



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

NEW ZEALAND AUDITING STANDARD 1

The Audit of Service Performance Information

Issued [date]

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This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

An auditor that is required to apply this Standard is required to apply it for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of the issue of financial reporting requirements in New Zealand that require the inclusion of service performance information within general purpose financial reports that are subject to audit.

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NEW ZEALAND AUDITING STANDARD 1

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| <p>New Zealand Auditing Standard (NZ AS) 1, <i>The Audit of Service Performance Information</i>, should be read in conjunction with ISA (NZ) 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)</i>.</p> |
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History of Amendments

Table of pronouncements – NZ AS 1 *The Audit of Service Performance Information*

This table lists the pronouncements establishing and amending NZ AS 1.

| Pronouncements | Date approved | Effective date |
|---------------------------------|----------------------|--|
| New Zealand Auditing Standard 1 | | This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. |

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Introduction

Scope of this NZ AS

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1)
2. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A2)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A3-A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

Effective Date

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. Early adoption is permitted.

Objectives

6. The objectives of the auditor are:
 - (a) To understand the process applied by the entity to select what and how to report its service performance;
 - (b) To evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity's service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - (c) To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
 - (d) To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and
 - (e) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.

Definitions

7. For purposes of this NZ AS, the following terms have the meanings attributed below:
- (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
 - (b) Long-form report – Auditor’s report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion. (Ref: Para. A69–A71)
 - (c) Misstatement – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
 - (d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A5, Appendix 1)
 - (e) Risk of material misstatement – The risk that the service performance information is materially misstated.
 - (f) Methods to measure, describe, aggregate, present and disclose the entity’s service performance – the applicable criteria¹ used to measure or evaluate the entity’s service performance. The methods are entity specific, developed to tell the entity’s own performance story. The methods are required to be in accordance with the principles of the applicable financial reporting framework. (Ref: Para. A6–A8)

Requirements

Conduct of the Engagement in Accordance with ISAs (NZ)

- 8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) and this NZ AS to the entity information, as appropriate. (Ref: Para. A9–A12, Appendix 1)
- 9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

General Principles of an Audit of the General Purpose Financial Report

- 10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause

¹ EG Au1A *Framework for Assurance Engagements*, paragraph 42

the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

Agreement on Audit Engagement Terms

11. The terms of the audit engagement shall include:² (Ref: Para. A13)
- (a) The responsibilities of the auditor with respect to the service performance information:
 - i. To obtain an understanding of the process applied by the entity to select what and how to report its service performance;
 - ii. To evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - iii. To evaluate the overall presentation, structure and content of the general purpose financial report and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework.
 - (b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
 - i. The preparation of service performance information in accordance with the applicable financial reporting framework;
 - ii. The selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity's service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - iii. Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error;
 - (c) Reference to the expected form and content of the auditor's report, including whether it will be a long-form report, including additional information about the selected service performance, or the methods used to measure, describe, aggregate, present and disclose the service performance, detailed findings or recommendations to meet the needs of the intended users.

Documentation

12. The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS.³ (Ref: Para. A14)
13. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service

² ISA (NZ) 210, paragraph 9-10

³ ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

performance information.

Laws and Regulations

14. The auditor shall obtain an understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
 - (b) How the entity is complying with that framework.
15. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.⁴

Communication with Those Charged with Governance

16. The auditor shall communicate the following matters with those charged with governance:⁵
 - (a) The auditor's views about judgements made in reporting the entity's service performance information, including any deficiencies or areas for improvement. For example, why the auditor considers the selected service performance or methods used to measure, describe, aggregate, present and disclose the service performance are not suitable to the circumstances; (Ref: Para. A15)
 - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
 - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

Planning

17. The auditor shall develop the audit plan to concurrently cover the financial statement information and the service performance information so that the audit is performed in the most effective manner and reflects the correlation between the service performance information and the financial statement information.⁶
18. In establishing the overall audit strategy, the auditor shall:
 - (a) Obtain an understanding of the applicable financial reporting framework relevant to service performance information;
 - (b) Obtain an understanding of the entity's process for understanding who the intended users are and the decisions that may be influenced by the service performance information;

⁴ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

- (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
19. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A16)
20. If the entity intends to report service performance information about service performance provided by other entities, the auditor shall, where applicable:
- (a) Obtain an understanding of the nature and significance of the services provided by a service organisation and their effect on the user entity's internal control relevant to the audit of the service performance information, sufficient to identify and assess the risks of material misstatement and design and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁷ (Ref: Para. A17)
 - (b) Obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁸ (Ref: Para. A17)
 - (c) Communicate clearly with the other practitioner about the scope and timing of the work and findings of the other practitioner and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information when the auditor intends to use the work of another practitioner, (Ref: Para. A18)

when planning the audit of the service performance information.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

21. The auditor shall obtain an understanding of: (Ref: Para. A19–A24)
- (a) The service performance of the entity and the context in which the entity operates;
 - (b) The entity's process for identifying what service performance to report on and the methods used to measure, describe, aggregate, disclose and present its service performance, as well as what other options were considered;
 - (c) Whether the selected service performance and the methods used to measure, describe, aggregate, disclose and present its service performance will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies;
 - (d) How much discretion the entity has in selecting what service performance to report

⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- on and the methods used to measure, describe, aggregate, present and disclose the service performance in accordance with the applicable financial reporting framework;
- (e) The extent to which consultation with intended users influenced the selection of service performance and the methods used to measure, describe, aggregate, present and disclose the service performance; and (Ref: Para. A22–A24)
 - (f) The judgements made in deciding when to provide comparative narrative and descriptive information.

Suitability

22. The auditor shall evaluate whether the selected service performance and methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework, in that they exhibit the following characteristics: (Ref: Para. A25–A30)⁹
- (a) Relevance (Ref: Para. A31)
 - (b) Completeness (Ref: Para. A32)
 - (c) Reliability (Ref: Para. A33)
 - (d) Neutrality (Ref: Para. A34)
 - (e) Understandability (Ref: Para. A35).

Availability

23. The auditor shall evaluate whether the entity's methods used to measure, describe, aggregate, present and disclose the service performance are available to intended users so as to enable intended users to understand the methods and assumptions underlying the information, for example, disclosed in the judgements reported as part of the service performance information or by cross reference. (Ref: Para. A36–A38)
24. If the entity has changed what service performance it reports on or the methods used to measure, describe, aggregate, present and disclose its service performance from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.

Communication

25. The auditor shall evaluate:
- (a) If significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or (Ref: Para A39–A41)

⁹ The applicable financial reporting framework may describe different qualitative characteristics to these characteristics which align with the characteristics referred to in Appendix 2 of ISA (NZ) 210. The application material in paragraphs A39–A43 may need to be tailored to the applicable financial reporting framework. This is illustrated in Appendix 2.

