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Dear Warren

ED NZAuASB 2017-2: NEW ZEALAND AUDITING STANDARD XX – THE AUDIT OF SERVICE PERFORMANCE INFORMATION

Thank you for the opportunity to comment on the proposed auditing standard on the audit of service performance information¹ (the ED). We acknowledge that preparing an auditing standard on this topic is difficult. We also acknowledge the work the NZAuASB has carried out in preparing the ED for comment.

We are very interested in the audit of service performance information. We have consulted widely within the Office to prepare our submission.

As an Office, we have been auditing service performance information reported by public sector entities for more than 25 years. In the absence of any published accounting or auditing standards on this topic for much of that time; we have had to develop our own auditing standard and accompanying guidance for auditors.

Currently, audits of performance reports carried out by or on behalf of the Auditor-General must comply with the requirements of AG-4: *The audit of performance reports (AG-4)*.

In my view, AG-4 is fit-for-purpose for the audit of service performance information in the public sector. I am keen to ensure that a new auditing standard issued by the NZAuASB will not undermine the quality of audit work in the area of service performance information. For the Auditor-General to be comfortable with withdrawing AG-4 in the future, they would need to be satisfied that any new standard issued by the NZAuASB is also fit-for-purpose in the public sector.

In our submission, we have identified several significant matters that we believe need to be addressed in the ED (see Attachment 1). We also identified some minor matters as part of our review of the ED. The minor matters have not been included in our submission; partly because many of them should be resolved by responding to the significant matters outlined in Attachment 1.

We have provided our responses to the questions for respondents in Attachment 2 of our submission.


¹ Throughout this submission, we have used the term service performance information, as this is consistent with PBE FRS 48. It is our view, however, that service performance information is only one subset of non-financial performance reporting.

Given the significance of the matters identified in this submission, it is our view that a lot of redrafting will be required, and the ED may need to be re-exposed for further comment before publication.

As noted above, a workable standard for the audit of service performance information is important to us, particularly as this may influence the way in which we audit many significant and complex entities in the public sector. I am happy to support the continued development of the ED by making Office staff available to further elaborate on the matters raised in this submission, if that would be helpful.

If you have any questions about our submission, please contact Todd Beardsworth at todd.beardsworth@oag.govt.nz.

Yours sincerely



Greg Schollum
Deputy Controller and Auditor-General

Attachment 1 - Significant Matters

1. Consistent use of terminology in External Reporting Board standards and guidance

The development of this submission is based on our view that there needs to be consistent concepts and terminology used for the preparation of performance information. Currently, there isn't the level of consistency that we would like to see between the New Zealand Accounting Standards Board (NZASB) standard, *PBE FRS 48: Service Performance Reporting* (PBE FRS 48) PBE FRS 48, the Tier 3 and Tier 4 standards, and the ED.

Consistency across financial reporting standards would make it easier to have an auditing standard that works across the tiers.

For the purposes of our submission, we have considered and referred to the concepts and terminology in PBE FRS 48, rather than the Tier 3 and Tier 4 standards.

International Standards on Auditing which have been given effect in New Zealand must be drafted in such a way that they can be compatible with all relevant international standards, which may use differing terminology. In contrast, the auditing standard in relation to auditing service performance information provides the NZAuASB with a unique opportunity to ensure there is complete alignment between the accounting standard and the auditing standard.

As a result, for example, the qualitative characteristics referred to in paragraph A17 of the ED should be consistent with the qualitative characteristics used in paragraph 9 of PBE FRS 48.

Recommendation

On the basis of the above, we recommend:

- The terminology in the ED should be consistent with the terminology used in PBE FRS 48.
- That any other source of authoritative guidance issued by the NZASB or the NZAuASB on the preparation, and the audit or review, of service performance information use consistent terminology to that used in PBE FRS 48.

2. ISA (NZ)s should be amended to reflect the audit of service performance information

In order to emphasise the concurrent nature of the audit of financial and service performance information, we consider that any "Requirements" and "Application and Other Explanatory Guidance" which do not directly relate to the audit of service performance information, and that are already addressed in other ISA (NZ)s, should be removed from the ED.

