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26 January 2018

EXPOSURE DRAFT NZAuASB 2017-2: New Zealand Audit Standard XX The Audit of Service Performance Information

Thank you for the opportunity to submit our views on the abovementioned exposure draft. We trust that our comments will be helpful to the XRB for finalising the proposed amendments.

PwC New Zealand¹ is part of the global network of PwC firms. The firm is New Zealand's largest firm of chartered accountants, with seven offices and more than 1,200 partners and staff. Our practice as Chartered Accountants gives us extensive experience of a range of professional services that are valued by the wide variety of entities and individuals that participate in capital market and investment activities in New Zealand. In responding to this consultation, we draw on our areas of expertise in preparation and presentation of financial information, financial reporting compliance, and in the provision of assurance and related services.

Our comments on the Exposure Draft

We support the inclusion of the service performance information, which constitutes part of an entities general purpose financial reporting under Public Benefit Entities (PBE) standards, in the scope of an audit. The nature of the entities reporting in accordance with the standard are managing funds received from public sources and service performance information facilitates greater transparency for the resource provider. However, we do have some comments relating to the impacts of the exposure draft driven by the current requirements set out in the financial reporting framework, principally;

Cost / Benefit – The PBE conceptual framework contemplates the cost / benefit balance as an important consideration for governing bodies and management when reporting financial information. The range of entities captured by the requirements set out in the exposure draft is very extensive, given the threshold of \$1 million of operating expenses set out in the XRB A2. In our experience, many smaller PBE entities have limited financial reporting resource and capability and they are likely to find the preparation of service performance reports challenging, given the level of judgement involved and customised nature of the information. The cost of designing and implementing relevant performance measures, including relevant controls around those performance measures, and capturing and monitoring the relevant data may be prohibitive.

For the smaller organisations, this may result in the cost of an audit of General Purpose Financial Reporting (GPFR) that includes service performance information being disproportionately high in comparison with, for example, the cost of an audit of the historical financial information.

Sophistication – In our experience the level of sophistication of financial reporting systems, segregation of duties and other relevant controls that exist in smaller entities are often lacking.

¹ This response is being filed on behalf of PwC New Zealand, a separate legal entity within the network of member firms of PricewaterhouseCoopers International Limited. References to "PwC", "we" and "our" refer to PwC New Zealand.



In order that an auditor might opine on whether the information in the statement of service performance is presented fairly, the extent of audit work necessary is significant and may be inhibited by the lack of verifiable information, lack of controls around the information gathered, and degree of sophistication that exists within the entity for monitoring the information. This may result in a significant number of qualified audit reports, in contrast to the intention of the standard.

Further, the measures of performance for some entities may not be verifiable from an audit perspective due to an inability to confirm completeness of that data or the data inputs. For some entities, they may not have relevant verifiable performance measures and may report on matters that are not relevant to users simply to meet the reporting requirements.

Stakeholders –PBE and NFP entities often rely heavily on donations and grant funding. The increased cost of auditing the statement of service performance may further restrict the funds available to these entities. The level of additional audit costs may result in an unintentional redirection of funds away from the primary objectives of the entity.

Additional guidance should be developed in order to facilitate comparability across sectors. This will be important to help reduce both the cost of preparing and auditing service performance information and to allow resource providers to maximise the benefit of comparability.

To support smaller PBE and NFP entities and create flexibility for smaller organisations in relation to the standard we believe some additional consideration of the impact of this standard due to the size criteria as set out in XRB A2 is required. Some possible alternative considerations by the XRB might include:

- Raising the minimum threshold for entities requiring an audit of service performance information;
- enabling the governing body / members to opt out of an audit of service performance information;
- treating service performance information as ‘other information’ where no assurance conclusion is given, but that the information is read by the auditor and a statement is made that the information is not considered to be materially inconsistent with the financial statements or information obtained in the conduct of our audit.

We have included any further comments in relation to specific questions in Appendix 1 to this letter. If you have questions or would like to discuss any aspect of our submission please do not hesitate to contact Karen Shires, Quality Assurance Partner (karen.f.shires@nz.pwc.com 09-355-8624).

We understand the submission is subject to the Official Information Act 1982, and have no objection to the release of any information contained in our submission, or its publication on the XRB’s website.

Yours Sincerely

A handwritten signature in black ink that reads 'Karen Shires' in a cursive, flowing script.

