



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

Information and assurance needs of the users of Tier 2 for-profit Entity Financial Reports



Massey Research Team:

Fawzi Laswad, Warwick Stent, Nives Botica Redmayne, Lei Cai, and Dimu Ehalaiye

This document last modified ---- 21/12/2017

List of Abbreviations

FMA	Financial Markets Authority
GAAP	Generally accepted accounting practice
GPFR	General purpose financial reports
IFRS® Standards	International Financial Reporting Standards
NZ IFRS RDR	New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime
SMEs	Small and medium-sized entities (and/or private entities)
SPFR	Special purpose financial reports
T1FP	Tier 1 for-profit
T2FP	Tier 2 for-profit
IRD	Inland Revenue Department
XRB	External Reporting Board

Table of Contents

Executive Summary.....	6
Background	6
Research objectives	6
Literature review.....	6
Population of T2FP entities.....	7
Research design and subjects	7
Survey findings.....	7
Suggestions for improvements	11
1. Introduction	13
2. Reporting by small and medium enterprises in selected jurisdictions.....	13
3. Literature Review	14
4. Reporting obligations of T2FP entities.....	20
5. Assurance obligations of T2FP entities	22
6. Research design	22
6.1 Literature review.....	23
6.2 Population of T2FP entities in NZ.....	23
6.3 Survey of key user groups.....	23
6.4 Interviews of selected users	23
7. The population of T2FP entities.....	24
1. Statistics New Zealand National Annual Enterprise Survey (AES).....	24
2. Large Overseas Companies.....	27
3. For-profit public sector entities.....	27
4. FMC reporting entities.....	27
5. An estimate of the T2FP population.....	28
8. The survey and its findings	29
Survey design	29
Respondents	29
Q1 Usage of T2FP financial reports.....	32
Q2 Type of decisions for using financial reports.....	34
Q3 Usefulness of components of financial statements in T2FP financial reports	36
Q4 Information in T2FP financial statement that is not useful.....	39

Q5	Information not provided in T2FP financial statements	39
Q6	Sources of information	41
Q7	Interest in other information	43
Q8	Usefulness of other information	43
Q9	Preparation and assurance of financial statements for T2FP entities	46
Q10	Assurance of T2FP entities	46
Q11	Views on importance of assurance matters or other engagements for T2FP financial statements.....	50
9.	Vignettes of usage of financial statements	55
	Regulator – FMA Advisor	55
	Regulator – IRD investigators.....	56
	Bank lender	56
	Corporate Trustee.....	56
	Advisor and non-executive director	57
10.	Limitations.....	57
11.	Conclusion	57
12.	Suggestions for Improvements	58
	Appendix A.....	61
	Appendix B. The survey.....	68
	References	82

Tables

Table 1:	2015 and 2014 Enterprises by entity type and size	26
Table 2:	Overseas companies and their reporting obligations.....	27
Table 3:	The reporting framework of FMC reporting entities*	28
Table 4:	T2FP population estimate	28
Table 5:	Respondents’ knowledge, skills and experience *	29
Table 6:	The types of T2FP entities that respondents have an interest in	30
Table 7:	Interest in an entity that is not a T2FP entity but elected to report as such.....	31
Table 8:	Usage of T2FP financial reports	32
Table 9:	Use of T2FP financial reports by group.....	33
Table 10:	Average importance of the types of decisions for which T2FP financial reports are used (out of 100).....	35
Table 11:	Usefulness of components of T2FP financial statements.....	38
Table 12:	Information in T2FP financial statements that is not useful.....	40
Table 13:	Information not provided in T2FP financial statements that would be useful	40

Table 14: Average importance of key sources of information used in making decisions (out of 100)	42
Table 15: Interest in other information	44
Table 16: Usefulness of other information	44
Table 17: The number and percentage of respondents indicating the preparation of financial statements and assurance	48
Table 18: The usefulness of various assurance types	49
Table 19: The importance of assurance matters	52
Table 20: The assurance of various matters	54

Figures

Figure 1: Significant associations between usefulness scores of components of financial statements and respondents' knowledge and skills, and experience.....	36
Figure 2: Significant associations between usefulness scores of components of financial statements and assurance	47

Executive Summary

Background

The External Reporting Board's (XRB) Strategic Plan 2016-2021¹ sets out priorities for the five-year period to June 2021. This research project contributes to a key objective of the strategic plan, namely to ensure that accounting and assurance standards are based on the user-needs approach.

In 2016, the XRB published a report entitled *Information Needs of Users of New Zealand Capital Markets Entity Reports* which focussed on Tier 1 for-profit reporting entities. This report extends the XRB's assessment of the extent to which General Purpose Financial Reports (GPFRs) of New Zealand (NZ) for-profit entities satisfy the needs of users through a similar research conducted in respect of Tier 2 for-profit (T2FP) entities.

In particular, this research report addresses the question of whether New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR) and assurance requirements for T2FP entities are fit-for-purpose and result in GPFRs that satisfy user needs.

The findings of this research should further inform the XRB on user-needs and assist in evaluating current accounting and assurance standards as well as in identifying priorities, if any, for improving financial reporting and assurance of T2FP entities.

Research objectives

This research has three objectives:

1. Review the literature relating to financial reporting and assurance for T2FP entities.
2. Estimate the population of T2FP entities in New Zealand.
3. Survey the users of T2FP entities on various matters relating to financial reporting and assurance.

Literature review

We reviewed the literature on both user information needs as well as voluntary audits of small and medium-sized entities (SMEs) and/or private entities, although the definitions of SMEs vary across countries, reflecting the size of the economy and the level of economic development.

Prior literature identifies insider shareholders (owners/managers), bankers, and tax authorities as the main users of SMEs' financial reports. Owners and internal managers of SMEs use financial reports for a variety of reasons, such as to monitor performance and to assess business risks. Banks use financial statements of SMEs mainly to determine security, liquidity, and capacity to repay loans. Tax authorities require information about SMEs'

¹ The XRB's Strategic Plans can be accessed on: <https://www.xrb.govt.nz/about-xrb/accountability-documents/>

profitability to ensure the correct amount of tax is being paid. Prior studies that examine whether there is a need for differential reporting between large entities and SMEs provide strong arguments supporting the adoption of a reduced set of accounting standards for SMEs or private entities in order to reduce costs of compliance.

Prior literature on voluntary audits indicates that several incentives motivate SMEs and private entities to have their financial statements audited, even when there are no statutory obligations for audit. There are three main drivers for SMEs and private firms to engage in voluntary audit: first, to reduce agency costs between majority owners and minority owners as well as between owners and creditors; second, to improve internal control; and third, to improve credit ratings and to reduce cost of capital.

Population of T2FP entities

We estimate the population of T2FP entities, based on national enterprise data obtained from Statistics New Zealand as well as data on “FMC reporting entities”² obtained from the Financial Markets Authority (FMA), data on large overseas companies obtained from the Companies Office register, and data on large for-profit public sector entities obtained from the Office of the Auditor-General. Our analysis of the data available indicates that there are approximately 2,246 T2FP entities operating in New Zealand.

Research design and subjects

A survey was designed and made available online to potential users of financial statements of T2FP entities. Questions focussed on obtaining respondents’ views on the usefulness of financial statements and other sources of information as well as the usefulness of audit and other assurance engagements. Seventy-nine respondents participated in the survey representing shareholders, lenders, regulators and various others with interests in financial reporting by T2FP entities.

To gain further insights and a deeper understanding of users’ information needs, follow-up interviews were conducted with five of the survey questionnaire respondents, namely a commercial lender, a trustee with oversight of T2FP entities, an advisor to a T2FP entity, and staff from two regulatory bodies.

Survey findings

Q1. Use of T2FP financial reports

- About 60% of respondents indicate that they use the information in T2FP financial reports (‘users’). These ‘users’ include 77% of the shareholder respondents and 100% of the regulator respondents.
- ‘Non-users’ include:

² “FMC reporting entities” as defined in s. 451 of the Financial Markets Conduct Act 2013.

- Lenders, most of whom rely on special reports they demand from T2FP entities for lending purposes.
- Some advisors who have access to all management information of the T2FP entities they are involved with.
- Some 'non-users' who express negative views about T2FP financial statements, including claims that they are too complex and are of no interest to them.

Q2. Types of decisions for which T2FP financial reports are used

Although the greatest proportion of 'users' indicate that T2FP financial reports are used to monitor management (24%), the use of T2FP financial reports tends to vary, depending on the users' different information needs:

- Shareholders use T2FP financial reports mainly for equity investment (43%).
- Lenders use T2FP financial reports mainly for lending purposes (54%).
- Advisors use T2FP financial reports mainly for monitoring management (45%).
- Regulators use T2FP financial reports mainly for 'other' purposes (71%), which on further investigation focussed on monitoring regulatory compliance, including compliance with tax legislation.
- 'Other' respondents use T2FP financial reports mainly for monitoring governance (41%).

Q3. Usefulness of components of T2FP financial statements

- All financial statement components of T2FP financial reports are rated as useful.
- The statement of financial position and the statement of profit and loss are ranked as the two most useful statements, followed by the statement of cash flows.
- The statement of changes in equity is rated as the least useful.

Q4. Information provided in T2FP financial statements but not useful to users

- Most respondents (57%) indicate that all information in T2FP financial statements is useful.
- Respondents who indicate that there is information in T2FP financial statements that is not useful suggest that the notes on the financial statements could be simplified and made shorter.

Q5. Information not provided in T2FP financial statements that would be useful to users

Most 'users' (62%) do *not* require additional information; however:

- Most regulators (86%) indicate they require additional information, i.e. they specified additional information such as more details on related party transactions and parent standalone accounts when consolidation is required.
- Some shareholders were in favour of additional information on company strategy and enhanced segment reporting.
- Only 36% of lenders indicate the need for disclosure of additional information in T2FP financial statements. Such information needs include details regarding loan repayment obligations and clearer narratives on contingent liabilities.

- Other ‘users’ also suggest that a qualitative report identifying notable business risks in relation to the business sector of a T2FP entity be included as additional information in T2FP financial statements.

Q6. Sources of information

All user groups, except lenders, rated corporate financial statements as the most important source of information. The next most important source of information is management commentary and analysis (this was highest rated by lenders).

Q7. Interest in other information

Almost two thirds of respondents did not have an interest in other information, although the shareholder and regulator groups indicate contrary views.

Q8. Usefulness of other information

‘Users’ who have an interest in other supplementary information, rate highly narratives that explain the entity’s performance and financial position and summary financial information.

Q9. Preparation of financial statements and assurance

Most respondents indicate that their T2FP entities prepare financial statements that are independently audited or reviewed. Only a small proportion of respondents indicate that their entities do not prepare GAAP financial statements. This is encouraging as it suggests that T2FP entities are complying with reporting and assurance requirements in the absence of a filing or oversight regime.

Q10. Assurance of T2FP entities

Overall, respondents rated audits higher than reviews as assurance engagements. Usefulness of agreed-upon procedures engagements appears to be viewed as lower than audits and reviews. Regulators generally rated both forms of assurance as well as agreed-upon procedures more highly than other user groups.

Analysis of responses indicates that shareholders and lenders are generally less interested in audits as they are either closely associated with the entities concerned or have the power to demand specific information and assurance on that specific information rather than needing assurance over general purpose financial statements.

Other engagements and agreed-upon procedures engagements are seen by the respondents as useful in that they can be specifically tailored to user requirements, and provide factual findings on specific and agreed issues or matters.

Q11. Views on importance of assurance matters or other engagements for T2FP financial statements

It appears that audit and the benefits of an audit are reasonably well understood by the respondents of this study.

Respondents were asked to rank the importance of several matters associated with financial reporting and the type of engagement best suited to obtaining assurance on those matters.

Responses indicate that overall, audits are the most popular engagement type for achieving assurance regarding the following matters:

- To improve the credibility of information (54.6% of respondents).
- To provide checks on adequacy of internal records (54.5%).
- To satisfy lenders (51.5%).
- To help protect against fraud (48.5%).
- To provide early signs of going concern issues (48.5%).
- To provide checks on adequacy of internal controls (45.5%).

Reviews, overall, are a less popular choice of assurance. The highest response rates for reviews and important assured matters are:

- To provide checks on compliance with legislation (39.3%).
- To improve governance (39.3%).
- To provide checks on adequacy of internal controls (30.3%).
- To provide early warnings of going concern issues (30.3%).

From these responses regarding audits and reviews, it appears that there is, overall, a reasonable understanding of audits and reviews as assurance engagements.

Agreed-upon procedures, while less popular than audit and review engagements, are also seen as a way to assist with certain matters, such as:

- To assist in monitoring management performance (33.3%).
- To provide checks on compliance with legislation (27.3%).
- To improve governance (27.3%).
- To provide checks on adequacy of internal records, a way to provide checks on adequacy of internal controls, and a way to protect against fraud (24.2%).

Analysis of comments and follow-up interviews suggest that our respondents are familiar with agreed-upon procedures where there is a need for factual findings on a very specific and mutually agreed matter.

Overall, average responses on the importance of the various matters associated with assurance indicate that the following are seen as most important (1 being not important and 5 being very important):

- To provide a check on adequacy of internal controls over processes (4.5).
- To provide a check on adequacy of internal books/records (4.4).
- To improve the credibility of information (4.4).

However, the specific user's perspective determines what is really valued by a particular user group e.g., shareholders value checks on adequacy of internal controls most highly

(4.3), while lenders place the highest value on the role of assurance in providing early warnings of going concern issues (5.0) and protection against fraud (5.0). Advisors most value the improvement in credibility of information that assurance provides (4.7) and regulators are concerned more with other specific regulatory matters (5.0). Assurance, therefore, appears to be valued, but the importance of various matters associated with assurance varies, depending on circumstances and user groups' perspectives.

Survey questions 12–21 provide some additional descriptive details, which are covered in the detailed report that follows.

Suggestions for improvements

This study provides some suggestions for improvements. These improvements include simplifying financial reporting and enhancing disclosures of specific financial statement items as well as some improvements in assurance of T2FP financial reports.

Simplifying T2FP financial reports

The study's findings show several respondents did not find financial statements to be useful to them because of the length and complexity of T2FTP financial statements. Thus, the financial statements should be simplified further to enhance the users' ability to understand them, especially, the notes on financial instruments. NZ IFRS RDR, as it applies to T2FP entities, provides for significant disclosure concessions. We suggest further disclosure concessions be provided for T2FP entities.

Improvements in disclosures of specific items

The respondents in this study specified items in the T2FP financial statements that could be further improved:

- (a) Financial risk management disclosures: Improving specific business and financial risk management disclosures as several users perceived them as too generic. Some respondents suggest making such disclosure more specific to each business for which T2FP reports are prepared.
- (b) Related party transactions disclosures and contingent liabilities disclosures: Respondents indicated that improving and encouraging clearer narratives about related parties and contingent liabilities is very important.
- (c) Segment reporting disclosures: Respondents indicated that improving and encouraging more detailed disclosures of divisional or country operations performance of T2FP entities is important.

Providing 'other' information

Most respondents in the shareholder and regulator groups indicate an interest in other information. Respondents indicate that all types of other information are useful, particularly,

narratives explaining financial performance and position and summary financial information. Information on business strategies and future prospects is also highly rated.

Assurance of T2FP financial reports

Audits and reviews are reasonably well understood by the respondents as assurance engagements. However, there should be continuing education of users regarding the distinction between audits and reviews as possible types of assurance for T2FP financial statements to support and strengthen that understanding. Agreed-upon procedures engagements are useful and the users are familiar with agreed-upon procedures and their purpose. The use of agreed-upon procedures engagements as alternatives to audits and reviews could be promoted to the users of T2FP entities reports as means to provide limited and specific conclusions.

