

# **The impact of differentiated regulation on the accuracy and usefulness of financial reporting for charities: Evidence from New Zealand**

We examine the impact of differentiated regulation on the accuracy and usefulness of financial reporting for charities, drawing on a unique data set of 2,405 New Zealand registered charities. The differentiated regulation regime was introduced in 2015 and imposed different disclosure requirements on four tiers of charities. This unique setting enables difference-in-difference tests to be conducted across the period 2012 and 2020. We find that reporting accuracy improved for all charities post-regulation. The increase in reporting accuracy is found to be more pronounced for small charities (Tier 3 & 4) relative to large charities (Tier 1 & 2). We further find that charities' reports become more useful in attracting revenue following the regulatory change. More importantly, following the introduction of the new regulation, small charities receive relatively more public donations, grants and receipts from providing goods or services than large charities. Our study is of interest to funders, donors and policymakers who seek to understand the impact of differentiated accounting regulation on the accuracy and usefulness of financial reporting for charities.

Keywords: differentiated regulation, reporting accuracy, reporting usefulness, charities, New Zealand

## **1. Introduction**

A critical question facing accounting scholars and policymakers is whether disclosure and reporting regulation improve reporting quality. Global economic challenges and government austerity has forced policymakers in many jurisdictions to seek ways to balance regulation costs and benefits while maintaining regulatory efficiency. Differentiated regulation which mandates some entities to have different disclosure and reporting practices from other entities is argued to improve efficiency and reduce regulation costs (Cordery, Sim & van Zijl, 2017). This emerging regulatory approach has been used in the for-profit setting but is less observable in the not-for-profit (NFP) sector.<sup>1</sup>

The differentiated regulation introduced on 1 April 2015 for New Zealand (NZ) registered charities (the 2015 Reform) categorizes charities into four tiers, each subject to different reporting requirements. The accounting standard-setter in NZ, the External Reporting Board (XRB), categorized charities by size and developed minimum standards for small charities and adapted International Public Sector Accounting Standards (IPSAS) for large charities. The introduction of the 2015 Reform allows many small charities, for the first time, to prepare financial statements on a simplified basis, thus aiming to improve transparency and accountability and increase public trust and confidence in the charity sector.

Prior research identified significant concerns over the quality of NFP financial reporting (Cordery, 2013; Krishnan, Yetman & Yetman, 2006; Yetman & Yetman, 2004), which led to calls for increased regulation to improve disclosure and reporting. Prior research also shows that differentiated regulation may be effective in addressing

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<sup>1</sup> While charity regulators in some jurisdictions, e.g., the UK and Australia, usually exempt some small charities from filing financial statements, to our knowledge New Zealand is the first country to use differentiated regulation mandating financial disclosures to the entire charity sector, including small charities.

inaccurate reporting by imposing different levels of accountability depending on the size of the charity (Cordery et al., 2017). Therefore, differentiated regulation could be useful in 1) improving the reporting accuracy of the charity sector in general and 2) facilitating stakeholders', e.g., donors', decision-making which may result in increased donations and philanthropy (Breen, 2009; Cordery et al., 2017). This paper thus examines the overall impact of differentiated regulation on reporting accuracy and usefulness and whether these impacts vary across charities of different size which are subject to different disclosure requirements.

To address the research question, we employ the difference-in-difference method for a sample of 2,405 registered charities from 2012 to 2020. To develop various measures of accuracy and usefulness, we manually collect the relevant information from the financial reporting segment of the Performance Report and Annual Return filings<sup>2</sup> (PRAR filings) from the Charity Register, a live database maintained by the NZ charity regulator. We find the 2015 Reform has a favorable effect on the reporting accuracy of the sample charities, and this effect is particularly pronounced for small charities (Tiers 3 & 4) relative to large charities (Tiers 1 & 2). We also find evidence that small charities have significantly improved reporting accuracy following the Reform. This is particularly evident in the accuracy of the matched amounts of the primary expense account reported in the financial statement and the corresponding note disclosure, as well as the

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<sup>2</sup> The Reform requires small charities in Tiers 3 and 4 to submit a Performance Report, including both financial and non-financial information and large charities in Tiers 1 and 2 to submit Financial Statements. The implementation of non-financial reporting for large charities, known as Service Performance Reporting, has been deferred until 1 January 2023, considerably later than the initial 2015 Reform. For clarity, we use the term 'Performance Report' to refer to all mandatory disclosures made by charities, except when analysing findings from small charities' reports, where we occasionally refer to their individual Performance Reports. Additionally, all registered charities must comply with their legal obligation of providing Annual Return filings to charity regulators. As such, both Reform-mandated Performance Report and Annual Return are essential disclosures made by charities.

consistency in using the correct accounting basis throughout their reports. These improvements in accuracy following the Reform are particularly noticeable for Tier 4 charities. We further show an aggregated increase in the usefulness of charities' reports, and this incremental effect is significantly greater for small charities (Tiers 3 & 4). We also find that the reports of Tier 3 charities become more useful in attracting donations from the public and service provisions following the 2015 Reform, relative to the reports of other tiers.

Our paper makes some important contributions to the literature. First, this paper is one of the first to investigate how the 2015 Reform in NZ has impacted charity reporting accuracy and usefulness. While Cordery et al. (2017) identify the significance of differentiated regulation and Yang and Northcott (2021) have examined regulatory efforts from charity regulators to promote differentiated regulation, we know very little about how effective differentiated regulation is in terms of the accuracy and usefulness of charity reporting. This paper extends the extant understanding of the regulatory impact on charity reporting prior to the 2015 Reform (Cordery, 2013) and responds to recent calls (Cordery et al., 2017; Yang & Northcott, 2021) to investigate the effectiveness of differentiated regulation in improving the accuracy and usefulness of charity reporting.

Second, the findings of this research are expected to be useful for charity regulators and accounting standard-setters. Prior research highlights the importance of differentiated regulation in directing limited regulatory resources and enhancing regulatory efficiency (Cordery et al., 2017). The findings on the effectiveness of adopting differentiated regulation are relevant to charity regulators and accounting standard-setters in NZ and other jurisdictions considering adopting such regulation, and thus potentially contributes to international regulatory policy and practice in the charity sector. Third, charities play a significant role in delivering public services and furthering social

objectives to those in need (Cullen & Dunne, 2006). To build public trust and confidence in charities, it is imperative to understand the potential benefits of the 2015 Reform on charity reporting accuracy and usefulness. Finally, this research also has the potential to contribute to regulatory policy and practice in the NZ charity sector. XRB recently conducted a post-implementation review of the Simple Format Reporting standards and has expressed concerns about the effectiveness of the Reform for the smallest charities in Tier 4 (XRB, 2022). The findings of this research will contribute to their decisions and future revisions of the standards.

The remainder of our paper proceeds as follows. The next section describes the relevant institutional background, followed by a review of related literature and the development of our hypotheses. Then, we describe our research method and the data sources used in the paper. Finally, we present and discuss our results and highlight contributions to literature and practice.

## **2. Institutional Background**

The charity sector in NZ is socially and economically significant. There are over 28,000 registered charities employing 98,000 full-time employees, equalling 5% of the NZ workforce, and 208,000 volunteers. These charities maintain NZ\$73.45 billion in total assets and receive NZ\$23.45 billion in total income (Charities Services, 2023).

The 2015 Reform is the most significant regulatory change in the NZ charity sector. Prior to the Reform, charities were required to file an Annual Return and a set of financial statements under the Charities Act 2005, but the presentation of the financial reports was not regulated (Cordery, 2013). Like for-profit organizations, charities operated under a sector-neutral approach to financial reporting. However, this approach raised concerns over the omission of charity-specific issues such as accounting for fundraising expenses and categorization of funds (Hooper, Sinclair, Hui, & Mataira,

2007), incorrect financial reporting, and inconsistency and incomparability of information disclosed between charities (Cordery, 2013; Sinclair, Northcott & Hooper, 2014). Consequently, the resulting reports did not assist users to make informed funding and other decisions (Hooper et al., 2007).

In addition to addressing concerns regarding charity accountability and transparency, the Reform also aims to tackle the rise of wrongdoing, including fraud, misconduct, and mismanagement of resources. Alongside damaging the reputation of charities, these issues had repercussions such as lost funding, reduced services to beneficiaries, damaged stakeholder confidence, and threats to charity survivability (Populus, 2018). While many large charities actively and voluntarily discharge accountability to build public trust (Hyndman & McConville, 2018; Yang & Northcott, 2019), small charities are still perceived as lacking accountability and are generally under-regulated (Cordery, 2013; McDonnell & Rutherford, 2019), leading to calls for greater regulation to improve reporting usefulness and build stakeholder confidence.

The 2015 Reform was the result of an overhaul of NZ's financial reporting legislation, which mandated the XRB, an independent Crown entity, to promulgate accounting and assurance standards for for-profit, public, and NFP organizations in 2011. After a comprehensive review of the existing accounting standards, the XRB concluded that user needs would be better met by introducing sector-specific standards and moving away from sector neutrality. As such, differentiated regulation, which lies at the core of the Reform, mandates that all registered charities follow specific reporting requirements tailored to their nature and size to reduce the regulatory burden and improve reporting quality.

Under the Reform, all registered charities are classified into four reporting tiers based on their annual expenditures (Tiers 1-3) or operating payments (Tier 4) (see Exhibit

1). The NZ Accounting Standards Board, as a Committee of the XRB, has adopted the higher standard of accountability issued by the IPSAS for large public benefit entities, including registered charities. Tier 1 charities (expenditure over NZ\$30 million) must fully apply the IPSAS standards. The reporting regime for Tier 2 charities (expenditures under NZ\$30 million and over NZ\$2 million) has the same accounting standards but with reduced disclosure requirements. These two categories, Tiers 1 and 2, are collectively referred to as ‘large charities’.

The majority of charities, approximately 96%, fall within Tier 3 (expenditure under NZ\$2 million and over NZ\$125,000) and Tier 4 (operating payments under NZ\$125,000). These charities must apply the newly developed accounting standards on a simplified basis. Both Tiers 3 and 4 charities are referred to as ‘small charities’. The new standards are “Public Benefit Entity Simple Format Reporting Standard on an accrual basis” for Tier 3 charities and “Public Benefit Entity Simple Format Reporting Standard on a cash basis” for Tier 4 charities (see Exhibit 1). The standards came into effect on 1 April 2015.

***[Exhibit 1 About Here]***

As a result of the 2015 Reform, charities are required to prepare and submit an annual Performance Report for small charities and Financial Statements for large charities to the NZ charity regulator, Charities Services, a part of the NZ Government Department of Internal Affairs. Its predecessor, the Charities Commission, was disestablished in 2012. Charities Services will make charities’ Performance Reports and Financial Statements available to the public on the Charity Register. “Performance Report” is a new term introduced in the Reform to cover financial and non-financial disclosures included in the new Public Benefit Entity Financial Reporting Standards (PBEFRS). The required non-financial disclosures for Tiers 3 and 4 are outlined in the Entity Information and Statement

of Service Performance, in addition to the financial statements (detailed in Exhibit 1 for Tier 3 and 4 charities). A new standard, PBEFRS 48 “Service Performance Reporting for large charities”, was later developed and enforced on 1 January 2022. This falls outside our sample period, and hence our study excludes non-financial disclosures and only focuses on financial disclosures.

