, 2013). While the introduction of new legislation over the last few years has changed this landscape, the fact that the charities operated and existed for more than (100) years without legislative interference has allowed charities to gain significant economic and social power in New Zealand society (Barker & Yesberg, 2011; Gousmett, 2013). Furthermore, New Zealand's charities partner with the New Zealand government to deliver all levels of social welfare programs (Cribb, 2006).

For all these reasons, the [diverse] role of charities in New Zealand's society is critical as it is important. In many areas, charities operate almost like a corporate monopoly – for example, *The Priory in NZ of the Most Venerable Hospital of St John Jerusalem* operates New Zealand's emergency ambulance services. It is under these circumstances, that it is argued here that charity stakeholders have a right to demand a broad range of accountability from charities. Therefore, the effective discharge of accountability by charities must involve stakeholders because only a

[69] Identification of charity stakeholders is discussed in the next chapter

stakeholders can evaluate whether a charity has discharged its accountability appropriately.

3.4 The scope of charity accountability

Accountability is discharged through appropriate information disclosure being made available to charity stakeholders. How charities account to its stakeholders is very important and this is considered here.

This research is related to two aspects of accountability; the communication of information (explanation) and answerability (justification). Although judgement is also recognised as a core aspect of accountability, it is not the focus of this research (moreover, Van Peursem (2009) argues there is no accounting interpretation of judgement). It is from the perspective of information disclosure that we now turn to identifying the scope of charity accountability.

There have been academics and commentators that have attempted to identify the scope of charity accountability (Connolly & Hyndman, 2013a; Sinclair, 2010). However, the scope of charity accountability is not led by any one key element but a range of elements. For example, it is about the relationships between the charity and its different stakeholders and the extent to which it is answerable for its decision-making and actions (Abraham, 2007; Ebrahim, 2010a).

In 1999, the Panel on Accountability and Governance (1999), undertook the task of attempting to bring Canadian charities to account. It identified four key areas that a charity needs to be accountable for; achieving its mission objectives [charitable purposes], sound financial management, effective trustee board management and its outcomes. It also recommended that the charity sector must '*prepare itself for a new reality in which, we believe, high standards of accountability for all three sectors will be expected and closely scrutinized*" (Panel on Accountability and Governance in the Voluntary Sector, 1999, p. 12). As a result, the scope of accountability is divided into two categories; those that are required by law (compliance) and those that are self-imposed (voluntary and usually required by stakeholders).

In (2004), the Charity Commission in England and Wales published a review of the information disclosures found in 200 charities' annual reports, annual reviews,

websites and financial accounts (Charities Commission (UK), 2004). The scope of the accountability was also separated into two categories in this study; those required by law (compliance – SORP) and best practice principles. This was an extensive study that linked the statutory requirements, the recommendations made by SORP and the reports produced by the charities. The study was driven by results taken from a public survey which identified seven key areas of information along with charity's registration number that stakeholders expected the charities to disclose. These were

1. Which charitable activities the charity has spent its money on
2. What the charity has achieved (i.e. the impact on society of the work they have undertaken)
3. The amount of money the charity spends on raising money (including the cost of fundraising staff
4. The cost of the charity's administration (including staffing costs)
5. The charity's financial policies (e.g. investment policies and reserves)
6. How decisions are made in the charity and who makes them
7. Where the charity gets its income from (e.g. from donors/grants/investments/fees etc.)
8. The charity's registration number

The seven areas were further refined into thirteen categories of information disclosures that the researchers expected to be in the charity's annual report (including the financial reports), (see Appendix Four for this). The same disclosure list was then applied to the annual review and websites if the information was missing from the annual report[70].

One of the key recommendations that came from this study, apart from the regular updating of SORP, was the Standard Information Return; a document where the charity listed its work, achievements and impact. However, this document was later scrapped because it duplicated information that charities had to file after the reforms of the Charities Act 2006 (Rimmer, 2013). Nevertheless, this study set the tone of

[70] The criteria used in the study was 'Good detail, easy to find", 'Some information", 'a few details', 'no details', and 'not applicable'

what was expected of charity information disclosures because it developed and included a charity stakeholder perspective.

The scope of charity accountability is a developing area of research, and there is relatively little research in this area (for example Connolly & Dhanani, 2009; Jetty & Beattie, 2009). However, there is a larger body of literature from the non-profit sector, so some of that literature is included in this section as it holds some elements that can be applied to the charity sector.

Firstly, **financial accountability** was identified as an important theme for charity accountability (Connolly & Dhanani, 2009; Connolly & Hyndman, 2013a). It is also one that has been the focus of much research since Bird and Morgan-Jones (1981) study into the financial reporting of charities in the UK. Financial reporting allows stakeholders to assess how much a charity fund-raised, what assets it holds, how much it spent and where (Charities Commission (UK), 2011; Sinclair, 2010). Audited financial statements form the basis of a charity's accountability to external stakeholders (Dhanani, 2009; Sinclair, 2010) by communicating its financial stability, the efficiency of its operations and viability of the charity into the future (Harris & MHA McIntyre Hudson, 2014; Moxham, 2009). Items such as investment and reserves, program expenditures and financial policies should also be included (Harris & MHA McIntyre Hudson, 2014; Hooper et al., 2007; Sinclair, 2010). The organisational structure along with any subsidiaries should also be disclosed (Charities Commission (UK), 2004, 2011). This approach is consistent with the approach taken by New Zealand's XRB that a higher standard of reporting should be required from charities.

Secondly, **fiduciary accountability** is another important theme in charity accountability. Where this area is well-developed in the for-profit area, this is not the case for the charity sector. In part this relates to issue of holding a charity boards to account without compromising charity recruitment efforts (Vanderwarren, 2002) and the diversity of legal forms used by charities is much greater than that found in the for-profit and public sector (Poirer, 2013). Therefore there is no analogy between a charity board and that of a company board of directors. Furthermore, charity boards are largely unregulated, the identities of the board members are not

widely broadcast, and the process of recruitment, appointment and removal of charity board members is known only to a chosen few (Plummer, 1996)[71].

Following on from this point, New Zealand's Charities Act (2005) prevents unsuitable individuals taking up charity board positions. However there is no obligation for a charity to satisfy itself or charity stakeholders that a potential charity board member is disqualified (Dhanani & Connolly, 2012; Plummer, 1996). Therefore, this is an area that is gaining greater attention from charity regulators and academics. Consequently, naming of the charity board is the starting point for fiduciary accountability (Charities Commission (UK), 2004; Dhanani, 2009).

The Charity Commission for North Ireland identified four key issues of charity governance they believed needed more transparency and accountability (Charity Commission for Northern Ireland, 2014). In this report, it was found that the board members were ignoring the charity deed and often acted beyond their powers. Furthermore, the Charity Commission for Ireland found that charity boards did not have the requisite number of board members, some board members had been in their positions for more than a decade and others were barred. Issues such as conflicts of interest, undisclosed financial payments, mission drift and failure to keep accurate records ensued (Charity Commission for Northern Ireland, 2014). Therefore these details are now disclosed as part of their annual returns in Ireland.

Also, one of the key reforms of Charities Act (2006) (England and Wales), Lord Hodgson recommended board compensation must be disclosed (Rimmer, 2013). Dhanani and Connolly (2012) also identified that board recruitment policies should also be disclosed. This is a developing area in New Zealand and at present, information about board members, how they are appointed, removed, duration of their appointment and any compensation is usually not disclosed unless it is in the charity deed (remuneration may be be found in the charity's financial reports).

As part of fiduciary accountability, risk management procedures are also an essential part of effective governance (Dhanani, 2009). There are policies that are directed at managing for adverse effects and what the charity board have done to safeguard the charity's assets (Charities Commission (UK), 2004). Risk

[71] Unless the charity deed contains these provisions and is made available to the public

information should also include the quality of the decision-making and who to hold to account (Ebrahim, 2010b; Hossain, Perera, & Rahman, 1995) because charity stakeholders are increasingly interested in how a charity [not-for-profit] arrived at their decision-making (Barrett, 2001).

Performance accountability is another key theme of charity accountability. There has been limited research that has looked at performance evaluation for charities unlike the private and public sector (Moxham, 2009) – yet it is widely acknowledged in the literature that this is extremely important step of evaluating charity accountability (Canadian Health Services Research Foundation, 2008; Ebrahim, 2003b; OECD, 2011). Performance disclosures are particularly important because charities are in positions of significant power when it operates its programs and beneficiaries have little influence, power or control over how programs are delivered to them (Yang, Sinclair, & Hooper, 2012). As a result, it is difficult for beneficiaries to hold charities to account for programs/actions delivered on their behalf (Kilcullen, Hancock, & Izan, 2007). Performance accountability requires a charity to declare the aim and objectives of its charitable programs and to report on it's the programs' activities (Giuffrida, Gravelle, & Roland, 1999; Hossain, 2010). This also means that the charity board must align the projects the charity undertakes with the charitable purpose of the charity (Bennett & Savani, 2011; Considine, O'Sullivan, & Nguyen, 2014). This is another area that is not well developed in the charity sector (Considine et al., 2014; The Sphere Project, 2004).

Performance accountability disclosures communicate that charity programs meet the needs of their beneficiaries, they are delivered efficiently and effectively and that there are no mistakes, abuse or corruption involved (McGregor-Lowndes, 2007; The Sphere Project, 2004). It is in this context that charities can assess and improve their current programs, the quality of the work they are doing and provide evidence of the benefits gained by both the charity and its beneficiaries (McGregor-Lowndes, 2007; Rahman & Hussain, 2012). This also means that the beneficiaries have a pathway for providing feedback; they can assess and comment on any activities that they are involved in or affected by (Ebrahim, 2010b; Hossain et al., 1995). Currently, feedback from beneficiaries is not the norm for charities even though it has been identified by both the UN and the OECD as being an important element for discharging accountability (OECD, 2011; The Sphere Project, 2004)

Forward information disclosures (strategic plans) are also considered part of a charity's accountability because it sets out the future long-term and short-term goals of a charity (Connolly & Dhanani, 2009; Jetty & Beattie, 2009). Strategic planning describes where the charity board sees the charity is heading. It requires the charity to plan its programs based on clear goals, and with an action plan to achieve those goals (Harris, Mainelli, & O'Callaghan, 2002). As a consequence, stakeholders are better able to assess if there are any significant variances from planned programs/activities and whether a charity's board provides explanations about any deviations made from the charity's strategic plan (Jetty & Beattie, 2009; Parsons, 2007). The scope of charity accountability is summarised in Table 7.

Table 7 The scope of charity accountability

Financial Accountability	Fiduciary Accountability	Performance Accountability	Forward/Future looking Information
Funding sources	Organisational structure	Number of programs undertaken	Short-term goals are identified
Assets held	charity board disclosures	Number of beneficiaries helped by each program	Long-term goals are identified
Financial reserves	- number required on the board	cost analysis of each program	
Investment reserves	- length of each board member's term	quality/assessment of each program	
Expenditure	- vetting of each board member	Key staff members responsible for each program	
Program expenditure	- operating within the charity's purpose	Comparison to prior year's performance for each program	
Financial policies	Risk management polices	Policies for selecting programs	
Accounting policies	Statutory compliance		

The themes identified in this accountability framework address specific areas of charity accountability that can provide a more comprehensive picture of a charity and its operations. Consequently, this is the framework applied in this investigation.

However, it is acknowledged that the accountability themes can overlap and can be inter-related; other studies have organised the themes differently. Dhanani (2009) presents financial information as a subset of fiduciary accountability while Ryan and Irvine (2012) only focus on expenditures as a proxy for financial accountability. Bovens, Schillemans & Hart (2008), on the other hand, use administrative accountability, which combines performance accountability and financial accountability, to represent the efficiency and effectiveness of an organisation's activities. This means that individual information disclosures may transcend more than one theme. For example, financial accountability could also be statutory compliance.

Also, a charity often works with multiple stakeholder groups at the same time, and therefore there are competing demands on a charity's resources (Ebrahim, 2003a). This means the accountability themes could also compete and conflict with each other and therefore the balancing of stakeholder's needs by a charity will not be captured in the information disclosures (Dhanani, 2009). This means that the reporting practices of a charity will shape the information disclosures it makes, and there is no way of knowing if a charity does not report on certain matters (Dhanani, 2009; Jetty & Beattie, 2009). Nevertheless, the Charity Commission (England and Wales) believed that the scope of the information disclosures made by a charity should discharge its accountability to its stakeholders.

3.5 Summary of the Chapter

This chapter provided a review of how accountability is defined in the literature and how it relates to the charity sector. It was identified that charity monitors are also attempting to bring charities to account by providing their working definitions of accountability. However, despite the debates about how charity monitors operate, currently, New Zealand does not have any charity monitors. This chapter also provided a working definition of charity accountability for this investigation.

Who charities should be accountable to was also considered. Using stakeholder theory, it was identified that charities owed accountability to broad range of stakeholders. Finally, this chapter provided a review of the literature that looked at the different types of accountability expected from a charity if it is to discharge its accountability. As a consequence, the types of information disclosures were categorised into an accountability framework which is applied in this investigation. The elements of the accountability framework are identified as fiduciary, financial, performance and forward/future information.

This chapter also emphasised the importance of charities providing relevant, and reliable information to its stakeholders. Information disclosure is a charity's response to the information needs of its stakeholders (Charities Commission (UK), 2004; Jetty & Beattie, 2009).

The next chapter presents the research methodology and methods that underpin and guide this investigation. It also includes a discussion on why charities need to take a stakeholder perspective when they are disclosing information.

Chapter Four:
The methodology and methods used in this research

4.1 Introduction

It is imperative the researcher use a methodological approach that provides a better understanding of charity accountability, and so new knowledge is gained (Marczyk, DeMatteo, & Festinger, 2005, pp. 4-5). Therefore, this chapter introduces the research methodology used in this investigation and how it has guided the investigation design, data collection and analysis.

Firstly, a general discussion of the researcher's position in this research study is presented. The following section provides an essential background and fundamental guidelines of Mixed Methods Methodology ('MMM') and how it has emerged as the third methodological movement (Tashakkori & Teddlie, 2003, pp. 10-17). The application of MMM to this research is discussed, followed by the MMM strategies and the strategy applied in this research. The final section discusses and justifies the methods used in this research.

4.2 Researcher's position in this Investigation

Malterud (2001) stated that; a *researcher's background and position will affect what they choose to investigate, the angle of investigation, the methods judged most adequate for this purpose, the findings considered most appropriate, and the framing and communication of conclusions* (p. 483-484). Therefore it is important that the background of the researcher and the researcher's motivations to conduct this investigation are made explicit.

I have a background in pathology (both research and clinical), accountancy and law. Although I have a traditional scientific background [positivistic] because of my work in pathology, my research work in indigenous sustainability, law and accounting has led me to a constructivist worldview[72]. This worldview holds that there is a myriad of ways to approach a problem and that knowledge is constantly evolving. Therefore a constructivist worldview allows me to use different filters over my various realities, and I believe that new knowledge is actively constructed,

[72] The constructivist world-view says we perceive things differently because our different positions in the world

and re-constructed by the different social relationships and the interactions I experience.

I have been involved in the charity sector for most of my adult life either as a beneficiary or as trustee/board member. In London (UK), I was the Chairperson of a pre-school charity (for a term of five years). I have also held gratis roles as treasurer, financial advisor and committee member of a range of different charities, school boards, church parishes and sporting clubs in Australia, United Kingdom, Africa and New Zealand. Also, I completed a number of the Local Authority training qualifications (UK) to facilitate my work in the charity sector during the late 1990's and early 2000's.

Observations made in my various charitable roles led me to believe that there was little charity accountability demonstrated internally or externally – moreover, there was little guidance provided to the charities as to what they should be reporting and to whom. Over time charity accountability continued to concern me, for I realised that charity accountability is poorly understood by most charity boards. When I decided to do a PhD – charity accountability was my primary choice of topic.

4.3 The Mixed Methods Methodology ('MMM') – an overview

4.3.1 Historical development of MMM

For many years research was based in either the positivist *(quantitative*) or constructivist (or interpretivist) *(qualitative)* paradigm; each paradigm has its own ontological and epistemological assumptions about the nature of reality and the associated methods to gain understandings of that reality (Coombes, 2001, pp. 29-30). Bergman (2008) identified the axioms attributed to both paradigms which are presented in Table 8. The differences between the paradigms represent a fundamentally different approach to the research process and methodological commitments (Cassell, 2005).

The positivist paradigm is considered to be the scientific approach (Johnson, Onwuegbuzie, & Turner, 2007); a process where the phenomenon can be measured and [quantitatively] analysed. Collis & Hussey state that the social reality of positivism *is singular and objective, and is not affected by the act of investigating it. The research involves a deductive process with a view to providing explanatory theories to understand the social phenomenon* (2009, p. 56). The pursuit of the positivist researcher is to model the world, so as to control it, to identify knowable laws or make causal links (Kirkwood & Campbell-Hunt, 2007). The world is thus conceived as being bound by 'natural laws' that can be captured in a sequence of cause and effect relationships (Collis & Hussey, 2009, p. 56). Examples of these research designs include true experiment research, quasi-experiment research, single subject research, correlation research and survey research (Creswell, 2009).

Table 8 Contrasting axioms of positivist and constructivist paradigms

Axiom	Positivist	Constructivist
Ontology (the nature of the reality)	A belief in a single reality	A belief in multiple constructed realities
Epistemology (the relationship of the knower to the known)	Objective – the separation of the knower from the known – the researcher and the research are independent	Subjective – the interdependence between the knower and the known – the researcher and the research are inseparable
Axiology (roles of value in the study)	Objective- the research is value – free and free of bias	Subjective – the research is value bound - the research process and outputs are subject to the researcher's bias
Generalisations	Findings are generalised beyond the contextual limits of the research and research situation	Findings *cannot* be generalised beyond the contextual limits of the research and research situation
Causal Linkages	Findings identify universal, causal laws and their attendant effects	It is impossible for findings to distinguish cause from effects
Deductive/Inductive Logic	An emphasis deductive approaches via falsifiable hypotheses and formal hypothesis testing – theories are used to explain and predicted the researched phenomenon. Validity and reliability tests are used to defined the results as accurate	An emphasis on exploratory inductive approaches – to describe or explain the complexity of the phenomena under investigation – theories are developed from an interpretive understanding. Verification is used to validate the results.
Methods	Quantitative-based and can include experimental studies, surveys, longitudinal studies and cross-sectional studies	Qualitative based and can include case studies, interviews, grounded theory ethnography, narrative research, hermeneutics and the feminist perspective

(adopted from Bergman, 2008, p. 13; Tashakkori & Teddlie, 1998, pp. 7, 10 & 23)

In contrast to positivism is constructivism. This methodology sees the environment as an extension of the experiences of involved individuals (Burrell & Morgan, 1979, pp. 275-277). Constructivism [as an extension of interpretivism] recognises that

the research [and/or the researcher] cannot be wholly objective and that the research will be shaped by the researcher's perceptions. As Cassell stated *a neutral observer is an unattainable ideal - what counts as warranted knowledge, truth and reason are always conditioned by the socio-historic context of the scientist* (2005, p. 170).

In constructivism, reality exists as multiple social constructions created in the minds of people. Therefore, each reality can offer up a different explanation of the phenomenon (Cassell, 2005; Guba & Lincoln, 1994). The researcher may only be gathering data about one specific reality, and therefore the research can provide an understanding of that phenomenon in that particular context. This is an inductive process as constructivism claims knowledge is a human construction (Kirkwood & Campbell-Hunt, 2007). Examples of this research design include narrative research, phenomenological research, grounded theory research, case study research and ethnographic research (Creswell, 2009).

However, because of the increasing complexities of research issues, using one methodology does not provide all the information required, and there were notable gaps in the data collected (Bergman, 2008, p. 17; Johnson & Onwuegbuzie, 2004). For this reason, researchers began to use multiple methodologies. Research questions can be answered from a number of perspectives, triangulation leads to greater validity of research investigations, and it ensures there are no gaps in the information/data collected (Bergman, 2008, pp. 18-19; Onwuegbuzie, Johnson, & Collins, 2009).

Moreover, triangulation is important to establish the validity of this investigation, by generating, comparing and analysing the research from different perspectives (Guion, Diehl, & McDonald, 2012; Torrance, 2012). The benefits of triangulation are increased confidence in the investigation, and it increases the diversity and quantity of data that can be analysed (Guion et al., 2012). Using the framework established by Guion et. al (2012) triangulation is applied in three ways in this investigation; data, investigator and methodological (this is discussed later in this chapter).

Bouma and Atkinson (1995), stated that

> *The difference might be summarised by saying that quantitative research is structured, logical, measured, and wide. Qualitative research is more intuitive, subjective and deep. This implies that some subjects are best investigated using quantitative, whilst in others, qualitative approaches will give better results. In some cases, both methods can be used.*
>
> (Bouma & Atkinson, 1995, p. 208).

There has been an increasing shift towards MMM in research. However, Johnson & Onwuegbuzie (2004) assert that integrative approach of MMM topologies to create a single investigation means the researcher has to consider;

- Whether to give equal status to the quantitative and qualitative components of the study or to give one dominant status
- To determine the time order of the qualitative and quantitative phases – sequential or concurrently
- The degree of mixture – that the research can exist on a continuum between mono-method to fully mixed methods – and when the mixing of the methods should occur

(Johnson & Onwuegbuzie, 2004, pp. 19-20)

Creswell (2009) states these different factors shape the investigation design used in an MMM investigation (p.208). For research rigour, there have to be reasons for mixing qualitative and quantitative approaches and the benefits need to be identifiable. Furthermore, MMM research can be labour intensive because it involves multiple stages of data collection even though it does provide a greater breadth of perspectives around a certain issue (Sweetman, Badiee, & Creswell, 2010).

Yet MMM bridges the academia-practitioner gap (Sweetman et al., 2010) and therefore it has been applied in investigations ranging from issues of corporate accountability (Yi & Davey, 2010), to public sector accountability (Hooks, Coy, & Davey, 2004). Furthermore, MMM has been used extensively in the context of management research (Creswell, 2009).

However, there has not been as much MMM application to the charity sector. This is because charity researchers have tended towards qualitative research, using

content analysis (Connolly & Dhanani, 2013; Jetty & Beattie, 2009), semi-structured interviews (Connolly & Dhanani, 2013), narrative research (Connolly & Dhanani, 2009) and case studies (Reddy, Locke, & Fauzi, 2013). However, MMM offers charity researchers the opportunity to use other research designs combining compatible quantitative and qualitative research methodologies because *the use of whatever philosophical and/or methodological approach (that) works for the particular research problem under study* (Tashakkori & Teddlie, 2008, p. 9).

Therefore MMM provides information that is not accessible from a conventional survey, content analysis or interview methodologies which are common in charity research. Also, using a research instrument that is developed by MMM for this investigation enriches the research findings achieved by other studies and makes a significant contribution to the in-depth understanding of charity accountability from a charity stakeholder perspective.

4.4 The Application of MMM in this Research

A basic sequential MMM design is used in this investigation, where the research begins with one procedural perspective (qualitative and/or quantitative) and then followed by another. There are five stages in this investigation.

Stage One: The development of the initial disclosure index

The development of the initial disclosure index is based on a review of the legal framework and charity accountability literature (chapters 2 and 3). These literature reviews provide the basis and guidance for the selection of the initial draft list of potential information disclosures. The initial draft instrument was made up of both compliance [mandatory] items, and best-practice [voluntary] information items as identified from the literature.

Stages Two and Three: The development of the disclosure index by charity stakeholders

The development of the disclosure index by charity stakeholders employed mixed methods and occurred concurrently. A selection of charity stakeholders[73], using their knowledge and experience, were asked what they believed to be the most important information items in the initial disclosure index and then to identify if they believed there were any missing information items that should be added. This stage was conducted via a Qualtrics™ survey – the link was made available to the charity stakeholders electronically (this is discussed more fully later in the chapter). The final disclosure index was then compiled.

The next step in the development of the disclosure index was the development of the qualitative criteria – these are the criterion used to evaluate the quality of each information item in each publication and are part of the analytic process. As a consequence of the broad scope of the information items, a dichotomous approach (Yes/No) was used for some information items, while a Likert-type 0-3 point scale was used for others (see Chapter 5 for a full explanation). Furthermore, the detailed and meticulous application of the disclosure index developed in this way, helped to explore the charity's publications so they can be interpreted differently from prior charity studies.

The next step was a pilot study, which was conducted to ensure that any procedural[74] or operational[75] issues of the research instrument were eliminated.

[73] The selection of the stakeholders is discussed later in this chapter
[74] This refers to the application of the disclosure index by different persons
[75] This refers to the operation of the instrument itself

Trying out the research instrument is one of the advantages of a pilot study because it identifies if the proposed operation of an instrument can be too difficult or inappropriate for the research (van Teijlingen & Hundley, 2001). There were two rounds of pilot studies conducted for this investigation.

In the first round, the disclosure index was applied by the researcher to the publications of two charities, at the end of which, some changes were made to the qualitative criteria for scoring the information items was made. Furthermore, it was decided that the Charity register should be included in the publications to be assessed because, without it, the results were distorted[76]. This is fully explained in Chapter 5 (the development of the disclosure index).

The second round included a second assessor (a Master's student from Te Piringa, Faculty of Law); chosen because of her prior research and working knowledge of humanitarian charities. The second round of the pilot testing was applied to the publications of three charities and resulted in further changes to the qualitative criteria – see Chapter 5 for further discussion. At the end of this stage, the weighted disclosure index was ready to be applied to the selected publications.

Stage Four: The application of the instrument and analysis of the data collected.

Stage Four used mixed methods. Firstly, the selected published material[77] for each charity within the sample was identified, and the disclosure index applied to the material. The publications were assessed on an item-by-item basis for each charity, using the qualitative criteria (the development of these are discussed in Chapter 5).

Secondly, the analysis of the data included, an item-by-item analysis which identified the most disclosed information items, the least disclosed information items, in each publication for each charity. Also, the average disclosure quality ranking for each information item is calculated (where the Likert-type scale was used) as well as an overall disclosure rating for all three publications is also calculated.

[76] For example, a charity may not have disclosed its charity deed on its website nor its annual report – resulting in a nil score – however it may have made it available to stakeholders via the Charities Services website.
[77] The selection of the published material is discussed later in this chapter

Index scores were calculated for each charity, for each publication, as well as an overall score. This enabled the publications themselves to be ranked and the charities within the sample to be ranked from the charity with best information disclosures to that with the least information disclosure. The analysis of the data for this investigation is discussed more fully in Chapter 6.

Stage Five: Feedback and reflective comments:

Stage Five used a qualitative approach. A summary of the findings from this investigation was sent out to a select group of stakeholders[78] for comment. An outline of the methodological approach is shown in Figure 1.

[78] These stakeholders indicated they were happy to participate in a review process of the findings.

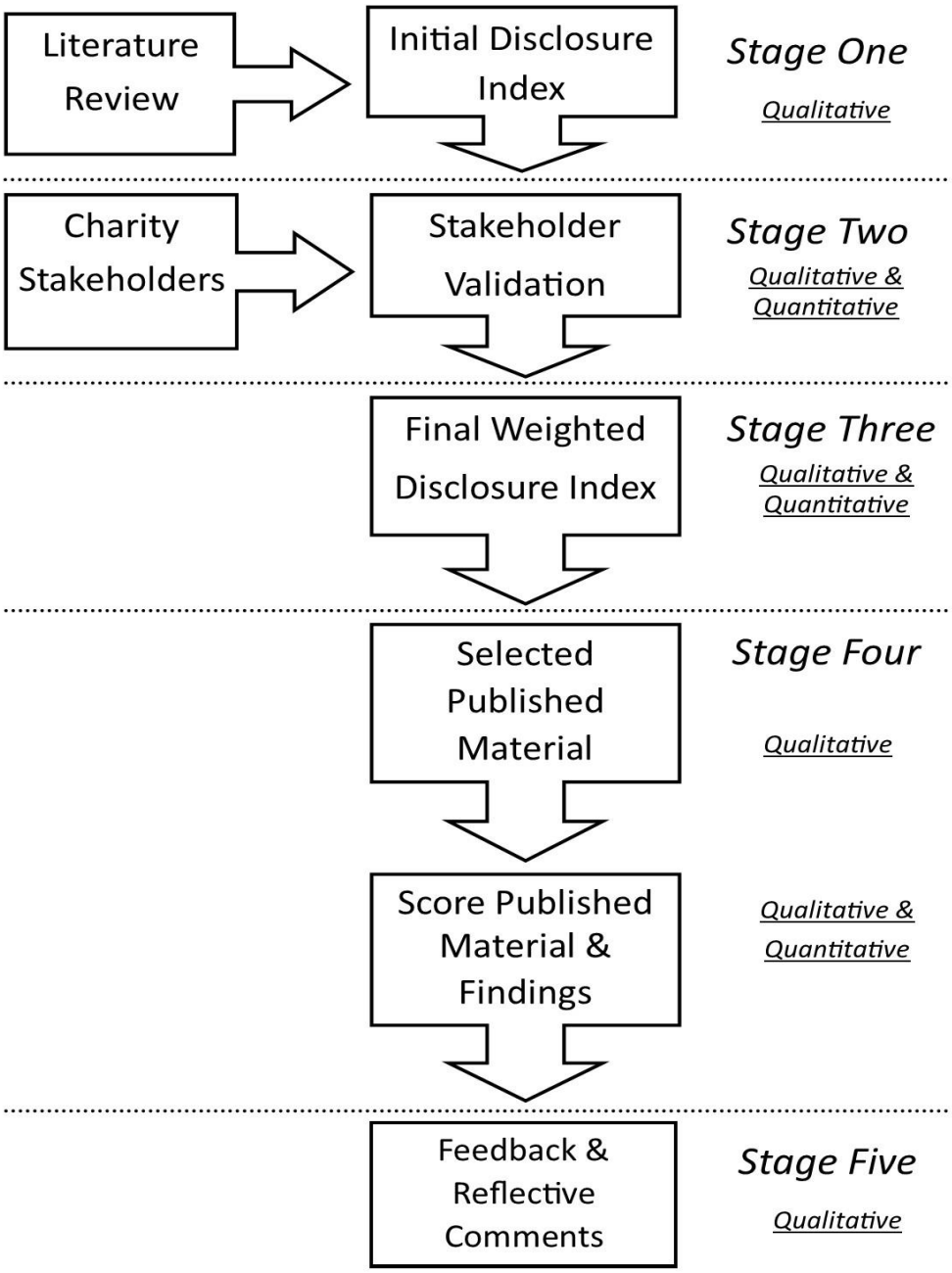


Figure 1 Application of MMM in this research

4.4.1 Summary of the Application of MMM

A justification for the use of MMM approach was provided in this section. Both qualitative and quantitative methods were used in the initial and final construction of the weighted disclosure index. Triangulation methods based on those established by Guion, Deihl & McDonald (2012) - data, investigator and methodological – were used to ensure the validity of the investigation.

1. Data triangulation: In this investigation, different selected published materials are used for data collection. Data triangulation is particularly suited to this investigation because charities use more than one source to communicate with their stakeholders.
2. Investigator triangulation: In this investigation – the pilot study employed two different researchers, the findings from each were compared, and a consensus agreed. The consensus from the different researchers increases the confidence in the research instrument and the investigation results.
3. Methodological triangulation: In this investigation, a disclosure index is constructed through an MMM approach, and the results are sent to selected stakeholders for reflective comments.

Mixed methods were used to determine the extent and quality of the information disclosed and to determine if accountability was discharged by the charities. A model of best practice was formulated as well as recommended law changes after the investigation was concluded. In summary, the adoption of MMM for this investigation enabled the researcher to achieve the research objectives.

4.5 Methods

The following section discusses the methods used in this research detailing the research process step-by-step to the finished report.

4.5.1 Stage One: Research Problem Defined

This first stage involved developing the area of interest of the research. Many New Zealanders engage with charities on a regular basis – whether as a beneficiary, donor, and volunteer or in a governance role yet there are very few ways to derive information about a charity's operations. A comprehensive literature review found little research on charity accountability for New Zealand charities. Most charity accountability studies were based in countries like the United Kingdom, the United States and Canada. While there have been several generic studies of the New Zealand charity sector (carried out by the John Hopkins Centre), only two recent studies have focused on charities here in New Zealand[79]. These are Sinclair (2010),

[79] The work of Newberry is not included here as it is now more than 2 decades old. (Newberry, 1994)

a thesis that looked at the accountability of charities with a financial focus and Gousmett (2009), another thesis that examined the tax exemption history of charities. Neither of these studies looked particularly at how charities discharge their accountability to their stakeholders.

There have been some other smaller studies by academics such as Cordery and Baskerville (Cordery, 2011; Cordery & Baskerville, 2011; Cordery, Sim, & van Zijl, 2014) but again these have focused largely on the financial accountability of New Zealand's charities. Cordery and Sinclair's more recent study contributed to some of the recent financial reporting changes introduced by the XRB[80] (Cordery & Sinclair, 2014b)

Following the literature review, the research problem was refined by determining which factors of charity accountability were significant, and thus the objectives were established (see Chapter 1, p. 65). Information disclosure is determined as the primary method for discharging accountability (Beattie & Pratt, 2002; Jetty & Beattie, 2009). Further research questions were developed to guide the development of the research data collection and analysis:

1. What is the extent and quality of the information disclosed by the selected New Zealand charities?
2. Is there an information gap between the information disclosure practices of the selected New Zealand charities and the expectations of the expert stakeholders?

At the end of this first stage the initial disclosure index was constructed from a draft list of the initial items; this was created based on previous charity information disclosure studies abroad and items identified in the literature. The disclosure index was constructed as an instrument for content analysis of the selected published material of the selected humanitarian charities. Further details of the instrument construction are contained in chapter 5. The initial disclosure index contained 136 items. Stage one of the research process is summarised in Figure 2.

[80] Refer back to chapter 2 for the changes to the financial reporting framework for charities

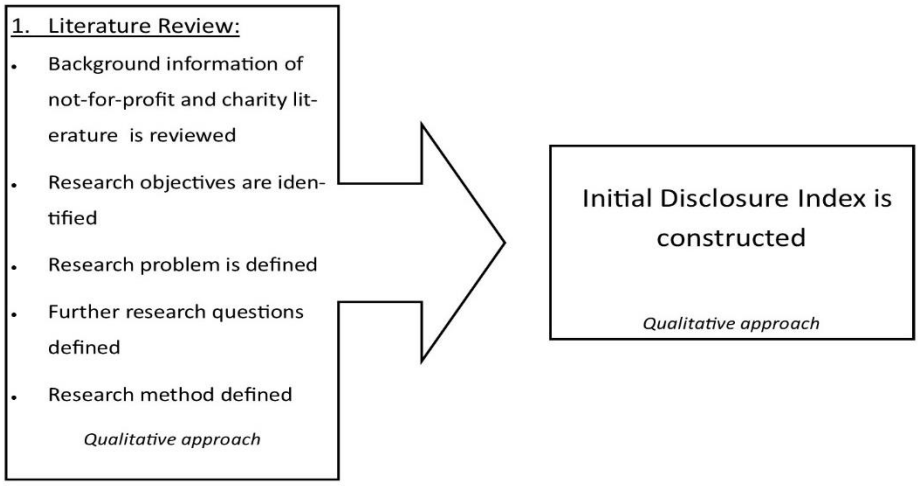


Figure 2 Summary of Stage One

4.5.2 Stage Two: Stakeholder exercise

This stage focuses on the validity and reliability of the disclosure index. To achieve this, the disclosure index was developed in the following two steps; firstly by developing a comprehensive understanding of what items were needed to discharge accountability from charities. Secondly, drawing on the collective wisdom of charity stakeholders to arrive at a consensus about which the information items should be included in the disclosure index and the ranking of the importance of the information items by weighting them. Figure 3 provides an overview of the stakeholder process. However, first, the selection of the charity stakeholders is explained.

4.5.2.1 Selecting the charity stakeholders

For a charity to respond to the information needs of its stakeholders, it needs to know who the stakeholders are. Thus identification of those stakeholders [groups] that have an interest in, or would be affected by the activities of the charity is an important aspect of discharging charity accountability. Only once stakeholders are identified can a charity work with them to understand stakeholder expectations (Achterkamp & Vos, 2008). In particular, there is a need to determine key stakeholders (Salam & Noguchi, 2006). Abd Karim, Abdul Rahman, Ali Berawi and Jappar (2007) defined key stakeholders as those individuals or groups whose interests must be recognised if an entity's projects are to be successful. In the case

of charities, a stakeholder analysis is important so that charities can create an accountability environment (Gray et al., 2006). Table 9 presents a systematic review of relevant published literature for a charity stakeholder analysis.

Table 9 Charity stakeholder identification literature

Reference	Place of Study	Study	Stakeholders Identified
Bird & Morgan Jones (1981)	United Kingdom	Focused on the stakeholder (user) needs of charity financial reports – there was no ranking	• Charity trustees • Charity employees • Donors • Beneficiaries • Government regulators • Community in which the charity worked
Connolly & Hyndman (2003)	United Kingdom	Focused on performance reporting made by British charities – there was no ranking	• Charity trustees • Charity management • Charity employees • Donors, funders • Volunteers • Public at large
Knox & Gruar (2007)	United Kingdom	Created a framework and applied it across a charity's supply chain – the stakeholders were ranked in order of highest to the lowest.	• Corporate retail sponsors • Beneficiaries • Volunteers • Expert audiences • Prospects • Partner organisations • General public • Influencers • Donors • Grant recipients
Connolly & Dhanani (2009)	United Kingdom	Focused on identify charity stakeholders as upward and downward stakeholders	• Upward Stakeholders - Donors - Fund providers - Supporters • Downward Stakeholders - Beneficiaries - General Public
Hyndman & MacDonnell (2009)	United Kingdom	Focused on the stakeholders in the context of SORP	• Government • Charity regulator • Resource providers • Other interest groups (like accountants for example) • Individuals in the community

Reference	Place of Study	Study	Stakeholders Identified
Hyndman & McMahon (2010)	United Kingdom	Focused on stakeholders in the context of SORP	• Government • Charity regulator • Resource providers • Accountants/Report preparers • Other interest groups • Individuals in the community
Palmer 2011	United Kingdom	Developed the work of Hyndman & McDonnell (2009)	• Government • Charity regulator • Resource providers • Standard setters • Clients/beneficiaries • Other charities • The community in which it works • Individuals within the community
Yang & Sinclair (2012)	United Kingdom	Developed the work of Hyndman & McDonnell	Classified the stakeholders as either internal or external to the charity
Connolly, Hyndman & McConville	United Kingdom	Updated the work of Connolly & Hyndman (2003) but that funders, beneficiaries and the wider public should be considered 'key stakeholders'	• Charity trustees • Charity management • Charity employees • Donors, funders • Volunteers • Public at large

For stakeholder identification, these studies appear to start with a charity analysis and then links in each of the key stakeholders associated with each aspect of the charity. Therefore a significant portion of charity stakeholders are made up of clearly identifiable groups of people with similar interests, even though the specific interest may be different from one stakeholder group to the next (a charity volunteer versus a charity beneficiary for example). Also, there may be a conflict of interests between the stakeholders (a charity board member who is also a service provider or service user of the charity). As to which groups should be involved in determining how to improve the accountability of charities is a strategic choice (Bryson, 2004). Bryson (2004) suggests that *people [stakeholders] should be involved if they have*

information that cannot be gained otherwise, or if their participation is necessary to assure successful implementation of initiatives built on the analyses (p. 27).

Nevertheless, gaining assistance from stakeholders to improve the accountability of charities should be a collaborative process because they have a 'stake' in charities. Thus negotiating stakeholder groups have to convene so as to reach consensus on how the accountability of charities can be achieved (Futaki, 2010; Plummer, 1996). As a consequence, the charity can address as many stakeholder interests as possible, which improves its accountability (Futaki, 2010).

In this investigation, it was the intention to recruit a diverse group of stakeholders, (rather than a representative sample). The criteria for being part the stakeholder group was to have knowledge and/or experience of a charity or involvement with a charity.

