



John Ryan

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Tēnā koe Marje

Submission on exposure draft ISA (NZ) for audits of financial statements of less complex entities

Thank you for providing the opportunity to comment on the proposed standard for audits of financial statements of less complex entities dated November 2024 (the Exposure Draft).

I am responsible for auditing the financial reports of around 3,300 public sector entities each year. Of this number a substantial majority (over 75%) of these entities fit the definition of “less complex” in the Exposure Draft.

Whilst I am confident that many of the audits of the less complex entities in the public sector are already carried out on a cost-effective basis, I am interested in taking advantage of opportunities that allow me to continue to deliver audits that provide value-for money to New Zealanders. I view the Exposure Draft as providing a significant opportunity towards achieving that objective.

In addition, New Zealand is characterised by a large number of less complex entities in various sectors – such as the charities sector; many of which are required to be audited. In our view there is a need for an auditing standard for less-complex entities. The benefits to auditors of only having to refer to one auditing standard, instead of the 30+ auditing standards they currently are required to comply with, are likely to deliver more cost-effective audits.

As a consequence, I strongly encourage the New Zealand Auditing and Assurance Standards Board (the Board) to continue with the work needed to promulgate an auditing standard that is relevant to less complex entities in New Zealand.

I have already made staff available to assist the Board in preparing aspects of the Exposure Draft. I am happy for my staff to continue to support the Board in the development of the standards that emerges from the consultation process.

Responses to the consultation questions are included in Appendix 1 that accompanies this letter. Appendix 2 to this letter provides further comments on Part 11 of the Exposure Draft on the audit of service performance information prepared by less complex entities.

If you have any questions, please contact Chong Lim at Chong.Lim@auditnz.parliament.nz

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMR Ryan', with a large, stylized flourish at the end.

John Ryan
Controller and Auditor-General

Appendix 1 - Responses to consultation questions

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

The Consultation Document identifies a number of costs or risks that might arise from the adoption of the ISA (NZ) for LCE. However, the costs or risks do not take account of the counterfactual situation where auditors, as they are entitled to do, scale the full suite of ISA (NZ)s to the audits of particular entities. The process by which auditors scale the full ISA (NZ)s to particular entities is likely to exacerbate the costs or risks noted in the Consultation Document.

We should take confidence that the IAASB has carried out the process of scaling the full suite of ISAs to develop a single standard for the audit of LCEs. In doing so many of the costs or risks identified by the XRB have been mitigated. In our view, an ISA (NZ) for LCE provides a sound base that will enable the auditors of LCEs to focus on the risks of material misstatement whilst removing compliance with requirements from the full ISAs (NZ) that are not applicable or relevant under the circumstances.

The perception that an ISA for LCE is viewed as a lesser form of audit has been assumed by some jurisdictions, with the consequence that they will not adopt the ISA for LCE. Unfortunately, this is a perception that the IAASB could have avoided at the outset by giving the ISA for LCE standard the same status as the full ISAs; and in allowing auditors to publicly assert that the audit has been carried out in accordance with "International Standards on Auditing".

In this regard, it should be noted that the ISA for LCE requires compliance with the same quality management, and ethics and independence standards. The Auditor-General will continue to expect auditors appointed to act on their behalf to comply with AG-PES 3 and the Auditor-General's Code of Ethics. It should also be noted that the fundamental audit concepts have not been amended, these include determining audit materiality, audit sampling, how to identify risks and responding to assessed risks of material misstatement, and how to evaluate uncorrected misstatements.

Auditors face audit fee pressures at present regardless of the standards they apply. The cost of performing the audit in accordance with the ISA (NZ) for LCE will only be known once it is applied in practice and should not be used as a deterrent from adopting the standard. The audit fee may not increase as significantly or regularly as is currently the case due to additional requirements that should only affect audits of more complex entities. Examples include the IT control requirements in ISA NZ 315 (Revised), and the group engagement partner's involvement in group audits where component auditors are used in ISA (NZ) 600.