For example, the references to "Special Considerations – Audits of Groups", "Using the Work of an Auditor's Expert" and "Using the Work of Another Practitioner" should be removed to enhance the focus of the ED on those matters that directly impact on the audit of service performance information.

We agree that auditors will need to extend the scope of their audit work in these and other core areas, in order to capture service performance information concurrently with financial information. In our view, this is best done through making consequential amendments to the

underlying ISA (NZ)s². This approach will reflect the desirability of an integrated approach to the audit of financial and service performance information.

This reflects our view that the ED should be limited to the small number of relatively high level requirements which are either new to the audit of service performance information, or significantly different or more complicated. These include, for example the concept of materiality in the context of auditing service performance information and the evaluation of misstatements.

Recommendation

To emphasise the concurrent nature of the audit of financial and service performance information, the associated ISA (NZ)s should be amended appropriately.

3. The ED is difficult to understand

The ED is difficult to read. We are concerned that, if we with many years' practical experience in auditing non-financial performance information, struggle to clearly understand and then apply the ED, auditors who are relatively inexperienced will struggle more.

As a general observation, it is our view that the presentation of the ED can be improved. For example, the main body of the ED should include only the essential requirements; that is the procedures that an auditor *must* perform. Application and Other Guidance should be located in the Appendix so that it is clear that it is guidance, rather than mandatory.

In addition, while we acknowledge that the headings used in the ED are intended to align with existing ISA (NZ)s, it is our view that some the headings could be drafted more plainly. For example *Preconditions for an audit of the General Purpose Financial Report*, and *Agreement on Engagement Terms* could be grouped together under a heading of *Planning and Pre-engagement* along with other relevant sections.

Service performance information is different in nature to financial information. As a result, some audit processes and procedures that are applied when auditing financial information cannot be directly applied to service performance information. This introduces some complexities that need to be clearly explained to enable practitioners to consistently apply the ED.

Recommendation

The presentation of the ED could be improved by:

- Limiting the "Requirements" section to a small number of relatively high level requirements that directly relate to the audit of service performance information, and that the auditor must comply with; and
- Including more practical guidance in the "Application and Other Explanatory Material" that illustrates how the auditor might apply a requirement.

² This is something that auditors in the public sector in New Zealand are used to. The Auditor-General issues his own auditing standards, many of which extend the scope of existing ISA (NZ)s to cover the audit of service performance information.

4. Scope of the ED

We note that service performance information is described in paragraph 2 of PBE FRS 48 as follows:

*“Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, **together with supporting contextual information**” (emphasis added).*

We also note that this description of service performance information does not prohibit an entity from including performance information that is wider in scope and may be focused on:

- the extent to which the entity has made progress towards achieving its aims and objectives;
- the contribution that the entity (along with other entities) has made towards the achievement of its aims and objectives;
- the entity’s capability or readiness to respond to events for which it was established; or
- other categories of performance that would not generally be regarded as service performance information.

Our experience is that including such information leads to more meaningful/fuller performance reporting. Entities should be encouraged to include “supporting contextual information” as part of their service performance information, wherever possible.

Recommendation

The ED should clarify under the heading “Scope of this NZ AS”:

- That an entity may choose to report supporting contextual information that is not captured within the description of service performance information in PBE FRS 48; and
- Where such information is included in the entity’s service performance information, and the entity requests the auditor to audit this information, the auditor should do so by reference to the ED.

5. Service performance criteria

We think the use of the term “*service performance criteria*” within the ED is problematic, for the reasons set out below.

Inappropriate alignment with ISAE (NZ) 3000

The description of “*service performance criteria*” used in the ED appears to have been selected in order to align with the description of criteria in paragraph 12(c) of ISAE (NZ) 3000 (Revised). However, we consider that this reference is not helpful, for two reasons.

