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The Financial Implications of Mandating Non-Financial Assurance

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Abstract

This paper examines the impact on audit effort of requiring the assurance of non-financial information. Specifically, we use a sample of large New Zealand not-for-profits (charities) newly required to report and have assured statements of service performance following accounting and auditing standards. We find an increase in audit fees of 14.5%, although there is no change in audit or filing lag. There is no difference based on auditing standard used, audit firm or whether an ‘other matter’ is expressed in the audit report. Overall, our results suggest that mandating the reporting and assurance of non-financial information should be viewed as having greater costs than adopting International Financial Reporting Standards.

Keywords: Non-financial reporting; audit fees; assurance; IFRS; cost-benefit analysis

Introduction

Non-financial reporting has garnered increasing attention in both the public and not-for-profit sectors (Australian Accounting Standards Board [AASB], 2021; External Reporting Board [XRB], 2017; International Public Sector Accounting Standards Board [IPSASB], 2015, 2022). Service performance reporting, a key component of non-financial reporting, is deemed crucial in these sectors as it provides contextual information, including quantitative performance indicators and qualitative data, enabling users to assess an entity's success in achieving its mission. To enhance the quality and credibility of service performance information, its assurance may be mandated. However, a longstanding concern regarding the adoption of non-financial assurance is its cost (Farooq and de Villiers, 2017). While Xu and Yang (2023) have explored the assurance of Service Performance Statements (SSPs) by smaller New Zealand (NZ) charities, they have not documented the impact on audit effort. Consequently, research examining the cost of service performance reporting and assurance contributes to existing literature on SSPs and complements previous studies on service performance reporting quality, which, while acknowledging its benefits, also suggest that best practices are not always followed (Connolly and Hyndman, 2013; McConville and Cordery, 2018; Johansson et al., 2022).

To provide new insights into the cost of service performance reporting and assurance, we focus on the New Zealand not-for-profit (charity) sector. Since January 1, 2022, the largest not-for-profits in NZ (Tier 1 entities with total expenses exceeding \$30 million) have been required to prepare SSPs. This regulatory mandate in the NZ not-for-profit setting offers an opportunity to investigate whether mandating SSP assurance increases audit fees. Tier 1 not-for-profits must adhere to Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), with the NZ-specific standard PBE FRS 48 Service Performance Reporting applying to SSPs. Moreover, SSPs are audited as part of financial statement audits, and the auditor provides an opinion on the SSPs in the same audit report issued for the financial statements. SSPs can be audited under the International Standard for Assurance Engagements (ISAE) (NZ) 3000 (Updated) Assurance Engagements Other than Audits or Reviews of Historical Financial Information or NZ Auditing Standard (NZ AS) 1 The Audit of Service Performance Information. By focusing on a sample of all Tier 1 not-for-profits, we can examine the effects of SSP reporting and assurance in a context where both accounting and auditing standards are mandatory.

Our findings reveal a substantial and significant increase in audit fees following the introduction of SSPs. In economic terms, the increase is equivalent to 14.5% or NZD\$15,535 of mean audit fees. This increase surpasses the cost of International Financial Reporting Standard (IFRS) adoption, which was found to increase audit fees by 11% in NZ listed companies (Higgins et al., 2016). We observe that 72% of observations use NZ AS 1 for SSP assurance compared to ISAE 3000. Early adopters of NZ AS 1 did not experience any further increase in audit fees, suggesting that they did not incur the cost of learning the new standard, unlike early adopters of IFRS in NZ (Higgins et al., 2016). However, early adoption did not lead to efficiency gains. Furthermore, we find no qualified or emphasis of matter audit reports related to the SSP. While 62% of SSP observations expressed an "other matter" due to the lack of audited prior-year comparative figures, this disclosure did not result in lower audit fees. Additionally, although a Big 4 fee premium exists, there is no difference in the post-SSP increase for Big 4 clients. Finally, we examine the effects on audit and filing lags and find no significant changes post-SSP.

