



Exposure draft
*The Audit of Service
Performance Information*

November 2017
Webinar

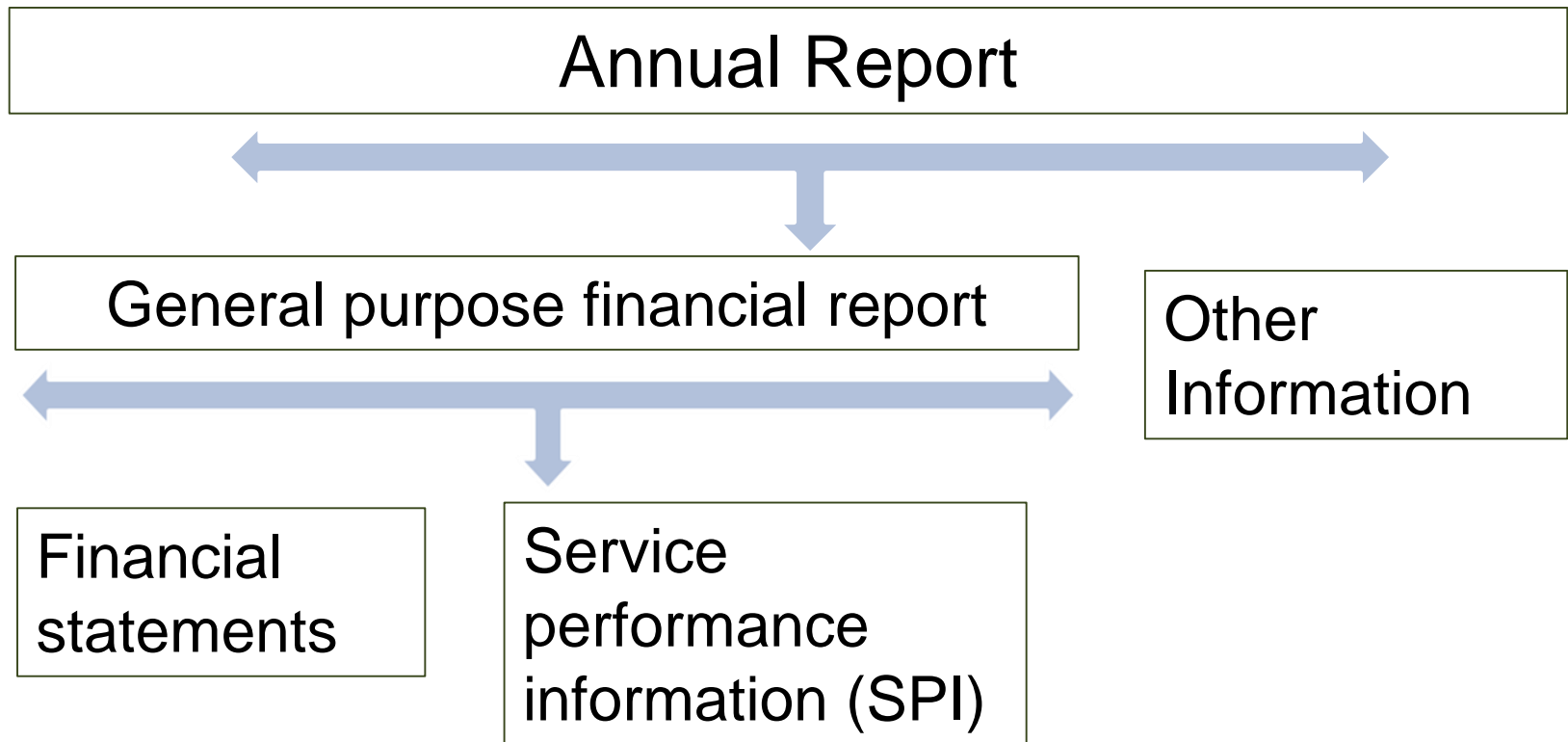
Outline

- **Background**
- The assurance framework
- Key assurance challenges
- Effective date
- How to respond

PBE Entity Framework

	Tier 1	Tier 2	Tier 3	Tier 4
Who is caught	Publicly accountable entities Large (annual expenses > \$30m)	Non-publicly accountable entities and non-large entities	Non-publicly accountable entities with annual expenses < \$2m	Entities legally allowed to use cash accounting (annual payments < \$125k)
Accounting standards to follow	PBE Accounting Standards	PBE Accounting Standards Reduced Disclosure Regime	PBE Simple Format Reporting Standard – Accrual	PBE Simple Format Reporting Standard – Cash
Service performance information	PBE FRS 48 Periods beginning on or after 1 January 2021		Periods beginning on or after 1 April 2015	

General purpose financial report



Audit requirements

Charities Act 2005:

- If your total operating expenditure for each of the previous two accounting periods was:
 - **over \$500,000 (medium)** – general purpose financial report must be either **audited or reviewed** by a qualified auditor; or
 - **over \$1 million (large)** – general purpose financial report must be **audited** by a qualified auditor.

