

File Reference: ST-4-2

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Dear Warren

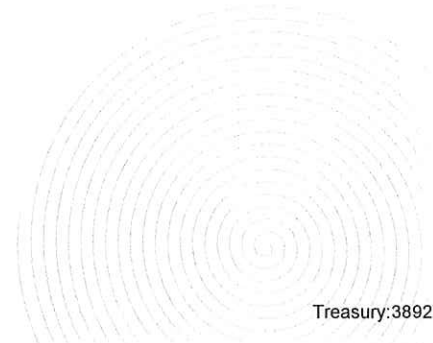
**Exposure Draft NZAuASB 2017-2: The Audit of Service Performance Information**

We thank the NZAuASB for releasing this Exposure Draft (ED) on auditing Service Performance Information. The Treasury's main reason for commenting on the ED is our objective to ensure that the flexibility available to report service performance information provided in "*PBE FRS 48 Service Performance Reporting*" is not unintentionally reduced by the content or implementation of this ED.

The Treasury has a stewardship role with regard to the Public Finance Act 1989 (PFA) and Crown Entities Act 2004 (CEA), which set out the legislative requirements for reporting service performance information for public sector public benefit entities.

Treasury's role also includes, in conjunction with the State Services Commission, supporting State sector system performance. We have a strong interest in ensuring that other key levers in the overall performance management system, such as accounting and auditing standards, support and reinforce the levers we use to support performance. This includes the 2013 changes that were made to the PFA and the CEA.

While changes were made in the PFA and CEA in 2013 to support more flexible service performance reporting, we have not seen significant change in practice. The role that the auditor plays is important; and we observe that sometimes there is misunderstanding and/or uncertainty around the concept of flexible performance reporting amongst some auditors (and some entities).



The general tenor from the roundtable attendees in Wellington on 16 November 2017 (ourselves included) was that the ED is hard to follow. This is, in part, because it lacks a clear objective and content that can be easily understood – including by those who are new to auditing service performance reporting (which is the target audience). The ED is currently long, detailed and difficult to read and understand. There are 73 paragraphs in the standard and 74 paragraphs in the Application and Other Explanatory Material.

We would recommend that you consider reducing the length and complexity of the ED by including some material in a separate guidance document to help interpret the ED. We also think the ED would benefit from a clear objective statement; e.g. to support the effective auditing of service performance reporting.

The roundtable session also made clear some of the perceived restrictions in preparing the ED, including the need to straddle existing standards and requirements in New Zealand and international frameworks which differ slightly from each other. Examples of the slight variations were shown, and while the text is different, the intent is not. We suggest addressing this issue by elevating the text to a higher level and noting the differences between existing standards and frameworks in an appendix for technical readers.

In light of the above, our view is that this ED does not support what the Treasury is seeking to achieve in improving the understanding and reporting of performance in the State sector. It is our view also that, across the wider public benefit landscape, the ED as currently drafted leaves open the possibility of audits which deliver worse outcomes than the status quo. The Treasury would strongly support significant changes to this ED and that the material is re-issued for comment.

We recognise the time and effort that went into getting the ED to the Invitation to Comment stage. However it is important to get this right to ensure that it allows entities to use the flexibility available to report service performance information appropriately. We look forward to seeing a re-issued ED in due course.

Yours sincerely



Megan Taylor  
Team Leader, Strategic Performance Improvement

## Treasury responses to certain questions in the Invitation to Comment

### Question 6

**Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.**

The ED soon narrows the flexibility available in the accounting standard in the definition of service performance criteria, which focuses on performance measures rather than the flexibility available in the accounting standard.

The term criteria is problematic because it implies a set of objective standards that performance information can be compared to. This is inconsistent with the definition of service performance criteria in the ED. We think that replacing the term criteria with either framework or information would solve this problem and also refocus the ED away from detail.

### Question 7

**Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify alternative proposals.**

We understand that the general two-step approach is the current approach to auditing service performance information used by the OAG. We support this approach as long as it does not become an audit judgement about the quality of the performance framework rather than a review of the choices and trade-offs made by the entity in determining the most appropriate performance framework given their context.

### Question 8

**Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service performance criteria during the financial reporting period? If you consider that further clarification is needed please be specific as to what amendments you consider necessary.**

We would be comfortable with this due to the current flexibility to amend performance information for Public Service Departments and Crown entities during the year as long as the changes are recorded in the "*Supplementary Estimates of Appropriation*" in the relevant year.

### Question 12

**Do you agree with the identified assertions? If not please explain why not. Are there further assertions you consider should be included? Please explain.**

Our view is that the assertion about attribution may be problematic in the public sector where multiple organisations contribute to influencing particular outcomes without necessarily being able to quantify or evidence their impact. It may still be relevant to report changes in an outcome over time so that overall progress can be monitored. This may also be problematic for other types of public sector public benefit entities (e.g. those that contribute to outcomes in communities).