In preparation for the stakeholder exercise, a potential list of stakeholders was assembled. The researcher wanted to avoid bias which can be imposed by a few dominant user groups (Linstone, 1977) so the initial list contained a broad range stakeholders and included charity professionals, academics and other knowledgeable charity stakeholders; both national and international (from Australia, Canada, Ireland, England and Wales). After refining the list further, the final stakeholder groups used in this investigation are as follows;

1. The CFO and/or CEO of a charity in the sample group used in this investigation
2. Academics that work in the area of charity research
3. Charity regulators (such as Charities Services NZ, Audit NZ, policy advisors, members of Parliament and XRB members)
4. Charity lawyers
5. Charity accountants/auditors
6. Charity donors, fund providers/fundraisers
7. Charity board members
8. Past CFO/CEOs of a charity
9. Charity beneficiaries
10. Public members who have an interest in charity accountability

Email invitations were sent out to 134 applicants. The snowballing technique was also used, where the stakeholders were invited to contact others who met the inclusion criteria to see if they would be interested in participating in the study. The result from this round of emailing was (48) responses however only (38) were useable. Therefore, to improve the response rate, a link was posted onto Facebook and a further (58) responses were received, of which (48) were useable. Overall there were (86) useable responses (see Chapter 5 for more discussion on this aspect).

The initial disclosure index was delivered to the stakeholders using a Qualtrics™, survey. Qualtrics™ is an Internet-based survey software provider that offers a user-friendly interface for both the researcher and the research participants (Cole, Donohoe, & Stellefson, 2013). This software was selected over other survey providers as it is provided to the researcher at no cost because the University of Waikato pays an institutional subscription. Furthermore, the simplicity of use meant that neither the researcher nor the research participants required little or no training. This also meant that the initial disclosure index proved simple to import into the software and a unique web address was created for created for easy access to the survey.

The stakeholders were asked to consider each of the information items and to decide on the Likert-type scale the importance of each information item. Also, the stakeholders were also asked to consider if there were information items that were missing from the potential disclosure index. The mean rating for each information is calculated, and depending on the average position on the rating scale, the information item was retained or discarded (see Chapter 5 for more discussion on this aspect).

At the end of this stage, a stakeholder validated weighted disclosure index was established. Finally, the quality criteria to assess the quality of the each information item is also determined using prior literature for the basis. See Figure 3 for a summary of stage 2.

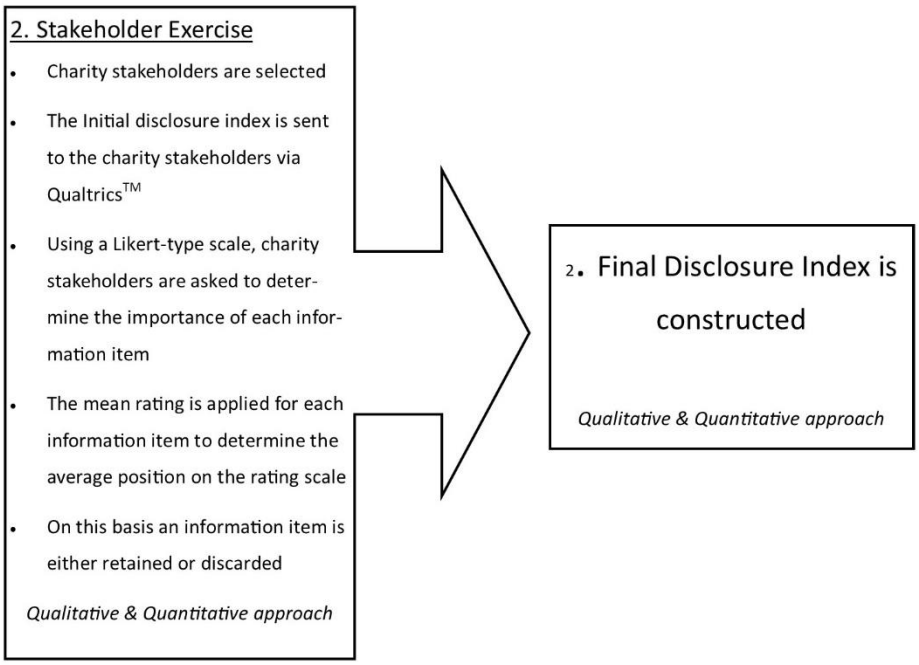


Figure 3 Summary of Stage 2

4.5.3 Stage Three: Pilot Testing the Instrument

At the end of the final iteration, the disclosure index was then pilot tested on selected material by the researcher and a Master's student from Te Piringa Faculty of Law, University of Waikato. A pilot study can reveal any deficiencies in the design and application of the instrument before its application to the main study. A selection of three charity annual reports and websites were used in the pilot study; each member codified and applied the disclosure index to the same three charity annual reports, annual reviews and websites. The results from each party were then collated and a consensus criterion was agreed upon for each information disclosure item. At the completion of the pilot study – the final research instrument was settled. Stage 3 is summarised in Figure 4.

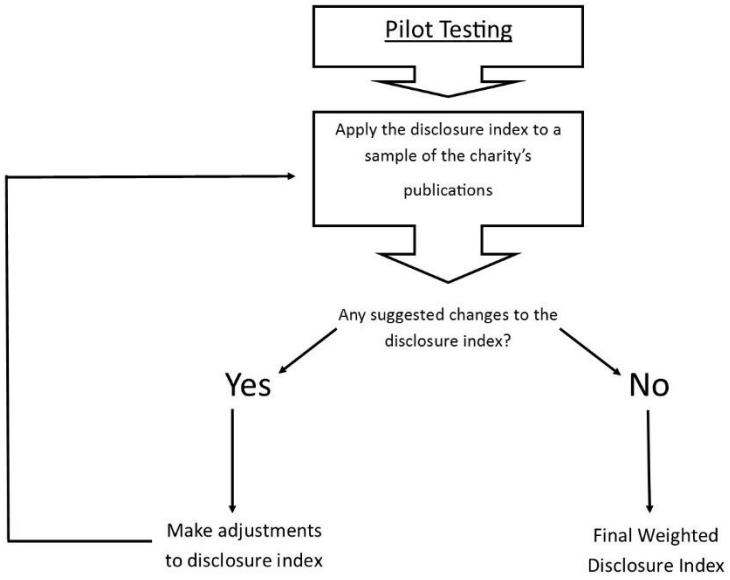


Figure 4 Stage Three: Pilot study

4.5.4 Stage Four: The Selection of the Charities

Access to a charity's information is a critical aspect of this investigation therefore only those charities that are registered with Charities Services and publish information (via an annual report/annual review and a website) can be used in this investigation. Also, the traditional notion of a charity as the voluntary giving of help to those in need was also incorporated in the selection criteria (Encyclopaedia Britannica, 2015). Therefore the selection of charities for this investigation was based on the following criteria listed below.

- The charity must be a New Zealand registered charity with the Charities Services (DIA))
- The charity must have had registration for at least three years (so that access to the charity's information would be on file with DIA)
- The charity must provide humanitarian (helping and assisting) services

On this basis (200) of the top, income-earning charities were identified from the Charity register (via the Charity register search engine)[81]. From that list, charities such as large education institutions such as universities, private hospital charities, and such like were excluded from the charity sample as these did not fit the 3rd criteria. From the remaining charities, thirty charities were selected on the basis that they were helping or assisting charities. A list of these charities can be found in Appendix Five.

4.5.4.1 The Selection of the Published Material

A review of the material published by New Zealand's charities established that unregulated forms of communication, such as the annual report/annual review and a website are widely used. However, this investigation required both mandatory and best-practice information – and the annual report/annual review and websites are unregulated publications. As discussed earlier in this chapter – this could lead to distorted results. Therefore the Charity register which is a public register that contains mandated charity information disclosures was also included. When combined, the Charity register, the charity's annual report/annual review and the charity's website contain a both best-practice and mandatory information items in the forms of narratives and numbers (both financial and non-financial[82]). It was on this basis that it was decided that these publications would be used in this investigation. It is noted that there is an overwhelming number of marketing documents (that are usually provided by a contract marketing firm for a charity), there was little relevancy of these documents to this investigation, therefore, these were not included.

4.5.4.2 Applying the Disclosure Index

At this stage, the disclosure index was applied to the selected published material and each information item codified (Weber, 1988). For the application of the disclosure, index to be effective Guthrie & Abeysekera (2006) state that

[81] One of the desired outcomes from this research is that if influential charities are able to use the disclosure index then other charities will follow suit.
[82] Pictures are not used as a part of this investigation.

> *First, the categories of classification must be clearly and operationally defined, that is, the units of analysis. Second, data capture must be systematic – it must be clear that an item either belongs or does not belong to a particular category. Third, content analysis must demonstrate some characteristics for reliability and validity.*
>
> (Guthrie & Abeysekera, 2006, p. 120)

The procedures for codifying are discussed in greater detail in Chapter 5. Once the coding was completed, the results were collated and analysed on the basis of the research questions.

4.5.5 Interpretation of Findings

The data collected from the application of the disclosure index were analysed, and some significant findings regarding the extent and quality of information disclosure made by New Zealand's charities within the sample are made. The analysis is both quantitative (the average disclosure quality ranking is calculated for those information items with Likert-type qualitative criteria; best and worst charities are identified and t-tests are carried out) and qualitative interpretation (where the following discussion provides context for each information item)

4.5.6 Stage Five of the Research Methods

This final stage of the research methods employed the use of feedback via reflective comments from selected charity stakeholders. The advantage of feedback in this research is the stakeholders can provide a clearer and more accurate picture of their position [in regards to information disclosure] that could not be obtained with either a survey or questionnaire. The stakeholder is not constrained but able to comment freely about the topic at hand and contextualise their knowledge in a meaningful way (King & Horrocks, 2010, p. 20).

The stakeholders had been invited to participate in the reflective comment process at the conclusion of the study. Eleven stakeholders who responded were sent the summarised findings of the investigations. However only one stakeholder provided feedback. At the end of this stage – the disclosure index together with the results

from the reflective comments elicited the model of best practice for information disclosure and recommended law changes.

4.6 Thesis Presentation

After the five stages of the method were completed – the practical research part of this research – data collection and data analysis was completed. The final step was the writing of the research as a thesis.

4.7 Chapter Summary

In this chapter, the research methodology and methods used in this study were described, and justification of a MMM approach was provided. A literature review and discussion was provided about the positivist and constructivist research methodologies, with their differing epistemology, ontology and axioms. From there a justification was provided as to why a MMM research approach was taken in this research. MMM does not bind the researcher to any philosophical assumptions underpinning the construction of reality nor knowledge, and the researcher is free to choose the best fit for their research. For charity research – the use of an MMM methodology provides an opportunity for greater understanding of the complexity and practices of information disclosures by charities. This research study involved:

1. The construction of an initial disclosure index
2. A stakeholder exercise
3. The development of a disclosure index
4. An analysis of published material for data collection
5. Reflective comment process by a some of the stakeholders
6. The production of a model of best practice
7. Recommended law changes

The literature review process was used to produce the initial disclosure index, which was further developed by the charity stakeholders. The findings of the stakeholder exercise determined the items to be included and the importance of the items [by weighting the items] in the final disclosure index. A pilot test of the instrument was conducted, and the disclosure index refined. An evaluation of the published material was carried out and the results collated and interpreted. The results of the

disclosure index were then sent back to some charity stakeholders for comment. The comments were then combined with the findings of the disclosure index and a model of best practice and recommended law changes was produced. The methodological position of this study by the application of mixed methods approach was satisfied.

The next chapter discusses in more detail the construction of the disclosure index and its application to the published material.

Chapter Five:
The development of the disclosure index used in this research

5.1 Introduction

The objective of this chapter is to discuss the development the disclosure index by using a stakeholder approach. The chapter begins with a brief discussion on information disclosure and why a disclosure index is used in this investigation. Finally, this chapter describes the development of the disclosure index used in this investigation. The development of the disclosure index followed four main steps:

1. The selection of the information items for the disclosure index
2. The stakeholder exercise and weighting of the information items
3. The development of the qualitative criteria
4. Pilot testing of the disclosure index

Figure 5 outlines each of the steps used in the development of the disclosure index.

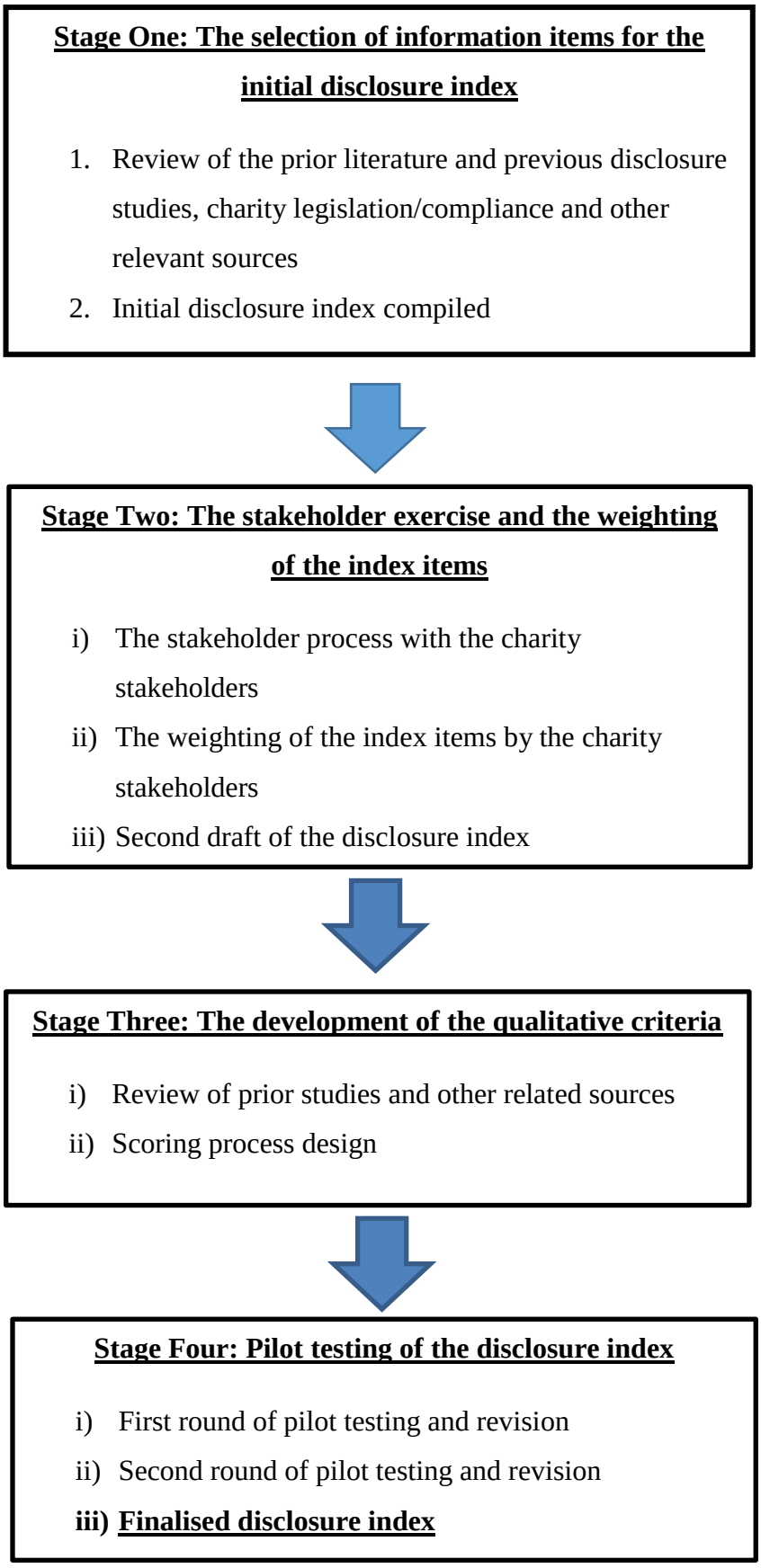


Figure 5 The steps to develop the disclosure index

5.2 Measuring information disclosure

Information disclosure is seen as a mechanism of accountability for charities because the disclosures meet the information needs of charity stakeholders (Beretta & Bozzolan, 2004; Connolly & Hyndman, 2013b). Information disclosure can be broadly separated into mandatory and voluntary information disclosures (Brody, 2012; Cheung, Jiang, & Tan, 2010; Gordon, Khumawala, Kraut, & Neely, 2010). Mandatory information disclosure is determined by statutory regulations and is seen as the primary tool of charity regulators (Brody, 2012). It influences the behaviour of charities and helps to prevent fraud, mismanagement and abuse (Barrett, 2001; Chester, 2005-2006). In contrast, voluntary information is all the other information that a charity chooses to disclose (Unerman, 2000) and reinforces the public's trust in a charity (Brody, 2012; Iatridis & Alexakis, 2012).

However information disclosures can be presented in a variety of ways; it can be financial and non-financial, forward or backwards looking. It can also contain pictures, graphs and illustrations. Furthermore, a decision has to be made during the research instrument construction whether the information disclosure is measured from the preparers' perspective or the users' perspective.

Therefore there has to be some way to measure the extent and/or quality of information (Hassan & Marston, 2010) and the research instrument has to consistently measure the information disclosure as it is intended to do. Consequently, a variety of ways to measure information has been developed (see Hassan and Marston (2010) for a review of the disclosure studies). Some examples include variations of a content analysis or a disclosure index. This investigation uses a disclosure index (see Appendix Six review of studies that use a disclosure index).

5.2.1 The use of a disclosure index in this investigation

A disclosure index is an instrument used to measure the extent of information disclosed by an entity (Hassan & Marston, 2010; Hooks et al., 2001). It consists of a specific number of pre-selected information items (Bukh, Nielsen, Gormsen, & Mouritsen, 2005; Hooks et al., 2001); the items in the disclosure index are

scored[83], and index score indicates the level of information disclosure (Coy & Dixon, 2004).

Construction of a disclosure index: The researcher-constructed disclosure index[84] initially selects information items that have been used in earlier studies, reports and other literature,. Adjustments are then made (either by the removal or addition of information items) using the information user's perceptions so that the disclosure index is valid for environment being investigated (Hooks et al., 2001; Marston & Shrives, 1991). The advantage of this approach is the information items are relevant to the users of the information and can include financial and non-financial information which allows a broad view of the disclosure behaviour from an entity (Schiemann, Richter, & Günther, 2010). Furthermore, this approach prevents researcher subjectivity creep into the investigation (García-Meca & Martínez, 2005; Healy & Palepu, 2001)

However, another consideration in the construction of a disclosure index is whether a weighted or unweighted disclosure index is used. An unweighted disclosure index ranks relatively important information alongside incidental information, and therefore the same score is assigned to information items of varying importance (Beattie, McInnes, & Fearnley, 2004; Coy & Dixon, 2004; García-Meca & Martínez, 2005; Wei, Davey, & Coy, 2008); the index score is calculated using a dichotomous method[85]. Whereas a weighted disclosure index ranks the perceived importance of different items (Hassan & Marston, 2010) and therefore discriminates between more important items from less important items (Hossain, 2002). The advantage of the weighted disclosure index approach, is that information users allocate weights according to their perceived importance of each information item[86]; the mean weight of each item is considered the weight.

Consistent with the construction of the researcher-constructed disclosure index, for this investigation, the initial information items were drawn from the prior studies,

[83] Scoring of the information items is discussed later in the chapter
[84] There other types – for example, the published disclosure index is created by agencies such as the stock market oversight bodies who have their own disclosure requirements – for more discussion on the different types of disclosure indices see (Kavitha & Nandagopal, 2011)
[85] Where '1' the information is disclosure, '0' the information is not disclosure and 'not applicable' is used for information items that are not relevant to that entity.
[86] Usually the response is elicited on a 5-point or 7-point scale

reports, other literature, recommendations from professional bodies and statutory requirements. Both financial and non-financial information was included in the initial list of information items so a broad view of a charity's information disclosures could be captured[87]. Following this, charity stakeholders participated in the selection and the weighting of the information items for the final weighted disclosure index used in this investigation. This provided the extent (quantity) of disclosure from a charity (Beattie & Smith, 2010; Boesso & Kumar, 2007) however it does not provide any indication of the quality of an information item (Hooks et al., 2001; Marston & Shrives, 1991). Moreover, there has to be some way of measuring the quality of an information item (Scaltrito, 2015).

Scoring of the information: Therefore to capture the quality of information disclosures, an ordinal scale is applied to score each information item disclosure (Guthrie & Abeysekera, 2006). There are many different scales [qualitative criteria] in the literature (see reviews by Hooks and Tooley (2007) and Scaltrito (2015)), a scale range from 0-3 based on no disclosure (0), poor disclosure (1), satisfactory disclosure (2) and excellent disclosure (3) was used in this investigation (this is discussed more fully later in the chapter). To arrive at the overall extent and quality of information disclosure for each charity, the following steps were followed;

- The qualitative criteria is applied to each information item to obtain the raw score
- The raw score is multiplied by the weighted mean[88] for that information item to obtain the index score for that information item.
- To obtain a total index score, all the information item index scores are tallied

The qualitative criteria add a further dimension to a disclosure study, for the researcher identifies what was disclosed and how it was disclosed (Boesso & Kumar, 2007; Scaltrito, 2015).

[87] Note, graphics, pictures and illustrations are not used in this investigation
[88] The weighted mean is calculated by averaging the stakeholder responses.

5.2.2 The selection information items for the initial disclosure index

In selecting potential items for the initial draft of the disclosure index, the literature reviews in Chapters (2) and (3) were carefully considered. Importantly, the information items selected for the initial disclosure index had to include mandatory and best-practice [voluntary] information items, if the information needs of the charity stakeholders are to be met.

However, as discussed in the chapter (3), the information needs of charity stakeholders are quite broad. Therefore, the initial information items had to meet legal compliance, financial, fiduciary, performance and forward/future accountability requirements. For this reason, the construction of the initial disclosure index included the regulated (mandatory) information items, and then the researcher systematically worked through the literature to select items for the best-practice [voluntary] disclosures.

5.2.3 The construction of the initial disclosure index.

Mandatory Information Items: The mandatory information items were sourced from five main statutes. The statutes from the Australia, England and Wales and Canada are also included in this group of statutes (these are discussed in Chapter 2). These compliance sources are;

1. Charities Act (2005) NZ
2. Charites Act (2013) Australia
3. Charities Act (2011) England and Wales
4. Income Tax Act (Canada). R.S.P.E.I. 1974
5. The Financial Reporting Act (2013) NZ [for charities]

Annual Return: The New Zealand charity annual return was also considered (See Appendix Seven for a copy of an annual return). However, this is a brief document (it contains less than twenty-nine items) and does not address the fiduciary accountability of the charity board members, the different types of assets held by a charity and the relationships a charity may have, therefore the American annual return (Form 990) was included.

6. New Zealand charity annual return

7. American charity annual return (Form 990)

The inclusion of the foreign statutes in this investigation fill in the gaps left by New Zealand's charity law as well as provide additional information items for the initial disclosure index. Moreover, these additional information items appear to be closely related to and work in harmony with other New Zealand Acts, such as the Companies Act (1993). For example, the Companies Act (1993) places emphasis on the recruitment, appointment, removal, compensation and conduct of a company's directors (s128-138) and makes the interests of the company paramount (s131) – this is directly analogous to the Form 990 Pt VI, s27, 28, and Section A – sections which deal with the fiduciary accountability [conduct] of charity board members (this aspect is not addressed by New Zealand's charity law).

Best-practice [Voluntary] Information Items: The best-practice [voluntary] information items were sourced from major reports into the charity sector, empirical studies, literature reviews and earlier studies. Of particular interest for this investigation are the earlier studies that included the charity stakeholder perspective. Some of this earlier literature presented best-practice information disclosures, and although these studies included some mandatory information items, overall the information items have been identified by charity stakeholders as important. Therefore these information items add value to the initial disclosure index used in this investigation. The sources of literature for the voluntary information items[89] are:

Financial Accountability:

8. Australian Charities and Not-for-Profit Commission (2013a)
9. ACEVO (2015)
10. Charities Services (NZ) (2015)
11. Charity Commission (UK) (2011)
12. Charity Commission (UK) (2004)
13. Connolly and Dhanani (2009)
14. Connolly and Hyndman (2013a)
15. Dhanani (2009)

[89] Some of the literature is used in more than more area of accountability

16. Harris (2014)
17. Hooks et.al (2001)
18. Hooper, Sinclair, Hui and Mataira (2007)
19. Kreander, Beattie and McPhail (2009)

Fiduciary Accountability

20. Australian Charities and Not-for-Profit Commission (2015)
21. Canada Revenue Agency (2013a)
22. Charities Services (NZ) (2013)
23. Office of the Auditor General (2008)
24. Charity Commission for Northern Ireland (2014),
25. Charity Commission (UK) (2004)
26. Connolly and Dhanani (2009)
27. Dhanani (2009)
28. Dhanani and Connolly (2012)
29. Ebrahim and Rangan (2010)
30. Plummer (1996)
31. Rimmer (2013)

Performance accountability

32. Beattie and Pratt (2002)
33. Considine, O'Sullivan and Nguyen (2014)
34. Cribb (2005)
35. Cribb (2006)
36. Dhanani and Connolly (2012)
37. Jetty and Beattie (2009)
38. Mueller et al. (2005),
39. Morgan and Fletcher (2013),
40. Moxham (2009)
41. Rahman and Hussain (2012)
42. Yang, Sinclair and Hooper (2012)

Forward/Future information (strategic plans)

43. Connolly and Dhanani (2009)

44. Jetty and Beattie (2009)
45. Harris, Mainelli and O'Callaghan (2002)
46. Mueller, Williams, Higgins and Tou (2005)
47. The Sphere Project (2004)

At the end of this stage, there were (47) sources used to draft the initial disclosure index. The initial draft disclosure index, along with the sources[90] that provided the information items can be found in Table 10.

Table 10 The initial disclosure index and the sources

Item No.	**Disclosure of a charity's name**	**Source**
1	A charity's legal name	1,2,3,4, 6, 7
2	If a charity is known by another name(s)	1,2,3,4, 6, 7
3	A link on the charity register is made between a charity's legal name and the other name(s) it is known by	1,2,3,4. 6,7

Item No.	**Disclosure of a charity's contact details**	**Source**
4	The charity's physical address	6, 7
5	A working daytime telephone number	6,7
6	Email address	6, 7
7	Website address	6, 7
8	Charity has multiple websites	6, 7
9	Mailing address	6, 7

Item No.	**Disclosure of a charity's founding deed**	**Source**
10	Access to a charity's founding deed	1,7,22
11	If a charity has made any changes to its founding deed	1,7,22

Table 10 continued

[90] The source numbers relate to the prior source lists found in pages 87-89 used in this investigation

Item No.	Disclosure of a charity's objectives	Source
12	The charity's objectives	1,2,3,4,6,7, 46, 47
13	Names the beneficiaries the charity is set up to assist	1,2,3,4,6,7
14	The charitable sector the charity works in	6,7,10, 46, 47
15	The region and/or countries a charity operates in	6,7,10, 46, 47

Item No.	Disclosure of a charity's legal and organisational structure	Source
16	The charity's legal form (limited liability company for example	6, 7, 8, 22, 25
17	Access to a charity's registration number (charity registration)	1,2,3,4,6,7
18	If a charity is listed on another public register elsewhere	8, 25
19	The charity's registration number if it is listed another public register	8, 25
20	If the charity has local chapters, branches or affiliates	7, 8, 20, 22 25
21	If the charity has commercial operations	7, 8, 21, 22, 25

Item No.	Disclosure of a charity board member	Source
22	The number of charity board members required by the charity deed	24
23	The name of each charity board member	1, 2, 3, 4, 6, 7
24	The duration of appointment for each charity board member	20, 24
25	If there are material voting rights among the charity board members	7, 20, 24,
26	If the charity board has delegated authority to an executive committee or a similar body	7, 21,
27	If the charity provided a grant or other assistance to a charity board member or related party	7, 21
28	If any of the charity board members serve on any other charity boards/entities	7, 21

Table 10 continued

Item No.	Disclosure of a charity board member's details	Source
29	Full name	1,2,3,4, 6, 7, 20, 25, 27, 29
30	Date of birth	7
31	Address	1,2,3,4, 6, 7
32	Telephone	1,2,3,4, 6, 7
33	Email	1,2,3,4, 6, 7
34	The qualifications/special expertise that each charity board member has	3, 24

Item No.	Disclosure of a charity board member's details	Source
35	Compensation/benefits provided to each charity board member	7, 12, 20
36	Compensation for each charity board member is approved	7, 24, 28, 31, 38
37	Compensation for each charity board member is reviewed	7, 24, 28, 31
38	Compensation/benefits provided to each charity board member from other related organisations	7, 12, 21, 23, 20, 28
39	If there are any arm's length procedures for charity board members	7, 24, 38

Item No.	Disclosure of a charity board member's details	Source
40	Access to how a charity recruits its charity board members	28, 30,
41	Access to how a charity appoints its charity board members	28, 30,
42	Access to how a charity removes its charity board, members	28, 30,
43	Access to how a charity carried out search for banned or disqualified person(s) before an appointment to the board is made	1, 2, 3, 4, 30,
44	If there are any policies for charity board recruitment in the charity deed	28, 30,

Table 10 continued

Item No.	Disclosures about a charity board report	Source
45	Access to a charity board report	3
46	Access to Chairman of the charity board's statement	3
47	The charity board's strategic plan for the charity	15, 29, 41
48	If the charity board has made any changes/deviations from the strategic plan in the last (12) months	15, 29,41

Item No.	Disclosure of about charity board members	Source
49	If the charity was party to a business transaction with a current or former charity board member	7, 24, 28
50	If the charity was party to a business transaction with a family member of a current or former charity board member	7, 24, 28
51	If the charity was party to a business transaction with an entity of which a current or former charity board member was an officer or indirect owner of that entity	7, 24, 28

Item No.	Disclosure of about charity board members	Source
52	If the charity provided a grant or other assistance to a charity board member or related party	7, 21
53	If the charity provided a grant or other assistance to a family member of charity board member	7, 21

Item No.	Disclosures about a charity's relationships	Source
54	Disclose details of relationships with another charity (s)	7, 21
55	Disclose details of relationships with related party or entity	7, 21

Table 10 continued

Item No.	Disclosures about a charity's staff	Source
56	The number of full-time staff employed by the charity	6, 7
57	The number of part-time staff employed by the charity	6, 7
58	The number of volunteers employed by the charity	6, 7
59	Discloses the details of the (10) highest paid employee costs	7, 47
60	Discloses the number of contractors employed by the contractor	7, 47
61	Discloses if the charity maintains staff or agents outside of New Zealand	7

Item No	Disclosures about a charity's staff	Source
62	If the charity is a party to a business transaction with a current or former charity employee	4, 7, 47
63	If the charity is a party to a business transaction with a family member of a current or former charity employee	4, 7, 47
64	If the charity is a party to a business transaction with an entity of which a current or former charity employee (or a family member) was an officer or indirect owner of that entity	4, 7, 47

Item No	Disclosures about a charity's staff	Source
65	If the charity provided a grant or other assistance to an employee	4, 7, 47
66	If the charity provided a grant or other assistance to an entity controlled by an employee or related party	4, 7, 47
67	If the charity provided a grant or other assistance to a family member of a current or former employee	4, 7, 47

Table 10 continued

Item No	Disclosures about a charity's programs	Source
68	Discloses forward/future looking information about its programs	16, 40, 42, 44, 45
69	Discloses the charity's policies for deciding its programs	16, 33, 40, 42, 44, 45

Item No.	Disclosures about a charity's programs	Source
70	Provides a list of the charity's programs for the last (12) months	13, 16, 29, 40, 47
71	Provides a narrative of the charity's programs for the last (12) months	13, 16, 25, 40, 47
72	The charity discloses the revenues and expenditures for each charity program, including any grants or transfers made to another person or entity	4, 7, 16, 40, 42
73	A comparative between the planned budget against the actual costs is disclosed for each program	33, 40, 42
74	Discloses the number of beneficiaries the charity helped	13, 29, 39, 40, 42, 47
75	Discloses the public benefit provided to the community by the charity's programs	13, 16, 33, 39, 42, 47

Item No.	Disclosures about a charity's programs	Source
76	Discloses if it worked with another charity(s)	4, 7, 47
77	Discloses if it worked with a government agency(s)	4, 7, 47
78	Discloses if it worked with another entity to deliver a program	4, 7, 47
79	If the charity worked with a charity/government agency/entity– it discloses the nature of the work it does with that charity	4, 7, 47

Table 10 continued

Item No.	Disclosure about serious incidents	Source
80	The charity discloses if it was a victim of fraud	3, 7, 12, 21, 47
81	The charity discloses if it was involved in fraud	3, 7, 12, 21, 47
82	The charity discloses if it was involved in a criminal investigation	3, 7, 12, 21, 47
83	The charity discloses if it was an involved in an accident	3, 7, 12, 21, 47
84	The charity discloses if it was an involved in any other material matter	3, 7, 12, 21, 47

Item No.	Disclosures in a charity's financial reports – general information	Source
85	Access to a charity's current financial reports	6, 7, 11, 13
86	Access to a charity's prior years financial reports	6, 7, 18, 17
87	To disclose if the charity is part of a group	6, 7, 11, 13, 17,
88	If the charity is part of a group – access to the consolidated accounts of the group	6, 7, 11, 13, 17
89	If the charity has investment subsidiary(s) – to have access to the financial reports of the subsidiary(s)	6, 7, 11, 13, 17, 18
90	To have access to the financial reports on the Charities Services website	11, 18, 19
91	To have access to the financial reports on the charity's website	19, 26

Table 10 continued

Item No.	Disclosures a charity's accounting policies	Source
92	A charity provides a full set of financial reports with associated notes of explanation	9, 11, 17, 18, 44
93	The charity explicitly states its accounting policies	11, 18,
94	The charity discloses if it has made any material changes to its accounting policies in the last (12) months	11, 18,
95	The charity discloses any material explanations in its financial notes (like a contingent liability or a lawsuit for example)	11, 18,
96	The charity discloses its policies for investing	9, 11, 18,

Item No.	Disclosures from a charity's income statement	Source
97	Discloses if it received any grants	4, 6, 7, 11, 25,
98	Discloses if it received any bequests	4, 6, 7, 11, 25,
99	Discloses if it received any government contract income	4, 6, 7, 11, 25,
100	Discloses if it received any donations	4, 6, 7, 11, 25,
101	Details of any income received from another charity	4, 7, 11, 25,
102	Details of any income received from an overseas entity	4, 7, 8
103	Details of a charity's administration expenses	4, 6, 7, 11, 25,
104	Discloses the cost of each program the charity conducts	7
105	Discloses the cost of fundraising	4, 11, 25,
106	The details of any material transfers from the charity to another person/charity/entity (ie.cash or assets)	4, 7
107	The details of any expenditure spent overseas	4, 7
108	If the charity paid any tax	4, 7
109	If the charity made a profit/loss (surplus/deficit)	4, 7

Table 10 continued

Item No.	Disclosures from a charity's balance statement	Source
110	Discloses if it has any buildings	4,11, 32,
111	Discloses if it has any land	4, 11, 32,
112	Discloses if it has any long-term investments	4, 11, 32,
113	Discloses if the charity has any long-term reserves	4, 11, 32,
114	Discloses the number of motor vehicles	4, 11, 32
115	Discloses if it has any computer and IT assets	4, 7, 11,
116	Discloses if the charity has any collections of works of art, historical treasures or similar assets	7
117	Discloses cash at bank	4, 11, 32,
118	Discloses short-term investments	4, 11, 32

Item No.	Disclosures from a charity's balance statement continued	Source
119	Discloses accounts receivable	4, 11, 32
120	Discloses if it has any inventory	4, 11, 32
121	Discloses if it has any prepaid expenses	4, 11, 32
122	Discloses if it has any mortgages	4, 11, 32,
123	Discloses if it has any loans	4, 11, 32,
124	Discloses if it has any long-term leases	4, 11, 32,
125	Discloses if it has any accounts payable	4,11, 32,
126	Discloses if it has any superannuation liabilities	7
127	Discloses if it has unearned revenue/revenue in advance	4,11, 32,

Table 10 continued

Item No.	Disclosures from a charity's cash flow statement	Source
128	The movement between cash balances at the beginning and the end of the financial accounting year	4, 5
129	The charity's operating cash flows	4, 5
130	The charity's investing cash flows	4, 5
131	The charity's financing cash flows	4, 5

Item No.	Disclosures about a charity's audit/review of the financial reports	Source
132	The charity's financial reports were audited/review	26, 36
133	The charity's financial reports were audited/reviewed by an independent accountant	26, 36

Item No.	Timeliness of a charity's reporting	Source
134	Timely disclosure of a charity's financial reports	32, 34, 35, 44
135	To have access to the charity's latest financial reports	32, 34, 35, 44
136	To have access to a charity's annual report	17, 32, 44

At the end of this stage, the initial draft disclosure index contained a broad range of information items which matched the objective of the investigation of measuring the extent of the information disclosed by the charities. However as the disclosure index was constructed from the review of the literature and published materials; this alone is not sufficient to ensure its validity from a stakeholder perspective. For this reason, a consultative process with charity stakeholders was carried out to endorse the validity of the information items contained in the disclosure index.

5.2.4 The charity stakeholder exercise

The aim of this part of the investigation was to identify whether the information items in the disclosure index was relevant to charity stakeholders. Therefore a

Qualtrics™ software survey was constructed with the information items to send out to charity stakeholders for validation (a copy of this can be found in Appendix Eight).

During the construction of the survey, a demographic section was added to the survey, even though these questions did lengthen the survey. However, demographic information ensures the survey reached the intended target audience of charity stakeholders. Moreover, knowing the demographic characteristics of the respondents could help in determining how close the stakeholder sample replicates the general charity population.

The survey flow was adapted when it was moved from an Excel list to a Qualtrics™ survey to improve the flow and presentation of the survey. The first adjustment consisted of regrouping the information disclosures that related to the charity board members; specifically the recruitment, compensation and benefits disclosures. It made sense to regroup these items together in one category for the Qualtrics™. The second change was to 'blocked' groups together in the survey. This last change meant space was created for charity stakeholders to comment at the end of each block. The grouping of the information items into groups also improved the flow of filling out the survey.

For each information item, the charity stakeholders had to (in their opinion) identify the most important items from the least important items. To do this, a 5-point Likert-type scale showing the degree of importance for each information item. The charity stakeholders were also asked to propose additional information items that they considered important but were not included in the initial list. Finally, for each category, the charity stakeholders were invited to provide comments on their selections.

5.2.4.1 The findings of the stakeholder validation exercise.

In the initial phase of the stakeholder validation exercise, (134) emails inviting the stakeholder to participate in the study were sent out to selected charity stakeholders (a copy of the invitation email can be found in Appendix Nine). These respondents were selected because of their obvious involvement with charities and the convenience of their contact information. Of the (134) emails sent, of the (48)

responses[91] were received, but only (38) responses and partial responses were useable. It was not totally unexpected to get a low response rate, as it was difficult to reach out specifically to charity stakeholders and furthermore, a small number of potential respondents declined to participate (seven participants). Also, the survey took approximately (25) minutes to complete, so some respondents did not answer all the survey questions. With these factors in mind, the researcher did not want the low response rate[92] to compromise the validity of the information items in the disclosure index.

Therefore, it was decided to post the survey onto Facebook to improve the survey response. Facebook has become a significant platform for academic research because it is a major social network site that allows individuals to form connections with others as well as view and transverse those connections to others within the system (Ho, 2014; Wadia & Parkinson, 2010). An anonymous link was generated by the Qualtrics™, and over a period of 10 days, the researcher posted the anonymous link onto Facebook. As a result, a further (58) responses were received, of which (48) responses and partial responses were useable. Overall this meant there were (106) responses, of which (86) responses[93] validated the information items for the disclosure index.

This higher, improved response rate lowered the risk of any non-response bias might have had on the validation of the information items in the disclosure index. For the rest of this chapter, the two respondent groups are named Email Invitees and FB respondents. The next section discusses the results of the stakeholder validation exercise.

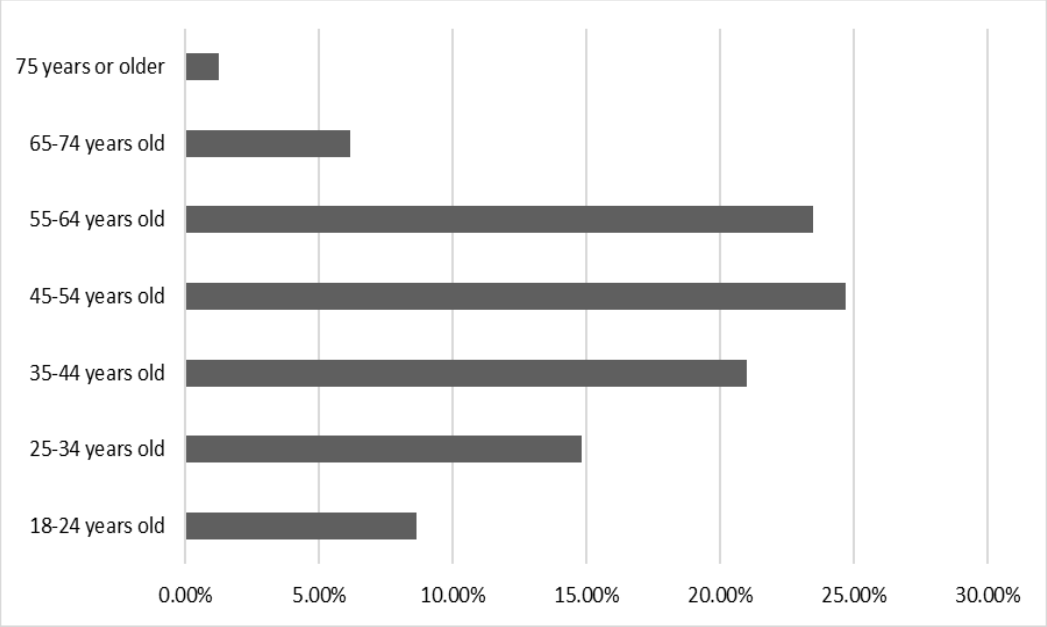
5.2.4.2 The demographic information of the stakeholders.