Firstly, the ED has been developed as an auditing standard, rather than under the umbrella of ISAE (NZ) 3000 (Revised). This is a deliberate decision that has been determined after much consideration. Furthermore, paragraph A10 specifically excludes ISAE (NZ) 3000 (Revised) from being applied by auditors to service performance information. As a result of these factors, we believe that it is not appropriate to include descriptions that are drawn from ISAE (NZ) 3000 (Revised).

Secondly, ISAE (NZ) 3000 (Revised) was developed in order to assist practitioners who undertake a variety of assurance engagements. In these situations, it is often necessary to develop bespoke criteria that are specific to the nature of the assurance engagement, as there may not be a generally accepted set of principles already in place. The development of bespoke criteria is not required when preparing and auditing service performance information; these are set out in PBE FRS 48.

Lack of conceptual clarity

We found the term “*service performance criteria*”, and its definition “the benchmarks used to measure or evaluate the entity’s service performance”, confusing.

PBE FRS 48 does not use the term “*service performance criteria*”, but does require preparers of service performance information to apply the qualitative characteristics of information and the pervasive constraints on information identified in the PBE Conceptual Framework. One of the key principles underlying PBE FRS 48 is that the service performance information is appropriate and meaningful, which we agree is important.

In our view, the concepts as set out in PBE FRS 48, are clear and easy to understand. We believe that the ED would be less confusing, if the concepts within it were consistent with the concepts already set out in PBE FRS 48 and the PBE Conceptual Framework.

It is our view that if the concept of “*service performance criteria*” is removed from the ED, and instead, the auditor has to assess the appropriateness of an entity’s reported service performance (with reference to the qualitative characteristics and the pervasive constraints described in paragraphs 9 and 10 of PBE FRS 48). This would remove our confusion around the use of the term “*service performance criteria*”.

Recommendation

The ED should be amended to:

- Remove all references to “*service performance criteria*”.
- Use consistent terminology to describe what an entity has chosen to use as indicators of its performance as “*performance measures*”. This is the terminology used in PBE FRS 48 - particularly in paragraphs 20 to 27.

6. The auditor’s evaluation of the suitability of an entity’s performance information

The ED (in paragraph 11) requires the auditor to evaluate whether the service performance criteria adopted by the entity:

- Are suitable; and
- Are available to intended users.

For the reasons explained above, it is our view that the reference to criteria should be replaced by a reference to the qualitative characteristics and pervasive constraints referred to in paragraphs 9 and 10 of PBE FRS 48.

It is also our view, that the requirement in paragraph 11 should be amended to require the auditor to evaluate the suitability of the entity's performance information against the qualitative characteristics and pervasive constraints.

There is no necessity for the auditor to evaluate if the qualitative characteristics and pervasive constraints are publicly available, because they are specified in paragraphs 9 and 10 of PBE FRS 48. The measures used by the entity to assess its performance are reported, and therefore should be available to users of the service performance information.

When should the auditor evaluate the suitability of an entity's performance information?

In our view the ED should include, within the Application and Other Explanatory Material, additional guidance to auditors on when they should carry out their work to evaluate the suitability of performance information.

In our experience, the auditor should carry out their evaluation as soon as the entity has completed its initial processes in deciding the performance information it intends to report and how it intends to present that information. The auditor's evaluation will normally be carried out once the auditor has carried out sufficient work to understand the entity in accordance with ISA (NZ) 315 (Revised): *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*.

The purpose of carrying out the work at this time is so the auditor can communicate any concerns to the entity in sufficient time to enable the entity to amend its proposed performance information, if considered necessary.

In the public sector, many entities are required to identify the performance measures against which actual performance will be assessed prior to the commencement of the reporting period. It is best practice for the auditor to complete their evaluation of the suitability of performance measures shortly after. This may occur more than 12 months before the audit of the service performance information is completed.

How does the auditor evaluate the suitability of performance information?

In our view, the ED should include, in the Application and Other Explanatory Material, guidance to auditors of a more practical nature on how they might evaluate the suitability of performance information.

Our expectation is that the auditor will evaluate the suitability of the entity's performance measures against the qualitative characteristics and pervasive constraints.