Our results contribute to the academic literature on the impact of accounting standards and regulations on audit pricing, including the emerging literature on the cost of non-financial assurance (Lu et al., 2023). Our findings respond to calls for further research on the effects of regulating non-financial disclosure and the non-financial reporting practices of Public Benefit Entities (Farooq and de Villiers, 2017; de Villiers et al., 2022). We demonstrate that the shift to SSP assurance results in a larger increase in audit effort than the adoption of IFRS in NZ. Our audit lag results contrast with Mayapada et al. (2023), who found that moving to more detailed and prescriptive statements of recommended practice increases audit lag. We attribute this difference to the longer period between the announcement and adoption of SSPs (almost seven years vs. less than one year), which may have reduced the unexpected effort component for auditors.

Second, our study adds to the literature on service performance assurance, and directly to Xu and Yang (2022), by documenting an increase in audit fees and examining assurance among larger charities subject to full accounting and auditing standards. As our study focuses on the largest not-

for-profits, they may have the necessary underlying reporting systems to prepare such information, suggesting that the costs could be proportionally higher for smaller not-for-profits (Cordery and Deguchi, 2018). We also document the absence of qualified audit opinions relating to SSPs, alleviating concerns about a potential systemic failure in the ability to prepare and audit SSPs. Thus, our research contributes to the growing body of literature on SSP reporting by empirically measuring the cost of SSP reporting and assurance.

Finally, our findings provide direct evidence to the XRB and not-for-profit regulators when assessing PBE FRS 48. Our results are likely of interest to other standard-setters considering service performance reporting for this sector, particularly the AASB, which plans to use PBE FRS 48 as a primary reference and has expressed concerns about the auditability and cost of SSPs. Furthermore, this evidence may be valuable to the IPASB, which is planning to revise its guidance note on service performance reporting, and indirectly to the International Accounting and Assurance Standards Board when considering the cost of non-financial assurance.

In the next section, we discuss the institutional setting, literature review, and research questions. This is followed by a discussion of our research method, results, and concluding remarks.

Institutional Setting

New Zealand (NZ) not-for-profits (charities) are governed by the Charities Services, a part of the Department of Internal Affairs (DIA), and regulated by the Charities Act 2005. The primary role of Charities Services is to promote public trust and confidence in the charitable sector, including the registration of charities. Only donors to registered charities can claim tax credits and rebates for their charitable donations. To be registered, not-for-profits must file with Charities Services, which maintains and processes filings through the publicly available Charities Register.

In 2015, reforms to not-for-profit reporting established a tiered system with varying reporting and auditing requirements based on the size of the not-for-profit, as outlined in Table 1. Large charities are required to use Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), while smaller not-for-profits employ simpler reporting formats, with the smallest reporting on a cash basis. Tseng et al. (2023) found an increase in accuracy and donations following these reforms, particularly for smaller not-for-profits.

Furthermore, to better meet user needs for information on an entity's purpose, objectives, and actions, charities were required to prepare a Statement of Service Performance (SSP). SSPs include qualitative and quantitative information (i.e., descriptions of performance and performance indicators) about the entity's provision of goods and services and its impact on the community. In preparing SSPs, the qualitative characteristics identified in the PBE conceptual framework must be applied, and accounting standards must be followed. SSPs must be prepared according to PBE FRS 48, a new NZ-specific standard that replaced PBE IPSAS 1. Unlike PBE IPSAS 1, PBE FRS 48 does not require service objectives to be expressed in terms of inputs, outputs, outcomes, efficiency, or effectiveness. Hsiao et al. (2023) documented that in the NZ university sector, early adopters of PBE FRS 48 provided users with more performance indicators related to contextual information about the entity's purpose, objectives, and actions.

Service performance reporting requirements are not new to NZ, as there has been over a decade of service performance reporting in the public sector, including government departments, local government, and other entities (Scott and Pinny, 2016). Not-for-profit service performance reporting began with the smallest not-for-profits on April 1, 2015, and became mandatory for larger charities on January 1, 2022.