Public sector historically prepared and audited service performance information

Accounting requirements

Tier 3 & 4

- Who are we?
 - An overview of the entity
- Why do we exist?
 - Why established
 - What it seeks to achieve
- What did we do?
 - What the entity did during the year



Tier 1 & 2

- Why the entity exists?
- What it intends to achieve over the medium to long term?
- What it has done during the period towards its aims and objectives?

Accounting requirements

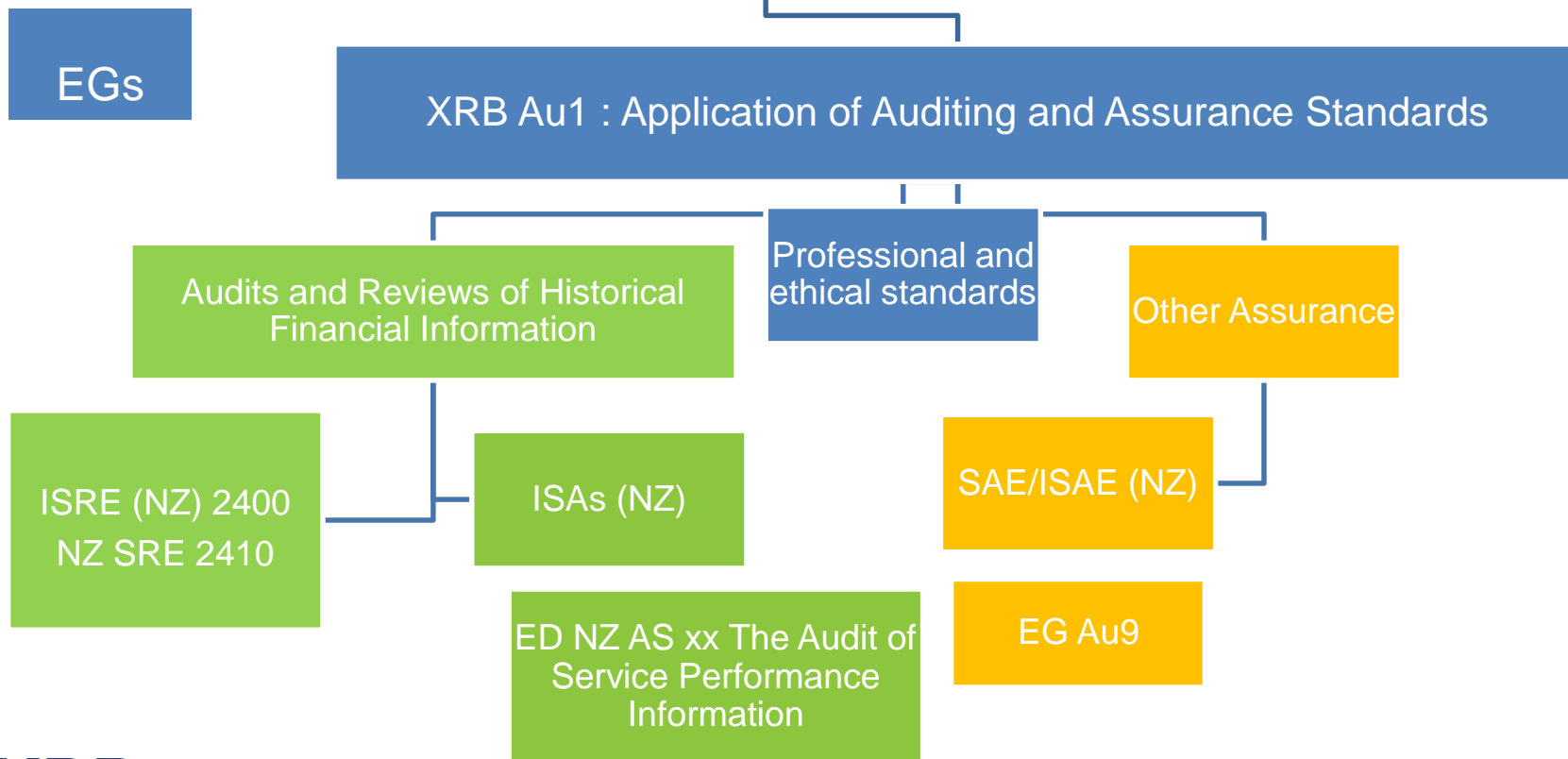
- Information presented:
 - Appropriate and meaningful mix of performance measures and/or descriptions
 - Qualitative
 - Quantitative
 - Disclose judgements made in the selection, measurement, aggregation and presentation of the service performance information

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Assurance Framework

Engagements Governed by the Standards of the XRB



Overview of the approach taken

- Two step audit process

Step 1	Evaluate the suitability of the entity's service performance criteria
Step 2	Verify the application of the criteria

- When reporting, stand back and evaluate the fair presentation of the information

Service performance criteria

Service performance criteria - the benchmarks used to measure or evaluate the entity's service performance. The entity's service performance criteria include the goods and services reported and related performance measures and/or descriptions used for the particular engagement, adopted by the entity, applicable to its circumstances, with logical links to the entity's overall purpose and strategies, in accordance with the applicable financial reporting framework.