- (b) Whether the service performance information inappropriately attributes service performance to the entity.
26. If the auditor considers that all or some of the entity's service performance information:
- (a) Fails to comply with the applicable financial reporting framework;
 - (b) Is prepared using methods to measure, describe, aggregate, present and disclose the service performance that are not suitable; or
 - (c) Otherwise fails to provide a reasonable basis for fairly reporting the service performance of the entity;
- the auditor shall discuss the matter with those charged with governance as soon as possible. (Ref: Para. A42)
27. The auditor shall determine:
- (a) Whether the matter can be resolved to the auditor's satisfaction;
 - (b) Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A43)
 - (c) Whether, and if so, how to communicate the matter in the auditor's report where the matter is not resolved to the auditor's satisfaction.
28. In the circumstances described in paragraph 26, the auditor shall consider the implications for the audit, the auditor's report and the opinion and shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A73–A79)
29. In the circumstances described in paragraph 28, the auditor is not required to withdraw from the audit of the general purpose financial report but shall consider the impact of the modified opinion with respect to the service performance information on the financial statements.

Obtaining an Understanding of the Entity's Internal Control

30. The auditor shall:¹⁰
- (a) Obtain an understanding of internal control over the preparation of the service performance information; and
 - (b) Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A44)

Materiality in Planning and Performing the Engagement

31. The auditor's consideration of materiality shall include both an evaluation of:
- (a) Whether the judgements made by the entity in selecting what service performance to report on and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable as required by paragraph 22; and (Ref: Para. A45–A48, A31–A35)

¹⁰ ISA (NZ) 315 (Revised), paragraph 12

- (b) Individual and collective misstatements in the reported service performance information, that based on the auditor's judgement, are likely to significantly influence the decisions of the intended users based on the information. (Ref: Para. A49–A53)
32. The auditor shall determine and document materiality levels and/or materiality factors to be applied to the service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.¹¹ (Ref: Para. A48–A53)
 33. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to have determined different materiality levels or materiality factors initially.

Identifying and Assessing Risks of Material Misstatement

34. The auditor shall identify and assess the risks of material misstatement, whether due to fraud or error:¹²
 - (a) At the service performance information level; and
 - (b) At the assertion level for performance measures, descriptions or disclosures where there is a reasonable possibility of material misstatement

through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹³ (Ref: Para. A51, A54–A56)

The Auditor's Responses to Assessed Risks

35. The auditor shall design and perform procedures whose nature, timing and extent¹⁴:
 - (a) Are responsive to assessed risks of material misstatement at the service performance information level and at the assertion level; and
 - (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls over the service performance information when:
 - (i) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
 - (ii) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A57–A59)

¹¹ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

¹² ISA (NZ) 315 (Revised), paragraph 25

¹³ ISA (NZ) 315 (Revised), paragraph 5

¹⁴ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

36. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material performance measure, description, and disclosure.¹⁵

Audit Evidence

37. The auditor shall obtain sufficient appropriate audit evidence to reduce the risk to an acceptably low level of expressing an inappropriate opinion when the service performance information is materially misstated, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements.¹⁶ (Ref: Para. A60–A62)
38. The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.
39. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

Analytical Procedures

40. When designing analytical procedures, the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-financial data.¹⁷

Written Representations

41. The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility:
- (a) For the preparation of service performance information in accordance with the applicable financial reporting framework
 - (b) To select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework.¹⁸ (Ref: Para. A63)

¹⁵ ISA (NZ) 330, paragraph 18

¹⁶ ISA (NZ) 500, *Audit Evidence*, paragraph 6

¹⁷ ISA (NZ) 520, *Analytical Procedures*, paragraph 6

¹⁸ ISA (NZ) 580, *Written Representations*, paragraph 9

Using the Work of an Auditor's Expert

42. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.¹⁹ (Ref: Para. A64)

Forming an Opinion and Reporting

43. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with the applicable financial reporting framework.²⁰ (Ref: Para. A65)
44. The auditor shall conclude whether, in view of the applicable financial reporting framework:
- (a) The service performance information will assist users in forming assessments about an entity's accountability for service performance, and in influencing decisions based on the service performance information.
 - (b) The entity has selected service performance and used methods to measure, describe, aggregate, present and disclose the service performance that are suitable so as to result in service performance information in accordance with the applicable financial reporting framework.
 - (c) The assumptions underlying the information are explicit, the methods used in preparing the information and the factors and circumstances that support any opinions expressed or disclosures made are available to intended users. (Ref: Para. A66–A67)
 - (d) When the general purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:
 - (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
 - (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
 - (iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.
45. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance and shall take into account:
- (a) The auditor's conclusion whether sufficient, appropriate audit evidence has been obtained;

¹⁹ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²⁰ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

- (b) The auditor's conclusion whether uncorrected misstatements are material, individually or collectively;
 - (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.
46. The auditor shall consider:
- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
 - (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

Report Content

47. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information. (Ref: Para. A68–A69)
48. The opinion section of the auditor's report shall:
- (a) Identify the service performance information;
 - (b) State that the service performance information has been audited;
 - (c) Identify or refer to the methods used to measure, describe, aggregate, present and disclose the service performance information; and (Ref: Para. A70–A72)
 - (d) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.
49. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- (a) In our opinion the accompanying general purpose financial report presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with [*the applicable financial reporting framework*]; or
 - (b) In our opinion the accompanying general purpose financial report gives a true and fair view of the service performance for the year then ended in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with [*the applicable financial reporting framework*].²¹
50. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised),

²¹ If the applicable financial reporting framework includes requirements for entity information, the opinion may be required by law, regulation or otherwise to cover the entity information.

the auditor's report shall:

- (a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1;
- (b) Describe, in the responsibilities for the general purpose financial report section, the responsibilities of those charged with governance:
 - For the preparation of service performance information in accordance with the applicable financial reporting framework;
 - To select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.

When the general purpose financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the general purpose financial report in the auditor's report shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view," as appropriate in the circumstances.

- (c) In the "Auditor's Responsibilities for the Audit of the General Purpose Financial Report" section:
 - Describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:
 - i. Whether the selected service performance and the methods to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the applicable financial reporting framework;
 - ii. The overall presentation, structure and content of the general purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation; and

Key Audit Matters

51. The auditor may be required, or may voluntarily report key audit matters in the auditor's report.²² If reported, key audit matters shall include matters related to the audit of the service

²² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

52. The auditor shall modify the opinion, with respect to the service performance information, when:²³
 - (a) The auditor concludes that the selected service performance and methods to measure, describe, aggregate, present and disclose its service performance are not suitable resulting in service performance information that is not in accordance with the applicable financial reporting framework; (Ref: Para A31–A35)
 - (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement; or (Ref: Para. A73–A78)
 - (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.
53. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. (Ref: Para. A79)
54. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".²⁴
55. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

Emphasis of Matter Paragraphs and Other Matter Paragraphs

56. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.²⁵
57. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to user's understanding of the audit of the service performance

²³ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

²⁴ Where appropriate, the heading may refer to the entity information.