Ideally, the entity will have clearly identified the reasons that support the selection of its intended performance information. We would also expect the entity to have documented this analysis, which will provide a basis for the auditor's evaluation.

Typically, the qualitative characteristics will form the basis for the auditor's evaluation. However, the qualitative characteristics are often in conflict. For instance, "relevance" often conflicts with "faithful representation" and "verifiability". The conflict demands a high level of professional judgement to be exercised by both the preparers of the service performance information, and by the auditors.

“Relevance” remains a critical qualitative characteristic when the auditor carries out their evaluation of suitability. Typically “relevance” is evaluated against the entity’s purposes, as expressed in its founding documents or, in the case of public sector entities, in legislation.

The outcome of the auditor’s evaluation might be a conclusion that:

- a) All of the aspects of service performance information are suitable and there are no obvious omissions; or
- b) Although all aspects of performance information are included, with no obvious omissions, there may be additional measures to be included that the auditor would not regard as being essential; or
- c) The performance measures the entity has chosen to report against are suitable, but the auditor assesses that there are some important aspects of the entity’s performance for which no suitable measures have been included. This situation, in the view of the auditor, could result in the performance report presenting a misleading picture of the entity’s performance; or
- d) The performance measures to be reported are evaluated by the auditor to be suitable whilst others are assessed to be unsuitable. In this situation the auditor concludes that the performance report gives a misleading impression of the entity’s performance; or
- e) All, or the majority, of the performance measures proposed to be reported by the entity are evaluated by the auditor to be unsuitable.

Where the auditor encounters situations c) to e) above, the appropriate response should be to communicate their conclusions to the entity with an expectation that the entity will make changes to their performance information. If the entity makes no changes to their performance information in these circumstances, the auditor will need to assess the effect on the audit report.

In response to situation b) the auditor may communicate their view to the entity that some of the performance information to be reported is unnecessary. It is unlikely that the auditor would need to modify their audit report in this situation.

In addition, the auditor may be concerned that some, or all, of the performance measures selected by the entity for inclusion in its service performance information are not capable of verification given the inadequacy of the entity’s systems and processes. This is a matter that the auditor should communicate to the entity.

Depending on the entity’s response to the auditor’s concerns, the auditor will make an initial evaluation of the impact of any deficiencies they have observed on the audit report.

Recommendation

The ED should include:

- A requirement for the auditor to evaluate the suitability of the entity’s performance measures against the qualitative characteristics and pervasive constraints.
- Include “Application and Other Explanatory Material” that provides greater clarity around:
 - When the auditor should evaluate the suitability of an entity’s performance measures; and
 - How the auditor might evaluate the suitability of performance measures.

7. Materiality in Planning and Performing the Audit

Determining materiality in the context of the audit of performance information is difficult. Although the concept of materiality applies to performance information, its application is different when compared to the audit of financial information.

In our view, the ED should include one requirement for the auditor to determine and document the materiality to be applied to the service performance information. The requirement should be supported by “Application and Other Explanatory Information” that provides practical guidance on how the auditor might apply the requirement.

Based on our experience, the “Application and Other Explanatory Information” might usefully address the matters set out below. It might:

- Emphasise that assessing a performance measure to be suitable does not automatically mean that the performance measure is material.
- Note that a material performance measure tends to exhibit characteristics that relate to:
 - the primary functions or purposes of the entity;
 - an activity that could be of significant national or community interest;
 - an activity that could be of significant interest to users of the service performance information;
 - an activity that is financially significant;
 - a function where there is a significant risk of performance failure by the entity;
 - an activity that could be a significant risk to the public (for example, the provision of health services);
 - errors or omissions that could significantly affect the reputation of the entity; and/or
 - an activity that may have a significant effect on management performance rewards.
- State that materiality relates to both the performance measure and to the level of misstatement related to actual performance that is acceptable before the auditor regards the misstatement as misleading.
- Note that there are some terms that apply to financial materiality and to performance information, and others that don’t. For example:

Materiality base:	The concept of a materiality base applies to the audit of service performance information, but it can only be applied to each material performance measure because every performance measure uses a different basis to measure performance.
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Materiality level:	The auditor will need to select a materiality level for each material performance measure beyond which a misstatement will be considered to be material.
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Materiality factor:	The notion of a materiality factor, when assessing the material performance measures, is more likely to be embodied in the characteristics noted above. We would also observe that the concept of a materiality factor is not emphasised in ISA (NZ) 320.
Performance materiality:	Every performance measure has a unique measurement base. Therefore, the requirement for the auditor to establish performance materiality is not relevant to the audit of service performance information.