1. Introduction

This report provides the findings of an examination of the information and assurance needs of users of Tier 2 for-profit (T2FP) entities in New Zealand. It commences with an overview of the reporting requirements by small and medium-sized enterprises in selected jurisdictions and a review of the extant literature covering financial reporting and audit of small and medium-sized for-profit enterprises. This is followed by an examination of financial reporting and audit requirements for T2FP entities in New Zealand. Further, the report provides the findings of an assessment of the population of T2FP entities in New Zealand and the findings of a survey of their users' information and assurance needs.

2. Reporting by small and medium enterprises in selected jurisdictions

In many countries, small and medium enterprises (SMEs and/or private enterprises) that have financial reporting obligations are permitted to adopt a reduced set of accounting and reporting requirements, along with audit and/or filing exemptions, if certain criteria are met. In most jurisdictions, quantitative size criteria are commonly used to define SMEs and as a basis to differentiate their reporting and assurance requirements. For example, today, the IFRS for SMEs[®] Standard is required or permitted for use by SMEs in over 80 jurisdictions around the world.³

In the UK, companies that qualify as small companies under the UK Companies Act 2006 are usually exempt from audit. In the UK, a company is small if it meets two out of three criteria based on turnover, total assets, and number of employees. For periods beginning on or after 1 January 2016, a small company is one with a turnover of less than £10.2m (raised from £6.5m), total assets of less than £5.1m (raised from £3.26m), and the number of employees of less than 50.⁴

Similar to the UK, small companies in Ireland may be exempted from the full extent of the requirements related to preparation and audit of annual financial statements, if two or more of the following requirements are met⁵:

- Turnover does not exceed €8.8m.
- Total assets do not exceed €4.4m.
- Average number of employees does not exceed 50.

In the US, private companies are not required to use a specific basis of accounting in preparing financial reports. For example, the American Institute of Certified Public Accountants (AICPA) allows auditors to issue audit reports on financial statements that are prepared by accounting rules other than US GAAP.

In Canada, private companies have an option to adopt either International Financial Reporting Standards (IFRS[®] Standards) or Accounting Standards for Private Enterprises (ASPE). ASPE is

³ See <http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-SME-profiles.aspx>

⁴ See <http://www.icaew.com/en/technical/audit-and-assurance/faculty/audit-exemption-faqs>

⁵ See <https://www.cro.ie/Annual-Return/Financial-Statements-Requirements/Small-Company>

based on Canadian GAAP, with several simplifications. Adoption of ASPE has no size restriction. That means any private company can use ASPE regardless of size.

In Australia, currently the Australian Accounting Standards Board (AASB) operates a differential accounting reporting framework consisting of two tiers of accounting standards (Tier 1: Australian Accounting Standards and Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements). Under Australia’s existing differential reporting regime, entities that are not “reporting entities” are permitted to prepare “special purpose financial statements”, which do not require compliance with all, or in some cases any, Australian Accounting Standards.⁶

3. Literature Review

We focus on studies that examine the needs of the users of small or private entities’ financial information. We find that most prior studies address the question of whether there is a need for differential reporting between large and small entities for various countries around the world. A summary of the studies on user information needs is presented in [Appendix A](#), Table A1.

These studies indicate that owner/managers, bankers, and tax authorities are the main users of small and private entities’ financial reports. Such users have diverse information needs and perspectives on the costs and benefits of reporting. Furthermore, these users believe that generally accepted accounting practice (GAAP) for small/private companies should be different from GAAP for public companies.

We also reviewed the literature relating to the audits of small private entities that do not have statutory audit obligations. We find that most prior studies, in various country settings, investigate the reasons why small private entities engage in voluntary audit. More specifically, these studies attempt to identify the main drivers or benefits of voluntary audit. A summary of the studies on voluntary audit is presented in [Appendix A](#), Table A2.

The audit-related studies indicate that several incentives motivate small and private entities to have their financial statements audited, even when there are no statutory obligations for audit. These incentives include addressing agency costs between owner-managers and their creditors and external shareholders, enhancing internal control, reducing cost of capital, and improving credit ratings.

User information needs

An early study conducted by Abdel-Khalik et al. (1983) in the US sought to analyse the information needs and costs versus benefits of using GAAP for financial reporting by private companies. They surveyed three principal groups (managers, bankers, and accountants or practitioners) involved with financial reporting by private companies. Their study found that

⁶ See <https://www.cpaaustralia.com.au/~media/corporate/allfiles/document/professional-resources/reporting/issues-paper-for-profit.pdf?la=en>

different parties perceived the costs and benefits of financial reporting by private companies differently. For example, accountants generally rated the cost of compliance and lack of relevance of certain accounting standards (e.g., accounting for leases, deferred income taxes) as the primary reasons for supporting the use of a special set of GAAP for private companies, while both business managers and bankers believed that GAAP financial statements for private companies are more useful, reliable, and understandable in facilitating borrowing/lending decisions.

Similarly, Page (1984) conducted a survey of directors of small independent companies in the US in order to identify the users of small company accounts and determine what information such users required in making their decisions. Their responses indicate that the main users of company accounts are managers, loan creditors, and tax authorities. Assessment of profitability was rated as the most important use of small company accounts, with provision of information to banks in relation to borrowing, and use of information for tax computations was also rated as important.

Knutson and Wichmann (1985) examined whether certain GAAP disclosure requirements are considered equally important or useful between publicly owned and privately owned companies by conducting a survey of practising accounting professionals (CPAs). Their results indicate that disclosure requirements are considered less important for privately owned companies than for publicly owned companies.

More recently, the American Institute of Certified Public Accountants (AICPA) set up a task force to explore whether general purpose financial statements prepared in accordance with GAAP meet the needs of users of private companies' financial reports. The Task Force conducted a survey by using a questionnaire and interviews on a stratified sample of users of private companies' financial statements, including external stakeholders of private companies (primarily lenders, creditors, equity investors, and sureties) as well as the owners and financial managers of private companies, and public accounting practitioners. AICPA (2005) found that general-purpose financial statements under GAAP are rated as moderately-high to high-value to the users of private companies, especially in respect to the characteristics of consistency and comparability. However, most respondents believe that many GAAP specific requirements (such as comprehensive income measurement, leases, guarantees, intangibles, variable interest entities, and share-based payments) are not relevant or useful to users of private company financial reports. Thus, a majority of respondents support differential reporting between public and non-public (private) companies.

The Financial Executives Research Foundation (FERF) (2006) sought to answer the question "what do users of private company financial statements want?", by interviewing the preparers of financial statements from private companies, and commercial and investment bankers. FERG (2006) classified the users of financial statements into internal and external parties. The internal users include company management, owners and directors. The external

users are further categorised into two groups. The first group consists of commercial and investment bankers, insurance companies, leasing companies, vendors and suppliers, who are primarily concerned with the company's collateral and credit worthiness. The second group consists of external shareholders and potential investors, who are more concerned about share values, dividends and future earnings. The results of the interviews indicate that internal managers want information to be provided on both a weekly and monthly basis. For day-to-day operation of the business, they generally do not require the information to be prepared according to GAAP, nor in a full disclosure format. Bankers generally require audited GAAP financial reporting for its accuracy and comparability. Outside investors, however, want more information than is provided by financial statements prepared in accordance with GAAP, are more interested in operating data than financial data, and consider trend lines and year-on-year comparisons to be important. Overall, the results indicate that financial statements of private companies prepared under GAAP do not provide the level of detail wanted by investors or even by bankers.

In Canada, Maingot and Zeghal (2006) conducted a survey on a sample of stakeholders (including managers and owners of small businesses, preparers, auditors, and users of small business accounts) in order to examine whether small business entities (SBEs) in Canada should adopt a simplified or reduced set of GAAP, rather than continue applying the full GAAP used by public companies. The results of the survey show that the main purposes of SBEs' financial reporting are for taxation and borrowing. Their results indicate that stakeholders are not satisfied with full GAAP as used by public companies, as this is considered to be very complex and costly for SBEs. They suggest that the burden of producing financial statements for SBEs should be reduced by simplifying the full GAAP.

In Ireland, Barker and Noonan (1996) conducted a survey of practitioners (preparers) of Irish small company financial statements in order to assess the benefits and costs of financial reporting for small companies, and also to assess the level of support for some exemptions from certain standards for small companies. They identify that the three most important groups of users of financial statements of small companies are owners/directors, banks, and the tax authority (the Revenue). Owners/directors mainly use financial statements in making decisions on borrowing, directors' remuneration, and dividends. Banks tend to focus on capacity to repay, profitability, security, and liquidity. The tax authority is more interested in gross profit, directors' fees, tax provisions, and reasonableness of expenses. General practitioners rated the preparation costs of audited financial statements as the most significant cost to small companies, and they ranked the removal of the audit requirement as the most favoured way to reduce the burden of financial reporting.

In Germany, Eierle and Haller (2009) surveyed the directors of German small to medium enterprises (SMEs) in order to investigate the suitability of the proposed IFRS for SMEs. Contrary to expectations, their results indicate that owners of SMEs are not necessarily involved in management and that many SMEs (especially larger entities) have external shareholders who use financial statements as their most important source of information. Their study also finds that the majority of SMEs see little or no need to provide internationally

comparable financial statements, although smaller entities are quite often involved in exports and imports. Regarding the question of which accounting topics are relevant to SMEs, the study finds that many accounting issues (such as sale of businesses, discontinued operations, leases, share-based payments, and hedging transactions) are correlated with the size of the entities and less relevant for smaller entities.

Evans et al. (2005) reviewed the European literature on SME financial reporting implications, and find significant gaps in the SME reporting literature. They find that very little has been discovered about the actual needs of users of SME financial statements in prior literature, and call for future in-depth studies to determine how the needs of users of SMEs differ from the needs of users of large publicly accountable entities.

Quagli and Paoloni (2012) conducted a survey on preparers and users from 25 EU member countries and four non-EU countries to examine whether they favoured the use of IFRS for SMEs⁷. Their results show strong differences between users and preparers, and between countries. Users tend to favour IFRS for SMEs, while preparers tend to oppose the inclusion of this standard in the EU directives. Although most respondents affirm that in SMEs the user information needs are quite different from investors in listed companies, the criticisms mainly concern the excessive complexity for the small sized companies in both preparation and understanding, and the decreasing comparability at a system level.

Summary

In summary, prior research on financial reporting by small or private entities generally sought to answer the following questions:

- Who are the primary users of small or private entities?
- What information do users require in making their decisions?
- Is there a need for differential reporting between large and small entities?

Most studies (e.g., Abdel-Khalik et al., 1983; Carsberg, Page, Sindall, & Waring, 1985; Barker & Noonan, 1996; Page, 1984; FERF, 2006) identify that the primary users of small or private business entities include insider shareholders (owners and managers), banks, tax authorities, and some other users (e.g., insurance companies, leasing companies, and vendors). It is interesting to note that Carsberg et al. (1985) exclude external shareholders as the main users of small business entities' accounts, as they find that there are only a small number of outside shareholders in the smallest entities. However, Eierle and Haller (2009) indicate that many German SMEs have external shareholders, who use financial statements as their most important source of information.

Regarding the information that various users need in making their decisions, prior studies generally find that owners and internal managers of small entities use financial reports for a

⁷ The IFRS for SMEs is a self-contained Standard issued by the IASB that is designed to meet the needs and capabilities of small and medium-sized entities (SMEs) with no public accountability. Compared with full IFRS, the IFRS for SMEs is less complex. See <http://www.ifrs.org/ifrs-for-smes/pages/ifrs-for-smes.aspx>.

variety of reasons, particularly, to monitor performance. Banks use financial statements of small entities mainly to determine an entity's security, liquidity, and capacity to repay loans. Tax authorities require information about an entity's profitability in order to ensure the correct amount of tax is being paid.

Several studies have sought to determine whether there is a need for differential reporting between large and small entities. Concerns raised focus on the burdens and costs to small businesses if they are required to adopt a full set of accounting standards for their financial reporting. Most of these studies provide arguments supporting the need for differential reporting and the adoption of a reduced set of accounting standards for small or private entities considering their user needs and the costs of compliance.

Voluntary audit

Most studies addressing the incentives for voluntary audit are based on agency theory. Agency theory postulates that an independent audit plays an important role in mitigating the problem of information asymmetry and moral hazard that occurs when investors (the principals) are separate from management (the agents), and the principals are unable to verify the information prepared by the agents (Jensen & Meckling, 1976). Generally, the demand for audit increases when information asymmetries and agency problems are high, because audits can reduce the agency costs arising from self-interest in the agency relationships between shareholders and managers, and between shareholders and creditors.

Compared with public firms where investors, lenders, and creditors are the main users of financial statements, many small private firms are owner-managed, with much more concentrated ownership, and their financial statements are less scrutinised by market participants. Thus, agency costs in small firms are less significant than in large firms. In many countries, small private firms are exempt from statutory audit.

Collis, Jarvis, and Skerratt (2004) conducted a survey of directors of small UK companies to investigate whether company size is associated with the demand for audit. They find that a high proportion of companies conduct voluntary audits, even though they are exempt. Their results suggest that the majority of small companies consider the benefits of audits outweigh the costs. They also find that agency relationships between owners and lenders are a significant influence on the demand for audit by small companies. Collis (2010) further compares the demand for voluntary audit in the UK and Denmark, and finds that firm size (measured by turnover) alone can predict audit demand, but it is not a sufficient surrogate for the motivation of directors to opt for voluntary audit.

Carey, Simnett, and Tanewski (2000) conducted a survey in order to examine voluntary demand for auditing by Australian family businesses, which do not have statutory audit obligations. They find that in the unregulated family business environment, demand for external auditing is positively associated with the proxies of agency conflict (i.e., measured by level of firm debt, the proportion of non-family management, and the proportion of non-

family directors). However, contrary to Collis et al. (2004), they do not find a significant relationship between demand for auditing and firm size.

Abdel-Khalik (1993) explains that small private firms may demand voluntary audit for at least two reasons, even in the absence of separation of ownership and control: one is to comply with constraints placed by creditors, and the other is to provide a mechanism for internal control. More recently, Niemi, Kinnunen, Ojala, and Troberg (2012) examined the drivers of voluntary audit in small private firms in Finland. They identify three main reasons that explain why the demand for audits from small private firms differs from that of large listed companies. These reasons are differences in ownership and governance structures, differences in internal control, and the outsourcing of accounting functions due to lack of internal resources. In particular, their results suggest that outsourcing accounting functions to external accountants causes an agency conflict between owners and accountants, thereby increasing the need for voluntary audits. Ojala, Niskanen, Collis, and Pajunen (2014) conducted a survey of small private firms in Finland to investigate the perceived benefits of audits to owner-managers. They find that owner-managers' perceptions of the competence and reliability of external accountants are positively associated with the perceived benefit of audit. A further study by Collis (2012) investigated the determinants of voluntary audit in small UK companies, and found that voluntary audit is mainly driven by cost, management, and agency factors.