²⁵ ISA (NZ) 706 (Revised)

information, the auditor shall include an Other Matter paragraph in the auditor's report.²⁶

Comparative Information

58. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

Other Information

59. The auditor shall read the other information and consider whether there is a material inconsistency between:²⁷
- (a) The other information and the service performance information; and
 - (b) The other information and the auditor's knowledge obtained in the audit of the general purpose financial report. (Ref: Para. A80–A81)

Application and Other Explanatory Material

Scope of this NZ AS (Ref: Para. 1–3, 7(d))

- A1. Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
- A2. Work performed in the audit of the financial statements can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial and service performance information, this NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the audit concurrently, effectively and in an all-encompassing manner.
- A3. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Appendix 1 illustrates what constitutes the general purpose financial report.
- A4. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:
 - (a) For Tier 1 and Tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.
 - (b) For Tier 3 public benefit entities, *PBE Simple Format Reporting – Accrual*.

²⁶ ISA (NZ) 706 (Revised)

²⁷ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

(c) For Tier 4 public benefit entities, PBE Simple Format Reporting – Cash.

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report. For the purposes of this NZ AS, references to service performance information shall be taken to include service performance information and entity information, for Tier 3 or Tier 4 entities.

- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, Tier 3 registered charities with operating expenditure under \$500,000, and all Tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

Definitions (Ref: Para. 7(f))

- A6. The applicable financial reporting framework includes principles to guide an entity through a process to select what service performance to report on and what methods to use to measure, describe, aggregate, present and disclose its service performance to implement the applicable financial reporting framework. The entity will apply the process, as appropriate to the entity's circumstances, to select what service performance to report on, what methods to use to measure and/or describe that service performance, how to structure the information and how the information is related to each other and the entity's overall purpose and strategies.
- A7. Even for the same underlying service performance there can be different methods used to measure, describe, aggregate, present and disclose the service performance, which will yield a different measurement or description. For example, an entity might select, as one of its performance measures, the levels of satisfaction using a rating scale on a survey; another entity might select to report the number of complaints received. These are both examples of how the entity evaluates its service performance.
- A8. Disclosures comprise explanatory notes or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework. Presentation refers to whether the service performance is appropriately aggregated or disaggregated and clearly described.

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

- A9. The ISAs (NZ), which are based on the International Standards on Auditing (ISAs), are written in the context of an audit of financial statements by an auditor. Although service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the underlying subject matter included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ). However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that

financial reporting framework also incorporates requirements to prepare service performance information.

A10. The ISAs (NZ), together with this NZ AS, covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised)²⁸ to the service performance information.

A11. This NZ AS supplements the ISAs (NZ). It expands on how the ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the ISAs (NZ) or where the application of the ISAs (NZ) differs as a result of the nature of the service performance information.

A12. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,²⁹ ISA (NZ) 540,³⁰ ISA (NZ) 550³¹ and ISA (NZ) 570 (Revised)³² are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates as a result of measurement that is subject to estimation uncertainty, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

Agreement on Audit Engagement Terms (Ref: Para. 11)

A13. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service performance information is set out in Appendix 4.

Documentation (Ref: Para. 12)

A14. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- **Planning:** The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, and any significant changes made during the engagement, and the reasons for such changes;
- **Materiality:** The materiality levels or materiality factors for the service performance information and matters considered in their determination;
- **Risks of material misstatement:** Key elements of the understanding obtained

²⁸ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

²⁹ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁰ ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

³¹ ISA (NZ) 550, *Related Parties*

³² ISA (NZ) 570 (Revised), *Going Concern*

regarding the entity and its environment specified in paragraph 21, and the risks of material misstatement for which, in the auditor's professional judgement, further procedures were required;

- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- Evaluation of misstatements: Misstatements identified during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, individually or collectively, and the basis for that conclusion.

Communication with Those Charged with Governance (Ref: Para. 16)

A15. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the maturity of the entity's process to select what service performance to report on, the suitability of its methods used to measure, describe, aggregate, present and disclose its service performance or how the information compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of what service performance to report on, concerns regarding management bias or the quality of the presentation of the information.

Planning (Ref: Para. 19–20)

A16. Information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference.³³ Such information is part of the financial statements. Service performance information that is incorporated into the general purpose financial report by cross-reference is part of the general purpose financial report and is subject to the audit in accordance with this NZ AS.

A17. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about service performance provided by other entities. ISA (NZ) 402³⁴ may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity or where the entity outsources aspects of their business to organisations that provide services ranging from performing a specific task under the direction of the entity to replacing an entity's entire business units or functions

³³ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A2

³⁴ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

that are significant to the service performance information. Alternatively, ISA (NZ) 600³⁵ may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.

A18. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1 (Revised).
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement teams' involvement in the work of the other practitioner.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 21–29)

Obtaining an Understanding of the Entity and its Environment

A19. The entity may follow its own process to identify what and how to report its service performance to implement the applicable financial reporting framework applicable to its circumstances. Without suitable methods to measure, describe, aggregate, present and disclose its service performance, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor is unable to meet the objectives of the audit. Without the frame of reference provided by transparent assumptions and preparation methods, any conclusion is open to individual interpretation and misunderstanding. The suitability of what and how to report service performance is context-sensitive, that is, it is determined in the context of the entity's circumstances.

A20. The selection of what service performance to report on and how to measure or describe that service performance, and then aggregate, disclose and present the information is more judgemental than reporting on financial information. An entity may have a wide variety of performance frameworks, guidance, or codes (or a combination thereof) to choose from in the preparation of this information. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external reporting methods, including pre-established performance measures and/or descriptions from guidance, standards, or laws or regulation, or it may need to apply judgement to develop its own internally developed methods for measuring or describing its service performance. The need for such judgement

³⁵ ISA (NZ) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

makes the preparation of the service performance information inherently more susceptible to the risk of management bias.

- A21. In the example in paragraph A7 where an entity identifies stakeholder satisfaction as the underlying service performance to report on, the entity identifies the most suitable method to measure or describe this performance in the context of the entity.
- A22. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and completeness of the service performance selected and the methods used to measure, describe, aggregate, present and disclose the entity's service performance due to the level of judgement to be exercised by the entity. This is particularly important if the entity's methods are not substantially based on established methods generally used in the entity's sector, or are inconsistent with such methods and assumptions. The auditor may need to apply significant professional judgement in the assessment of the suitability of the selected information and the entity's methods to measure, describe, aggregate, present and disclose its service performance in situations where a well-designed due process is not followed or where the intended users were not involved in the selection of what service performance to report on and/or the development of the methods to be used.
- A23. The process applied by the entity to determine what to report on and how to report its service performance may affect the work that the auditor carries out. The level of potential management bias in selecting what and how to report its service performance directly correlates with the amount of work that the auditor may need to perform when considering the design of the entity's methods to measure, describe, aggregate, present and disclose its service performance. For example, use of performance measures specified by external benchmarks, industry guidance, or developed in consultation with intended users may require less work than internally generated performance measures as external guidance reduces the risk of management bias. Transparency about the entity's process to select what and how to report its service performance and the entity's consideration of materiality may also affect the work that the auditor carries out.
- A24. Factors that the auditor may consider in obtaining an understanding of the entity's process for identifying what and how to report its service performance include:
- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
 - Examples of the impact of the source of the methods used to measure, describe, aggregate, present and disclose its service performance:
 - The scope of what service performance to report on or the methods used to measure, describe, aggregate, present and disclose its service performance may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such methods are presumed to be suitable and are publicly available.
 - The entity may use a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives, for example, a local authority's Long-Term Plan. Methods to measure, describe, aggregate, present