2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

We agree the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so. The Auditor-General is required to audit the financial statements of a large number of public sector organisations that can be characterised as LCEs. As noted above, having one auditing standard that provides a sound basis for the auditor to focus on the risks of material misstatement of an LCE's financial report is an important consideration.

Having a single standard in New Zealand promotes a consistent high-quality audit of an LCE's financial report, i.e., each firm or auditor is not scaling the audit back by themselves (and potentially doing so inappropriately).

We believe that a standard is needed to fill the gap that currently exists between entities that are required to be audited in accordance with the full suite of ISAs and those that may have a review instead. There is a large difference between reasonable and limited assurance and most entities that are able to have their financial reports reviewed obtain an audit.

3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

The Auditor-General will adopt the ISA (NZ) for LCE as soon as it is practical to do so, after it has been issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The auditors appointed to act on behalf of the Auditor-General would need time to develop an audit approach in accordance with the standard and audit staff would need training. However, we don't believe that initial education and training costs should be reason for not adopting the standard.

We have made an initial assessment that the ISA (NZ) for LCE could be applied to a large number of the approximately 3,300 entities that the Auditor-General is required to audit annually. These entities are finding it difficult to afford an audit in accordance with the full ISAs (NZ) due to the increasing cost that the auditor has to incur due to complying with all the audit requirements of the full ISAs, and the current economic environment.

If the XRB decided not to adopt the standard and the Auditor-General developed a standard based on the ISA for LCE, it could significantly affect the pool of auditors that the Auditor-General could use to carry out such audits on their behalf. This is because only global network firms that operate in a jurisdiction where the standard has been adopted by a recognised standard setter would have access to an audit approach that complies with the ISA for LCE.

4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

The timing of the maintenance of the ISA for LCE does not affect our view on its adoption.

From our observations, the international standard setting board is primarily focussing its attention on marginal amendments to the ISAs which are of importance to audits of FMC reporting entities with higher levels of public accountability. If those amendments are reflected in the ISA for LCE at a later date the quality of the audit is unlikely to be compromised.

However, where a fundamental change to the way in which we audit is introduced we would expect the ISA for LCE to be changed at the same time as the ISA.

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?

Yes.

- 6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?**

Yes.

- 7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?**

Please refer to our detailed comment on paragraph NZ1.2.2. under question 15. The Auditor-General will develop its own policy on audits where this standard may not be applied.

- 8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?**

We agree with the XRB's position that a quantitative threshold is nor necessarily an indicator of complexity. A quantitative threshold may result in auditors having to apply different standards year-on-year.

- 9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?**

We support the addition of Part 11 in the ISA (NZ) for LCE.

- 10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?**

We disagree with how Part 11 has been tailored for LCEs. In summary, we consider Part 11 should be further simplified.

Please refer to our separate comments in Appendix 2 of this submission.

- 11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?**

We disagree with how Part 11 has been tailored for LCEs. In summary, we consider Part 11 should be further simplified.

Please refer to our separate comments in Appendix 2 of this submission.

- 12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?**

Please refer to our separate comments in Appendix 2 of this submission.

- 13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?**

No, apart from the separate comments in Appendices 1 and 2 of this submission.

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

The proposed application date is reasonable. Please also refer to our response to question 3.

15. Do you have any other comments on the proposed standard?

We have several additional comments – as follows:

Reference to Exposure Draft	Observation	Suggested Response
Contents page, NZP.13, and page 37	<p>The structure of the ED does not make a clear distinction between Part A (the Authority part) and the parts that regulate the conduct of the audit (Parts 1 to 11). From a reader’s perspective if there is a Part A then it follows there should be a Part B – but there is no Part B.</p> <p>The structure of the ED is explained in NZP.13 (on page 11) but this explanation comes too late to reduce confusion about structure.</p>	<p>Ideally, the contents page should include a reference to a Part B immediately below the Part A reference. Part B should be suitably titled – possibly:</p> <p style="text-align: center;">B APPLICATION OF THE ISA (NZ) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES</p> <p>The “sub-parts” under Part B in the contents page could be differentiated by smaller font?</p> <p>Another improvement could be to move the explanation of the structure in NZP.13 to the beginning of the Preface.</p>
NZ1.2.2 on page 20	<p>We agree that a firm will have a policy on PES 3 and PES 4 and will have requirements on which audits will require an EQR in addition to FMC reporting entities with a higher level of public accountability. However, we do not agree that PES 4 will be relevant to the audit of a LCE, i.e., an EQR is required for higher-risk audit engagements and should be an indicator to the auditor that the standard for LCE is perhaps not appropriate for a particular audit engagement.</p>	<p>Consider including the need for an EQR as a factor for not applying the Standard on LCE.</p> <p>Adapt the current application material accordingly.</p>