In addition to the requirements of Performance Reports and Financial Statements, charities must also disclose an amended Annual Return which aligns with the differentiated regulation, and file this through the Charity Register to promote public trust and confidence in the charity sector. For example, Tier 3 and 4 charities must complete their Performance Report before completing the Annual Return as some information in the Report is included in the Return. The Annual Return must be filed within six months of a charity’s balance date as shown on the financial statements. The amended Annual Return contains 22 pages which include three key requirements: 1) background information about the charity, such as contact information, rules, purpose and governance structure; 2) information about the charity’s people, such as changes to charity officers, and volunteer and paid employee hours; 3) the charity’s financial information, which, following the 2015 Reform, must align with the information provided in the Performance Report. Both Performance Report/Financial Statements and Annual Return are essential reports for charities to prepare and submit annually.

As provided in Exhibit 2, following differentiated regulation, the reports required after the Reform are tailored to charities of different sizes, which aims to be sector-specific and better meet the accountability and decision-making needs of a wide range of users. By requiring Performance Reports to be prepared for small charities and Financial Statements for large charities along with revised Annual Returns and making these documents publicly available to users, the 2015 Reform largely addresses the issues of

inconsistency and incomparability of the information reported between charities and different reporting periods. Thus, the reports are expected to be useful in helping users make informed decisions. These changes required by the differentiated regulation are also expected to improve the accuracy of charity reporting.

***[Exhibit 2 About Here]***

In 2021, the XRB conducted a post-implementation review of the PBEFRSs for Tier 3 and 4 charities and received over 100 submissions. Most submissions highlighted the positive impact of the standards, especially noting improvements in small charities' reporting quality, consistency and comparability, and a clear structure provided in the standards that guide small charities in their reporting practices. However, many Tier 4 charities still struggle to comply with the PBEFRS-C standard, and the standard length and complexity requirements need to be further reduced (XRB, 2022). Also, while both Charities Services and the XRB were instrumental in promoting the changes in the 2015 Reform and educating charities to comply with the standards, the review identifies a need for additional education activities for key parties in collaboration with the Professional Accounting Bodies such as Chartered Accountants Australia and New Zealand and CPA Australia and sector umbrella groups (XRB, 2022). The XRB is currently in the process of developing improvements to the standards, reporting templates and guidance materials for small charities.

### **3. Related Literature and Hypotheses Development**

#### ***3.1. Public Interest Theory of Charity Regulation***

The public interest theory proposed by Stigler (1971) posits that regulation is a means of protecting and benefiting the public at large. Although the identification of the public interest may be subjective and elusive, this theory recognizes the necessity of regulation

in addressing the market and government failures such as externalities, monopoly and information asymmetry problems that hinder the protection of public interest and the maximization of social welfare (Chalmers, Godfrey & Lynch, 2012; Christensen & Lægreid, 2006). This theory is against the idea that regulation is a result of the political power seeking to transfer wealth to small, well-organized groups. The public interest theory also supports the establishment of charity regulators, such as Charities Services in NZ and the Charity Commission in the UK, which plays a crucial role in regulating charities to fulfil their charitable purposes, promote the effective use of charitable resources and build public trust and confidence in the charity sector. Charity regulators use penalties and deregistration to address misconduct and non-compliance (Breen, 2009; Irvin, 2005). However, it is important to acknowledge that regulators, as part of the government, can be influenced by political pressures and thus harm the public interest (Cordery & Deguchi, 2018).

Public interest theory provides a useful lens for explaining the importance of charity regulation, which has grown significantly given the increasing number and impact of NFPs worldwide. These organizations, including charities, play a vital role in government-contracted public service delivery and address unmet needs within the community and society. Public interest theory recognizes NFPs as intermediaries operating within a donor and funder market, facilitating the redistribution of resources from donors and funders to beneficiaries, which would not be attained if solely left to the market (Salamon, 1987). As a subset of NFPs and the focus of this research, registered charities are subject to charity regulation. They operate for the public good and charitable purposes and benefit from tax concessions that may not be available for other NFPs. However, charities rely on individual donations, private and corporate philanthropy and government funding to survive and advance their charitable services and activities. It is

important to ensure that charities do not engage in redistribution that goes against the public interest and that they do emphasize the importance of serving the public interest rather than pursuing private gains (Christensen & Lægreid, 2006). As such, charity regulation becomes increasingly important as a means to protect the public interest and confidence in the sector by restricting the potential to abuse tax benefits, misuse public donations and grants, and to facilitate a fair distribution of resources.

Another crucial aspect addressed by public interest theory is the information asymmetry issue which raised significant concerns in the charity sector, especially for small charities (Cordery, 2013). Charity regulation is essential to reduce information asymmetry by mandating that financial disclosures by charities are made publicly available (Yang & Northcott, 2021). For example, the NZ Charities Act 2005 requires registered charities to provide Annual Returns and financial statements on the Charity Register, which is likely to serve the public interest. Cordery et al. (2017) suggest that by mandating sector-specific reporting requirements, the differentiated regulation central to the 2015 Reform seeks to better meet a variety of users' information needs, and therefore has the potential to be an effective tool to reduce information asymmetry and improve reporting accuracy and usefulness.

### ***3.2. The Reform and Charity Reporting Accuracy***

Accurate reporting is of paramount importance for charities. Charities play a crucial role in addressing societal needs and rely heavily on the trust and support of stakeholders, including donors, funders and the public. Accurate reporting enables charities to demonstrate their financial performance and accountability, providing stakeholders with accurate information on how donations and grants are utilized and allowing them to make informed decisions. Accordingly, charity regulation is essential to uphold accountability. By mandating publicly available financial disclosures, the 2015 Reform forces charities

to report on their charitable activities, thereby improving reporting integrity and protecting the public interest through accurate reporting.

However, some direct or indirect causes may lead to inaccurate reports by charities. There are incidents of manipulating financial information for personal interests and gains (against public interest), leading to misleading or biased charity reporting. Krishnan et al. (2006) were among the first to provide empirical evidence of US NFPs misreporting their financial disclosures by understating their fundraising expenses (some reported zero but undertook fundraising activities) and overstating program expenses. This inaccurate reporting was due to managers manipulating the expense amounts by allocating more toward program-related expenses and less toward fundraising costs to make the NFPs appear to function efficiently to achieve their charitable mission and ultimately maintain higher managerial pay and donations. The inaccurate reporting issue has caused significant concerns for resource misallocation in the NFP sector as many donors relied on the incorrectly reported figures to make their donation decisions. Moreover, the complexity of reporting requirements could unintentionally create regulatory burdens for charities and lead to confusion in understanding their reporting obligations, potentially amplifying the likelihood of misreporting. For example, reporting challenges are observed in the UK, where some charities struggle to comply with different versions of charity regulations (Connolly & Hyndman, 2013; Morgan, 2011).

Differentiated regulation involves applying different reporting standards to different charities based on their sizes and nature. This approach offers detailed specific requirements that provide more explicit guidance and structure to charities, accompanied by extensive education from charity regulators (Yang & Northcott, 2021). This potentially minimizes the likelihood of charities' opportunistic behavior and thus achieves better resource allocation in the sector to serve the public interest. Differentiated

regulation also involves enhanced clarifications, such as a clear scope and minimum reporting categories and classifications. This alleviates the regulatory burden on charities (Cordery et al., 2017) and enhances their understanding of reporting requirements. For these reasons, we expect that the 2015 Reform will reduce irregularities and have a positive impact on the accuracy of the required disclosures, i.e., PRAR filings. Consequently, we formulate the following hypothesis:

***H1: The accuracy of PRAR filings increases after the 2015 Reform.***

While the 2015 Reform aims to improve reporting accuracy across the entire charity sector, we expect this effect to be more pronounced for small charities than their large charity counterparts for several reasons. First, prior literature has identified several challenges that small charities face, such as a lack of administrative support and professional expertise (Hull, 2013), poor internal controls and misunderstanding of accounting concepts (Cordery, 2013; Kemp & Morgan, 2019). For example, the Office of the Scottish Charity Regulator (2010) found omissions in total income and expenditure in small charities' reports, in which one-third of the charities examined filed incorrect reports. Similarly, on examining 300 NZ small charities' financial reports, Cordery (2013) identified significant errors and omissions in their financial statements and Annual Return filings. The most common error was incorrect and missing figures in each financial statement. By implementing simplified reporting requirements under differentiated regulation, the 2015 Reform aims to address these inaccurate reporting issues and makes financial reporting less challenging for small charities. Tailoring the reporting requirements to the capacity of small charities also increases the likelihood that they will adhere to simplified standards.

Second, recent research by Yang and Northcott (2021) indicates that charity regulators have made significant efforts to educate small charities on the relevant

reporting standards introduced by the 2015 Reform. These efforts include the development of easy-to-follow educational resources and ongoing support via face-to-face seminars and webinars. These initiatives are designed to improve small charities' understanding of reporting requirements and enhance their reporting accuracy. Given the comprehensive educational support from professional accountants provided only to small charities, it is reasonable to expect that the increase in reporting accuracy would be more significant for small charities than for large charities. Based on the above reasoning, we propose that charity reporting accuracy varies across different tiers of charities. We, therefore, hypothesize as follows:

***H1a:** The increase in accuracy of PRAR filings is greater for the charities of smaller Tiers than for other charities.*

### **3.3. The Reform and Stakeholder Trust and Confidence**

The charity sector heavily relies on public trust and confidence, with reporting quality, including accuracy, being crucial to a wide range of stakeholders, such as regulators, funders, donors, beneficiaries and the public. Prior research indicates that donors are more likely to support charities with strong internal controls and higher-quality financial reporting (Petrovits, Shakespeare & Shih, 2011; Yetman & Yetman, 2013). Government and philanthropic funders often require audited financial statements and rigorous evaluation criteria to reduce the risk of fraud and errors in financial reporting. As such, charity reporting is essential for stakeholders to assess whether charities efficiently use grants and donations toward their charitable purposes and missions and effectively discharge accountability (Connolly & Hyndman, 2013; Yang et al., 2017).

However, the charity sector has faced several high-profile scandals and fraud incidents in recent years, such as the mismanagement of funds by the American Red Cross and the UK's Kids Company, which have eroded public trust and confidence in the sector

(McDonnel & Rutherford, 2019). As a result, charities have been scrutinized to demonstrate greater accountability in their disclosures to restore stakeholder support and maintain legitimacy (Yang & Northcott, 2019). A recent study by the Charity Commission for England and Wales (2022) also reveals persistent skepticism among the public regarding the efficient and effective use of charitable funds, which can be exacerbated by negative media coverage that can overshadow the good work of well-performing charities (Burger & Owens, 2010). Therefore, despite increased scrutiny and general regulatory actions and efforts, fraudulent incidents and opaque reporting issues still negatively influence public perceptions, which potentially undermines stakeholder trust and confidence in the charity sector. Thus, in addition to enhanced reporting accuracy, the 2015 Reform emphasizes a high level of transparency through comprehensive disclosure of financial and social performance by the entire charity sector, which is expected to potentially restore stakeholder trust and confidence.

#### ***3.4. The Reform and Charity Reporting Usefulness***

Charities rely on stakeholder trust and confidence, therefore if a charity's report is to attract donations, grants and other support, it is critical that it be useful to those stakeholders. Hyndman and McConville (2018) highlight the significance of transparency in charity reporting, particularly for donors, funders and other stakeholders who use these reports to access information about charities. When charities lack transparency in their reporting by providing insufficient information to their stakeholders, it increases the likelihood of inefficient and ineffective performance, making it difficult to refute accusations of poor performance. In such cases, a lack of transparency creates information asymmetry between charities and external stakeholders.