- or disclose service performance that have been pre-agreed with key stakeholders may have a lower risk of management bias.
- The entity may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders (e.g., in an entity's Long-Term Plan or in funding contracts or agreements with key funders) or in the entity's statement of intent or charter and recent plans and strategies. Methods to measure, describe, aggregate, present or disclose service performance that have been pre-agreed with key stakeholders may have a lower risk of management bias.
 - Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and to how these align to intended users' needs. A more detailed set of methods to measure, describe, aggregate, present or disclose service performance may be more appropriate.
 - Results of surveys, e.g., satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints, targeted interviews or stakeholder workshops, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity. A well-designed process in developing what service performance to report on and the methods used to measure, describe, aggregate, present or disclose service performance with involvement of intended users lowers the risk of management bias.
 - Other external requirements or agreements with external parties that influence the entity's service performance accountability.
 - Other contextual information, including strategic and operational objectives. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
 - How the entity assesses its service performance for the purposes of internal decision making.
 - Whether the entity's methods to measure, describe, aggregate, present or disclose service performance have been validated through research conducted to be well correlated with what they are intended to measure or describe.
 - Changes from the prior period in the nature or extent of operations.
 - Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

Suitability

A25. When evaluating whether the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable, the auditor is evaluating the judgements made by the entity in applying the qualitative characteristics referred to in the applicable financial reporting framework. The qualitative characteristics described in the applicable financial reporting framework are similar to the characteristics

of suitable criteria described in paragraph 22 but may differ in the words used. Appendix 2 illustrates the similarities. The characteristics in paragraph 22 are framework neutral.

- A26. The characteristics are not mutually exclusive, and the relative importance of each characteristic varies according to the circumstances. The preparer may exercise significant judgement to select what and how to report its service performance to meet the qualitative characteristics. The auditor applies professional scepticism recognising that circumstances may exist that cause the selection and use of methods to be biased, incomplete or otherwise contrary to the qualitative characteristics required by the applicable financial reporting framework.
- A27. The auditor's role is to evaluate whether the entity has appropriately applied the qualitative characteristics and pervasive constraints as required by the applicable financial reporting framework in preparing the service performance information. In doing so, the auditor evaluates whether the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable. This evaluation is based on a consideration of the process adopted, and choices and trade-offs made by the entity in determining the most appropriate manner to tell its service performance story.
- A28. The selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable when:
- (a) The entity has appropriately applied the qualitative characteristics and pervasive constraints to enable users to make an informed assessment of the entity's service performance, and
 - (b) Include reasonable quantitative or qualitative measures or descriptions of service performance against which the entity's service performance may be assessed and are of particular value or importance for accountability and decision-making purposes.
- A29. When evaluating the suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance as required by paragraph 22, the auditor may consider:
- (a) The intended users of general purpose financial reports and the types of decisions that may be influenced on the basis of the service performance information, whether users were involved in the selection of what to report on or development of the methods used and if not, reasons why not;
 - (b) How the qualitative characteristics applied by the entity have influenced the selection of what service performance to report on and how to measure or evaluate that performance (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
 - (c) The various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information;
 - (d) How the entity plans to present and disclose financial and service performance information that is material;
 - (e) The complexity of the underlying service performance;
 - (f) Other potentially more suitable methods to measure, describe, aggregate, present or disclose the entity's service performance that could have been used and reasons why

those were not considered;

- (g) Potential misunderstanding of the resultant service performance information generated after application of the selected service performance and methods to measure, describe, aggregate, present or disclose service performance by intended users;
- (h) Knowledge of other similar entities reporting format; and
- (i) Web and social media searches.

A30. The evaluation required by paragraph 22 may be iterative and may require re-evaluation as the auditor's understanding of the entity or the types of decisions that may be influenced on the basis of the service performance information by intended users grows, if the entity makes changes to its selection of service performance to report on or the methods used to measure, describe, aggregate, present or disclose service performance or as the auditor gathers audit evidence.

A31. Factors that the auditor may consider when evaluating relevance include:

- The rationale for the selection of what service performance to report on, for example, whether the service performance relates to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the service performance information is likely to meet the needs of intended users so as to be useful for decision making, for example, is of significant community interest or interest to the public.
- The extent to which consultation with users has influenced the selection of what service performance to report and the methods used to measure, describe, aggregate, present or disclose service performance.
- Information that could significantly affect the reputation of the entity.
- Whether the service performance information shows clear and logical links between the service performance to be measured or evaluated and the entity's overall purpose and strategies so that the rationale for their selection is evident.
- Whether the methods used to measure, describe, aggregate, present or disclose service performance generate service performance information that is clearly linked with the financial information for example, relates to service performance that is financially material; or relates to a performance measure that may have a significant effect on management performance rewards.

A32. Factors that the auditor may consider when evaluating completeness include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance includes negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of performance measures which can result in too much information, reducing the relevance of the report.

A33. Factors that the auditor may consider when evaluating reliability include whether:

- The service performance is capable of measurement or description in a consistent manner from period to period;
- The process is well defined and there is likely to be evidence to support the information generated;
- The service performance information is capable of validation by the auditor and will not result in unsubstantiated claims, including whether there is a robust and reliable collection process;
- The selection of service performance and the methods to measure, describe, aggregate, present or disclose service performance are likely to result in service performance information that is free from material misstatements, including omission of fact, or misrepresentation of trend;
- The methods to measure, describe, aggregate, present or disclose service performance are consistent with industry benchmarks, where these are available.

A34. Factors that the auditor may consider when evaluating neutrality include whether:

- The selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are balanced, and are likely to result in information that is aggregated, where appropriate, and covers all important aspects, with suitable emphasis, to fairly reflect the significance to the entity's service performance;
- The selected service performance covers both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;
- The selected service performance and methods used to measure, describe, aggregate, present and disclose the service performance are not changed arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate neutrality where, for example, there are no methods to measure, describe, aggregate, present or disclose service performance established externally, no predetermined performance measures established with key stakeholders or no guidelines developed by an external industry group.

A35. Factors that the auditor may consider when evaluating understandability include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;
- The service performance information is concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear.

Availability

A36. Entity-developed methods to measure, describe, aggregate, present or disclose service performance need to be made available to intended users to enable them to understand how

the service performance has been measured or evaluated. The methods may be made available in one or more of the following ways:³⁶

- (a) Publicly.
- (b) Through inclusion in a clear manner in the presentation of the service performance information. Some performance measures may rely on complex methodologies. The auditor may consider whether complex methods are transparent, explained with sufficient detail and clarity so that they are considered to be available and enable the intended user to understand how the service performance has been assessed.
- (c) Through inclusion in a clear manner in the assurance report.
- (d) By general understanding, for example the method for measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

A37. In determining whether the methods used to measure, describe, aggregate, present and disclose the entity's service performance are available to intended users, the auditor may consider whether there will be enough context for the service performance information, including whether the rationale for determining:

- (a) What service performance to report on; and
- (b) Whether to include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the judgements made in preparing the service performance information.