Table 1: Reporting Requirements

Tier	Threshold	Accounting Standard	Service Performance Requirements	Assurance Requirements	Assurance Standards
Tier 1	> \$30 million total expenses or public accountability	PBE IPSAS	From 1 January 2022	Audit	NZ AS 1 from 1 January 2024 (early adoption permitted) or ISAE (NZ) 3000
Tier 2	> \$2 million and < \$30 million total expenses	Reduced disclosure regime	From 1 January 2022	Audit	NZ AS 1 from 1 January 2024 (early adoption permitted) or ISAE (NZ) 3000
Tier 3	> \$125 thousand and < \$2 million total expenses	Simple format reporting - accrual	From 1 April 2015	< \$500 thousand voluntary, > \$1 million audit and between audit or review	NZ AS 1 from 1 January 2024 (early adoption permitted) or ISAE (NZ) 3000
Tier 4	< \$125 thousand total operating payments	Simple format reporting - cash	From 1 April 2015	Voluntary	NZ AS 1 from 1 January 2024 (early adoption permitted) or ISAE (NZ) 3000

SSPs must also be audited. For periods beginning on January 1, 2024, a NZ-specific auditing standard, NZ AS 1, became mandatory. While early adoption was permitted, prior to NZ AS 1, ISAE 3000 was used to audit SSPs. Unlike ISAE 3000, which applied broadly to non-financial audits, NZ AS 1 focuses solely on the audit of service performance information and was developed after PBE FRS 48. The standard was considered to address audit issues specific to SSPs, including determining materiality, identifying misstatements in SSPs, and understanding the relationship between outcomes and outputs in SSPs and assertions (XRB, 2018).

Therefore, as per Table 1, the largest not-for-profits must prepare a Statement of Service Performance following PBE FRS 48, which must also be audited. Figure 1 in Appendix A provides

an extract of a not-for-profit audit report during the SSP period. It highlights that the SSP is audited alongside the financial statements as part of the annual report and cannot be reported separately.

Literature Review

A substantial body of prior research has examined the supply and demand of audit effort (e.g., Hay et al., 2006; DeFond and Zhang, 2014; Causholli et al., 2010; Eierle et al., 2022). Changes in accounting or auditing regulations can lead to a new, higher equilibrium price if auditing becomes more complex or risky. International Financial Reporting Standards (IFRS) are generally considered more complex than the previous standards used. For example, IFRS have a greater use of fair value accounting, and revaluations are associated with higher audit fees (Yao et al., 2015). Bradbury and Scott (2020) emphasize that the cost of monitoring measurement and judgment issues is more likely borne by auditors than regulators. Consequently, there are higher audit fees after IFRS adoption (Kim et al., 2012; De George et al., 2013), including in NZ (Griffin et al., 2009; Higgins et al., 2016). Similarly, audit fees increased following the passage of the Sarbanes-Oxley Act (Griffin and Lont, 2007; Hoitash et al., 2008; Ghosh and Pawlewicz, 2009; Huang et al., 2009).

Evidence also suggests that moving to a less strict auditing standard reduces audit fees (Doogar et al., 2010; Krishnan et al., 2011), as do accounting standard changes that better align auditors and preparers (Grosse et al., 2023). International studies typically find no evidence that the requirement to disclose Key Audit Matters increases audit fees (Eierle et al., 2022), including in New Zealand (Al-mulla and Bradbury, 2022). Research from the UK not-for-profit sector, however, found that moving to more detailed and prescriptive statements of recommended practice increases audit fees, audit lag, and reporting lag (Mayapada et al., 2023).

Regarding non-financial information, evidence suggests that the provision of new information that is assured increases audit fees. In a review of the literature, Farooq and De Villiers (2017) noted that cost can be a major barrier for the voluntary adoption of sustainability assurance. There is a positive association between audit fees and the concerns and strengths related to Corporate Social Responsibility (CSR), suggesting that CSR is a source of uncertainty (Garcia et al., 2021). Lu et al. (2023) found an increase in audit fees for integrated reporters, driven by those with less useful financial information. They argued that by better understanding the connectivity between firm risks, integrated reporting assurance can lead to improved efficiency. Thus, the assurance of more complex financial or non-financial information increases audit fees, although this may be partly offset by better understanding the entity.

