

Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Email: submissions@xrb.govt.nz.

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Dear Sir

**Feedback on exposure draft (ED) NZAuASB 2017 -2 New Zealand Auditing Standard
XX The Audit of Service Performance Information**

KPMG welcomes the opportunity to provide comments on the exposure draft (ED) NZAuASB 2017 -
2 New Zealand Auditing Standard XX The Audit of Service Performance Information. We have
reviewed that paper, and our comments are set out below.

Yours faithfully



Darby A Healey

Partner

Question:	Paragraphs:	Response:
<i>General</i>		
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.	12-23	We agree with the proposed approach and acknowledge the consistency that comes with developing this as an auditing standard.
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?	24-25	We agree that this ED is understandable and scalable.
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.	26-27	We acknowledge that there is significant additional guidance provided in relation to <i>a. evaluating the suitability of the entity's service performance criteria</i> . However this remains an incredibly subjective area where auditors may still struggle to form a conclusion. Whilst the understanding of the entity will provide a basis for the suitability of the criteria, asserting that those criteria presented are complete and no additional criteria should be included (paragraph A20) and whether negative aspects should be included (paragraph A23) can be a difficult conclusion to make. We do not believe additional guidance can alleviate this challenge in all cases.
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.	28-29	In relation to step 1 <i>Evaluate the Suitability of the entity's service performance criteria</i> , as discussed above, we believe this step could be challenging in some cases. Whilst the criteria for some entities may be straight-forward, there could be other cases where this aspect is incredibly subjective. Requiring an auditor to challenge those charged with governance in relation to the judgements over suitable criteria could become costly and would outweigh the benefit in these cases. Paragraph 36 acknowledges that "An entity's service performance criteria may develop over time. Initially an entity may select service performance criteria, including performance measures that are easiest to measure and report, that do not necessarily meet the qualitative characteristics described in the applicable financial reporting framework". In these cases, would an auditor be required to qualify their opinion in the initial years when easy measures are selected?

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.		We believe the statements made in paragraph 1 of the ED make this clear.
<i>Suitable service performance criteria</i>		
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	32	We agree with the given definition.
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.	30-36	<p>See comments made in relation to question 4 above. We have concerns around the requirement to assess the suitability of the criteria as we do not believe this would be achievable in all circumstances. We believe that given the levels of discretion and the flexibility allowed within the accounting standards, there may be circumstances when we (as assurance practitioners) are unable to ascertain whether the criteria is suitable or not. We are of the opinion that the responsibility for assessing the suitability of the criteria should be with Those Charged With Governance as they have a better understanding of their financial statement users.</p> <p>We are also of the opinion that this would be implied when we opine on the Statement of Service Performance (SSP) itself. That is, we believe that when opining on the GPFS (and therefore the SSP), the auditor would be required to consider if the prepares selection of reporting measures gives a true and fair view of the entity. Given that, we do not believe that there if a need for this to be explicitly called out.</p>
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.		See response to question above. Whilst we do agree this is an iterative process, this creates a challenge for practitioners who are required to opine on the suitability.
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		We do acknowledge that suitable criteria is necessary to achieve sufficient service reporting, and that the assessment of suitable criteria aligns with the concepts of financial reporting. In this regard we believe

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?		the guidance is clear. However, please see our responses to question 3, 4 and 7 which highlight the inherent issues with auditors being required to opine on the suitability of the criteria.
10. Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?	37-40	Yes we do believe this will assist an auditor in applying professional judgement to this area, however subjectivity remains which may be difficult to overcome in certain circumstances.
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.	40	We do not believe so.
<i>Assertions</i>		
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.	44	Whilst we do agree with the identified assertions, we again note that certain assertions may be more challenging to opine on than others (such as completeness and neutrality) as discussed in to questions 3, 4 and 7 above.
<i>Use of experts and other practitioners</i>		
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?	45-46	We believe this is clear.
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?	47	We believe this is clear.
<i>Reporting</i>		
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.	48-60	We agree with these requirements, with the exception of the challenges in opining on the suitability of the service performance criteria as discussed above.
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	57-59	No, we do not believe additional information should be required. We are of the opinion that any additional information would confuse the users of the auditor's report. Our rationale for this is two-fold. Firstly, we believe that specifically calling out additional information relating to the SSP will lead the users to believe that the SSP is somehow distinct from the other statements and cause confusion to whether or not the auditing standards have been applied consistently. Secondly, we believe that due

		to the wide variations of SSP reporting and the criteria set, there would be no practical way to ensure consistent language is used across the industry.
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.		While we do agree that a flexible approach is best, we are concerned that allowing/promoting additional reporting may result in vastly different reporting. Our concern is that given the varying nature of these entities, it may be easier to report on specific items for one entity but more difficult for others. We are concerned that this may cause vastly different reporting and that the inconsistencies would confuse 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?	56	No, we do not believe that it should be required. We believe that in doing so would cause further confusion for the users, especially considering the inconsistencies this would create when compared to the reporting on the other financial statements. We also believe that this is implied when we opinion on the SSP itself. I.e. if we issue an unmodified opinion on the GPFS, including the SSP, we are implying the criteria was suitable as well. Please also see our response to questions 3, 4 and 7 above about the difficulty to opine on the suitability as well.
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?	54-55	We agree with this. See above.
20. Which opinion do you consider will be better understood by the user of the auditor's report and why?		Our preference would be to not opine on the suitability of the criteria as this is consistent with current reporting practises and how we would report on the other financial statements. We believe opining on the suitability of the criteria will cause further confusion to any user who is not familiar with that requirement in the accounting / auditing standards. We also believe there may be circumstances where the opinion on the suitability of the criteria could differ to the opinion on the SSP itself and that these circumstances would cause misunderstandings of the overall message. We believe that it would be clearer and more understandable for the users of the financial statements if we are only issuing one opinion.

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?		No, we believe the proposed approach would be sufficient.
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?		No, we believe the proposed approach would be sufficient.
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.	60	Yes, we believe this is clear.
<i>Effective Date</i>		
24. Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?	61	We agree with this approach.
<i>Other</i>		
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 believe that assessing the suitability of the criteria should be removed from a Review Standard. We believe that doing so for a review engagement would be too onerous and too costly.
26. Do you have any other comments on ED NZAuASB 2017-2?		One other concern we have regarding this ED are the practical issues that come with this standard not being included in the ISA (NZ) suite of auditing standards. We acknowledge that this is the first New Zealand specific auditing standard, however, having two sets of auditing standards is going to create practical annoyances. For example, in engagement letters and auditor's reports, we would be required to call out both the ISA (NZ) standards and this NZ AS standard. It would be our preference to avoid this if possible.