In the demographic section of the survey, the respondents were asked to answer seven questions. For the Email Invitees, there were exactly 50% male and 50% female respondents. The Email Invitees fell within the age group of 45-54 (31.58%) and 54-64 (34.21%). In comparison, of the FB respondents, there were 34% male and 65% female respondents and most fell within the age group of 35-44 (30.23%)

[91] The survey link was opened but the respondent did not do the survey.
[92] A low response rate can create a bias where those who do not respond are different in some systematic way from those who do respond (Welch & Barlau, 2014)
[93] It also means that some questions did not have the requisite (86) responses

and 25-34 (20.93%). Overall this meant that there were 81 respondents, of which 34 were male, and 47 were female[94]. The 45-54 age group contained the most respondents (20) followed by 55-64 age group (19) and 35-44 age group (17). There was no one under the age of 18, but there was one who was over the age of 75 (see Table 11 for the results of the age of the respondents).

Table 11 The age of the respondents



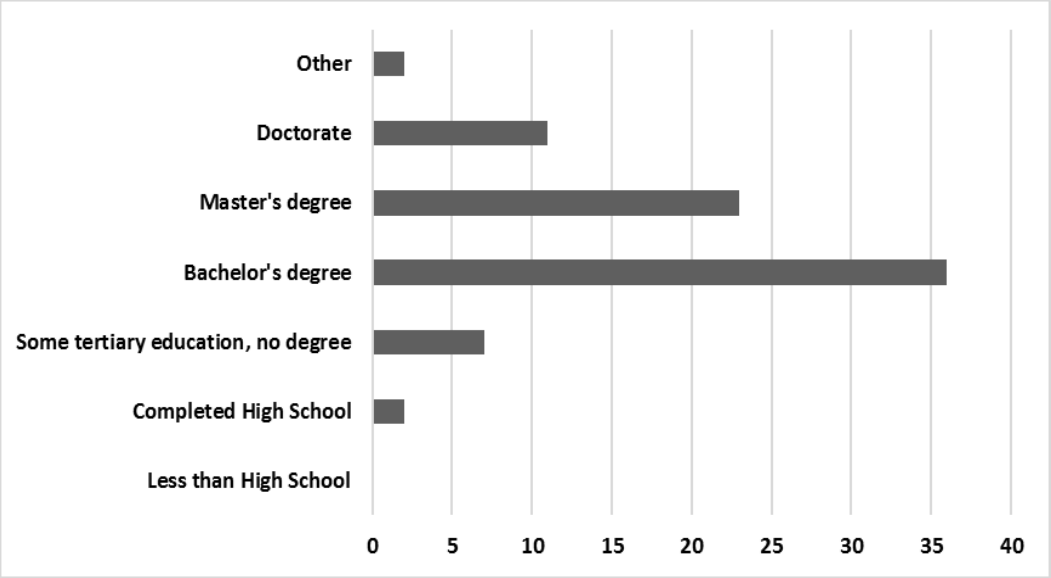
All the Email Invitees had some form of tertiary education (Bachelor's degree 31.58%, Bachelor's with honours 2.63%, Master's Degree 34.21%, Doctorate 26.32%, other tertiary education 5.26%). This was mostly true of the FB respondents too, with only 4.65% having a secondary education as their education level. Most of the FB respondents had either a Bachelors' degree (55.81%) or a Master's degree (23.26%). Overall this meant the core group of respondents had a Bachelor's degree or higher (Bachelor's degree (36), Master's degree (23) and Doctorate (11) (See Table 12 for the results of the education level of the respondents).

The majority of the Email Invitees were from New Zealand (89.19%), with the rest being from Australia (5.41%) and United Kingdom (5.41%). This was largely the case of the FB respondents too; most were from New Zealand (90.70%), with the rest being from Australia (6.98%). Overall it meant that 72 of the respondents were

[94] Not every participant answered – hence the variation in the total number

from New Zealand, five from Australia, two from the United Kingdom and one from Cyprus. The implication of this finding means that the combined respondent group is largely comprised of New Zealand charity stakeholders

Table 12 The education level of the respondents



When asked about their racial group or ethnicity - the majority of the Email Invitees were New Zealand European (78.95%), with a significantly smaller group who identified as Maori (18.42%). The FB respondent group was not that much different; the New Zealand European was the majority (54.76%), while those who identified as Maori were significantly less (21.43%). However, in the FB respondent group, there were a small number of Chinese respondents (11.90%) and Indian (2.38%). Overall this meant that the stakeholder group was made up largely of New Zealand Europeans (53) and Maori (16), with Chinese respondents being the next largest group (5).

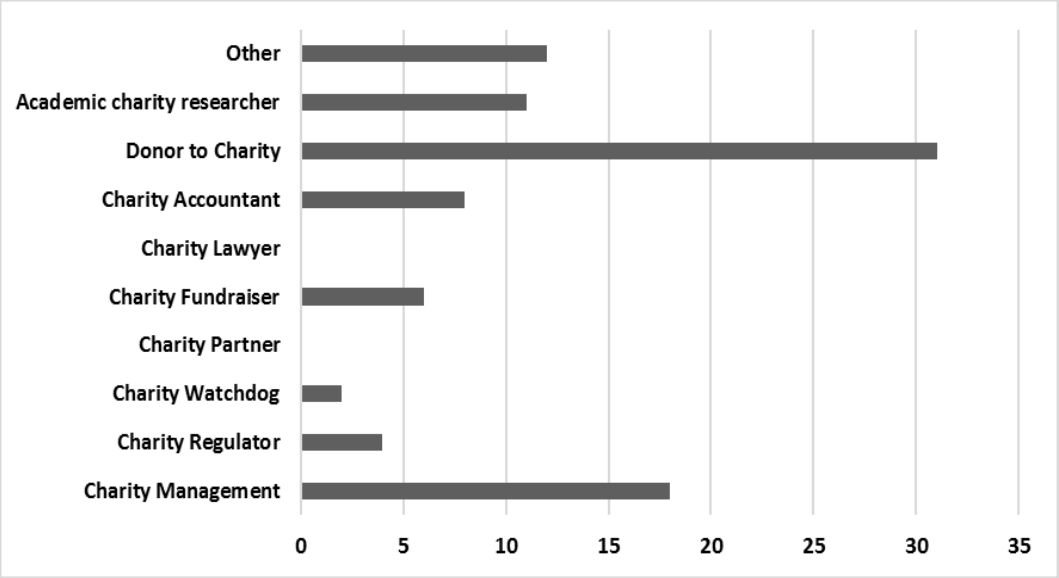
The final question in the demographic section of the survey asked the respondents to disclose how they were involved with charities or within the charity sector. The Email Invitee selection by the Researcher was guided by the individual's involvement with a charity or the charity sector to ensure a diverse sample of charity stakeholders. The majority of the Email Invitees were either charity management (31.58%), followed closely by charity donors (23.68%) and academic charity

researchers (18.42%). There were smaller groups such as charity accountants (13.16%) and Other (15.79%).

The ‘Other’ group contained a journalist, trustees, and retired charity management respondents. Even though some charity lawyers were invited to participate in the Qualtrics™ survey – none did. Similarly, there were no respondents who were charity partners either. In comparison, the majority of the FB respondents were charity donors (56.41%) with a significant drop to charity management (15.38%) and Other (15.38%). The Other group was made up of charity volunteers, benefactors, charity members and a charity auditor. However, the next largest groups were the charity fundraiser (12.82%) and academic charity researcher (10.26%), with a smaller charity accountant group (7.69%). Unfortunately, no charity lawyers nor charity partners responded to the FB post either.

Overall this meant the largest group of stakeholders were charity donors (31), followed by charity management (18). There was a significant drop to the next groups which were academic charity researcher (11), other (12) and charity accountant (8). While it is acknowledged that there were few charity regulators that responded (4) and even fewer charity watchdogs (2) – it is also acknowledged that there are very few eligible stakeholders of either group so to have any was a bonus for this investigation. The results of the respondent's involvement with a charity are found in Table 13.

Table 13 The respondent's involvement with a charity



In conclusion, the aim of getting a diverse demographic of relevant charity stakeholder respondents was largely achieved. Indeed charities arguably have a complex stakeholder environment, and therefore the diversity of the respondents equates to unique differences (whether this is gender, education, race, ethnic background, nationality). The result of charity stakeholder diversity is different viewpoints, knowledge, and perspectives that are necessary for the validation of the information items in the disclosure index.

In conclusion, there was a gender split of approximately 60:40 female to male, and an age range centred around 24-74 years of age. Most of the respondents were New Zealanders, and the split between New Zealand European, Maori and Chinese (Asian) reflected the makeup of New Zealand society (75:15:12% - New Zealand European, Maori, Asian) (Statistics New Zealand, 2013). The stakeholder groups were for the most part, well educated,

The diversity of the stakeholder's involvement with charities was also achieved. There was a spread of charity management, charity donors, academic charity researchers, charity accountants with a smaller group of charity regulators and charity watchdogs. The term stakeholder, as previously discussed in Chapter 3, involves anyone who has a vested interest in the welfare and the success of charities and in-part, the success of this investigation depended largely on the participation

of a broad range of charity stakeholders to validate the information items for the disclosure index.

5.2.4.3 The validation of the information items of the disclosure index

This next section looks at each of the information items presented to the stakeholders for consideration. During this process, the following criteria were adopted for the retention or the discarding of information items:

Treatment of missing values: Some of the questions in the survey were not completed by several of the charity stakeholders. The rate of non-responses was considered to be minimal, and therefore it was decided not to take any corrective action. Instead, the mean for that information item was calculated despite the missing values.

Criteria for selecting the information item: As discussed the charity stakeholders used the 5-point Likert-type scale to choose the best option that aligned with their views. For each information item, the mean percentage was calculated based on the Likert-like scale. With these values, the following criteria was established:

i) The information item was retained if more than 5o% of the charity stakeholders considered it either "Moderately important," "Very important" or 'Extremely Important."

ii) In the case that an information item was retained, the additional comments made by the charity stakeholders were considered and reviewed to decide if the information item could be retained with or without modifications

iii) All the additional comments made by the charity stakeholders were considered and revised carefully to determine if an additional information item should be added

With these criteria in mind, the following categories were devised for classifying the information items:

Likert-type scale used in the Qualtrics™ Survey	Retain, Remove or Modify the information item – Add Additional item
Extremely Important	Retained with no changes
Very Important	Retained with/without modification
Moderately Important	Retained with/without modification
Slightly Important/Not at all important	Removed
Any additional information items?	Add additional information item

The information items considered by the stakeholders to be *slightly important/not important at all* could be removed permanently. The information items considered *moderately important* would be included even though consensus on these items had not been reached by the charity stakeholders. If there are any new items suggested by some of the charity stakeholders, these items would be included in the disclosure index.

Finally, the standard deviation was calculated to measure the dispersion of the charity stakeholders' responses. This was done by first calculating the mean of the responses for each information item, and followed by calculating the standard deviation. The smaller the standard deviation is – the closer the responses are to the mean which is an indicator of consensus among the charity stakeholders.

5.2.4.4 The findings from the stakeholder exercise

This section summarises the key findings overall and by topics from the stakeholder exercise. The need for more information from charities was explicitly expressed as the charity stakeholders overwhelming agreed that nearly all the information items should be disclosed by charities[95]. As this is a large disclosure index with (136) items, an item-by-item analysis can be found in Appendix Ten along with the comments from the stakeholders.

[95] The date of the birth of each charity board member was the only exception – all other information items were rated from *moderately important* to *extremely important*.

Charity's name and contact details: Charity stakeholders wanted to know if a charity had a working name and a formal name – but they also wanted to a clear link between the two. When it came to the charity's contact details – there was concern from stakeholders that a charity should have a physical address, be resident in New Zealand and have an available landline to endorse its credibility. Charity stakeholders are aware that charities operate in different cities (within New Zealand) and in different countries, but this should be made clear by the charities. Therefore the physical address must be a legitimate New Zealand address, and not a tick-box exercise for those charities that be registered in New Zealand but operate out of another country (like Australia for example).

Online technology was identified as an important source of information from a charity because charity stakeholders are more likely to do an internet search for a particular charity. Therefore a charity had to have up-to-date contact details, especially because a charity's email and website were identified by the charity stakeholders as the primary points of contact.

Social media, which was not in the initial disclosure index, was identified as an important source of communication by the charity stakeholders. Charity stakeholders felt charities had an opportunity to capture their work and showcase it to stakeholders as it happened. Consequently, five social media information items were added to the disclosure index.

Charity's deed: Charity stakeholders wanted access to a charity's deed, but charity stakeholders also wanted some way of confirming that the charity deed lodged on the Charities Services website was the most recent. Moreover, charity stakeholders wanted to know if the charity deed had been altered in any way. It was suggested a charity should have to file it's annually charity deed along with its annual return. Moreover, there was concern that some of the charity deeds filed on the Charities Services website did not comply with good legal practice, implying that the standard of the charity deeds filed by charities is not consistent.

Charity's objective and location: Charity stakeholders want charities to clearly identify the beneficiaries of their efforts. Charity stakeholders often base their decision-making on the beneficiaries of a charity. Moreover, the charity stakeholders wanted the charities to be transparent about where they operated

because charity stakeholders think they are helping their 'local' charity, only to find that their funds have been directed to another region in New Zealand.

Disclosure about a charity's legal and organisational structure: For this block of information items there was two focuses. The main focus was on the disclosure of a charity's commercial operations and the different charity structures used by New Zealand charities. Charity stakeholders wanted more transparency from charities about any subsidiaries and commercial operations they have. Charity stakeholders are aware that there are many legal forms used by the charities and the charities are spreading their assets and surpluses across different legal entities but are not disclosing this information. Moreover, the charity stakeholders were not convinced the introduction of the new accounting standards would change the current behaviour of charities. Charity stakeholders want these related entities to be declared in a charity's annual return along with any failed commercial operations.

Charity board members: Charity stakeholders want more transparency from the charity boards and their operations. The most basic disclosure was the expectation that a charity would disclose the name of each current charity board member and the duration of each charity board member's appointment. There was also the expectation that if there were any difference in the voting rights of a charity board – it would be outlined in the charity deed and made obvious to charity stakeholders. Charity stakeholders reiterated that access to the charity deed was essential.

A charity board member's date of birth was the only information item in the whole initial disclosure index that ranked slightly important. Despite this charity, stakeholders felt that there needed to be a charity board register similar to the company director register so that charity stakeholders could establish what other positions charity board members held. Especially because charity stakeholders are aware that there are some charity board members who hold multiple positions (on other charity/director boards). Also, charity stakeholders wanted to know that the charity board members were suitably qualified and/or experienced to hold their positions on the board. As charity board members are making decisions both financial and strategically, charity stakeholders felt that charity board members must have the necessary skills and be able to work as a group, if the charity is to build trust with its stakeholders.

There was mixed response from the charity stakeholders as to whether a charity board member could be contacted individually. While some voiced concerns about charity board members being subjected to abuse, the majority of the charity stakeholders felt there should be some way to contact a charity board member (whether that be direct via email or a phone number).

Charity board compensation was considered as a very important disclosure by the charity stakeholders. There was a sense from the charity stakeholders, which if charity board members are entitled to some form of compensation, then it should be stated clearly in the charity deed. Furthermore, charity stakeholders wanted any compensation made to charity board members be explicitly disclosed annually. Therefore, charity stakeholders took a precautionary approach to any benefits or compensation provided to charity board members. The implications are that the charity should not operate to solely provide remuneration and benefits to charity board members. Furthermore, charity stakeholders wanted to see arm's length provisions both in the charity deed and in operation in a charity. The feeling was that charity board members would make declarations in the same way a company director would if there were any conflicts of interest.

When it came to the recruitment policies of a charity board member, the charity stakeholders also thought that these should be found in the charity's deed. The charity stakeholders wanted to be able to view these provisions as needed. Furthermore, the charity stakeholders want a charity to disclose how active a charity board member had been throughout the year. Some of the charity stakeholders are aware of that there are provisions for banned or disqualified charity board members in the Charities Act (2005) however police vetting of potential charity board members was considered very important. Furthermore, charity stakeholders wanted to see evidence of the vetting of charity board members.

The charity boards in New Zealand do not traditionally publish a board report. However the charity stakeholders overwhelmingly agreed that it is extremely important for a charity to publish a charity board report. Charity stakeholders felt that the charity board had a responsibility to report to its stakeholders if it wanted to take the public's money; charity board members should keep the public informed of what they are doing. This linked quite closely to a charity's strategic planning.

Charity stakeholders felt that as part of being informed of a charity's operations included full disclosure of its strategic planning – both past and future and any deviations. One charity stakeholder likened the responsibility of a charity board obligation to report to that of a company board because it is the only way a charity stakeholder has of knowing if the organisation is truly charitable.

A business transaction that linked to a charity board member in any way was considered extremely important, and again, the charity stakeholders took a precautionary approach. A charity should have an arm's length procedure for these occasions. Some charity stakeholder suggested that these sort of transactions should be subject to an external audit, while others felt that this sort of transaction should be explicitly stated in a charity's financial reports in related party transactions. This same sentiment applied to any grants, benefits or assistance provided to a charity board member.

A charity's relationships: While there were few comments, this was an area that charity stakeholders felt that there needed to be more transparency about a charity's connections and relationships. This area was of concern to the Auditor General (NZ), and charity stakeholders reflected the same concern. Charity stakeholders wanted to know who a charity was partnering with and why.

Charity staff disclosures: Charity stakeholders all agreed that a charity needs to more transparent about those it employed (paid, volunteer or otherwise) both inside and outside of New Zealand. The salaries paid to charity staff, even in small charities, is information not usually disclosed by New Zealand charities. Charity stakeholders acknowledged the difficulty of a charity managing costs, but the implication is that charities should be transparent about staff costs. This is an aspect that is not covered by the Charity register or the annual return. This was also the case for the disclosures about contractors and staff employed outside New Zealand where there is little or no information disclosure.

Charity stakeholders felt that any business transactions that involved charity staff should be explicitly declared. Many felt this was an area which was abused by individuals in charities – especially senior management. Monitoring of charity assets and audit were both offered up as methods for ensuring that charity staff do not gain unintended benefits from by their positions.

A charity's programs: When the charity stakeholders were asked to consider a charity's policies and future/forward looking information about future programs, the charity stakeholders overwhelmingly agreed that a charity should be disclosing this information. While some thought that the planning and budgeting for future programs were internal management procedures, charity stakeholders want and need assurance from charities that their programs are appropriate.

Furthermore, charity stakeholders wanted to see more comparative information between the planned program expenditure and actual program expenditure. The size of a charity was considered by one charity stakeholder as a barrier to producing these disclosures however overall charity stakeholders wanted to not only see the costs of a charity's programs but who it helped and how many. It was acknowledged that there might be methodology issues in measuring the public benefit and counting beneficiaries who were helped, however charity stakeholders want assurance that a charity's programs are worth funding with visible results.

When the charity stakeholders were asked to consider whether a charity partnered with other entities to deliver programs, there was a strong consensus that charities need to be more transparent about these relationships. Charity stakeholders are fully aware that charities are reluctant to disclose their government funding contracts and their joint partnerships, however, charity stakeholders want to know the outcomes of any joint partnerships and the funding contracts for program delivery.

Disclosures about serious incidents: Charity stakeholder felt that the role of the charity regulator in this area needed to improve. Charities invoke trust by the nature of the work they carry out. Therefore charity stakeholders believed that any serious incidents, including criminal investigations, need to be thoroughly investigated, and the incident disclosed. The implication is a charity that fails to protect its assets must be named because charity stakeholders want to know. Furthermore, charity stakeholders believed the charity regulator needed to play a greater role in the protection of charity assets.

Disclosures in a charity's financial reports – general information: Charity stakeholders overwhelmingly believed that they should access to a charity's current and prior years financial reports. Access to these reports should be made on both

the Charity register but also on the charity's website. Furthermore, if the charity is part of a group – then the charity stakeholders want to know the group structure and want to see the consolidated accounts and have access to the financial reports of each group member. Charity stakeholders felt that the current financial reports should also be placed in the charity's annual report, making access easier.

A charity's financial policies: Charity stakeholders felt that a registered charity needs to meet the accounting standards requirements for financial reporting. So important was this aspect – a charity stakeholder believed that a charity's registration should be revoked if its financial reporting did not meet the accounting standards requirements. Providing full financial reports with the associated notes and accounting policies was considered to be good governance by the charity stakeholders. Therefore the accounting policies used by a charity needed to be clearly stated for charity stakeholders. Furthermore, charity stakeholders wanted to know if a charity had policies for investing. The implication from this finding is not only ensuring the liquidity of a charity – but whether the investing policies aligned with the charity's charitable objectives and by default, with the charity stakeholders supporting the charity.

Disclosures from a charity's income statement: All the information items were considered by the charity stakeholders as important disclosures, and therefore the charity stakeholders wanted to see the revenue streams that a charity has. Some of the information items, like donations and fund-raising, are disclosed in a charity's annual return. However information items like revenue from other charities and oversea entities are currently not disclosed by charities. Although it was acknowledged that charities had to be sensitive about bequests, a charity need to disclose specifically its revenue streams in a more transparent way because charity stakeholders wanted to know how a charity is funded

The charity's expenditures was also an area that the charity stakeholders wanted to have more disclosure from. Again, in this section of the disclosure index are information items that are not currently disclosed by charities. For example, the cost of a charity's programs, transfers overseas and material transfers to another entity (cash or assets) are not information items that are currently being disclosed by New Zealand charities. Aggregated figures in the financial reports did not

disclose the standard of detail the charity stakeholders want to see. Regardless, charity stakeholders wanted to know where charities are spending their funds.

In both these areas, there should be some changes with the introduction of the new (2015) accounting standards for charities. However, as previously stated, charity stakeholders don't believe that the accounting standards will address the issues of transfers into and out of a charity. This may be because the charities are compelled to disclose only those relationships which involve a related party[96]; a narrow focus that applies only to the largest charities.

Disclosures from a charity's balance statement: This section of the disclosure index contained information items that are not normally disclosed by New Zealand charities. There was a discussion about how a charity should disclose some of its commercial activities, such as charity shops and the recording of donated goods but despite this, the charity stakeholders wanted to see more disclosure in both the statements and in the associated notes. Moreover, charity stakeholders wanted to know if the charities were gathering financial assets at the detriment of their beneficiaries. Therefore charity stakeholders wanted more disclosure from charities in this area. Also, charity stakeholders felt that the charities aggregated liabilities together, such as loans, mortgages, for example, so effectively hiding the details. Charity stakeholders wanted more transparency in this area as well.

Disclosures from a charity's cash flow statement: This statement has not been used by most charities in the past, and with the introduction of the new accounting standards, only large charities will be required to produce one. However, charity stakeholders understand that cash flow was vital for charities. The cash flow statement is important to see if the charity is solvent, whether the charity is losing money or incurring large expenses.

Overall, the charity stakeholders believed that the financial reports could not tell the whole story of a charity, there needed to be more narratives to give context to a charity's operations. However, despite this, charity stakeholders wanted to know

[96] A definition of a related party is someone/entity is who has significant influence over the strategic and financial decisions of a charity – and these disclosures apply only to those charities that fit the tiers (3) and (4) of the new account standards. https://www.charities.govt.nz/new-reporting-standards/tier-4/related-party-transactions-for-tier-3-and-tier-4-charities/

if a charity was managed financially, solvent and could continue its operations into the future.

Disclosures about a charity's audit/review of its financial reports: Charity stakeholders are aware that the charities who are service providers are already undergoing an audit to maintain those contracts. However, the charity stakeholders believed that all charities should undergo an audit/review regardless of size or who they work with and this information should be made available. Furthermore, the charity stakeholders were concerned about who was engaged to do the audit/review; whether it was carried out by an independent accountant. Nevertheless, many felt there had to be adequate information disclosed to charity stakeholders for assurance purposes.

Similarly, charity stakeholders believed that a charity should publish its financial reports within three months of balance day. Charity stakeholders are aware that the charities are often staffed by volunteers, however, despite this, reporting practices of charities should mirror that of the for-profit entities if confidence and trust are to be restored to the sector.

Conclusion of the charity stakeholder exercise: Charity stakeholder participation is an important aspect of this investigation because they validate the information items used in the final disclosure index. At the conclusion of the charity stakeholder exercise, all the information items in the draft disclosure index were considered valid and therefore retained. The level of importance for each information item was determined by each charity stakeholder – and the as a result of this process the mean and the standard deviation was calculated for each information item. The returned results from both stakeholder groups found that every information item (except the *date of birth of a charity board member)* was ranked from *moderately important, very important* or *extremely important.* There were no significant differences in the ranking of the information items, despite the differing objectives between the stakeholder groups.

The addition of the social media information items were the only material adjustments to the disclosure index. These additions were supported by the

comments made by the charity stakeholders. The initial disclosure index contained (136) information items, however with the addition of the five social media information items, the final disclosure index contained (141) information items[97]. The weighted mean, standard deviation, variance and count for each information item is shown in Table 14.

Table 14 The validated information items for the disclosure index.

Item No.	Disclosure of a charity's name	Mean	Standard Deviation	Variance	Count
1	A charity's legal name	3.51	1.11	1.24	77
2	If a charity is known by another name(s)	4.12	0.89	.79	76
3	A link on the charity register is made between a charity's legal name and the other name(s) it is known by	3.67	1.04	1.08	75

Item No.	Disclosure of a charity's contact details	Mean	Standard Deviation	Variance	Count
4	The charity's physical address	3.52	1.00	1.00	77
5	A working daytime telephone number	4.11	0.99	0.98	75
6	Email address	4.32	0.81	0.66	76
7	Website address	4.30	0.76	0.58	76
8	Charity has multiple websites	3.77	1.01	1.03	75
9	Mailing address	3.66	1.12	1.26	77

[97] There are no weighted means for the (5) social media items.

Table 14 continued

Item No.	**Disclosure of a charity's founding deed**	**Mean**	**Standard Deviation**	**Variance**	**Count**
10	Access to a charity's founding deed	3.99	0.83	0.69	74
11	If a charity has made any changes to its founding deed	4.08	0.94	0.89	74
Item No.	Disclosure of a charity's objectives	Mean	Standard Deviation	Variance	Count
12	The charity's objectives	4.56	0.62	0.39	71
13	Names the beneficiaries the charity is set up to assist	4.56	0.57	0.33	71
14	The charitable sector the charity works in	4.08	0.85	0.73	71
15	The region and/or countries a charity operates in	4.13	0.79	0.63	70

Item No.	**Disclosure of a charity's legal and organisational structure**	**Mean**	**Standard Deviation**	**Variance**	**Count**
16	The charity's legal structure (limited liability company for example	3.76	0.96	0.93	70
17	Access to a charity's registration number (charity registration)	3.80	0.99	0.99	70
18	If a charity is listed on another public register elsewhere	3.64	0.94	0.89	70
19	The charity's registration number if it is listed another public register	3.60	0.93	0.87	70
20	If the charity has local chapters, branches or affiliates	4.06	0.88	0.77	70
21	If the charity has commercial operations	4.06	0.88	0.77	70

Table 14 continued

Item No.	Disclosure about a charity's board	Mean	Standard Deviation	Variance	Count
22	The number of charity board members required by the charity deed	3.15	1.03	1.05	67
23	The name of each charity board member	3.57	1.05	1.11	67
24	The duration of appointment for each charity board member	3.03	1.11	1.22	67
25	If there are material voting rights among the charity board members	3.34	1.03	1.06	67
26	If the charity board has delegated authority to an executive committee or a similar body	3.46	1.08	1.17	67
27	If any of the decisions of the charity board are subject to the approval by person(s) other than the charity board	3.88	1.10	1.21	67
28	If any of the charity board members serve on any other charity boards/entities	3.31	1.14	1.29	67

Item No.	Disclosure about charity board member's details	Mean	Standard Deviation	Variance	Count
29	Full name	3.53	1.08	1.16	64
30	Date of birth	1.77	1.04	1.09	64
31	Address	2.19	1.07	1.15	64
32	Telephone	2.19	1.14	1.30	64
33	Email	2.80	1.21	1.47	64
34	The qualifications/special expertise that each charity board member has	3.27	1.03	1.07	64

Table 14 continued

Item No.	Disclosure about charity board member's compensation	Mean	Standard Deviation	Variance	Count
35	Compensation/benefits provided to each charity board member	3.80	1.00	0.99	65
36	Compensation for each charity board member is approved	3.78	1.12	1.26	64
37	Compensation for each charity board member is reviewed	3.71	1.11	1.22	65
38	Compensation/benefits provided to each charity board member from other related organisations	3.45	1.26	1.59	64
39	If there are any arm's length procedures for charity board members	3.81	1.10	1.21	64

Item No.	Disclosure about a charity's board recruitment	Mean	Standard Deviation	Variance	Count
40	Access to how a charity recruits its charity board members	3.31	1.11	1.23	67
41	Access to how a charity appoints its charity board members	3.58	1.11	1.23	67
42	Access to how a charity removes its charity board members	3.49	1.10	1.21	67
43	Access to how a charity carried out search for banned or disqualified person(s) before an appointment to the board is made	3.75	1.14	1.29	67
44	If there are any policies for charity board recruitment in the charity deed	3.39	1.12	1.25	67

Table 14 continued

Item No.	Disclosures about a charity board report	Mean	Standard Deviation	Variance	Count
45	Access to a charity board report	4.26	0.77	0.59	65
46	Access to Chairman of the charity board's statement	3.92	0.92	0.85	64
47	The charity board's strategic plan for the charity	3.80	0.86	0.74	65
48	If the charity board has made any changes/deviations from the strategic plan in the last (12) months	3.72	1.03	1.06	65

Item No.	Disclosure about charity board members	Mean	Standard Deviation	Variance	Count
49	If the charity was party to a business transaction with a current or former charity board member	4.09	0.95	0.90	64
50	If the charity was party to a business transaction with a family member of a current or former charity board member	4.02	1.05	1.09	65
51	If the charity was party to a business transaction with an entity of which a current or former charity board member was an officer or indirect owner of that entity	3.89	1.01	1.02	65

Item No.	Disclosure about charity board members	Mean	Standard Deviation	Variance	Count
52	If the charity provided a grant or other assistance to a charity board member or related party	4.37	0.87	0.76	65
53	If the charity provided a grant or other assistance to a family member of charity board member	4.34	0.98	0.96	65

Table 14 continued

Item No.	Disclosures about a charity's relationships	Mean	Standard Deviation	Variance	Count
54	Disclose details of relationships with another charity (s)	3.63	0.98	0.95	64
55	Disclose details of relationships with related party or entity	3.72	0.99	0.98	64

Item No.	Disclosures about a charity's staff	Mean	Standard Deviation	Variance	Count
56	The number of full-time staff employed by the charity	3.43	1.08	1.17	63
57	The number of part-time staff employed by the charity	3.41	1.11	1.23	63
58	The number of volunteers employed by the charity	3.38	1.00	1.00	63
59	Discloses the details of the (10) highest paid employee costs	3.38	1.27	1.60	63
60	Discloses the number of contractors employed by the contractor	2.98	1.19	1.41	63
61	Discloses if the charity maintains staff or agents outside of New Zealand	3.13	1.15	1.32	63

Item No	Disclosures about a charity's staff	Mean	Standard Deviation	Variance	Count
62	If the charity is a party to a business transaction with a current or former charity staff member	4.15	0.86	0.74	62
63	If the charity is a party to a business transaction with a family member of a current or former charity staff employee	4.06	0.93	0.87	62
64	If the charity is a party to a business transaction with an entity of which a current or former charity employee (or a family member) was an officer or indirect owner of that entity	3.98	0.91	0.82	62

Table 14 continued

Item No	Disclosures about a charity's staff	Mean	Standard Deviation	Variance	Count
65	If the charity provided a grant or other assistance to an employee	4.10	1.04	1.07	61
66	If the charity provided a grant or other assistance to an entity controlled by an employee or related party	4.10	094	0.89	60
67	If the charity provided a grant or other assistance to a family member of a current or former employee	4.05	1.01	1.01	60

Item No	Disclosures about a charity's programs	Mean	Standard Deviation	Variance	Count
68	Discloses forward/future looking information about its programs	3.70	0.84	0.70	61
69	Discloses the charity's policies for deciding its programs	3.70	0.84	0.70	61

Item No.	Disclosures about a charity's programs	Mean	Standard Deviation	Variance	Count
70	Provides a list of the charity's programs for the last (12) months	3.56	0.91	0.84	61
71	Provides a narrative of the charity's programs for the last (12) months	3.36	0.94	0.89	61
72	The charity discloses the revenues and expenditures for each charity program, including any grants or transfers made to another person or entity	3.66	0.97	0.95	61
73	A comparative between the planned budget against the actual costs is disclosed for each program	3.48	1.05	1.10	61
74	Discloses the number of beneficiaries the charity helped	3.70	0.89	0.80	61
75	Discloses the public benefit provided to the community by the charity's programs	3.72	0.98	0.97	60

Table 14 continued

Item No.	Disclosures about a charity's programs	Mean	Standard Deviation	Variance	Count
76	Discloses if it worked with another charity(s)	3.28	0.85	0.73	61
77	Discloses if it worked with a government agency(s)	3.27	0.96	0.93	60
78	If the charity worked another entity to deliver a program	3.25	0.89	0.79	60
79	If the charity worked with a charity/government agency/entity– it discloses the nature of the work it does with that charity	3.39	0.90	0.81	59

Item No.	Disclosure about serious incidents	Mean	Standard Deviation	Variance	Count
80	The charity discloses if it was a victim of fraud	4.05	0.93	0.87	61
81	The charity discloses if it was involved in fraud	4.65	0.60	0.36	60
82	The charity discloses if it was involved in a criminal investigation	4.53	0.74	0.55	60
83	The charity discloses if it was involved in an accident	3.72	1.03	1.07	60
84	The charity discloses if it was involved in any other material matter	3.92	0.96	0.93	59

Table 14 continued

Item No.	Disclosures in a charity's financial reports – general information	Mean	Standard Deviation	Variance	Count
85	Access to a charity's current financial reports	4.21	0.89	0.79	61
86	Access to a charity's prior years financial reports	3.92	1.01	1.03	61
87	To disclose if the charity is part of a group	3.98	0.91	0.84	61
88	If the charity is part of a group – access to the consolidated accounts of the group	3.84	1.06	1.12	61
89	If the charity has investment subsidiary(s) – to have access to the financial reports of the subsidiary(s)	3.73	1.06	1.13	60
90	To have access to the financial reports on the Charities Services website	3.98	0.91	0.84	61
91	To have access to the financial reports on the charity's website	3.74	1.04	108	61

Item No.	Disclosures about charity's accounting policies	Mean	Standard Deviation	Variance	Count
92	A charity provides a full set of financial reports with associated notes of explanation	3.07	1.45	2.09	61
93	The charity explicitly states its accounting policies	2.79	1.27	1.61	61
94	The charity discloses if it has made any material changes to its accounting policies in the last (12) months	2.82	1.25	1.56	61
95	The charity discloses any material explanations in its financial notes (like a contingent liability or a law suit for example)	2.87	1.45	2.11	61
96	The charity discloses its policies for investing	2.70	1.26	1.59*	61

Table 14 continued

Item No.	Disclosures from a charity's income statement	Mean	Standard Deviation	Variance	Count
97	Discloses if it received any grants	3.73	1.06	1.13	60
98	Discloses if it received any bequests	3.62	1.05	1.10	60
99	Discloses if it received any government contract income	3.80	1.09	1.19	60
100	Discloses if it received any donations	3.79	1.08	1.16	58
101	Details of any income received from another charity	3.67	1.04	1.09	60
102	Details of any income received from an overseas entity	3.67	1.04	1.09	60
103	Details of a charity's administration expenses	4.10	0.94	0.89	60
104	Discloses the cost of each program the charity conducts	3.90	0.95	0.90	59
105	Discloses the cost of fund raising	3.90	0.96	0.92	60
106	The details of any material transfers from the charity to another person/charity/entity (e.g. cash or assets)	4.15	1.00	0.99	60
107	The details of any expenditure spent overseas	3.98	1.10	1.22	60
108	If the charity paid any tax	3.88	1.11	1.22	59
109	If the charity made a profit/loss (surplus/deficit)	4.31	0.83	0.70	58

Table 14 continued

Item No.	Disclosures from a charity's balance statement	Mean	Standard Deviation	Variance	Count
110	Discloses if it has any buildings	3.83	1.07	1.14	60
111	Discloses if it has any land	3.88	1.07	1.14	60
112	Discloses if it has any long-term investments	4.03	0.99	0.98	59
113	Discloses if the charity has any long-term reserves	4.07	0.98	0.96	60
114	Discloses the number of motor vehicles	3.33	1.27	1.62	60
115	Discloses if it has any computer and IT assets	3.22	1.22	1.49	59
116	Discloses if the charity has any collections of works of art, historical treasures or similar assets	3.53	1.17	1.37	59
117	Discloses cash at bank	4.17	0.95	0.91	60
118	Discloses short-term investments	4.10	0.93	0.87	59
119	Discloses accounts receivable	4.05	0.93	0.86	59
120	Discloses if it has any inventory	3.93	1.07	1.15	59
121	Discloses if it has any prepaid expenses	3.78	1.08	1.17	60
122	Discloses if it has any mortgages	4.24	0.74	0.55	59
123	Discloses if it has any loans	4.22	0.76	0.58	59
124	Discloses if it has any long-term leases	4.15	0.90	0.81	59
125	Discloses if it has any accounts payable	4.05	0.87	0.76	59
126	Discloses if it has any superannuation liabilities	4.00	0.84	0.71	59
127	Discloses if it has unearned revenue/revenue in advance	4.02	0.86	0.74	58

Table 14 continued

Item No.	Disclosures from a charity's cash flow statement	Mean	Standard Deviation	Variance	Count
128	The movement between cash balances at the beginning and the end of the financial accounting year	3.57	1.16	1.35	60
129	The charity's operating cash flows	3.58	1.21	1.46	59
130	The charity's investing cash flows	3.50	1.20	1.45	60
131	The charity's financing cash flows	3.55	1.23	1.51	60

Item No.	Disclosures about a charity's audit/review of the financial reports	Mean	Standard Deviation	Variance	Count
132	The charity's financial reports were audited/review	4.40	0.84	0.71	60
133	The charity's financial reports were audited/reviewed by an independent accountant	4.37	0.91	0.83	60

Item No.	Timeliness of a charity's reporting	Mean	Standard Deviation	Variance	Count
134	Timely disclosure of a charity's financial reports	2.09	1.39	1.94	57
135	To have access to the charity's latest financial reports	4.29	0.825	0.68	59
136	To have access to a charity's annual report	4.43	0.72	0.51	60

The additional items that were added at this stage related to the social media information items. These items can be found in Table 15.

Table 15 Additional social media information items added to the disclosure index

Item No.	Timeliness of a charity's reporting
137	Facebook
138	Twitter
139	Instagram
140	LinkedIn
141	YouTube

In conclusion, there are 141 information items that make up the validated disclosure index. The stakeholders were not asked to rank categories of information items (see Hooks (2001) and Liu (2014) for examples). In this investigation, the final set of information items is more heterogeneous than other previous studies because the diversity of the information items covers many different aspects of charity accountability. By avoiding the ranking of categories, any distortions that may occur by the arbitrary grouping of information items are circumvented. The next section describes the final step in the creation of the disclosure index; the preparation of the qualitative criteria used to measure the quality of a charity's disclosures.