Indeed, information asymmetry is an inherent issue in charity reporting, where internal reporting to the board/trustees and management via informal mechanisms, such

as face-to-face conversations, surpasses formal reporting, e.g., annual reports and websites, to external stakeholders (Yang & Northcott, 2019). Moreover, while powerful stakeholders, such as funders, can impose rigorous reporting requirements upon charities, less powerful or even vulnerable stakeholders, including beneficiaries and the public, lack the ability to demand the same level of accountability from charities (Connolly & Hyndman, 2013). Even when reporting in the public domain, many stakeholders, such as donors, often lack the capacity to understand and assess the disclosures, e.g., financial statements. Therefore, charity reporting cannot meet the information needs of some stakeholders (Yang et al., 2017), and the reports themselves may not be readily accessible to and understandable by those stakeholders. This lack of transparency likely deters donors and funders from supporting charities, given the insecurity and uncertainty resulting from the high level of information asymmetry. The tensions between these accountability needs and disclosures of limited financial information highlight the importance of enhancing transparency in charity reporting.

The public interest theory highlights the importance of charity regulation in addressing information asymmetry and enhancing transparency, thus fostering public trust and confidence. Cordery et al. (2017) suggest that differentiated regulation can effectively address information asymmetry by providing detailed and clear guidance for charities to fulfil their reporting requirements. The 2015 Reform mandates tailored reporting requirements for charities of different sizes, enabling them to provide more accessible information to the public and thus be able to achieve improved reporting transparency.

Further, differentiated regulation also emphasizes the use of consistent and comparable reporting formats to avoid ambiguity. By following standardized reporting formats and templates, charities at different tiers can enhance the consistency and

comparability of their reports, both within their own tier and across different tiers of charities. This approach ensures that funders, donors and other stakeholders are provided with financial reports which are more understandable to guide their decision-making. Therefore, we expect the 2015 Reform will lead to increased disclosures by charities, and charity reporting is likely to be more consistent and comparable. As a result, post-Reform charity reporting is expected to be more transparent, reducing information asymmetry and fostering better alignments between the interests of charities and the public. As such, stakeholders are likely to perceive charity reports as more reliable and trustworthy, leading to improved trust and confidence. As a result, stakeholders will be more inclined to make increased donations and grants to charities. Based on this, we expect a positive impact of differentiated regulation on the usefulness of the required disclosures, i.e., PRAR filings. Consequently, we formulate the following hypothesis:

***H2: The usefulness of PRAR filings increases after the 2015 Reform.***

We further examine the impact of the 2015 Reform on the usefulness of charity reporting, conditional on charity size. Differentiated regulation is expected to have varying effects across different tiers of charities. While Tier 3 and 4 charities often have limited personnel and financial resources and see regulatory reporting changes as onerous, they benefit relatively more from the requirements and regulatory support from charity regulators in reporting annual financial information. This is because it serves as an external motivation for them to pay closer attention to financial matters and seek guidance and clarification when needed. In contrast, large charities generally have resources and established reporting systems and practices to comply with reporting requirements and prepare audited financial statements for their funders, making the preparation of high-quality reports easier.

Differentiated regulation, with a focus on small charities, addresses their resource constraints by designing simplified reporting requirements accompanied by regulatory support. As a result, small charities are more likely to make consistent and comparable reporting after the 2015 Reform compared to previous attempts which were plagued with inconsistent and incomparable formats. Such consistent and comparable reporting by small charities will likely enhance the trust and confidence of their stakeholders. In contrast, large charities, previously subject to sector-neutral reporting requirements, may not experience significant changes in the usefulness of their reporting under the current sector-specific approach. This is because large charities are generally well-equipped to comply with reporting requirements and have established reporting systems, which may not be substantially altered by the introduction of differentiated regulation. Based on this, following the introduction of differentiated regulation we believe the usefulness of charity reporting is more relevant for small charities than for large charities. Thus, we hypothesize as follows:

***H2a:** The increase in the usefulness of PRAR filings after the 2015 Reform is greater for the charities of smaller Tiers than for other charities.*

## **4. Research Method**

### ***4.1. Research Design***

To test these hypotheses, this paper employs a series of regression models. We first employ the following regression specification (Equation (1)) where we regress the accuracy of charities' PRAR filings (H1) and the users' (mainly donors and funders) perception of the usefulness of the reports (H2) on the indicator of whether charities are subject to the 2015 Reform (*Post*).

$$TCorrect \text{ or } TUsefulness/Chg\_TUsefulness = \beta_0 + \beta_1 Post + \sum \beta_i Control\ Variables_i + Fixed\ Effects + \varepsilon \quad (1)$$

This Equation tests the overall effectiveness of the 2015 Reform in the NZ charity sector. We then expand Equation (1) by including the charity tier (*Tier*) and the interaction between *Tier* and *Post* in Equation (2) to investigate the incremental effect of the 2015 Reform across different tiers of charities to test *H1a* and *H2a*.

$$TCorrect \text{ or } TUsefulness/Chg\_TUsefulness = \beta_0 + \beta_1 Post + \beta_2 Tier3\&4 + \beta_3 Post \times Tier3\&4 + \sum \beta_i Control\ Variables_i + Fixed\ Effects + \varepsilon \quad (2)$$

The adoption of the 2015 Reform across the charity tiers presents a source of exogenous variation that we exploit to test for causal relations between regulatory exposure and reporting quality and reporting usefulness. Such an exogenous shock potentially mitigates the threat of endogeneity concerns. We estimate Equations (1) and (2) on a sample of 3,445 registered charities between 2012 and 2020, using regressions with standard errors adjusted for clustering by charities.

#### **4.2. Measuring Dependent Variables**

Equation (1) examines *H1* concerning the impact of the 2015 Reform on the accuracy of charity reports. Adapting Cordery (2013), we define our first dependent variable, *TCorrect*, as the sum of the values of accuracy indicators for the charities' Annual Return filings and charities' Performance Reports which investigate the amounts in the primary accounts in the charities' outputs (e.g., Total Gross Income; Total Expense and its corresponding Notes disclosures) and examine whether charities correctly report the basis

for the preparation of their accounts.<sup>3</sup> We first calculate the corresponding indicators for charity reporting accuracy: *CorrectTGI*, *CorrectTEXP*, *CorrectTEAdded*, and *CorrectAA*. Then we measure overall accuracy in the PRAR filings for the charity *i* in year *t* (*TCorrect*) by summing up all the accuracy indicator values. A higher value of *TCorrect* is indicative of more accurate results and, therefore, higher quality of disclosure provided by charities. The three accuracy indicators are explained as follows.

*CorrectTGI* and *CorrectTEXP* capture the correctness of the amounts in the two primary accounts, Total Gross Income and Total Expense respectively, provided in charities' PRAR filings. Specifically, *CorrectTGI<sub>it</sub>* (or *CorrectTEXP<sub>it</sub>*) equals 1 if the amount of Total Gross Income (or Total Expense) in the Performance Reports equals that reported in the Annual Return filings for charity *i* in year *t*, and 0 otherwise. We further examine the accuracy of the financial disclosures provided in the Notes to the charities' Performance Reports. We first choose the expense account with the highest value among all the others reported in the charity's Statement of Comprehensive Income and then verify whether the corresponding Notes disclose the same aggregated amount by adding all the values of the subsidiary accounts related to the expense account.<sup>4</sup> Thus, *CorrectTEAdded<sub>it</sub>* is coded as 1 with matched amounts found in the Statement and Notes for charity *i* in year *t*, and 0 otherwise. Last, we investigate the consistency in the disclosures on the accounting basis of preparation between Annual Return filings and Performance Reports. In the Performance Reports, we manually search for "Basis of Preparation", or any accrual accounts used in financial statements (e.g., Receivables,

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<sup>3</sup> We also explore other reporting elements in the charities' reports (e.g., GST claims and reporting; overall presentation of financial statements), measured by *CorrectGST*, *ClearReporting*, and *TwoYearsFS*, respectively. All the definitions of these variables and their corresponding results are reported in the 'Additional tests' in Section 5.6.

<sup>4</sup> The equivalent names for statements provided by charities can be Statement of Financial Performance or Statement of Receipts and Payments.

Payables, Revenue Received in Advance, etc.) to identify whether the statements were prepared following the accrual basis. *CorrectAA<sub>it</sub>* is defined as 1 if the accounting basis used in the Performance Reports is the same as that disclosed in the Annual Return filings for charity *i* in year *t*, and 0 otherwise.<sup>5</sup>

We also employ Equation (1) to examine *H2*: the impact of the 2015 Reform on the usefulness of charity reporting. Adapting Cordery et al. (2017), we capture the usefulness of charities' reports by observing the three primary revenue sources in the subsequent year. These include public donations (*PublicDonations*), receipts of grants from government or philanthropic trusts (*Grants*), and receipts from providing goods or services to government or other agencies (*ServiceProvisions*). We thus measure the second primary dependent variable, the usefulness of charities' reports (*TUsefulness<sub>it</sub>*), which is defined as the natural logarithm of 1 plus the total cash receipts obtained from all the three revenue sources for the charity *i* in year *t*. Last, we use the change in *TUsefulness* from year *t* to subsequent year *t+1* for charity *i* (*Chg\_TUsefulness<sub>it</sub>*) as an additional dependent variable.

#### **4.3. Definition and Measurement of Test Variables**

We measure our main variable of interest, *Post*, in Equation (1) as an indicator variable, coded 1 if the reporting date for the PRAR filings of charity *i* is after the adoption of the 2015 Reform, and 0 otherwise. If the 2015 Reform induced an overall increase in the quality of reports regardless of the charity tier, the coefficient for *Post* in Equation (1)

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<sup>5</sup> The occurrences with *CorrectAA* coded as 0 may happen for 1) the charities noted that they are filing cash-based financial reporting in Annual Return filings, but their financial statements are prepared on an accrual-basis in the Performance Reports, 2) the charities noted that they are filing accrual-basis financial reports in the Annual Returns filings, but their financial statements provided in Performance Reports are cash-based, 3) the charities fail to disclose accounting-basis information in their filings.

should be significantly positive, which would support *H1* and *H2*. For Equation (2), we include a Tier indicator (*Tier3&4*) following the four-tier classification entailed in the 2015 Reform that applies to all registered charities based on their annual expenses or operating payments in the previous two financial periods. *Tier3&4* represents small charities and equals 1 if the charity *i* is classified as either Tier 3 (*Tier3*) or Tier 4 (*Tier4*) in year *t*, and 0 otherwise.<sup>6</sup> If the increase in accuracy (or usefulness) of charity reports affected by the 2015 Reform was greater for the small charities of Tiers 3 and 4, then the coefficient for *Post* × *Tier3&4* in Equation (2) should be significantly positive, which would lend support to *H1a* and *H2a*.

#### **4.4. Control Variables**

We include several control variables following prior literature on financial reporting quality (e.g., Hope, Thomas, & Vyas, 2013) that are associated with the quality of charity reporting, such as total assets (*Asset\_Total*), current assets (*Asset\_Current*), non-current liabilities (*Liability\_LT*), short-term liabilities (*Liability\_ST*), equity value (*Equity*) and charity age (*Age*). For our change in usefulness test, we also control for the current level of the usefulness of charity reports (*Current\_Level*). We include beneficiary, sector, activity, and year fixed effects to control for time-invariant omitted fixed effects. Details of the variable definitions are provided in the Appendix.