Reference to Exposure Draft	Observation	Suggested Response
6.4.2 on page 61	<p>For an audit of an LCE we question whether there should be a presumed risk of fraud in revenue recognition. This is because the entity is likely to have a single type of simple revenue transaction. Receiving cash revenue for small entities in the public sector is also reducing and becoming less of a risk for such audits.</p>	<p>6.4.2 could be redrafted similarly to 6.4.3 (relating to estimation uncertainty of accounting estimates), to consider specific matters when identifying and assessing the risk of material misstatement in revenue recognition (so that it is not automatically assessed as significant, triggering additional procedures around controls etc.).</p> <p>The specific matters to consider could include the complexity over revenue recognition and how revenue is received by the entity.</p>
6.5.1 on page 63	<p>The requirement to consider whether the ISA for LCE is still appropriate after the "risk assessment" process, seems problematic from a cost and timing perspective. It is also not clear what the risk assessment would need to indicate for the auditor to conclude that the full ISAs are necessary.</p>	<p>Consider prohibiting a change during an audit. Consider the requirements from ISAE NZ 3000 which does not allow an auditor to move from reasonable assurance to limited assurance during the engagement based on what was identified during planning.</p>

Reference to Exposure Draft	Observation	Suggested Response
6.6.1 on page 63	<p>6.6.1 requires the auditor to communicate with management, and where appropriate, those charged with governance, the <i>significant risks</i> identified by the auditor.</p> <p>The ED does not explain the purpose of this requirement and needs to do so in order to give proper effect to the audit.</p> <p>The requirement flows from paragraph 15 of ISA (NZ) 260. The communication is carried out following the audit planning process regarding the planned scope and timing of the audit. The communication helps entity personnel to understand the significant risks and may assist them in fulfilling their responsibility to oversee the financial reporting process. The communication may also assist entity personnel in identifying any areas in which they may request the auditor to undertake additional procedures.</p> <p>In our opinion, apart from not explaining its purpose, the requirement comes too late in the audit process to be effective. For example the fieldwork component of the audit for many less complex entities will take place over the course of one or two days. Any significant risks that have not previously been identified will be identified and resolved (if possible) at the time of the audit visit. There will be insufficient time for the communication required under 6.6.1.</p>	<p>Many of the significant risks will be known to the auditor at the planning stage of the audit.</p> <p>We recommend that the communication of significant risks to the entity is carried out either:</p> <ul style="list-style-type: none"> • When the auditor has completed the requirements in 5.2.4, 5.2.5 and 5.2.6; or • Following the engagement team discussion in 5.2.7. <p>As a consequence the requirement to communicate significant risks to entity personnel should be combined with the communication requirements of 5.4.1.</p>
7.3.7 on page 68	<p>We understand that this is a conditional requirement, however we question why the ISA (NZ) for LCE is referring to an 'interim audit'. It is not clear why an interim audit would be relevant or necessary in an audit of a less complex entity.</p>	<p>Consider removing reference to interim audits.</p>