Seow (2010) investigated the perceived usefulness of voluntary audit in small UK companies. Findings from this study indicate that small firms with non-director shareholders who are not involved in day-to-day operations of the company are more willing to engage in voluntary audits, as well as indicating that small firms choose to engage audits to meet creditors' lending requirements. Minnis (2011) examined the role that voluntary audit plays in the debt financing process of privately held firms in the US. The findings are that firms with audited financial statements on average have a much lower cost of debt, which suggests that cost of debt is one of the main drivers of voluntary audit in small private firms. Kim, Simunic, Stein, and Yi (2011) examined the benefit of voluntary external audits in respect to the cost of debt, using a large sample of privately held Korean companies that are exempt from external audit. Consistent with the US study conducted by Minnis (2011), Kim et al. (2011) find that private companies with an external audit pay a significantly lower interest rate on their debts compared with private companies without an audit. Allee and Yohn (2009) used National Survey of Small Business Finances data from 2003, and find that small private US firms with audited financial statements enjoy greater access to credit. Using the World Bank Enterprise Surveys of a large sample of private firms, Hope, Thomas, and Vyas (2011) find that firms with external audits have access to external financing at lower costs. Using a large sample of UK private firms that qualify for audit exemption, Dedman and Kausar (2012) examined the association between firm credit ratings and voluntary audit. They find that firms that retain a voluntary audit have significantly higher credit ratings than those that opt out of audit.

Summary

In summary, prior literature on voluntary audits identifies three main drivers for small private firms to engage in voluntary audits. First, although there is less agency conflict between shareholders and managers, there is more agency conflict between owners and creditors. Thus, small firms do engage in voluntary audits to reduce agency costs. Second, small firms may engage in voluntary audits to improve internal control. Finally, small firms may use voluntary audits to improve credit ratings and reduce cost of capital.

4. Reporting obligations of T2FP entities

The law in New Zealand determines which for-profit entities are required to prepare financial statements that comply with Generally Accepted Accounting Practice (GAAP) (we refer to these as General Purpose Financial Reports (GPFR)). The law also sets out the statutory size criteria to determine if an entity is 'large'. Large for-profit entities are publicly accountable and must prepare financial statements in accordance with GAAP, as determined by accounting standards issued by the External Reporting Board (XRB).

From 1 April 2014, for-profit entities that are not large (i.e. 'non-large entities') are not considered to be publicly accountable. The law has therefore removed the legal requirement for most non-large entities to prepare financial statements in accordance with GAAP. These non-large entities, however, may still need to prepare accounts for governance purposes, for the Inland Revenue Department (IRD), and for their banks. In addition, for-profit non-large entities that are not publicly accountable may, nevertheless, opt under the law to prepare financial statements in accordance with GAAP.

The law uses statutory size thresholds to determine which entities are required to prepare financial statements that comply with GAAP. Under the Financial Reporting Act 2013 (FRA 2013), a 'large' entity is defined as one having total assets in excess of \$60 million or total revenue in excess of \$30 million for the two preceding accounting periods. These thresholds are reduced for overseas companies or subsidiaries of overseas companies to include those with total assets exceeding \$20 million or total revenue exceeding \$10 million (FRA 2013, s. 45⁸).

Legislation that determines whether a for-profit entity is publicly accountable includes the following:

- The Financial Markets Conduct Act 2013
- The Companies Act 1993
- The Partnership Act 1908
- The Limited Partnerships Act 2008

⁸ <http://www.legislation.govt.nz/act/public/2013/0101/latest/DLM4632829.html>

- The Retirement Villages Act 2003
- The Te Ture Whenua Maori Act 1993 (Maori Land Act 1993).

In addition, all for-profit public sector entities are considered to be publicly accountable and must prepare financial statements in accordance with GAAP and apply XRB standards. The Companies Act 1993 also requires (in addition to the large companies) those companies having 10 or more shareholders to prepare financial statements that comply with GAAP.

The FRA 2013, an ‘umbrella’ Act that contains core financial reporting principles and definitions, also requires the XRB to implement a strategy for establishing different tiers of financial reporting requirements for different classes of reporting entities. The XRB’s tier strategy is set out in its Accounting Standards Framework.

The Accounting Standards Framework⁹ for for-profit entities is a two-tier system. The Accounting Standards Framework sets out the criteria for determining the tier that an entity must, or may, report under. Tier 1 for-profit entities apply New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and T2FP entities apply New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). For-profit entities that have “public accountability” (as defined in the Accounting Standards Framework) or are large for-profit public sector entities (with expenses over \$30 million) must apply Tier 1 accounting requirements (NZ IFRS). All other for-profit entities that are publicly accountable may apply Tier 2 accounting requirements (NZ IFRS RDR). Also, non-publicly accountable entities (the non-large entities) may elect to apply either Tier 1 accounting requirements (NZ IFRS) or Tier 2 accounting requirements (NZ IFRS RDR). Moreover, non-large companies¹⁰ with 10 or more shareholders have statutory reporting and audit obligations (with an opt-out option), but do not have a filing obligation. Non-large companies with fewer than 10 shareholders may prepare Special Purpose Financial Reports (SPFR) or may opt in to prepare GPFR that comply with GAAP. They have no audit obligation (but may opt in), and no filing obligation.

In summary, entities that are considered publicly accountable by legislation are required to prepare GPFR that comply with GAAP. All other entities have no statutory financial reporting obligations to comply with GAAP, but may have to comply with requirements of the IRD, their bankers or other parties with whom they transact or may opt, under the law, to prepare financial statements that comply with GAAP.

Taking into account the requirements of the law, the key groups of T2FP entities include:

- FMC reporting entities with a lower level of public accountability (e.g., licensed supervisors and licensed market operators)¹¹.

⁹ <https://www.xrb.govt.nz/why-report/accounting-standards-framework/>

¹⁰ Non-large is defined as assets of no more than \$60 million or revenue of no more than \$30 million for a company and assets of no more than \$20 m or revenue of no more than \$10 m for an overseas company or a subsidiary of an overseas company.

¹¹ The Financial Markets Conduct Act 2013 governs entities known as “FMC reporting entities”. For-profit FMC reporting entities that have a “higher level of public accountability” (as defined in s. 461K of the Financial

- Large domestic entities with no public accountability (e.g., large non-issuer domestic companies).
- Large overseas companies and overseas subsidiaries, and with no public accountability.
- Companies with 10 or more shareholders, unless they opt out with a 95% majority vote.
- For-profit public sector entities with less than \$30 million expenses, and with no public accountability.
- Those entities opting in to T2FP reporting requirements.

5. Assurance obligations of T2FP entities

The law in New Zealand also determines the assurance requirements for entities that have reporting obligations.

The Companies Act 1993¹² imposes auditing obligations on large companies (unless they opt out under the Act), companies that are public entities, large overseas companies, and companies with 10 or more shareholders (unless they opt out under the Act by a 95% majority of shareholders) and companies with fewer than 10 shareholders (if at least 5% of shareholders opt in under the Act). The Companies Act 1993 does not require companies that are not 'large' to have their financial statements audited.

Similarly, legislation relating to a number of other entity types contains assurance requirements, including:

- The Retirement Villages Act 2003¹³, which has been amended to require operators to prepare financial statements and that these financial statements be audited (S. 35C and 35D).
- The Te Ture Whenua Maori Act 1993¹⁴ (s. 276A and 276B), which has been amended to require large Maori incorporations to prepare and file audited annual financial statements.
- The Limited Partnerships Act 2008 (s. 75, 75A and 75G) and the Partnership Act 1908¹⁵ (s. 34C, 34E and 34H) require large partnerships, as defined by the FRA 2013, to prepare financial statements that comply with GAAP and that the financial statements be audited unless the partnership opts out.

6. Research design

The research project was undertaken in four distinct stages.

Markets Conduct Act 2013) fall into Tier 1 of the Accounting Standards Framework and hence are outside the scope of this report.

¹²As amended by the Financial Reporting (Amendments to Other Enactments) Act 2013

<http://www.legislation.govt.nz/act/public/2013/0102/latest/DLM5739902.html>

¹³ <http://www.legislation.govt.nz/act/public/2003/0112/latest/whole.html#DLM6043949>

¹⁴ As amended by the Maori Purposes Act 2017

<http://www.legislation.govt.nz/act/public/1993/0004/latest/whole.html>

¹⁵ <http://www.legislation.govt.nz/act/public/1908/0139/latest/whole.html>

6.1 Literature review

This first stage reveals that most user-needs studies were conducted in selected countries, including Australia, the United Kingdom (UK), the United States of America (US), and the European Union (EU). There are very few studies researching New Zealand users, a factor that emphasises the importance of the second stage of this research project: the empirical research regarding user needs in New Zealand.

6.2 Population of T2FP entities in NZ

Unlike T1FP entities, accurate numbers of the different types of T2FP entities are often difficult to determine because there is no formal requirement to register or file returns specifically as a T2FP entity, hence a lack of centralised data/data collection. The second stage of research therefore involved the use of information from various sources to estimate the total population of T2FP entities in New Zealand, namely, data on business enterprises gathered by Statistics New Zealand (Annual Enterprise Survey), publicly available data on T2FP public sector entities, and publicly available data on overseas companies.

6.3 Survey of key user groups

The third stage of research began with the development of an online questionnaire to assess the information needs of user groups identified in the literature review.

Before launching the online survey, a pilot test of the questionnaire was conducted to eliminate, as far as possible, any potential issues such as ambiguity or bias.

The questionnaire was launched online by using Qualtrics, a leading provider of online research software. In theory, this enabled us to make the survey accessible to the entire population of GPFR users in each of the user groups. The questionnaire was identical for all user groups. A variety of approaches were used to reach the different user groups and encourage high response rates. They were:

- Links to the survey were publicised through various digital and print media channels to attract individual equity/debt investors. These media channels included Facebook, LinkedIn, and a press release online.
- Email invitations were sent to commercial officers in major banks in New Zealand.
- Email invitations were also sent to brokers, and fund managers within leading firms offering these services.
- Assistance was sought from various professional organisations and accounting firms to access their members/client bases.
- Email invitations were sent to regulators with an interest in T2FP entities.

6.4 Interviews of selected users

To gain further insights and a deeper understanding of users' information needs, the final stage of research involved in-depth interviews conducted to probe beyond the survey

questionnaire responses of five selected representatives. Interviewees included a commercial lender involved in T2FP entity lending, a trustee with oversight of a number of T2FP entities, an advisor to a T2FP entity, and staff from each of the two regulatory bodies (FMA and IRD). The interviews were based on the interviewees' earlier responses to the online questionnaires. Each interview was about an hour in length, allowing the researchers to ask open-ended "why" and "how" questions to supplement the limited information available from the closed questions preferred for the online questionnaire. All interviews were recorded and transcribed with the consent of the interviewees.

7. The population of T2FP entities

Accurate numbers of the different types of entities in T2FP are difficult to determine because there is no formal requirement to register or file returns specifically as a T2FP entity, hence there is a lack of centralised data/data collection. Our research approach assesses the population of T2FP entities as follows:

1. We begin by identifying entities with GPFR reporting obligations, using information on business enterprises gathered by Statistics New Zealand (Annual Enterprise Survey). Initial parameters are set to assess the number of entities that meet the statutory definition of 'large' (i.e., total assets exceeding \$60 million or total revenue exceeding \$30 million).
2. Large overseas companies are not included in 1 above, so we identify these from Companies Office data (i.e., total assets between \$20 and \$60 million or total revenue between \$10 and \$30 million).
3. Next, we obtain T2FP public sector entities from Office of the Auditor-General data.
4. We estimate the total population of entities with statutory GPFR reporting obligations by adding the entities determined under steps 1 to 3 above.
5. We then identify the number of Tier 1 reporting entities and deduct this from the above total population to arrive at the T2FP population.

1. Statistics New Zealand National Annual Enterprise Survey (AES)

In order to identify T2FP entities we begin by examining national data from Statistics New Zealand's Annual Enterprise Surveys (AES). These surveys collect economic information, including measures of financial performance and financial position. The target population for AES is all the economically significant businesses operating in New Zealand. The business data used in the AES are compiled mainly from Inland Revenue's financial statements summary form (IR10), which is designed to collect information for statistical purposes and assist in the administration of the tax system. We examine the most recent available data, namely 2014 and 2015 data.

Statistics New Zealand describes the methodology and sources for their AES 2015¹⁶ (2014)¹⁷ as follows:

¹⁶ <http://datainfolplus.stats.govt.nz/Item/nz.govt.stats/c3af2a80-68fe-48d7-ac61-0848ab6c6da3>

¹⁷ <http://datainfolplus.stats.govt.nz/Item/nz.govt.stats/2ab3c334-3ea6-4b50-8a8f-9a2dc0e24693>

- IR 10 information 76.8% (73.0%)
- a postal survey of a sample of business enterprises 3.6% (3.8%)
- weighting the postal survey unit responses to represent the non-sample units 19.2% (21.9%)
- other government data making up the remaining proportions.

Table 1 provides a breakdown of all business enterprises in New Zealand, excluding public sector entities, by entity type and whether they met the statutory size criteria for reporting obligations. Entities that meet the criteria of more than \$60m of assets or more than \$30m of revenue are identified as large and therefore having reporting obligations (T1FP or T2FP), while the balance (assets of equal to, or less than \$60m or revenue of equal to, or less than \$30m) are identified as not large and therefore having no reporting obligations.

The biggest group by entity type is limited liability companies, and this is reflected in the number of entities in that group that are large and therefore have reporting obligations. Industry groups are not tabulated, but the largest industry groups are Rental, Hiring and Real Estate Services followed by Agricultural, Forestry and Fishing. The largest groups by industry in terms of reporting obligations are, however, Financial and Insurance Services followed by Wholesale and Manufacturing.

Table 1: 2015 and 2014 Enterprises by entity type and size

Entity type	2015			2014		
	All enterprises	Large*	Not large**	All enterprises	Large*	Not large**
<i>For-profit</i>						
Individual proprietorship	85,779	9	85,770	79,026	9	79,017
Partnership	60,249	30	60,219	59,511	24	59,487
Registered limited liability company	258,348	2,133	256,215	244,029	2,091	241,938
Co-operative companies	24	12	12	27	15	12
Joint ventures and consortia	1,134	54	1,080	861	48	813
Branches of companies incorporated overseas	885	54	831	882	57	825
Trusts / estates	36,600	84	36,516	34,398	84	34,314
Other business types	1,041	6	1,035	1,029	9	1,020
Total	444,060	2,382	441,678	419,763	2,337	417,426
	100%	0.5%	99.5%	100%	0.6%	99.40%
<i>Not-for-profit</i>						
Incorporated and unincorporated societies and associations	1,332	15	1,317	1,284	15	1,269
Charitable trusts	69	6	63	33	6	27
Total	1,401	21	1,380	1,317	21	1,296
	100%	1.5%	98.5%	100%	1.6%	98.4%
Grand total	445,461	2,403	443,058	421,080	2,358	418,722
	100%	0.5%	99.5%	100%	0.60%	99.40%

*Large: (Total assets > \$60m or Total income > \$30m); ** Not large: (Total assets <= \$60m and total income <= \$30m)

Source: Statistics NEW ZEALAND

2. Large Overseas Companies

The Companies Act (s. 207 and 207D) requires large overseas companies to register and file their financial statements with the Companies Office. As of August 2016, there were 537 registered large overseas companies that included 376 Australian Securities and Investments Commission (ASIC) companies operating in New Zealand. These ASIC companies file with the New Zealand Companies Office as part of data-sharing arrangements in place between ASIC and the New Zealand Companies Office and report under Australian GAAP (i.e., they are not part of the New Zealand T2FP population as they do not report using New Zealand GAAP). The remaining 161 overseas companies are non-ASIC. We have examined the total assets and revenues of these non-ASIC companies to assess whether they fall within T2FP and also assess whether they would have been included in the T2FP population as per the Statistics New Zealand data. Table 2 indicates that the Table 1 T2FP population would be increased by 25 entities.