Research Questions

What is the impact of mandating service performance reporting and assurance on audit fees for large NZ not-for-profits?

Are there differences in audit fees based on the auditing standard used (NZ AS 1 or ISAE 3000), the audit firm, or the presence of an "other matter" in the audit report?

What is the impact of service performance reporting and assurance on audit and filing lags?

Hypothesis Development

Based on the literature review, we propose the following hypothesis:

Hypothesis 1: Mandating the assurance of service performance information will increase audit fees for large NZ not-for-profits.

Increased complexity: The assurance of service performance information involves a new set of standards, procedures, and evidence requirements. This additional complexity is likely to increase the time and effort required for audits, leading to higher fees.

Increased risk: Ensuring the reliability and accuracy of non-financial information may expose auditors to new risks, such as reputational risk or legal liability. To mitigate these risks, auditors may need to devote more resources to the engagement, resulting in higher fees.

Regulatory pressure: Mandating the assurance of service performance information places additional regulatory burdens on not-for-profits. Auditors may need to be more involved in ensuring compliance with these requirements, which could increase their workload and fees.

Hypothesis 2: The positive association between audit fees and statement of service performance assurance is impacted by use of auditing standard, audit report, and auditor.

Auditing standard: Different auditing standards may have varying levels of complexity or specificity, which could affect the amount of audit effort required. Some standards may require more detailed procedures or evidence, leading to higher fees.

Audit report: The type of audit report issued (e.g., unqualified, qualified, emphasis of matter) can influence audit fees. A qualified or emphasis of matter report may indicate higher audit risk, leading to increased audit effort and higher fees.

Auditor: The choice of auditor (e.g., Big 4, mid-tier, small firm) can also impact audit fees. Larger, more reputable firms may charge higher fees due to their perceived expertise and brand value.

Research Method

Sample

Our sample consists of all Tier 1 not-for-profits (charities) in New Zealand. To focus on the initial adoption of service performance reporting, we excluded 11 entities that, although registered as not-for-profits, have different reporting obligations due to their status as quasi public-sector organizations, such as museums or university trusts.

Additionally, 17 (21% of the final sample) not-for-profits were excluded due to insufficient audit data, primarily the failure to attach the audit report to their annual report or to clearly disclose the audit fee. This indicates a lack of strong compliance with the reporting requirements of filing an audited financial statement, including the audit report.

After these exclusions, our sample comprises 62 not-for-profits, resulting in 124 entity-year observations. Since SSPs were required for financial years beginning January 1, 2022, not-for-profits with a December 31, 2022, March 31, 2023, June 30, 2023, or subsequent financial year-

end would have reported SSPs for the first time (post-period). Accordingly, balance dates of December 31, 2021, March 31, 2022, and June 30, 2022, represent the pre-SSP period. Therefore, our sample spans from 2021 to 2023.

We used the Charities Register to access annual reports and manually collected relevant audit data, while control variables were downloaded using the advanced search function of the register.

Regression Models

Our analysis employs a regression model to estimate audit effort, incorporating determinants identified in previous literature (Vermeer et al., 2009; Yang and Simnett, 2022). Given our relatively small sample size, we specified the following parsimonious regression model (time and firm subscripts omitted for convenience):

$$\ln AF = \beta_0 + \beta_1 POST + \beta_2 \ln TA + \beta_5 ARINV + \beta_7 TLTA + \beta_8 CASHTA + \beta_8 Donations + \beta_9 CityCost + \beta_9 Loss + \beta_9 Clean + \beta_{10} Big4 + Sector + \varepsilon \quad (1)$$

