

20 December 2017

Warren Allen
Chief Executive
External Reporting Board
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Via email: submissions@xrb.govt.nz

Dear Warren

EXPOSURE DRAFT NZAuASB 2017-2 - NEW ZEALAND AUDITING STANDARD XX *THE AUDIT OF SERVICE PERFORMANCE INFORMATION*

Introduction

1. The purpose of this submission is to provide the New Zealand Auditing and Assurance Standards Board (“NZAuASB”) with BDO’s comments on NZAuASB 2017- 2 New Zealand Auditing Standard XX *The Audit of Service Performance Information* (“the Exposure Draft”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on the Exposure Draft.
2. We acknowledge that this submission will be made publicly available.

General comments

3. BDO considers that high audit quality is important to New Zealand’s capital markets and businesses. For that reason, BDO supports New Zealand’s adoption of International Standards on Auditing (“ISAs”) and agrees that New Zealand’s standards should be aligned with international standards to the greatest extent possible.
4. Nevertheless, BDO acknowledges that there are limited circumstances in which it is necessary for New Zealand to develop an auditing standard that is specific to the audit of entities domiciled in New Zealand. We consider that such circumstances are limited to instances in which New Zealand’s legislative requirements, or financial reporting frameworks, are not reflected in, or conflict with the requirements of, ISAs.
5. We note that the New Zealand financial reporting frameworks applicable to public benefit entities are unusual in that they require (or soon will require) the preparation of service performance information where a general purpose financial report is prepared, which results in a requirement for such information to be audited where there is a requirement for the audit of the general purpose financial report.
6. We further note that ISAs only contemplate the audit of historical financial information and do not contemplate the audit of other information, such as service performance information.

7. Given those factors, BDO considers it appropriate for the NZAuASB to develop a New Zealand auditing standard on the audit of service performance information.
8. We consider that such a standard should be consistent with the format and tone of ISAs to the greatest extent possible. Further, we consider that the overarching approach to the development of such a standard should be to provide guidance on how ISAs should be applied to the audit of service performance information, rather than creating new requirements. We note that this is the approach that the NZAuASB has taken to the development of the Exposure Draft.
9. We further consider that a New Zealand standard on the audit of service performance information should strike a balance between being sufficiently directive to enable consistent application, while still adopting the principles-based approach of ISAs, so as to not limit the exercise of auditor judgement. We consider that the Exposure Draft may not have entirely achieved this balance, but may instead be, in part, more prescriptive than is appropriate.

Responses to questions posed in the Exposure Draft

10. Our response to each of the questions posed in the Exposure Draft is provided in Appendix B to this letter.

Conclusion

11. We support:
 - a) The development of a New Zealand auditing standard on the audit of service performance information
 - b) The overall approach taken in the Exposure Draft of aligning the format of the proposed New Zealand auditing standard with the format of ISAs to the extent possible
 - c) Structuring the proposed standard so that it provides guidance on how ISAs should be applied to the audit of service performance information, rather than creating new requirements.
12. However, we consider that the proposed standard may in places be more prescriptive than is necessary to achieve an appropriate balance between being sufficiently directive to enable consistent application, while still adopting the principles-based approach of ISAs, so as to not limit the exercise of auditor judgement.
13. We agree with the Exposure Draft's proposal to align the effective date with the effective date of PBE FRS 48 *Service Performance Reporting*. As Tier 3 public benefit entities already have a statutory requirement under specified circumstances to have their service performance information audited, we agree that the standard should be available for earlier adoption.
14. If you require further information, or would like to discuss any aspect of our submission further, please do not hesitate to contact Michael Rondel or, in his absence, Jackie Russell-Green.

Yours sincerely
BDO New Zealand

A handwritten signature in black ink, appearing to read 'M. Rondel'.

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A handwritten signature in blue ink, appearing to read 'JK Russell - Green'.

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APPENDIX A: INFORMATION ON BDO

1. BDO is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 67,700 people in 1,401 offices across over 158 countries and territories.

**APPENDIX B:
RESPONSES TO QUESTIONS POSED IN THE EXPOSURE DRAFT**

1. Our response to each of the questions posed in the Exposure Draft is provided in the table below:

<i>Question</i>	<i>BDO response</i>
<p>General</p> <p><i>Question 1:</i></p> <p>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.</p>	<p>We agree with the NZAuASB’s approach to the development of the Exposure Draft. We consider that:</p> <ul style="list-style-type: none"> • Service performance information, where required, is integral to a public benefit entity’s general purpose financial report • Where a public benefit entity’s general purpose financial report is audited, the audit should cover both the financial information and the service performance information • The audit of service performance information and financial information in a general purpose financial report should be undertaken concurrently and using a consistent suite of standards.
<p><i>Question 2:</i></p> <p>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?</p>	<p>We consider that the Exposure Draft is understandable and scalable. We note, however, that the Exposure Draft may in part be more prescriptive than is appropriate and may consequently limit the exercise of auditor judgement</p>
<p><i>Question 3:</i></p> <p>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.</p>	<p>We do not consider that additional requirements or application material are required.</p>
<p><i>Question 4:</i></p> <p>Do you believe that the ED achieves an appropriate balance between improving</p>	<p>We consider that the Exposure Draft achieves an appropriate balance between</p>