Reference to Exposure Draft	Observation	Suggested Response
<p>The EEM following 8.6.3 on page 91.</p>	<p>The second paragraph of the EEM beneath 8.6.3 states:</p> <p><i>“[NZ] If the auditor intends to rely on some, or all, of the written representations made by those charged with governance in a written public statement, the auditor ordinarily communicates their intention to place such reliance.”</i></p> <p>We presume that the communication is intended to be made by the auditor to entity governors.</p> <p>In the public sector a written public statement of representation is often required to be provided by entity governors. This statement is required to accompany the entity’s audited accountability documents.</p> <p>It is not normal practice for the auditor to communicate their intention to place reliance on the written public representations for two reasons:</p> <ol style="list-style-type: none"> 1. Auditors don’t normally communicate their intention to rely on a representation – whether the representation is made in a written public statement or in a representation letter provided by the entity; and 2. Auditors don’t rely solely on representations provided by an entity. The representations support evidence that the auditor has obtained as part of the audit. 	<p>We recommend that the second paragraph of the EEM beneath 8.6.3 is removed.</p>
<p>8.8.1 and 8.8.2 on pages 92 and 93.</p>	<p>These requirements are quite prescriptive in that they make a clear distinction between management and those charged with governance. When auditing a less complex entity it is possible that a single communication to one party (such as those charged with governance) with a copy to the other party (management) will satisfy the requirements of 8.8.1 and 8.8.2.</p>	<p>We recommend that the ED is amended to provide flexibility to communicate appropriately to an entity where a clear distinction between entity governors and management is not obvious. This is the case in many small entities.</p> <p>A suitable amendment could be made by drawing on the content of paragraphs 13 and A8 of ISA (NZ) 260.</p>

Reference to Exposure Draft	Observation	Suggested Response
9.7.1, 9.7.2, 9.7.4, 9.7.7 and 9.7.8 on pages 110 and 111	These paragraphs do not apply in the NZ context.	These paragraphs should be removed to avoid confusion and enable auditors to comply with Part 9 in full (A requirement of ISA (NZ) for LCE).
Page 98 and page 134 - the auditor's report	<p>To mitigate misconceptions that an audit carried out under the ISA (NZ) for LCE provides less assurance than an audit carried out under the full ISA (NZ)s we suggest that two steps could be taken:</p> <ol style="list-style-type: none"> 1. Check that the audit report format and structure aligns with the illustrated audit reports in the Appendix commencing on page 41 of ISA (NZ) 700 (Revised); and 2. Include a paragraph in the audit reports to indicate that the ISA (NZ) for LCE standard provides the same assurance as an audit carried out under the ISA (NZ)s, as they both provide reasonable assurance, with the only difference being that the ISA (NZ) for LCE is tailored for the audits of LCEs. 	Implement the suggestions under the "Observation" column.
Page 100 and page 135 - the auditor's report	The auditor's reports, in both instances, make no reference to the possibility that the auditor may need to refer to "Other Information". If auditors refer to the template auditor's reports in the ED they may overlook the need to inform the users of the work carried out on the other information that accompanies the audited information.	In both instances we recommend that the template auditor's reports include the heading "Other Information" and beneath that heading cross refer to the other Information requirements on pages 112 and 113 of the ED.

Appendix 2 - Comments on Part 11 of the Exposure Draft on the audit of service performance information

Overall comments on Part 11

We understand that concerns may have been expressed by some auditors that NZ AS 1 (Revised): *The Audit of Service Performance Information* (NZ AS 1 (Revised)) is not fit-for-purpose for the audit of service performance information prepared by less complex entities. In our view the ISA (NZ) for LCE provides an opportunity to simplify the requirements (and terminology) in NZ AS 1 (Revised) that have been carried into the proposed ISA (NZ) for LCE.

It would seem appropriate that the ISA (NZ) for LCE should be the “go to” standard for the majority of auditors of the many “public benefit entities” that are required to prepare a “statement of service performance” under the Tier 3 and Tier 4 reporting requirements – as referred to in 11.5.1 of the Exposure Draft.

We would suggest that the NZAuASB “step back” and re-think the requirements and the explanatory material that regulate the audit of service performance information in the context of less complex entities. We understand that responding to our observations, noted below, will require significant effort. However, we consider that effort will be worthwhile by effectively responding to the concerns expressed by some auditors about NZ AS 1 (Revised). We would be happy to assist the NZAuASB with this work.

Our observations (below) identify opportunities to simplify Part 11 of the ISA (NZ) for LCE.