Table 2: Overseas companies and their reporting obligations

	Reporting obligations	No of companies
ASIC companies	Australian GAAP	376
Non-ASIC companies	NZ reporting obligations**	39
	NZ reporting obligations***	25
	No reporting obligations	<u>97</u>
Total		537

** Included in the T2FP population in Statistics New Zealand data (Total assets > \$60m or Total revenue > \$30m)

*** Not included in the T2FP population in Statistics New Zealand data (Total assets: <= \$60m and >= \$20m or Total revenue: <= \$30m and >= \$10m)

3. For-profit public sector entities

For-profit public sector entities that are not large (total expenses \$30 million or less) apply T2FP financial reporting standards. We have obtained a list of for-profit public sector entities that report as T2FP entities from the Office of the Auditor-General. This list includes 168 T2FP public sector entities.

4. FMC reporting entities

The Financial Markets Authority (FMA) has provided additional data on FMC reporting entities¹⁸ and their classification into Tier 1 or Tier 2. A summary of this data is presented in Table 3. As expected, the majority (81%) of FMC reporting entities report under Tier 1 (NZ IFRS) as they have a “higher level of public accountability” under the Financial Markets Conduct Act 2013. These entities are mainly listed companies. The remainder of the FMC

¹⁸ An ‘FMC reporting entity’ is a concept defined in section 451 of the Financial Markets Conduct Act 2013 (FMC Act) for the purpose of imposing financial reporting obligations in Part 7 of that Act. For more information on FMC reporting entities, please see Part 7 of the FMC Act.

reporting entities are classified as having a lower level of public accountability (19%) and report under T2FP (NZ IFRS RDR).

*Table 3: The reporting framework of FMC reporting entities**

Reporting groups	No. of FMC reporting	
	entities	%
Higher public accountability – Tier 1	329	81%
Lower public accountability – Tier 2	<u>76</u>	<u>19%</u>
Total	405	100%

*Source: FMA, July 2016

5. An estimate of the T2FP population

Table 1 indicates that approximately 1.5% of enterprises in New Zealand meet the definition of ‘large’; hence they have GPFR reporting obligations. Table 4 provides an overall summary of how we estimated the population of T2FP entities, showing the additional overseas companies, the T2FP public sector entities, and excluding Tier 1 entities to arrive at a total estimated T2FP population of 2,246.

There are some limitations to this analysis. The population data from Statistics NZ is for 2015 (the most recent data), while the additional analyses of overseas companies, FMC Tier 2, and T2FP public sector entities are from 2016 data. However, comparing the 2014 population data with 2015 population data indicates that the changes in the number of entities between the two years are small. Further, the estimated population of T2FP may include large subsidiaries that are not required to report separately.

Table 4: T2FP population estimate

Source	Number of entities
Statistics NZ AES 2015 (Table 1)	2,382
Additional large overseas companies (Table 2)	25
T2FP public sector entities	<u>168</u>
Total entities with reporting obligations	2,575
Less: Tier 1 reporting entities (Table 3)	<u>(329)</u>
Estimated T2FP population	2,246

8. The survey and its findings

Survey design

There are 21 questions in the questionnaire used in this study. Questions 1–8 explore the usefulness of financial statements and what other sources of information are used in making decisions. Respondents who indicate that they do not use T2FP financial reports in Question 1 automatically skip to Question 6, as the questions on usefulness of financial statements are irrelevant to them. Questions 9–11 relate to audit and other assurance of T2FP entities, and Questions 12–15 relate to the nature and size of T2FP entities that the respondents have an interest in. The remaining questions relate to the background information of the respondents. A sample questionnaire is provided in [Appendix B](#).

Questions 3, 8, 10, 11 and 20 use Likert scales of 1 to 5, where 5 indicates the highest, most useful or important, and 1 indicates the lowest or least useful or important. The arithmetic mean is used to generalise as to the degree of importance indicated by users for these questions (e.g., a factor with a mean of 4.5 indicates high importance, 3 indicates reasonably important, and 1–2 low importance).

Respondents

A total of 79 responses were received¹⁹, comprising 13 shareholders, 27 lenders, 21 advisors, seven regulators, and 11 others. Table 5 shows the average self-rated knowledge, skills and level of experience of the 45 respondents who responded to Question 20 about these variables. On average, the respondents have above average levels of knowledge, skills, and experience in reading, understanding and analysing financial statements. There are no statistically significant differences between the groups.

*Table 5: Respondents' knowledge, skills and experience **

	Shareholders	Lenders	Advisors	Regulators	Others	Total
	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>
Average self-rated knowledge and skills (1–5)	3.85	4.1	4.1	4.3	3.3	4.0
Average experience rating	3.77	3.7	4.3	3.8	3.0	3.8
Number of responses	13	10	15	4	3	45

* Scale 1 to 5, with 1 very low and 5 very high.

¹⁹ Not all respondents answered all survey questions. The tables therefore report the number of responses to each question.

T2FP entities have diverse legal structures. Table 6 shows that the respondents have interests that reflect this diversity, but the majority of the entities are companies or partnerships.

Table 6: The types of T2FP entities that respondents have an interest in

	Shareholders	Lenders	Advisors	Regulators	Others	Total
	<i>Count</i>	<i>Count</i>	<i>Count</i>	<i>Count</i>	<i>Count</i>	<i>Count</i>
Company	11	6	15	5	2	39
Partnership	5	3	2	2	1	13
Retirement village	0	1	1	1	0	3
Maori incorporation	1	2	2	1	0	6
Others	0	0	3	1	2	6

Respondents were also asked whether they have an interest in an entity that is not a T2FP entity but has elected to report as such. Table 7 shows that about 20% of respondents have such interests.

Table 7: Interest in an entity that is not a T2FP entity but elected to report as such

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses
Yes	30.8%	4	11.1%	1	25.0%	4	16.7%	1	0.0%	0	20.0%	10
No	<u>69.2%</u>	<u>9</u>	<u>88.9%</u>	<u>8</u>	<u>75.0%</u>	<u>12</u>	<u>83.3%</u>	<u>5</u>	<u>100.0%</u>	<u>6</u>	<u>80.0%</u>	<u>40</u>
Number of Responses	100.0%	13	100.0%	9	100.0%	16	100.0%	6	100.0%	6	100.0%	50

Q1 Usage of T2FP financial reports

In Question 1, respondents are asked to indicate whether they use the information in T2FP financial reports. Table 8 shows the extent of usage of T2FP financial reports in general and Table 9 shows the extent of usage of T2FP financial reports by each user group. Overall, about 60% of respondents gave positive answers to this question.

The proportion of lenders (41%) who use T2FP financial reports is the lowest of the user groups. This is largely attributed to several of the lenders surveyed not having T2FP sized entities as clients and a respondent who also stated that banks, which are the primary lenders, do not need T2FP financial reports as they can demand financial reports specific for lending purposes. Seventy-seven percent of shareholders use T2FP financial reports, and of the 23% of shareholders that do not use T2FP financial reports, the main reason for this was because in their view, T2FP financial reports were only prepared for legal compliance and bank lending purposes.

Of the 48% of advisors who do not use T2FP financial reports, a number provide various reasons. Explanations include claims that T2FP financial reports are “too complex”, “of no interest” and because they have access to all management information on the T2FP entity.

Notwithstanding that regulators have the statutory powers to demand special purpose reports, all the regulators who participated in this survey use T2FP financial reports. These findings suggest that in New Zealand, the primary users of the financial reports of T2FP entities are similar to the primary users of financial reports of small or private business entities identified in the literature (Abdel-Khalik et al., 1983; Page, 1984; Carsberg et al., 1985; Barker & Noonan, 1996; FERF, 2006), which are mainly shareholders (owners and managers), banks, tax authorities, other lenders and regulators.

Table 8: Usage of T2FP financial reports

	Responses	%
Users of T2FP FS	47	59.5%
Not users	<u>32</u>	<u>40.5%</u>
Total	79	100.0%

Table 9: Use of T2FP financial reports by group

	Shareholders		Lenders		Advisors		Regulators		Unspecified***		Total	
	<i>%</i>	<i>Responses</i>	<i>%</i>	<i>Responses</i>	<i>%</i>	<i>Responses</i>	<i>%</i>	<i>Responses</i>	<i>%</i>	<i>Responses</i>	<i>%</i>	<i>Responses</i>
Users	76.9%	10	40.7%	11	52.4%	11	100.00%	7	72.7%	8	59.5%	47
Not users	<u>23.1%</u>	<u>3</u>	<u>59.3%</u>	<u>16</u>	<u>47.6%</u>	<u>10</u>	<u>0.00%</u>	<u>0</u>	<u>27.3%</u>	<u>3</u>	<u>40.5%</u>	<u>32</u>
Total	100.0%	13	100.0%	27	100.0%	21	100.00%	7	100.0%	11	100.0%	79

Q2 Type of decisions for using financial reports

Respondents who answered “yes” to Question 1 were asked to indicate for what types of decisions they used financial reports and to allocate 100% between the types of decisions to indicate the importance of each.

Table 10 shows the average percentage (level of importance) allocated to the various types of decisions by each user group. Shareholders use T2FP financial reports mostly for equity investment purposes (43%), for monitoring management (18%) and for monitoring governance (14%). Shares of T2FP entities can be closely held, hence the variety and types of uses of T2FP financial reports by shareholders of T2FP entities, which signals the high involvement of the shareholders in these T2FP entities. Most lenders use T2FP financial reports for lending purposes (54%). Advisors use T2FP financial reports mainly for monitoring management and monitoring governance (45% and 22%, respectively), and regulators use T2FP financial reports mainly for monitoring regulatory compliance, including compliance with tax legislation.

The results are consistent with prior studies (e.g. Abdel-Khalik et al., 1983; Barker & Noonan, 1996; Maingot and Zeghal, 2006), which indicate that different user groups of SMEs have different information needs and therefore use financial reports for different reasons.

Table 10: Average importance of the types of decisions for which T2FP financial reports are used (out of 100)

	Shareholders	Lenders	Advisors	Regulators	Others	Total
Equity investment	43.4	11.6	5.9	2.9	15.4	16.4
Debt investment	4.5	9.2	3.3	5.0	7.9	5.9
Lending	8.8	53.9	0.0	4.3	8.4	16.6
Monitoring governance	14.0	5.9	21.8	3.6	41.3	17.0
Monitoring management	18.3	17.1	44.5	12.9	23.4	24.2
Others	<u>11.0</u>	<u>2.3</u>	<u>24.5</u>	<u>71.3</u>	<u>3.8</u>	<u>19.9</u>
	100.0	100.0	100.0	100.0	100.0	100.0
Number of responses	10	11	11	7	8	47

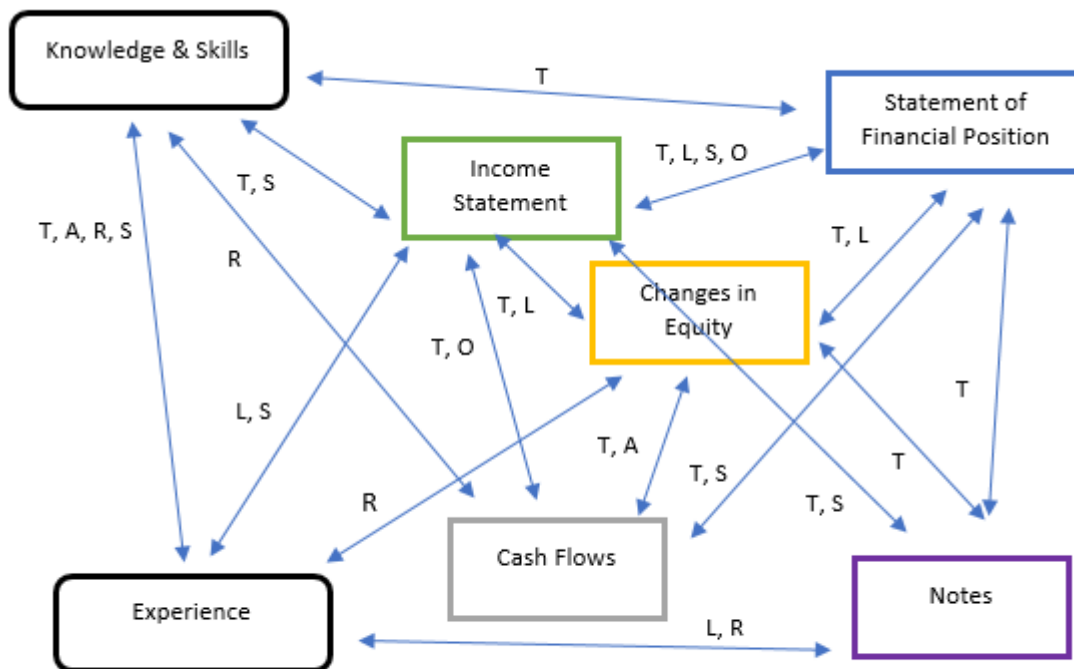
Q3 Usefulness of components of financial statements in T2FP financial reports

Respondents to this question were asked to assess the usefulness of each T2FP financial statement component in making decisions, using a scale of 1 to 5, where 5 is the most useful and 1 is the least useful. Table 11, Panel A shows the average ratings for each of the T2FP financial statement components and the explanatory notes while Panel B shows the proportion of participants who rated the financial statement components as 4 or 5 (highly useful).

The findings indicate that all financial statement components are rated as useful (3 or more). The statement of financial position and the statement of profit and loss (income statement) are ranked as the two most useful statements (4.4). These are followed by the statement of cash flows (3.9) and notes to the financial statements (3.8), with the statement of changes in equity rated as least useful (3.2). These findings are consistent with the results in Panel B, which shows the proportion of respondents who rate the financial statements as highly useful.

We also evaluated the associations between the above usefulness scores and the levels of knowledge and skills, and experience of respondents in reading, understanding, and analysing the financial statements. Figure 1 shows the significant associations (Pearson correlations with $p \leq 0.05$) using bi-directional arrows for the total sample, shareholders, lenders, advisors, regulators, and others.

Figure 1: Significant associations between usefulness scores of components of financial statements and respondents' knowledge and skills, and experience



T= Total Sample; S= Shareholders; L = Lenders; A= Advisors; R= Regulators; O= Others.

In the total sample, the usefulness of the statement of financial position and the income statement are positively correlated with users' knowledge and skills. Furthermore, the usefulness of the statement of financial position is positively correlated with the usefulness of the income statement, the statement of changes in equity and the notes to the financial statements. The usefulness of the income statement is also positively correlated with the usefulness of the statement of cash flows, the statement of changes in equity and the notes to the financial statements. These relationships indicate that users integrate various components of the financial statements and find them complementary to each other.

For the shareholder group, the usefulness of the statement of financial position is positively correlated with the usefulness of the income statement. The usefulness of the income statement is also positively correlated with the knowledge, skills and experience of the users within this group.

For the lender group, the usefulness of the notes is positively correlated with users' experience while for the advisor group, the usefulness of the statement of cash flows is positively correlated with the usefulness of the statement of changes in equity. This suggests that the usefulness depends on the roles of users and their knowledge, skills and experience. These findings are consistent with Elliot, Hodge, and Jackson (2008) and XRB (2016), where the results indicate that the usefulness of financial statements is associated with the level of users' accounting knowledge, skills and experience.