A38. Disclosure of the judgements made by the entity is important in making the methods used to measure, describe, aggregate, present or disclose service performance available to intended users, where, for example, the entity has more discretion in selecting what service performance to report on and what methods to use (i.e., the methods are internally generated). Alternatively, the methods used may originate from an external performance framework supplemented by disclosures, in the general purpose financial report.

Communication

A39. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify what and how to report its service performance and may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of any such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities may be at varying stages of maturity in respect of preparing service performance information.

³⁶ EG Au1 Framework for Assurance Engagements, paragraph 47

- A40. For example, in the early stages of an entity generating service performance information, an entity may focus its reporting on a particular area of service performance because reporting systems have not yet been established and implemented for other areas. The auditor may still be able to conclude that the selection of service performance and the methods used to measure, describe, aggregate, present or disclose service performance are suitable if there are:
- (a) Clear disclosures in the service performance information of the facts and reasons surrounding the exclusion of some service performance. However, if the entity makes no progress in developing reporting systems over time or continues to exclude service performance once reporting systems are established and implemented, the auditor may no longer be satisfied that the selection of service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable; and
 - (b) The auditor concludes that the disclosures provided will assist intended users in their decision making.
- A41. Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select service performance to report on the basis that the selected performance is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.
- A42. Communication with those charged with governance in a timely manner may enable improvements to be made to the service performance information.
- A43. Factors the auditor may consider in determining whether to perform further audit procedures include:
- (a) The pervasiveness of the matter;
 - (b) The materiality of the matter;
 - (c) Whether the auditor's concern is with respect to the presentation of the information only;
 - (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

Obtaining an Understanding of the Entity's Internal Control (Ref: Para. 30)

- A44. Control activities that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews,³⁷ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another. An understanding of the control activities that pertain to performance reviews will be especially relevant to the audit of the general purpose financial report and may assist the auditor to audit the service performance information concurrently with the financial information.

³⁷ ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

Materiality in Planning and Performing the Engagement (Ref: Para. 31–32)

Consideration of what service performance is included in the report

- A45. The relevance of what service performance is selected to be included in the general purpose financial report is strongly linked with judgements made by the entity about the materiality of information. Service performance information is deemed to be material if it could reasonably be expected to influence the decisions of intended users taken on the basis of the general purpose financial report. The service performance information will not be considered to be complete if it does not contain all material service performance.
- A46. The applicable financial reporting framework discusses the concept of materiality in the context of preparation and presentation of service performance information.³⁸ Such a discussion provides a frame of reference to the auditor in determining materiality. The auditor's consideration of the entity's process to select what and how to report its service performance provides context in determining materiality.
- A47. The evaluation required by paragraph 22 and factors considered by the auditor in paragraph A31 and A32, provides a frame of reference to the auditor in understanding what service performance information is of most significance to intended users, and may assist in identifying the risks of material misstatement in the service performance information.
- A48. When determining materiality, the auditor may:
- Discuss the entity's process for determining material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity's material service performance information includes, for example, clearly contentious issues or performance measures for which there is no evidence to support the entity's role in the improvements reported.
 - Consider whether the entity's determination of material service performance information is consistent with the auditor's knowledge of the entity and the environment, including reporting by similar entities and previous reporting by the entity and information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities, including satisfaction surveys, feedback and complaints received, web and social media searches, targeted interviews or stakeholder workshops.

Materiality levels and factors

- A49. The materiality levels are expressed in terms of the appropriate unit of account for each element or performance measure reported. The materiality level determines what level of misstatement will be tolerated by the auditor. Using a percentage is another commonly used way to establish such a level. It may be possible to group similar service performance information and make materiality decisions on the same basis if they have the same unit of account. The basis and level may differ from the basis and level for determining materiality

³⁸ PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

as required by ISA (NZ) 320.

A50. There are multiple factors that may lead to a material misstatement:

- (a) Omissions of fact – could omissions result in misleading the user?
- (b) Misstatements of fact – could a misstatement result in misleading the user?
- (c) Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- (d) Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- (e) Unsubstantiated claims.

A51. The following factors may assist the auditor when exercising professional judgement in determining whether there are material misstatements in either the qualitative or quantitative service performance information:

- (a) How the information is presented. For example, does the presentation draw attention to particular information? The auditor may be less tolerant of misstatement in information that is given the most prominence.
- (b) The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- (c) The number of persons or entities affected.
- (d) The importance of the activity to achieving the entity's service performance objectives. For example, whether the performance measures related to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- (e) The extent of interest shown in particular aspects of service performance by, for example, the legislation, funders, the media or the public and whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the auditor may be less accepting of potentially misleading or inaccurate information.
- (f) The type of performance measures and/or descriptions adopted, including the sensitivity of the information to error or the wording chosen to express a description. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable.
- (g) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures or relates to an activity that is financially significant. The auditor may be less tolerant of misstatement for information that is given the most prominence.
- (h) The economic, social, political and environmental effect of a project or an entity's work, for example, there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to activity that could be a significant risk to the public.

- (i) Whether there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, if the entity compares actual performance to a previously reported target, the auditor may be particularly diligent where a target has only just been achieved.
- (j) Whether a misstatement is the result of an intentional act or is unintentional. For example, intentional attempts to mislead users may result in the auditor performing more detailed work.
- (k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.
- (l) Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.

A52. The auditor is unlikely to be able to set an overall materiality level because there is unlikely to be a common unit of account. It is also unlikely that the auditor will be able to aggregate misstatements. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively as required by paragraph 45.

A53. For historical financial information extracted from the audited financial statements, the engagement team may determine that the materiality level used in the audit of the financial statements are acceptable for the purposes of the service performance information.

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 34)

Assertions about service performance and related disclosures

A54. The auditor may use the assertions as described in paragraph A56 or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution.

A55. In the public sector, the entity may assert compliance with law or regulation, in addition to the assertions set out in paragraph A56.

A56. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:

- (a) Occurrence – service performance that has been reported has occurred.
- (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
- (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
- (d) Accuracy – service performance has been reported, measured and described appropriately and is not inconsistent with financial statement information.
- (e) Cut-off – the service performance has been reported in the correct period.
- (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.

The Auditor's Responses to Assessed Risks (Ref: Para. 35–36)

A57. Procedures that may be performed include:

- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
- (b) Performing analytical review procedures;
- (c) Performing other substantive or re-performance tests.

A58. The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

A59. In some instances, there may not be control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

Audit Evidence (Ref: Para. 37)

A60. Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.

A61. The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit evidence.

A62. The auditor's procedures may include:

- (a) Agreeing or reconciling amounts reported in the service performance information to any underlying financial records;
- (b) Agreeing cross references between the service performance information and the financial statements;
- (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are suitable, have been applied consistently and are consistent with the applicable financial reporting framework; and
- (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.

Written Representations (Ref: Para. 41)

A63. The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in Appendix 5.