#### **4.5. Sample Selection**

We first manually collect the publicly available archival data of Annual Return filings and Performance Reports from the charities' website, <https://www.charities.govt.nz>. We select the top 509 registered charities based on their total expenses for each of the years

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<sup>6</sup> More details refer to <https://www.charities.govt.nz/reporting-standards/which-tier-will-i-use/>.

between 2012 to 2020 across all charity sectors in NZ, where the charities are proportionally chosen from each of the four tiers introduced by the 2015 Reform. Therefore, we have an initial sample of 4,581 charity-year observations (i.e., 509 charities  $\times$  9 years), as shown in panel A of Table 1. An overwhelming majority of the observations (94.47%) belong to small charities in Tier 4 accounting for 71.29% and Tier 3 accounting for 23.18%. Next, we eliminate 323 observations with missing control variables. We also exclude 813 observations which fall within the transition period between 1 January 2015 and 31 December 2016 for two main reasons. First, the majority of our sample (94%) are small charities that may face resource constraints and lack of appropriate reporting systems and thus require more time to gradually adopt the new regulatory changes and adjust their reporting practices compared to large charities. Second, some charities may have followed a later financial reporting period, such as the year ending on 31 December, leading to delays in incorporating all requirements in their reporting following the effective date, 1 April 2015, of the 2015 Reform. By excluding the observations in the transition period, we can avoid issues arising from varying regulatory adoption timings across different charities.<sup>7</sup> Our final sample consists of 3,445 charity firm-year observations for testing the hypotheses. The distribution of Panel B shows that the top three beneficiaries are the general public, special groups like children and young people, and the religious community, and the top three sectors are religious activities, education, and volunteering and social services, consistent with the income proportions among sectors reported by Charities Services (2023).

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<sup>7</sup> We conducted the tests based on a full sample that includes the 813 observations within the transition period and still have obtained consistent results and conclusions.

**[INSERT TABLE 1 HERE]**

## **5. Empirical Results**

### **5.1. Descriptive Statistics**

Table 2 reports descriptive statistics for all variables used in testing our hypotheses. Hereafter, we omit the subscripts when citing variable names. Table 2 shows that *TCorrect* has a mean value of 58.5%, suggesting a moderate level of reporting accuracy across all tiers of the registered charities in our sample, although individual components of *TCorrect* exhibit substantial variation. For example, *CorrectTGI* (*CorrectTEXP*) show an impressive average of 77% (76%) respectively for reporting accuracy, whereas the corresponding averages for *CorrectTEAdded* and *CorrectAA* are only 40% and 41%. The mean of *TUsefulness* is 7.81, and that of *Chg\_TUsefulness* is 1.23. Consistent with the statistics reported by Charities Services (2020), we find that the provision of goods and services (*ServiceProvisions*) is the largest source of income with an approximate average of 5.38, followed by public donation (*PublicDonations*) with an average of 5.01. The mean of *Post* is 0.58, suggesting a reasonably balanced sample in terms of the number of charity-year observations before and after the 2015 Reform. The 3,445 charity-year observations consist of 70 observations (2%) for Tier 1, 125 observations (4%) for Tier 2, 792 observations (23%) for Tier 3, and 2,458 observations (71%) for Tier 4. Finally, charity-level controls show that the mean of the natural log of total assets (*Asset\_Total*) is 10.98, the average for current assets (*Asset\_Current*) is 5.65, the average for long-term liabilities (*Liability\_LT*) is 2.62, the mean for short-term liabilities (*Liability\_ST*) is 7.67, and for equity (*Equity*) is 9.60, all shown in natural logarithm form. Finally, there are, on average, 7.05 years since charities have been registered (*Age*) until current year  $t$  in our sample.

**[INSERT TABLE 2 HERE]**

### **5.2. Univariate Tests**

Table 3 reports univariate tests of difference in means based on: 1) pre- and post-2015 Reform (Panel A) and 2) different tiers of charities during the post-Reform period (Panel B). Panel A of Table 3 shows a significant increase in *TCorrect* (difference in means of 0.338,  $p\text{-value} < 0.01$ ) following the 2015 Reform. This effect is also evidenced in the individual proxies for accuracy, namely *CorrectTEXP* (0.169,  $p\text{-value} < 0.01$ ), *CorrectTGI* (0.164,  $p\text{-value} < 0.01$ ), and *CorrectTEAdded* (0.397,  $p\text{-value} < 0.01$ ). Panel A also shows that the 2015 Reform has significantly enhanced the usefulness of charities' reports (difference in means in *TUsefulness* 8.049,  $p\text{-value} < 0.01$ ) as well as in the individual proxies of *PublicDonations* (5.317,  $p\text{-value} < 0.01$ ), *Grants* (0.410,  $p\text{-value} < 0.01$ ), and *ServiceProvisions* (6.381,  $p\text{-value} < 0.01$ ).

We further investigate the differences in means of the accuracy and usefulness of reports across different tiers of charities in the post-Reform period. Panel B of Table 3 reports a significant increase in *TCorrect* for Tier 3 and 4 charities (0.233,  $p\text{-value} < 0.01$ ) and further for Tier 4 charities (0.224,  $p\text{-value} < 0.01$ ). Only Tier 3 charities' reports consistently show an increase both in *TUsefulness* (2.561,  $p\text{-value} < 0.01$ ) and in *Chg\_Usefulness* (0.635,  $p\text{-value} = 0.03$ ). Panel B also shows a significant reduction in both *TUsefulness* (-3.804,  $p\text{-value} < 0.01$ ) and in *Chg\_TUsefulness* (-0.654,  $p\text{-value} = 0.02$ ) for Tier 4 charities relative to other charities.

**[INSERT TABLE 3 HERE]**

### **5.3. The Reform, Reporting Quality, and Charity Tiers**

We begin our analysis by investigating the effects of the 2015 Reform on the accuracy of charity reports at the aggregated level and different tiers of charities, as proposed in Hypotheses 1 and 1a. Table 4 shows the results of the OLS regressions in which the

dependent variable is *TCorrect*, and the variables of interest are *Post* and its interaction term with the charity tiers (*Tier indicators: Tier3&4*). Column 1 of Table 4 reports the result of H1, in which *Post* is the variable of interest. We report a significant positive coefficient for *Post* ( $\beta = 0.572$ ;  $p\text{-value} < 0.01$ ), which implies that the charities in the post-Reform period provide significantly more accurate PRAR filings irrespective of charity tiers, relative to those before the implementation of the 2015 Reform. We, therefore, find support for *H1*.

Column 2 of Table 4 shows the results of testing the incremental accuracy of charity reports for the small charities of Tier 3 and 4. In Column 2, the coefficient for *Post* is not significant ( $\beta = -0.332$ ;  $p\text{-value} = 0.135$ ), implying that there was no significant increase in the accuracy of reports following the 2015 Reform for the larger charities (i.e., Tier 1 and Tier 2 charities). However, the coefficient on the interactive variable  $Post \times Tier3\&4$  is significant and positive ( $\beta = 0.853$ ;  $p\text{-value} < 0.01$ ), supporting *H1a* that following the 2015 Reform, the PRAR filings by small charities became more accurate compared to their large charity counterparts. The significantly positive coefficient of  $(Post + Post \times Tier3\&4)$  also confirms an overall increase in the accuracy of reports by small charities after the 2015 Reform. As for control variables, we report significantly positive coefficients of charity financial characteristics in the tests related to accuracy, i.e., *Asset\_Current*, *Liability\_LT*, and negative coefficients such as *Asset\_Total* and *Age*, which are generally consistent with our predictions and prior literature (Hope et al., 2013). In summary, these results suggest that charities generally experienced a significant increase in the accuracy of their reports following the 2015 Reform, and this effect was notably greater for small charities.

We next investigate whether there is an increase in the usefulness of charity reports following the 2015 Reform, as proposed in Hypotheses 2 and 2a. Table 4 shows

the OLS regression results using dependent variables *TUsefulness* in Columns 3-4 and *Chg\_TUsefulness* in Columns 5-6. The estimated coefficient for *Post* in Column 3 is significantly positive ( $\beta = 9.708$ ,  $p\text{-value} < 0.01$ ), which suggests a general increase in the usefulness of charity reports after the 2015 Reform. Also, we find a positive impact of the 2015 Reform on the annual change in usefulness (*Chg\_TUsefulness*), as suggested by the significantly positive coefficient for *Post* in Column 5 ( $\beta = 3.343$ ,  $p\text{-value} < 0.01$ ). Both results provide evidence supporting *H2* that charities' reports across all tiers became more useful in attracting cash inflows from primary revenue sources following the 2015 Regulatory Reform.

In Column 4, the coefficient for *Post* is significantly positive ( $\beta = 4.327$ ,  $p\text{-value} < 0.01$ ), implying an increase in the usefulness of the charity reports (*TUsefulness*) issued by large charities following the 2015 Reform. Furthermore, there is a greater increase in the post-Reform usefulness of charity reports for the small charities of Tiers 3 and 4 than that for the large charities of Tiers 1 and 2, estimated by the significantly positive coefficient for the interaction,  $Post \times Tier3\&4$  ( $\beta = 4.531$ ;  $p\text{-value} < 0.01$ ). Also, the sum of the coefficient for ( $Post + Post \times Tier3\&4$ ) is significantly positive ( $\beta = 8.859$ ;  $p\text{-value} < 0.01$ ), implying an overall improved usefulness in the reports by small charities following the 2015 Reform. We obtain similar findings from the results in the regression test in Column 6 for *Chg\_TUsefulness*, while reporting an insignificance level for  $Post \times Tier3\&4$  ( $\beta = 1.527$ ;  $p\text{-value} = 0.139$ ). Collectively, these results support the *H2a* proposition that charity reports became more useful following the 2015 Reform for small charities. For the control variables, we report significantly positive coefficients for *Asset\_Total* and *Liability\_LT*, and negative coefficients for *Liability\_ST*, *Equity*, and *Current\_Level*.

**[INSERT TABLE 4 HERE]**

#### **5.4. Additional Tests Related to Individual Accuracy Proxies**

Prior research has identified substantial errors and omissions in financial statements and legal filings, particularly concerning total gross income and total expenditure (Cordery, 2013). Building on this research, we extend our analysis to investigate whether the highest-value expense account aligns with the amount disclosed in the Notes, as mandated by the 2015 Reform for all tiers of charities. Moreover, prior research also indicates that many charities, especially smaller ones, struggle to understand the difference between cash and accrual basis of reporting. While accrual accounting is crucial for providing a complete and accurate picture of a charity's financial position and performance (Torres & Pina, 2003) and is more aligned with the requirements of government and philanthropic funders (Alsop & Morgan, 2021), it can be challenging for small charities with limited resources and accounting knowledge (Ledgerwood & Morgan, 2012). Given these key factors affecting the accuracy of charity reporting that are captured in the Reform, we further break down our analysis to test individual accuracy proxies.

We break down the accuracy of output reports by charities into the individual elements related to 1) the correctness in the amounts of total gross income matching the records in the charities' Annual Return filings with those in charities' underlying Performance Reports (*CorrectTGI*), 2) the correctness in the amounts of total expense provided in Annual Returns filings and Performance Reports (*CorrectTEXP*), 3) whether the Note discloses correct details regarding the highest amounts of expense account reported in the Statement of Comprehensive Income (*CorrectTEAdded*), and finally 4) the correctness of the fundamental accounting basis of preparation being claimed and used (*CorrectAA*).

Table 5 reports the logistic regression results. Results are generally consistent with those reported for the *TCorrect* variable. However, we do find some differences in

the significance of the coefficients for  $Post \times Tier3\&4$  in Column 2 involving *CorrectTGI* and that in Column 6 for *CorrectTEXP*. While we continue to find an overall increase in accuracy of Total Gross Income and Total Expenses for small charities following the 2015 Reform as is evidenced in the significantly positive combined coefficients for  $Post + Post \times Tier3\&4$  in Column 2 ( $\beta = 1.451$ ;  $p\text{-value} < 0.01$ ) and Column 6 ( $\beta = 1.367$ ;  $p\text{-value} < 0.01$ ), the coefficients of the interaction terms  $Post \times Tier3\&4$  are insignificant, suggesting that, on average, small charities did not exhibit a greater post-Reform increase in accuracy relative to large charities. We also find evidence of an overall *decrease*, rather than an increase, in providing correct claims and use of accrual accounting basis associated by charities following the 2015 Reform, as shown in the significantly negative coefficient for  $Post$  in Column 7 ( $\beta = -1.683$ ,  $p\text{-value} < 0.01$ ). However, the small charities of Tiers 3 and 4 still exhibit greater accuracy related to accounting basis disclosures compared to large charities (coefficient for  $Post \times Tier3\&4$  is 15.503,  $p\text{-value} < 0.01$ ) (Column 8).