5.3 The development of the qualitative criteria

Assessing the quality of a charity's disclosures is a very important part of this investigation, yet disclosure quality is difficult to assess (Botosan, 1997). Nonetheless, if disclosure quality is not assessed, there is no distinction between poor and excellent disclosures (Coy & Dixon, 2004; Wallace, Naser, & Mora, 1994). Credit is given if there is greater the depth and density of information because it improves the understanding of what is being disclosed (Boesso & Kumar, 2007; Botosan, 2000; Coy & Dixon, 2004). The degree of detail is often referred to as the 'comprehensiveness and completeness' of disclosure (Liu, 2014; Wallace & Naser, 1995).

Both the concepts of comprehensiveness and completeness of information disclosures have been widely adopted and integrated into corporate disclosure studies (Hassan & Marston, 2010; Liu, 2014; Marston & Shrives, 1991; Yi & Davey, 2010). However there have been few that have applied the concepts to charities (Boesso & Kumar, 2007). For instance, Atan, Zainon, and Wah (2012)[98] created a disclosure index with (88) information items however they used the weightings from stakeholders as a proxy, to determine the quality of the information disclosures from Malaysian charities. In a similar study, Atan, Zainon, Theng Nam and Aliman (2012) created a disclosure index with (59) items, but they used a dichotomous measure where a Malaysian charity scored (1) if the information item was disclosed and (0) if the item was absent.

A study by Wei, Davey, and Coy (2008) created a disclosure index for museums based on Coy's (1995) study of universities. In this study, a 6-point system was developed, where (5) represented ideal disclosure and 0 represented no disclosure. This qualitative approach was considered by the researchers to establish both a measure of comprehensiveness of disclosure as well as providing the researchers with clearly defined criteria to assist in the consistency of the scoring. On this basis, both the concepts of comprehensiveness and completeness of information disclosures should be incorporated into the qualitative criteria of the charity index items for this investigation.

The concept of information timeliness has also been extensively applied to disclosure indices, as the speed in making information available is also an important factor for stakeholders (Al-Ghanem & Hegazy, 2011; Yi & Davey, 2010). Rapid information disclosers should be differentiated from late disclosers (Davey & Homkajohn, 2004). Information timeliness is both measurable and can be adapted to assess the quality of charity information disclosures. Therefore timeliness should also be incorporated into the qualitative criteria of the charity index items for this investigation.

[98] The researchers wanted to establish if there was a relationship between total donations and the extent of information disclosures so the weighted score of each charity was used in a statistical test of correlation. Therefore this disclosure index was not purely qualitative.

In the charity research context, if a disclosure index is used – it is usually a dichotomous measure with the application of descriptive statistics, with no qualitative criteria attached to the index information items (see Jetty & Beattie, 2009 for an example). Instead, a content analysis of charity reports has been used more extensively (see Beattie & Pratt, 2002; Connolly & Hyndman, 2001, 2013a). As a result, there are very few charity studies that have developed qualitative criteria to use with a disclosure index.

There are several possible explanations for this. Firstly, the development of qualitative criteria for each information item is both time consuming and complex. The researcher has to undertake a number of steps, such as a literature review of relevant prior studies and other related materials (such as annual reports, websites, regulations, charity documents) and then analyse the findings. The researcher may also have to undertake [internal and external] stakeholder interviews (Hooks et al., 2001; Liu, 2014). Therefore the criteria development tasks can evolve into an enormous undertaking. Secondly, charity researchers have developed their disclosure indices based on prior studies. The works of academics like Beattie, Hyndman, and Jetty, have all based their disclosure studies on content analysis. While Coy created a disclosure index, together with qualitative criteria for his studies in universities, however, his work has been largely adapted to the corporate studies or the public sector (see Hooks et al., 2001 for an example; Liu, 2014; Yi & Davey, 2010).

To differentiate the quality of the information disclosures – there have to be qualitative criteria established. For example, if two charities publish a list of their charity board members. The first charity discloses a full biography of the charity board member along with their qualifications while the other charity discloses only the charity board member's name. As both charities have disclosed the charity board members name - both will receive a (1) score if the dichotomous Yes/No measure is used, irrespective of the amount of information disclosed. To properly differentiate the extent and quality of the information disclosure between the two charities, qualitative criteria must be used.

5.3.1 The qualitative criteria developed for this study

In the initial stages, the researcher believed, that despite all the prior studies, it may be possible to use only a dichotomous scale for this investigation. Information items such as a charity's formal name and working name do not lend themselves to a descriptive Likert-type scale. Therefore, a discussion with the researcher's chief supervisor was undertaken for his advice; Professor. Davey has worked on, with and supervised a number of studies where a disclosure index was used. Several ideas were suggested, including the use of a modified form of scoring the quality of the information disclosures.

Following this discussion, a review of twenty-five random charities was undertaken to obtain the necessary information to assist in creating the qualitative criteria. All the published material of the random charities was reviewed, along with their websites. The complete list of the charities can be found in Appendix Eleven. Other related sources were also reviewed to assist in the development of the qualitative criteria. These sources are as follows;

- The Charities Act (2005) (NZ)
- The Charities Services website (NZ)
- The Australian Charities and Not-for-profit Commission website
- The Charity Commission (UK)

Also, a review of other accounting studies that used qualitative scoring scales was also undertaken; scoring scales have been applied to measure the quality of information of financial statements, corporate reporting, and intellectual capital reports. Some of the examples of scoring include;

- Coy et al. (1993) used a (3) point scale (1 for poor, 2 for satisfactory and 3 for excellent disclosure)
- Hooks et al. (2001) used a five point scale (1-5 was awarded, where 5 is excellent information disclosure). N/A (0) was awarded for information items that were not applicable.
- Both Schneider and Samkin (2008) and Yi and Davey (2010) used a 5 point scale (1-5, where 5 is excellent information disclosure). N/A (0) was also used for information items that were not applicable.

After reviewing the prior literature, some charity websites, other related sources and published materials and the researcher's prior knowledge of charities, an initial draft of the qualitative criteria was constructed. It was decided to use a modified form of the scoring process approach used by Liu (2014), Hooks (2001) and Coy and Dixon (2004). Modifying the approach had some advantages;

1. A reasonable measure of comprehensiveness and completeness of disclosure is incorporated
2. Clearly, defined benchmark criteria provided the researcher with consistency in scoring the charity's published materials.
3. The qualitative score from each item is multiplied by its weighting to form a final score for the item; doing this ensures that the quality of information provided by the charities can be properly measured.

Therefore for the purpose of this investigation, a combination of dichotomous and a 3-point qualitative Likert-type scale was used with (0) for those information items that are absent. This approach was considered to be the most relevant for two reasons. The dichotomous scale was used for those information items that were either present or absent. For example, whether a charity publishes an annual report or not, or, whether the charity's deed is available or not. The description of the dichotomous scale is found in Table 16.

Table 16 The description of the dichotomous scale

Score	***Description***
0	Absent/No
1	Present/Yes

However, a scoring scale was used for other information items where (3) is considered excellent disclosure and (1) is poor disclosure. For example, the charity's disclosure of a subsidiary. In this instance – the scale would be applied as in Table 17.

Table 17 The qualitative criteria used for a charity's disclosure of its subsidiary

Score	***Description***
0	Not Applicable
1	Charity discloses it has a subsidiary but does not disclose any further information about it
2	The charity discloses it has a subsidiary and provides an overview of the subsidiary's activities
3	The charity discloses it has a subsidiary and provides a detailed explanation of the subsidiary's activities

A full description of the of the three-point scale is found in Table 18

Table 18 The description of the three-point scale

Scores	***Description***
0	No disclosure
1	Low disclosure
2	Satisfactory disclosure
3	Excellent Disclosure

If a charity has met everything or more of the criteria – then a maximum score of 3 will be awarded. Otherwise, the scores will be awarded on a pro-rata basis. So if a charity managed to disclose most of the criteria of an information item – it would score 2 (satisfactory disclosure), but if a charity provides the minimum requirement of disclosure, then the score of 1 will be awarded. If the information item is absent, then the score of 0 (no disclosure) will be awarded.

The weighted score is then calculated by multiplying the score by the weighting applied to that particular item. If 0 (no disclosure) is awarded, these items will not be included in the possible overall score. The scoring process is summarised in Figure 6.

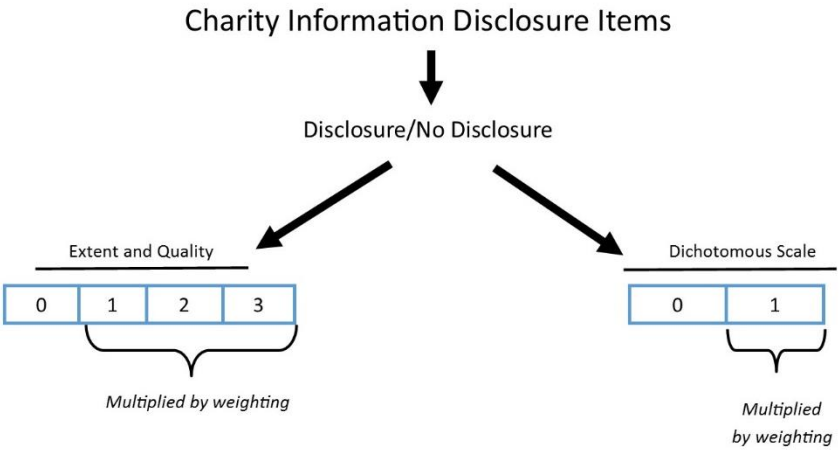


Figure 6 The scoring process of the information items

Once the design of the scoring process was completed, the disclosure index was pilot tested. The next section outlines the process of the pilot testing and the results.

5.4 Pilot Testing of the Disclosure Index

The disclosure index was tested on three charities to assess its reliability and validity. Before a second assessor was invited to help evaluate the disclosure index, the researcher attempted to apply the disclosure index herself. It was important that the disclosure index was as robust as possible before pilot testing began in earnest.

5.4.1 Pilot Test Results

First Round of Pilot Test Results

In this first round, the researcher applied the disclosure index to two charities but found the disclosure index difficult to apply. Unlike other studies by Hooks (2001), (Liu, 2014) and Yi (2010) where either the annual report[99] or the corporate's

[99] In the case of Hooks (1999) – it was the annual report

website [100] was evaluated by the disclosure index – in this investigation, the disclosure index is assessing the charity's information disclosures on the charity's own website, and the charity's annual report/annual review. These are two quite different publications with few to no comparable features, and as a result of the first attempt to apply the disclosure index, it was determined the qualitative criteria for this investigation would have to be unique. It could not be based on any prior study.

The charities use their various publications as different communication channels, and this was distorting the initial results. For instance, for the two random charities used in assessing the disclosure index, access to their charity deed is found on the Charity register (and not on the charity's website or annual report). This meant that both the charities would score "0", and this would distort the results. So it was decided to include the Charity register into the publications that would be evaluated by disclosure index (the publications would include the Charity register, the charity's website, the charity's annual report/annual review).

Table 19 An example of the qualitative scoring for access to a charity's deed.

Stakeholders get access a charity's founding deed	**Score**	
Charities Services website	1	0
Charity's own website	1	0
Charity's annual report	1	0
Charity's annual review	1	0
Access to the founding deed is found on the Charities Services website but not found on the charity's own website	2	0
Access to the founding deed is found on the Charities Services website and the charity's own website	3	0
Access to the founding deed is found on the Charities Services website, the charity's own website and link is provided in the charity's annual report	4	0
Access to the founding deed is found on the Charities Services website, the charity's own website, and link is provided in the charity's annual report and the annual review	5	0
	9	

[100] A Chinese version versus the English version of a corporate's website

The scoring design was rearranged to reflect the inclusion of the Charities register but also to reflect that a charity could use more than one publication to disclose an information item (see Table 19 for example). To differentiate the charities - further scores were awarded if the same information item could be found in more than one and/or all of the charity's publications.

However, while this scoring process acknowledged that there was a score for each publication – two issues became apparent. Firstly, it became evident that this particular scoring method discriminated between the publications by creating a ranking hierarchy. For instance, in the example of the access to charity deed, the hierarchy of the publications was as follows in Figure 7.

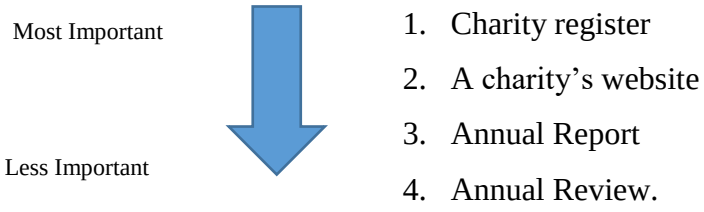


Figure 7 The hierarchy of the disclosure index

Furthermore, the qualitative criteria became irrelevant if the charity did not disclose an information item on the Charity register – but disclosed the information in its annual report. This meant that the scores of 2, 3, 4 and 5 could not be applied. Secondly, the quality and the extent of the information disclosure was not being assessed by this scoring design. Therefore this second scoring design unintentionally distorted the results but also defeated the investigation's aim to assess the quality of the information disclosed by the charities.

So the researcher looked at the design of the scoring process once again. After further discussions with the researcher's chief supervisor, it was decided that the initial decision to use modified qualitative criteria could still be applied in this investigation; using a combination of dichotomous and 3-point Likert scale but its application had to be modified. Therefore, the disclosure index would have to be applied to each publication separately so that there could be an item by item analysis, and final index score for each charity could be determined.

This approach also meant that there would be an adjustment made to the disclosure index to avoid duplication and irrelevance. Firstly, three information items[101] duplicated information item (85), *to have access to a charity's current financial statements*, so these information items were removed. Secondly, information item (136) *To have access to a charity's annual report* – this information item was removed from the index that was applied to the charity's annual report. Finally, the last adjustment was information item (2), *a link on the Charity Service's search engine between a charity's formal registered name and its working name* – this was removed for the indices that were applied to the charity's website and the annual report/review as this information item was irrelevant to these publications.

Furthermore, evaluating the charities in this manner would result in 3 separate index scores for each charity (one score each for the Charity register, the charity's website and the charity's annual report/review). Therefore, all three index scores would be tallied, and then an average could be formulated to determine the charity's ranking in the investigation sample.

After the adjustments had been made to the disclosure index – and it was applied to the two charities. The results showed that when this approach was taken, the quality and the extent of each information item could be appropriately determined. The final qualitative criteria at the end of this stage can be found in Appendix Twelve. At this point, the disclosure index was ready to be pilot tested again.

Second round of pilot testing

The pilot testing at this stage involved the researcher and one other Masters student in the Te Piringa, Faculty of Law. The Master's student was selected on the basis of her prior research and working knowledge with humanitarian charities (and she also was happy to help). Several discussions were held so that the Master's student fully understood the disclosure index and the application of the qualitative criteria to the charities' published materials used in this investigation. Both the researcher

[101] *To have access to the financial reports on the Charities Services website* (Information item 90, *To have access to the financial reports on the charity's own website* (information item 91) and *To have access to the latest charity financial statements* (Information item 135)

and the Master's student then applied the disclosure index to the two charities, and the results were discussed.

The scoring of the first charity resulted in identical scores (see Appendix Seven for the results). This was largely because the charity deed lodged onto the Charity register was illegible and the charity produced no annual report. However, despite this situation, both the researcher and the Master's student appeared to have no issues in applying the disclosure index to the charity's published material.

The second charity was purposely selected because it included an annual report. However, again the charity deed lodged on the Charities Services' website was illegible. The scores in this second charity also resulted in identical scores. However, after the second application of the disclosure index, there was a discussion about the practical application of several information items. The discussion related to the following information items;

1. The beneficiaries that a charity expects to assist (information item 13). It was agreed that the qualitative criteria gave priority (by awarding a higher score) to those charities that worked both nationally and internationally, rather than awarding the quality of the information disclosure. On this basis, the qualitative criteria were modified. The previous qualitative criteria and the new criteria are found in Table 20

Table 20 The old and new qualitative criteria for information item 13

Old Criteria			New Criteria	
0	N/A - No disclosure		0	N/A - No disclosure
1	The charity discloses an overview of the beneficiaries its expects to assist locally		1	The charity discloses a general overview of the beneficiaries its expects to assist with no details
2	The charity discloses in detail of the beneficiaries it expects to assist locally and nationally in New Zealand		2	The charity provides a general description of the beneficiaries it expects to assist
3	The charity discloses in detail the beneficaries it expects to assist nationally and internationally		3	The charity discloses in detail the beneficaries it expects to assist - by providing a description and criteria

2. The charity program disclosures (information items 70-78). It became apparent to both the researcher and the Master's student that the charity did not deliver charity programs but instead provided on-going services. It was agreed that broadening the scope of the program to include services meant

that these information items could still be applied. Therefore for the information items from 70-78 – program was replaced with program/services.

3. The public benefits information item (75) was also discussed. The Master's student pointed out that the public benefit test is a two-pronged test; firstly there must be an identifiable benefit, and secondly, the benefit must go to a sufficient section of the public (Charities Services, 2016). The Master's student felt the current qualitative criteria for the public benefit test was too vague to be meaningfully applied to the charities. After further discussion, it was agreed to modify the information item to reflect the two-prong public benefit test. This modification was adapted despite the fact these changes do partially duplicate information item 13 (beneficiaries). However, to retain the integrity of the stakeholder process – it was decided that the overlap between information item 13 and 75 was acceptable. The previous qualitative criteria and the new criteria are found in Table 21.

Table 21 The old and new qualitative criteria for information item 75

Old Criteria			**New Criteria**	
0	N/A - No disclosure		0	N/A - No disclosure
1	The public benefit of each program/service was disclosed, but few details were disclosed		1	The public benefit: a general overview of the benefit provided by each program/service
2	The public benefit of each program/service was disclosed with an overview		2	The public benefit: a general overview of the benefit is provided and a general description of the section of public the benefits are aimed at
3	The public benefit of each program/service was disclosed with details		3	The public/benefit of each program/service: a detailed description of the benefits and the section of the public the charity aims to help are provided

4. The second charity did not produce a full set of financial statements. Instead, an abbreviated set of accounts were published. For the most part, this meant that the information items related to the financial information items were irrelevant and the charity scored "0" for this section of the disclosure index.

To prevent this distortion of the results – it was agreed that information item 92 could be modified from a dichotomous scale to a full 0-3 scale. The previous qualitative criteria and the new modified criteria are found in Table 22.

Table 22 The old and new qualitative criteria for information item 92.

Old Criteria			New Criteria	
0	N/A - No disclosure		0	N/A - No disclosure
1	A charity provides a full set of financial reports with associated notes of explanation		1	An abbrevated set of accounts are provided with no associated notes explanation
			2	An abbrevated set of accounts are provided with associated notes explanation
			3	A full set of financial statements with associated notes of explanation are provided

5. Information items 94, 96 and 108[102] were also reviewed. These information items were presented on a dichotomous scale (0 for N/A or absent: 1 if present). The shared concern was based on the interpretation of the disclosure for these information items and the distortion of results. After a reviewing the 25 charities used to develop the qualitative criteria again, it was evident that a declaration [statement] was used for each of these items. For example, a statement declared *the charity was charitable and registered with the Charities Services, therefore has income tax exempt status.* Similar declaration statements were used for information items 94 and 96. Therefore it was agreed that if a statement declaration was made for each of these information items, it scored '1' – if there was no declaration it scored '0'.

6. Finally, there was a discussion about the charity deeds lodged onto the Charities Services website. It was evident that if the charity was an incorporated society – the chances are that the original document will be

[102] *The charity discloses if it has made any material changes to its accounting policies in the last 12 months* (information Item 94), t*he charity discloses any material explanations in their financial notes (like a contingent liability or a law suit for example)* (Information item 96) *and If the charity paid any tax* (Information item 108).

illegible because the document is corrupted (see Appendix Thirteen for an example of this). The review of the 25 charities established the importance of access to the charity deed. Therefore the number of corrupt charity deeds within the sample should also be recorded as part of the findings of this investigation.

The details and the results of the second round of the pilot tests can be found in Appendix Fourteen. After the modifications had been made to the disclosure index, the scores for this second round were also very similar, and there were negligible score variations – establishing the reliability of the disclosure index in practice. Moreover, the consistency of the results indicated to both the researcher and the Master's student, the disclosure instrument was validated and was ready to apply to the investigative charity sample. The final draft of the instrument and the qualitative criteria can be found in Appendix Fifteen.

5.5 Chapter Summary

This chapter presented the development of the disclosure index used in this investigation. In the initial development stage, 136 information items were identified from the prior literature. Then a stakeholder validation exercise was undertaken. The initial disclosure index was delivered to the stakeholders via Qualtrics™ survey software. The stakeholders were asked to rank the information items on a 5-point Likert-type scale (from least important to most important). The responses from the stakeholder validation exercise were summed for each item, and then the average was calculated to attain the weighting of the information item. All the items except one came back as been *moderately important, very important* or *extremely important*. On this basis, all the items were retained for the disclosure index.

Finally, the qualitative criteria to measure the extent and quality of information disclosure was also established. The review of various sources (prior studies, the review of other charities, and other related materials), it was determined a combination of a dichotomous scale and a 3-point Likert-type scale, no disclosure option could be used for this investigation. Finally, the draft disclosure index was applied in two rounds of pilot studies. Several modifications were made to the

disclosure index – which resulted in (138) validated information items that could be applied to charity sample for this investigation.

Chapter Six:
Results, Analysis, and Discussion

6.1 Introduction

This chapter presents the results gathered from applying the disclosure index to the publications from each charity. The extent and quality of the information disclosures from the charities are assessed by the disclosure index. The three publications used in this investigation are the Charity register (Charities Services), the charity's website and the charity's annual report/annual review. All (30 – 100%) charities are registered charities. Therefore all had a presence on the Charity register. However, this was not the case for the other two publications. Twenty-nine (29 – 97%) had a website[103] and (22 -73%) produced an annual report/annual review[104].

The Charity register is regulated[105], and therefore the disclosure of the information items found in it are mandated, and charities must comply if they are to retain their registration status. The other two publications, (a charity's website and an annual report/annual review), are unregulated (voluntary best-practice disclosures) so that the information disclosures in both these publications remains largely in the hands of the charity management.

To recapitulate, the first objective of this investigation, was to create a disclosure index with the assistance of charity stakeholders. However, the result of the stakeholder exercise is the disclosure index contained (138) items [both mandatory and voluntary] – one of the largest disclosure indices in recent literature. For this reason, a comprehensive item-by-item analysis is contained in Appendix Sixteen.

Consequently, the accountability framework[106] identified in Chapter (3) is the basis for selecting key information items from the item-by-item analysis for discussion

[103] The charity that did not have a website was *Unicef Children's Foundation*

[104] The (8) charities that did not produce an annual report/annual review are *The Age Concern Foundation, The New Zealand General Service Board of Alcoholic Anonymous Incorporated, Laura Fergusson Trust Board Incorporated, The National Foundation for the Deaf Incorporated, Orphans Aid International Charitable Trust, Oxfam New Zealand, Society of St Vincent de Paul in New Zealand and Unicef Children's Foundation*

[105] Charities Act (2005) and Charities Services administers the Act and the charity register

[106] The (4) elements of the framework are fiduciary, performance, financial and forward/future information.

in this chapter. This also ensured that both mandated and voluntary information items were also included in the findings discussion for this chapter.

Also, based on the results of the item by item analysis, each charity will achieve a disclosure score for each publication ((1) score for each publication). Finally, each charity will receive an overall disclosure score for information disclosure. At the same time, a comparison between the stakeholder's expectations and the charity's actual information disclosure is also conducted to obtain an understanding of the current information disclosure level made by the charities and to identify information asymmetry between the charities and their stakeholders.

The chapter is set out as follows:

6.1 Fiduciary accountability

6.2 Financial accountability

6.3 Performance accountability

6.4 Forward/Future accountability

6.5 Other maters

6.6 Publication Analysis

6.7 Quality of the disclosures from the charities

6.8 Best performing charities for information disclosure

6.9 Summary of the chapter

6.2 Fiduciary Accountability

Fiduciary accountability places obligations upon a charity board and involves a duty of care and duty of loyalty (Morphet, 2014). In particular, disclosures related to a charity board and its composition, are identified in the literature as important elements of fiduciary accountability (Dhanani, 2009; Plummer, 1996). This is also an area where there has been the greater focus from charity regulators in other jurisdictions like England and Wales and Northern Ireland (Charities Commission (UK), 2014; Charity Commission for Northern Ireland, 2014). This is an area that is not yet well developed in New Zealand's charity sector (Sanders et al., 2008; Yang et al., 2012) but an area identified by the charity stakeholders in this investigation as *very important*. The disclosure index contains a mixture of best practice disclosures and mandated charity board disclosures. The findings identified there was a wide variation in both the extent and the quality of these

disclosures. The following discussion presents a snapshot of the findings related to the fiduciary accountability of the charity board composition and its disclosures.

6.2.1 Charity boards

Firstly, **Naming the charity's board**[107]**,** is a statutory requirement[108] for the Charity register, so it was surprising that one charity had the word 'restricted' in place of the charity board members' names – *The New Zealand General Service Board of Alcoholics Anonymous Incorporated.* This is an unusual step as the Charites Act (2005) s24 does require a charity's board members to be named. However, Charities Services can use the Charities Act (2005) s25 to restrict a charity's information if it is in the public interest to do, and in this case, the privacy and the protection of the charity board members maybe the reason. However, the justification for the use of s25, in this case, is not disclosed on the charity register.

The other twenty-nine charities had their charity board members named on the charity register. Charities Services calls the charity board members *officers*[109] which are consistent with the Charities Act (2005) therefore all charity board guidelines issued by Charities Services, and the charity register uses the term charity *officer.*

However, it is not clear why, then, there is a wide range of descriptions used to list the charity *officers* on the charity register for this sample. For example, *The National Foundation for the Deaf Incorporated* listed its charity board members as board deputy chairperson, board members, council members, council deputy chairperson, and chief executive. While *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* had trustees, priory chapter members, chancellor and deputy chancellor listed as its charity board members with no explanation. Furthermore, within the charity sample, there was a whole gamut of charity board descriptions found on the Charity register, which on the one hand reflects the diversity of the charity sector but on the other hand, can cause confusion for an ordinary charity stakeholder.

[107] Information item 23
[108] Charities Act (2005), s17
[109] Charities Act (2005) s4

The charity board descriptions are so significantly different that it may cause a charity stakeholder to wonder if they are referring to the charity's board members or another [management] group and whether the different descriptions translate into different authority/powers on the board. Therefore, charities could improve the transparency to charity stakeholders by firstly, explaining how the board compositions are derived and secondly, by providing an explanation of the charity board member descriptions they are using.

In contrast, ACNC uses the term 'board member' together with 'chairperson', or 'chief executive'[110] consistently across all registered charities on its Charity register. This practice of using the same terms consistently provides more clarity for Australian charity stakeholders, a change which could be positive for New Zealand's charity stakeholders.

Nine (9) of the twenty-nine charities did not name their charity board members on its website (see Table 23 for the list of these charities).

Table 23 the list of charities that did not name the charity board members on its website

Charities that did not name their charity board members on its website
The New Zealand General Service Board of Alcoholics Anonymous Incorporated
Cystic Fibrosis Association of NZ
Laura Fergusson Trust Board Incorporated
New Zealand Red Cross Incorporated
The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated
Society of St Vincent de Paul in New Zealand
The Evangelical Alliance Relief Fund
Unicef Childrens Foundation
Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated

Furthermore, (9) did not name their charity board members in their annual report/annual review (see Table 24 for the list of these charities).

[110] These latter (2) descriptions denote the head of the charity board

Table 24 the list of charities that did not name the charity board members in its annual report/annual review (this result excludes those charities that did not produce an annual report/annual review).

Charities that did not name their charity board members in its annual report/annual review
Amnesty International Incorporated
Barnardos New Zealand Incorporated
Deaf Aotearoa NZ Incorporated
IHC New Zealand
National Heart Foundation
Save the Children New Zealand
The Evangelical Alliance Relief Fund
World Vision of New Zealand Trust Board
Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated

The results from these two publications is that of a decrease in information disclosure. One of the reasons for this is a small number of the charities within the sample are national offices. Therefore the charity board members are named on the charity register and nowhere else. In these cases, the website and the annual report is shared with the other affiliated charities/branches (see *Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated* for an example of this). Another reason is the internationally affiliated charities in this sample, use the international annual report/annual review rather than a New Zealand-based one (see *Amnesty International Incorporated* for an example of this). Consequently, there is scope in both instances for those charities to improve their charity board composition disclosures by providing clear information on both their websites and in the annual report/annual review.

Also, cross-checking the names of charity board members across the three publications identified inconsistencies between the publications. Differences between the charity register and the charity's website were identified in three charities (these charities are *Lifeline Aotearoa Charitable Trust, ChildFund NZ Ltd* and *Save the Children New Zealand).*

In the case of The *Salvation Army New Zealand* the differences went across all three publications, but again the terms used were also different. It had:

- two *trustees* listed on the charity register

- five *charity board members* listed in its annual report
- (9) *governance board members* on its website.

These examples provide compelling evidence for standardising the terms used to describe a charity board by both Charities Services and the charities so that charity board terminology is easily understood by charity stakeholders. To reiterate, the adoption of consistent terminology to describe charity board members is the first step towards clear communication with charity stakeholders.

Also, it is important to realise the information on the Charity register is updated annually. However, the charities need to acknowledge that charity stakeholders may seek information elsewhere, such as the charity's website and/or annual report/annual review. Accordingly, there is scope for improvement in this area by the charities in the sample, by providing consistent, updated information on its board composition for charity stakeholders in other publications such as its website and annual report.

Another aspect of an effective charity board is the **qualifications and special expertise**[111] that each board member brings. This is not a statutory requirement. Therefore no (0) charity disclosed this information item on the charity register. However, (14 - 45%) charities disclosed this information on its website while (5 – 23%) did in the annual report/annual review. The overall picture that emerges is one of low disclosure. While it is acknowledged that it would difficult to assess whether the charity board can be considered effective solely based on the disclosure of this information item, the literature supports the need for a charity board to be sufficiently skilled to run the charity (Rees & Gourdie, 2007; Saj, 2013). For this reason, charity stakeholders seek confirmation that charity board members have the skill sets needed to oversee the charity, and that the charity takes its board composition seriously. Therefore, the disclosure of this information item should be made accessible and transparent.

Further to this, a charity should provide comprehensive information on how the charity board members are **recruited**[112]**, appointed**[113]**, removed**[114] [tenure] and if

[111] Information item 34
[112] Information item 40
[113] Information item 41
[114] Information item 42

there was a **search for disqualified persons**[115] [vetting] before the appointment. The charity deed was an essential document for these disclosures, as typically very few charities made these disclosures on its website or in its annual report/annual review. The results of these disclosures can be found in Table 25.

Table 25 Summary of the recruitment, appointment, removal and search for disqualified persons for a charity's board.

Description	Charity Register	Charity's website	Charity's annual report/annual review
Recruitment	18	6	0
Appointment	20	4	1
Removal	18	4	0
Search for disqualified persons before appointment	0	0	0

The overall picture that emerges is one of decreasing disclosure from the Charity register to the charity's annual report/annual review. The most common place to find tenure disclosures is in a charity's deed, and 67% of the charity sample had these provisions in its deed lodged on the charity register. However, disclosure decreased for the charity's website (the highest being 13%) and apart from a disclosure made by *Variety – the Children's Charity Incorporated* – no other charity made these disclosures in its annual report/annual review. Charity board tenure processes have been identified in the literature as one area that is facing greater stakeholder scrutiny (Saj, 2013) and one of the most effective ways to enhance charity stakeholders' perception of a charity board is to provide more tenure disclosures. These types of disclosures can mitigate stakeholder concerns that the appointments to charity boards are insular and informal (Knowhow Nonprofit, 2016).

In the case of recruitment, vetting potential charity board members before appointment should be part of the screening process. This ensures that those considered for charity board appointments are suitable – however, no vetting disclosures were found in any of the publications.

[115] Information item 43

The Charities Act (2005) s16(2) prevents some individuals from taking up positions on a charity board and when a new charity undertakes the registration process – all the charity board members must provide an *officer certification* declaration which is the document form of the Charities Act (2005) s16(2). However, it is not evident if subsequent charity board appointments are also required to do this. By making this type of information disclosure accessible and transparent, the charity allows charity stakeholders to see the charity has taken all the necessary steps to ensure only appropriate individuals are appointed to its board. Providing clarity around how charity board members are vetted may also strengthen a charity stakeholder's confidence in the charity board appointment process.

Charity board term limits is not an element that has had much traction in charity literature until the Charities Commission in Northern Ireland highlighted it in (2014) (Charity Commission for Northern Ireland, 2014). Although the sample size of this investigation is thirty – there were eight charities that had charity board members who served for ten years or more.

Twenty-nine charities disclosed the **duration of the appointment**[116] for each charity board member on the charity register. Again, *The New Zealand General Service Board of Alcoholics Anonymous Incorporated* did not disclose this information item. In the case of *The Evangelical Alliance Relief Fund*, it has three board members who had served (24) years, (13) years and (11) years respectively. In this case, an explanation to charity stakeholders is warranted – especially if the long-standing charity board members bring a substantial contribution or special expertise to the charity board. With an explanation, the charity can improve its transparency and provide greater confidence to charity stakeholders about its charity board composition.

Again, when looking at the two other publications, the level of disclosure decreased. Furthermore, it was disclosed inconsistently across the two publications. For instance, two charities[117] provided this information on its website, while a different two charities[118] provided this information in its annual report/annual review.

[116] Information Item 24
[117] *Royal New Zealand Foundation of the Blind* and *World Vision of New Zealand Trust Board*
[118] *Royal New Zealand Plunket Society Incorporated* and *The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated.*

Nevertheless, where there has been an established disclosure system for charity board member terms on the Charity register, this has yet to flow into the charity's other [voluntary] publications so there could be some improvement by the nondisclosers in this area.

By providing information on **how the remuneration is set for the charity board members[119],** charity stakeholders can understand how these relate to the charity's financial position (Panel on the Nonprofit Sector, 2007). This is another area which is consistently scrutinized by charity stakeholders, due mainly to some recent shocking examples of excessive remunerations given to charity board members (Hope, 2015). As a result, charity stakeholders demand to know charity board's remuneration levels. However, this information item is not a statutory requirement, and therefore charity stakeholders must go to a charity's financial reports on the Charity register to find out this information. There may also be a charity policy on board remuneration in its deed. Ten (10 – 33%) of the charities provided this disclosure on the charity register via financial reports. However, the information items were disclosed as a global figure (see *Orphans Aid International Charitable Trust* for an example of this). There are (3 – 10%) charities which disclosed this information item both in their financial reports and the policy in their charity deed – this was considered excellent disclosure (see The *Fred Hollows Foundation (NZ)* for an example of this).

However, for the other two publications, the overall picture is one of low disclosure. Two (2 – 7%) charities disclosed this information item on its website, while (3 – 10%) disclosed in its annual report/annual review. These charities are essentially the same ones that made the disclosures on the charity register. This is an area that is not well explored in New Zealand charity literature, and the Charties Act (2005) is silent. Moreover, the findings here reiterate the charity sector's reluctance to publish this information item. Nevertheless, the justification for this disclosure is based on demonstrating that public funds are not being used to support excessive payments to charity board members and one that has been taken up by other jurisdictions, such as England and Wales (Ramrayka, 2012).

[119] Information Item 35

The voting rights of a charity board is another area which is not explored much in the literature and one where there has been little research done in New Zealand's charity sector. It is an area where the Charities Act (2005) is again silent, and very little guidance is provided by Charities Services[120]. The assumption that each charity board member has one vote is not always true. For example, some Incorporated Societies (13 – 43% of the charities inthis investigation are Incorporated Societies) have rules where life members are entitled to two votes while other (ordinary) members are entitled to one[121].

Also, any valid decision-making [actions] of the charity board require sufficient voting of the charity board members, (as well as sufficient records). If anyone challenges the validity of a charity board's action, the charity has to demonstrate the operation and processes of the charity board were valid; an another important way for a charity to discharge its accountability (Reddy et al., 2013). Accordingly, this investigation looked at whether there were any **material differences in voting rights among the board members**[122] or if the **charity board delegated its authority to another executive committee or similar body**[123]**.**

No charity disclosed the first information item in any of the publications. However, the complexity of some of the charities within the sample made both these information items difficult to assess. For example, *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* has a strong hierarchical chain of command that is not easily understood. Furthermore, it appears that the charity board contains members from the upper management structures, but the supreme authority of the organisation is vested in the *Sovereign Head of the Order* and the Grand Prior, both which do not sit on the charity board. Therefore it is not clear if some charity board members have more power to vote than others in this charity.

[120] Charities Services (2017). Rules and the Charities Act (2005): Governance Clauses. https://www.charities.govt.nz/apply-for-registration/rules-and-the-charities-act-2005/
[121] Companies Office: Societies and Trusts Online, (2017). What must be included in the rules? http://www.societies.govt.nz/cms/incorporated-societies/rules-of-incorporated-societies/rules-of-incorporated-societies-2/multipagedocument_all_pages
[122] Information item 25
[123] Information item 26

Furthermore, there were (3 – 10%) charities that had higher oversight authority of the charity board disclosed in their deed[124]. For example, the *New Zealand Red Cross* has a National Board of the Red Cross – but there is also a National Council, National Officers and a Director General. The overall picture that emerges is one of confusion for a charity stakeholder as to who is held accountable for the charity's decision-making.

These findings support the diverse nature of charities, despite there being only three commonly recognised legal forms within the sample[125]. Nevertheless, some of the charities within this investigation, have organised themselves in a variety of complex ways. Without a charity's organisational structure [chart], a pictorial diagram which clearly indicates how the authority and power are exercised by the board and the relative ranks of its people (and positions), a charity stakeholder may struggle to understand who to hold accountable. There was only one charity that provided its organisational structure in its annual report (*The Salvation Army New Zealand[126]).* For this reason, a charity should include these disclosures in its charity deed and should consider the publication of this information on its website and annual report/annual review – even if this is an infographic illustration.

The next information item looked at whether any of the charity board members disclosed if they **served on any other charity boards or entities[127].** This is a topic that has been well explored in corporate literature, but one that has not had much traction in charity literature, and one that has been largely ignored in the New Zealand context. Unlike the Companies Act (1993) which imposes obligations upon company directors[128] to disclose this information item, the Charities Act (2005) is silent, and Charities Services provides little guidance apart from conflict

[124] These charities are: *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem, The Salvation Army New Zealand* and *New Zealand Red Cross*

[125] There were (14) incorporated societies, (13) charitable trusts and (1) limited liability company. There was also (1) social-profit organisation and (1) body corporate; both of which are not commonly recognised legal forms in New Zealand.

[126] In the section of the charity's annual report called "Governance" (Annual Report 2015, p. 27) http://www.salvationarmy.org.nz/sites/default/files/uploads/20160107TSA%20Annual%20Report%202015%20CC.pdf

[127] Information item 28

[128] Obligations such as acting in good faith and the best interests of the company (Companies Act (1993), s131-138). In contrast charity board members have to rely on the common and equity law, law of trusts and incorporated socieites for identifying these obligations

of interest guidance[129]. This information item was considered to be *very important* by the charity stakeholders in this investigation.

No charity disclosed this information item on the Charity register, but it is important to realise that this is not a statutory disclosure. However, (10 – 33%) of the charities disclosed this information item on its website. It was found some of the charity board members held at least two other positions (see *Adrienne Von Tunzelmann* of *The Age Concern Foundation* for an example of this). However, no charity disclosed this information item in its annual report/annual review.

Therefore it would be incorrect to assume that a New Zealand charity board member holds a single position, as it would be equally incorrect to assume a charity board member holds multiple positions. Charity stakeholders are unable to check on the Charity register to see if a charity board member holds multiple charity board positions, unlike that of company director on the Companies Office register. A change in charity disclosure practices or a change in charity law would be required to persuade the substantial numbers of non-disclosing charities to bring about change in this area. This would provide greater transparency for charity stakeholders.

Finally, it is incumbent on the charity board to ensure that charity's published documents are *fit for purpose*[130]. As part of an accountability regime, the charity documents should not only be publicly available but presented in an easy to understand and easy to read format (Wigington, 2008). This is an area that has gained a lot of attention in the corporate sector (Campbell & Rozsnyai, 2002; Juran, 2004) but not so much in the charity sector. Yet the lack of documents which are fit for purpose is an important factor underlying a charity's disclosure index score in this investigation.

