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Comments on ED NZAuASB 2017-2 – The Audit of Service Performance Information

I wish to provide comments on ED NZAuASB 2017-2.

I am a chartered accountant with over 30 years experience as a chief financial officer in central Government departments and as a treasurer of many not-for-profit entities. I was a member of the Not-for-Profit Advisory Committee of the then NZICA, and have been a member of the Public Sector Committee and Wellington Committee of the former NZICA. I have experience as a preparer and also an independent reviewer of the PBE IPSAS for Not-For-Profit entities Tiers 2, 3 and 4.

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.

I agree with a separate auditing standard approach for the audit of service performance information. While the auditing methodology of service performance information is the same as for the audit of financial information, the very nature of non-financial information requires a separate auditing standard rather than including it as part of ISAE (NZ) 3000.

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?

Yes I agree. Any difference between public sector and not-for-profit entities could be explained by means of additional explanatory guidance or notes in the audit standard.

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.

The two step approach is acceptable as this is how a preparer of the statement of service performance approaches the development of service performance information for its performance report.

However, I have considerable difficulty with the word "criteria" used in step 1. My experience has been in the use of

the concept of a framework that includes the use of intervention logic in how outputs contribute to the achievement of outcomes (including intermediary outcomes) and how performance measures are linked to outputs. The Charities Service information material for registered charities talks about outcomes and outputs and how these are related, ie. a framework. The dictionary definition of criteria is standards and I do not think that this word is appropriate. The problem is, I understand, is that the ISAE (NZ) 3000 uses the word criteria; however could this not be amended or if used in the proposed audit standard for service performance explained in detail with a diagram to show the linkages between an entity's mission and goals, its outcomes and outputs, and its performance measures.

Yes.

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.

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..

Yes.

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.

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Yes. See my comments above.

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.

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.

A registered charity should be setting its annual service performance budget at the start (or before) of its financial year just the same as it does with its financial budgets. During the year the entity may revise one or more parts (ie outputs) of its service performance budget as it does for its financial budgets. The question is which budget should be reported at year end in the entity's performance report. Central government departments report the original budget (Main Estimates) voted plus amended budgets (voted Supplementary Estimates). Therefore, I believe that the original service performance budget amended by any revision is the one to be reported, and thus audited (including how the entity arrived at the revised budget).

Yes, but there needs to be more explanation and guidance about intervention logic, which is peculiar to service performance statements.

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?

10. Do you consider that the application material will assist an

Not really. There needs to be a lot more information in the proposed

auditor in applying professional judgement to evaluate the entity's service performance criteria?

auditing standard. Perhaps it could be provided as a separate guidance to the standard.

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. Information about intervention logic in particular, and about intermediate outcomes. Also about provided a service performance framework which maps the entity's mission and goals to its outcomes (and intermediate outcomes) and outputs, and the performance measures.

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.

The entity will need to put in place cost effective systems and procedures to support its assertions about how outputs are linked to outcomes, and for the collection of data for its performance measures.

It may be appropriate for an entity to provide additional disclosure about how the entity is working to this aim.

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?

I am not sure there is a need for the use of experts. The auditor should through step 1 obtain sufficient understanding of the entity.

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. This is no difference from auditing financial information obtained from another entity.

Reporting

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

Yes.

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.

Not really. This is not a requirement for an audit opinion on the financial statements of an entity so why should it be a requirement for non-financial statements.

It would be more informative if the entity was required to provide this information in its Notes to the Accounting Policies, ie provide information about its intervention logic etc.

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

Yes, definitely allow flexibility.

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.

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?

Yes. This follows the approach of providing an opinion on financial statements.

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?

No, don't agree.

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

The opinion in para 56 of the ITC. It is explicit and allows for except for statement(s) by the auditor.

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.

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.

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.

Effective Date

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

Yes.

Other

25. The next phase of this project will

It should be very similar, and include

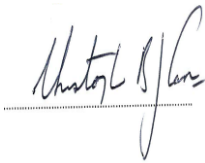
be to develop a review engagement standard. Do you have any comments as to how a review standard would differ from the proposals in this ED?

information about the intervention logic and service performance framework.

26. Do you have any other comments on ED NZAuASB 2017-2? No.

Thank you for the opportunity to provide comments on ED NZAuASB 217-2. I look forward to seeing the final agreed standard.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Chris Carson", written over a horizontal dotted line.

Chris Carson CA, QSM