#### ***[INSERT TABLE 5 HERE]***

#### ***5.5. Additional Tests Related to Usefulness Elements***

As discussed in Section 3.3, charities rely heavily on public donations, government and philanthropic grants. Since the 2015 Reform mandates minimum aggregated categories of revenue disclosures to enhance reporting consistency and comparability, we analyze whether the 2015 Reform had varying effects on the individual proxies for usefulness of charity reports.

We report OLS regression results for change in public donations (*Chg\_PublicDonations*), change in total grants (*Chg\_Grants*), and change in service provisions (*Chg\_ServiceProvisions*) in Table 6. The coefficient for  $Post$  is positive and significant for *Chg\_PublicDonations* ( $\beta = 1.551$ ,  $p\text{-value} = 0.058$ ) (Column 1), for

*Chg\_ServiceProvisions* ( $\beta = 1.429$ ;  $p\text{-value} = 0.085$ ) (Column 5), but not for *Chg\_Grants* (Column 3). Furthermore, the significantly positive coefficient for  $Post \times Tier3\&4$  in Column 2 ( $\beta = 1.392$ ,  $p\text{-value} = 0.092$ ) suggests the annual increase in public donations is especially greater for small charities, relative to large charities. We find significantly positive coefficients for  $Post + Post \times Tier3\&4$  in Columns 2 and 6 ( $\beta = 1.707$ ,  $p\text{-value} = 0.041$  and  $\beta = 1.371$ ,  $p\text{-value} = 0.098$ ), suggesting an incremental improvement for small charities in attracting public donations and revenues from providing services to government or other agencies after the 2015 Reform. We also obtain consistent results in estimating all of the regressions in Table 6 by using the *level* of usefulness as the dependent variable (results untabulated).

Overall, we conclude the 2015 Reform has helped charities to improve the usefulness of their reports, as manifested in generating more public donations and greater revenue from service provisions. Our results also suggest that following the 2015 Reform, small charities of Tiers 3 and 4 have been more successful in generating revenues from public donations than large charities.<sup>8</sup>

***[INSERT TABLE 6 HERE]***

#### ***5.6. Additional Tests Related to the Accuracy and Usefulness of Charity Reports Separately for Tier 3 and Tier 4***

The 2015 Reform introduces tailored reporting requirements for the entire charity sector, including simplified requirements for Tier 3 and 4 charities, some of which were previously excluded from reporting. In order to understand reporting behaviors and

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<sup>8</sup> We also collected data on other revenue sources for charities, such as fees, subscriptions, interest, dividends and other investment revenue (e.g., rents), and conducted regressions using these sources of revenue as proxies for usefulness of charity reporting. However, we do not find any significant impact of the 2015 Reform and incremental effect for small charities relative to large charities for these proxies.

benefits within these tiers, it is crucial to analyze them separately since they comply with different standards. Tier 4 charities, being the smallest but representing the bulk of the charities, potentially face the most challenges, such as limited professional support. Nonetheless, they have received considerable regulatory attention and resources from charity regulators (Yang & Northcott, 2021). As such, it is important to examine the differences, if any, in reporting accuracy and usefulness between Tier 3 and Tier 4 charities.

To address this question, we estimate Equation 2 separately using two indicators *Tier3* and *Tier4* to replace *Tier3&4*. *Tier3* equals 1 if the charity *i* reports annual expenses that are greater or equal to \$125,000 but less than NZ\$2 million in year *t*, and 0 otherwise. *Tier4* equals 1 if the charity *i* reports less than \$125,000 of annual operating payments in year *t*, and 0 otherwise.

Panel A of Table 7 reports the results as to whether the post-Reform increase in accuracy is different between Tier 3 and Tier 4 charities. Column 1 tests for Tier 3 charities and reveals a positive and significant coefficient for *Post* ( $\beta = 0.599$ ,  $p\text{-value} < 0.01$ ), suggesting a post-Reform increase in the accuracy of reports for Tier 1, 2, or 4 charities. While there is also a post-Reform increase in the accuracy of Tier 3 charity reports (as is evident from a significantly positive aggregate coefficient for  $Post + Post \times Tier3$  ( $\beta = 0.280$ ;  $p\text{-value} = 0.034$ ), such increase is not greater than that for non-Tier 3 charities (coefficient for  $Post \times Tier3$  ( $\beta = -0.319$ ;  $p\text{-value} < 0.01$ )). In Column 2, we conduct the same test for Tier 4 charities and find the coefficient for *Post* to be insignificant ( $\beta = 0.047$ ;  $p\text{-value} = 0.714$ ), suggesting no pronounced improvement in the accuracy of the non-Tier 4 reports in the post-Reform period. There is an overall significant increase in the accuracy of Tier 4 charities' reports following the 2015 Reform as shown in the significantly positive coefficient for  $Post + Post \times Tier4$  ( $\beta = 0.580$ ;  $p\text{-value} < 0.01$ ).

$value < 0.01$ ), and this incremental increase is greater than that for non-Tier 4 charities (i.e.,  $Post \times Tier4$ ;  $\beta = 0.533$ ;  $p-value < 0.01$ ). In brief, the results of Columns 1 and 2 reveal that the smallest Tier 4 charities appear to have made the most improvement in reporting accuracy following the 2015 Reform.

We next study the post-Reform increase in the usefulness of charity reports for small charities by investigating Tier 3 and Tier 4 charities separately. In Columns 3 and 5 of Panel A in Table 7, we focus on the charities classified as Tier 3. The estimated coefficient for  $Post$  in Column 3 is significantly positive ( $\beta = 9.219$ ;  $p-value < 0.01$ ), which indicates an increase in the usefulness of charity reports by the non-Tier 3 charities following the 2015 Reform. In addition, we find an overall increase in the usefulness of Tier 3 charities' reports after the 2015 Reform, evidenced by the significant and positive aggregated coefficient for  $Post + Post \times Tier3$  ( $\beta = 13.901$ ;  $p-value < 0.01$ ). The significant and positive coefficient of  $Post \times Tier3$  ( $\beta = 4.682$ ;  $p-value < 0.01$ ) implies a greater increase in the level of usefulness following the 2015 Reform for Tier 3 charities' reports relative to that for non-Tier 3 charities' reports. In Column 5, we obtain consistent results using the  $Chg\_TUsefulness$  variable. Columns 4 and 6 of Table 7 show the results of tests targeting the smallest charities of Tier 4. While both the estimated coefficients for  $Post$  and the combined coefficients of  $Post + Post \times Tier4$  are significantly positive, we find markedly negative coefficients for  $Post \times Tier4$  ( $\beta = -3.270$ ;  $p-value < 0.01$ ) (Column 4) and ( $\beta = -1.028$ ;  $p-value = 0.077$ ) (Column 6). These results suggest a post-Reform increase in the usefulness level (and its annual change) for both reports provided by Tier 4 and non-Tier 4 charities. However, this increase is not particularly greater for Tier 4 charities' reports compared to non-Tier 4 charities'. In summary, we find that the Tier 3 charities' reports exhibit greater usefulness after the 2015 Reform than those of Tier 4 charities.

Panel B of Table 7 provides results of tests using individual accuracy proxies for Tier 3 and Tier 4 charities separately. Consistent with the aggregated accuracy results, we find Tier 4 charities exhibit significantly greater accuracy in their PRAR filings after the 2015 Reform, relative to non-Tier 4 charities for *CorrectTGI*, *CorrectTEAdded*, and *CorrectAA* proxies. The coefficients for  $Post \times Tier4$  are 0.556 ( $p\text{-value} = 0.015$ ) (Column 4); 1.044 ( $p\text{-value} < 0.01$ ) (Column 6); and 4.107 ( $p\text{-value} < 0.01$ ) (Column 8), respectively.

Panel C of Table 7 shows consistent results regarding a greater increase in the usefulness of Tier 3 charities' reports to raise public donations (*Chg\_PublicDonations*) and receiving more revenue from service provisions activities (*Chg\_ServiceProvisions*) following the 2015 Reform, relative to non-Tier 3 charities' reports. This is shown in the coefficients of  $Post \times Tier3$  in Columns 1 and 5 ( $\beta = 1.280$ ;  $p\text{-value} = 0.012$  and  $\beta = 1.042$ ;  $p\text{-value} = 0.090$ , respectively). We do not find similar results for Tier 4 charities. While we report an overall significant increase in Tier 4 charity public donations after the 2015 Reform (coefficient for  $Post + Post \times Tier4$  with  $\beta = 1.476$ ,  $p\text{-value} = 0.070$ ), this increase is not greater compared to that for non-Tier 4 charities.

Collectively, we find that the 2015 Reform is most effective in improving accuracy in the PRAR filings by Tier 4 charities, specifically in disclosing their information regarding revenue, expense, and the basis on which the accounts are prepared. However, our results also suggest that following the 2015 Reform, Tier 3 charities, which may not have reported more accurately than Tier 4 charities, have been more successful in generating more revenue, such as public donations and service provisions, than Tier 4 charities.

***[INSERT TABLE 7 HERE]***

## **6. Summary and Conclusion**

This study examines the effect of the 2015 Reform on the accuracy and usefulness of charity reporting in NZ. The Reform introduces differentiated regulatory standards based on charity size and nature. The Reform for the NZ charity sector involves a multi-standard, tiered approach by creating a new classification of charities, Tiers 1 to 4, each of which is subject to differential standards and disclosure requirements in their Annual Return and Financial Statement/Performance Report filings. Specifically, the Reform imposes a higher standard of accountability required in the IPSAS for large charities in Tiers 1 and 2. Additionally, it develops Simple Format Reporting standards for small charities in Tiers 3 and 4, ensuring – for the first time – consistent and comparable financial reporting across the entire charity sector. These changes are aimed at enhancing transparency and accountability through publicly available financial reporting on the Charity Register.

We test for differences in measures of report quality – indexes for accuracy and usefulness – between charities of Tier status and charities that would have qualified for Tier status had their reporting been after the effective date of the 2015 Reform. We also test whether variation in the extent to which charities are exposed to the regulation change (Tiers 3 and 4 as small charities versus Tiers 1 and 2 as large charities) explains any differences in accuracy and usefulness.

We find a significant increase in the aggregated accuracy and usefulness of charity reporting following the Reform, and this effect is particularly pronounced for small charities of Tiers 3 and 4, relative to other charities. In addition, we find a significant post-Reform increment in the values of several individual accuracy proxies related to the Total Gross Income, Total Expense, and the matched disclosure in Notes with the highest-

value expense. While we report overall increases in all the above three individual accuracy indicators for small charities following the Reform, the particularly significant regulatory effect for small charities relative to large charities is only reflected in the incremental improvement in the accuracy related to matched expenditure disclosure in Notes.

Regarding individual proxies for charity reporting usefulness, we find a significant increase in public donations and providing services after the Reform. In addition, there are significantly incremental post-Reform public donations for small charities relative to large ones. We find no evidence of differences in attracting government and/or philanthropic grants analysis, which supports our interpretation that government and philanthropic funders generally require their own accountability reporting from funded charities, e.g., audited financial statements and other evaluation criteria for their decision-making process on granting funds.