Using the Work of an Auditor's Expert (Ref: Para. 42)

A64. Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Examples may include expertise in relation to such matters as:

- The measurement of complex performance measures, for example:
 - Climate change calculations;
 - Specific scientific measurements;
 - Social impact measurement
 - Human rights performance
 - People and diversity disclosure
- Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
- Conformity assessments, ecolabelling and certification programmes.

Forming an Opinion and Reporting (Ref: Para. 43–44)

A65. The auditor's conclusion on the service performance information covers both:

- (a) Whether the selected service performance and the methods used to measure, describe, aggregate, present or disclose service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework; and
- (b) Whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

A66. Those charged with governance will make a number of judgements about the selection, measurement, description, aggregation, presentation and disclosure of the service performance information reported. In considering the qualitative characteristics described in the applicable financial reporting framework, the auditor may become aware of management bias. The auditor may conclude that the collective effect of the lack of neutrality, together with the effect of uncorrected misstatements causes the service performance information to be materially misstated.

A67. The disclosure of the judgements made in selecting, measuring, describing and aggregating service performance information is particularly important so that users can understand how particular service performance is reported in the service performance information.

Report Content (Ref: Para. 7(b), 47–50)

A68. The auditor's report on the general purpose financial report includes references to the service performance information. An illustrative report that includes references to the service performance information is set out in Appendix 6.

A69. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised). However, this NZ AS allows for flexibility and an auditor may

include additional information, as described in paragraphs A70-A71, resulting in a long-form report.

A70. The auditor's report identifies or refers to the methods used to measure, describe, aggregate, disclose and present the service performance information so the intended users can understand the basis for the auditor's opinion. The auditor's report may refer to the methods used to measure, describe, aggregate, present and disclose where the auditor has evaluated that the methods are available to intended users as part of the service performance information.

A71. The auditor's report may describe additional details relevant to the audit of the service performance information that do not affect the auditor's opinion. This information may be required by legislation or agreed in the terms of the engagement to assist intended users in decision making based on the service performance information. A long-form report should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:

- The underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source of the methods used to measure, describe, aggregate, present or disclose service performance, and whether they are externally established (e.g., established in section xxx of applicable legislation or externally established performance frameworks).
- Any significant interpretations made in selecting what service performance to report on or applying the entity's methods to measure, describe, aggregate, present or disclose service performance in the circumstances.
- Whether there have been any changes in the methods used to measure, describe, aggregate, present or disclose service performance (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.

A72. The auditor is encouraged to report their findings or recommendations where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 28, 52)

A73. A misstatement of the service performance information may arise in relation to:

- (a) The suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance;
- (b) The application of the methods used to measure, describe, aggregate, present or

disclose service performance;

- (c) Inadequate disclosure of judgements made, where applicable; or
- (d) Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A74. In relation to the suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance, material misstatements of the service performance information may arise, for example, when:

- (a) The entity's methods are not consistent with the principles in the applicable financial reporting framework.
- (b) The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

A75. The auditor may determine that a material misstatement exists in the service performance information:

- (a) When, in the auditor's professional judgement, the methods used to measure, describe, aggregate, present or disclose service performance are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- (b) In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

A76. In relation to the application of the methods used to measure, describe, aggregate, present or disclose service performance, material misstatements of the service performance information may arise:

- (a) Due to a misapplication of the methods (e.g., an unintentional error in application). A qualified opinion may be appropriate in the circumstances where there is a material misstatement that is not pervasive, depending on how material the matter is.
- (b) When the methods are not applied consistently to the service performance, or not applied consistently between periods.

A77. In relation to the appropriateness or adequacy of disclosures in the service performance information, material misstatements may arise when:

- (a) The service performance information does not provide all disclosures required by the applicable financial reporting framework.
- (b) The service performance information does not provide all disclosures necessary to achieve fair presentation of the service performance information.

A78. Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.

A79. In many instances, a modification with respect to the service performance information will

have no impact on the opinion on the financial statements.

Other Information (Ref: Para. 59)

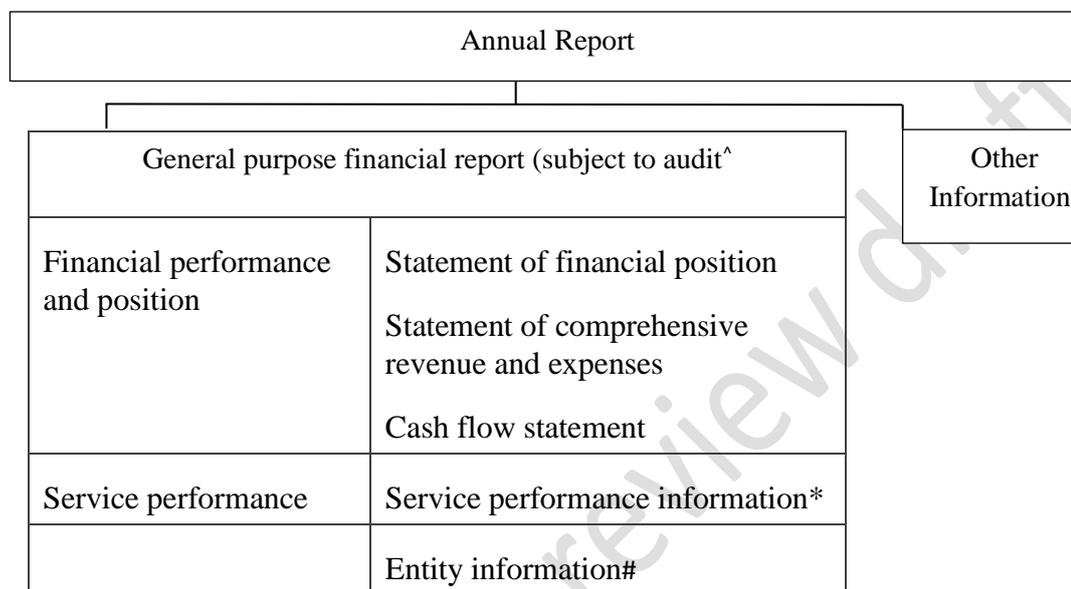
A80. Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.

A81. Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

Limited scope review draft

Appendix 1

(Ref: Para. 3,7, 8, A3, A80)

What Constitutes the General Purpose Financial Report

[^] Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.

* Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.

Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.

+ Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor's responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

Appendix 2

(Ref: Para. 22)

The Selected Service Performance and Methods Used to Measure, Describe, Aggregate, Present and Disclose the Service Performance

| | Financial reporting framework | Preparer | Auditor |
|--|--|---|---|
| Financial statements | Detailed recognition and measurement requirements established in PBE Standards | Apply the recognition and measurement requirements and disclose the accounting policies applied | The recognition and measurement requirements from PBE Standards are suitable |
| Service performance information | Principles require the preparer to apply the qualitative characteristics and pervasive constraints | Apply the entity’s process to select what service performance to report and what methods to use to measure, describe, aggregate, present and disclose the service performance | Auditor evaluates whether the entity selected service performance and methods used are suitable |

| Is the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance suitable? (Ref: Para 22)³⁹ |
|---|
| Relevance |
| Reliability |
| Completeness Neutrality |
| Understandability |

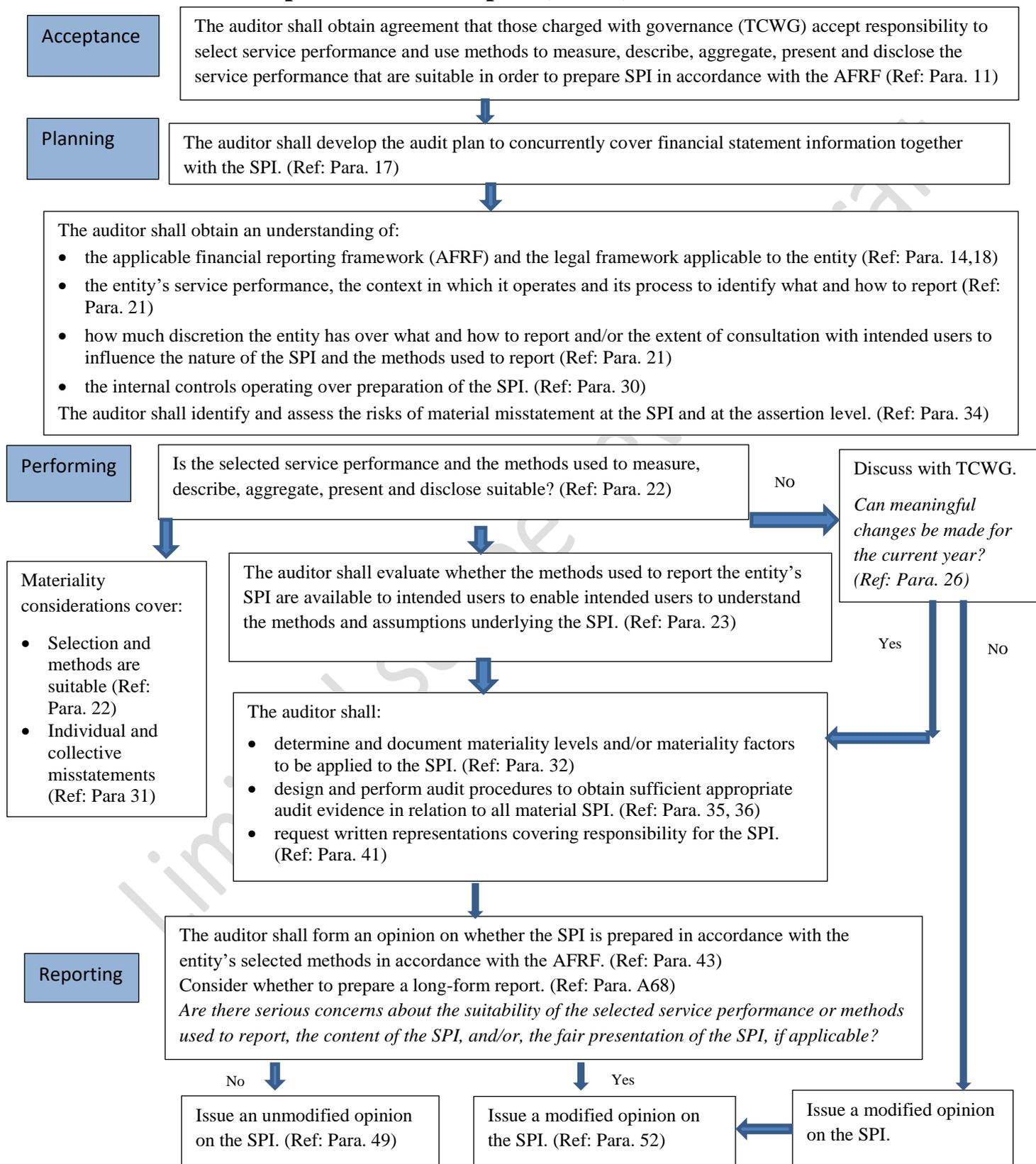
| These may be articulated differently in the applicable financial reporting framework (Ref: Para. A29)⁴⁰ |
|---|
| Relevance including timeliness |
| Includes verifiability |
| Faithful representation including: Completeness Neutrality |
| Understandability and comparability |

³⁹ EG Au1A, *Framework for Assurance Engagements*, paragraph 44.

⁴⁰ The qualitative characteristics are described in PBE FRS 48 paragraph 9.

Appendix 3

Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)



Appendix 4

(Ref: Para. A13)

Illustrative Engagement Letter Including Service Performance Information

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with an applicable fair presentation financial reporting framework issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) including this NZ AS 1. It will need to be varied according to individual requirements and circumstances.

To the Chairperson:⁴¹

[The objective and scope of the audit]

You have requested that we audit the *[general purpose financial report/performance report]* of ABC [Entity], which comprise the financial statements, the *[service performance information/statement of service performance]* *[and the entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the *[entity information, financial statements as a whole, and the service performance information/statement of service performance]* are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this *[general purpose financial report/performance report]*.

[The responsibilities of the auditor]

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information in accordance with the ISAs (NZ) and NZ AS 1. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional

⁴¹ The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [*general purpose financial report/performance report*] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] [in a manner that achieves fair presentation].
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*general purpose financial report/performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ).

[*The responsibilities of those charged with governance and identification of the applicable financial reporting framework*]

Our audit will be conducted on the basis that [those charged with governance] acknowledge and understand that they have responsibility on behalf of the entity for:

- (a) The preparation [and fair presentation] of the [*entity information*], financial statements and [*service performance information/statement of service performance*] in accordance with [*Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*];
- (b) The selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]; and
- (c) Such internal control as [they] determine is necessary to enable the preparation of the [*financial statements and service performance information/statement of service performance*] that are free from material misstatement, whether due to fraud or error; and
- (d) To provide us with:
 - (i) Access to all information of which [management and those charged with governance] are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management or the directors] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.*]

[Reporting]

[*Insert appropriate reference to the expected form and content of the auditor's report.*]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long-form, including findings or recommendations related to the entity's service performance information.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the [*general purpose financial report/performance report*] including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)

.....

Name and Title

Date

Limited scope review draft

Appendix 5

(Ref: Para. A61)

Illustrative Representation Letter Including Service Performance Information

The following illustrative letter includes written representations that are required by this standard and other ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the [*general purpose financial report/performance report*]⁴² of ABC Entity for the year ended December 31, 20XX which comprise the financial statements, the [*service performance information/statement of service performance*] [*and the entity information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies for the purpose of expressing an opinion as to whether the [*general purpose financial report/performance report*] presents fairly, in all material respects, (or gives a true and fair view of):

- [*the entity information as at December 31, 20XX*];
- the financial position of the [entity] as at December 31, 20XX, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20XX in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance

in accordance with [*Public Benefit Entity (PBE) Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].