Question	BDO response
<p>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.</p>	<p>improving the consistency and quality of an audit of general purpose financial reports that include service performance information and the potential cost of such engagements.</p>
<p>Question 5:</p> <p>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.</p>	<p>We consider that the Exposure Draft clearly emphasises that the audit of service performance information should be undertaken concurrently with the audit of financial information.</p>
<p>Suitable service performance criteria</p> <p>Question 6:</p> <p>Do you agree with the definition of the entity’s service performance criteria? If not, please explain why not and provide an alternative suggestion.</p>	<p>We largely agree with the Exposure Draft’s definition of the entity’s service performance criteria. However, we consider that there may be instances where a public benefit entity is providing access to facilities (such as a drop in centre), or to assets (such as computers), rather than (or in addition to) goods or services, and we consider that it might be appropriate to change the definition to reflect that.</p>
<p>Question 7:</p> <p>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.</p>	<p>We consider that the two step approach proposed in the Exposure Draft is necessary to an effective audit of service performance information.</p>
<p>Question 8:</p> <p>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</p>	<p>We consider that the Exposure Draft clearly states that, if the auditor is concerned about the suitability of the entity’s service performance criteria, the entity may change its service performance criteria.</p>

Question	BDO response
<p>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.</p>	
<p>Question 9:</p> <p>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?</p>	<p>We consider that the guidance proposed in the Exposure Draft with respect to evaluating the suitability of the entity’s service performance criteria:</p> <ul style="list-style-type: none"> • Aligns to an appropriate extent with the requirements and guidance in PBE FRS 48 <i>Service Performance Reporting</i> • Is sufficiently broad that it will also apply when an entity is reporting service performance information under other financial reporting standards, such as those applying to Tier 3 and Tier 4 public benefit entities.
<p>Question 10:</p> <p>Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity’s service performance criteria?</p>	<p>We consider that the application guidance will assist an auditor to evaluate the entity’s service performance criteria.</p>
<p>Question 11:</p> <p>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.</p>	<p>We do not consider that additional application guidance is required.</p>
<p>Assertions</p> <p>Question 12:</p> <p>Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.</p>	<p>We agree with the assertions identified in the Exposure Draft.</p>

Question	BDO response
<p>Use of experts and other practitioners</p> <p><i>Question 13:</i></p> <p>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?</p>	<p>We consider that the Exposure Draft adequately addresses the use of experts.</p>
<p><i>Question 14:</i></p> <p>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?</p>	<p>We consider that the Exposure Draft adequately addresses the use of another practitioner.</p>
<p>Reporting</p> <p><i>Question 15:</i></p> <p>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.</p>	<p>We consider that the Exposure Draft’s proposed requirements for reporting the auditor’s opinion on the general purpose financial report are appropriate.</p>
<p><i>Question 16:</i></p> <p>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.</p>	<p>We consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information. On that basis, we do not consider that auditor reporting requirements should be extended to include any other information on the entity’s service performance reporting.</p>
<p><i>Question 17:</i></p> <p>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.</p>	<p>We consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information. On that basis, we consider that a final standard based on the Exposure Draft should be silent on extending the auditor’s report to include any other information on the entity’s service performance reporting.</p>

Question	BDO response
<p>Question 18:</p> <p>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?</p>	<p>We consider that amending the audit report to state the auditor’s responsibilities in relation to assessing the suitability of the entity’s service performance criteria is appropriate. We do not consider that it is appropriate to require an explicit statement in the auditor’s report of the auditor’s opinion on the suitability of the entity’s service performance criteria.</p>
<p>Question 19:</p> <p>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?</p>	<p>We consider that amending the audit report to state the auditor’s responsibilities in relation to assessing the suitability of the entity’s service performance criteria is appropriate. We do not consider that it is appropriate to require an explicit statement in the auditor’s report of the auditor’s opinion on the suitability of the entity’s service performance criteria.</p>
<p>Question 20:</p> <p>Which opinion do you consider will be better understood by the user of the auditor’s report and why?</p>	<p>We consider that an audit report that aligns as closely as possible with other audit reports (i.e. audit reports where the audit is solely of historical financial information) are likely to be best understood by users of the auditor’s report. On that basis, we consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information.</p>
<p>Question 21:</p> <p>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?</p>	<p>We have not identified any additional factors that should be included in the description of the responsibilities of those charged with governance in the auditor’s report.</p>
<p>Question 22:</p> <p>Are there additional factors that should be described in the auditor’s responsibilities section or that would be helpful to provide</p>	<p>We have not identified any additional factors that should be included in the</p>

Question	BDO response
a better context about the audit of the service performance information?	description of the auditor’s responsibilities in the auditor’s report.
<p><i>Question 23:</i></p> <p>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.</p>	<p>We consider that the Exposure Draft provides sufficient guidance regarding the implications when the auditor determines that it is necessary to modify the opinion in respect of the service performance information.</p>
<p>Effective date</p> <p><i>Question 24:</i></p> <p>Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?</p>	<p>We agree with the Exposure Draft’s proposal to align the effective date with the effective date of PBE FRS 48 <i>Service Performance Reporting</i>. As Tier 3 public benefit entities already have a statutory requirement under specified circumstances to have their service performance information audited, we agree that the standard should be available for earlier adoption.</p>
<p>Other</p> <p><i>Question 25:</i></p> <p>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?</p>	<p>We support the development of a review engagement standard for service performance information, but at this stage we do not have any comments on how such a standard might differ from the proposals provided in the Exposure Draft.</p>
<p><i>Question 26:</i></p> <p>Do you have any other comments on ED NZAuASB 2017-2?</p>	<p>We do not have any additional comments.</p>