Finally, we find that charities in Tier 4 significantly improve the accuracy of their PRAR filings compared to other charities following the 2015 Reform, and the reports by Tier 3 charities significantly attract more external revenue after the 2015 Reform, relative to others. Yang and Northcott (2021) highlight the different forms of trust that charity regulators intend to build. While charity financial reporting can build cognitive trust from stakeholders who prioritize rational risk assessments before making their funding decisions, it may have limitations in building affective trust grounded primarily in emotions. In this case, despite the improved reporting accuracy of Tier 4 charities, stakeholders' donation behavior may not solely rely on a rational evaluation of charity reporting differences. Instead, it may be influenced by personal connections, familiarity and emotional significance attached to the cause (e.g., a cancer research charity for cancer survivors and related families). Moreover, stakeholders may favor more established Tier

3 charities, perhaps with a longer history and broader recognition, over grassroots charities in Tier 4. Tier 3 charities could be seen as more reliable and competent in using resources more effectively and have a track record of successful projects and greater visibility in the sector. Tier 4 charities, which show more reporting improvements in terms of accuracy, may be viewed as relatively inexperienced or lacking the capacity to effectively use resources. These possible reasons could explain why Tier 3 charities benefit relatively more from increased donations and grants, despite the significant improvements in reporting accuracy of charities in Tier 4.

Taken together, our findings are consistent with the regulatory disclosure requirements in the charity sector associated with the 2015 Reform, positively improving the accuracy of charity reports and, therefore, donors' and funders' perceptions as well as their decisions. In addition, our findings suggest the effectiveness of charity regulations on disclosure quality, which facilitates the alignment of interests between charities and stakeholders, supporting the public interest theory. We further demonstrate the suitability and feasibility of employing mandatory differentiated regulations tailored to different compliance requirements and needs by different tiers of organizations in the charity sector. This should be informative to the regulators and policymakers in their consideration of the adoption and/or modification of differentiated disclosure requirements for the charity sector.

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Exhibit 1 – Differentiated Regulation for Registered Charities

Tier	Criteria	Accounting Standard	Financial Reporting Element
1	> \$30 million annual expenses (1% of charities)	Full International Public Sector Accounting Standards	<ul style="list-style-type: none"> <li>• Statement of Financial Position</li> <li>• Statement of Comprehensive Return and Expense</li> <li>• Statement of Changes in Net Assets/Equity</li> <li>• Statement of Cash Flows</li> <li>• Notes</li> </ul>
2	≥ \$2 million and < \$30 million annual expenses (3% of charities)	Reduced Disclosure Regime	
3	≥ \$125,000 and < \$2 million annual expenses (22% of charities)	Public Benefit Entity Simple Format Reporting – Accrual (PBE SFR - A)	<ul style="list-style-type: none"> <li>• Statement of Financial Performance</li> <li>• Statement of Financial Position</li> <li>• Statement of Cash Flows</li> <li>• Statement of Accounting Policies</li> <li>• Notes</li> </ul>
4	< \$125,000 annual operating payments (74% of charities)	Public Benefit Entity Simple Format Reporting – Cash (PBE SFR - C)	<ul style="list-style-type: none"> <li>• Statement of Receipts and Payments</li> <li>• Statement of Resources and Commitments</li> <li>• Notes</li> </ul>

## Exhibit 2 – A Summary of Pre and Post Reform Comparisons

	Pre Reform	Post Reform
Regulatory Approach	Sector-neutral	Sector-specific
Key Parties	Charities Commission (disestablished in 2012)	<ul style="list-style-type: none"> <li>Charities Services (established in 2012)</li> <li>The XRB – NZ Accounting Standard Board (established in 2011)</li> </ul>
Accounting Standards	Same as for-profit organizations	Differentiated Regulation for the entire charity sector (details outlined in Exhibit 1)
Required Reports	Annual Return (a few pages)	Annual Return (amended to align with the Reform, approx.22 pages)
	Financial Statements (in any format)	<ul style="list-style-type: none"> <li>Financial Statements for large charities follow IPSAS</li> <li>Performance Report for small charities</li> </ul>

## Appendix Variable Definitions

### Dependent Variables

$TCorrect_{it}$	=	The overall accuracy in financial reporting for the charity $i$ in year $t$ , by summing up all the accuracy proxies ( $CorrectTGI_{it}$ , $CorrectTEXP_{it}$ , $CorrectTEAdded_{it}$ , $CorrectAA_{it}$ )
$CorrectTGI_{it}$	=	An indicator variable equals 1 if the amount of Total Gross Income in the Performance Reports equals that reported in the annual returns filings for charity $i$ in year $t$ , and 0 otherwise.
$CorrectTEXP_{it}$	=	An indicator variable equals 1 if the amount of Total Expense in the Performance Reports equals that reported in the annual returns filings for charity $i$ in year $t$ , and 0 otherwise.
$CorrectTEAdded_{it}$	=	An indicator variable equals 1 with matched amounts of the highest-value expense account found both in the Statement and Note for charity $i$ in year $t$ , and 0 otherwise.
$CorrectAA_{it}$	=	An indicator variable equals 1 if the accounting basis (accrual or cash) used in their Performance Reports is the same as that disclosed in their annual returns filings for charity $i$ in year $t$ , and 0 otherwise.
$TUsefulness_{it}$	=	The natural logarithm of one plus the total cash receipts from all the three revenue sources (i.e., public donations, government or institution grants, and charity's providing goods or services) for the charity $i$ in year $t$ .
$PublicDonations_{it}$	=	The natural logarithm of one plus the cash amounts of donations, fundraising and other similar receipts by the charity $i$ in year $t$ .
$Grants_{it}$	=	The natural logarithm of one plus the cash amounts of grants from central or local government, charitable trusts, foundations and other philanthropic agencies received by the charity $i$ in year $t$ .
$ServiceProvisions_{it}$	=	The natural logarithm of one plus the cash receipts from providing goods or services (including grants received from the government or other agencies that are in substance a contract for delivery of goods or services) for the charity $i$ in year $t$ .
$Chg\_TUsefulness_{it}$	=	The change in the natural logarithm of one plus the total cash receipts from all the three revenue sources (i.e., public donations, philanthropic trusts grants, and charity's providing goods or services) for the charity $i$ from year $t$ to the subsequent year $t+1$ .
$Chg\_PublicDonations_{it}$	=	The change in the natural logarithm of one plus the cash amounts of donations, fundraising and other similar receipts by the charity $i$ from year $t$ to the subsequent year $t+1$ .
$Chg\_Grants_{it}$	=	The change in the natural logarithm of one plus the cash amounts of grants from central or local government, charitable trusts, foundations and other philanthropic agencies received by the charity $i$ from year $t$ to the subsequent year $t+1$ .
$Chg\_ServiceProvisions_{it}$	=	The change in the natural logarithm of one plus the cash receipts from providing goods or services (including grants received from the government or other agencies that are in substance a contract for delivery of goods or services) for the charity $i$ from year $t$ to the subsequent year $t+1$ .

### Test Variables

$Post$	=	An indicator variable equals 1 for charities reporting after the 2015 Regulatory Reform on 1 April 2015 (inclusive), 0 for charities with reporting before the 2015 Regulatory Reform.
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<i>Tier3&amp;4</i>	=	An indicator variable equals 1 if the charity <i>i</i> is classified as Tier 3 (i.e., <i>Tier3</i> = 1) or Tier 4 (i.e., <i>Tier4</i> = 1) in year <i>t</i> , and 0 otherwise.
<i>Tier3</i>	=	An indicator variable equals 1 if the charity <i>i</i> report annual expenses that are greater or equal to \$125,000 and smaller than 2 million in year <i>t</i> , and 0 otherwise.
<i>Tier4</i>	=	An indicator variable equals 1 if the charity <i>i</i> report annual operating payments that are smaller than \$125,000 in year <i>t</i> , and 0 otherwise.

**Control Variables: Charity Characteristics (obtained from Annual Return filings)**

<i>Asset_Total</i>	=	The nature logarithm of 1 plus total asset (in \$thousands) for the charity <i>i</i> in year <i>t</i> .
<i>Asset_Current</i>	=	The nature logarithm of 1 plus current assets (in \$thousands) for the charity <i>i</i> in year <i>t</i> .
<i>Liability_LT</i>	=	The nature logarithm of 1 plus long-term liability (in \$thousands) for the charity <i>i</i> in year <i>t</i> .
<i>Liability_ST</i>	=	The nature logarithm of 1 plus short-term liability (in \$thousands) for the charity <i>i</i> in year <i>t</i> .
<i>Equity</i>	=	The nature logarithm of 1 plus trust equity (i.e., accumulated fund/surpluses; reserves) or total resources minus total commitments (for Tier 4) (in \$thousands) for the charity <i>i</i> in year <i>t</i> .
<i>Age</i>	=	The number of years since the charity <i>i</i> was registered until year <i>t</i> .
<i>Current_Level</i>	=	The current level of usefulness of the charity <i>i</i> in year <i>t</i> .
<b>Other</b>		
<i>Beneficiary</i>	=	The code of main beneficiaries for the charity <i>i</i> in year <i>t</i> , based on the classification from <a href="http://www.charities.govt.nz">www.charities.govt.nz</a> .
<i>Sector</i>	=	The code of main sectors for the charity <i>i</i> in year <i>t</i> , based on the classification from <a href="http://www.charities.govt.nz">www.charities.govt.nz</a> .
<i>Activity</i>	=	The code of main activities for the charity <i>i</i> in year <i>t</i> , based on the classification from <a href="http://www.charities.govt.nz">www.charities.govt.nz</a> .

## Tables

Table 1 Sample Distributions

### *Panel A Sample Selection*

	No. of observations
Total number of charity observations between 2012 and 2020	4,581
Less: Observations dropped because of missing controls variables	(323)
Less: Observations dropped that fell during the transition period (1 January 2015 – 31 December 2016)	(813)
Final sample for testing <i>the effect of 2015 Reform on the accuracy and usefulness of charity reporting</i>	3,445

### *Panel B Sample Distribution (Frequencies)*

Main Beneficiaries	Tier1&2	Tier3	Tier4	Total
Animals	1	3	20	24
Children / young people	37	141	434	612
Family / whanau	3	90	181	274
General public	89	231	889	1,209
Migrants / refugees	0	1	21	22
Other charities	17	77	161	255
People of a certain ethnic / racial origin	1	27	41	69
People with disabilities	16	57	83	156
Religious groups	8	52	356	416
Voluntary bodies other than charities	1	0	15	16
Not specified	22	113	257	392
Main Sector	Tier1&2	Tier3	Tier4	Total
Accommodation / housing	5	46	50	101
Arts / culture / heritage	1	39	170	210
Care / protection of animals	1	1	16	18
Community development	9	32	172	213
Economic development	1	10	10	21
Education / training / research	95	151	375	621
Emergency / disaster relief	5	7	39	51
Employment	0	2	5	7
Environment / conservation	0	28	69	97
Fund-raising	1	14	47	62
Health	37	142	132	311
International activities	0	11	6	17
Marae on reservation land	0	1	18	19
Others	0	0	6	6
People with disabilities	13	41	66	120
Promotion of volunteering/ social	11	134	398	543
Religious activities	16	133	879	1,028
<b>Unique charities</b>	<b>101</b>	<b>483</b>	<b>1,832</b>	<b>2,405</b>

Note: This table presents the sample selection procedure (Panel A) and sample distribution (Panel B).