Karen Shires
Partner



Appendix 1 - XRB questions for respondents

	XRB question	PwC response
	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 support the standards development as an auditing standard as this aligns with the requirement to include service performance reporting as part of the financial statements under <i>PBE FRS XX Service Performance Reporting</i> .
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 understand the objective for a consistent approach and agree that the approach taken is sensible. Based on the proposed ED we expect audits to be scalable, however, we consider that the requirements for smaller PBE and NFPs may be overly onerous due to: <ul style="list-style-type: none"> - Investment required in systems to identify, capture monitor and record relevant information - Staff capacity and expertise required to make judgements and to consider information disclosed - A lack of guidance to ensure consistency and comparability - Additional time and resource costs including additional audit costs
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.	Additional application guidance on what appropriate service performance criteria might be, or sector specific measures would assist in streamlining both the preparation and auditing process.
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.	The PBE conceptual framework contemplates the cost / benefit balance as an important consideration for governing bodies and management when reporting financial information. The range of entities captured by the thresholds set in the standards is very extensive, given the threshold of \$1 million of operating expenses. In our experience, many smaller PBE entities have limited financial reporting resource and capability and they are likely to find the preparation of service performance reports challenging, given the level of judgement involved and customised nature of the information. The cost of designing and implementing relevant performance measures, including relevant controls around those performance measures, and capturing and monitoring the relevant data may be prohibitive.

		For the smaller organisations, this may result in the cost of an audit of General Purpose Financial Reporting (GPFR) that includes service performance information being disproportionately high in comparison with, for example, the cost of an audit of the historical financial information. We acknowledge this is a financial reporting framework challenge.
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, no specific comments.
	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.	The definition in paragraph 7e looks sensible. However, we note this definition is not explicit in PBE FRS XX Service Performance Reporting Standard.
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.	<p>Step 1 - Since this forms part of the GPFR the suitability should be assessed by the auditor. However, due to the broad range, judgmental and specific nature of SPI for each entity our concern is that this is a significant undertaking, which may result in significant, additional audit effort and cost.</p> <p>Step 2 - Yes we agree that the auditor should verify what is reported. As discussed the challenge that we foresee, particularly for smaller entities, is that the information required for an auditor to obtain sufficient appropriate audit evidence to conclude may not be readily available.</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	Yes, no specific comments.

	reporting period? If you consider further clarification is needed please be specific as to what amendments you consider necessary.	
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?	Yes, no specific comments.
10	Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?	We consider additional application guidance on what appropriate service performance criteria frameworks are, or industry specific measures would assist in streamlining both the preparation and auditing process. In particular, for NFP entities where there is not industry recognised frameworks in place.
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, no specific comments.
	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.	We agree with the identified assertions in paragraph A49, subject to the comments below: <i>Completeness</i> We consider there to be a difference in the definition of completeness as set out in para A49: "all significant service performance that should have been reported has been included in the service

		<p><i>performance information</i>”, to that set out in para 9b of Service Performance Reporting being: “<i>Completeness implies that the service performance information presents an overall impression of the entity’s service performance with appropriate links to financial information.</i>” We consider the exposure drafts definition implies a more thorough analysis.</p>
	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, no specific comments.
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, no specific comments.
	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.	<p>The proposed requirements appropriately reflect the reporting framework, which requires the service performance information to be reported as part of the GPFR.</p> <p>However, with consideration to the cost / benefit assessment of the impacts of the standard, alternative reporting could be considered. For example; the service performance information could be treated as ‘other information’ where the no assurance conclusion is given but that the information is read by the auditor and it is concluded that this is not considered to be materially inconsistent with the financial statements or the auditor’s knowledge of obtained in the audit. We acknowledge this is a financial reporting framework challenge.</p>
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	<p>We consider that the responsibility for the suitability of SPI including the criteria applied to identify the SPI and the communication of the judgements made should primarily be management’s responsibility. The proposed audit report adequately reflects the auditor’s responsibility to evaluate this information.</p>

	service performance criteria. Please explain why.	
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.	Yes, no specific comments.
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 – See question 20
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?	Yes – See question 20
20	Which opinion do you consider will be better understood by the user of the auditor's report and why?	We consider that the proposed opinion (para 62 of the ED) to be appropriate. To opine explicitly on the suitability of the SPI would be to give that aspect of the audit undue prominence. The flexibility of the form of the report enables the auditor to raise concerns where appropriate.
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 comments to make.
22	Are there additional factors that should be described in the auditor's responsibilities section	No comments to make.

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