6.2.2 Other fiduciary responsibilities

The first document that came to the attention of the researcher was the charity deed. Filing **a charity deed and associated amendments**[131] (known on the Charity

[129] Charities Services (2017). Conflict of interest. https://www.charities.govt.nz/im-a-registered-charity/officer-information/officer-kit/conflict-of-interest/.
[130] Quality has been defined as *fit for purpose* where the information is appropriate in terms of what the provider wants to communicate and the information meets the needs of those who use the information (Campbell & Rozsnyai, 2002)
[131] Information Item 10 & 11

register as a *charity's rules)* is a statutory requirement. Therefore all thirty charities lodged this document on the Charity register. However, seventeen charities had illegible original charity deeds – twelve of the seventeen later uploaded a legible deed (see Table 26 for a summary of these findings), leaving five charities with no legible deed on the Charity register. Also, often the latter legible deed (which replaced the illegible deed) was uploaded many years later. For example, *Unicef Childrens Foundation's* first legible document was filed eight years (2016)[132] later, and *Oxfam New Zealand's* first legible charity deed was uploaded in seven years (2015).

Table 26 A summary of the charity deed findings

Results	No of Charities
Number of charities with illegible original charity deeds but later amended	12
Number of charities with no legible charity deed on the Charity register	5
Number of charities with legible original charity deeds	13
Total Number of charities	**30**

The findings also revealed that there was a wide range of documents that had been filed as charity deeds on the Charity register, where the document appeared to be a draft document[133], an incomplete document[134], had obvious discrepancies[135] and did not appear to be a charity's deed[136]. Moreover, there were charity deeds that had obvious topographical mistakes throughout[137] and one charity had numerous amended charity deeds loaded onto the Charity register. However, it appeared to the same identical document each time[138]. While Charites Services does provide some guidance to charities about the provisions that should be in a charity's deed[139],

[132] This is the amendments and not a full deed
[133] For example, *Royal NZ Plunket Society Incorporated*
[134] For example, *The Evangelical Alliance Relief Fund,*
[135] For example, *Unicef Children's Foundation*
[136] For example, *The Salvation Army NZ* – this is a British Act.
[137] For example, *The New Zealand General Service Board of Alcoholics Anonymous Incorporated,*
[138] This charity was *Amnesty International Incorporated*
[139] Charities Services (2017). *Rules and the Charities Act (2005).* https://www.charities.govt.nz/apply-for-registration/rules-and-the-charities-act-2005/

some of the charity deeds in this sample were not be well drafted nor suitable deed documents.

However, there were other documents produced by the charities in this sample (apart from the charity deed) where the quality was poor[140] or poorly presented[141]. This can be relevant to a charity stakeholder's perception of a charity, and especially of a charity's board. In other words, the disclosure quality of some of the documents produced by the charities in this investigation needs to significantly improve if a charity is to discharge its accountability adequately.

Another important matter is that the serious incidents disclosures all failed to score across all three publications. The obligation to disclose a serious incident flows from the fiduciary nature of a charity. However, these are not mandated disclosures in New Zealand, unlike England and Wales. Yet, these information disclosures are important to charity stakeholders and therefore it is suggested here that these types of disclosures require a 'nil' disclosure in the event of no serious event occurring. Therefore, a charity could be excused from making a serious incidents disclosure, if there are no serious incidents to report. However it is important to realise that a 'nil' disclosure could only occur in two ways – firstly if it was included in the charity's annual return and secondly if the charity included in its other published material. Charity stakeholders, as outsiders to a charity, would be unable to get access to this information otherwise.

Finally, timeliness in relation to the charity's financial reporting was identified by the charity stakeholders as *very important* element of accountability. Timeliness affects whether disclosed information remains relevant and useful to charity stakeholders – a point well established in the corporate sector (Al-Ghanem & Hegazy, 2011).

With respect to a charity, the deadline for the submission of a charity's annual return and financial reports to Charities Services is six months after the year end date (balance date). The Charity register records the date that these documents are filed with Charities Services and this date was compared against the charity's balance

[140] See (2015) *St Vincent de Paul in New Zealand's financial reports* – these are also discussed later in the chapter – there is several sets of financial reports filed as a single report
[141] See the (2015) *IHC New Zealand's* financial reports

date (found in the charity's financial reports) to determine timeliness. It was found that (90% - 27) charities filed within six months of the balance date. However, it was found that only six charities filed within three months of its balance date – the other twenty-one of the twenty-seven charities filed their accounts (4-6) months after balance date. The remaining three charities filed their financial reports and annual return more than six months after its balance date. Therefore, apart from the three charities which lagged behind, most of the charity sample was compliant.

6.2.3 Summary of fiduciary accountability

Fiduciary accountability of a charity covers a range of key areas, such as charity board recruitment, remuneration, review and vetting. Most of the charity board information disclosures in the disclosure index are best practice disclosures with a smaller number being statutory required. However, in this investigation, we find evidence that accountability of the charity boards could be greatly improved as few charities scored well in this part of the charity index. For a significant number of the charities in the sample, the starting point is to consistently provide the names of the charity board members across all their publications. Similarly, a legible charity deed should also be made accessible in other publications apart from the Charity register, because, without it, a significant portion of charity board disclosures is inaccessible to charity stakeholders. For example, a pdf link to charity deed on its website could provide easy access for charity stakeholders. On the positive side, most of the charities filed their reports within six months of their balance dates, demonstrating this element of accountability. However, it is crucial charities provide information which is up-to-date and consistent across all their publications, and their published documents are fit for purpose. A charity board cannot discharge its fiduciary accountability to its stakeholders unless it can demonstrate who they are, what they have done and why.

6.3 Financial Accountability

A significant amount of public money flows through New Zealand's charities, and therefore financial reporting serves as the principal method of financial accountability for the charity stakeholders (Gousmett, 2013; Sinclair, 2010). Furthermore, charities that provide financial transparency go beyond what the law

demands to embrace the values of financial accountability (Hancock, Izan, & Kilcullen, 2010).

To recapitulate, the Charities Act (2005) s2(b) sets out the legal requirement for charities to produce annual financial reports, and the External Reporting Board introduced the new multi-tier financial reporting standards[142] into New Zealand in (2015). A key feature of a charity's financial reporting is that it emphasises the responsibility and the accountability of the charity board's decision-making for the charity's financial health (Beattie & Pratt, 2002; Hayes-Knight (Accountants), 2014).

Charity financial reporting is one area where there has been a number of key studies (Charity Commission (England and Wales), 2012; Flack & Ryan, 2005), including New Zealand (Cordery, 2012; Hooper et al., 2007; Ministry of Economic Development (NZ), 2006). It is important to realise that financial reporting is vital to communicating of the charity's solvency and whether the charity board is financially capable of safeguarding the charity's assets (Charities Commission (UK), 2014; Connolly & Hyndman, 2013a). Also, charity, stakeholders believe charities should demonstrate that they have spent their funds in accordance with their charity's aims and objectives (Connolly, Hyndman, & Dhanani, 2013).

The information items included in this investigation are drawn from the basic financial statements; the income statement, a balance sheet and a cash flow statement. Also, information items were also drawn from notes to the financial reports which provide supplementary information disclosures to give context and greater understanding of the charity's financial position. Therefore, the information items from this part of the disclosure index are a mixture of statutory requirements and best practice disclosures. Correspondingly, the charity stakeholders in this investigation determined that the financial information items in the disclosure index were all *very important* or *extremely important.*

Providing annual financial reports are a statutory requirement. Therefore all thirty charities provided **financial reports[143]** on the Charity register**.** Two of the charities had year-ended (2016) reports, the remaining twenty-eight were year-ended (2015).

[142] These are accounting Standards for Public Benefit Entities - Not-for-Profit Entities.
[143] Information Item 85.

Twenty-nine charities placed full financial reports along with accounting policies and notes to the financial reports on the Charity register. However, one charity, *IHC New Zealand,* placed abbreviated financial reports on the Charity register; this charity also placed the same abbreviated financial reports on its website and in its annual report (see Appendix Seventeen for a copy of this).

Four (4 – 13%) charities provided financial reports on its website – two of which placed the same reports on the charity register, while the other two had abbreviated accounts. These charities have shown a better commitment to financial accountability because their financial reports are easier to find and view for charity stakeholders. Ten charities had full financial reports in its annual report/annual review, while (9) others had abbreviated financial reports.

A point often overlooked is the consistency of information from a charity, yet it is important to charity stakeholders because inaccurate, incomplete or conflicting information between the publications creates confusion and uncertainty (Ruth & York, 2004). In particular, only two charities[144] disclosed the same financial reports on the Charity register, on the charity's website and in its annual report/annual review. In contrast, one other charity had (2015) financial reports filed on the charity register but had (2014) on its website and in its (2015) annual report[145].

In reviewing the financial reports in the sample, it was noted some of the charities presented their financial reports in unusual and often confusing formats. For example, *The Age Concern Foundation NZ* filed a "Statement of Account" – with no explanation of what this means[146]. In the case of the *Society of St Vincent de Paul in New Zealand,* there are two sets of financial reports filed in a single document found on the charity register; one set is titled the 'National Council' while the other is titled the 'Area Councils'. However, there is no explanation as to why there are two sets and no explanation of the relationship between the two entities nor the charity structure to give context to the financial reports.

Furthermore, the unusual language found in some of the financial reports exacerbated this situation. For example, *World Vision of New Zealand Trust Board*

[144] *The Fred Hollows Foundation (NZ)* and *IHC New Zealand*
[145] The charity was *Variety - the Children's Charity*
[146] It appeared to be a combined income and balance sheet statement

has a line entry called 'accountability' in its statement of financial performance with no explanation of what this means; *Save the Children New Zealand* also uses this term.

The findings establish that the charity boards in the sample have been creative in presenting their financial reports, but they can discharge financial accountability only to the extent that the financial reports meet the needs of the charity stakeholders. Consequently, the accounting irregularities described above creates uncertainty around a charity's financial reporting and this could impact upon charity stakeholders' perception of a charity's accounting practices. Moreover, the current (2015) charity accounting standards support charity stakeholders to understand a charity financial accounts because there is supposed to be no charity-specific accounting jargon used (Hayes Knight (Accountants), 2014). However, the findings do not support this assumption.

To reiterate, the financial reports year ending (2015) of (28 – 93%) of the charities in the sample were examined for this investigation, while (2 – 7%) had financial reports ending (2016). Therefore, most of the charities within this sample have not yet applied the (2015) charity accounting standards. Furthermore, while a longitudinal study of how their financial reporting will change in (2016) is beyond the scope of this investigation – it will be interesting to see if it changes the way the charities in this sample produce their financial reports in the future.

Charity stakeholders may want to track the charity's financial performance over multiple years and monitor key sections of the financial reports. Accordingly, **prior years' financial reports**[147] are also found on the Charity register for all thirty charities. However, only three charities provided access to prior years' financial reports on its website (by way of pdf. link for example). Also, the only way to get access to prior years' financial reports in annual report/annual review was to get access to prior year's annual report/annual review and (9) charities did this – again, usually by a pdf. link (see *Nga Whare Whakaruruhau o Aotearoa National*

[147] Information Item 86

Collective of Independent Women's refuges Incorporated - this charity provides a link to a pdf to its financial reports[148] (current and prior years)).

At this point, it is useful to provide some context as to why the disclosure of this information item was poor on the charity's website and in its annual report/annual review. Firstly, it is worth reiterating the wide variations of financial report presentations across the charity sample.

Several charities had headings which said 'financial reports' on its website however these were percentages of key items from the statements (see *ChildFund NZ Ltd* for an example of this). Another charity presented a summary of its work for the year in place of financial reports (*National Heart Foundation of NZ).* In the case of *The Starship Foundation*, its financial reports are replaced with snapshot discussions throughout its annual review. Moreover, more than 90% of the charities placed abbreviated financial reports on its website while 40% did the same for its annual report/annual review – even though these same charities had placed a full set of financial reports on the Charity register. For this reason, charities need to remember that charity stakeholders wishing to investigate a charity's use of its financial resources may choose to look at alternative sources of information. Therefore, this is an area that the charities could improve their disclosures by placing the same financial reports on all three publications.

Similarly, it is important to charity stakeholders to know whether a **charity was part of a group**[149] because 'charity-only' financial reports may give charity stakeholders a distorted impression. This is especially so because some charities have other [commercial] activities and assets held by subsidiary companies and these may not be listed by the charity at all[150] or can be disclosed as '*investments'* in the charity's balance sheet (Little, 2005).

It was found that eleven charities disclosed they were part of a group on the Charity register. This information item could be identified in two ways – firstly in the

[148] *Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated's* website (5/1/2017), https://womensrefuge.org.nz/?s=reports
[149] Information Item 87
[150] This is so because the other entities are considered to be 'separate' from the charity

charity's financial reports[151] and/or secondly, on the Charity register[152] itself. However, the disclosure of this information item decreased when looking at the other two publications – one charity on its website and six in its annual report/annual review. It is worth noting that often the financial reports did not explicitly state they were consolidated accounts – so there may be other charities in the sample that had consolidated accounts but they were not marked as such.

Furthermore, it is important to realise that Charities Services uses 'group' differently from the more commonly understood term used in accounting[153]. To explain this further, if a charity is part of a 'group of charities' – then the 'charity group' will be recorded on the Charity register along with the other [registered charity] group[154] members (*Deaf Aotearoa NZ Incorporated* is an example of this). However, if the charity is part of a group which includes commercial entities (not registered charities) – then the commercial entities of the group will not be disclosed on the Charity register (*Lifeline Aotearoa Charitable Trust* is an example of this).

As a result, it would be incorrect to view the Charity register as anything other than a public register of registered charities. Thus, a charity stakeholder would incorrectly rely on the Charity register to list a charity's commercial group members. For this detail, a charity stakeholder has to go to a charity's consolidated financial reports, where the charity and its trading and **investment subsidiaries[155]** are treated as one and therefore listed.

When seeking **the consolidated accounts**[156], of the eleven charities that are part of a group, eight charities provided consolidated accounts[157]. However, the disclosure of this information item decreased over the two other publications. One charity provided this information on its website, while six charities provided this information in its annual report/annual review. This finding can be explained by

[151] The financial reports would contain the word 'consolidated' somewhere
[152] The was a group of charities – however, this did not necessarily mean the financial reports were consolidated
[153] the accounting definition of group comes from the corporate group or group of companies, where a parent company (which has the sole source of control) may have a collection of subsidiary companies – and the group operates as a single entity
[154] Charities Act (2005), s46
[155] Information 89
[156] Information Item 88
[157] Charities don't have to present consolidated accounts till year ending 2016 – so some of the accounts were not the current accounting period

the fact that not all the charities provided full financial reports on its website or in its annual report/annual review. Moreover, the accounts in the other two publications could be [abbreviated] consolidated accounts, but the charity has failed to identify them as such.

In the case of the **investment subsidiaries**[158], five charities disclosed this information on the Charity register. Only two of those five went on to disclose this information item in its annual report/annual review – no charity disclosed it on its website. The overall quality of this disclosure was low. However, it was noted that the investment subsidiaries were for the most part found in the balance sheet of the charity, rather than in a set of consolidated accounts. For example, *Royal New Zealand Foundation of the Blind,* refers to 'special purpose entities' and 'its subsidiaries', discloses global figures but does not provide any details of these other entities or their activities.

Also, charities within the sample that are listed as national bodies lacked consolidation detail or an explanation as to how they are organised. In the case of the *Laura Fergusson Trust Board Incorporated,* this charity appeared to be inactive, with few transactions in its financial reports (its total income was ($9)). So while this charity continues to file accounts and its annual return and therefore appears to be compliant– it appears to do little else.

In contrast, *Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated*'s (2015) financial reports disclose they are consolidated financial reports in the auditor's report at the back-end of the financial reports but nowhere else. Moreover, there is no clarity as to which entities are party to the consolidation[159] - the auditor refers to the '*Core group'* but then provides no explanation of its composition[160].

In this regard, there is very little disclosure about how some of the charity national offices within the sample are funded and organised. The Charities Act (2005) is silent on the matter of national offices, but Charities Services does provide some

[158] Information 89
[159] This charity is associated with (37) other entities across New Zealand.
[160] *Nga Whakaruruhau o Aotearoa National Collection of Independent Women's refuges Incorporated, (2015).* Financial Statements (2015). p.11

guidance on its website[161] for control relationships in anticipation of consolidation. Regardless, this does not provide any clarity for charity stakeholders about national offices and their relationship(s) to affiliated charities. Therefore this is one area that the nondisclosers could be persuaded to improve in their disclosures and one where the law could be changed to reflect the nature of national office charities.

Furthermore, in the New Zealand context, approximately (27%) of all charities have some form of trading operation and the (2015) accounting standards are supposed to make group and consolidated charity information clearer for the charity stakeholders (CharityWatchNZ, 2013; Gousmett, 2015). However, the findings in this investigation do not support that assumption.

Nevertheless, there was insufficient or unclear information provided by some of the charities in the sample. Correspondingly this may hamper the charity stakeholders' understanding of a charity's structure and its activities because the charity disclosures do not include the 'whole picture'. This is an area where the charities in the sample underperformed and could improve their transparency by being more open about their commercial trading and subsidiary entities in their disclosures.

The next set of information items are those that are found in the Income statement; that is the income and expenses of a charity. These are important to charity stakeholders as these information items signal the 'efficiency' of the charity, establish whether a charity has diverse income sources and can influence which charity a stakeholder will choose to support (Connolly, Hyndman, & Dhanani, 2013). The first set of information items relates to a **charity's income**[162]. These are summarised in Table 27.

[161] Charities Services, (2017). Financial reporting and control relationships. https://www.charities.govt.nz/new-reporting-standards/financial-reporting-and-control-relationships/

[162] Information Items 97-102: Grants, bequests, government contracts, donations, any income received from another charity and details of any income received from an overseas entity.

Table 27 Summary of income information items (#97-102)

Description	Charity Register	Charity's website	Charity's annual report/annual review
Grants	23	4	17
Bequests	24	2	13
Government Contracts	20	4	16
Donations	27	4	18
Any income received from another charity	5	0	1
Details of any income received from an overseas entity	3	1	1

In explaining these findings, the first four information items (information items 97-100) are also found in the charity's annual return, which would explain why most charities disclosed these items on the Charity register. These same information items are also showcased in the charity's annual report/annual review by most of the charities which would explain the high disclosure in this publication.

However, in the case of the website, most charities did not disclose these information items. This is because the presentation of the financial reports was typically some form of impact report where percentages replace the dollar figures (for example of this, see *Save the Children New Zealand),* or the accounts were abbreviated, so the income figures are aggregated. Also, most charities that failed to make their financial reports available on its website.

Secondly, there were a few charities within the sample that had one main source of revenue as its income (*IHC New Zealand* is an example of this). In addition, charities which are also a national office were largely nondisclosers of the income information items (like *Laura Fergusson Trust Board Incorporated* for example). The charities which are not service providers or receive government grants were also nondisclosers of *government contracts* and *grants* (*Amnesty International*

Incorporated and *Lifeline Aotearoa Charitable Trust* are examples of this). Finally, those charities which do have international affiliations within the sample were sending revenue abroad rather than receiving it (only three charities disclosed they received international funds from abroad).

At the same time, the language around how these income disclosures were presented in the financial reports varied across the charity sample. For instance, *grants* were described in at least four different ways. More importantly, it was not unusual for a charity to use a term which is not commonly used without explanation. For example, *World Vision of New Zealand Trust Board* used the term 'multilateral grants' without explanation in its financial reports (see *World Vision of New Zealand Trust Board Annual Report, (2015), p. 7).*

It was estimated that (67%) of the charities must be in a public-private contract with the government, however, although the charity acknowledged it had a government contract, very little other detail was provided (public-private contracts are beyond the scope of this investigation). Furthermore, most of those charities also received some form of grant – again most of the charities within the sample providing low disclosure about these incomes.

In the case of the larger charities such as *The Prior in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* and *New Zealand Red Cross Incorporated,* an extensive list of all the donors, including philanthropic organisations and government agencies is provided in the annual report. This is excellent disclosure and demonstrates best practice disclosure. However, this is not the case for most of the charities in this sample. So, although the charities managed to score because the income was listed, it was not great disclosure because the details were missing.

It was observed, that to some extent the disclosure of these income information items was dependent on the charity and the activities it undertakes. For example, a charity national office had significantly different income streams from that of national children's charity. Furthermore, aggregated income figures resulted in the charity achieving a low index score (*IHC New Zealand is an example of this).*

The next set of information items relates to a **charity's expenses[163].** This is an area where there has been a drive to see fundraising expenditure distinguished from a charity's other activities, especially in England and Wales where there has been significant research done by both Charity Commission (England and Wales) and by academics (Charity Commission (England and Wales), 2013a; Connolly et al., 2012). The findings are summarised in Table 28.

Most charities disclosed these information items on the charity register. However, this can be explained by the fact that these same items are also found in the charity's annual return.

Table 28 Summary of expense information items (#103-107)

Description	Charity Register	Charity's website	Charity's annual report/annual review
Charity's administrative expenses	26	4	13
Cost of each program	25	4	14
Cost of fund raising	25	4	14
If there have been any material transfers to another person/charity/entity	17	2	9
Details of any expenditures spent overseas	12	4	7

The charities that did not disclose these items on the Charity register tended to be a national office or a service provider (as previously discussed). In addition, some of the nondisclosers presented their expenditure as an aggregated 'lump sum' amount. It is unclear if the charity did not have these expenditure items in their financial records or the charities are providing less than the annual return (and therefore the law) requires. There was only one nondisclosing charity that explicitly made it

[163] Information items 103-107: administrative expenses, program costs, fund-raising costs, material transfers from the charity to another person/charity/entity and expenditure spent overseas.

evident that it did not have fundraising costs - *The New Zealand General Service Board of Alcoholics Anonymous.* Instead this charity listed education and literature expenses.

When looking at the annual report/annual review, the number of disclosing charities decreased, mainly because the financial reports tended to be abbreviated. For example, some of these charities used terms like 'operating expenses'[164] as an aggregated lump sum figure in this publication. On the other hand, those charities that placed a full set of financial reports in its annual report/annual review tended to score well.

Furthermore, seventeen charities revealed there was **a transfer of assets** [165] between affiliated or group members where this appeared to be the norm rather than the exception for some of the charities in this sample. For example, *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* shifts health shuttles between group members. However, for some of the other charities often this information item was a material transfer of assets between one charity to another with little or no explanation. For example, *IHC New Zealand* made two grants of $5 million to the *The IHC Foundation* but there is no explanation provided by either of the charities to justify the transfer.

Finally, the last information in this section looked at whether a charity disclosed if it had **any expenditure spent overseas[166].** This information item was presented in several ways; a program conducted abroad, a money transfer to an affiliated charity abroad, the repayment of a foreign loan or a shared foreign program with one or more other charitable entities. Twelve charities disclosed this information item on the Charity register; all had some form of foreign relationship.

However, while some were explicit in their disclosures of why the money was sent abroad (for example *Amnesty International Incorporated* and *The Fred Hollows Foundation (NZ)),* there were others provided a lump sum figure with little explanation (for example see *The Evangelical Alliance Relief Fund).* New Zealand's Inland Revenue Department (IRD) regulates the money sent abroad from

[164] *World Vision New Zealand Trust Board's annual report (2015, p. 22)* is an example of this.
[165] Information Item 106 – could be cash or assets
[166] Information Item 107

charities – those charities which send tax-free money abroad must obtain *overseas donee status*[167]. However, no (0) charity disclosed this information.

On cross-checking with the IRD (NZ) Schedule 32 – seven of the twelve charities that disclosed this information item had *overseas donee status.* However, one of the charities was linked to another who had *overseas donee status* (*Oxfam New Zealand* is linked to *Community Action Overseas),* and this may be the case for the others. Nevertheless, there is no explanation of *Oxfam New Zealand's* relationship with this other organisation[168], and the other five charities (that are not on the IRD's list of overseas donees) might have a similar relationship. However this cannot be ascertained. Therefore, this is an area where some of the charities in the sample could improve the quality of their disclosures.

Overall, it was found that there was in fact, an increasing level of disclosure for the expenditure information items from the charities within the sample on the Charity register and charity's annual report/annual review. The fact that the annual return requires these information items has been an important motivation for the charities to increase the details of expenditure [and income] disclosures in the charity's annual report/annual review. However, the same can not be said of the charity's website, where the information disclosure lagged behind the other two publications.

Nevertheless, all thirty charities disclosed they **had made a profit** [169] on the Charity register, demonstrating that the charity can balance income against its expenditure and more importantly reinforces to charity stakeholders that the charity is financially sound. Again the other two publications only had disclosure from those charities that had placed financial reports (either full or abbreviated) on its website (2) and/or in its annual report/annual review (14).

The next set of information items were those which are found in the charity's balance sheet; assets and liabilities[170]. The assets are summarised in Table 29.

[167] Income Tax Act (2007), Schedule 32 – the charity must apply (IRD464 is the application) and once approval is given, the charity is named in the schedule. http://www.ird.govt.nz/charitable-organisations/request-oseas-status/oseas-donee-status.html
[168] *Community Action Overseas* is not a registered charity nor a donee organisation
[169] Information Item 108
[170] Information items 110-127

These information items are required by the annual return[171]. Therefore nearly all the charities disclosed this information item on the Charity register.

Table 29 The non-current and current asset information items in the balance sheet.

Description	Charity Register	Charity's website	Charity's annual report/annual review
Buildings	13	0	4
Land	13	0	4
Long-term investments	26	4	11
Long-term reserves	25	4	10
Number of motor vehicles	17	1	6
Computer and IT assets	16	2	4
Collections of works of art, historical treasures, or similar assets	2	0	0
Cash at bank	27	2	10
Short-term investments	25	2	9
Accounts receivable	25	2	8
Inventory	14	2	3
Pre-paid expenses	21	1	7

When looking at **buildings and land**[172]**,** thirteen charities disclosed these information items. However, there was one stand-out charity in the sample which had an extensive real estate portfolio across New Zealand. *Society of St Vincent de*

[171] Charities Services, (2017). *Annual return financial information help notes.* https://www.charities.govt.nz/im-a-registered-charity/annual-returns/how-to-complete-an-annual-return/annual-return-financial-information-help-notes/#make

[172] Information items 110-111

Paul in New Zealand holds (37) properties across most major cities in New Zealand; an address is provided for each property – so the quality of the disclosure was excellent on the Charity register. However, the charity holds these assets at cost[173] which is significantly much less than current fair [market] values[174] - so while this looks like compliance with the accounting standards, it is probably not (this is discussed further in Chapter 7). Charity stakeholders are particularly interested in the revaluation (or market values) of assets, such as land and buildings, so they can see how much the charity is worth. However, this charity does not lodge its financial reports on to its website or produce an annual report/annual review, so the only source of this information for charity stakeholders is found on the Charity register[175].

In regards to **building and land,** no (0) charity disclosed this information on its website, however, four charities did disclose these information items in its annual report/annual return. Unlike *Society of St Vincent de Paul in New Zealand,* none of these other disclosing charities disclosed the addresses [locations of the property] or value of the properties – therefore these disclosures were low quality.

Twenty-six charities disclosed they had **long-term investments[176]** while twenty-five charities disclosed they had **long-term reserves[177]** on the Charity register. These are both important disclosures from the aspect of charity's financial stability and long-term sustainability (Australian Charities and Not-for-Profit Commission, 2017). If a charity's income falls, then the charity can call on its investments and/or reserves to keep operating. This was demonstrated for one of the charities in the sample, *Lifeline Aotearoa,* who almost ceased to exist in (2016-17).

Lifeline Aotearoa a charity established in 1964, lost its government funding in (2016), even though New Zealand has one of the highest suicide rates of any first world country[178]. Once the government funding for this charity ceased, this charity was forced to use its long-term investments and reserves to continue its operations,

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[173] *Society of St Vincent de Paul in New Zealand Area Council financial statements, p.8.*
[174] The choice between historical cost and fair value is allowed by the International Financial Accounting Reporting Standards (IFRS) as long as the entity commits to one or the other.
[175] This is also the charity that lodges (2) sets of financial reports in (1) document – so it is not clear which entity owns the property.
[176] Information item 112
[177] Information item 113
[178] (579) individuals committed suicide in (2016).
http://www.stuff.co.nz/national/health/85449334/NZ-suicide-toll-More-discussion-needed-to-bring-down-unacceptably-high-rate-Chief-Coroner-says

and therefore operated week-by-week. Fortunately, late in (2016) another charity, *Presbyterian Support Northern*, provided operational funds for the next eighteen months preventing the closure of *Life Aotearoa.*

For this reason, there has been increasing debates within New Zealand about a charity's dependence on one income source, and the financial stability and long-term sustainability of charities (Cordery & Halford, 2010; Fisher & Henderson, 2016). Unlike other jurisdictions, there has been little research into how dependent some of New Zealand's charities are on government (public) funding and one that perhaps someone else could investigate in the future.

In other jurisdictions, charities are required to hold long-term investments and reserves, but they are also required to explain to charity stakeholders why they hold them. For example, in England and Wales, the charity board is required to disclose what reserves they hold, and for what purpose in their Annual Trustee Report (Charity Times, 2006). This measure requires charities to be transparent about the funds they are holding and therefore improve their accountability. However, the findings in this investigation do not support these stakeholder expectations in the New Zealand context.

The three national offices did not disclose any long-term investments or long-term reserves. However, *IHC New Zealand* a very large operating charity did not disclose these two information items either. This is a shortcoming in the (2015) charity reporting standards because these information items are not required, and one that the nondisclosers could address by voluntarily making full disclosure of both these information items.

It was found that just over half the charities within the sample disclosed assets such as **motor vehicles[179] and computer and IT assets[180]** in a financial note attached to the financial reports ((17) for motor vehicles and (16) for computer and IT assets). Furthermore, only those charities that placed full or abbreviated financial reports on its website (one and two respectively) and in its annual report (six and four respectively). There was only one charity that placed these notes in all three

[179] Information Item 114
[180] Information Item 115

publications – *The Fred Hollows Foundation (NZ).* Therefore, the level of disclosure by the charities in the sample remains low for both these items.

When it comes to **collections of works of art, historical treasures or similar assets[181],** this disclosure is well developed in other jurisdictions like United States of America and Canada, but an area which has yet to evolve in New Zealand. Only two charities within the sample disclosed they held collections of art in the notes to their financial reports. The charity stakeholders rated this information item as *very important* trending towards *extremely important* however 93% of the charities did not make this disclosure. Therefore, it would be difficult to know if any of the charities within the sample held these assets unless it was disclosed. Therefore, this is another area where the charities could improve the disclosures by making this part of declaration in the annual return.

When looking at the last lot of information items for this group; *cash at bank, short-term investments, accounts receivable, inventory* and *prepaid expenses* – the information items are mostly found in the annual return were disclosed by most of the charities (*cash at bank (*90%), *short-term investments* (83%), *accounts receivable (*83%), *inventory* (47%) and *pre-paid expenses* (70%)) on the Charity register. The fact that not all charities disclosed this information item highlights the fact that not all charities were producing full financial reports with associated notes and aggregated 'lump sum' figures were used instead. *Inventories* were the only information item which had low disclosure, mainly because not all the charities had inventories. Therefore this information was relevant to only fourteen of the charities within the sample. However, when the disclosure of these items was compared to that of the other two publications, the picture that emerges is one of decreasing disclosure.

In the case of the website, the disclosure was low – with (the range was from 0 - 13%) of the charities disclosing these information items. The main reason for this finding is that few charities placed their full financial reports on its website. Furthermore, in the case of the annual report/annual review, there was better disclosure than the website. However, the disclosure remained low with (the range was from 0 - 37%) of the charities disclosing these information items. So while

[181] Information Item 116

there was better financial reporting in the annual reports/annual reviews, there was an obvious gap between what the charities are disclosing on the Charity register compared to the charity's website and annual report/annual review.

This finding can be explained in several ways. Firstly, few charities made their financial reports available on its website; four charities – of which two are abbreviated accounts anyway. Furthermore, of the ninteen charities that placed financial information in its annual report/annual review – just over half (10) had full financial reports with associated notes. As a result, even if a charity did hold some of these assets, a charity stakeholder would not know as the charity has failed to disclose them or subsumed them into an aggregate figure.

In the case of the charities which are national bodies (*The Laura Fergusson Trust Board Incorporated* and *The Age Concern Foundation* for example) – the financial reports are very brief, contain few line items and present aggregated lump sum figures. In conclusion, there are considerable shortcomings of these disclosures related to *cash at bank, short-term investments, accounts receivable, inventory* and *prepaid expenses.* Therefore, the charities should move beyond the statutory requirements and provide best practice disclosures which mean there are areas for significant improvement of disclosure for these information items.

The next set of information items that are looked at for this section relates to the charity's liabilities in the balance sheet. These are *mortgages, loans, long-term leases, accounts payable, superannuation* and *unearned revenue/revenue in advance.* These information items are summarised in Table 30.

Table 30 The current and non-current liability information items found in the balance sheet

Description	Charity Register	Charity's website	Charity's annual report/annual review
Mortgages	3	0	1
Loans	14	1	5
Long-term Leases	20	1	7
Accounts payable	24	2	8
Superannuation Liabilities	4	0	3
Unearned revenue/revenue in advance	14	2	5

The findings show that only (10%) of the charities have a **mortgage** of some kind for the property they own. Interestingly, *The Society of St Vincent de Paul in New Zealand*, a charity with an extensive real estate portfolio, has no mortgages in their financial reports but includes a note declaring that the properties are *not* depreciated nor impaired. It has an additional unexplained column (next to the historical cost of each property) labelled *Building Advances* which equals the historical cost of each property. So, again, while the charity appears to be compliant with the accounting standards, it is probably not. Furthermore, these are not the general purpose financial reports as required by Charities Act (2005) – the charity has prepared special purpose financial reports instead.

Barnardos New Zealand Incorporated was the only charity of the three that disclosed this information item (mortgage) in two publications (the Charity register and its annual report).

Fourteen charities disclosed they had **loans** on the Charity register. Some of the charities provided excellent disclosure by stating what type of loan they had and with whom. For example, *Amnesty International Incorporated* had an international loan from its international affiliation, *Child Cancer Foundation Incorporated* had a finance loan, while *Royal New Zealand Foundation of the Blind* had a bank loan. Only those charities that provided full accounts in their annual report/annual review also provided this information disclosure (five charities) however only one charity provided this information item in all three publications[182]. Moreover, those charities that provided abbreviated accounts had aggregated figures in their financial reports. Therefore the charity stakeholders are unable to determine if the charity has any loan liabilities.

In contrast, (67%) of the charities in the sample had **long-term leases**. The leases included buildings, but also included motor vehicles and a photocopier. For example, *The Royal New Zealand Society for the Prevention of Cruelty to Animals Incorporated* leased premises, *Cystic Fibrosis Association of NZ* leases vehicles and *Save the Children New Zealand* leases a photocopier. This was excellent

[182] *The Fred Hollows Foundation*

disclosure because the stakeholders can see clearly what the lease liability is, to whom it is owed and for what – especially if the charity has more than one lease (*Amnesty International Incorporated* is an example of this). Again, the extent of the disclosure was impacted by whether a charity provided financial reports on its website, and in its annual report/annual review. Most did not, and therefore the emerging picture is one of decreasing disclosure for the other two publications.

Accounts payables were disclosed by twenty-four charities on the Charity register, however, the disclosure decreased in both the other publications; two on the charity's website and eight in its annual report/annual review. Again, the charities which were nondisclosers are those which are national offices or those that presented abbreviated accounts. There were large charities that did not list this information item in their balance sheet. However the figure must be subsumed into an aggregate figure but this could not be ascertained. Therefore this information item is inadequately disclosed.

Superannuation liabilities were disclosed by very few of the charities in the sample, four on the Charity register, (0) on the website and three in its annual report/annual review (these three also disclosed this information item on the Charity register [183]). While the charity national bodies and the abbreviated/abridged accounts can provide some explanation for this low disclosure, it does not explain why large charities such as *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* which has 1,734 full-time employees and 668 part-time employees or *New Zealand Red Cross Incorporated* has 206 full-time employees and 91 part-time employees, has not disclosed this information item. While it is acknowledged that there are some charities within this sample that this information does not apply to (*Society of St Vincent de Paul in New Zealand* is an example of this – its charity shops are operated mostly by volunteers) – the picture that emerges is one of low disclosure for this information item.

The next information item in this group is **unearned revenue/revenue in advance.** Fourteen charities disclosed this information item on the Charity register, two charities disclosed on its website and five disclosed in its annual report/annual

[183] *Barnardos New Zealand Incorporated, Child Cancer Foundation Incorporated and Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refugees Incorporated.*

review. This another area where the new accounting standards have brought about significant reporting changes for New Zealand's charities (Fletcher, 2017) and particularly for this information item because in the past charities, have could use the 'matching principle[184]'.

Despite these new changes, the (53% - 16) of the charities were nondisclosers of this information item. This finding is surprising given that many the charities within this sample are service providers who deliver programs for the government departments. The provider agreements specify how the funds should be spent (more commonly known as a 'performance obligation') across several accounting periods so that there is tends to be a deferred revenue for the next [or several] period(s) (for example see the Ministry of Health[185]). Therefore, while the disclosure was low for this information item, it was regarded as *very important* by the charity stakeholders.

The next of information items relate to a charity's cash flow statement[186]; it shows how a charity used it cash throughout the financial period. A cash flow statement is also useful for charity stakeholders to assess the charity's liquidity. The findings are summarised in Table 31. The charities that disclosed their cash flow statement on its website and in its annual report/annual review are also disclosed it on the Charity register. However, it became evident that five of the eleven charities placed abbreviated charities in their annual report/annual review. The only charity to place a cash flow statement on its website was *IHC New Zealand* – this charity placed the same financial statements on all three publications.

Table 31 Summary of charities that disclosed a cash flow statement

Description	Charity Register	Charity's website	Charity's annual report/annual review
Cash flow statement	11	1	6

[184] This means that expenses are recorded in the year that they are incurred, regardless of whether there was an exchange of cash – the result is that a revenue could be partly expensed in one period, the remainder of which is unearned revenue. However the new accounting standards separate charity revenues into exchange and non-exchange revenues – Charities Services Blog for further information.

[185] Ministry of Health (2017). *Streamlined contracting.* http://www.health.govt.nz/about-ministry/what-we-do/streamlined-contracting

[186] Information Item 128

It is noted that at least (67%) of the charity sample are service providers or receiving government grants and as part of the accountability to the funders, the charity must provide GAAP[187] general purpose financial reports; a cash flow statement is one of the reports. It is evident that if the charities are producing these financial reports, a significant number are not placing them on the Charity register, its website or in its annual report. So while the charities are meeting the accountability of their service contracts by producing a cash flow statement, this is not the case for the charity stakeholder that must rely on the Charity register for access to information.

Finally, the last information item looked in this section is whether the financial reports of the charities in this sample **were audited**[188]. Audit has been established in the for-profit sector since the 1840's, and the audit certificate was introduced in 1933 (Lee & Azham Md, 2008). This is an area where there has been a significant change with the introduction of the (2015) accounting standards for charities. Twenty-six of the charities within this sample provided audited accounts with an audited certificate, and the same twenty-six charities indicated that the **auditor was independent.** [189] Furthermore, fourteen charities from the twenty-six also presented their audit certificate in its annual report/annual review which is excellent disclosure. However, few charities placed their financial reports on its website, and only one provided evidence of an audit and audit certificate (this was *The Fred Hollows Foundation NZ).*

These findings reiterated that of both Hayes Knight (Accountants) (2014) and Cordery and Sinclair (2010) which insisted that any New Zealand charity that was applying for government funding or grants must have audits and had audits so that the (2015) accounting standards would make little difference to the charity sector.

6.3.1 Summary of financial accountability

Financial accountability has been the main mechanism to bring charities to account in the past and one area where there have been major developments in New Zealand with the introduction of accounting standards for charities in (2015). However, the findings have highlighted the shortcomings of the financial reports from the

[187] Generally accepted accounting principles
[188] Information Item 132
[189] Information Item 133

charities within the sample which has led to weak accountability. This investigation determined group accounting is an issue that is not easily addressed because the Charity register is limited to registered charities. Therefore, even though consolidated accounts are a statutory requirement with the (2015) accounting standards, the charities should provide some best practice disclosures of their organisational structures and relationships to provide context to the consolidated accounts.

It is significant that this investigation established the Charity register is the main source of financial information for the charities because the charities are more likely than not to place abbreviated financial reports into their annual report/annual review. Moreover, it is also significant that few charities made their financial reports available on their websites (only four), especially as this provides easy access for charity stakeholders. This investigation confirmed the charities were using an array of different formats and jargon [terms] to present their financial reports – however, this is likely to change as the charities adopt the (2015) accounting standards. Nevertheless, using the financial reports to communicate is a challenge because the information has the potential to be complex and less meaningful for an ordinary [non-accounting professional] charity stakeholder. Therefore, despite the (2015), the charities could still go some way to improve their financial accountability to charity stakeholders.