In addition, paragraph A38 (b) refers to "... the materiality levels for the service performance information as a whole ..." The nature of service performance information means that there can be no materiality level for the service performance information as a whole. However, the auditor should record all of the misstatements that they identify during the course of their audit. The misstatements should be considered by the auditor and an assessment made as to whether the cumulative effect of the misstatements is that the entity's service performance information does not fairly reflect the entity's performance.

- Indicate, for those reported performance measures that the auditor assesses not to be material, the minimum audit procedures to be carried out by the auditor. In our view such procedures are likely to be limited to reasonableness tests based on the auditor's knowledge of the entity.

Recommendation

The ED should:

- Include a requirement for the auditor to determine the entity's performance measures that are considered to be material; and
- Include "Application and Other Explanatory Material" that illustrates the application of this requirement.

8. Introduction of new assertions

Paragraph 38 of the ED requires auditors to identify the risk of material misstatement at the "*assertion level for material service performance information*". Paragraph A49 provides additional guidance in relation to the assertions, and introduces two new assertions in relation to service performance information.

- *Attributable to the entity* – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
- *Consistency* – service performance information is consistent with the prior period, or changes are justified and appropriately disclosed.

While we agree that these are important concepts to be considered by auditors, in our view, these are not assertions. Instead, we think they are more accurately described as being part of the qualitative characteristics of information.

In our opinion, the assertion "attributable to the entity" is embodied in the qualitative characteristic of "relevance". Paragraph 9 (a) of PBE FRS 48 states that "*relevant information assists users in forming assessments about an entity's accountability for service*

performance". The "attributable to the entity" assertion is implicit in this statement, although with a wider meaning, as it may capture performance that the entity has influenced or contributed to, and not just the performance that is attributable to the entity.

In addition, there is a significant overlap between the "occurrence" and "Attributable to the entity" assertions. This overlap introduces a level of confusion.

Similarly, the "consistency" assertion is embodied in the qualitative characteristic of "comparability".

We are concerned that there is no reference made to the "Classification" assertion in the context of service performance information. Service performance information requires a lot of judgement to be applied, by the entity and the auditor. As a result, it is important to have a good understanding of how the entity classifies activities. For example, if an entity reports response times to urgent call outs, it is crucial to know how the entity defines "urgent call outs".

Recommendation

The ED should:

- Include the "Classification" assertion.
- Remove the "Attributable to the entity" and "Consistency" assertions.

Attachment 2 - Questions for Respondents

General

1. *Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.*

We agree that the proposed standard should be included within the body of standards that govern the audit or review of historical financial information. The main reason for our view is that non-financial performance information and the associated financial information are integral to assessing the performance of an entity with “public benefit entity” (PBE) objectives. This is because a user can only make a proper assessment of a PBE’s performance if they are in possession of both relevant financial and non-financial performance information contained in a general purpose financial report.

Therefore, it follows that the audit of a general purpose financial report of a PBE should be carried out under a single body of standards – namely the ISA (NZ)s that integrate both financial and non-financial components of a general purpose financial report. If this is done appropriately, it should help to further emphasise the intended concurrent nature of an audit.

2. *Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?*

We agree that the ED should apply to the audit of non-financial performance information, irrespective of the size of the reporting entity, or the tier under which it reports.

At present we consider the ED is too difficult for a practitioner to engage with because it is overly technical, confusing and is not supported by relevant practical guidance. It is particularly important that the ED addresses these concerns given it is covering an area that is new to many practitioners who are likely to be auditing service performance information of small PBEs for the first time.