Detailed comments on Part 11

Reference to Exposure Draft	Observation	Suggested Response
The wording of (a) in the EEM following 11.1.1 on page 119	We consider that some of the terminology that has been carried across from NZ AS 1 (Revised) is confusing and should be simplified. The wording of (a) in the EEM following 11.1.1 is confusing because it does not align with the plain English wording in the applicable accounting standard. We think it should do so.	We recommend that the wording of (a) in the EEM following 11.1.1 is reworded to align to the requirements in paragraphs A43 and A44 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023). Suggested wording is: <i>“The auditor may achieve the objectives of this Part by considering the following two steps:</i> (a) <i>Assess whether the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:</i> <ul style="list-style-type: none"> • <i>Describe what the entity is seeking to achieve over the medium to long term (that should be closely related to the entity’s mission or purpose); and</i> • <i>Describe, and quantify to the extent practicable, the significant activities the entity has undertaken or what it has achieved during the financial year.”</i>

Reference to Exposure Draft	Observation	Suggested Response
Throughout Part 11 (including the Independent Auditor’s Report), the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A.	We consider the simplified terminology (referred to above) should be reflected throughout Part 11. These changes are needed to facilitate more cost effective audits of service performance information prepared by less complex entities.	Refer to our recommendation under the “Observation” column.
11.7.2	<p>Paragraph 11.7.2.(b)(i) and the last paragraph under “Assertion Level Risks” in the explanatory material appear to be confusing two matters - assertions and identifying significant (material) measures. We identify material measures first, then consider inherent risk at the assertion level for those measures.</p> <p>In other words, if we think about the “two-step” process in the explanatory material following 11.1.1, we would only consider inherent risk for the “aspects” of service performance that are assessed as being “appropriate and meaningful”. This assessment is carried out under 11.6.1 (a).</p>	We suggest that the sequencing of the procedures in relation to identifying and assessing the risks of material misstatement are clarified. This process equates with (b) in the explanatory material following 11.1.1 – being step 2 of the “two step” process.
The EEM following 11.7.2	The last sentence in the explanatory material for 11.7.2 notes that <i>“the [inherent] risk assessment is conducted at a meaningful level ...”</i> .	We were not sure what the phrase “meaningful level” means. Could this be explained or rephrased in another way.
11.9.1	<p>Sufficient and appropriate audit evidence is typically obtained to support the entity’s assertions of its actual performance during the reporting period. In other words it relates to step 2 of the “two step” process.</p> <p>The auditor’s work to assess whether the entity reports on the “aspects” of service performance that are “appropriate and meaningful” does not typically employ the evidential processes that are used to validate an assertion. Instead, as stated in 11.6.1 (a), the information used by the auditor to make this assessment is derived from their understanding of the entity under 11.4. This is step 1 of the “two step” process.</p>	We recommend that 11.9.1 clarifies the application of the “two step” process in the context of eventual procedures. One way of doing this may be to develop a flow diagram that provides a road map in the application of the “two step” process.