6.4 **Performance Accountability**

Performance accountability is one area that is not well developed in the charity sector, mainly because charities are more likely to disclose a charity's activities and volunteering contributions (Connolly & Dhanani, 2009) rather the impact from its operations. However, performance reporting promotes a culture of transparency and accountability because it communicates the effectiveness and efficiency of operations, (Burke & Minassians, 2003; Kilcullen, 2004; Ratcliffe & Grice, 1999). For this reason, when a charity reports its performance it is publicly disclosing and taking responsibility for its actions and at the same time, rising to the challenge of meeting stakeholder's information needs (Hilgers & Stoetzer, 2011). The next set of information items relates to specifically to a charity's performance accountability - specifically, a charity's programs.

- A charity discloses its policies in selecting its programs
- For a charity to disclose any future/forward-looking information about future programs
- Each program the charity has conducted in the last twelve months
- A narrative description of each program it conducted in the last twelve months
- The charity disclosed the revenues and expenditures for each program it conducted in the last twelve months
- A comparative between the planned budget and actual costs is disclosed for each program
- The charity discloses the number of beneficiaries helped by each program
- The public benefit of each program is published by the charity
- If a charity worked with another charity(s) to deliver its program
- If a charity worked with a government agency its program
- If a charity worked with another entity to deliver its program
- If a charity worked with another charity(s)/government agency/entity, it reveals the nature of the work it does in the partnership

Although these information items are identified as best practice disclosures (Charities Commission (UK), 2014), except one (the public benefit disclosure is a statutory requirement), the picture that emerges from the findings is one of decreasing disclosure over the three publications. This finding reiterates an earlier study done by Connolly and Dhanani (2009) which identified that few charities disclosed performance information. This is so, even in spite of the OECD identifying that performance disclosures are fundamental information for charity stakeholders (OECD, 2011). The results are summaries in Table 32.

When analysing these information items, it was important to note that as only one was a statutory requirement, there is no designated space on the Charity register for any of the other information items. For this reason, most of the information gleaned from the Charity register was found in the charity's financial reports, or its notes associated with the financial reports – some were not easy to find. Therefore, the extent of the disclosures tended to be low as was the quality. Furthermore, the two charities that placed their annual report on the Charity register in place of its financial reports scored well for all these information items.

The charity's website and annual report/annual review provided much more opportunity for the charities to disclose these information items. Correspondingly, there tended to be increasing disclosure for both publications. Moreover, the quality of these disclosures for these two other publications tended to be excellent by the charities that did disclose – with very few scoring low quality for these disclosures.

Table 32 Summary of performance information items

Description	Charity Register	Charity's website	Charity's annual report/annual review
A charity discloses its policies in selecting programs	5	11	11
Discloses any forward/future looking information	1	9	8
Each program the charity has conducted in the last (12) months	7	27	22
A narrative description of each program is provided	2	27	21
Revenues and expenditures for each program conducted in the last (12) months	12	3	0
A comparative between the planned budget and actual costs for each program	1	1	1
The number of beneficiaries helped by each program	2	9	18
The public benefit of each program	30	29	17
If a charity worked another charity(s) to deliver its program	13	14	11
If a charity worked with a government agency to deliver its program	10	12	13
If a charity worked with a government agency to deliver its program	13	16	12
If a charity worked with another charity(s) or government agency or entity – the charity reveals the nature of the work it does in the partnership	9	16	8

However, there are some significant gaps in the information disclosures. The first information item, **a comparative between the planned budget and the actual costs for each program**[190] was disclosed by only one charity across all three publications. No other charities disclosed this information item. It has been argued

[190] Information Item 73

in the literature that charities should be demonstrating how they monitor the costs of each program because charity stakeholders are interested in whether the programs are efficient (Connolly & Hyndman, 2004; Pearson, Brooks, & Neidermeyer, 1998). However, the findings indicate inadequate disclosure for this information item.

In contrast, there was a larger number of charities that disclosed **the revenues and expenditures**[191] for each program (40% - 12 charities on the Charity register). This information item was found in the financial notes to the charity's financial reports – (9) of the charities provided excellent quality by disclosing the details of each program. However, the picture that emerges from the other two publications is one of decreasing disclosure, (3) and (0) respectively for the website and annual report/annual review. Those charities that disclosed this information tended to produce full financial reports on its website rather than abbreviated financial reports.

Following on from this, **the number of beneficiaries helped by a charity's programs**[192] was also poorly disclosed across the charity sample. Naming the beneficiaries is a statutory requirement on the Charity register (and for continued registration) however, once registered there is no further legal obligation to state how many were assisted by their programs. This information disclosure signals the effectiveness of a charity's programs to charity stakeholders (Hancock et al., 2010; Kilcullen, 2004). Moreover, charity stakeholders want to know that their donations are making a difference (Connolly, Hyndman, & Dhanani, 2013).

However, the overall disclosure for this information item was low (the range was 6% on the Charity register, 30% on the charity's website and 60% in a charity's annual report/annual review). The picture that emerges is increasing disclosure from the Charity register to the charity's annual report/annual review. Furthermore, the charities which provided excellent disclosure tended to link its charity programs, the narrative of the program and the number of beneficiaries that it assisted in one disclosure.

In contrast, some charities used global statistics to emphasise the seriousness of the problem they were addressing (for example *Oxfam New Zealand* state that *40% of*

[191] Information Item 72
[192] Information Item 74

people in Papua New Guinea have clean water on its website) but then disclose no further details about what its program achieves for the people of Papua New Guinea. In the case of *National Heart Foundation of NZ*, it showcases one statistic (130% more people accessed its online heart health information over the last 12 months) on a full page in its annual report. However, it is evident that some charities did not even make a comment on how many beneficiaries are assisted by its programs.

The new *Statement of Service Performance* for charities that was introduced with the (2015) accounting standards requires charities to state their 'Outcomes'. The charity is meant to declare what impact it wants to have on the community in which it works (Fletcher, 2016). This does place an obligation on the charity to declare its objectives by stating its outcomes and does provide the charity stakeholders with some measure to judge a charity's performance on an annual basis. However, no charity within the sample produced this statement and at this stage there does not appear to be a place on the Charity register to access this information.

The final information items looked at in this section related to whether a charity worked with another charity(s)/government agency/entity[193] to deliver a program(s). This was a surprising finding because the range was between (30% - 9) charities and (43% -13) charities. The picture that emerges for these disclosures is one of low disclosure, with mostly the same charities making these three disclosures across all three publications. There was also wide variation in the quality of the disclosures. For example, *Nga Whare Whakaruruhau National Collective of Independent Women's refuges Incorporated* provides excellent disclosure of its relationship with all the other affiliated charities. In contrast, *The Evangelical Alliance Relief Fund* states [it] *works with local law enforcement to prosecute traffickers* on its website[194] -with no further details, which is low disclosure. There was only two charities which disclosed a charity collaboration to provide a shared program (For example, *Variety – a Children's Charity Incorporated* partners with *The Salvation Army New Zealand* to deliver its program 'Kiwi Next Generation"[195]).

[193] Information Items 76, 77, and 78
[194] *The Evangelical Alliance Relief Fund's* website (4/1/2017) https://www.tearfund.org.nz/Our-Work/Anti-Trafficking-Exploitation.aspx
[195] *Variety – a Children's Charity Incorporated's* website (4/1/2017) http://www.variety.org.nz/how-we-help/kiwi-next-generation/

In other jurisdictions, there have been several studies conducted on charity collaborations, whether the charity partners with business, other charities or with the government to deliver its program (Broadbent & Laughlin, 2003). In New Zealand, there have been some notable studies in the charity sector that has come out of the research from the John Hopkins Comparative Nonprofit Sector Project (O'Brien, Sanders, & Tennant, 2009; Tennant et al., 2006). However, it is noted in recent literature that New Zealand charities are reluctant to disclose this sort of information (Cribb, 2006). Furthermore, the charities believe that making these disclosures will take any competitive edge they have over other charities for service provider funding (Post Primary Teachers' Association, 2010).

This would explain why, so few of the charities within the sample disclosed the **nature of the relationship they had with the other charity/government agency/entity.**[196] The case is one of decreasing disclosure on the Charity register and in the charity's annual report/annual review, with most charities not even commenting on this disclosure. Only two charities provided excellent disclosure of this last information item - *The Starship Foundation* and *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem.* Both these charities identified the other party(s) but fully disclosed the nature of the relationships they share with the other party(s).

Finally, for these information disclosure findings to have any meaning, the charity stakeholders must be able to compare these measures with other [similar] charities or with the same charity over time (Connolly & Hyndman, 2013b; Cordery, 2008). If a charity is to fulfil their performance accountability requirements, then there is a greater emphasis on this information that enables charity stakeholders to monitor the charity's operations.

However, as most of these disclosures are not statutory requirements, it is unlikely that charity stakeholders will be able to do this. The findings establish the range of disclosure for these items was between (3% - 43%), so most charities within the sample did not disclose these items. Also, even though all these information items were considered *very important* by the charity stakeholders, Table 9 shows that many information items are not being adequately disclosed by the charities. These

[196] Information Item 79

findings demonstrate the disclosure by the charities is determined by the regulatory framework, which sets out the minimum acceptable level of disclosure, rather than accountability to charity stakeholders.

Therefore, this presents an opportunity for the charities within this sample to expand the extent and quality of program disclosures, especially in their annual report/annual review and on their websites to meet the information needs of their stakeholders.

6.4.1 Summary of performance accountability

Performance accountability is one area where the charities in the investigation achieved low index scores. Therefore the disclosures from the charities were not great. The findings established that there is limited performance reporting by the charities in this investigation and may be because performance disclosures are mostly best practice rather than mandated. While most charities disclosed a list of their programs along with a descriptive narrative, few bothered to disclose how many beneficiaries were helped by their programs. Furthermore, while some charities disclosed the revenues and expenditures of their programs, few provided a comparative between the planned budget and the actual costs of their programs.

One of the changes brought in by the (2015) accounting standards is the requirement for charities to fill out a *Statement of Service Performance* which requires charities to state their 'Outcomes'. This places an obligation on the charity to declare its objectives for the year and state what outcomes it achieved. Nevertheless, none of the charities within this sample produced a *Statement of Service Performance*.

It is significant that most of the performance information disclosures had to be gleaned from a charity's financial reports found on the Charity register and the charity's annual report/annual review. Furthermore, the charity's website disclosed little performance information. For this reason, it is a fair conclusion to make that the charities in the sample showed little real commitment to their performance reporting obligations. Therefore this is another area where the charities can improve their accountability by making better performance disclosures.

6.5 Forward/future-looking information disclosures (strategic plans)

This is one area in the charity sector that has gained greater attention from policy makers, academics and government organisations (Pratten, 2004; Stone, Bigelow, & Crittenden, 1999). It is also one where the New Zealand charities have been slow on the uptake mainly because charities have not been forthcoming with this sort of information in the past (Cordery, 2013). Furthermore, many of New Zealand's charities are regarded as 'small'[197], with limited resources (Cordery, 2013; Porter, 2013). However, forward/future-looking information is one of the elements that has been identified in the accountability framework used in this investigation. The charity stakeholders identified two elements of forward/future-looking information as being *very important* – specifically

- For a charity to publish its strategic plans for the next (12) months[198]
- For a charity to publish any deviations/changes made to the strategic plans in the last (12) months[199]

Ten (33% - 10) charities published some form of strategic plan on its website and in its annual report – (0) charity provided this information on the Charity register. Of the ten charities – seven had a detailed plan (often with a 5-year outlook) with good discussion about the charity's future direction. Some of these charities even included an infographic making the information easily understandable for the charity stakeholders (*The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* was an example of this). The other three charities provided a general statement of the charity's strategic direction but did not provide any details, so this is low disclosure quality. No charity disclosed if it had made any changes or deviations to its strategic plans.

However, twenty of the charities did not make any comment on the future strategic direction of the charity. For accountability to be effective, charity stakeholders need to be able to compare a charity's objectives for the near future against the charity's

[197] The number of charities that have a turn-over of less than $2m is 95% of New Zealand's registered charities (these charities fit in reporting Tiers 3 & 4)
[198] Information Item 47
[199] Information Item 48

actual performance and achievements. So while Charities Services makes references to strategic planning in some the documents (the *Tier 4 Guide* is an example of this) – it does not provide any guidance to charity boards on strategic planning.

The *Statement of Service Performance* is supposed to have some forward/future-looking information disclosures because the charity is meant to declare what impact is wants to have on the community in which it works (Fletcher, 2016). Whether this equates to strategic planning is a matter of opinion. Fisher and Tukiri (2016) believe that the outcomes (in the *Statement of Service Performance)* should be interpreted as 'short to medium term' – and describe this as annual or multiyear while other government departments interpret this as a (3-5) year plan (see the Department of Education for an example of this[200]). Nevertheless, none of the charities within this sample produced a *Statement of Service Performance*.

In summary, there are some considerable shortcomings in the disclosure of forward/future looking information related to strategic planning by the charities. Also, while there was some excellent disclosure from a small number of charities, most of the charities within this sample are nondisclosers. Nevertheless, charity stakeholders are interested in a charity's plans for the future. Therefore charities should improve these disclosures.

6.6 Other matters

It is acknowledged that during this investigation some major shortcomings of the Charity register search engine was identified. One of the major consequences of this shortcoming was it was often difficult to locate the charities on the Charity register. There is no link between the formal registered name of a charity and its more commonly used name. Unless a charity stakeholder has the charity's registration number, it will be difficult to locate some of the charities on the Charity register (examples of this would be *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* and *Society of St Vincent de Paul in New Zealand).* Accordingly, these findings have been included in the item-by-item

[200] Ministry of Education, (2017). *Planning and reporting: School charters.* http://www.educationalleaders.govt.nz/Managing-your-school/Guides-for-managing-your-school/Planning-and-reporting-School-charters

analysis in Appendix Sixteen, but it is noted that these findings are outside the scope of this investigation.

6.7 Publication Analysis:

This section of the chapter provides an overview of the information disclosure in each of the three publications; which items were the most and the least disclosed by the charities.

6.7.1 Charity register

The Charity register is a public register, and as such, provides public access to certain information about registered charities. Key information items such as the name of the charity, the names of the charity's board members, its contact details – including location, its charitable purposes, financial reports, annual return and its activities are all examples of statutory disclosures that are listed on the Charity register. Therefore, it is not surprising that the top-ranking information items from the disclosure index for this publication are all statutory requirements (See Appendix Eighteen for this result). However, even though all the charities within the sample are [legally] compliant, the charities still failed to score well. This can be explained by several factors.

Firstly, a charity must submit a charity deed for charity registration, and therefore this is a statutory requirement. However, in New Zealand, this can be in any format a charity chooses. For this reason, the disclosure quality of the charity deeds in this investigation was affected by whether the charity deed was legible or not, and the type of format the charity chose. Also, the considerable variation of documents that were submitted as charity deeds attests New Zealand's position that if the nature and intention of the document intends it to be a deed – then it is a deed[201]. However this position is not helpful for charity stakeholders - a charity deed should provide an understanding of how the charity is constitued. It was found that some of the deed formats in this investigation were at best odd, (for example +which was submitted by *The Salvation Army New Zealand),* and at worse, hand annotated

[201] Domb v. Owler [I924] N.Z.L.R. 532 at 538 per Salrnond J.

incomplete documents (*The New Zealand General Service Board of Alcoholics Anonymous Incorporated* is an example of this).

Significantly, the findings highlight significant gaps in some of the deeds, such as few or no provisions related to the charity board; recruitment, appointment, removal, remuneration provisions and related party transactions. For this reason, it would be difficult for a charity stakeholder to understand how the charity board functions and its decision-making processes occur. Correspondingly, the index scores for both the charity board disclosures and the access to the charity's deed were adversely affected by these findings on the Charity register. This resulted in weak accountability from the charities.

Following on from this, it was difficult to determine if some of the charities within the sample were part of a wider network, independent or affiliated with an umbrella group. The findings established these relationships were often not explained sufficiently so a charity stakeholder could gain a better understanding. For example, there are two charities that use the common name *Unicef New Zealand*, however, there is no explanation as to how they are related, how this relationship (if any) impacts on their decision-making process of each board and what the differences are between the operating policies. Other examples would include (but not limited to) *The Laura Fergusson Trust Board* and *The National Foundation for the Deaf.* For this reason, the index scores for these sections either failed to score or were low, resulting in weak accountability from the charities.

One document that is found on the Charity register that records important and relevant disclosures is the charity's annual return; every year it is updated. This is also the document that compliments the charity's financial reports because it provides a combination of financial (summary figures only) and non-financial information. Therefore it is the main and most important statutory source of non-financial information for charity stakeholders on the Charity register.

It was found that although the annual return document is easy to access, the disclosures are brief and lack sufficient detail to be meaningful for a charity stakeholder. For example, the staff disclosures reveal the number of part-time and full-time staff, and volunteers that are employed in the charity. But this is no more than a head count of the staff and leaves out critical details. In contrast, other

jurisdictions, such as the England and Wales, for example, there are more comprehensive staff disclosures, including (but not limited to) highest paid staff remuneration, superannuation contributions and related party transactions. However, this sort of disclosure was missing from New Zealand's Charity register and explains why the staff disclosures failed to score or received low index scores.

Following on from this point is the limitations placed on information disclosure from the current annual return format found on the Charity register. Currently, the content of the annual return is determined by the Chief Executive of Charities Services[202], and this is limited to *collecting information or documentation required for the chief executive to perform its functions and duties under this [Charities] Act*[203]. Therefore the Charities Act [2005] is geared towards meeting the information needs of the regulator (Charities Services) rather than charity stakeholders. Whereas the information items in the disclosure index are geared towards meeting the information needs of the charity stakeholders and could explain why a significant number of information items in the disclosure index failed to score.

So on the positive side, the annual return does allow comparability of information across charities. However, on the negative side, the overall scope of information disclosure from this document is poor as is the quality of the information disclosures from the charity stakeholder perspective.

In contrast, the American Form 990 is an example of a comprehensive all-inclusive annual return that contains substantial non-financial information disclosures. This annual return is geared towards meeting the information needs of charity stakeholder rather than the charity regulator. Therefore this is one area where significant changes to the information disclosures in the [New Zealand] annual return could result in better alignment with the information needs of charity stakeholders. Moreover, clarification in the Charities Act [2005], ss42 and 72(A)2 could provide better guidance to the Chief Executive for extending the current disclosures of non-financial information found in the annual return.

[202] Charities Act (2005), s42
[203] Charities Act (2005), s72A(2)

The other most important document found on the Charity register is the financial reports – these provide crucial financial disclosures from registered charities. A charity's financial reports are usually submitted with its annual return annually. Despite some charities within the sample producing GAAP-compliant financial reports, overall it was found there was considerable variability in the scoring of the financial information items within the financial reports. The index score related to the whether the financial reports contained figures that are aggregated or individual line items and whether the charity submitted full financial reports with associated notes, abridged financial reports[204] or abbreviated financial reports. When figures are aggregated, the financial reports are either abridged or abbreviated accounts - the amount of information disclosures are restricted, and therefore the index scores moved towards no score or low scores. Thus, some charities scored well in this part of the disclosure index while most scored poorly. Overall, it resulted in weak transparency and accountability from the charities.

Finally, the information disclosures related to a charity's programs failed to score or scored poorly on the Charity register. A small number of charities had filed their annual report in place of their financial reports and therefore managed to score well in the program disclosures. These charities showed a stronger commitment to best practice information disclosure. However, those charities were the exception. In the absence of an annual report, program information had to be gleaned from the charity's financial reports or the charity's profile found on the Charity register. As a result, it was difficult to evaluate how effective a charity's programs were, or even how many beneficiaries were served by the charity's operations because most of these disclosures were missing or incomplete.

In summary, the Charity register demonstrates its effectiveness for a charity's legal compliance but fails to meet the information needs of the charity stakeholder. Best practice disclosures all scored poorly. This means that many of the information items that charity stakeholders believed were *very important* or *extremely important* were either missing or inadequately disclosed.

[204] Several of the charities prepared abridged accounts – where the profit and loss and the balance sheet are presented in one report

The result is that there are twenty-nine information items with the lowest ranking possible (0), and twenty-seven items with (20%) or less in disclosure. As said previously, a small number of the charities within the sample attempted to meet the information deficit on the Charity register by submitting its annual report/annual review in place of financial reports. One of these charities is the best performing charity for information disclosure on the Charity register, *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem (*this charity submitted its annual report in place of its financial reports) (See Table 33 for this result).

Table 33 Charity register information disclosure result

No.	Name of the Charity	Charity Register Score -	Percentage
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	475	49%
10	Royal New Zealand Foundation of the Blind	403	41%
16	New Zealand Red Cross Incorporated	388	40%
19	Royal New Zealand Plunket Society Incorporated	355	36%
18	Oxfam New Zealand	346	36%
9	The Fred Hollows Foundation (NZ)	337	35%
28	World Vision of New Zealand Trust Board	328	34%
8	Deaf Aotearoa NZ Incorporated	322	33%
24	Society of St Vincent de Paul In New Zealand	317	33%
21	The Salvation Army New Zealand	317	33%
6	ChildFund NZ Ltd	310	32%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	309	32%
15	National Heart Foundation of NZ	305	31%

No.	Name of the Charity	Charity Register Score -	Percentage
3	Amnesty International Incorporated	297	31%
17	Orphans Aid International Charitable Trust	285	29%
26	The Evangelical Alliance Relief Fund	280	29%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated	280	29%
14	The National Foundation for the Deaf Incorporated	278	29%
22	Save the Children New Zealand	273	28%
7	Cystic Fibrosis Association of NZ	272	28%
25	The Starship Foundation	269	28%
5	Child Cancer Foundation Incorporated	266	27%
4	Barnardos New Zealand Incorporated	265	27%
30	Variety - the Children's Charity Incorporated	263	27%
11	IHC New Zealand	235	32%
13	Lifeline Aotearoa Charitable Trust	227	23%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	222	23%
27	Unicef Childrens Foundation	199	21%
12	Laura Fergusson Trust Board Incorporated	152	16%
1	The Age Concern Foundation	138	14%

However, it is important to realise that no charity managed to achieve (50%) information disclosure on the Charity register even though the top charity got very

close (49%). Moreover, the poorest performing (6) charities did not achieve (25%) information disclosure – one charity achieving (14%). So, although the charities within the sample were legally compliant, most did so while achieving the lowest level of disclosure possible. Therefore, the Charity register provided limited amounts of information disclosure and could not meet the information needs of a charity stakeholder when the disclosure index was applied.

6.7.2 Charity's Website

Charities are following the fast-growing trend of organisations that use websites and accordingly twenty-nine of the thirty charities had a website. Furthermore, a charity's website is not subjected to the same information restrictions as the Charity register. Therefore, a charity can choose to disclose more information than that required by statute. However, the top-ranking information items from the disclosure index for the charity's website publication continued to be statutory items (see Appendix Nineteen for this result). As a result, the charities still failed to score well. This can be explained by several factors.

Firstly, some of the charity websites were difficult to navigate, making it difficult to find some of the information items. In the case of The *Starship Foundation,* it was difficult to find the actual web presence of this charity because the web link on the Charity register directs the stakeholder to the Starship Hospital[205]. However, this is further exacerbated because once the stakeholder lands on the home page of Starship Hospital, the charity is not on any drop-down menu nor is there a clear link to the charity. Instead, there is a link called *Starship Supporter* which takes the charity stakeholder to the charity's page. Nevertheless, many of the information items were either missing or insufficiently disclosed as the charity appeared to be no more than a link from Starship Hospital's web page. The website presents them as a single entity which causes confusion for a charity stakeholder.

Another key point about the charity websites was the fact that often affiliated charities were 'sharing' the website. So the information disclosure on the website was generic, and this resulted in a significant number of information items that were

[205] Starship Hospital is the children's services arm of the Auckland City Hospital

either missing or insufficiently disclosed. An example of this was the *Laura Fergusson Trust Board Incorporated,* where five different charities appear to share the website. However this is further exacerbated by the fact there are two of the charities from the drop-down menu direct the stakeholder to other websites (but not the same website) – of which one appears to be an investment entity only. However, the researcher could not determine what the relationships were between the five registered charities and how the investment entity fitted into the organisational structure[206] because there were no explanations.

In the same fashion, many of the charities that had international affiliations appeared to share the international website. This meant that much of the disclosure index was redundant and the charity failed to score well. These websites tended to be notification websites, where the charity (as an international entity) disclosed where it worked around the world and the programs they provided. There was very little or no charity board disclosures, financial disclosures or charity board disclosures on these websites.

Similarly, the service provider charities also listed the services they provided and the locations in which they worked. These websites often lacked basic information about the charity despite they were donor friendly (the donation process via the website was very easy for most of the charities), thirteen charities had an on-line store and nearly all the charities were using some form of social media (27 charities). Again there were significant gaps in the information disclosures on these websites.

For this reason, many of the charity websites lacked meaningful disclosures about charity board and how it is constituted and managed (charity deed), and financial information. On a positive note, most charities identified their programs along with a narrative description and the beneficiaries assisted by the programs (these are showcased on the charity's website). It was also easy to find the charity's charitable purpose on the websites. On the negative side, often there was little information about the numbers of beneficiaries assisted and specific financial information related to the programs was lacking. Furthermore, once the funds went abroad – the information disclosures lack sufficient detail to be useful for a stakeholder. In

[206] There is no mention of the investment entity in the financial records of the charity.

other words, the international disclosures tended to be no more than window dressing[207] (Wallace, 2002).

On a positive note, the charity website was more likely the publication where a charity's strategic information was likely to be found. Ten charities had these disclosures on its website, the quality of which was excellent. A number of these charities placed 5-year strategic plans and provided a clear outlook of the direction the charity was taking (for an example of this see the *Royal New Zealand Plunket Society Incorporated* – this is a full twelve page document[208]) or a poster-like diagram within a document to explain their strategic plan (see *National Heart Foundation of NZ* for an example of this[209]). Nevertheless, twenty charities failed to produce any strategic information at all.

In remarking on the disclosures made on the websites, it was noted two of the social media disclosures ranked higher than the financial information, charity board and charity deed disclosures. The disclosure of the other information items after the top-ranking twenty-five information items quickly fell below (50%). The result is (38) information items had no (0) disclosure and (40) information items had (10%) or less (but above 0%) disclosure. Therefore more than (56%) of the disclosure index failed to score or scored poorly.

The best performing charity on a charity's website is *Oxfam New Zealand.* However it is noted that the overall information disclosure on for a charity's website is low, *Oxfam New Zealand* scored (36%) while fifteen of the charities achieved (20%) or less. This finding can be explained by the way in which the charities are using its websites.

The websites in this investigation provided limited disclosure of statutory information items, but it also provided limited best practice disclosures too. So while a website provides greater opportunity for a charity to improve their

[207] Window dressing is not be confused with fraudulent behaviour and is a term that was commonly used by Accounting Standards Committee (UK). Window dressing is a lawful arrangement which has the effect of altering the impression held by outsiders because of the arrangement of the facts.
[208] This document can be found on the *Royal New Zealand Plunket Society Incorporated* website (30/12/2016)
https://www.plunket.org.nz/assets/strategy/Plunket-Strategy-2016-2021-15Aug2016.pdf
[209] This can be found on the *National Heart Foundation of NZ's* website (30/12/2016)
http://assets.heartfoundation.org.nz/documents/marketing/about-us/heart-foundation-strategic-plan.pdf

information disclosures and therefore improve their accountability – no charity in the sample managed to achieve this. This is a missed opportunity for the charities in this sample.

So while the charities have embraced digital technology, they do not appear to be making the best use of their websites. The highest scoring charities made their charity deeds, annual reports and financial statements accessible to a charity stakeholder via pdf. links. Moreover, these same charities provided a staff directory with contact details. These disclosures are easily achievable by all the charities but only if they actively engage in best practice disclosures.

Consequently, a charity stakeholder would be unable to evaluate a charity and its financial position from visiting a charity's website because the charity website's lacked basic information. Consequently, apart from showcasing its programs and providing opportunities to donate, most of the information needs of a stakeholder are not met by this publication (see Table 34 for this result).

Table 34 Charity's website information disclosure result

No.	Name of the Charity	Charity's website Score	Percentage
18	Oxfam New Zealand	345	36%
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	327	34%
9	The Fred Hollows Foundation (NZ)	326	34%
22	Save the Children New Zealand	318	33%
16	New Zealand Red Cross Incorporated	298	31%
10	Royal New Zealand Foundation of the Blind	262	27%
19	Royal New Zealand Plunket Society Incorporated	262	27%
28	World Vision of New Zealand Trust Board	238	25%
14	The National Foundation for the Deaf Incorporated	232	24%

No.	Name of the Charity	Charity's website Score	Percentage
21	The Salvation Army New Zealand	226	23%
3	Amnesty International Incorporated	218	22%
26	The Evangelical Alliance Relief Fund	215	22%
17	Orphans Aid International Charitable Trust	201	21%
8	Deaf Aotearoa NZ Incorporated	199	21%
15	National Heart Foundation of NZ	196	20%
30	Variety - the Children's Charity Incorporated	191	20%
11	IHC New Zealand	190	20%
6	ChildFund NZ Ltd	187	19%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated	174	18%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	172	18%
13	Lifeline Aotearoa Charitable Trust	169	17%
4	Barnardos New Zealand Incorporated	148	15%
24	Society of St Vincent de Paul In New Zealand	147	15%
1	The Age Concern Foundation	145	15%
5	Child Cancer Foundation Incorporated	134	14%
12	Laura Fergusson Trust Board Incorporated	123	13%

No.	Name of the Charity	Charity's website Score	Percentage
7	Cystic Fibrosis Association of NZ	112	12%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	85	9%
25	The Starship Foundation	45	5%
27	Unicef Childrens Foundation	0	0%

6.7.3 Charity's annual report/annual review

Twenty-two charities in the sample had an annual report/annual review – therefore eight charities scored (0%) for this publication (see Appendix Twenty for this result). However, there is no statutory requirement for a charity to provide an annual report/annual review in New Zealand, unlike other jurisdictions such as England and Wales[210]. Furthermore, there has been little or no research from the New Zealand context to establish if the charity stakeholders use the annual report/annual review as a main source of information in the same way stakeholders do in England and Wales (Connolly & Hyndman, 2013b).

Regardless, the annual report/annual review is another communication channel that is unregulated in New Zealand and therefore the charities are not limited in their information disclosures for this publication. Twenty-two charities provided Internet links to its annual report/annual review from its website. However, it was found, the charities continued to score poorly. Significantly, the top-ranking information items fourteen continued to be mandated and there continued to be a significant number of index items either missing or insufficiently disclosed in this publication. This finding can be explained in several ways.

Firstly, the annual report/annual review appeared to contain abbreviated or abridged financial information resulting in low scores for many of the charities. For example, eighteen charities had some form of financial information in their annual report/annual review however only eight charities provided a full set of financial

[210] In England and Wales, the Charities Act (2011) s162 sets out the requirement for a charity to prepare an annual report and what it should contain.

reports, along with notes[211]. Furthermore, there was a wide variation in the presentation of abbreviated or abridged financial reports. For example, *IHC New Zealand* provided brief line items with lump-sum aggregated figures with no notes; this was a 2-page document, where the second page was a list of the charity's highlights for the financial year (there was very little specific details in the charity's highlights – it was more like window dressing rather a report). Notwithstanding the move towards high-quality financial reporting with the introduction of the charity standards in (2015), for many of the charities in the sample, the financial information items were either poorly disclosed or missing in the annual report/annual review.

On the positive side, all the charities communicated their objectives well and provided some narrative about its programs. So, in this respect, there is some information about the charity's successful activities throughout the year. However, in most other respects, specific information disclosures about each of the charity programs were either poorly disclosed or missing. This meant that few charities disclosed how many beneficiaries were assisted by their programs or disclosed relevant financial information. It was also concerning that many of the charities within the sample work with other agencies and charities to deliver their programs. However there were few charities which disclosed information about these relationships.

Additionally, there was a lack of consistency between the annual report and the charity's other publications. Often the details published in the annual report tended to be different from that of the other two publications. For example, few charities fourteen provided a physical address or a contact phone number. In the case of a daytime working phone number, in the annual report/annual review, it tended to be a (0800) donation phone number and was distinctly different from that of the other two publications. Similarly, the charity email was also a catch-all email address (i.e. 'info@...") in the annual report/annual review.

The annual report/annual review was identified as the main publication used to disclose the Chairman's annual statement (19 charities). Providing a Chairman's annual statement is the main leadership face for many charity stakeholders and the

[211] These financial reports were the same as those the charity filed on the Charity register.

charity stakeholders considered this information item as *very important.* Nevertheless, unless the charity had placed its annual report/annual review on the Charity register and its website, then the charity continued to score poorly in this area. Accordingly, it was found no (0) charity placed a Chairman's annual statement on the Charity register and only three placed one on its website. However, it was encouraging to see that the quality of the Chairman's annual statement was excellent. There were only two charities that failed to achieve the best quality possible – mainly because the statement was brief and did not contain much specific information.

On the other hand, it was disappointing that no charity board in the sample produced an annual trustee board report. This is a statutory requirement in other jurisdictions, like England and Wales for example. This is a comprehensive document unlike that of the Chairman's annual statement. It contains information about what the charity is doing, intends to do, the successes and issues faced by the board, details any changes in strategy with explanations, the progress of its programs and feedback from its beneficiaries – and this list is not exhaustive. It is also a key document from where charity stakeholders can find out why charities made changes to staffing or management structures. In particular, although a charity trustee report is not yet mandated in New Zealand, it provides best practice disclosures for charity stakeholders while simultaneously improving the transparency and accountability of the charity. This is one area where all the charities in the sample could improve their disclosures.

Following on from this point, it was found few charities made disclosures related to its charity board and composition, legal form, organisational structure or deed. Thirty-six (36) information items ranked (0%), while twenty-four ranked (10%) or lower which means that more than 40% of the information items from the index are either missing or insufficiently disclosed. To recapitulate, most charities used the annual report/annual review to showcase its charity programs, provide some narratives from senior staff members and limited financial information. Therefore, the information disclosure in this publication remains low.

The best performing charity for the charity's annual report/annual review is The *Priory in NZ of the Most Venerable Order of the Hospital of St John* which achieved

(47%). The next closest charity is New *Zealand Red Cross Incorporated* with (42%). Eighteen charities achieved (30%) or less indicating poor information disclosure. Apart from disclosing mandated information items – there were few best practice disclosures in this publication. Consequently, the stakeholder's information needs are not met by this publication (See Table 35 for this result).

Table 35 Charity's annual report/annual review information disclosure result.

No.	Name of the Charity	Charity's Annual Report/Annual Review Score	Percentage
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	452	47%
16	New Zealand Red Cross Incorporated	409	42%
21	The Salvation Army New Zealand	306	32%
9	The Fred Hollows Foundation (NZ)	295	31%
5	Child Cancer Foundation Incorporated	293	30%
30	Variety - the Children's Charity Incorporated	292	30%
8	Deaf Aotearoa NZ Incorporated	290	30%
19	Royal New Zealand Plunket Society Incorporated	286	30%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	281	29%
6	ChildFund NZ Ltd	274	28%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated	260	27%
10	Royal New Zealand Foundation of the Blind	259	27%
4	Barnardos New Zealand Incorporated	249	26%

No.	Name of the Charity	Charity's Annual Report/Annual Review Score	Percentage
13	Lifeline Aotearoa Charitable Trust	241	25%
7	Cystic Fibrosis Association of NZ	236	24%
28	World Vision of New Zealand Trust Board	233	24%
26	The Evangelical Alliance Relief Fund	233	24%
22	Save the Children New Zealand	204	21%
25	The Starship Foundation	176	18%
3	Amnesty International Incorporated	171	18%
11	IHC New Zealand	159	16%
15	National Heart Foundation of NZ	70	7%
1	The Age Concern Foundation	0	0%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	0	0%
12	Laura Fergusson Trust Board Incorporated	0	0%
14	The National Foundation for the Deaf Incorporated	0	0%
17	Orphans Aid International Charitable Trust	0	0%
18	Oxfam New Zealand	0	0%
24	Society of St Vincent de Paul In New Zealand	0	0%
27	Unicef Childrens Foundation	0	0%

6.7.4 Summary of publication findings.

The top-ranking information items for all three publications are mandated (statutory required). The other information items from the index were either missing or the quality of the disclosure insufficient to meet a stakeholder's information needs.

The Charity register was the best performing publication (see Table 36 for this result). This can be explained by the requirements of [continued] registration. If a charity wants to remain registered, it must comply. For this reason, the most extensive disclosure occurred in this publication. However, there was a significant difference in the quality of the mandated information disclosure items between the charities. Notably, there was a wide variation in the documents across the charity sample and this raised questions as to whether some were 'fit for purpose'. This resulted in some charities gaining better scores than others for the same information items. Furthermore, the role of Charity register limits the amount of information that can be placed in this publication. Therefore, best practice disclosures were either missing or insufficiently disclosed to be meaningful for a charity stakeholder. An average of (30%) was achieved by the charity sample overall which is low disclosure.

Table 36 The overall ranking of the charity publications

Charity Publication	Total Possible Score	Actual Score	Percentage of Disclosure
Charity register	29142	8713	30%
Charity's annual report/annual review	21289.4	5670	27%
Charity's website	28063.3	5885	21%

When looking at the other two publications, the charity's annual report/annual report performed better than the charity's website; the result was close to the Charity register result - (27%). The annual report/annual review provided less mandated information disclosures than the Charity register (like access to a charity's deed for example), but this publication provided more disclosure about a charity's programs (narrative about a charity's programs and its results). It is also more likely to contain some form of financial information (either full, abbreviated

or abridged financial reports) in the back of the annual report/annual review. However, the charity board and composition information disclosures in this publication were often very low, and the quality variable. As a result, some charities had satisfactory disclosure while others had no disclosure at all. Therefore the charity's annual report/annual review did not score much less than the Charity register, but the focus of the information disclosure is different, so it included different information items from that found on the Charity register.

In contrast, the charity's website scored a low (21%). The mandated information items were still the top-ranking information items, and there were more charity board and composition information disclosures in this publication than in a charity's annual report/annual review. However, there was a wide variation in charity board disclosures, so some charities scored better than others.

The charities' website appeared to be focused on showcasing its programs but often presented graphic images rather than detailed information disclosure. As a result, specific information about a charity's programs was missing in this publication. Also, the website provided more ways for charities to engage with a stakeholder but this was limited to providing a portal for donations or buying from the charity. One of the most significant gaps in this publication is the financial information. For most of the charity sample, there is no financial information presented on its website. However, there were other gaps in the information disclosures such as those disclosures that are related to staffing, the charity's organisation structure, management and the charity deed. On the positive side, some of the charities did provide good strategic information on their websites (10 charities), demonstrating that some of the charities are moving beyond the mandated disclosure items.

Nevertheless, it is apparent the charities use its website differently from the other two publications. So, while mandated disclosure is still evident, the focus is not so much information disclosure as it is on appealing for funding and providing ways for stakeholders to engage with the charity (by donating or using social media). Therefore it is not surprising that this publication is the poorest performing publication. There is little information disclosure that would sufficiently meet the information needs of a charity stakeholder.

6.7.4.1 Can all three publications meet the information needs of a stakeholder?

After analysing all three publications, it is evident that apart from the mandated disclosures, none of the publications individually or together meet the information needs of the stakeholder. This finding can be explained by firstly, the purpose of the publication and secondly, how a charity uses the publications.

The Charity register is a public register; the charities can do no more than comply with statutory requirements. This is also the purpose of this publication – to meet the statutory requirements. Therefore the accountability of charities is limited to compliance and only those charities that replaced their financial reports with their annual report/annual return improved their accountability.

The charity's website is used for stakeholder engagement rather than accountability to a stakeholder. The charities are using the website to disseminate information about its services, programs and to provide ways for stakeholders to engage so they can donate or purchase from the charity. As a result, there are some major gaps in the charity's disclosures from this publication. Therefore, little accountability is provided by this publication as it fails to meet the information needs of a stakeholder.

An annual report is traditionally considered to be an important accountability document in the corporate world. For this reason, it is not surprising that this publication contained more disclosure than a charity's website - some charities within the sample got close to (50%) for disclosure in this publication. However, the range of information disclosure is still limited in this publication. There is more charity board, and composition disclosures, more information about a charity's staff and some strategic information but the focus of this publication stills appears to be the charity's programs and appeals for donation. While, the length of the annual report, is beyond the scope of this investigation, it is noted that the charities that produced larger, longer annual reports/annual reviews also provided better information disclosure to stakeholders.

