



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

20 December 2017

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

Dear Warren

Submission on Exposure Draft 2017-2: The Audit of Service Performance Information

We welcome the opportunity to provide feedback on the Exposure Draft (“the ED”). We recognise the increasing prevalence of, and demand for, service performance information and commend the New Zealand Auditing and Assurance Standards Board (NZAuASB) efforts to establish an auditing standard as part of the framework for such reporting. We are supportive of the approach taken in the ED. Appendix A provides our responses to the specific questions raised in the ED.

We note that under the Financial Reporting Strategy Parameters for the NZAuASB that domestic standards should only be developed where there is a gap in international standards, and not to replace an international standard. We appreciate that the NZAuASB has considered ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and has concluded the standard too generic to address service performance information specifically but has included the requirements of ISAE (NZ) 3000 within the ED where applicable.

Appendix B provides information about Chartered Accountants Australia and New Zealand. If you have any questions regarding this submission, please contact me on Liz.Stamford@charteredaccountantsanz.com.

Yours sincerely

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Appendix A: Responses to specific questions

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 acknowledge there is a case for both because technically the scope of the ISAs (NZ) is only historical financial information, but in the New Zealand context the definition of “financial statements” includes service performance information (SPI). Therefore we agree with the proposal to develop an auditing standard rather than an ‘other assurance’ standard. We agree that this will assist auditors to perform an audit of a general purpose financial report (GPFR), inclusive of SPI, as one engagement. This enables a more efficient and effective engagement to be performed which contributes to achieving an appropriate balance, as referred to in question 4.

- 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 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.**

We have not noted a need for any additional areas in the requirements or in the guidance.

- 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.**

We have not noted any obvious areas where costs may exceed benefits.

- 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.**

In our view the concurrent approach is clearly described throughout the ED.

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.**

We believe the definition would be clearer if “*used for the particular engagement, adopted by the entity*” were deleted as follows:

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,

applicable to its circumstances, with logical links to the entity's overall purpose and strategies, in accordance with the applicable financial reporting framework.

- 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.**

In our view, determining the appropriateness of the entity's service performance criteria is a prerequisite to designing and performing procedures to obtain sufficient appropriate evidence over the SPI. Therefore we agree with this two-step approach.

- 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 reporting period? If you consider further clarification is needed please be specific as to what amendments you consider necessary.**

No, it is not 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. Paragraph 32 implies that the entity's service performance criteria may have changed from the prior period, so this may be an appropriate place for clarification.

- 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?**

References to "qualitative characteristics" (as per paragraph 9 of PBE FRS 48 and chapter 3 of the PBE Conceptual Framework) and "characteristics" for suitable criteria (as per paragraph 24(b)(ii) of ISAE (NZ) 3000) are used interchangeably in the ED which may cause confusion. By way of example, paragraph 58(a)(ii) of the ED refers to qualitative characteristics but lists the service performance criteria characteristics.

Furthermore, paragraph 58(a)(ii) mentions the "pervasive constraints on information". It may be worth identifying that these are materiality, cost-benefit and balance between the qualitative characteristics to avoid the need for the auditor to cross-reference to paragraph 10 of PBE FRS 48 or paragraph 3.3 of the PBE Conceptual Framework.

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

Yes, we consider that the application material in the ED will assist with the application of professional judgement.

- 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.**

We have not noted a need for any additional application material.

Assertions

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

In our view, it is preferable for the assertions about SPI in paragraph A49 of the ED to be consistent with the assertions about financial statements in paragraph A129 of ISA (NZ) 315. Whilst we agree that “attribution” is important, it could be combined into “occurrence”. For example “*service performance that has been reported has occurred and the entity has evidence to support its involvement*”. Also “consistency” should not be a ‘new’ assertion given that the entity’s service performance criteria can change year on year. Instead “classification” should be reinstated and could mean “*service performance information has been recorded in the proper performance measure and/or description*”.

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?

Yes, we consider the ED adequately addresses the use of experts.

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?

Yes, we consider the ED adequately addresses 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.

We agree with the proposed scope and requirements for the auditor’s report, and that the opinion should be kept as simple as possible.

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.

It is worth noting that changes to the auditor’s report alone cannot respond to all user needs, and including additional information does not necessarily make it more informative. Such additional information is not included for the financial statements, so it also depends on how much emphasis of the SPI over the financial statements is desired. On the basis that the audits are performed concurrently and there is a single auditor’s report on the GPFR, we believe the reporting on SPI should not be presented with undue and greater prominence than the reporting on the financial statements.

17. Do you agree that the ED should allow flexibility rather than be 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.

We agree the auditor should have discretion over whether additional information is meaningful and highly relevant and hence should be included, but should avoid using wording that may be regarded as modifying the auditor's opinion.

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

No. We believe the same principles should be applied to reporting on SPI as for reporting on the financial statements. There is no separate opinion on the acceptability of the financial reporting framework to be applied in the preparation of the financial statements (because it is a precondition for the audit). We do acknowledge though that the auditor is not required to withdraw from the audit of the GPFR if the service performance criteria are not suitable which is a differentiating factor. However if this were the case, this would be reported by way of a modified opinion on the SPI.

19. Alternatively, do you agree with the proposals in the ED, that is 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 responsibility of those charged with governance and the responsibilities of the auditor?

Yes, we agree that it is not necessary to opine on the suitability of the entity's service performance criteria. Refer to our response to question 18.

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

Our preference is for one single opinion, but it could be further simplified as follows:

In our opinion the accompanying financial report [presents fairly, in all material respects/gives a true and fair view of], the [financial position of the [entity] as at December 31, 20X1, and its financial performance, cash flows] and service performance for the year then ended in accordance with [the applicable financial reporting framework].

Users will not necessarily understand the nuance of separating out the service performance information and the financial statements within the opinion to mean that the dual opinion can be split.

21. Are there 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 believe there are additional factors that should be prescribed.

We note that paragraph 13 of the ED establishes the responsibilities of those charged with governance in the context of preconditions for the audit, which are then referred to in paragraph 15(c) in relation to the terms of the engagement. Paragraph 63(b) then repeats an abridged version of these responsibilities for the purpose of the auditor's report which may cause confusion.

Also, the responsibility of those charged with governance "to provide the auditor with access to all information ..." does not appear to be reflected in proposed illustration 3A for the appendix of ISA (NZ) 700.

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 believe there are additional factors that should be prescribed.

We note that paragraph 15(b) of the ED requires the terms of the engagement to include the responsibilities of the auditor with respect to the service performance information. A cross-reference to paragraph 63(c) where these are listed would be well received.

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.

Yes, we believe it is clear.

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 agree with aligning the effective date with PBE FRS 48. We also agree with permitting early adoption which may be desirable for auditors of Tier 3 and 4 PBEs who already have a requirement to report service performance information.

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?

No, not at this stage.

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

Paragraph 61(c) requires the entity's service performance criteria to be identified in the opinion section of the auditor's report. In the illustrative auditor's reports in appendix 4 of the ED, these are identified in the basis for opinion section instead. In proposed illustration 3A for the appendix of ISA (NZ) 700 this appears to be absent altogether.

An illustrative auditor's report that opines on entity information that is required to be reported by Tier 3 and 4 simple format reporting standards would also be well received, as entity information is also within the definition of financial statements.

We note that slide 28 of the roundtable discussion presentation says "*EG Au9 to be withdrawn once audit and review standard issued*". We encourage NZAuASB to only withdraw EG Au9 once both the audit and review standard are effective.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.