Reference to Exposure Draft	Observation	Suggested Response
The EEM following 11.9.1	<p>Much of the explanatory comment derives from ISA (NZ) 500. It is difficult to form a view on whether the proposed standard has captured the important evidential issues that an auditor is likely to encounter when auditing a less complex entity.</p> <p>In our opinion, the segregation of duties risk will be an important consideration as will the ability of the auditor to rely on systems of internal control.</p>	We recommend that the proposed standard provides guidance on the important evidential issues that an auditor is likely to encounter when auditing a less complex entity.
The EEM following 11.9.1	The 4 th paragraph of the EEM following 11.9.1 is not clear. In particular we had difficulty in understanding how the second sentence relates to the first sentence.	We suggest this paragraph is clarified.
The EEM following 11.9.1	<p>The 5th paragraph of the EEM following 11.9.1 (on pages 128 and 129) discusses the difficult assertion of “attribution”. In some instances a number of separate entities contribute to an outcome but find it difficult to quantify their individual contribution towards the outcome.</p> <p>In this situation auditors’ responsibilities are likely to be limited to:</p> <ol style="list-style-type: none"> 1. Ensuring there is a connection between the reported measure and the entity’s activity during the reporting period; and 2. Assessing the adequacy of the entity’s disclosures in that they fairly reflect the extent of the entity’s contribution towards an outcome. <p>This involves the exercise of professional judgement by the auditor.</p>	<p>It is suggested that it may not be possible for the entity to quantify the extent to which its activities contribute to an outcome. In this situation the auditor will need to exercise professional judgement on the reliability of the disclosures made by the entity in the context of the “attribution” assertion.</p> <p>Currently the the “attribution” assertion is presented as a “black and white” situation in the EEM. We would suggest that the verification of the “attribution” assertion is more nuanced in some situations and that the EEM should reflect this possibility.</p> <p>We also consider this paragraph should explain the relationship between the attribution assertion and the associated evidential processes.</p>
11.11.1	<p>The representation letter should also obtain a representation that the reported service performance information fairly reflects the actual service performance. This the audit objective noted in (b) in the EEM following 11.1.1 on page 119.</p> <p>In addition, and where applicable, the auditor should obtain a representation on internal control – in accordance with 44(d) of NZ AS 1 (Revised) – “Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.”</p>	Include these as additional representations in 11.11.1.

Reference to Exposure Draft	Observation	Suggested Response
<p>11.11.1 (a), 11.12.1, 11.12.3, the audit opinion on page 133, the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A..</p>	<p>These paragraphs and documents contain the qualifying term <i>“in accordance with the entity’s measurement bases and evaluation methods”</i>. The equivalent term that would be used for the financial statements would be <i>“in accordance with the entity’s accounting policies”</i>.</p> <p>In our view the use of this qualifying phrase is unnecessary because it detracts from the particular matter on which the auditor is forming their opinion; in this instance that the service performance information <i>“is prepared, in all material respects, in accordance with the applicable financial reporting framework”</i>.</p>	<p>Remove the qualifying term <i>“in accordance with the entity’s measurement bases and evaluation methods”</i>.</p>
<p>11.12.4 (c)</p>	<p>We consider the wording of this particular measure to be confusing.</p> <p>As observed previously carrying across wording in NZ AS 1 (Revised) to the ISA (NZ) for LCE is unnecessarily confusing. Instead of referring to <i>“measurement bases or evaluation methods”</i> it is suggested that we use terms found in the applicable accounting standard. In this instance paragraph A46 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023) refers to <i>“measures and/or descriptions of the entity’s significant activities or achievements”</i>.</p> <p>We also suggest that referring to <i>“are available to intended users”</i> is confusing. More usual terminology is <i>“are adequately disclosed”</i>.</p>	<p>We recommend that 11.12.4 (c) is amended to read <i>“the measures and/or descriptions of the entity’s significant activities or achievements are adequately disclosed”</i>.</p>

Reference to Exposure Draft	Observation	Suggested Response
11.13.4	<p>The second sentence of 11.13.4 states: <i>“However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such service performance information is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor’s report.”</i></p> <p>The use of the words <i>“in extremely rare circumstances”</i> makes an assumption about the integrity of a compliance framework that may be unfounded. An unintended consequence of including this wording may cause the auditor to abandon (or severely curtail) the exercise of “professional scepticism”.</p>	<p>We recommend that the words <i>“in extremely rare circumstances”</i> are removed from 11.13.4.</p>
11.20.1 (a)	<p>11.20.1 (a) requires the auditor to communicate any <i>significant risks</i> identified with the service performance information to those charged with governance.</p> <p>As noted in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) the purpose of this requirement is not made clear and needs to do so in order to give proper effect to the audit.</p> <p>In addition to explaining the purpose of this requirement, we suggest that it be relocated beneath the Planning Activities heading (section 11.3) of Part 11.</p> <p>Relocating this requirement to the audit planning section (and by including a suitable cross-reference to Part 5 of the Exposure Draft) is more likely to give proper effect to the audit.</p>	<p>We recommend that the actions we have previously proposed following our observation in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) incorporate the requirement of 11.20.1 (a) to communicate any significant risks identified with the service performance information to those charged with governance.</p>