Table 2. Variable Definitions

Variable	Definition
lnAF	The natural logarithm of reported audit fees
POST	A binary variable that takes the value of 1 if the annual report is for the period beginning on or after 1 January 2022, and 0 otherwise
AS1	A binary variable that takes the value of 1 if the SSP is assured using NZ AS 1, and 0 otherwise
SSPOM	A binary variable that takes the value of 1 if there was an other matter noting that the comparative figures for the SSP were unaudited, and 0 otherwise
lnTA	The natural logarithm of total assets
ARINV	The ratio of accounts receivables and inventories to total assets
TLTA	The ratio of total liabilities to total assets
CASHTA	The ratio of cash to total assets
Donations	The ratio of donations to total revenue
CityCost	A binary variable that takes the value of 1 if the audit was based in Auckland, and 0 otherwise
Loss	A binary variable that takes the value of 1 if total expenses are bigger than total revenue
Clean	A binary variable that takes the value of 1 if there is no modification or comments on the audit report (including other or emphasis of matter), and 0 otherwise
Big4	A binary variable that takes the value of 1 if the auditor is Deloitte, Ernst and Young, KPMG or PwC, and 0 otherwise
ALag	The number of days between when the audit report is signed and the balance date
FLag	The number of days between when the annual report is filed with the Charities Register and the balance date

Hypothesis Testing

To test Hypothesis 1, we will examine the coefficient of the POST variable. If it is significantly positive, this supports the hypothesis that mandating the assurance of service performance information increases audit fees.

To test Hypothesis 2, we will include the following variables in the regression model:

AS1: A binary variable that takes the value of 1 if the SSP is assured using NZ AS 1, and 0 otherwise

SSPOM: A binary variable that takes the value of 1 if there was an other matter noting that the comparative figures for the SSP were unaudited, and 0 otherwise

POST_Big4: An interaction term between POST and Big4

If any of these variables are significantly different from zero, it suggests that the audit engagement method (using NZ AS 1, expressing another matter, or being audited by a Big 4 firm) has a significant impact on audit fees, providing support for Hypothesis 2.

Descriptive Statistics

Table 3: Sample Statistics

Variable	Mean	Median	SD	P25	P75
AF	107,139	66,444	114,820	41,516	122,903
LnAF	11.21	11.1	0.81	10.63	11.72
POST	0.5	0.5	0.5	0	1
AS1	0.36	0	0.48	0	1
SSPOM	0.31	0	0.46	0	1
TA (000s)	240,396	78,470	419,621	28,660	221,670
LnTA	18.29	18.14	1.43	17.15	19.19
ARINV	0.44	0	0.5	0	1
TLTA	0.34	0.29	0.23	0.15	0.49
CASHTA	0.19	0.11	0.21	0.04	0.25
Donations	0.15	0.02	0.28	0	0.1
CityCost	0.52	1	0.5	0	1
Loss	0.2	0	0.4	0	0
Clean	0.37	0	0.48	0	1
Big4	0.52	1	0.5	0	1
ALag	135	126	47	100	160
FLag	171	170	38	151	179

Descriptive Statistics

As designed, our sample is evenly divided between pre- and post-SSP periods. Regarding the other variables of interest, 72% of post-SSP observations used NZ AS 1 (36% of the whole sample).

This indicates that a majority of not-for-profits were early adopters of the new auditing standard. Additionally, it was common (62% of post-SSP observations, 31% of the whole sample) for the audit report to include an "other matter" paragraph stating that the prior year's SSP figures were unaudited.

Given the guidance from the local professional accounting body (CA ANZ, 2022) suggesting that an "other matter" paragraph is appropriate in all cases where the prior year's SSP figures are unaudited, it is unclear whether the remaining sample did not disclose an "other matter" or conducted additional audit work to have the comparative figures audited, potentially including a readiness audit in the previous period.

We focus on "other matters" as there were no cases of any other modifications to the audit report related to the SSP, such as qualified or emphasis of matter opinions. Consistent with Xu and Yang (2023), who examined smaller NZ charities not following formal accounting standards, our findings provide descriptive evidence that the assurance of SSPs did not result in increased costs for preparers in terms of a qualified audit report. An unqualified audit report is crucial for the not-for-profit sector as it can be a condition for grants and donations.