We confirm that (*to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves*):

[*General Purposed Financial Report/Performance Report*]

We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date]:

- For the preparation, and fair presentation of the [*entity information*], financial statements and [*service performance information/statement of service performance*] in accordance with

⁴² Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

[*PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

- To select of service performance and use of methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] (NZ AS 1)
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with PBE Standards. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the [financial statements as a whole and [*service performance information/statement of service performance*]]. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with⁴³:
 - Access to all information of which we are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the [financial statements and [*service performance information/statement of service performance*]] may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or

⁴³ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

- Others where the fraud could have a material effect on the [*general purpose financial report/performance report*]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [*general purpose financial report/performance report*] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a [*general purpose financial report/performance report*]. (ISA (NZ) 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.⁴⁴ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary.]

Governing body member

Governing body member

⁴⁴ This is only required when the other information is not available until after the date of the auditor's report.

Appendix 6

(Ref: Para. A66)

Illustrative Auditor's Report Including Service Performance Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁴⁵. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).**
- **The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.**
- **The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **The auditor has no other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To Appropriate Addressee

Opinion

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of*

⁴⁵ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

changes in net assets/equity], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X1*];
- the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance

in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

[For a long-form report, include a separate section, under an appropriate heading, for example:

- Underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source of the methods used to measure, describe, aggregate, present or disclose service performance, and whether those methods are externally established.
- Any significant interpretations made in selecting what service performance to report on or applying the entity's methods to measure, describe, aggregate, present or disclose service performance in the circumstances.
- Whether there have been any changes in the entity's methods used to measure, describe, aggregate, present or disclose service performance (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.]

Basis for Opinion

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

Those charged with governance are responsible on behalf of the [entity]:

- (a) for the preparation and fair presentation of the [entity information], financial statements and [service performance information/statement of service performance] in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board;
- (b) to select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]; and
- (c) for such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and [service performance information/statement of service performance] that are free from material misstatement, whether due to fraud or error.

In preparing the [general purpose financial report/performance report], those charged with governance are responsible for assessing the [entity’s] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

Our objectives are to obtain reasonable assurance about whether the [entity information, financial statements as a whole, and the service performance information/statement of service performance] are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to

influence the decisions of users taken on the basis of this [*general purpose financial report/performance report*].

A further description of the auditor's responsibilities for the audit of the [*general purpose financial report/performance report*] is located at the XRB's website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] in a manner that achieves fair presentation.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

[entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the *[general purpose financial report/performance report]* or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Limited scope review

Appendix 7

(Ref: Para. A76)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

Limited scope review draft

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [entity] as at December 31, 20X1, and (of) its, financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page *xx*, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Adverse Opinion on the Service Performance Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/ performance report]* does not present fairly (or *does not give a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include [list appropriate goods and services] and measured and evaluated this performance with reference to [describe performance measures and/or descriptions reported] to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report] section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*) the [*entity information and the*] financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as (*give examples*). The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, [*describe performance measure and explain where information comes from that we are unable to independently test.*]]

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance*

Report] section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Qualified Opinion on the [General Purpose Financial Report/Performance Report/

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the financial statements on pages *x to xx*, the [*service performance information/statement of service performance*] on pages *x to xx* [*and the entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X1*];
- the financial position of the [entity] as at December 31, 20X1, and (*of*) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance

in accordance with [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion

[As outlined on page *xx* of the [*general purpose financial report/ performance report*], [entity] has not applied the requirements of the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the [*statement of comprehensive revenue and expenses*]; assets, liabilities and equity in the statement of financial position, [*total comprehensive revenue and expense*] and opening and closing equity in the [*statement of changes in equity*] and grants expense reported in the [*service performance information/statement of service performance*].]

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report /Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Conforming Amendments to Other Pronouncements

New text is underlined.

Conforming amendments to XRB Au1 *Application of Auditing and Assurance Standards*

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

Appendix 2A

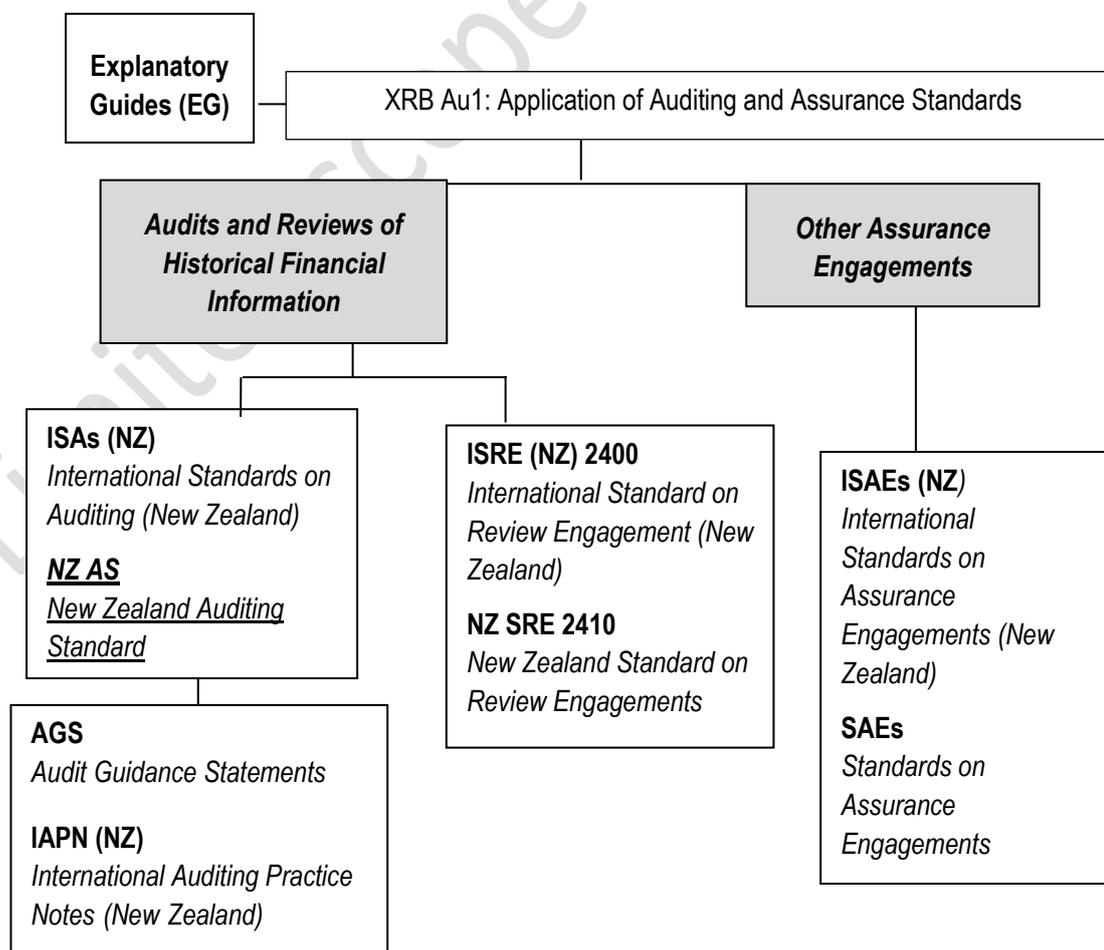
New Zealand Auditing Standards

This appendix is an integral part of the Standard

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING

This conformity statement accompanies but is not part of NZ AS 1.

Conformity to International Standards on Auditing

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).

Limited scope review draft