Therefore, even across all three publications, the information disclosure from the charities within the sample was still insufficient and explains why none of the charities managed to achieve (50%). The top-ranking information items for all three publications can be found in Appendix Twenty One. There are significant

gaps in each of the publications, and the stakeholder cannot rely on any of them for sufficient information disclosure.

6.8 Quality of the disclosures from the charities.

Another important thing to realise is the overall quality of the information disclosures from the charities was difficult to evaluate for several reasons. Firstly, the number of charities that may have disclosed a particular index item may have been very low, but the quality was considered to be excellent. For example, the information disclosure related to *a comparative between planned budget against actual costs disclosed for each program* - only one charity made this disclosure – and made the same disclosure in all three publications – so the ADQR was the best possible score (3.0). However, the other twenty-nine charities did not disclose this information item, therefore, quality as a measurement criteria can be misleading in the face of low disclosing charity numbers.

Secondly, there were a large number of information items that were not disclosed by the charities, so the ADQR for these items was (0). For these items, quality was redundant. In addition, because some of the information items were mandated items, the ADQR of these items tended to be close to three – the best quality disclosure. This is because the charities were 'ticking off a box' in the annual return. This investigation has established that being transparent is not synonymous with filing an online document if the information fails to tell the 'whole story'.

Specifically, any of the disclosures related to a charity's board and charity staff were largely missing in this investigation. Apart from disclosing the name of the charity board members and providing some recruitment provisions in the charity's deed – there was little else.

Furthermore, it was difficult to evaluate the quality of the disclosures for those charities that are service providers as their operations are commercially-oriented and so these charities listed the services and a narrative about the service. This is quite removed from the traditional helping charity envisioned by most charity stakeholders, and therefore most of the program disclosures items from the index were irrelevant to this particular group in the charity sample. In addition, if the disclosures had anything to do with partnering with another charity/entity to deliver

a program (the quality of these disclosures was consistently low disclosure) there was no forthcoming disclosure.

However, all the information items in the index were ranked by charity stakeholders as *moderately important, very important* or *extremely important* in this investigation. Therefore the charities in this investigation need to give serious consideration to their current disclosure regimes because their current disclosure practices fail to meet the information needs of charity stakeholders.

6.9 Best performing charities for information disclosure

The best performing charity over all three charities is *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* which achieved an overall score of (43%) (see Table 37 for this result). The next closest charity is the *New Zealand Red Cross Incorporated* (38%). These are both very large charities, (turning over millions of dollars). Furthermore, both these charities had extensive websites and large annual reports in comparison to some of the other charities within the sample.

However, the size is not an indicator of whether a charity will disclose information. *The Fred Hollows Foundation (NZ)* in contrast, is much smaller than many of the charities within the sample. However, it achieved 3rd ranking overall. This finding can be explained by the transparency of this charity – it made its financial reports and charity deed available for all three publications.

The poorest performing charities all achieved (20%) or less information disclosure. This finding can be explained by several factors. Firstly, *Unicef Children's Foundation* does not have a website nor an annual report/annual review – therefore, apart from the compliance demanded by Charities Services, there are no other information disclosures from this charity.

Two of the charities appear to be 'non-active' – even though both are listed as being national bodies[212]. Neither of these charities appears to provide any operations, and therefore there is little information disclosure from either.

The New Zealand General Service Board of Alcoholics Anonymous Incorporated have restricted documents on the Charity register; its website also has restricted

[212] *The Age Concern Foundation* and *Laura Fergusson Trust Board Incorporated*

access, and it does not produce an annual report/annual review. Therefore the information disclosure from this charity is very low.

The median of the charity sample is 24% - which, again, indicates very low information disclosure. For those charities which are below the median, the reasons could be related to some factors. A charity may not produce an annual report/annual review, and/or have restricted websites and/or may have submitted abbreviated/abridged financial reports to Charities Services.

Table 37 The ranking of the charity sample for this investigation

No.	Name of the Charity	Overall Score	Percentage
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	1255	43%
16	New Zealand Red Cross Incorporated	1094	38%
9	The Fred Hollows Foundation (NZ)	958	33%
10	Royal New Zealand Foundation of the Blind	924	32%
19	Royal New Zealand Plunket Society Incorporated	903	31%
21	The Salvation Army New Zealand	849	29%
8	Deaf Aotearoa NZ Incorporated	811	28%
28	World Vision of New Zealand Trust Board	799	27%
22	Save the Children New Zealand	794	27%
6	ChildFund NZ Ltd	772	27%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	762	26%
30	Variety - the Children's Charity Incorporated	746	26%
26	The Evangelical Alliance Relief Fund	728	25%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of	714	25%

No.	Name of the Charity	Overall Score	Percentage
	Independent Women's refuges Incorporated		
5	Child Cancer Foundation Incorporated	693	24%
18	Oxfam New Zealand	691	24%
3	Amnesty International Incorporated	686	24%
4	Barnardos New Zealand Incorporated	662	23%
13	Lifeline Aotearoa Charitable Trust	637	22%
7	Cystic Fibrosis Association of NZ	621	21%
25	The Starship Foundation	617	21%
11	IHC New Zealand	585	20%
15	National Heart Foundation of NZ	571	20%
14	The National Foundation for the Deaf Incorporated	510	18%
17	Orphans Aid International Charitable Trust	486	17%
24	Society of St Vincent de Paul In New Zealand	464	16%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	307	11%
1	The Age Concern Foundation	283	10%
12	Laura Fergusson Trust Board Incorporated	275	9%
27	Unicef Childrens Foundation	199	7%

A large charity like *IHC New Zealand* is an example of this. The charities below the median have complied with the legal requirements and done no more. However,

these explanations could equally apply to those charities that are above the median given the low level of disclosure established by the charity sample.

There are two modes of the charity sample (24%) and (27%). These percentages of information disclosure occurred most often in the charity sample group (both modes had three charities each). This result indicates that the charities are all making similar information disclosures and this is confirmed by a large number of charities that are making statutory disclosures and the smaller numbers who are disclosing non-statutory information.

6.10 **Summary of the chapter**

This chapter presented the findings of the applying the disclosure index to the three publications from the charities in this investigation. The results showed that all thirty charities failed to make adequate disclosure to satisfy the information needs of the charity stakeholders, even though a few got close to (50%).

With respect to the results of the top-ranking information items, mandated information items are the best-disclosed items for all three publications. Best practice information items often failed to make the top 30% ranking. Therefore it was unsurprising to find that the Charity register was the top performing publication, closely followed by the annual report/annual review. However, it was surprising that the charity website failed to perform well, managing to achieve only 21% of the index, especially as this is an unregulated publication. However, this investigation demonstrated that the charities approached each of the publications with a different purpose in mind.

In addition, it was not surprising that the largest charities performed well compared to the smaller charities – however the size of the charity was not indicative of disclosure performance as was demonstrated by *The Fred Hollows' Foundation (NZ)* which is both a small charity and the 3rd top performing charity in the group. It was also noted those charities that scored well, took the innovative step of placing their annual report/annual review onto the Charity register in place of its financial reports (their annual report/annual review contained a full set of financial reports regardless). One possible explanation for this is that those charities showed a stronger commitment to discharging their accountability to their stakeholders through best practice information disclosure than the others in the charity sample.

With respect to the accountability framework, no charity managed to discharge its accountability sufficiently to the charity stakeholders. It was shown that information disclosure were often missing or insufficient to meet the information needs of a charity stakeholder. The most disclosed information items were consistently the mandated ones, therefore, accountability for the charities in the sample is more about compliance.

The next chapter presents some further discussion on the findings and reflections on the findings from this chapter.

Chapter Seven:
Discussion and stakeholder feedback

7.1 Introduction

In the previous chapter, the extent and the quality of the charities' information disclosures were examined. The findings showed the overall level of information disclosures from the charities was low and many of the index information items were not disclosed. Furthermore, while there was some good quality disclosures, many others were inadequately disclosed and the better quality disclosures tended to be the mandated disclosures.

These results establish there is a gap between the expectations of the charity stakeholders and the actual disclosures from the charities. It was found there are several key factors that have contributed to the low levels of disclosures from New Zealand's charities, and these are discussed with regard to the findings in chapter 6. The layout of the chapter is as follows;

7.1 Introduction to the chapter

7.2 The three highest scoring charities

7.3 The three lowest scoring charities

7.4 Charity national head offices

7.5 The annual report

7.6 The annual return

7.7 Abbreviated/Abridged and full GAAP financial reports

7.8 The charity websites

7.9 The accountability framework

7.10 Reflections on the appropriateness of the disclosure index

7.11 Stakeholder feedback

7.12 Summary of the chapter

7.2 The three highest scoring charities

The three top performing charities were;

1. *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* (43%)
2. *New Zealand Red Cross Incorporated* (39%)
3. *The Fred Hollows Foundation* (NZ) (33%)

The top-performing charity ***The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem*** (43%) is more commonly known as St John and is primarily known (but not limited to) as the key service provider of emergency ambulance services in New Zealand. This also one of the biggest charities in the sample, in terms of dollar turnover ($238 million) and it has a significant annual report (40 pages long). The charity does provide a good historical background of on its website and in its annual report. There is a clear link between the charity's formal name and its more commonly known name on its website and in its annual report. However, due to the idiosyncrasies of the Charity register search engine, this is one of the charities that would be almost impossible to locate on the Charity register without its charity registration number. Fortunately, this charity makes its charity registration number (and all it contact details) easily accessible to charity stakeholders.

This charity discloses its charity affiliations, commercial operations and its subsidiaries are in all three publications. The charity has useful snapshot statistics throughout its annual report which details items such as the number of paid and volunteer staff, the number of ambulance emergency calls, the number of ambulance shuttle trips, the number of patients treated and/or transported by ambulance drivers and this list is not exhaustive.

There is a page dedicated to the statistics and facts of the operations the charity has undertaken throughout the year. These disclosures are complimented by its relationship disclosures for shared services. In the same token, each service is listed along with a narrative, and the planned budget costs against the actual costs are provided for each service. The number of beneficiaries is also provided (this not

just a description as provided for in the Charity register). The charity provides a detailed summary of (GAAP) financial reports and associated notes. – including its financial policies and an audit certificate. Key line items in the balance sheet are missing from these financial reports, such as land and buildings for example but the financial reports do include subsidiaries and special purpose entities. This charity provides information disclosures about its strategic direction[213] in the near future, and it is linked to an easy to understand infographic image on its website.

The only access to the charity deed is via the Charity register. While the charity attempts to explain its organisational structure, in both the charity deed and on its website – the complexity of the organisational structure was difficult for the researcher to understand. The result is that it is not clear if some of the board members have more voting rights than others, whether some of the descriptions translate into different authorities or powers and how many are required by the charity's deed. Furthermore, it was unclear what type of legal structure the charity was using.

Regarding charity board disclosures, there were significant gaps in the recruitment, appointment, removal and remuneration of the charity board members. In contrast, there were good disclosures about the charity's staff and volunteers. However, there was no disclosure of the ten highest paid staff members and there is no board report from this charity. Finally, the charity did not disclose if it had been involved in any serious incidents.

The charity's best publication for disclosure was the Charity register, but this was mainly because it replaced its financial reports with its annual report and therefore circumventing the information disclosure limitations of the Charity register. As a result, the charity was able to include not only financial details but also more non-financial disclosures about its staff and programs. The next best publication for this charity was the annual report (which closely followed the Charity register). The charity's website scored poorly because there are significant gaps. None of their financial information, operations statistics or staff disclosures is made available on

[213] These are the charity's strategic plans that extend from a year to over 10 years.

their website – a charity stakeholder has to go to the Charity register or the charity's annual report.

In general, *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* published substantially more information across its publications than the other charities within the sample. However, there is scope for this charity to improve their disclosure practices. In particular, there is room for this charity to improve how they use their website as this would be useful for charity stakeholders.

The next best performing charity was the *New Zealand Red Cross Incorporated* (39%). This charity had very similar results to the top-ranking charity. This is also a very large charity with a turnover ($46) million and a significant annual report of (37) pages. The charity provides a good historical background in its annual report. This charity would also be difficult to locate on the Charity register, however again this charity provided links to its registration number in other publications. This charity also provided a link to its charity deed on its website. However, there were significant issues in the charity's deed. Firstly, the charity deed lodged on the Charity register appears to be an annotated copy. Information items such as charity board remuneration and material voting differences were also missing in this charity's deed. However, this charity did disclose how it recruits, appoints and removes its charity board members and it had a provision where the charity board members have to disclose conflicts of interest.

Following on from this point, there were significant gaps in the charity board disclosures. The charity board members are disclosed on the Charity register and in the annual report, but there are no disclosures on the charity's website. Nor does this charity disclose the qualifications or special expertise that each board member brings to the charity board. There is no charity board report. However, this charity had significant staff disclosures, both nationally and internationally. Although, it also provided a global figure of the staff remuneration, many of these staff disclosures lacked detail.

This charity disclosed full (GAAP) financial reports with associated notes and financial reporting policies. These were detailed financial reports however these could only be found on the Charity register. It was noted that these are very

comprehensive financial reports which don't follow the standard format[214] and therefore a charity stakeholder would require a measure of accountancy expertise to understand them. There are summarised financial reports its annual report, therefore, these contain much less detail. There are no financial reports found on its website. This charity demonstrates the difficulties of striking a balance between too much detail and not enough information disclosures for charity stakeholders. Nevertheless, there must be enough detail in the information disclosures to allow charity stakeholders to evaluate the charity – and if needs be the charity must provide pathways for charity stakeholders to seek additional information if needed. It is noted that the charity does provide contact details in all its publications.

With respect to its programs, it did list its programs, but these disclosures were selectively disclosed on its website and in its annual report (few program disclosures are found on the Charity register and were found in the notes to the financial reports). The charity programs are listed – but this charity is a combination of service provider, and emergency humanitarian aid provider as well as part of an international organisation (both Pacific and worldwide). Therefore, the different publications did not always have the same information – for example, the revenues and expenditures of its programs are disclosed on the Charity register and in its annual report – but not on its website. Consequently, the website provides links to a large number of programs, some not necessarily run by the New Zealand-based charity (but this was difficult to ascertain). Also, the number of beneficiaries that were helped by the charity can be found only in its annual report, but no comparative budget information is found in any of its publication for its programs.

This charity did not disclose if it was involved in any serious incidents. However, it does use social media extensively. For this charity, its best performing publication was its annual report, followed by the Charity register. The charity's website was the poorly performing in comparison to the other two publications – again mainly because there was no financial information found on its website. Therefore this charity could improve its disclosures by providing consistent information across all three publications.

[214] There are different revenue streams and expenses for the different humanitarian activities the charity undertakes

The 3rd ranking charity is *The Fred Hollows Foundation (NZ)* (33%). This is a small charity in comparison to the other two top performing charities. It has an annual turnover of ($12 million) and has a (20) page annual report. This charity provided historical background information about the charity's founder on its website. This charity is easily located on the Charity register, as its formal name and its commonly used name is the same. Also, the charity makes its charity registration number available on the website. An internet link is provided on its website for both its current year and previous year's financial reports and annual reports. This was one of only two charities that provided this access to charity stakeholders.

Despite this, its deed is only available on the Charity website, and there were some significant gaps with respect to the charity recruitment, appointment and removal. However, this charity did disclose remuneration paid to its board. Nevertheless, even though there a chairman report (in its annual report), there was no charity board report from this charity. In regards to its staff disclosures, these were mostly lacking on its website and in its annual report. There were the statutory disclosures found on the Charity register – however, there were no other staff disclosures. This may be because this charity relies on medical volunteers. However, no explanations were provided to explain the gaps in the disclosures.

With respect to its programs, the disclosure of its programs in its annual report was much better than its website (2nd placed) and the Charity register (which had little disclosure). As this charity works in the area of repairing eye sight, the program disclosures tended to be generalised to its main clinical areas – so there were gaps in the information. Furthermore, while it disclosed revenues and expenditures for each area listed – comparative budgets were missing. However, this charity provided reasonable disclosures about its relationships it has with governments and other entities to provide the programs.

Its website provided extensive statistics about the number of beneficiaries helped by its programs and the locations of where it operates across the Pacific. This was also a good source of information about the charity's relationships across the Pacific. However, there no disclosures related to serious incidents found on any of the charity's publications.

The same financial reports were placed on two publications (Charity register and its website), so this charity scored well in this area of the index. The financial reports were GAAP, and associated notes and policies were included. However, there was no cash flow statement provided. Nevertheless, even the summarised financial reports in the charity's annual report contained reasonable detail. This charity actively engages with all the social media channels apart from Instagram.

The best performing publication for this charity was the Charity register, closely followed by its website – its annual report its poorest performing publication. This could be explained by the fact the annual report was not an extensive document like the prior two top-ranking charities.

7.2.1 The strength and weakness of the top performing charities.

The strength and weakness of the three charities across all three publications cover essentially the same areas and are summarised as following:

Strengths

- The background of the charity was provided
- The provision of an annual report
- Full financial reports (GAAP) on at least two of its publications, along with an audit certificate
- Full list of its programs with revenues and expenditures
- Charity deed made available
- The provision the charity registration number and other public register numbers
- Charity board composition disclosed with recruitment, appointment and removal provisions
- Strategic plan disclosures
- Management staff disclosures

These disclosures were a mixture of mandated and best-practice – however, most of the above strengths relate to best-practice disclosures. The weakness of these charities are listed below.

Weaknesses

- Lack of a charity board report
- Charity board and staff related party transactions were inadequate
- Lack of charity board remuneration payments
- Lack of consistent information disclosure across three publications
- Lack of serious incidents disclosures
- Comparative budget information for charity's programs
- Poor functionality, lack of adequate information disclosure on the charity website

These disclosures are mostly missing or inadequately disclosed. However, as noted previously, *The Fred Hollows Foundation (NZ)* is comparatively small when compared to the other charities, therefore indicating that information disclosure that meets stakeholder needs is not related to a charity's size.

7.3 The three lowest scoring charities.

The lowest scoring charities are:

1. *Unicef Childrens Foundation* (7%)
2. *Laura Fergusson Trust Board Incorporated* (9%)
3. *The Age Concern Foundation* (10%)

The lowest scoring charity in the sample is *Unicef Childrens Foundation* (7%). This charity shared the common name with another linked charity called *NZ National Committee for Unicef Trust Board (CC35979)*; they are both more commonly known as UNICEF NZ. Both charities share the same physical address, and contact details and one of the charity board members of *Unicef Childrens Foundation* is also a charity board member of *New Zealand National Committee for Unicef Trust Board.* However, it is not made clear what the relationships are between the two charities.

There is no link to a website on the Charity register for *Unicef Children Foundation,* and there is no annual report. As a result, the disclosure index could only be applied to the information found on the Charity register. This was one of the charities in the sample where the most recent deed is no more than an amendment clause, therefore the original deed was scored instead. Also, the financial reports, although GAAP compliant, were summarised accounts with little detail. There was no cash

flow statement. This charity turned over a little $156K with cash assets of more than $2 million; these are not consolidated accounts. It also filed its annual return and financial reports seven months after balance date.

Consequently, there are significant gaps in the information disclosure from this charity. The mandated disclosures are the main disclosures for this charity, with very few best-practice disclosures. The gaps in the information disclosure included, charity board disclosures, staff disclosures, organisational structure, the charity's programs, its relationships and serious incidents disclosures. It had no social media presence. Overall, it was difficult to understand why this entity is a charity and what its purpose is.

The 2nd lowest performing charity is *Laura Fergusson Trust Board Incorporated* (9%). This charity is a national office for the other affiliated Laura Fergusson Trusts across the country – there appears to be four other affiliated charities. However, no organisational structure is provided nor explained, therefore it is not evident what the relationship is between the charities. These charities are not listed as a group on the Charity register. However, there were further issues which had an adverse impact on the index score of this charity.

One of the main documents used for non-financial disclosure on the Charity register is the charity deed. However, in this case, there are some significant shortcomings of the deed. Firstly, the deed placed on the Charity register is an application to the High Court for the changes to be made to Trust Deed (first pages of the document). The applicants are *Laura Fergusson Trust Board* to make changes to the deed of the *Laura Fergusson Trust* – both of which are separate registered charities. Notwithstanding these circumstances, the changes do not look as if they have been adopted by the charity – as the application document is both unsigned and has no [stamped] seal from the Court.

Secondly, it has hand-written annotated amendments written throughout the main deed (this document follows on from the unsigned amendments). The hand-written amendments are significantly different from the application to the High Court. Under these circumstances, it is unclear if this is a valid deed or not. Nevertheless, the researcher scored the main deed rather than the amendments; it was found there were significant gaps in the charity board disclosures in this document.

Also, this charity shares a generic website with the affiliated charities, which provides a list of programs (it was difficult to ascertain whether there was a service provider relationship because there was insufficient information). These program lists contributed to the index score of this charity. However, there is some doubt as to whether this charity provides those programs.

The charity deed lists its charitable purpose as;

> *4. The object for which the trust hereby evidenced is established is to assist disabled persons in the solution of their residential problems*[215].

It is unclear how this charity achieves these objectives, given its financial reports and lack of disclosures about its programs. This charity employs no one (staff or volunteers)[216], and there are no program details disclosed on the Charity register (or in the financial reports). The income of this charity is ($9), and its expenditure was $40 – there is very little disclosure from the financial reports as they are abbreviated and summarised. There is no cash flow statement, the financial reports are not consolidated and there is no audit certificate. Consequently, this also had an adverse impact on this charity's overall index score. The only place to find its charity registration number is on the Charity register. This charity scores poorly because there are significant gaps in its information disclosure. Accordingly, a charity stakeholder will struggle to understand this charity and its operations as this charity appears to be inactive.

The 3rd lowest scoring charity is *The Age Concern Foundation* (10%). Like the prior charity, this is also a national office and is associated with (36) affiliated charities. This charity would be difficult to locate on Charity register without it registration number, as there are (42) other charities have *Age Concern* in their title. However, there is no explanation of how the charities are organised or the charity structure. Therefore the relationships between the charities cannot be ascertained. Moreover, it is perplexing that the charity affiliates with (36) but there are (42) on the charity register.

[215] Part 4 of the *Laura Fergusson Trust Board Incorporated* Deed.
[216] This information is taken from the charity's annual return

This charity had no legible deed on the Charity register, therefore significant sections of the index failed to score. Furthermore, like the prior charity, *The Age Concern Foundation* shared a generic website with the affiliated charities. Also, the shared website provided a menu of services which could be accessed by the aged across New Zealand. Nevertheless, these programs also contributed to the index score of this charity. However, again there was doubt as to whether the charity provided these services.

This charity has a total income of ($75) and total expenditure of ($221), the financial reports are abridged with a few line items and aggregated figures. There is no cash flow statement, and the statements are not consolidated. There is no audit certificate. Furthermore, no one works for the charity (staff or volunteers)[217], and there are no charity programs found on the Charity register. There is no annual report/annual review. The only place a charity stakeholder can find its charity registration number is on the Charity register. When all these factors are taken into consideration as a whole – these all adversely impacted on the index score of the charity. Like the prior charity, this charity appears to be inactive.

7.3.1 Significant areas of inadequate disclosure

These low scoring charities were all within a degree of each other, and they shared very similar areas where they provided little or no disclosure. Significant areas where there is inadequate disclosure include:

- Failure to produce a background of the charity
- Failure to produce an annual report/annual review
- Failure to produce a [legible] charity deed
- Failure to explain its relationships to its affiliations
- Failure to explain how it delivers it programs
- Failure to produce full financial reports with associated notes (or consolidated reports as needed)
- Failure to explain how it operates – especially without staff or volunteers

This investigation has identified that some of the charities in the sample have provided better information disclosure than others. It is, therefore, useful to attempt

[217] This information is taken from the charity's annual return

to identify any determinants that have contributed to the difference between the levels of disclosures. The following analysis is based on general observations and does not attempt to establish causal relationships; these could be more thoroughly investigated in other research beyond this investigation.

7.4 Charity national offices

Sixteen (16 - 53%) of the charities in this investigation are thought to be charity national offices[218]. Charity national offices are also the top-ranking and lowest-ranking charities for information disclosure. In this section charity, national offices are compared to the other fourteen charities in the sample. The results are found in Table 38.

Table 38 Scores of charities vs. charity national offices

No.	Name of the Charity	Percentage
9	The Fred Hollows Foundation (NZ)	33%
10	Royal New Zealand Foundation of the Blind	32%
8	Deaf Aotearoa NZ Incorporated	28%
22	Save the Children New Zealand	27%
6	ChildFund NZ Ltd	27%
30	Variety - the Children's Charity Incorporated	26%
26	The Evangelical Alliance Relief Fund	25%
5	Child Cancer Foundation Incorporated	24%
3	Amnesty International Incorporated	24%
13	Lifeline Aotearoa Charitable Trust	22%
25	The Starship Foundation	21%
15	National Heart Foundation of NZ	20%
17	Orphans Aid International Charitable Trust	17%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	11%

No.	Charity National Offices	Percentage
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	43%
16	New Zealand Red Cross Incorporated	38%
19	Royal New Zealand Plunket Society Incorporated	31%
21	The Salvation Army New Zealand	29%
28	World Vision of New Zealand Trust Board	27%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	26%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated	25%
18	Oxfam New Zealand	24%
4	Barnardos New Zealand Incorporated	23%
7	Cystic Fibrosis Association of NZ	21%
11	IHC New Zealand	20%
14	The National Foundation for the Deaf Incorporated	18%
24	Society of St Vincent de Paul In New Zealand	16%
1	The Age Concern Foundation	10%
12	Laura Fergusson Trust Board Incorporated	9%
27	Unicef Childrens Foundation	7%

[218] These are thought to be charity national offices however it is noted that this was difficult to ascertain as there was no definitive disclosure stating they were. The researcher identified (3) separate criteria to determine if the charity was a charity national office; consolidated financial statements and/or a shared website with affiliated charities and/or stated on the Charity register

The aim is to determine if there is any significant difference between the index scores of charity national head offices and the other charities.

Previous research related to information disclosure from charities is mostly concerned with content analysis (Beattie & Pratt, 2002), the use of graphs for information disclosure (Beattie & Jones, 1992), donor information needs (Connolly & Hyndman, 2013a) and performance reporting (Connolly & Hyndman, 2003). Nearly all these studies involved annual report disclosures from registered charities in England and Wales, and Ireland. However, those studies are not directly applicable in this instance. The following test seeks to test the relationship between the charity national offices and the rest of the charities in the sample.

The use of the t-test assumes a normal distribution for each group, and the means of the two populations are equal. The results of this test are found in Table 39.

Table 39: t-test of charity national offices and the charities.

t-Test: Two-Sample Assuming Unequal Variances

	Other Charities	*Charity National Offices*
Mean	0.239061426	0.229305307
Variance	0.003402801	0.009786323
Observations	14	16
Hypothesized Mean Difference	0	
df	25	
t Stat	0.33371034	
P(T<=t) one-tail	0.370690557	
t Critical one-tail	1.708140761	
P(T<=t) two-tail	0.741381113	
t Critical two-tail	2.059538553	

The overall means for charity national offices (0.22) and other charities (0.23) were much the same, confirming the p-value of 0.74 and indicating that there is no significant difference between the two data sets. In the context of information disclosure, there is no evidence of a significant difference between the scores of charity national head offices and the rest of the charities in the sample.

However, There were eight charities within the sample which did not have an annual report/annual review – of which six are charity national head offices. Therefore the relationship between those that produce an annual report/annual

review was also tested. Table 40 identifies those charities without annual reports/annual reviews from those who have.

Table 40 Charities with and without annual report/annual review in the charity sample.

No.	Charity with NO Annual report/Annual review	No annual report/annual review
18	Oxfam New Zealand	24%
14	The National Foundation for the Deaf Incorporated	18%
17	Orphans Aid International Charitable Trust	17%
24	Society of St Vincent de Paul In New Zealand	16%
2	The New Zealand General Service Board of Alcoholics Anonymous Incorporated	11%
1	The Age Concern Foundation	10%
12	Laura Fergusson Trust Board Incorporated	9%
27	Unicef Childrens Foundation	7%

No.	Charity with Annual report/Annual review	Annual report/annual review
23	The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem	43%
16	New Zealand Red Cross Incorporated	38%
9	The Fred Hollows Foundation (NZ)	33%
10	Royal New Zealand Foundation of the Blind	32%
19	Royal New Zealand Plunket Society Incorporated	31%
21	The Salvation Army New Zealand	29%
8	Deaf Aotearoa NZ Incorporated	28%
28	World Vision of New Zealand Trust Board	27%
22	Save the Children New Zealand	27%
6	ChildFund NZ Ltd	27%
20	The Royal NZ Society for the Prevention of Cruelty to Animals Incorporated	26%
30	Variety - the Children's Charity Incorporated	26%
26	The Evangelical Alliance Relief Fund	25%
29	Nga Whare Whakaruruhau o Aotearoa National Collective of Independent Women's refuges Incorporated	25%
5	Child Cancer Foundation Incorporated	24%
3	Amnesty International Incorporated	24%
4	Barnardos New Zealand Incorporated	23%
13	Lifeline Aotearoa Charitable Trust	22%
7	Cystic Fibrosis Association of NZ	21%
25	The Starship Foundation	21%
11	IHC New Zealand	20%
15	National Heart Foundation of NZ	20%

The t-test was also used to see if the two groups are statistically different from each other. The results are found in Table 41.

Table 41 t-test of charities with and without an annual report/annual review.

t-Test: Two-Sample Assuming Unequal Variances

	No Annual report/annual review	*Annual report/annual review*
Mean	0.138283445	0.268612605
Variance	0.003155353	0.003333576
Observations	8	22
Hypothesized Mean Difference	0	
df	13	
t Stat	-5.577852328	
P(T<=t) one-tail	4.47664E-05	
t Critical one-tail	1.770933396	
P(T<=t) two-tail	8.95327E-05	
t Critical two-tail	2.160368656	

The results show there is evidence of a significant difference in the means between the two groups – the mean of the charities with no annual report/annual review is (0.138 – 14%) while those with annual report/annual report have a much higher mean (0.268 – 27%). This means that those charities with annual reports/annual reviews disclosed significantly more information than those without an annual report. This is confirmed by the p-value.

It seems reasonable to expect the disclosure levels for those charities that did not have an annual report/annual review would be less than those who did. Unlike England and Wales, New Zealand charities do not have to produce an annual report/annual review. It seems apparent from the charity sample that charity national offices are more likely to take advantage of this exemption than other types of charities. This is supported by the fact that of the lowest ranking ten charities within the sample, six are charity national offices and form a major part of the sample which did not produce an annual report/annual return.

Following on from this point, the lowest-scoring charity national offices appeared to be inactive. There is no apparent charitable activity, the income of the charities is negligible, no one appears to be employed by the charity (staff or volunteers),

and the charity holds minimal assets and these charities do not disclose how they can generate income. For all these reasons, the charities had low index scores.

In contrast, the Charity Commission (England and Wales) requires charity national offices to be charities in their own right and have charitable purposes as required by the Charities Act (2011). The public benefit test is also applied in the same way as to any other type of charity (Charity Commission (England & Wales), 2017). As a result, the Charity Commission (England and Wales) removes inactive charities from the Charity register (for a recent example see *The 1Click Charitable Trust v The Charity Commission of England & Wales* (18 October 2016)). Under these circumstances, a New Zealand charity stakeholder would want to know why these charities are not removed from the Charity register. Alternatively, if these charities are active, then the charities should provide explanations of their activities.

Nevertheless, of the six top-ranking disclosing charities, five are charity national offices. Therefore being a charity national office is not indicative of low information disclosure. However, as previously noted, no charity managed to score at least (50%). For this reason, the disclosure levels from the charity national offices within the sample remain inadequate for accountability purposes.

7.5 The annual report

Annual reports are not a statutory requirement in New Zealand for charities, but despite this, twenty-two charities within the sample produced one. This is one document that has been identified as an appropriate accountability document (Coy et al., 2001; Hooks et al., 2001). Moreover, a good annual report provides a single comprehensive document to charity stakeholders that explains what the charity had achieved in that year. Annual reports have been the focus in a number of charity studies (Beattie & Jones, 1992; Beattie & Pratt, 2002; Connolly & Dhanani, 2009). However, there have not been many in the New Zealand context (Hooper et al., 2007). The charities that produced an annual report were in the top scoring charities of the sample but, there was variance among the charity annual reports in regards to their content.

The top three scoring charities that produced the best annual reports are;

1. *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem (47%)*
2. *New Zealand Red Cross Incorporated (42%)*
3. *The Salvation Army New Zealand (32%)*

The Fred Hollows Foundation (NZ), which is the overall 3rd top scoring charity in this investigation gained a close 4th place with (31%). When applying the disclosure index to the annual reports of these charities, it was noted that the finding the disclosures was easy because the annual report produced good quality information rather than lots of it. Some of the standout elements included;

- The charities went beyond mandated information items

The annual reports contained a wide range of best-practice information items and provided good quality disclosures. For example, all the charities produced a sound chairman's report that disclosed what the charity had achieved, the challenges it faced and included goals and strategies for the future.

- The length of the annual report provided good narrative disclosure to enable the charity stakeholders to understand all the material aspects of the charity during the year

The best annual reports were more than a pamphlet with summarised financial reports and performance highlights. Moreover, the information was well presented, easy to find and easy to understand. For example, the best charities showcased their staff (both employed and volunteers) throughout their annual report but also provided hard facts such as the numbers employed for each charity program.

- The annual report contained sufficient financial and non-financial information with adequate detail

An annual report should contain sufficient details, both financial and non-financial for a charity stakeholder to evaluate the charity and its activities over the year. For example, *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem* provided planned and actual budgets of running its programs, the number of call-outs its ambulances undertook for the year, the number of beneficiaries it

assisted – but the information was presented in easy to read tables with snapshots of some of the beneficiaries together with explanations.

In contrast, *IHC New Zealand* produced a poor-quality 2-page photocopy of its performance highlights and summarised financial figures (abridged report) with little else. Moreover, this document was produced on the Charity register as well as its website.

There was also some common weakness among those annual reports that contributed to why the annual reports failed to score well. The weaknesses included;

- It was difficult to obtain a copy
- There was no pdf. link to the annual report on the charity's website
- The annual report contained mostly pictures with insufficient narrative disclosures
- There was no chairman's report
- There were no disclosures about the charity board or charity staff
- There were insufficiently detailed disclosures about the charity's programs
- There was no financial information or the financial information was so abbreviated or summarised that it was difficult to evaluate the charity's financial situation
- The annual report belonged to the international arm of the charity and not the New Zealand-based charity.

Charity stakeholders have indicated in this investigation that they want more transparency and more information disclosures from charities. Although annual reports are not mandated in New Zealand, it is evident that a charity that produces an annual report is more able to discharge its accountability to its stakeholders than one that does not. Despite this, even the best performing charities continued to have gaps in their disclosures, and therefore no charity managed to achieve (50%) for this publication. Therefore this is another area where charities can improve their disclosures.

7.6 The annual return

To recapitulate, the annual return is statutory declaration [form] which each charity submits online. The form updates the charity's board particulars and provides basic financial and non-financial information; it is a public document that can be found on the Charity register.

In thinking about New Zealand's charity annual return, the information can be divided into two categories. The first part contains the basic non-financial information about the charity; its demographics, charitable purpose and objects, the number of employees and volunteers and the name of its board members. The second part of the annual return contains the financial information about the charity; these are not the financial reports. Instead, the charities are reporting basic line items (income/expenses and assets/liabilities) taken from the financial reports. The items are based on the new tier standards, and therefore Tier 1 provides the most basic information while those in Tier 4 will provide more detailed information.

In New Zealand, the charity stakeholders have to rely on the annual return because as previous research has shown (see Cordery & Baskerville, 2011 for an example), New Zealand charities are reluctant to make information disclosures, including responding to direct requests for information. Moreover, the information disclosed in the annual return has to be correct because it is both a statutory declaration and therefore attested correct by the charity's board. It means that New Zealand's charity stakeholders can bypass a [specific] charity it is seeking answers from and get information directly from its annual return.

However, in comparison to a Form 990 (the American charity annual return, which is discussed in Chapter 3), New Zealand's annual return is a very brief document (two pages). Significant gaps in the annual returns had an adverse impact on the index scores of the charities in the sample and therefore supports the contention that the disclosure levels from the annual return are inadequate for accountability purposes.

Significant gaps identified in this investigation included;

- Governance and management disclosures about how the charity is organised and operated – including if it is registered elsewhere (like the Incorporated Societies Register for example)
- Significant relationships with other entities/charities
- Compensation/remuneration/benefits paid to charity board members and key employees, including the highest paid members
- The payments made to contractors, including professional fundraising organisations
- Grants and donations from other charities and government agencies – including the details of who and how much
- Unrelated business income and commercial relationships
- The property holdings and investments– whether the property holdings are held at historical or market value
- Expenses – specifically those expenditures related to national/international travel, entertainment expenses
- The names of those who are recipients of grants from the charity
- Whether the charity maintains collections of works of art, historical treasures or other artefacts

These are all information items that charity stakeholders considered to be *very important or extremely important* and therefore establishes that these disclosures are in the public interest. Improving the charity annual return would make significant inroads to improving the accountability of the charity sector in New Zealand. However, expanding the current charity annual return would have many benefits, these would include;

- It would strengthen the current disclosure regime from New Zealand's charities

New Zealand's charities have had a history of reluctant information disclosure (Sinclair, 2010) and this had made it difficult for outsiders to gain any meaningful information (Sinclair et al., 2010). This change would also encourage transparency and accountability from the charity sector.

- It would contain information items that are relevant to both the charity stakeholders and the charity regulator

As previously stated, the current format of the charity annual return is geared towards meeting the information needs of Charities Services[219] rather than meeting the needs of New Zealand's charity stakeholders. This change would make important information easier for charity stakeholders to access and as a result, discharge its accountability to both the charity regulator and charity stakeholders.

- It would provide important information for research

The current format of the charity annual return provides a charity's demographic and limited non-financial and financial information. Consequently, research topics are limited from the charity annual returns and therefore extracting academic value is also limited. Longitudinal studies would be of particular value to both charity stakeholders and charity regulator – so that any future changes to the charity sector could be based on sound research. Moreover, this change would expand the research topics pursuable using the charity annual return.

- New versions of the charity annual return could be a regular expectation

In other jurisdictions, such as the USA and England and Wales, the charity annual return is amended on a regular basis so that charity stakeholders have the information they need to make informed decisions about charities. It also acknowledged that charities are operating in a dynamic and changing environment. This change aligns with charity stakeholders' expectation that charities are both accountable and transparent.

It is acknowledged that there have been changes to New Zealand's annual report in (2015) however these changes are still significantly less than what charity stakeholders want if their information needs are to be met. For these reasons, (but not limited to), changes made to the charity annual return would be a positive step towards making charities both accountable and transparent to charity stakeholders.

[219] Charities Act (2005), s42

7.7 Abbreviated/Abridged and full GAAP financial reports

It was identified in this investigation that a wide variation of financial reports was submitted by the charities in this investigation. This included abbreviated, abridged, full GAAP financial reports and special purpose entity financial reports. On the Charity register, (26 – 87%) of the charities submitted full GAAP financial reports. However, there was also two charities that submitted abbreviated accounts, one that submitted abridged financial accounts and one that submitted special purpose entity financial accounts.

It is difficult to draw conclusions as to why all the charities did not produce full GAAP financial reports for the Charity register. Moreover, no inferences can be drawn from the size of the charities because thirteen of the charities have not disclosed which Tier they belong to[220]. However, in light of the (2015) financial reporting standards, this finding will likely change in the future. The standout findings for financial reporting from the charity sample are discussed next.

In the case of *Society of St Vincent de Paul in New Zealand*, it produces *special purpose entity financial reports* and has submitted two sets of accounts to Charities Services for many years (these are two pdf. files). One set belongs to National Council of New Zealand, and the other set belongs to Area Councils. However, there is no explanation as to how they are related and why there are two sets. The current (2015) accounts submitted a single pdf. document but the financial reports continue to be special purpose entity financial reports for the two entities.

Apart from the unusual way the financial reports are presented, there is another reason these financial reports are interesting. Firstly the real estate portfolio is found in the notes of the Area Council financial reports; there is an additional note which states

> '*Land & Buildings are registered in the name of the National Council and are held on behalf of the Area Councils.'*

[220] Tier 1 – full financial reports (over $30m annual expenses); Tier 2 – reduced disclosure regime (under $30m annual expenses); Tier 3 simple accrual format reporting (under $2m annual expenses); Tier 4 – simple cash format reporting (under $125K in annual operating payments).