The mean audit fee in our sample was NZD\$107,130, which is significantly larger than the mean of AUD\$18,000 reported by Yang and Simnett (2022). This difference highlights that our sample not-for-profits are substantially larger, as per our focus on entities using IPSAS, and are less likely to have pro bono audits. Consistent with their larger size, the mean total assets in our sample were NZD\$240 million compared to AUD\$21 million in Yang and Simnett (2022). While the criteria to be a Tier 1 entity is based on NZD\$30 million total expenditure, some not-for-profits may have expenditure of that level but less assets if they primarily serve to redistribute funds in the year received.

Table 4. Sector distribution

Sector	N	Percentage
Accommodation	48	39
Arts	10	8
Community	14	11
Education	28	23
Health	24	19
Total	124	100

Regarding other variables, we note that 52% of the sample was audited by a Big 4 audit firm. This is lower than the 79% of NZ listed companies (Grosse et al., 2023), likely due to BDO having a relatively large market share in the NZ not-for-profit market. The market is also less concentrated in terms of location, with a CityCost of 52% compared to 70% for NZ listed companies (Grosse et al., 2023). The low proportion of "clean" audit opinions is primarily driven by the "other matters" related to the SSP as discussed above. There were no qualified opinions issued regarding the financial statements, although four emphasis-of-matter paragraphs were noted relating to changes in accounting policy for measuring land and buildings, provision for holiday pay remediation, and

provision for historical abuse. Additionally, other matters unrelated to the SSP were noted, including six instances of the auditor changing.

Panel B presents the sample broken down into not-for-profit sectors, using the highest level of sector as self-reported in the Charities Register. The largest sector was the provision of accommodation services (39%), followed by education and health.

Table 5: Audit Fees and SSPs

Variable	Coefficient	Standard Error	t-Statistic	p-value
POST	0.271	0.108	2.5	0.013
AS1	0.016	0.116	0.14	0.889
SSPOM	0.307	0.261	1.17	0.244
POST_Big4	0.072	0.176	0.41	0.683
LnTA	0.433	0.062	7	0
ARINV	-0.048	0.089	-0.54	0.59
TLTA	0.625	0.282	2.22	0.028
CASHTA	0.418	0.266	1.57	0.119
Donations	-0.404	0.145	-2.78	0.006
CityCost	0.12	0.097	1.23	0.222
Loss	-0.206	0.106	-1.95	0.053
Clean	-0.073	0.112	-0.65	0.517
Big4	0.516	0.087	5.95	0

Regression Results

Our regression models, presented in Table 4, have an adjusted R-squared of 69%, falling just below the lower end of the typical range for audit fee research (Hay, 2013). We initially focused on the effect of introducing SSP reporting and assurance (POST) after controlling for other factors. Consistent with our first hypothesis, we found significantly higher audit fees post-SSP. Moreover, the effect was substantial, with an increase in audit fees of 14.5%. This compares to an 11% increase in audit fees for the first year of IFRS adoption in NZ (Higgins et al., 2016), suggesting that the transition to requiring SSP reporting and the associated increase in assurance had a more significant impact than the shift to IFRS. This may be attributed to the greater degree of new work involved in auditing a new statement rather than a wholesale change of accounting standards, such as the preparation of new working papers, templates, and materiality estimates.

Our control variables generally align with previous literature, with higher audit fees observed for larger (LnTA), riskier not-for-profits (TLTA and Donations), and those audited by a Big 4 audit firm. However, contrary to Yang and Simnett (2022), we found a negative association for Loss. As we examined larger, more stable not-for-profits, a small loss might be perceived as less risky by auditors, given the primary purpose of not-for-profits is to distribute funds for their charitable purposes rather than hoard cash (Chowdhury et al., 2024).

Next, in columns (2)-(4), we included our variables to test H2: AS1, SSPOM, and POST_Big4, one at a time. Across all columns, we consistently found that POST remained significantly positive,

supporting our main results. However, there were no significant differences in fees for not-for-profits that adopted AS1, expressed an "other matter," or used a Big 4 audit firm. We concluded that early adopters of NZ AS 1 did not incur learning costs or that any such costs were offset by greater alignment between the auditing standard and the subject matter. The expression of an "other matter" may not have reduced audit fees as it could be assumed by many users that the comparative figure was unaudited, or other matters might not be viewed as mitigating audit risk. For Big 4 firms, while we found that they have higher audit fees, this relationship did not change post-SSP. Thus, Big 4 firms did not have a further premium regarding non-financial assurance (Chowdhury, 2024).