Table 2 Descriptive Statistics

<i>Variables</i>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Min</b>	<b>25%</b>	<b>50%</b>	<b>75%</b>	<b>Max</b>
<i>TCorrect</i>	3445	2.337	0.938	0.000	2.000	2.000	3.000	4.000
<i>CorrectTGI</i>	3445	0.772	0.420	0.000	1.000	1.000	1.000	1.000
<i>CorrectTEXP</i>	3445	0.757	0.429	0.000	1.000	1.000	1.000	1.000
<i>CorrectTEAdded</i>	3445	0.400	0.490	0.000	0.000	0.000	1.000	1.000
<i>CorrectAA</i>	3445	0.408	0.492	0.000	0.000	0.000	1.000	1.000
<i>TUsefulness</i>	3445	7.807	6.263	0.000	0.000	11.317	11.929	21.343
<i>PublicDonations</i>	3445	5.013	5.610	0.000	0.000	0.000	11.170	18.183
<i>Grants</i>	3445	1.510	4.209	0.000	0.000	0.000	0.000	19.991
<i>ServiceProvisions</i>	3445	5.380	6.086	0.000	0.000	0.000	11.249	21.308
<i>Chg_TUsefulness</i>	1190	1.226	5.308	-17.374	0.000	0.000	0.214	17.526
<i>Chg_PublicDonations</i>	1190	0.770	4.503	-12.617	0.000	0.000	0.074	16.982
<i>Chg_Grants</i>	1190	0.129	3.101	-17.526	0.000	0.000	0.000	17.526
<i>Chg_ServiceProvision</i>	1190	0.982	4.898	-17.374	0.000	0.000	0.096	19.141
<i>Post</i>	3,445	0.579	0.494	0.000	0.000	1.000	1.000	1.000
<i>Tier3&amp;4</i>	3,445	0.943	0.231	0.000	1.000	1.000	1.000	1.000
<i>Tier3</i>	3,445	0.230	0.421	0.000	0.000	0.000	0.000	1.000
<i>Tier4</i>	3,445	0.713	0.452	0.000	0.000	1.000	1.000	1.000
<i>Asset_Total</i>	3,445	10.983	5.734	0.000	10.542	12.819	14.535	22.073
<i>Asset_Current</i>	3,445	5.646	6.093	0.000	0.000	0.000	11.477	19.929
<i>Liability_LT</i>	3,445	2.624	5.243	0.000	0.000	0.000	0.000	19.594
<i>Liability_ST</i>	3,445	7.672	5.403	0.000	0.000	9.124	11.997	19.940
<i>Equity</i>	3,445	9.601	6.399	0.000	0.000	12.173	14.254	21.872
<i>Age</i>	3,445	7.053	3.225	0.000	4.000	6.000	10.000	13.000

Note: This table presents the summary statistics of the variables used in the study. Variable definitions are provided in the Appendix.

Table 3 Univariate Differences in Means

<b>Panel A Observations between Pre- and Post-2015 Reform</b>			
<i>Variables</i>	<i>Pre-2015 Reform</i> <i>Post=0</i> <i>(N = 1,449)</i>	<i>Post-2015 Reform</i> <i>Post=1</i> <i>(N = 1,996)</i>	<i>Difference in Means</i>
<i>Accuracy</i>			
<i>TCorrect</i>	2.141	2.478	0.338***
<i>CorrectTEXP</i>	0.658	0.828	0.170***
<i>CorrectTGI</i>	0.676	0.841	0.165***
<i>CorrectTEAdded</i>	0.170	0.567	0.397***
<i>CorrectAA</i>	0.636	0.242	-0.393***
<i>Usefulness</i>			
<i>TUsefulness</i>	3.143	11.192	8.049***
<i>PublicDonations</i>	1.932	7.249	5.318***
<i>Grants</i>	1.272	1.683	0.411***
<i>ServiceProvisions</i>	1.682	8.064	6.382***
<b>Panel B Observations during Post-2015 Reform i.e., Post=1</b>			
<i>Variables</i>	<i>Tier3&amp;4 =0</i> <i>(N = 112)</i>	<i>Tier3&amp;4 =1</i> <i>(N = 1,884)</i>	<i>Difference in Means</i>
<i>TCorrect</i>	2.256	2.492	0.233***
<i>TUsefulness</i>	16.975	10.849	-6.126***
<i>Chg_TUsefulness</i>	0.135	-0.097	-0.231
<i>Variables</i>	<i>Tier3 = 0</i> <i>(N = 1,527)</i>	<i>Tier3 = 1</i> <i>(N = 469)</i>	
<i>TCorrect</i>	2.523	2.335	-0.188***
<i>TUsefulness</i>	10.590	13.152	2.562***
<i>Chg_TUsefulness</i>	-0.287	0.348	0.635**
<i>Variables</i>	<i>Tier4 = 0</i> <i>(N = 581)</i>	<i>Tier4 = 1</i> <i>(N = 1,415)</i>	
<i>TCorrect</i>	2.320	2.544	0.224***
<i>TUsefulness</i>	13.889	10.085	-3.804***
<i>Chg_TUsefulness</i>	0.303	-0.351	-0.654**

Note: Table 3 reports univariate tests for the difference in means. Panel A compares the variables of accuracy and usefulness for charities in the pre-2015 Reform period to those in the post-2015 Reform period. The charity disclosure characteristics in the univariate tests are collected and measured from their reporting, including: *TCorrect*, *CorrectTEXP*, *CorrectTGI*, *CorrectTEAdded*, and *CorrectAA* for accuracy and *TUsefulness*, *PublicDonations*, *Grants*, and *ServiceProvisions* for usefulness. Panel B reports univariate tests of *TCorrect*, *TUsefulness*, and *Chg\_TUsefulness* for charity tiers during the post-Reform period. *Post* is an indicator variable equal to 1 for charities reporting after the 2015 Reform adopted on 1 April 2015, and 0 for charities with reporting period before the 2015-Reform period. Variable definitions are provided in the Appendix. \*\*\*, \*\* indicate that the means and medians are significantly different at the 1%, and 5% level, respectively.

Table 4 OLS Regressions of Accuracy and Usefulness of Charity Reports Against the  
Regulatory Reform and Charity Tier

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	<i>TCorrect</i>		<i>TUsefulness</i>		<i>Chg_TUsefulness</i>	
<i>Post</i>	0.572*** (0.000)	-0.332 (0.135)	9.708*** (0.000)	4.327*** (0.001)	3.342*** (0.000)	1.785 (0.152)
<i>Tier3&amp;4</i>		-0.719*** (0.000)		-9.390*** (0.000)		-2.914*** (0.006)
<i>Post × Tier3&amp;4</i>		0.853*** (0.000)		4.531*** (0.000)		1.527 (0.139)
<i>Asset_Total</i>	-0.024*** (0.001)	-0.018** (0.014)	0.206*** (0.000)	0.261*** (0.000)	0.091 (0.105)	0.121** (0.036)
<i>Asset_Current</i>	0.018*** (0.004)	0.010 (0.113)	0.025 (0.493)	-0.053 (0.101)	-0.016 (0.700)	-0.052 (0.229)
<i>Liability_LT</i>	0.010** (0.012)	0.006 (0.106)	0.132*** (0.000)	0.042** (0.042)	0.045* (0.099)	0.015 (0.576)
<i>Liability_ST</i>	-0.002 (0.755)	-0.004 (0.457)	-0.012 (0.737)	-0.086*** (0.010)	0.062 (0.164)	0.031 (0.510)
<i>Equity</i>	0.006 (0.250)	0.003 (0.582)	-0.062** (0.038)	-0.091*** (0.001)	0.012 (0.753)	0.002 (0.962)
<i>Age</i>	-0.013* (0.058)	-0.012* (0.077)	-0.014 (0.666)	-0.004 (0.908)	-0.075 (0.276)	-0.066 (0.336)
<i>Current_Level</i>					-0.440*** (0.000)	-0.482*** (0.000)
<i>Constant</i>	2.225*** (0.000)	3.045*** (0.000)	-0.014 (0.995)	10.897*** (0.000)	-2.969* (0.071)	0.683 (0.727)
<b>AGGREGATE EFFECT</b>						
<i>Post + Post × Tier3&amp;4</i>		0.521*** (0.000)		8.859*** (0.000)		3.312*** (0.000)
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,445	3,445	3,445	3,445	1,190	1,190
Adjusted R-squared	0.0471	0.073	0.457	0.508	0.223	0.231

Note: Table 4 presents the results of OLS regressions of the accuracy and usefulness of charity reports against the 2015 Reform (*Post*) and charities' regulatory exposure (*Tier3&4*) to this differentiated regulation change, controlling for charities characteristics. The sample consists of 3,445 charity-year observations between 2012 and 2020. The dependent variables are: 1) *TCorrect* that captures the overall accuracy in charity financial reporting by summing up all the values of the accuracy variables *CorrectTGI*, *CorrectTEXP*, *CorrectTEAdded*, and *CorrectAA* for charity *i* in year *t*; 2) *TUsefulness* that equals the natural logarithm of one plus the sum of the total cash receipts from all the three revenue sources (i.e., *PublicDonations*, *Grants*, and *ServiceProvisions* for charity *i* in year *t*; 3) *Chg\_TUsefulness*. All variable definitions are provided in the Appendix. Standard errors are adjusted for clustering at the charity level. *p*-values are reported in the parentheses. \*\*\*, \*\*, and \* denote statistical significance levels at 1%, 5% and 10%, respectively.

Table 5 Logistic Regressions of Individual Accuracy Proxies of Charity Reports against the Regulatory Reform and Charity Tier

<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>CorrectTGI</i>		<i>CorrectTEXP</i>		<i>CorrectTEAdded</i>		<i>CorrectAA</i>	
<i>Post</i>	1.399*** (0.000)	0.725 (0.194)	1.374*** (0.000)	0.960* (0.067)	2.260*** (0.000)	0.286 (0.550)	-1.683*** (0.000)	-17.465*** (0.000)
<i>Tier3&amp;4</i>		0.235 (0.500)		-0.113 (0.738)		-1.697*** (0.000)		-2.137*** (0.000)
<i>Post × Tier3&amp;4</i>		0.727 (0.120)		0.407 (0.349)		1.880*** (0.000)		15.503*** (0.000)
<i>Asset_Total</i>	0.002 (0.891)	0.006 (0.716)	0.000 (0.979)	0.003 (0.864)	0.034* (0.093)	0.055*** (0.007)	-0.209*** (0.000)	-0.191*** (0.000)
<i>Asset_Current</i>	0.013 (0.502)	0.010 (0.602)	0.010 (0.555)	0.007 (0.696)	0.028* (0.066)	0.007 (0.632)	0.108*** (0.000)	0.075*** (0.000)
<i>Liability_LT</i>	-0.004 (0.717)	0.003 (0.784)	-0.008 (0.421)	-0.007 (0.488)	0.018 (0.114)	0.007 (0.527)	0.057*** (0.000)	0.038*** (0.001)
<i>Liability_ST</i>	0.026* (0.055)	0.032** (0.018)	0.016 (0.235)	0.017 (0.209)	0.021 (0.184)	0.012 (0.444)	-0.100*** (0.000)	-0.109*** (0.000)
<i>Equity</i>	0.001 (0.919)	0.001 (0.964)	-0.006 (0.618)	-0.007 (0.571)	0.012 (0.453)	0.000 (0.998)	0.030** (0.024)	0.023* (0.083)
<i>Age</i>	-0.015 (0.483)	-0.014 (0.505)	-0.021 (0.309)	-0.021 (0.319)	-0.018 (0.311)	-0.015 (0.379)	-0.043** (0.039)	-0.041* (0.053)
<i>Constant</i>	-0.088 (0.932)	-0.402 (0.713)	1.058 (0.438)	1.182 (0.405)	-3.226*** (0.003)	-1.312 (0.250)	3.419*** (0.005)	6.065*** (0.000)
<i>AGGREGATE EFFECT</i>								
<i>Post + Post × Tier3&amp;4</i>		1.451*** (0.000)		1.367*** (0.000)		2.166*** (0.000)		-1.9612*** (0.000)
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Observations	3,445	3,428	3,445	3,445	3,445	3,445	3,445	3,445
Pseudo R-squared	0.0531	0.0540	0.0478	0.0482	0.172	0.181	0.309	0.322

Note: Table 5 reports the results of logistic regressions of the individual accuracy of charity reports against the 2015 Reform (*Post*) and charities' regulatory exposure (*Tier3&4*) to this differentiated regulation change, controlling for charities characteristics. *CorrectTGI* is an indicator variable equals 1 if the amount of Total Gross Income in the Performance Reports equals that reported in the annual returns filings for charity *i* in year *t*, and 0 otherwise. *CorrectTEXP* is indicator variable equals 1 if the amount of Total Expense in the Performance Reports equals that reported in the annual returns filings for charity *i* in year *t*, and 0 otherwise. *CorrectTEAdded* is an indicator variable equals 1 with matched amounts of the highest-value expense account found both in the Statement and Note for charity *i* in year *t*, and 0 otherwise. *CorrectAA* is an indicator variable equals 1 if the accounting basis (accrual or cash) used in their Performance Reports is the same as that disclosed in their annual returns filings for charity *i* in year *t*, and 0 otherwise. All variable definitions are provided in the Appendix. Standard errors are adjusted for clustering at the charity level. *p*-values are reported in the parentheses. \*\*\*, \*\*, and \* denote statistical significance levels at 1%, 5% and 10%, respectively.