How these properties are held is unclear and what oversight it has over the properties. There is no mention of the real estate portfolio in the National Council financial reports. Furthermore, neither entities have records related to the repairs and maintenance of the buildings/land, leases or such like.

For this reason, the researcher undertook a search of five years financial reports from this charity, and it is evident there is a 'pool' of properties. The number (and addresses) of properties that are in the Area Council's financial reports change regularly without explanation (see Table 42 for this result). Moreover, there has been a significant increase in the number of properties in the (2015) financial reports – twelve properties have been added to the portfolio.

Table 42: The real estate portfolio held by Society of St Vincent de Paul in New Zealand – Area councils.

Financial Accounts Year ended	No. of properties held	Values
2015	37	$ 6,155,319.00
2014	25	$ 4,649,904.00
2013	26	$ 4,767,138.00
2012	25	$ 4,587,138.00
2011	24	$ 4,140,138.00

It is also evident the value of the properties is low with respect to their locations – at least three are held in Auckland Central and two in Hamilton. However because the properties go in and out of the real estate portfolio note on a regular basis, (as previously stated, these are found in the Area Councils financial reports), and the values of the properties are low, a charity stakeholder would be unable to track the fair market value of these assets in the current financial period and over time.

Again it is difficult to draw any conclusions as to why the charity has chosen to list its real estate portfolio in this way. As a result, this charity was one of the lower scoring charities in the charity sample (16%), and therefore the disclosure levels from this charity are inadequate for accountability purposes.

In the case of *IHC New Zealand* – firstly, the financial report (a 2-page document) that was placed on the Charity register was a poorly photocopied document and reemphasises that charities' need to produce documents that are fit-for-purpose (a copy of this can be found in Appendix Seventeen). Secondly, the financial reports contained summarised, abbreviated line items, disclosing little relevant information. This charity had a gross income of ($64m) but even the annual return had too many gaps for it to be meaningful for a charity stakeholder. Furthermore, this charity's annual report is no more than a web page on its website called 'Annual Report'. Thirdly, although the charity places its financial reports on all three publications – they are all summarised, abbreviated accounts with no accounting policies or associated notes. As a result, this charity was also one of the lower scoring charities in the charity sample (20%), with low levels of disclosure which is inadequate for accountability purposes.

Apart from the Charity register, many of the charities failed to produce full GAAP financial reports in either of the other two publications. In the case of the charity's website, twenty-five charities failed to provide financial reports – a significant gap which resulted in poor index scores. Furthermore, the financial information in the annual report was often in an unusual format or abbreviated financial reports. This finding is interesting for several reasons.

Firstly, where other sectors such as the for-profit and public sector are seeing an increase of information disclosure on internet technologies such as websites (Gallego, García, & Rodríguez, 2009) – this investigation establishes the disclosures related to a charity's financial information is either missing or the amount disclosed is quite small on the charity websites. In the case of *Oxfam New Zealand*, the figures on the charity's website are percentage figures and not financial reports – and this was the case for two other charities. It is apparent that charities are reluctant to disclose their financial situation on their websites.

Secondly, ten of the charities provided the same GAAP financial reports found on the Charity register, however the other nine produced abbreviated financial reports or alternative reporting formats[221]. In the case of the abbreviated financial reports

[221] (8) Charities did not have an annual report/annual review but (3) with annual report/annual review did not provide any financial information in it.

– these came in a wide variety – apart from the *New Zealand Red Cross Incorporated* – most were inadequate and resulted in low index scores. In the case of *The Starship Foundation*, there was no financial reports – just snapshots of the different areas in which it worked. This was similar to the *National Heart Foundation of NZ* – it provided a summary of its work but no financial reports. In the case of *The Evangelical Alliance Relief Fund*, the abbreviated financial reports found on the website are different from those found in the annual report. The result of using abbreviated accounts or other formats for many of the charities in this sample rendered the financial information less useful for evaluating the charity's financial situation and therefore less useful for charity stakeholders. Therefore, for some of the charities in this sample, there is room for improving the way financial information is presented in their annual report/annual review.

Consequently, the Charity register remained the most reliable source of financial information from the charities and this is reflected in the index scores from the charities. Emergent Internet technologies enable financial information to be released to charity stakeholders more rapidly and more widely than before (Connolly & Dhanani, 2013). However, the charities in this sample do not appear to be taking up this trend. Following on from this point, the charity websites are discussed next.

7.8 The charity websites

There have been other studies that have looked at whether internet technologies are a mechanism used by charities to discharge their accountability (see Connolly & Dhanani, 2013 for an example) but not in the New Zealand context. This may well be the first investigation that has looked extensively at New Zealand charity websites for the extent and quality of information disclosures. However, the findings identified the charity website was the lowest scoring publication of the three used in this investigation. Part of the issue was navigating the charity websites in this sample - it was not always easy, and a brief explanation of this finding is presented next.

In this sample, all twenty-nine[222] charities presented a non-profit website address[223] however only fifteen of the charities had an updated website (2016) – the other fourteen either did not disclose this information or the researcher could not tell. Regardless it was evident that some of the charity websites contained outdated information. For example, *Variety – the Children's Charity Incorporated* had (2014) financial reports on its website while (2015) were filed on the Charity register. Two charities had broken links on their websites; twenty-two had no a site map, five had no search feature, two linked directly to an international website, while others appeared to be a combination of both a New Zealand and international-linked website. Three were extremely difficult to navigate[224], seven had no homepage link, and twelve had member login features. Moreover, a couple appeared to be no more than a portal to the other affiliated charities, and one appeared as a web page in another organisation's website.

For all these reasons, applying the disclosure index to the charity websites was difficult, and for some of the charities in this sample, the only way to find the annual report/annual review was to Google it. Regardless, the use of internet technology is a way in which charities can discharge accountability to their stakeholders. Moreover, the internet makes reporting to charity stakeholders easier, fast, less expensive and accessible for charities, regardless of their size (Connolly & Dhanani, 2013; Gray et al., 2006). Moreover, studies in the for-profit sector have found that organisations that use Internet technologies can offer more benefits to stakeholders by providing wide coverage and unlimited information capacities (Liu, 2014; Yi & Davey, 2010).

While charities within the sample[225] all appeared to utilise internet technology to disclose information to their stakeholders, the investigation findings indicated that the charity website reporting was remarkably poor in both extent and quality. Moreover, the main disclosures found on the charity websites continued to be mandated disclosures – with very few best practice disclosures made.

[222] One charity did not have a website
[223] Non-profit organisations have (.org) suffix but one did not appear to be NZ based.
[224] These three had ambiguous webpages with no directory to gain an understanding of the layout of the website
[225] With the exception of Unicef NZ

The best performing charities were (2nd was occupied by two charities which scored the same);

1. *Oxfam New Zealand (36%)*
2. *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem (34%)*
3. *The Fred Hollows Foundation (34%)*
4. *Save the Children New Zealand (33%)*

The websites of these charities were easy to navigate, and it was easy to locate the information disclosures. Moreover, the website was up-to-date, the information was relevant, with sufficient narrative detail. The financial reports were lodged on the website, or an internet link was provided.

As noted in the prior chapter, however, there continued to be significant gaps in the disclosures when evaluating the website. This was the poorest performing publication, and most of the charities failed to make 25% of the disclosures (the average of the charity sample was 20%). The most significant gap was the failure to provide financial information.

On this basis, the information expectations of the charity stakeholders are not met by any of the charity websites used in this investigation. Therefore this is an area where charities can significantly improve their information disclosures and therefore discharge their accountability adequately to their stakeholders.

7.9 The accountability framework

The normative rationale for the right to have information disclosures from charities is one that has been well argued in the literature (Cordery, 2011; Coy et al., 2001; Mack, 2003). It recognises a charity stakeholder's rights to know what happens to their donations/grants/funding once a charity takes control of those resources.

To date, the supply of information to charity stakeholders is determined by Charities Services (including the Charities Act (2005)) which determine the minimum compliance levels of disclosure required from a charity; the charity accountants/auditors who decide whether the financial reports show a fair representation of the charity's financial situation and by the charity itself in determining the appropriate levels of information disclosure to place on its website

and in its annual report (if it produces one). This research focuses on those parties but includes others, such as the general public, charity management, charity funders/donors, charity staff and volunteers. Their information needs have been considered in this research when other charity stakeholders were invited to take part in this investigation and to identify those information items they wanted to see disclosed from charities.

It is evident many of the information items in the disclosure index that charity stakeholders believed to be *moderately important, very important* or *extremely important* were missing or inadequately disclosed. Each publication from the charities provided limited amounts of information, and overall, the three publications failed to meet the information needs of the charity stakeholders.

However, there is also both a substantive rationale and an instrumental rationale for charities to improve their information disclosures. Information shared with charity stakeholders allows charities to recognise opportunities for them to improve performance and at the same time bring about change in a charity's operations so that they are more effective and efficient (Abraham, 2007; Ebrahim, 2010a). Therefore, there is an opportunity for charities in this sample to expand and improve the quality of their information disclosures. The following areas are the main areas where charities should focus their attention to improve the quality of their disclosures; these also align with best practice reporting.

7.9.1 Fiduciary information items

- The charity's organisational structure should be explained with a chart showing the relationships
- The naming of the charity board, along with their qualifications and length on the board
- Charity board disclosures including tenure and vetting need to be included
- An annual charity board report should be included
- Charity relationships should be explained, especially when other charities and entities are involved
- The charity's deed (rules) and governance practices
- Charity staff disclosures – more than just a head-count
- Serious incidents should be disclosed

7.9.2 Financial information items

- The availability of a full set of GAAP financial reports
- Access to consolidated accounts if there is a group
- Property plant and equipment notes
- Asset explanatory disclosure notes that explain what the charity holds and why
- A cash flow statement

7.9.3 Performance information items

- The programs a charity undertakes
- The planned (budget) and actual costs of each program
- The actual revenues and expenditures for a program
- The number of beneficiaries assisted by each program
- The other parties who assisted in the delivery of a program
- The name of the government bodies the charity delivers programs for

7.9.4 Forward/Future Information items

- The strategic plan for the charity which includes short-term and long-term goals

The increased demand for information has been identified as going to the core of a charity discharging its accountability (Beattie & Pratt, 2002; Charities Commission (UK), 2014; Jetty & Beattie, 2009). Furthermore, Ebrahim and Rangan (2010a) noted that there is increased interest in charity accountability and that a wider range of stakeholders is placing more pressure on charities to disclose more information. Accordingly, these aspects need greater consideration from New Zealand's charities.

7.10 Reflections on the appropriateness of the disclosure index

The disclosure index used in this investigation was developed with the assistance of charity stakeholders and then the three different publications were carefully evaluated and scored. It is then useful at this point to reflect on the appropriateness of the disclosure index and if there could have any changes which would have improved its performance.

The researcher finds that there are very few changes that could be made to refine the performance of the disclosure index for further research. The following are the areas where minor adjustments could be made;

- The two information disclosures ' the charity discloses the revenues and expenditures for each charity program' (#72) and 'the costs of each program' (#104) are very similar and would be better stated as one information item to avoid repetition
- It seems also unnecessary to score the public benefit of each program as this is a mandatory disclosure that is well documented by the charities

Despite these minor changes, the disclosure index enabled the evaluating of the extent and quality of the information disclosures from the charities.

7.11 Stakeholder feedback

At the beginning of this investigation, it was determined that once the disclosure index was applied to publications of the charities within the sample, an opportunity for the stakeholders who were involved in the creation of the disclosure index would be provided for them to comment on the findings. Eleven stakeholders indicated that they would like to participate in the feedback process and a copy of the results was sent out to them (see Appendix Twenty-two). However, and in spite of reminders and follow-ups, only one stakeholder replied and commented on the findings from this investigation.

The feedback from the stakeholder respondent focused on one aspect of accountability – *the need for specific and targeted legislation.* The stakeholder respondent believed;

> *The overall findings of this investigation into the accountability of New Zealand's charities are not at all surprising. Furthermore, I consider that this lack of disclosure pertaining to the release of key financial information is, unfortunately, a consistent theme that is present in most charitable organisations.*

This stakeholder respondent believed that charities should be made accountable to charity stakeholders as well as charity regulators and therefore should provide relevant information disclosures. It was evident that the stakeholder respondent believed that because mandated information disclosures dominated the findings that;

> *..specific and targeted legislation would have to recognise the requirements of the charities sector to provide essential services to the public, and also to assess this concern against the necessity to protect the public purse. Moreover, definitive and distinguishing legislation would also assist to ensure that all disclosures are meaningful and contain sufficient detail for charity stakeholders.*

For this stakeholder respondent, information disclosures are driven from by legislative requirements rather than the charity stakeholder. Nevertheless, the stakeholder respondent expresses support for the charities but highlights the fact that charity information discloses need to be sufficient and meaningful for charity stakeholders if disclosure is to meet accountability aspects.

While it was disappointing not to garner more feedback from the stakeholders, this stakeholder's comments does add another layer of qualitative feedback to complete the research cycle. It also challenges the charity sector to provide increased levels of disclosure if they are to discharge their accountability adequately for charity stakeholders.

7.12 Summary of the chapter

This chapter discussed the results found in chapter 6 from applying the disclosure index to the Charity register, the charity website and the charity's annual

report/annual review of thirty charities. The top-scoring three charities were identified, as were the lowest-scoring charities.

There was no significant difference between charity national offices and other charities in the group. However, it was found that lowest-scoring charities were also charity national offices and appeared to be inactive. The results also indicated that charities that used an annual report/annual review disclosed significantly more information than those charities that did not. The findings also indicate the current format of the annual return could be significantly improved so that it provided more information disclosures.

It was difficult to determine why the charities in the sample did not produce full GAAP financial reports in any/all of the publications. As a result, there were abridged and abbreviated accounts as well as full GAAP financial reports disclosed by the charities. Notably, few charities placed any financial information onto its websites. Consequently, the Charity register remained the best source for financial information from the charities. Despite this, overall the charities discharged better financial accountability than any of the other areas of accountability (fiduciary, performance and forward/future looking disclosures).

This investigation determined that the disclosure on the charity's' websites scored poorly and as a result, this was the lowest performing publication. The website designs were in part to blame for the low scores. However, the main point was the failure to make a broad range of information disclosures available to charity stakeholders.

Overall it was noted that the size of the charity had little influence on the extent and quality of the information disclosures. This was evidenced by the fact *The Fred Hollows Foundation (NZ)* is relatively small in comparison to some of the other charities, yet it ranked 3rd overall.

Finally, the charity stakeholder feedback indicated that targeted and focused legislation was the only option to address the poor information disclosures made by the charities in this investigation. This finding was based on the fact that the stakeholder believed that charity information disclosure is driven by legislation rather than charity stakeholders.

Regardless, this investigation highlighted an information gap between the charity stakeholder expectations and information disclosures made by the charities. Improved disclosure to meet the best-practice information levels by charities would significantly improve the accountability of each charity.

The next chapter presents the review of the thesis and recommendations drawn from this investigation.

Chapter Eight:
Review, conclusion and recommendations of the investigation

This chapter of the thesis provides a review of the investigation and explains how the research objectives have been achieved. This chapter also includes recommendations and concludes the investigation with the presentation of opportunities for further research.

8.1 **Review of the thesis**

New Zealand's charity sector is more than a hundred years old, and historically, it was largely an unregulated sector with few accountability demands made upon it until the introduction of the Charities Act (2005) (Cordery, 2011; O'Brien et al., 2009). This seems to be because no one, least of all the New Zealand government, wants to disrupt the important work the charities do with most vulnerable in society. Furthermore, charities do work that the government and other organisations do not do (Cohen, 2005; Cordery & Baskerville, 2011). This [social] work alone imposes a high level of accountability in the sector (The Sphere Project, 2004).

Additionally, New Zealand's charities are also significant economic entities, and the size of New Zealand's charity sector continues to grow year upon year (Gousmett, 2013, 2015). Some of New Zealand's biggest service providers are charities, and as a result, they hold both multi-million dollar government contracts and significant large asset bases. The sheer size of the sector, along with the significant resources charities wield also demands greater accountability. This investigation contends that accountability is much broader than compliance and that charities have the responsibility to report to charity stakeholders that moves beyond the reporting requirements of the Charities Act (2005) and the PBEAS. Therefore, reporting from an accountability perspective involves a broad range of financial and non-financial information disclosures.

It is also argued here, that the nature of the work that charities undertake in the community and the support they garner from the public and government, the charity sector research should be set within an accountability framework. This

accountability framework acknowledges the responsibility of charities to give an account not just to the charity regulator (Charities Services) but also to all those stakeholders that are interested in or affected by the charity's activities. It is claimed that because of the important social and economic nature of charities that accountability is due to a wide range of charity stakeholders; donors, beneficiaries, government, regulators, communities in which they work, other organisations they collaborate with, staff, suppliers and the general public.

Since (2005), the New Zealand government has introduced regulatory measures to improve the accountability of the sector, with the ultimate end-goal of improving publics' trust and confidence. During the early stages of this investigation, reforms to the Charities Act (2005) were introduced, New Zealand's Charities Commission was disestablished, and the new financial reporting standards were instigated in (2015). All these changes are designed to improve the accountability of the charity sector. However, the public's trust and confidence in New Zealand's charity sector has remained both static and low since (2012)[226].

The overall aim of this investigation is to improve the accountability from New Zealand's charities by developing a charity information disclosure practice model from a charity stakeholder perspective. To achieve this, there were three main objectives

4. To develop a qualitative disclosure index from the perspective of charity stakeholders
5. To assess the extent and quality of the information disclosure made by thirty registered charities
6. To make recommendations to improve the accountability by New Zealand's charity sector

The following sections will review how each of these was achieved.

8.2 The development of the disclosure index.

This investigation builds on existing literature by taking a charity stakeholder perspective in the New Zealand context. Accordingly, the first research objective of this investigation was to develop a qualitative disclosure index from the

[226] Both the 2012 and 2014 as well as the current 2016 results remain at average rating of 5.9 out of 10

perspective of charity stakeholders. There were several steps involved in this process.

The first step of the process involved in the review of relevant literature to obtain a list of potential disclosure items. An initial list of (136) items was identified through reviewing prior literature, a comparison of charity regulations in New Zealand, Australia, Canada, and England and Wales. To validate the disclosure index information items, charity stakeholders were consulted. Using a Qualtrics™ survey charity stakeholders (86) were asked to rate the perceived importance of each information item – at the end of this step all (136) items were retained but a further five items were added to the disclosure index (141) information items in total). Weightings were assigned to each of the information items by the charity stakeholders. All, but one, of the information items in the disclosure index came back rated as *moderately important, very important* or *extremely important.*

The next step was the development of the qualitative criteria for the information items. The qualitative criteria assess the quality of the information disclosures. As most previous disclosure studies in the charity sector have tended towards the presence or absence of an information item (Beattie & Pratt, 2002; Dhanani, 2009), this investigation reviewed prior literature, government reports and charity websites to assist in criteria development. As a result, a combination of a 0-3 point Likert-type scale for some information items and dichotomous scale (yes-present/no-absent) for other information items was used.

The last step was to evaluate the operational effectiveness of the disclosure index. This was done by carrying out two rounds of pilot studies. The first pilot study involved researcher alone, at the end of which some minor adjustments were made. The second round was carried out by the researcher and a Masters Law student, at the end of which some further adjustments were made. These adjustments resulted in the reduction of the disclosure index items to (138) information items (this removed duplication of information items) which improved the overall consistency of the application of the disclosure index. At the end of this process, the charity disclosure index was validated, reliable in practice and ready for application to the thirty charities used in this investigation.

8.3 The extent and quality of New Zealand charities information disclosures.

Once the disclosure was constructed, it was applied to the three selected publications of the thirty charities used in this investigation. This was to assess the extent and the quality of the information disclosures from the charities and met the second objective of this study. The data was gathered, quantified and analysed. The analysis included an item-by-item analysis, a publication analysis, final scores for each publication and the ranking of the charities.

The results found that many of the information items were either absent or inadequately disclosed. Across all three publications, the top-ranking information items were those that were mandated, and the best-practice disclosures were either missing or scored poorly. As a result, none charities managed to achieve (50%) index scores.

Overall, the top-ranking publication is the Charity register. The annual return was identified as an important source of financial and non-financial information, even though it contained limited amounts of information. Those charities that managed to get the best scores replaced the financial reports with their annual report on the Charity register – but their index scores remained below (50%). It was found that the information disclosures found on the Charity register were both brief and lacked sufficient detail to be meaningful for a charity stakeholder. Moreover, there were obvious gaps in the information disclosures, related to charity boards, trust deeds, staff, programs and beneficiaries served. This resulted in (56) information items scoring either (0 – no disclosure) or (20%) or less. No charity managed to achieve (50%) for this publication.

The next best ranking publication was the charity's annual report even though eight of the charities in the sample did not have one. The financial information in the annual report was presented in a wide variation of abbreviated and abridged formats with just eight charities providing GAAP statements. As a result, many of the financial items were either missing or poorly disclosed. On the positive side, the annual report contained more detailed charity board and staff disclosures, as well as program disclosures. However, specific information about the charity's programs was largely missing. Therefore, the index scores continued to remain low.

Another point noted was there was inconsistent information between the annual report and the other publications; the information disclosures found in the annual report tended to be different from those found on the Charity register and the charity's website. The top-ranking information items in this publication continued to be mandated ones, and a significant number of best-practice information items were either missing or poorly disclosed. Sixty (60) information items were either missing or scored (10%) or lower; resulting in more than 40% of the index scored nil or very low. No charity managed to achieve (50%) for this publication.

The poorest ranking publication was the charity's website. Part of the problem with many of the charity websites within this sample was the difficulty in navigating the web page. Furthermore, many of the charities are 'sharing' the web page with other affiliated or international charities so that the information disclosures were generic. This resulted in a significant number of the information items either missing or insufficiently disclosed. As a result, there were significant gaps in charity and staff disclosures, financial disclosures, specific information related to a charity's programs and any funds that were sent abroad. Therefore information disclosures on a charity's website lacked meaningful disclosures for a charity stakeholder. Seventy-eight (78) information items were either missing or scored less than (10%) or lower; resulting in more than (56%) of the index scored nil or very low. No charity managed to achieve (50%) for this publication.

The top-ranking charity within the sample was *The Priory in NZ of the Most Venerable Order of the Hospital of St John Jerusalem (43%).* This charity provided consistent information across all three publications and had useful snapshots of statistics for its programs and financial information. Moreover, this charity published substantially more information than all the other charities within the sample. Nevertheless, there were some significant gaps in the information disclosures; these were related to the organisational structure, the charity board, the charity's deed and no financial information was found on its website. It is acknowledged that this charity does provide contact details and pathways for charity stakeholders to seek information if needs be.

The poorest scoring charities were all within a degree of each other, and it seems arbitrary to focus on just one as the lowest scoring charities all shared the same or

similar deficiencies. Firstly, none of these charities produced an annual report, so this was a significant information gap. The production of an annual report was identified in this investigation as an important source of information for a charity stakeholder. Secondly, these charities also shared a website with affiliated charities (the lowest-ranking charity did not have a website). As a result, there were significant information gaps from these charities. Often these charities failed to produce a charity deed that was fit for purpose, the financial reports were GAAP compliant but the aggregated lump-sum figures revealed little about the charity's financial situation, and there was no explanation of the charity's organisational structure. Furthermore, limited charity board disclosures, no staff and no program disclosures meant that these charities had low index scores. It was noted that some of the lowest-scoring charities appeared to be inactive; however, there was no explanation as to what they actually did and therefore it is difficult to understand why these charities remain on the Charity register.

The overall results of this investigation indicate that the current level of information disclosures from the charities in this sample is low regarding both extent and quality. Consequently, there is a gap between what the charities are actually disclosing and information expectations of charity stakeholders.

8.4 What should be done to improve the accountability of New Zealand's charities

This investigation established that charities are accountable to their stakeholders and that better information disclosures can appropriately discharge this accountability. Accordingly, the third objective of this investigation was to make recommendations to improve the information disclosure practices by New Zealand's charities.

Based on the findings in this investigation, current information disclosures from the charities would not meet the information needs of charity stakeholders, and greater accountability in the charity sector is needed. Charity stakeholder information needs are clearly linked to the accountability of the sector. Therefore the charities have the opportunity to improve the publics' trust and confidence in the sector. Charities can make immediate changes that could help them achieve improved accountability.

However, other long-term changes need to build on any earlier efforts, so long-term improved accountability of the sector is achieved. Any changes the charities make to improve their accountability does incur costs and there has been significant literature that has looked at this area (see Connolly, Dhanani and Hyndman (2013) report for an example of this). Taking a tiered approach to information disclosure, in the same way that financial reporting is tiered towards the size of the charity is one answer, however this topic is beyond the scope of this investigation. Therefore, the implications of this investigation are presented next.

8.4.1 The immediate implications of this investigation

Firstly, the findings in this investigation should signal to New Zealand charities their current level of information disclosures. Given the findings, the charities can disclose more relevant information disclosures to improve the extent and quality of their current disclosures if they are to meet the information needs of charity stakeholders.

Secondly, this investigation establishes that the annual report was an important source of information for charity stakeholders. To emphasise the use of an annual report for New Zealand's charities would be a fundamental change to the current landscape. However, it is another avenue for charities to widely disseminate useful information to charity stakeholders so charities should consider using an annual report.

Thirdly, this investigation establishes that the charity's website is also an important source of information for charity stakeholders. However, some the websites of the charities in this investigation were hard to navigate and contained little relevant information for stakeholders. Therefore, charities should consider better use of their websites, beginning with better web page functionality but also including more relevant financial information, charity board disclosures and charity program details.

Fourthly, the results of this investigation can be utilised by both the charities and charity regulator as a prototype of generally accepted information disclosure guidelines. This could help improve the provision and quality of current information disclosures from New Zealand's charities so that the information needs of charity stakeholders are met.

For charity stakeholders, the findings in this investigation can provide a general guide for them to enhance their understanding of New Zealand's charity sector. The current documents and publications used by the charities vary across the sector, which can be very confusing a charity stakeholder. To improve this situation, the charity stakeholders can use the outcomes of this investigation to direct their search of each charity publication.

The results of this investigation provide a valuable roadmap regarding the location of a charity's information (e.g. Charity register, annual report/annual review, charity's website). Gaining access to this knowledge enables charity stakeholders to save time by directing their search to information they require for decision-making.

Furthermore, New Zealand's charity sector varies from other jurisdictions, making it difficult for foreign stakeholders and others to navigate. The results from this investigation can offer guidance to a wide range of international users so they can navigate New Zealand's charity sector.

Finally, this investigation contributes to the extant literature in the charity sector and also provides a better understanding of information disclosure practices in the New Zealand's charity context. Also, this is the first time that information disclosure practices of New Zealand's charities have been examined from a charity stakeholder perspective, and consequently, the information gap between the expectations of charity stakeholders and actual charity disclosure practices has been identified.

8.4.2 Long-term implications of the investigation.

Firstly, New Zealand's charity regulator can develop a better charity stakeholder-focused public register, based on the findings, and the information items in the index. For example, charity boards were considered to be *extremely important* by charity stakeholders, but this was an area that had poor disclosure. The current practice of listing their names on the Charity register could be improved to provide a charity board member search facility, similar to a company director search. This improvement alone could enable a charity stakeholder to identify if a charity board member held multiple positions on different charity boards. This approach enables

a well-constructed public register, which ensures the expectations of charity stakeholders are met, and the transparency of charity boards are maintained.

Especially because a diverse range of charity stakeholders assisted in the design of this investigation, the charity regulator should treat the disclosure index as a guide for generally accepted information disclosures from charities. Notably, the disclosure index contains a broad range of information items which can be used by the charity regulator as a foundation to ensure regulations and charity information guides are consistent but also meet the expectations of charity stakeholders.

Charity boards can utilise the findings of this investigation to alter the way in which they are communicating with their stakeholders. The disclosure index contains a broad range of information items which meets the expectations of a diverse group of stakeholders. Therefore charities should be able to use the disclosure index to tailor their information disclosures, so they are more relevant to their stakeholders.

Finally, it is hoped that the findings in this investigation can help to close the information gap between the charities, the charity regulator and charity stakeholders. Only when the disclosure practices of charities are improved can the information expectations of charity stakeholders be met.

8.5 Recommendations

The findings in this investigation have identified that some key changes can make improved accountability a real possibility for both the charities and the charity regulator. These recommended changes offer several methods that New Zealand's charities and charity regulator can adopt to reduce the information gap between the information disclosures from charities and the expectations from charity stakeholders. Furthermore, suggestions are made for New Zealand's Parliament for the development of well-constructed regulations that will assist the work of the charity regulator, the charity sector and improve the accountability of the sector.

Firstly, the disclosure index contained a significant number of items which were not disclosed by the charities. This left a significant gap between the charity stakeholders' information expectations and the actual disclosures from the charities. All the items in the index were rated as *moderately important, very important* or *extremely important,* but the level and quality of disclosures from the charities were

poor. It is recommended that the index information items need to be disclosed if the information needs of charity stakeholders are to be met. Moreover, these need to be quality disclosures that improve the transparency of a charity's activities and are easily accessible to charity stakeholders if the accountability of the sector is to be improved. Both these changes would go some way to build trust and confidence in the charity by providing greater transparency.

Secondly, the charities must establish better communication channels with their charity stakeholders. The investigation indicates that the charities control the information disclosures going to the charity stakeholders, and this is one of the main causes of the information expectation gap between the charities and their stakeholders. For instance, some charities provided abbreviated financial reports, when they could provide the full financial reports. Charities need to be aware that an ordinary charity stakeholder will search a charity's disclosures and therefore if the charities want to build trust with their stakeholders, their disclosures will have to improve.

Charities need to provide communication bridges between themselves and the charity stakeholders so that they can better understand the needs of their stakeholders. For instance, providing strategic plans, and a charity board report would provide greater information disclosure about the direction a charity is taking but providing feedback mechanisms for these types of disclosures from charity stakeholders would provide a 2-way communication channel where a charity stakeholder could express their opinions. A 2-way communication channel could significantly enable charities to make stakeholder engagement meaningful for both themselves and the charity stakeholders.

Thirdly, charities need to improve the quality of the information provided on their websites and in their annual returns. It was found that the overall index scores for both these publications were poor – and most information items were absent or low-level quality – indicating the extent and the quality of the information in both these publications need to improve. This investigation established that main role of both these publications was focused on soliciting funds. However, both these publications are not regulated, and therefore the opportunity to place relevant information for charity stakeholders is being missed by New Zealand's charities.

Moreover, the use of internet technology is both quick and inexpensive when compared to the production of hard copy files so the information can be up-to-date, delivered in real time, and be accurate. Therefore this investigation recommends that charities should provide a broader range of information disclosures in both publications. For instance, placing proper links to a charity board and its activities, listing adequate provision of charity's operations, and its staff on a charity's website would create a better relationship with charity stakeholders, as well as attract donations. Moreover, ensuring the information is accurate and up-to-date builds confidence and trust from a charity stakeholder perspective.

Fourthly, the quality of the documents from the charities in this study should be improved. It was found that some of the documents provided by the charities were low-level quality and irrelevant. For example, some of the charity deeds of the charities in this sample used unusual formats, were illegible or did not appear to the valid deeds. As a result, some of the charity deeds were difficult to understand and would be confusing for an ordinary charity stakeholder. This investigation recommends charities improve the quality of the documents disclosed to charity stakeholders. Furthermore, the charities should make sure reasonable document quality standards are maintained.

Fifthly, the information items in the disclosure index can be developed by the charity regulator to encourage New Zealand's charities to improve the extent and quality of the information disclosures they are making on all three publications used in this investigation. All three publications rated poorly overall – highlighting the need for generally accepted practice guidelines for the charities. There are some immediate changes that can be adopted by both charities and the charity regulator that will have a positive impact on the public's confidence and trust in the section. Also, there are some long-term changes that can also be made that will have lasting implications for the improving the accountability of New Zealand's charity sector. These recommended changes are discussed next.

8.5.1 Immediate changes that can be implemented

1. The findings of this investigation highlight the urgent need for some charities to address the quality of the documents they produce. More

attention should be paid to the accuracy and the integrity of the documents disclosed to charity stakeholders [public]. For instance, ensuring the charity's deed on the Charity register is legible is one change that would have an immediate impact on a charity stakeholder's perception of the charity. Charities need to understand that document quality matters to charity stakeholders; conversely, poor quality documents communicate a lack of effort and concern by charities.

2. Crosschecking the documents a charity has disclosed with Charity register, on its website and in its annual report should be undertaken (and should regularly be undertaken). Charities need to understand the importance of producing consistent, reliable and accurate documents in all its publications. For instance, making sure that the charity board members information on all three publications is up-to-date is an easy fix. These findings highlight that there is scope to improve the consistency and reliability of the documents disclosed by charities and charities should implement good documentation practices
3. Charities need to be more transparent with the financial records, and not just their financial reports. Disclosures about the costs (and revenues) of a charity's programs, compensations paid to charity board members (not just a global figure) and charity staff members are important disclosures for a charity stakeholder to know. Transparency about these types of disclosures builds trust in the charity and its board – and improves the accountability of the charity board.
4. The current range of documents found on the public register could be expanded. For instance, a proper charity's organisational structure (which included a charity's commercial arms) could be included as well as a charity board report. Both these changes, though small, would provide a charity stakeholder with reliable information that is currently lacking.
5. Serious incidents should be disclosed to the charity stakeholders. If left to a charity – these incidents are typically never disclosed by New Zealand's charities. Therefore the charity regulator should have a place on the Charity register that discloses these types of incidents as they were considered *extremely important* by charity stakeholders.

8.5.2 Long-term changes that could be implemented

1. The best disclosure document was the *annual return* that was found on the Charity register. It was found all thirty charities filled out the annual return summary as it is a legislative requirement and the findings confirmed that mandated items in the annual return were consistently the only disclosures that came from charities. Therefore one strongly recommended change is to update the *annual return* . All the information items in the disclosure index were identified by the charity stakeholders as *moderately important, very important,* or *extremely important* and therefore New Zealand's Parliament can **amend the current *annual return*** to include these items. It would become a comprehensive, single document that charity stakeholders can go to get charity information in plain simple English. The accountability of the charity sector would significantly improve in a one-step change. It would also provide academics, researchers and foreign charity sectors with a reliable document that can be used to further understand New Zealand's charity sector.

   This one change would address a broad range of information disclosures that are currently omitted or absent from the Charity register, and/or the charity's publications. It would also encourage more research in New Zealand's charity sector – a sector that is historically difficult to gain any information from. Moreover, this would not require any large changes for New Zealand's current charity regulator – who currently scans this document onto the public register.

2. New Zealand's charities should be compelled to **produce an annual report**. It was found in this investigation, the charities that scored well, did so because they produced an annual report even though it is not a legislative requirement. Some of the annual reports in this investigation were not great quality – therefore the annual report should be of reasonable quality. Reasonable quality means it should contain a broad range of relevant, reliable information items for a charity stakeholder as set out in the disclosure index.

3. Charities should **consider putting relevant pdf documents on their websites** making them more accessible to charity stakeholders. For instance, those charities that provided pdf files of their charity deeds and their annual financial reports scored better those charities that did not. Moreover, the charities that provided more than five years of each of these documents had better index scores.
4. New Zealand's charities should **provide an organisational structure chart** – explaining how they are organised. Some of the charities in this investigation had very complex structures that were difficult for a charity stakeholder to understand. A simple organisational structure chart would provide clarity to a charity stakeholder as to how a charity (or group of charities) are organised, as well as who/which charity has the oversight of other charity(s).
5. Charities should consider **more transparency about their assets** and justify why some assets are held at historical value when fair value appears to be more relevant. Aggregated figures and a lack of a property, plant and equipment note create doubts in the minds of the charity stakeholder when the charity turns over hundreds of thousands of dollars.
6. Finally, charities should **consider using their websites more effectively**; the researcher noted that some were difficult to use and finding the disclosures was often not easy. Refining the access and providing a site map would address some of these issues.

8.6 Charity Accountability and meeting the needs of charity stakeholders

This investigation is the only study that analyses a charity's annual reports, its websites and the Charity register from a broad stakeholder perspective. It found that the information disclosure practices of the thirty charities used in this investigation were all below the information expectations of charity stakeholders. The best performing information items were all mandated, indicating that the current information disclosures are focused on compliance. The charities provided

very low-quality disclosures or ignored all the other best-practice disclosures in the disclosure index, indicating that New Zealand's charities need to be made aware of the importance of best-practice information disclosures. Moreover, there needs to be an improvement in the extent and quality of the information disclosed by the charities.

In the light of these results, New Zealand's charities have to make some significant changes to the quality and the extent of their information disclosures. Furthermore, if the charities adopt the recommendations made in this investigation, the quality and the extent of their information disclosures in all three publications will significantly improve which will match the information needs of their stakeholders. Finally, if the accountability of New Zealand's charity sector can be met by improving their information disclosures, so they meet the needs of charity stakeholders – the main outcome is building and maintaining the public's trust and confidence in the sector.

8.7 Contribution of the research

Where there has been a growing trend in the for-profit sector towards greater accountability and transparency through greater information disclosure, the charity sector has lagged behind (Connolly, Hyndman, & Dhanani, 2013; Patel & Cordery, 2011). Nevertheless, accountability can be discharged by the disclosure of relevant information by the charities (Beattie & Pratt, 2002; Dhanani, 2009; Sinclair et al., 2010). However, much of the research in the charity sector has focused on the disclosure levels in a charity's annual report because it is a comprehensive document that makes information easily accessible to stakeholders (Connolly & Hyndman, 2013; Jetty & Beattie, 2009).

The present investigation shifts away from those studies because firstly, the annual report is not a document that is either regulated or widely used by New Zealand's charities, unlike other jurisdictions. Secondly, this investigation is unique in that it includes information disclosure from charities found on the Charity register and the charity's website. There has been limited literature that has looked at the either of these publications for information disclosures from a charity context (Connolly & Dhanani, 2013; Gallego et al., 2009). Advances in technological innovation has fundamentally altered the landscape of access to information and both the Charity

register and a charity's website have the potential to provide access to a wide range of information to charity stakeholders (Goatman & Lewis, 2007; Law Commission, 2007). This investigation makes a valuable contribution to the understanding of how both these publications contribute to the discharge of accountability by a charity through its information disclosures.

Furthermore, charity research in the New Zealand context has been limited to studies of financial reports with an emphasis on the decision-making role of financial information for charity stakeholders (Cordery & Baskerville-Morley, 2005; Hooper et al., 2007; Sinclair, 2010). This approach limits the information disclosures that can be evaluated and assessed from charities. Like previous studies, this investigation includes the financial reports, but unlike prior studies, this investigation includes a comprehensive range of other best-practice information disclosures from charities and therefore expands current charity literature, especially from the New Zealand context.

This investigation is the first study to take a practical approach, using qualitative and quantitative methods, to examine the disclosure practices of New Zealand charities. Furthermore, the strength of the weighting for each information item indicates the strong stakeholders' interest in the disclosures from New Zealand's charities. The result produced in this investigation is a comprehensive charity stakeholder-guided disclosure index that provides a greater insight and understanding of disclosure practices of New Zealand's charities. This, therefore, expands the existing disclosure index literature.

Where charity stakeholder information needs have been widely explored in other jurisdictions such as England and Wales and Northern Ireland (Connolly, Hyndman, & McConville, 2013); this is not the case for New Zealand. Therefore this investigation makes a valuable contribution to charity stakeholder literature, especially from a New Zealand context.

The recommendations made in this investigation provide a way for improving the information disclosures from New Zealand's charities as well as the development of the charity information disclosure practice guidelines which apply to the New Zealand context. This also expands the limited literature on information disclosure

practices of New Zealand's charities and how the accountability of New Zealand's charities can be improved.

Finally, this investigation contributes to the limited charity literature in the New Zealand context (Gourdie & Rees, 2009; Hooper et al., 2007).

8.8 Opportunities for further research.

Several opportunities for further research of charity information disclosure practices are offered. Firstly, this study used a mixed methods approach however other methods could be used. For instance, interviews with charity managers could be used to identify their motivations for current information disclosure practices by charities or a case study could be used to exam the level of disclosure practice in a specific charity. Secondly, this investigation could be extended so that a larger group of stakeholders could be included (e.g. 200-300 charity stakeholders) or larger sample size of charities (50-100 charities). Thirdly, an opportunity to identify the determinants factors for disclosure practices of charities could be explored (e.g. size of the charity, the size of the charity board, and the qualifications of a charity board). Finally, the charity disclosure index used in this investigation can be applied or replicated to investigate the status of information disclosures practices in other contexts, especially the indigenous charitable organisations for example.

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