Table 11: Usefulness of components of T2FP financial statements

Panel A: Average usefulness (scale 1-lowest to 5-highest)

	Shareholders	Lenders	Advisors	Regulators	Others	Total
	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>
Statement of financial position	3.9	4.8	4.4	4.9	3.9	4.4
Statement of profit or loss and other comprehensive income	4.1	4.6	4.3	4.7	4.1	4.4
Statement of changes in equity	2.4	3.8	2.8	4.6	2.8	3.2
Statement of cash flows	3.4	4.5	3.9	4.0	3.9	3.9
Notes to the financial statements	3.9	3.7	3.5	4.6	3.3	3.8
Number of Responses	10	11	11	7	8	47

Panel B: The proportion of respondents who rated as 4 or 5

	Shareholders		Lenders		Advisors		Regulators		Others	
	No	%	No	%	No	%	No	%	No	%
Statement of financial position	7	70%	11	100%	10	91%	7	100%	5	63%
Statement of profit or loss and other comprehensive income	9	90%	10	91%	9	82%	7	100%	7	88%
Statement of changes in equity	2	20%	7	64%	4	36%	7	100%	2	25%
Statement of cash flows	6	60%	9	82%	8	73%	5	71%	5	63%
Notes to the financial statements	7	70%	8	73%	7	64%	6	86%	4	50%
Number of Responses	10		11		11		7		8	

Q4 Information in T2FP financial statement that is not useful

Table 12 describes the extent to which respondents indicate that T2FP financial statements include information that is not useful to them.

Most of the 43% of respondents, who indicate that there is information in financial statements that is not useful to them, cite the notes to financial statements. Examples include comments on the details in these notes, especially in relation to disclosures about financial instruments and the complexity of hedging information, and suggestions that some notes could be simplified and made shorter. These comments are consistent with XRB (2016), which showed that users of New Zealand capital market entities financial reports expressed concerns that there was too much detail in the notes to financial statements and this could detract from the usefulness of other more relevant information.

However, most respondents (57%) indicate that all information in financial statements is useful. Comments illustrating these views include “information provided is useful if not every year at least on some occasions”, “all information contained in financial statements can be relied on depending on what specific risks I am looking at for an entity”, and “as there are several RDR exemptions all information included is useful”.

Q5 Information not provided in T2FP financial statements

Table 13 describes the extent to which users indicate that there is useful information that is not provided in T2FP financial statements.

In total, about 62% of respondents indicate that T2FP financial statements had enough useful information. Respondents’ comments within this cohort include “more than sufficient information is available”, “information is sufficient, more detail is unnecessary”, and “there is already a lot of information there”.

Most regulators (86%) indicate that they require information that is not currently included in T2FP financial statements. In contrast, most all other user groups indicate the opposite.

The additional information requirements noted by regulators include parent standalone accounts, when consolidation is required, and more detailed information on related party transactions, funding and ownership. A tax regulator also noted that a reconciliation statement for GST and Income Tax would be useful. For the shareholders group, the additional information suggestions for T2FP financial statements include more commentary about the company strategy and enhanced segment reporting.

Lenders suggest more detailed cash flow information as well as additional details regarding loan repayment obligations and movements in equity. They also indicate a need for clearer narratives on contingent liabilities. One ‘other user’ suggests inclusion of a qualitative report identifying notable business risks in the business sector in which a T2FP entity operates.

Table 12: Information in T2FP financial statements that is not useful

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses
Yes	60.0%	6	0.0%	0	72.7%	8	28.6%	2	50.0%	4	42.6%	20
No	40.0%	4	100.0%	11	27.3%	3	71.4%	5	50.0%	4	57.4%	27
Number of Responses	100.0%	10	100.0%	11	100.0%	11	100.0%	7	100.0%	8	100.0%	47

Table 13: Information not provided in T2FP financial statements that would be useful

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses
Yes	40.0%	4	36.4%	4	18.2%	2	85.7%	6	25.0%	2	38.3%	18
No	60.0%	6	63.6%	7	81.8%	9	14.3%	1	75.0%	6	61.7%	29
Number of Responses	100.0%	10	100.0%	11	100.0%	11	100.0%	7	100.0%	8	100.0%	47

Q6 Sources of information

Table 14 summarises what key sources of information are used in making decisions. Respondents were asked to allocate 100% between these sources of information to indicate their relative importance. Users' average percentage of importance is presented for each source of information. Panel A analyses these results by user group (e.g., shareholders, lenders and advisors). Panel B analyses the results, differentiating between respondents who indicate that they use T2FP corporate financial statements and those who do not (i.e., 'users' and 'non-users'). Panel A reports no significant differences between respondents of the different user groups in their importance ratings of different sources of information. However, Panel B reveals two significant differences between users and non-users: first, non-users tend to rely on management commentary and analysis rather than financial statements. Second, non-users also rely on advisors' reports more than users do. This may be driven by the lower levels of knowledge, skills and experience in non-users noted earlier.

Overall, all users groups rated corporate financial statements as the most important source of information (38%), with the next most important source being management commentary (30%). Regulators rated corporate financial statements highest (63%), with other sources being next (24%), which is a reflection of their ability to demand information from corporates. Interestingly, lenders rate other sources at only 4%, despite the likelihood that they have similar powers to demand information. Shareholders of T2FP's are often closely associated, involved in the day-to-day running of the entities, or at least privy to monthly management accounts, which explains their rather low rating for use of corporate financial statements (38%).

Comments explaining these ratings included corporate financial statements as "... the main source of information" (regulators) and were useful for "... assessing performance that can be compared to other businesses/industries" (advisors); that they contained "... key figures such as profit and net asset position" (advisors); that they offered the "most useful and accurate provision of information however usually (were) outdated" (lenders). One particularly informative comment (by a shareholder) noted the following: "There is more comfort these are audited, and timely. Generally, by reviewing the performance, position and cash flows one can get a view of how solid the business is and to a reasonable extent, viability and profitability. For example, a business that has positive cash flows, robust balance sheet, reasonable gearing and expenditure in R&D or other forward looking expenditure, can be expected to have a more viable future than the converse."

Table 14: Average importance of key sources of information used in making decisions (out of 100)

Panel A: by group

	Shareholders	Lenders	Advisors	Regulators	Others	Total
	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>
Corporate financial statements	38.3	35	34.4	63	34.6	37.8
Management commentary and analysis including directors' reports	32.4	38.1	29.8	5	28.3	29.8
The press, media and other online source	2.8	9.2	7.5	6	16.8	8.8
Advisors reports	18.8	13.6	27.1	2	12.1	17
Others	<u>7.7</u>	<u>4.1</u>	<u>1.2</u>	<u>24</u>	<u>8.2</u>	<u>6.6</u>
Total	100	100	100	100	100	100
Number of Responses	11	14	16	5	12	58

Panel B: by user and non-user (out of 100)

	User	No-user	Total
	<i>Average</i>	<i>Average</i>	<i>Average</i>
Corporate financial statements	49.8	0	37.8***
Management Commentary and analysis including directors' reports	22.6	52.6	29.8***
The press, media and other online source	7.3	13.6	8.8
Advisors reports	13.1	29.2	17.0*
Others	<u>7.2</u>	<u>4.6</u>	<u>6.6</u>
Total	100	100	100
Number of Responses	44	14	58

*** Significant at p<0.001, * significant at p<0.05

Management commentary and analysis were used “only to understand changes in the business during the year” (advisors) and for “risk analysis” (regulators). One shareholder noted, “This helps provide an insider view of the context of the financial performance and position. It also indicates how pragmatic management is e.g. an overly optimistic commentary about a poor result could indicate that management has no full grasp of the issues affecting the business.” Additional analysis showed that respondents who do not use corporate financial statements place significantly more reliance on management commentary and analysis, including directors’ reports as well as on advisors’ reports.

Other sources of information used include the following: direct communication with management or accountant; management accounts; industry-related information; supervisor reports and auditor complaints.

Q7 Interest in other information

Respondents were asked if they use or require any other information that is not included in current T2FP financial reports.

As reported in Table 15, almost two thirds of respondents (65%) replied “No”, suggesting that current reporting satisfied their needs. However, this overall summary is not reflective of the views of respondents in two of the groups, where 62% of those in the shareholders group and 71% of those in the regulators group appear to have higher interest in other information than the other groups.

Q8 Usefulness of other information

Only respondents who answered “Yes” to Question 7 were then asked to follow on by indicating the level of usefulness to them, of including other information in T2FP financial reports. A scale of 1 to 5 was used, where 1 indicates the least useful information and 5 indicates the most useful information.

Table 16, Panel A indicates that overall, respondents felt that all categories of other information were useful (average ratings of 3 or more). Narratives that explain the entity’s performance and financial position and summary financial information were rated as most useful (3.7 each), closely followed by information on business strategies and prospects for future financial years (3.6). Panel B provides a slightly different perspective by looking at the proportion of respondents rating other information as highly useful (i.e., 4 or 5). Overall narrative explanations of performance and financial position scored highest (67% of respondents confirming they find these narratives highly useful). Information on business strategies and future prospects was the only other category where a majority of respondents (57%) indicated that the information was highly useful to them.

Table 15: Interest in other information

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses
Yes	61.5%	8	36.8%	7	15.0%	3	71.4%	5	11.1%	1	35.3%	24
No	<u>38.5%</u>	<u>5</u>	<u>63.2%</u>	<u>12</u>	<u>85.0%</u>	<u>17</u>	<u>28.6%</u>	<u>2</u>	<u>88.9%</u>	<u>8</u>	<u>64.7%</u>	<u>44</u>
Total	100.0%	13	100.0%	19	100.0%	20	100.0%	7	100.0%	9	100.0%	68

Table 16: Usefulness of other information

Panel Average response (scale 1-lowest to 5-highest)

	Shareholders	Lenders	Advisors	Regulators	Others	Total
Information about entity's business	2.6	3.8	1.5	3.2	5.0	3.0
Narratives that explain entity's performance and financial position	2.6	4.6	4.5	4.0	5.0	3.7
Information on business strategies, and prospects for future financial years	3.1	4.6	2.0	3.8	5.0	3.6
Summary of financial information	3.4	4.0	4.5	3.0	5.0	3.7
Number of Responses	8	5	2	5	1	21

Panel B: The Proportion of respondents who rated as 4 or 5

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	<i>No</i>	%	<i>No</i>	%	<i>No</i>	%	<i>No</i>	%	<i>No</i>	%	<i>No</i>	%
Information about entity's business	3	38	2	40	0	0	3	60	1	100	9	43
Narratives that explain entity's performance and financial position	3	38	4	80	2	100	4	80	1	100	14	67
Information on business strategies, and prospects for future financial years	4	50	4	80	0	0	3	60	1	100	12	57
Summary of financial information	2	25	3	60	0	0	1	20	1	100	9	43
Number of Responses	8		5		2		5		1		21	

Useful comments providing further insights on these ratings regarding narrative explanations include the following: “Commentary to explain and interpret financial information is always of use and provides vital contextual information” (advisors); that they provide “Reasons behind performance” (lenders); and that they are “helpful in identifying risks” (regulators).

In regard to information on business strategies and prospects, cautionary comments predominate, including, “As closely held private entity’s (financial statements) may only (be) relevant to external funders e.g. the bank and therefore cost v benefit issue” (advisors), and “This is useful, but can often be commercially sensitive and therefore would at times be too vague to be of use” (advisors). Lenders did note, however, that it was “Very useful to be forward looking when lending funds assessing past performance”.

Both advisors’ and lenders’ comments indicate that summary financial information is useful in providing a “snapshot” to give a “high level; view” (advisor) or “gut feel” (lender).

Regulators comments indicate that information on business strategies and prospects as well as summary financial information is of limited use, as their work tends to be “past focussed” and that there is “generally (a) need to go to detail”.

While the questionnaire provided the respondents the opportunity to identify additional categories of other information that is useful, only three responses specifying such information were received. These include a shareholder who indicated that health and safety information would be useful; a regulator who noted an interest in information regarding complaints; and a lender who specified that aged debtors’ analyses would be useful.

Q9 Preparation and assurance of financial statements for T2FP entities

Question 9 of the survey relates to preparation and assurance of financial statements for T2FP entities in which respondents have an interest. Table 17 indicates that most of these T2FP entities prepare financial statements that are independently audited or reviewed (50.9%). Interestingly, a small proportion of respondents (7%) indicate that their entities do not prepare financial statements. This lack of compliance reflects potential costs and benefits of preparing GAAP-compliant financial statements in the light of the absence of mandatory filing requirements.

Assurance and Other Engagements

Questions 10–12 below relate to the use of assurance and other engagements in relation to T2FP financial reports.

Q10 Assurance of T2FP entities

Table 18 indicates that overall, respondents rate audits as most useful (3.5), followed by reviews (2.9). Agreed-upon procedures engagements, on average, are perceived as less useful than audits and reviews (2.6) and other, more specific assurance engagements are seen as relatively not useful (2.1). Regulators rate audits and reviews as well as agreed-upon procedures as more useful than the other user groups (4.6, 3.8 and 3.8 respectively). This

position on assurance by regulators is further explained in responses to question 11 on the importance of assurance matters. This is supported by 100% of regulators who participated in this study rating audits very favourably (4 or 5 out of 5) as useful, followed by 57% of regulators rating agreed-upon procedures engagements as 4 or 5 out of a possible 5 on a usefulness scale.

Shareholders and lenders are less interested in audits (3.0 each), with lenders preferring reviews (3.7) and other assurance engagements (3.6). Fifty percent of shareholders score audits as very useful (4 and 5 out of 5), similarly to advisors (57 % of advisors scoring audits as 4 or 5 on the 5-point usefulness scale). Shareholders (17%) also score reviews as 4 or 5 on the 5-point scale of usefulness, while advisors prefer agreed-upon procedures engagements to reviews (21% of advisors score them 4 or 5 on the 5-point scale of usefulness). Lenders value reviews and agreed-upon procedures (36% of respondents on both of those engagements score them as 4 or 5 on the 5-point scale of usefulness). This is likely because lenders can generally demand specific information when providing credit and could require assurance on that specific information rather than the assurance of overall financial statements.

Figure 2 shows the significant associations between the usefulness of assurance and financial statements. It shows that the usefulness of audit is linked to the usefulness of the balance sheet and the notes to the financial statements, while the usefulness of other assurance types are linked to the usefulness of the statement of changes in equity and the notes.

Overall, these findings are broadly in line with prior literature, which suggests that the demand for voluntary audit arises mostly from agency conflicts between owners and creditors.