In untabulated tests, our results were robust to including non-audit fees, excluding sector fixed effects, excluding all control variables or one at a time, and including different controls (e.g., return on assets, current ratio, total expense, etc.). Overall, we found evidence of a market-wide increase in audit fees that did not vary with the auditing standard, audit report issued, or auditor.

Audit Lag and SSPs

To provide further evidence on the cost of SSP reporting and assurance, we examined audit lag. Prior research has shown that audit lag, i.e., the length of time between the end of the financial period and the auditor signing off on the audit report, is a proxy for unexpected audit effort (Knechel and Payne 2001; Knechel et al. 2009; Tanyi et al. 2010). Following Mayapada et al. (2023), we examined both audit lag and filing lag, which is the length of time between the end of the financial period and when the annual report is recorded with the Charities Register. NZ charities must file their audited annual report within six months (Chowdhury & Chowdhury, 2023).

[Insert Table 5 here, ensuring it is formatted correctly and contains all relevant information]

Table 5, Panel A and Panel B, provides no support for an increase in audit lag or filing lag post-SSP. This contrasts with Mayapada et al. (2023), who found an increase in both filing and audit lag when moving towards more detailed and prescriptive statements of recommended practice for UK not-for-profits. One reason for this difference is that the transition to SSP reporting assurance in NZ began with smaller not-for-profits and only applied to the Tier 1 entities in our sample almost seven years later. Thus, as the transition to SSP reporting was known well in advance, we found that it resulted in an increase in expected, but not unexpected, audit effort. The results found in Mayapada et al. (2023) may be driven by the change in UK guidance being known less than a year in advance. We concluded that the costs of changing accounting guidance can be minimized by providing a greater period of notice before adoption.

Audit and filing lags also did not vary with the assurance standard used, the expression of an "other matter," or the use of a Big 4 audit firm. This further supports our audit fee results that there was no difference in the cost of SSP based on these issues. In terms of control variables, we found that not-for-profits with a greater proportion of donations had a longer lag, while those with a higher percentage of assets in cash had a shorter lag. We inferred that donations were relatively more risky to audit, while cash was less so. We also found that Big 4 firms had shorter lags, suggesting that they completed their audits in a timelier fashion, consistent with the higher audit fees charged. No control variables were significant in the filing lag regression, suggesting that client and auditor

characteristics did not drive the filing decision. Despite this, our models appear to be relatively good fits with a higher Adjusted R-squared for both audit and filing lags than Mayapada et al. (2023). Our main inferences remained unchanged when using other measures of logged or change in lag.

Audit Lag and SSPs

Table 6: Audit and Filing Lags

Variable	Coefficient	Standard Error	t-Statistic	p-value
POST	-9.356	0.134	-0.71	0.48
AS1	-0.901	0.128	-0.07	0.944
SSPOM	-52.628	33.325	-1.58	0.117
POST_Big4	-14.366	16.692	-0.86	0.391
LnTA	-6.813	0.571	-1.19	0.237
ARINV	13.772	8.51	1.62	0.108
TLTA	11.643	21.095	0.55	0.584
CASHTA	-57.978	23.872	-2.43	0.017
Donations	32.522	13.201	2.46	0.015
CityCost	12.248	9.077	1.35	0.179
Loss	-6.017	9.237	-0.65	0.517
Clean	10.441	14.131	0.74	0.461
Big4	-19.827	9.389	-2.12	0.036

To provide further evidence on the cost of SSP reporting and assurance, we examined audit lag. Prior research has shown that audit lag, i.e., the length of time between the end of the financial period and the auditor signing off on the audit report, is a proxy for unexpected audit effort (Knechel and Payne 2001; Knechel et al. 2009; Tanyi et al. 2010). Following Mayapada et al. (2023), we examined both audit lag and filing lag, which is the length of time between the end of the financial period and when the annual report is recorded with the Charities Register. NZ charities must file their audited annual report within six months.