Table 6 OLS Regressions of Individual Usefulness Proxies of Charity Reports Against  
the Regulatory Reform and Charity Tier

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Chg_PublicDonations</i>		<i>Chg_Grants</i>		<i>Chg_ServiceProvisions</i>	
<i>Post</i>	1.551* (0.058)	0.315 (0.789)	0.533 (0.236)	0.001 (0.999)	1.429* (0.085)	0.546 (0.681)
<i>Tier3&amp;4</i>		0.445 (0.466)		-2.480*** (0.001)		-0.973 (0.255)
<i>Post × Tier3&amp;4</i>		1.392* (0.092)		0.230 (0.709)		0.825 (0.420)
<i>Asset_Total</i>	0.055 (0.304)	0.067 (0.220)	0.088** (0.012)	0.098*** (0.005)	0.057 (0.297)	0.069 (0.218)
<i>Asset_Current</i>	-0.069* (0.086)	-0.076* (0.078)	0.027 (0.313)	0.004 (0.888)	-0.022 (0.593)	-0.038 (0.397)
<i>Liability_LT</i>	0.004 (0.869)	0.020 (0.423)	0.042** (0.025)	0.015 (0.440)	0.026 (0.328)	0.018 (0.511)
<i>Liability_ST</i>	0.010 (0.826)	0.022 (0.638)	-0.012 (0.697)	-0.040 (0.201)	0.101** (0.019)	0.094** (0.031)
<i>Equity</i>	-0.012 (0.726)	-0.014 (0.684)	-0.014 (0.544)	-0.020 (0.397)	0.008 (0.813)	0.004 (0.910)
<i>Age</i>	-0.130* (0.078)	-0.132* (0.076)	0.010 (0.793)	0.013 (0.735)	0.024 (0.753)	0.027 (0.727)
<i>Current_Level</i>	-0.350*** (0.000)	-0.356*** (0.000)	-0.273*** (0.000)	-0.317*** (0.000)	-0.352*** (0.000)	-0.363*** (0.000)
<i>Constant</i>	-0.924 (0.508)	-1.634 (0.305)	-2.722*** (0.003)	0.497 (0.659)	-2.410 (0.143)	-1.185 (0.527)
<b>AGGREGATE EFFECT</b>						
<i>Post + Post × Tier3&amp;4</i>		1.707** (0.041)		0.231 (0.611)		1.371* (0.098)
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,190	1,190	1,190	1,190	1,190	1,190
Adjusted R-squared	0.170	0.173	0.153	0.141	0.175	0.175

Note: Table 6 reports the results of logistic regressions of the individual usefulness of charity reports against the 2015 Reform (*Post*) and charities' regulatory exposure (*Tier3&4*) to this differentiated regulation change, controlling for charities characteristics. *Chg\_PublicDonations* is the change in the natural logarithm of one plus the cash amounts of donations, fundraising and other similar receipts by the charity *i* (i.e., *PublicDonations*) from year *t* to the subsequent year *t+1*. *Chg\_Grants* is the change in the natural logarithm of one plus the cash amounts of grants from central or local government, charitable trusts, foundations and other philanthropic agencies received by the charity *i* (i.e., *Grants*) from year *t* to the subsequent year *t+1*. *Chg\_ServiceProvisions* is the change in the natural logarithm of one plus the cash receipts from providing goods or services (including grants received from the government or other agencies that are in substance a contract for delivery of goods or services) for the charity *i* (i.e., *ServiceProvisions*) from year *t* to the subsequent year *t+1*. All variable definitions are provided in the Appendix. Standard errors are adjusted for clustering at the charity level. *p*-values are reported in the parentheses. \*\*\*, \*\*, and \* denote statistical significance levels at 1%, 5% and 10%, respectively.

Table 7 Regressions of Accuracy and Usefulness of Charity Reports Against the Regulatory Reform and Charity Tier for Small Charities of Tiers 3 and 4

<b>Panel A Aggregated Accuracy and Usefulness (OLS Regressions)</b>						
<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)
	<i>TCorrect</i>		<i>TUsefulness</i>		<i>Chg_TUsefulness</i>	
<i>Post</i>	0.599*** (0.000)	0.047 (0.714)	9.219*** (0.000)	12.291*** (0.000)	3.170*** (0.000)	4.045*** (0.000)
<i>Tier3</i>	0.267*** (0.001)		-3.007*** (0.000)		-0.371 (0.488)	
<i>Post × Tier3</i>	-0.319*** (0.000)		4.682*** (0.000)		1.384** (0.025)	
<i>Tier4</i>		-0.478*** (0.000)		-0.254 (0.528)		-0.831 (0.136)
<i>Post × Tier4</i>		0.533*** (0.000)		-3.270*** (0.000)		-1.028* (0.077)
<i>Constant</i>	2.194*** (0.000)	2.722*** (0.000)	0.519 (0.811)	0.968 (0.650)	-2.672 (0.105)	-1.149 (0.513)
<i>AGGREGATE EFFECT</i>						
<i>Post + Post × Tier3 (Or Post × Tier4)</i>	0.280** (0.034)	0.580*** (0.000)	13.901*** (0.000)	9.021*** (0.000)	4.555*** (0.000)	3.016*** (0.000)
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,445	3,445	3,445	3,445	1,190	1,190
Adjusted R-squared	0.0522	0.0644	0.486	0.479	0.258	0.261

<b>Panel B Individual Accuracy Proxies (Logistic Regressions)</b>								
<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>CorrectTGI</i>		<i>CorrectTEXP</i>		<i>CorrectTEAdded</i>		<i>CorrectAA</i>	
<i>Post</i>	1.406*** (0.000)	0.891** (0.013)	1.402*** (0.000)	1.087*** (0.002)	2.328*** (0.000)	1.361*** (0.000)	-1.526*** (0.000)	-5.951*** (0.000)
<i>Tier3</i>	0.292* (0.093)		0.046 (0.781)		0.352* (0.081)		0.751*** (0.000)	
<i>Post × Tier3</i>	-0.325 (0.181)		-0.216 (0.345)		-0.395* (0.099)		-3.504*** (0.000)	
<i>Tier4</i>		-0.187 (0.280)		-0.048 (0.769)		-1.037*** (0.000)		-1.393*** (0.000)
<i>Post × Tier4</i>		0.556** (0.015)		0.335 (0.124)		1.044*** (0.000)		4.107*** (0.000)
<i>Constant</i>	-0.100 (0.921)	0.058 (0.955)	1.025 (0.452)	1.050 (0.445)	-3.290*** (0.002)	-2.280** (0.038)	3.278** (0.023)	5.215*** (0.001)
<b>AGGREGATE EFFECT</b>								
<i>Post + Post × Tier3 (Or Post × Tier4)</i>	1.081*** (0.004)	1.447*** (0.000)	1.186*** (0.001)	1.421*** (0.000)	1.933*** (0.000)	2.405*** (0.000)	-5.030*** (0.000)	-1.844*** (0.000)
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,445	3,445	3,445	3,445	3,445	3,445	3,445	3,445
Pseudo R-squared	0.0541	0.0550	0.0482	0.0487	0.173	0.180	0.323	0.337
<b>Panel C Individual Usefulness Proxies (OLS Regressions)</b>								
<i>Variables</i>	(1)	(2)	(3)	(4)	(5)	(6)		
	<i>Chg_PublicDonations</i>		<i>Chg_Grants</i>		<i>Chg_ServiceProvisions</i>			
<i>Post</i>	1.335	2.175**	0.552	0.327	1.227	1.981**		

	(0.102)	(0.023)	(0.231)	(0.522)	(0.144)	(0.042)
<i>Tier3</i>	-0.330		-0.097		0.004	
	(0.364)		(0.711)		(0.993)	
<i>Post</i> × <i>Tier3</i>	1.280**		-0.038		1.042*	
	(0.012)		(0.914)		(0.090)	
<i>Tier4</i>		0.432		-0.798***		-0.573
		(0.298)		(0.006)		(0.264)
<i>Post</i> × <i>Tier4</i>		-0.698		0.028		-0.855
		(0.157)		(0.936)		(0.140)
<i>Constant</i>	-0.604	-1.386	-2.780***	-1.339	-2.049	-1.075
	(0.662)	(0.351)	(0.003)	(0.179)	(0.220)	(0.550)
<b>AGGREGATE EFFECT</b>						
<i>Post</i> + <i>Post</i> × <i>Tier3</i> (Or <i>Post</i> × <i>Tier4</i> )	2.615***	1.476*	0.514	0.355	2.269**	1.127
	(0.006)	(0.070)	(0.315)	(0.440)	(0.021)	(0.178)
<i>Controls</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Beneficiary FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Sector FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Activity FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,190	1,190	1,190	1,190	1,190	1,190
Adjusted R-squared	0.172	0.170	0.153	0.159	0.211	0.213

Note: Table 7 reports the results of testing regressions concerning accuracy and usefulness of charity reporting against the 2015 Reform (*Post*) and small charities' regulatory exposure (*Tier3* and *Tier4*) to this differentiated regulation change, controlling for charities characteristics. Panel A shows the results of OLS regressions testing the post-Reform increase in accuracy and usefulness for small charities of Tier 3 and Tier 4, respectively. The dependent variables are: 1) *TCorrect* (as defined before); 2) *TUsefulness* (as defined before); 3) *Chg\_TUsefulness* (as defined before). Panel B shows the results of logistic regressions testing the individual accuracy proxies of charity reporting against the 2015 Reform (*Post*) and small charities' regulatory exposure (*Tier3* and *Tier4*) to this differentiated regulation change, controlling for charities characteristics. *CorrectTGI*, *CorrectTEXP*, *CorrectTEAdded*, and *CorrectAA* are as defined as before. Panel C reports the results of OLS regressions that examine the individual Usefulness proxies of charity reporting against the 2015 Reform (*Post*) and small charities' regulatory exposure (*Tier3* and *Tier4*) to this differentiated regulation change, controlling for charities characteristics. The individual usefulness proxies are defined as before. All variable definitions are provided in the Appendix. Standard errors are adjusted for clustering at the charity level. *p*-values are reported in the parentheses. \*\*\*, \*\*, and \* denote statistical significance levels at 1%, 5% and 10%, respectively.