Figure 2: Significant associations between usefulness scores of components of financial statements and assurance

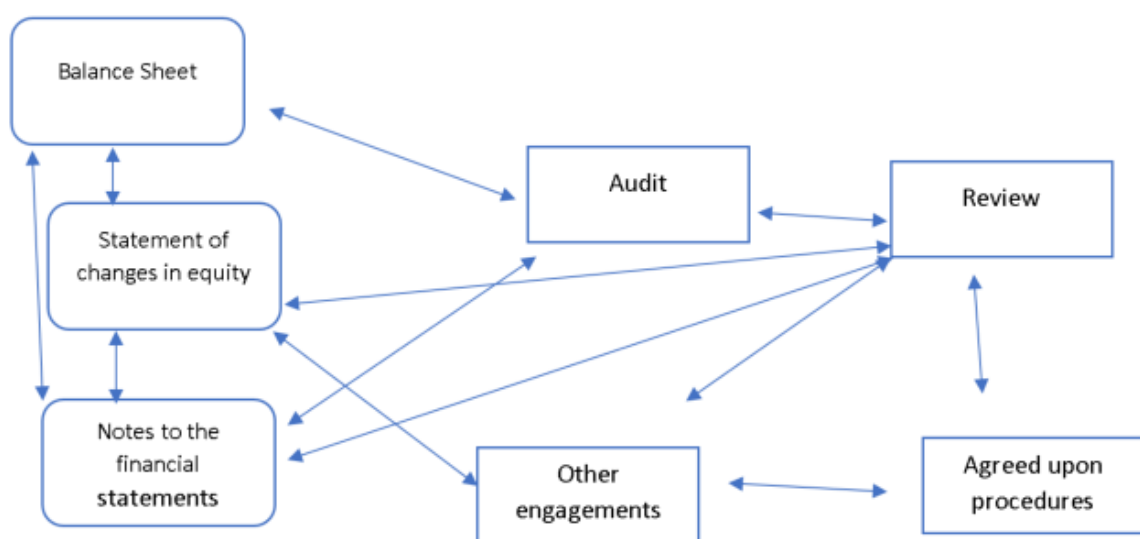


Table 17: The number and percentage of respondents indicating the preparation of financial statements and assurance

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses	%	Responses
Do not prepare financial statements	15.4%	2	7.7%	1	0.0%	0	14.3%	1	0.0%	0	7.3%	4
Prepare financial statements, but are not independently audited or reviewed	23.1%	3	53.8%	7	33.3%	5	14.3%	1	14.3%	1	30.9%	17
Prepare financial statements that are independently audited or reviewed	53.8%	7	30.8%	4	53.3%	8	57.1%	4	71.4%	5	50.9%	28
Prepare financial statements that are subject to an agreed-upon procedures engagement	7.7%	1	7.7%	1	13.4%	2	14.3%	1	14.3%	1	10.9%	6
Number of Responses	100.0%	13	100.0%	13	100.0%	15	100.0%	7	100.0%	7	100.0%	55

Table 18: The usefulness of various assurance types

Panel A: Average response (scale 1-lowest to 5-highest)

	Shareholders	Lenders	Advisors	Regulators	Others	Total
Audit	3.0	3.0	3.6	4.6	3.6	3.5
Review	2.2	3.7	2.4	3.8	2.9	2.9
An agreed-upon procedures engagement	2.3	2.9	2.3	3.8	2.4	2.6
Any other engagement	1.5	3.6	1.0	2.0	2.0	2.1
Number of Responses	12	11	14	7	8	52

Panel B: The proportion of respondents who rated as 4 or 5

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Audit	6	50	3	27	8	57	7	100	5	63	29	56
Review	2	17	4	36	2	14	3	43	2	25	13	25
An agreed-upon procedures engagement	1	8	4	36	3	21	4	57	2	25	14	27
Any other engagement	0	0	3	27	0	0	1	14	1	13	5	10
Number of Responses	12		11		14		7		8		52	

Q11 Views on importance of assurance matters or other engagements for T2FP financial statements

Table 19 provides the respondents' views of the importance of assurance of T2FP financial statements. On average, checking the adequacy of internal controls over processes (4.5/5), checking on the adequacy of records (4.4/5), and improving credibility of information (4.4/5) are the most important matters when assurance is provided on T2FP financial statements. These responses indicate that assurance by an independent assurance provider/auditor is an optimal way to improve credibility of financial information as well as to assure records and processes that form the foundation for such financial statements. This is consistent with agency theory, which proposes that an independent audit plays an important role in mitigating the problem of information asymmetry and moral hazard (Jensen & Meckling, 1976). Further, according to Abdel-Khalik (1993), small private firms demand voluntary audits so to comply with constraints placed by creditors and to provide a mechanism for internal control.

There are, however, varying opinions on the relative importance of assured matters in our respondents' sample. Shareholders particularly value checks on the adequacy of records (4.1/5 or 86% of respondents who are shareholders rated that assured matter as 4 or 5 on the 5 point scale), checks on adequacy of internal controls (4.3/5, or 100% of shareholders rated that assured matter as 4 or 5 on the 5 point scale), improvements to governance (4.1/5 or 86% of shareholders rated that assured matter as 4 or 5 on the 5 point scale), and protection against fraud (4.1/5 or 71% of shareholders rated that assured matter as 4 or 5 on the 5 point scale).

Lenders, in their role as credit providers, place the highest value on the role of assurance in providing early warnings of going concern issues (5/5) and protection against fraud (5/5). Lenders also value checks on adequacy of internal records (4.8/5), checks on the adequacy of internal controls (4.8/5), and improvements to credibility of information (4.8/5). Lenders perceive that assurance, when obtained on the financial information, is to satisfy the lenders (4.7/5). Lenders consistently score all of these assured matters highly (75% of lenders score 4 or 5 on the 5-point scale of importance).

Advisors, on the other hand, most value the improvement in credibility of information that assurance provides (4.7/5 or 73% of advisors scored that assured matter as 4 or 5 on the 5 point scale) followed by the check on adequacy of internal records (4.4/5 or 82% of advisors scored that assured matter as 4 or 5 on the 5 point scale) and checks on adequacy of internal controls over processes (4.4/5 or 73% of advisors scored that assured matter as 4 or 5 on the 5 point scale). They also highly value assurance that provides checks on compliance with legislation (4.2/5).

Regulators, similar to advisors, value checks on compliance with legislation (4.7/5 or 64% of regulators who are regulators scored that assured matter as 4 or 5 on the 5-point scale).

However, assurance as a way for improving the credibility of information (4.7/5 or 73% of regulators scored that assured matter as 4 or 5 on the 5-point scale) and as a check on adequacy of internal controls over processes (4.7/5 or 73% of regulators scored that assured matter as 4 or 5 on the 5-point scale) were also given equal and high value by the regulators.

Table 20 shows the cumulative score of assurance engagements and agreed-upon procedures engagement perceived by the respondents as ways of assuring various matters. Audits and reviews, combined as assurance engagements, are perceived by 81.8% of our respondents to be the way to provide checks on compliance with legislation and/or entities' constitutions. A high percentage of the respondents (78.8%) also rated audits and reviews as a means of providing early warnings of going concern issues as well as providing the credibility of information (78.8%). Checks on the adequacy of internal controls (75.8%) are also seen by the respondents as well assured by audits and reviews, as they are the means of providing checks on the adequacy of internal records (69.7%), improving governance (69.7%), the way to satisfy the lenders (69.7%), and to help prevent fraud (66.7%). The respondents viewed audits and reviews as useful in improving the quality of information (57.6%) and as a way to assist in monitoring management performance (51.5%).

When analysed separately, audits as assurance engagements are seen by the respondents as particularly useful for improving the credibility of information (54.6%) and providing checks on adequacy of internal records (54.5%), followed by the perceived value as a means to satisfy lenders (51.5%). Audits are also seen by the respondents as a good way to help protect against fraud (48.5%), to provide early signs of going concern issues (48.5%), and to provide checks on adequacy of internal controls (45.5%). The respondents did not assess audits highly as the means to improve governance (30.3%) or assisting in monitoring management performance (24.2%). Overall, the responses of our survey indicate that an audit, as an assurance engagement, and the benefits of an audit are reasonably well understood by our respondents.

Reviews as assurance engagements are seen by the respondents as a reasonable way to provide checks on compliance with legislation (39.3%) and the way to improve governance (39.3%). They are even seen by respondents as a means to provide checks on adequacy of internal controls (30.3%) and provide early warnings of going concern issues (30.3%). They are perceived by the respondents as least useful in providing checks on adequacy of internal records (15.2%). Overall, reviews are assessed by the respondents as less useful than audits in assuring matters that are generally expected to be assured through assurance engagements, such as protection against fraud or to provide a check on adequacy of internal books/records.

Table 19: The importance of assurance matters

Panel A: Average response (scale 1-lowest to 5-highest)

	Shareholders	Lenders	Advisors	Regulators	Others	Total
To provide a check on adequacy of internal books/records	4.1	4.8	4.4	4.3	4.8	4.4
To provide a check on adequacy of internal controls over processes	4.3	4.8	4.4	4.7	4.8	4.5
To help protect against fraud	4.1	5.0	3.3	4.4	4.8	4.1
To improve the quality of information	3.7	4.5	4.0	4.2	4.3	4.1
To improve the credibility of information	3.3	4.8	4.7	4.7	4.8	4.4
To provide a check on compliance with legislation/entity constitution	4.0	4.3	4.2	4.7	4.8	4.3
To improve governance	4.1	4.7	4.1	4.0	4.0	4.1
To assist in monitoring management performance	3.9	4.5	3.5	3.5	4.3	3.8
To provide early warning of going concern issues	3.8	5.0	4.0	3.8	4.3	4.1
To satisfy lenders	3.7	4.7	3.7	3.6	3.8	3.8
Number of Responses	7	4	11	6	4	32

Panel B: The proportion of respondents who rated as 4 or 5

	Shareholders		Lenders		Advisors		Regulators		Others		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
To provide a check on adequacy of internal books/records	6	86	3	75	9	82	5	83	3	75	26	81
To provide a check on adequacy of internal controls over processes	7	100	3	75	8	73	5	83	3	75	26	81
To help protect against fraud	5	71	3	75	4	36	4	67	3	75	19	59
To improve the quality of information	4	57	3	75	6	55	5	83	3	75	21	66
To improve the credibility of information	3	43	3	75	8	73	6	100	3	75	23	72
To provide a check on compliance with legislation/entity constitution	5	71	2	50	7	64	6	100	3	75	23	72
To improve governance	6	86	3	75	7	64	4	67	3	75	23	72
To assist in monitoring management performance	5	71	3	75	3	27	3	50	3	75	17	53
To provide early warning of going concern issues	3	43	3	75	5	45	4	67	2	50	17	53
To satisfy lenders	3	43	3	75	6	55	3	50	2	50	17	53
Number of Responses	7		4		11		6		4		32	

Table 20: The assurance of various matters

	Assurance								Other procedures and engagements							
	Total Respondents	Audit		Review		Total assurance		Agreed-upon procedures		Other engagement		None		Do not know		
		No	%	No	%	No	%	No	%	No	%	No	%	No	%	
To provide a check on adequacy of internal books/records	33	18	54.5	5	15.2	23	69.7	8	24.2	0	0	1	3.0	2	6.1	
To provide a check on adequacy of internal controls over processes	33	15	45.5	10	30.3	25	75.8	8	24.2	0	0	1	3.0	1	3.0	
To help protect against fraud	33	16	48.5	6	18.2	22	66.7	8	24.2	2	6.1	0	0	4	12.1	
To improve the quality of information	33	11	33.3	8	24.2	19	57.6	7	21.2	5	15.2	2	6.1	3	9.1	
To improve the credibility of information	33	18	54.6	8	24.2	26	78.8	4	12.1	1	3.0	1	3.0	2	6.1	
To provide a check on compliance with legislation/entity constitution	33	14	42.4	13	39.3	27	81.8	9	27.3	1	3.0	0	0	2	6.1	
To improve governance	33	10	30.3	13	39.3	23	69.7	9	27.3	2	6.1	0	0	3	9.1	
To assist in monitoring management performance	33	8	24.2	9	27.3	17	51.5	11	33.3	7	21.2	1	3.0	4	12.1	
To provide early warning of going concern issues	33	16	48.5	10	30.3	26	78.8	6	18.2	3	9.1	0	0	3	9.1	
To satisfy lenders	33	17	51.5	6	18.2	23	69.7	7	21.2	4	12.1	0	0	4	12.1	

Agreed-upon procedures are seen by a third of our respondents (33.3%) as a way to assist in monitoring management performance as well as a way to provide checks on compliance with legislation (27.3%) and improve governance (27.3%). Nearly a quarter of the respondents (24.2%) also regard agreed-upon procedures engagements as a way to provide checks on adequacy of internal records, a way to provide checks on adequacy of internal controls, and a way to protect against fraud. They are seen by only 12.1% of our respondents as a way to improve credibility of information. These responses indicate that our respondents are familiar with agreed-upon procedures and the purpose of agreed-upon procedures, which is to provide specific and factual findings on very specific and mutually agreed matters.

Overall, the respondents generally have their own unique user perspectives on assurance and the important matters over which assurance is to be provided. The majority of the respondents indicate that it is important to have assurance as a means of assuring compliance as well as a means to check on the adequacy of internal controls over processes and to improve the credibility of information.

9. Vignettes of usage of financial statements

Interviews were conducted with a range of users and non-users to gain insights into their views on and the usage of financial statements. These users comprised of two regulators, a commercial banker, an advisor and non-executive director, and a trustee with oversight responsibilities.

Regulator – FMA Advisor

PA is a principal advisor for a reporting team responsible for monitoring compliance with accounting standards and legislation. PA has 13 years' experience in assurance and technical support with one of the big four firms. PA's role focusses on regulatory monitoring, which can be reactive as well as proactive. PA notes that there are two types of entities, which are higher public accountability entities and lower public accountability entities, among the 2000 entities that the FMA regulates. Higher public accountability entities report under Tier 1 while lower public accountability entities report in accordance with Tier 2 requirements. As the FMA's role is concerned with protecting investor funds, lower public accountability entities are less strictly regulated as they do not hold investors' accounts in their balance sheets, and the majority have another licensed regulator who monitors their activities.

PA considers all financial statement components to be very useful. Further, PA notes that the notes are equally useful.

Regulator – IRD investigators

IV is an investigator and TL is a team leader with the IRD. An investigator would have a caseload of between seven and 10 cases at a time, and these types of cases can range from a GST issue to a full-on risk-based audit involving a large enterprise. A team leader would be supervising approximately 70 cases.

Reviewing the financial statements is the starting point for an IRD tax review. This may lead to requesting additional information if needed. The investigation may result in an audit on a risk-based assessment.

In a tax review, the IRD would write to the entity requesting the financial statements and other supporting information. The financial statements provided by entities under review are often their published financial statements as this is the most efficient way for these entities. Part of the tax review would consider the methodologies that the entities have applied in interpreting the tax legislation, and this information would not be apparent in the published financial statements.

Bank lender

CM is a commercial manager with a major bank in New Zealand. CM has 20 years' experience in commercial banking; CM's career started as an analyst and then progressed to assistant commercial manager in other financial institutions. A commercial manager normally oversees loans between \$2 million and \$30 million for about 80 customers. Loans over \$30 million are overseen by commercial teams of three managers. CM is assisted by a credit support analyst and a commercial assistant.

CM uses T2FP financial reports and attributes about 75% of usage to lending or extensions of lending and the remainder of 25% to monitoring compliance with debt covenants. In analysing T2FP financial reports, CM looks for trends in revenue and gross margin and for variances in various ratios. CM rates cash flow statements as the most useful statements, as CM notes "banks are cash flow lenders and not security lenders".

CM notes that successful businesses, which CM considers most of CM's customers to be, understand the value of quality financial reporting and monitoring. CM also notes that technology has improved accuracy and reduced the cost of reporting. CM does not accept the notion "I am too busy to prepare my financials". CM says, "If I come to you and say 'would you lend [me] \$100,000, but I have not got my financials', would you lend it to me? Of course not!"

Corporate Trustee

CT is a commercial manager of a Maori trustee organisation that provides oversight for many Maori trusts. CT's role involves financial performance and monitoring, and finance. Some Maori trusts invest in business enterprises that are T2FP entities or opt to be in Tier 2. The

entities that opt for T2FP reporting are motivated by the need to improve the measurement of assets and liabilities that are consistent with a globally recognised standard, similar to Tier 1, which facilitates comparisons across entities. CT notes that “Tier 2 reporting is comprehensive enough, but not as cumbersome as Tier 1 reporting, and [is] able to provide that sort of information that we need.”

CT notes that the statement of financial position is important as it gives “a comprehensive view of the actual position of the enterprise we have invested in”. CT further notes that the profit and loss are important, but because of the nature of their enterprises, where the productive cycle of assets spans many years, CT focusses more on the balance sheet.

Advisor and non-executive director

ADE is an advisor and non-executive director of a T2FP company, which is owned and managed by the other two executive directors. ADE has had an involvement with this closely held company for over 10 years. In managing the company, the owners/managers use detailed monthly management reports that mirror the annual financial statements, and include targeted KPIs. The formal annual financial statements are based on these management reports.