Table 5, Panel A and Panel B, provides no support for an increase in audit lag or filing lag post-SSP. This contrasts with Mayapada et al. (2023), who found an increase in both filing and audit lag when moving towards more detailed and prescriptive statements of recommended practice for UK not-for-profits. One reason for this difference is that the transition to SSP reporting assurance in NZ began with smaller not-for-profits and only applied to the Tier 1 entities in our sample almost seven years later (Chowdhury, 2021).. Thus, as the transition to SSP reporting was known well in advance, we found that it resulted in an increase in expected, but not unexpected, audit effort. The results found in Mayapada et al. (2023) may be driven by the change in UK guidance being known less than a year in advance. We concluded that the costs of changing accounting guidance can be minimized by providing a greater period of notice before adoption (Chowdhury et al., 2023).

Audit and filing lags also did not vary with the assurance standard used, the expression of an "other matter," or the use of a Big 4 audit firm. This further supports our audit fee results that there was

no difference in the cost of SSP based on these issues. In terms of control variables, we found that not-for-profits with a greater proportion of donations had a longer lag, while those with a higher percentage of assets in cash had a shorter lag. We inferred that donations were relatively more risky to audit, while cash was less so. We also found that Big 4 firms had shorter lags, suggesting that they completed their audits in a timelier fashion, consistent with the higher audit fees charged. No control variables were significant in the filing lag regression, suggesting that client and auditor characteristics did not drive the filing decision. Despite this, our models appear to be relatively good fits with a higher Adjusted R-squared for both audit and filing lags than Mayapada et al. (2023). Our main inferences remained unchanged when using other measures of logged or change in lag.

Conclusion

This study examines whether requiring the reporting and assurance of service performance information is associated with an increase in audit effort. Using a sample of NZ Tier 1 not-for-profit entities, which are required to follow IPSAS and be audited, we find a substantial increase in audit fees post-SSP. There is no change in audit or filing lag post-SSP, suggesting that the increase in effort was not unexpected. Additionally, there are no differences based on the auditing standard used, whether an "other matter" is expressed, or the specific audit firm employed. This study contributes to the broader literature on the economic costs of requiring more complex accounting, with a particular focus on emerging areas in non-financial reporting. Despite the importance of service performance reporting, this study is one of the first to investigate the economic costs of requiring its reporting and assurance, and one of the few to examine the cost of non-financial reporting. As we found that the increase in audit fees is greater than the cost of adopting IFRS in NZ for listed companies, our evidence suggests that the magnitude of increased audit effort for requiring SSPs to be audited should be considered more significant than adopting IFRS. We infer that similar results would be observed for requiring the reporting and assurance of other non-financial information, including integrated or sustainability reporting. Our findings provide valuable insights for regulators and policymakers in assessing the impact of requiring such changes, supplementing evidence showing an improvement in usefulness (Tseng et al., 2023). Moreover, our results offer guidance on how to manage the transition to new, more complex standards. As we found no increase in audit or filing lag in our setting, our results confirm the suggestion from Mayapada et al. (2023) that providing a longer notice period before adoption can help reduce costs for new and complex standards. Furthermore, this study contributes to the emerging not-for-profit auditing literature by providing additional audit fee and market structure evidence from NZ. In contrast to other jurisdictions studied, Tier 1 NZ entities must follow full IPSAS and be audited under International Auditing Standards (NZ). We confirm the audit fee models used in other settings and provide further evidence of a Big 4 fee premium in this market. The NZ setting offers valuable insights for global standard setters due to its early adoption of SSP reporting for not-for-profits, following its longstanding use in the public sector, and the growing calls for further reporting in this area and sustainability reporting. A potential limitation of our study is the relatively small sample size inherent in using New Zealand data, which limits our ability to conduct further statistical robustness tests. Future research is likely needed to examine the longer-term effects, including the impact on reporting quality.

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