3. *Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.*

Entities that report service performance information often contract with other entities to deliver services. Alternatively entities may use a service organisation to deliver services on their behalf.

It would be helpful if the ED included “Application and Other Explanatory Material” that assists auditors when they need to obtain evidence about services delivered by contractors, service organisations or other third parties, in particular where those third parties are directly responsible for collecting the service performance information that is reported. For

example, where local authorities report road smoothness information provided by third party contractors or entities that provide grants report on what that grant has been used for, based on information from the recipient.

4. *Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits.*

At present, we do not consider the ED achieves the necessary balance between audit quality and cost. In particular, it is our view that in its current form, there is an excessive number of requirements imposed on auditors in respect of the service performance information.

5. *Is the ED clear in emphasising the concurrent nature of the audit? If not, please provide paragraph references as to where you consider additional emphasis is needed.*

It is our view that the appropriate means of emphasising the concurrent nature of the audit of financial and service performance information is to suitably amend the ISA (NZ)s.

Suitable service performance criteria

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.*

No, please refer to the comments on service performance criteria at section 5 of Attachment 1.

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 any alternative proposals.*

Yes, we agree with this approach, subject to the removal of the term "service performance criteria".

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 for the possibility of 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 further clarification is needed please be specific as to what amendments you consider necessary.*

We agree that an entity should be able to change its performance measures, provided the new performance measure is an improvement on the previous performance measure. This matter is adequately addressed in paragraph 32 of the ED, and in paragraph 40 of *PBE FRS 48: Service Performance Reporting*.

9. *Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?*

Consistent use of terminology. It is essential that consistent terminology is used throughout the NZAuASB and NZASB standards and guidance to describe the qualitative characteristics and pervasive constraints in paragraphs 9 and 10 of *PBE FRS 48: Service Performance Reporting*. Unless consistent terminology is used the potential for confusion amongst preparers and auditors of non-financial performance information is considered to be high.

In addition, we consider that the application guidance needs to be much more practical so that auditors who are unfamiliar with the audit of non-financial performance information are more readily able to translate the requirements into audit procedures.

Disclosure of critical judgements. We note that paragraph 44 of *PBE FRS 48: Service Performance Reporting* requires an entity to disclose the critical judgements it has made in reporting non-financial performance information. We are of the view that the primary role of the auditor is to challenge entities so that the disclosures are limited to the critical judgements only. The risk is the inclusion of unnecessary disclosures that create clutter and distract users from the critical judgements. We suggest that paragraph A28 of the ED asks auditors to evaluate whether disclosures are appropriately focused on the critical judgements that have been, or should be, disclosed.

10. *Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?*

In our view the application material needs to be more practically oriented. Please refer to Attachment 1 of our submission, where we provide comment on where the structure and content of the ED can be improved.

11. *Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed.*

Yes, please refer to sections 6 and 7 of Attachment 1 of our submission.

Assertions

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.*

No, please refer to section 8 of Attachment 1 of our submission.

Use of experts and other practitioners

13. *Do you consider that the ED adequately addresses the use of experts? If not, what additional requirements or application material do you consider are needed?*

As a matter of principle, it is our view that the ED should only contain material that is directly relevant to the audit of non-financial performance information, and where the auditor is required to do something differently or in addition to well-established audit practice.

As a consequence, we do not consider that reference to the use of experts should be included in the ED. The reason for this is that the ED is expected to be applied concurrently with the ISA (NZ)s. The current content simply repeats material contained in ISA (NZ) 620. As set out in section 2 of Attachment 1, where there is a need to extend established audit procedures to cover service performance information, it is our view that this should be done by amending the underlying ISA (NZ)s.

14. *Do you consider that the ED adequately addresses the use of another practitioner? If not, what additional requirements or application material do you consider are needed?*

In keeping with our comment on the use of experts under 13 above, we do not consider the ED should contain material about the use of another practitioner.

Reporting

15. *Do you agree with the proposed scope and requirements for reporting the auditor's opinion on the GPFR? If not, please explain why not and identify any alternative proposals.*

Apart from the matter noted below, we agree with the proposed scope and requirements for reporting the auditor's opinion on the GPFR.