The formal annual report is not used for decision-making; it is produced for compliance purposes. The company does not rely on borrowing from financial institutions and there are no potential external users. The preparation of T2FP financial report incurs additional costs of around \$5,000. ADE notes that in this business, although the revenue is significant, the margins are very small and therefore the owners/managers do not perceive that they are a big business.

10. Limitations

The study has the limitations normally associated with survey studies. Further, while the overall sample size of this study compares favourably with other studies, the relative sample size of each of the user groups represented in the study may influence the overall findings.

11. Conclusion

The findings of this research are consistent with prior studies on financial reporting by small or private business entities in other jurisdictions. Similar to overseas jurisdictions, in New Zealand, the primary users of T2FP financial reports are shareholders, managers, lenders, advisors and regulators (Abdel-Khalik et al., 1983; Page, 1984; Carsberg et al., 1985; Barker & Noonan, 1996; FERF, 2006). Most of the users surveyed use T2FP financial reports in making various types of decisions, and most users are satisfied with the quality of T2FP financial reports in meeting their information needs. For example, shareholders use T2FP financial reports mainly for making equity investment decisions, lenders use T2FP financial reports mainly for making lending decisions, and regulators use financial reports mainly for monitoring purposes. All components of financial reports are perceived, on balance, as useful.

In general, respondents rank the statement of financial position and statement of profit or loss as the two most useful statements, while the statement of changes in equity is considered to be least useful. The respondents that indicated that the financial statements contain information that is not useful, mostly commented on the complexity and length of the notes to T2FP financial statements. In summary:

- All user groups surveyed rated corporate financial statements as the most important source of information, with a rating double that of any other information source.
- Overall, the findings in this study confirm findings in prior literature on the demand for voluntary audit, which arises mostly from agency conflict between owners and creditors. Therefore, it appears that T2FP entities may use voluntary audits to improve credit ratings and reduce the cost of capital.
- It also appears that all respondents generally view the assurance and the important matters for which the assurance is provided from their unique user perspectives. Most respondents find the assurance, as a means of compliance as well as the means to check on adequacy of internal controls over processes, very important for improving the credibility of information of T2FP entities' financial statements.
- The respondents appeared to reasonably understand an audit, as an assurance engagement, and the benefits of an audit.
- Agreed upon procedures engagements are useful and the users are familiar with agreed-upon procedures and the purpose of agreed-upon procedures as a means to provide specific and factual findings on very specific and mutually agreed matters.

12. Suggestions for Improvements

This report provides evidence on the information and assurance needs of users of T2FP entities in New Zealand. In general, most users are satisfied with the quality of T2FP financial reports and their assurance in meeting their information and assurance needs. However, based on the users' responses, this study provides some suggestions for improvements. These improvements include simplifying financial reporting and enhancing disclosures of specific financial statement items.

12.1 Simplifying T2FP financial reports

The study's findings show several respondents did not find financial statements to be useful to them because of the length and complexity of T2FTP financial statements. Thus, simplifying the financial statements further in order to enhance the users' ability to understand them, especially the notes on financial instruments, would be beneficial. NZ IFRS RDR, as it applies to T2FP entities, provides for significant disclosure concessions. We suggest further disclosure concessions be provided for T2FP entities.

12.2 Improvements in disclosures of specific items

The respondents in this study specified items in the T2FP financial statements that could be further improved:

(a) Financial risk management disclosures: Improving specific business and financial risk management disclosures as several users perceived current practice as too generic. The respondents suggested making such disclosures more specific to each business for which T2FP reports are prepared.

(b) Related party transactions disclosures and contingent liabilities disclosures: Improving and encouraging clearer narratives about related parties and contingent liabilities as the respondents perceived such disclosures as very important.

(c) Segment reporting disclosures: The respondents viewed improving and encouraging more detailed disclosures of divisional or country operations performance of T2FP entities as important.

12.3 'Other' information

Most respondents in the shareholder and the regulator groups indicate interest in other information. While this view was not widely shared by respondents in the lender and advisor groups, it is arguably beneficial to include the information which is highly rated as useful by these important user groups. Respondents on other information indicate that all forms of other information are useful, particularly, narratives explaining financial performance and position and summary financial information. Information on business strategies and future prospects is also highly rated.

12.4 Assurance of T2FP entities' financial statements

Overall, the findings in this study show that the demand for voluntary audit arises mostly from agency conflict between owners and creditors where T2FP entities tend to use audits to improve credit ratings and reduce the cost of capital. The respondents generally have their own unique user perspectives on assurance and the important matters over which assurance is to be provided. The majority of the respondents consider assurance as a means of assuring compliance as well as a means to check on the adequacy of internal controls over processes and as a way to improve the credibility of information. Audits and reviews are reasonably well understood by the respondents as assurance engagements. However, there should be continuing education of users regarding the distinction between audits and reviews as possible types of assurance for T2FP financial statements so to support and strengthen that understanding.

Agreed-upon procedures are also seen by the respondents in this study as a good way to assist in monitoring management performance, as a way to provide checks on compliance with legislation and to improve governance. They are also seen by the respondents as another way to improve the credibility of information. Overall, agreed upon procedures engagements are useful and the users are familiar with agreed-upon procedures and the purpose of agreed-upon procedures, which is to provide specific and factual findings on very specific and mutually agreed matters. The use of agreed upon procedures engagements as alternatives to

audits and reviews could be promoted to the users of T2FP entities reports as a means to provide limited and specific conclusions.

Appendix A

Table A1. Summary of studies on user information needs of small/private companies

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
Abdel-Khalik et al. (1983) / US	To examine the information needs, and the costs and benefits of using GAAP for financial reporting by private companies.	3 groups: managers, bankers, and accountants.	Interviews and surveys.	Company managing owners are the primary users of financial statements of private companies, followed by bankers and suppliers. A majority of bankers and accountants agree that GAAP financial statements provide reliable and relevant information to both managers and bankers, while managers were somewhat divided on this issue.
AICPA (2005) / US	To determine whether the general-purpose financial statements of private companies prepared in accordance with GAAP meet the financial needs of the constituents of that reporting, and whether the cost of providing GAAP financial statements is justified compared with the benefits they provide to private company constituents.	External stakeholders who serve private companies (primarily lenders/creditors, equity investors and sureties; owners and financial managers; public accounting practitioners).	Online survey, using a stratified random sample.	This study finds that general-purpose financial statements of private companies prepared in accordance with GAAP have moderately-high to-high-value to the constituents of that reporting, especially in respect to the characteristics of consistency and comparability. However, most respondents believe that many GAAP specific requirements (such as comprehensive income measurement, leases, guarantees, intangibles, variable interest entities, and share-based payments) lack relevance or decision usefulness to private company constituents.
Barker & Noonan (1996) / Ireland	To consider issues of compliance with accounting standards in the context of problems faced by small companies and practitioners.	Practitioners.	Questionnaire survey.	General practitioners rated the preparation costs of audited financial statements as the most significant cost to small companies. They ranked the removal of the audit requirement as the most favoured way to reduce the burden of financial reporting.

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
Eierle & Haller (2009) / Germany	To examine the suitability of the proposed IFRS for SMEs for entities of various size classes.	Directors in charge of the annual accounts in the SMEs.	Survey questionnaire.	The findings are ambiguous. Size effects are revealed in regard to the structure of entities, their international exposure and, in particular, the relevance of particular accounting issues.
Evans et al. (2005) / European countries	To review European literature on SME financial reporting implications.	N/A	Literature review.	They find that relatively little has been discovered about the actual needs of users of SME financial statements in prior literature, and call for future in-depth studies to determine how the needs of users of SMEs differ from those of large publicly accountable entities.
FERF (2006) / US	To answer the question: "What do users of private companies' financial statements want?"	Management, bankers, investment bankers, investors.	Interview and survey.	GAAP does not provide the details needed by investors or even banks. Investors are more interested in operating data than financial data, and they consider trend lines and year-over-year comparisons to be important. Banks want annual audited GAAP financial statement for accuracy and comparability, and they also want quarterly financial statements.
Knutson & Wichmann (1985) / US	To determine whether selected GAAP disclosure requirements promulgated by the FASB were considered equally important (or useful) for companies of all sizes and types (publicly owned vs. privately owned).	Practising accountants.	Questionnaire survey; a five-point Likert-scale (ranging from unimportant to essential) was used in the questionnaire.	CPAs reject the assumption that most disclosure requirements are equally important for all sizes and types of companies. The two sets of GAAP may add to the overload problem by requiring CPAs to spend more time keeping up and making little/big GAAP decisions. For example, CPA firms serving small business clients feel strongly about the existence of accounting standard overload problems. The findings show that the disclosure requirements are considered less important for privately owned companies than for publicly owned companies.
Maingot & Zeghal (2006) / Canada	To examine whether small business entities in Canada should have their own new set	Managers and owners of small businesses,	Questionnaire.	Stakeholders indicated that financial statements of SBEs are prepared mainly for taxation purposes and borrowing. They

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
	of 'small' GAAP or continue to use 'big' GAAP as for public companies.	preparers, auditors, and users of small business accounts.		are not satisfied with the present standards because they are costly to comply with and very complex.
Page (1984) / US	To examine issues relevant to small company financial reporting.	Directors of small independent companies.	Survey.	The main users of small company accounts are managers, the tax authorities, and loan creditors. Directors rated assessment of profitability and net profit as the most important uses and information. Other functions of the annual accounts, which were rated as important, were to support tax computations and to provide information to the bank.
Quagli & Paoloni (2012) / European countries	To analyse the use of IFRS for SMEs from the perspective of both external users and preparers, based on the answers given by respondents to the official questionnaire from the European Commission.	Preparers, public authorities, national accounting standard setters, accountants, auditors.	Survey.	The results show that there are strong differences between perspective of users and preparers, and also between countries, on the use of IFRS for SMEs.

Table A2. Summary of studies on the audit of small/private companies

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
Abdel-Khalik (1993) / US	To explain the motivation of owners of private companies who voluntarily demand audit assurance.	Owners of privately owned companies who were willing to release confidential information.	Survey.	There are two reasons why small firms demand voluntary audits, even in the absence of separation of ownership and control. One is to comply with constraints imposed by creditors, and the other is for internal control purposes.
Minnis (2011) / US	To examine the role that voluntary audit plays in the debt financing process of privately held firms in the US.	Data is drawn from the Sonline database, supplied by Sageworks Inc., a company that collects private firm data.	Correlation and regression analysis.	On average, firms with audited financial statements have much lower cost of debt, suggesting that cost of debt is one of the main drivers of voluntary audit in small private firms.
Collis et al. (2004) / UK	To investigate whether company size is associated with the demand for audit.	Directors of small UK companies.	Survey.	63% of companies conduct voluntary audits although they are exempt from doing so. The majority of small companies consider that the benefits of an audit outweigh the costs. Agency relationship between owners and lenders is also a significant influence on the demand for audits of small companies.
Collis (2010) / UK & Denmark	To compare the demand for voluntary audits in the UK and Denmark.	Directors of small private companies in the UK and Denmark.	Survey.	The results show that a significant proportion of companies would have voluntary audit. Firm size (measured by turnover) alone can predict audit demand, but it is not a sufficient surrogate for the motivation of directors to opt for voluntary audit. The key determinants of audit demand are management factors and agency factors.

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
Collis (2012) / UK	To investigate the determinants of voluntary audits in small UK companies.	Directors of small and medium-sized companies.	Survey.	The results show that the benefits of placing full audited accounts on public record outweigh the costs for a significant proportion of companies. Voluntary audits are determined by cost and agency factors and, for micro-companies, also management factors.
Seow (2010) / UK	To investigate the perceived usefulness of voluntary audit in small companies.	Directors of small companies.	Survey, telephone interview.	Small firms with non-director shareholders who are not involved in day-to-day operations of the company are more willing to engage in voluntary audits. Also, small firms chose to engage audits to meet creditors' lending requirements.
Dedman & Kausar (2012) / UK	To examine the association between firm credit rating and voluntary audit.	The sample is drawn from the FAME database, which contains financial statement information for a large proportion of the population of UK firms.	Correlation and regression analysis.	Companies that retain voluntary audits are found to have significantly higher credit ratings than those that opt out of audits.
Niemi et al. (2012) / Finland	To examine the drivers of voluntary audits in small private firms in Finland.	Owner-managers.	Survey.	Three main reasons are found to explain why the demand for audits in small private firms differs from that for large listed companies. These are: differences in ownership and governance structures, differences in internal control, and the outsourcing of accounting functions due to lack of internal resources. In particular, their results suggest that outsourcing accounting functions to external accountants causes an agency conflict

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
				between owners and accountants, thereby increasing the need for voluntary audits.
Ojala et al. (2014) / Finland	To investigate audit benefits as perceived by owner-managers of small private firms in Finland.	Small private companies above the audit exemption threshold in Finland.	Survey.	Owner-managers' perceptions of competence and reliability of external accountants are found to be positively associated with perceived benefits of audits.
Carey et al. (2000) / Australia	To examine voluntary demand for auditing by Australian family businesses, which do not have statutory audit obligations.	The data is drawn from a database of 318 family businesses compiled by the AXA Australia Family Business Research Unit at Monash University.	Survey.	In the unregulated family-business environment, demand for external auditing is found to be positively associated with a number of proxies for agency conflict, including level of firm debt, the proportion of non-family management, and the proportion of non-family directors. However, no significant relationship is found between demand for auditing and firm size.
Kim et al. (2011) / Korea	To examine the benefit of voluntary external audits in respect to the cost of debt.	The sample is drawn from the 2001 KIS-DATA database developed by the Korea Investors Service, which is the largest credit	Correlation and regression analysis.	Private companies with an external audit pay a significantly lower interest rate on their debts compared with private companies without an audit.

Authors (Year) / Country	Research objectives	User Group	Methods	Findings / Results
		rating agency in Korea.		

Appendix B. The survey

Financial Reports of large New Zealand (Tier 2) for-profit entities:

An XRB survey of users' information and assurance needs

This survey should take about 15-20 minutes to complete. Response to the survey is voluntary and all information you do provide will remain strictly confidential. Individual responses will be known only to the researchers. Completion and submission of the questionnaire implies consent. You have the right to decline to answer any particular question.

Your responses would be more useful if you would take the opportunity to provide comments and explanations that would support your responses. This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named below are responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Dr Brian Finch, Director (Research Ethics), email humanethics@massey.ac.nz

We hope you will take the time to complete this questionnaire. Regardless of whether you choose to participate or not, please let us know if you would like to be notified when the report is published. You can contact us by email at: F.Laswad@massey.ac.nz. Thank you for helping us with this research. Your feedback will assist in developing reporting frameworks and standards that address users needs in New Zealand and internationally.

Sincerely,

Professor Fawzi Laswad Head of School, School of Accountancy

Private Bag 11-222 Massey University Palmerston North New Zealand, 4442
Email: F.Laswad@massey.ac.nz Direct Dial +64 6 951 6064



Letter of Support

Researching Financial Information and Assurance Needs of Users of For-Profit Tier 2 Entity Reports

The team at Massey University, headed by Professor Fawzi Laswad, is conducting this survey as part of a research project on behalf of the External Reporting Board (XRB).

The primary purpose of this research project, *Researching Financial Information and Assurance Needs of Users of For-Profit Tier 2 Entity Reports*, is to establish the broad financial information and assurance needs of key user groups of the general purpose financial reports (GPFR) of for-profit entities in Tier 2¹, that is, for-profit entities that apply New Zealand equivalents to International Financial Reporting Standards with reduced disclosures (NZ IFRS RDR).