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Key assurance challenges

- Suitability of criteria
- Materiality
- Understanding the entity and environment
- Assertions
- Reporting

Suitable criteria

- The auditor shall evaluate the suitability of the entity's service performance criteria

Relevant	<ul style="list-style-type: none">■ Meets the needs of users■ Clear and logical links to entity's overall purpose and strategies
Reliable	<ul style="list-style-type: none">■ Capable of measurement or description■ Robust and reliable collection process
Neutral	<ul style="list-style-type: none">■ Reports both favourable and unfavourable aspects
Understandable	<ul style="list-style-type: none">■ Coherent and easy to follow■ Clear and logical■ Concise and aggregated as appropriate
Complete	<ul style="list-style-type: none">■ All aspects covered to enable user to make informed assessment

Assessing materiality

- **Materiality relates to both the**
 - Selection of information: Reporting what matters
 - The level of misstatement in the reported result
- **Quantitative - materiality levels**
 - Expressed in an appropriate unit of measurement
 - May need multiple materiality levels for different performance measures
- **Qualitative – materiality factors**

Understanding the entity and environment

- **May be new for some**
 - Immature identification of what to report, weak controls, reporting systems and oversight
- **Early communication of concerns**
 - Understand internal controls
 - Obtain evidence of operating effectiveness where auditor expects controls are operating effectively
 - Impact on mix of audit procedures used
 - Rare cases, may make it impossible to obtain sufficient appropriate audit evidence

Key assurance challenge

Assertions

Assertion	Discussion
Occurrence	Service performance reported has occurred
Attribution	Includes only service performance that the entity has evidence to support its involvement with
Completeness	All significant service performance that should have been reported, has been included
Accuracy	Service performance has been reported, measured and described appropriately and consistently with the financial statement information
Cut-off	Service performance is reported in the correct period
Presentation	Service performance is appropriately aggregated or disaggregated
Consistency	Service performance reported in a consistent manner, or changes are justified

Reporting

Communicating effectively

One report covering financial and non-financial information

- One opinion
- Split opinion if modified
 - Impact of modification on service performance information on the financial information
- Responsibilities of TCWG
 - To adopt suitable service performance criteria
- Responsibilities of the auditor
 - Covers need to evaluate the suitability of the criteria
 - No reference to XRB website at this stage

Reporting

- Allows flexibility and long form reporting
- Short form required, long form permitted
 - Information about the entity's service performance criteria,
 - The source of the criteria,
 - Any interpretation made in selecting or applying the criteria,
 - Findings or recommendations and any other matters the auditor considers necessary to meet users needs
- Key audit matters - cover service performance information if, in the auditor's judgement, such matters were of most significance in the audit

Illustrative opinion

In our opinion the accompanying financial report presents fairly, in all material respects:

- The financial position of ABC [entity] as at [DD MM 20XX], and its financial performance, and cash flows for the year then ended; and
- The service performance for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

An alternative opinion

In our opinion:

- a) the [entity's service performance criteria] used to prepare the service performance information are suitable;
- b) the accompanying financial report presents fairly, in all material respects:
 - The service performance for the year then ended
 - The financial position of ABC [entity] as at [DD MM 20XX], and its financial performance, and cash flows for the year then ended

in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

Effective date

- Proposes to align with the effective date of the tier 1 and tier 2 accounting standard
 - For audits of annual reports covering periods beginning on or after 1 January 2021.
 - Earlier application is permitted
- EG Au9 to be withdrawn once audit and review standard issued

How to respond

- Invitation to comment
<https://www.xrb.govt.nz/standards-for-assurance-practitioners/standards-in-development/open-for-comment/>
- Roundtable discussions
 - Christchurch 9 November 10am-12noon
 - Auckland 14 November 10am-12noon
 - Wellington 16 November 10am-12noon
- Closing 20 December 2017

Your feedback is sought on:

- The two step approach;
- Evaluation of the suitability of the service performance criteria;
- Assertions;
- Use of experts and other practitioners;
- Auditor reporting requirements; and
- Any comments relevant for the next phase of the project related to a review engagement



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