We note that ISA (NZ) 700 (Revised) - in paragraph 25 (a) - requires the auditor to use the following wording when expressing an unqualified opinion on an entity's financial statements:

*"... the accompanying financial statements **present fairly** [emphasis added], in all material respects, [...] in accordance with [the applicable financial reporting framework]."*

The words "present fairly" appear to have been omitted from the ED - in paragraphs 6(c) and 56.

16. *Do you consider that users of the auditor's report would benefit from additional information in the auditor's report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.*

We do not consider that users of the audit report would benefit from additional information about service performance information being included in the auditor's report. Currently, there is no requirement to similar additional information in relation to the reported financial

information. It is our view that there should be consistency between how financial information and performance information are audited and reported on.

As discussed in Attachment 1 of our submission we have recommended that the reference to “service performance criteria” is replaced with “qualitative characteristics and pervasive constraints”. If the wording in the audit report is suitably amended to reflect our comments on criteria, we do not consider any additional information needs to be included in the auditor’s report.

Our reasoning is that the accounting standards integrate both financial and non-financial components of a general purpose financial report. The results of the audit should be communicated on the same basis.

17. *Do you agree that the ED should allow flexibility rather than being prescriptive, i.e. requiring a short form report but allowing a long form report, to enable the auditor to add additional information where that information may better inform or meet user’s needs? If not, please explain why not.*

In our view, the ED should not allow the long form report. The short form audit report is sufficient to convey issues about service performance information to users. Where the auditor has concerns about reported service performance information, or wishes to draw attention to a particular aspect of the service performance information, the short form can adequately report those concerns or matters for attention to users.

18. *Do you consider that it is necessary for the auditor to opine on the suitability of the entity’s service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why?*

We do not consider it is necessary for the auditor to separately opine on the suitability of the entity’s performance measures.

19. *Alternatively, do you agree with the proposals in the ED; that it is not necessary to opine on the suitability of the entity’s service performance criteria, but that this is implicit and is better covered in the responsibilities of those charged with governance and the responsibilities of the auditor?*

We agree with this approach.

20. *Which opinion do you consider will be better understood by the user of the auditor’s report and why?*

We prefer an opinion that does not separately opine on the suitability of the entity’s performance measures.

Our reasoning is that the accounting standards integrate both financial and non-financial components of a general purpose financial report. The results of the audit should be communicated on the same basis.

21. *Are there any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report?*

We do not consider there are any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report.

22. *Are there additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information?*

We do not consider there are any additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information.

23. *Is the ED clear as to the implications where the auditor determines that it is necessary to modify the opinion in respect of the service performance information? If not, please expand on what clarification is needed.*

We consider the ED is clear on this matter.

Effective Date

24. *Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?*

We note that PBE FRS 48 applies for annual reports covering periods beginning on or after 1 January 2021. PBE FRS 48 permits earlier application.

Aligning the effective date of the ED to the application date of PBE FRS 48 and allowing early adoption seems reasonable.

Other

25. *The next phase of this project will be to develop a review engagement standard. Do you have any comments as to how a review standard would differ from the proposals in this ED?*

We have raised a number of significant matters about the ED. If those matters are resolved, we do not envisage that a review standard would depart significantly from the approach described in the ED.

26. *Do you have any other comments on ED NZAuASB 2017-2?*

We are concerned about the reference to “Entity Information” in paragraph 8 and Appendix 1 of the ED. It is our view that this type of information does not generally affect the reported performance of an entity (either financial or non-financial) and therefore, it should not be subject to audit. Instead, it should be regarded as “*Other Information*”, and considered in accordance with ISA (NZ) 720 (Revised): *The auditor’s responsibility relating to other information*.

We note that this is a direct consequence of the accounting standards for Tiers 3 and 4 requiring entity information to be reported as part of the general purpose financial report. It is our view that this is the part of the service performance information that is set aside for management commentary and, as such, has not been prepared for audit. In our view, the scope of the underlying accounting standards should be reviewed.