We encourage you to give your full support and cooperation to the research team by responding to this survey. Your responses to the survey questions are important as they will enable the research team and thereby the XRB to gain a better understanding of the users of Tier 2 entity reports and their information needs.

This is an important opportunity for you to be involved in the standard-setting process and have a say on what constitutes useful and relevant information to external users of Tier 2 entity reports. The research is essential, as its findings will help inform future decisions about the requirements of XRB's standards for Tier 2 entities, XRB's accounting and assurance frameworks, as well as inform discussions on policy matters, both locally and internationally.

Please feel free to get in touch with me at warren.allen@xrb.govt.nz if you need any further information.

Warren Allen
Chief Executive

¹ Under [XRB A1 Application of the Accounting Standards Framework](#) for-profit entities in Tier 2 are for-profit entities that are large under statutory thresholds, do not have public accountability and are required to prepare financial statements that comply with XRB Standards. They include for-profit public sector entities that have expenses of less than \$30 million. For-profit entities in Tier 2 are entities that are not "public interest entities" for assurance purposes.

Clarification notes to help you to respond to the questions on financial reports:

GPFR means general purpose financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. All references to T2 financial reports are T2 GPFR.

Tier 2 for-profit entity (T2 entity) is an entity that is:

- Large[^] under statutory thresholds;
- Does not have public accountability[#];
- May prepare financial statements using NZ IFRS RDR (New Zealand equivalent to International Financial Reporting Standards with reduced disclosure)

It also includes a company with 10 or more shareholders that has not opted out from preparing financial statements and any other for-profit entity which elects to be in Tier 2.

[^] The definition of large varies as follows:

For New Zealand entities, it means more than \$60m in assets or \$30m in revenue (each of the 2 preceding accounting periods); and

For overseas companies or their subsidiaries, it means more than \$20m in assets or \$10m in revenue.

Financial Reporting Act 2013 (s. 45)

[#] An entity that does not have public accountability means the entity:

- does NOT have debt or equity instruments traded (or to be traded) in a public market (e.g. not listed on a stock exchange);
- does NOT hold assets in a fiduciary capacity for a broad group of outsiders (eg., not a bank, credit union, or insurance provider); and
- is NOT an 'FMC reporting entity' or within a class of 'FMC reporting entities' that has higher public accountability as defined in the Financial Markets Conduct Act 2013.

Q1 Use of T2 financial reports

Do you use the information in T2 financial reports?

- Yes
- No, please explain reasons _____

If No, please explain reasons Is Selected, Then Skip To Q7 Sources of information. We would l...

Q2 Types of decisions for which you use T2 financial reports

For what types of decisions do you use T2 financial reports? Please allocate 100% among the various types of decisions you undertake to indicate their approximate level of importance.

- _____ Equity investment
- _____ Debt investment
- _____ Lending or extension of credit
- _____ To monitor/assess performance of those responsible for governance
- _____ To monitor/assess performance of those responsible for managing the organisation
- _____ Others, please specify as many categories as you see relevant and indicate their importance

Q3 The usefulness of components of financial statements included in T2 financial reports

The items below comprise a full set of financial statements. Please rate the usefulness of each item to you in making decisions. Please use the scale 1 to 5, where 5 is the most useful. Please support your responses by providing reasons in the space below each item.

	1 (Least useful)	2	3	4	5 (Most useful)	N/A or do not know
Statement of financial position (balance sheet)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of profit or loss and other comprehensive income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of changes in equity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Statement of cash flows	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Notes to the financial statements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q4 Information in financial statements that is not useful to include in T2 financial reports

Is there any material or information currently included in financial statements that has no value to you and could be left out of T2 financial reports? Please explain your response in the space provided.

- Yes _____
- No _____

Q5 Information not provided in T2 financial statements

Is there any material or information that is currently not included in the financial statements that you would find useful and should be included in T2 financial reports? Please explain in the space provided.

- Yes, please outline your suggestions for improvements _____
- No _____

Q6 Sources of information

We would like to gain insights into the key sources of information which you use in making decisions. Please allocate 100% among the various sources of information to indicate their importance. Please use the space below to explain your reasons.

- _____ Corporate financial statements
- _____ Management commentary and analysis including directors' reports
- _____ The press, media and other on-line sources
- _____ Advisors' reports
- _____ Others, please indicate the other sources and their weightings

Other Information in T2 Financial Reports

Q7 Interest in other information

Do you use or require any other information that is not included in current T2 financial reports?

- Yes
- No

Display This Question:

If Q7 Interest in supplementary information Do you use or require any supplementary information ... Yes Is Selected

Q8 Usefulness of other information

Please indicate the level of usefulness to you, of including other information in T2 financial reports, using the scale 1 to 5, where 1 indicates very low usefulness and 5 indicates very high usefulness. Please support your views with comments in the spaces provided.

	1 (Least useful))	2	3	4	5 (Most useful))	N/A or do not know
Information about the entity's business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Narratives that explain the entity's performance and financial position	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Information on business strategies, and prospects for future financial years	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Summary financial information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Others, (please specify)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Assurance and other engagements

Clarification notes to help you to respond to the questions on "Assurance" below:

Assurance: An audit offers a reasonable (high but not absolute) level of assurance. The auditor provides an opinion as to whether the financial statements present a true and fair view of the financial position, performance and cash flows of an entity in accordance with an appropriate framework (in this case the NZ IFRS RDR accounting requirements). Auditing standards require relatively intensive procedures to gather sufficient appropriate evidence to support an audit opinion.

A review offers a limited level of assurance (less than an audit). The reviewer provides a conclusion as to whether anything has come to their attention that causes them to believe that the financial statements do not present a true and fair view in accordance with NZ IFRS RDR. The nature, timing, and extent of procedures required by review standards are limited compared with that necessary for an audit and are typically based on enquiries and analytical procedures.

Other engagements: An agreed upon procedures engagement is an example of another engagement, and is an engagement in which a professional accountant carries out specific

procedures on specific aspects of the financial report or business as agreed between the parties to the engagement. The professional accountant reports on factual findings and provides no assurance. It is up to the party that requests these agreed upon procedures to form their own conclusion from the findings.

Q9 Preparation of Financial statements and assurance

The T2 entities you have an interest in

- Do not prepare financial statements, please explain reasons _____
- Prepare financial statements but are not independently audited or reviewed, please explain reasons _____
- Prepare financial statements that are independently audited or reviewed, please explain _____
- Prepare financial statements which are subject to an agreed upon procedures engagement or other engagement, please specify and explain reasons _____

Q10 Assurance of T2 entities

Please indicate the extent to which you think the following is useful for T2 financial statements?

	1 Not useful	2	3	4	5 Very useful
Audit, please explain reasons	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Review, please explain reasons	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
An agreed upon procedures engagement, please explain reasons	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Any other engagement, please specify and explain reasons	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Display This Question:

If Assurance of T2 entities Please indicate the extent to which you favour obtaining assurance for T... Audit - 4 Is Selected

Or Assurance of T2 entities Please indicate the extent to which you favour obtaining assurance for T... Audit - 5 Strongly agree Is Selected

Or Assurance of T2 entities Please indicate the extent to which you favour obtaining assurance for T... Review - 4 Is Selected

Or Assurance of T2 entities Please indicate the extent to which you favour obtaining assurance for T... Review - 5 Strongly agree Is Selected

Q11 Views on the importance of assurance matters or other engagements for T2 financial statements

What are your views on the following statements regarding the assurance of T2 for-profit entities? Please support your views with comments in the spaces provided:

A) Indicate your view on the importance of the matter using the 5-point scale with 1 indicating 'Not important' and 5 indicating 'Very important';

B) Indicate whether you would select an audit, a review, an agreed upon procedures engagement, or other arrangement to achieve assurance. Select 'None' if you believe no assurance is necessary.

	A) Your views on the importance of each matter						B) Your views on how each matter should be assured					
	1 (Not important)	2	3	4	5 (Very important)	Do not know	Audit	Review	Agreed upon procedures	Any other engagement	None	Do not know
To provide a check on adequacy of internal books/records	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To provide a check on adequacy of internal controls over processes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To help protect against fraud	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To improve the quality of information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To improve the credibility of information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To provide a check on compliance with legislation/ entity constitution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To improve governance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

To assist in monitoring management performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To provide early warning of going concern issues	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To satisfy lenders	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, please explain	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Entities opting in

Q12 Entities opting in

Do you have an interest in an entity that is not a T2 entity but elected to report as such?

- Yes, please specify the entity type, its size (by approximate annual turnover and/or total assets), and the reason(s) for opting in _____
- No

The entities you have an interest in

Q13 Types of T2 entities

What types of T2 entities do you currently have an interest in? Please specify as many entity types as necessary.

- Company
- Partnership
- Retirement village
- Maori incorporation
- Other, please specify _____

Q14 How many T2 entities do you have an interest in?

- One
- Two to five
- More than five

Display This Question:

If How many T2 entities do you have an interest in? One Is Selected

Q15 Please indicate the approximate size (total assets and total revenue to nearest \$million) of the T2 entity that you have an interest in.

	Size	
	Total assets	Total revenue
T2 entity size		

Display This Question:

If How many T2 entities do you have an interest in? Two to five Is Selected
Or How many T2 entities do you have an interest in? More than five Is Selected

Q16 Please indicate the approximate size (total assets and total revenue to nearest \$million) of the largest and smallest T2 entities that you have interest in.

	Size	
	Total assets	Total revenue
Largest T2 entity		
Smallest T2 entity		

Q17 User group

Please indicate which of the following financial information user groups best describes you or the institution you work for. Please select as many categories as appropriate.

- Equity investor/ shareholder
- Trust beneficiary
- Venture capital provider
- Debt investor
- Creditor/Lender/Banker
- Regulator/government agency
- Business advisor
- other, please specify _____

Q18 In what capacities, if any, are you involved with the T2 entities that you have interests in? Please select as many answer options as applicable.

- In a management role
- As a director/trustee
- As a shareholder
- In other roles, please specify _____
- Not involved

Background Information

Q19 Your job title

Q20 Your knowledge, skills and experience

How would you describe your level of your knowledge, skills, and experience in reading, understanding and analysing financial statements? Please use the scale where 0 indicates none and 5 very high.

_____ Knowledge and Skills

_____ Experience

Q21 Comments and feedback Any final comments or feedback?

Thank you for your participation. We appreciate your assistance. If you would like to be notified when the results of this survey are published, please provide the following information:

Name:

Email address:

Second email address (optional):

References

- Abdel-Khalik, A.R., Collins, A.W., Shields, P.D., Snowball, H.D., Stephens, G.R., & Wragge, H.J. (1983). *Financial reporting by private companies: Analysis and diagnosis*. Stamford, CT: Financial Accounting Standards Board.
- Abdel-Khalik, A.R. (1993). Why do private companies demand auditing? A case for organizational loss of control. *Journal of Accounting, Auditing and Finance*, (Winter), 31–52.
- AICPA. (2005). *Private company financial reporting task force report*. Retrieved from http://www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/DownloadableDocuments/PCFR_Archive/PCFR_Task_Force_Report_Feb2005.pdf
- Allee, K.D., & Yohn, T.L. (2009). The demand for financial statements in an unregulated environment: an examination of the production and use of financial statements by privately held small businesses. *The Accounting Review*, 84(1), 1–25.
- Barker, P., & Noonan, C. (1996). *Small company compliance with accounting standards: The Irish situation*. Retrieved from http://doras.dcu.ie/2113/1/DCUBS_Research_Paper_Series_10.pdf
- Carey, P., Simnett, R., & Tanewski, G. (2000). Voluntary demand for internal and external auditing by family business. *Auditing: A Journal of Practice and Theory*, 19(Supplement), 37–51.
- Carsberg, B., Page, M., Sindall, A., & Waring, I. (1985). *Small company financial reporting*. The Institute of Chartered Accountants in England and Wales, London.
- Collis, J., Jarvis, R., & Skerratt, L. (2004). The demand for the audit in small companies in the UK. *Accounting and Business Research*, 34(2), 87–100.
- Collis, J. (2010). Audit exemption and the demand for voluntary audit: A comparative study of the UK and Denmark. *International Journal of Auditing*, 14, 211–213.
- Collis, J. (2012). Determinants of voluntary audit and voluntary full accounts in micro- and non-micro small companies in the UK. *Accounting and Business Research*, 42(4), 441–468.
- Dedman, E., & Kausar, A. (2012). The impact of voluntary audit on credit ratings: Evidence from UK private firms. *Accounting and Business Research*, 42(4), 397–418.
- Eierle, B., & Haller, A. (2009). Does size influence the suitability of the IFRS for Small and Medium-sized Entities? – Empirical evidence from Germany. *Accounting in Europe*, 6(2), 195–230.
- Elliot, W.B., Hodge, F., & Jackson, K.E. (2008). The association between non-professional investors' information choices and their portfolio returns: The importance of investing experience. *Contemporary Accounting Research*, 25(2), 473–498.
- Evans, L., Gebhardt, G., Hoogendoorn, M., Marton, J., Di Pietra, R., Mora, A., Wagenhofer, A. (2005). Problems and opportunities of an international financial reporting standard for small

and medium-sized entities. The EAA FRSC's comment on the IASB's discussion paper. *Accounting in Europe*, 2, 23–45.

External Reporting Board (XRB) (2016). *Information needs of users of New Zealand capital markets entity reports*. Retrieved from <https://xrb.govt.nz/information-hub/current-research-reports/>

Financial Executives Research Foundation (FERF). (2006). *What do users of private company financial statements want?* Retrieved from http://www.p CFR.org/downloads/05_07_meet_materials/ferf_private_co_user_survey.pdf

Hope, O.K., Thomas, W.B., & Vyas, D. (2011). Financial credibility, ownership, and financing constraints in private firms. *Journal of International Business Studies*, 42, 935–957.

Jensen, M.C., & Meckling, W.H. (1976). Theory of the firm: Managerial behaviour, agency costs, and the ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

Kim, J., Simunic, D., Stein, M., & Yi, C.H. (2011). Voluntary audits and the cost of debt capital for privately held firms: Korean evidence. *Contemporary Accounting Research*, 28(2), 585–615.

Knutson, D., & Wichmann, H. (1985). The accounting standards overload problem for American small businesses. *Journal of Business Finance & Accounting*, 12(3), 387–397.

Maingot, M., & Zegbal, D. (2006). Financial reporting of small business entities in Canada. *Journal of Small Business Management*, 44(4), 513–530.

Minnis, M. (2011). The value of financial statement verification in debt financing: evidence from private U.S. firms. *Journal of Accounting Research*, 49(2), 457–506.

Niemi, L., Kinnunen, J., Ojala, H., & Troberg, P. (2012). Drivers of voluntary audit in Finland: to be or not to be audited?. *Accounting and business research*, 42(2), 169–196.

Ojala, H., Niskanen, M., Collis, J., & Pajunen, K. (2014). Audit quality and decision making in small companies. *Managerial Auditing Journal*, 29(9), 800–817.

Page, J.M. (1984). Corporate financial reporting and the small independent company. *Accounting and Business Research*, 14(55), 271–282.

Quagli, A., & Paoloni, P. (2012). How is the IFRS for SME accepted in the European context? An analysis of the homogeneity among European countries, user and preparers in the European commission questionnaire. *Advances in Accounting, incorporating Advances in International Accounting*, 28(1), 147–156.

PWC. (2013). *New UK GAAP or IFRS?* Retrieved from http://www.pwc.com/im/en/publications/assets/new_uk_gaap_or_ifrs.pdf

Seow, J. (2010). The demand for the UK small company audit – an agency perspective. *International Small Business Journal*, 19(2), 61–79.