

Friday, 17 March 2023

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
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By email: assurance@xrb.govt.nz

Dear Marje

Auditing service performance information

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the Exposure Draft: Proposed improvements to NZ AS 1 *The Audit of Service Performance Information* ("the ED"). We make this submission on behalf of our members and in the public interest.

We support the development of a single standard for auditing service performance information that can be applied in both the public sector and not-for-profit (NFP) sectors. This will facilitate consistency in the work an auditor performs and help auditors better understand user expectations as they relate to the assurance obtained on service performance information.

Although NZ AS 1 was first issued in February 2019, the effective date of NZ AS 1 has been deferred twice because of concerns raised by the Office of the Auditor-General (OAG) regarding its suitability for the public sector. Consequently, the OAG decided it would not adopt NZ AS 1 in its current form but rather use its own standard; AG 4 The Audit of Performance Reports (AG 4). The XRB formed an Advisory Group, including representatives from the OAG, to work through the concerns raised, resulting in the ED proposing to revise extant NZ AS 1.

We understand that extant NZ AS 1 was designed to be sector neutral, and therefore would be applicable for auditing service performance information in both the public and NFP sectors. We believe it is imperative that the revised standard is fit for purpose for, and accepted for adoption by, both sectors. To maximise the prospect that the revised standard is adopted by the OAG, fulsome consultation and dialogue is essential. We recommend that consideration be given to publishing the results and outcomes of this consultation so that other stakeholders impacted can understand the discussion and any different positions taken.

Should this process not achieve the desired outcome, i.e., if the OAG indicates that it will not adopt the proposed NZ AS 1 (Revised), we recommend the XRB does not to proceed with issuing the revised standard, but instead retain the extant NZ AS 1 until such time as a sector neutral standard is achieved.

Our detailed responses to the questions raised in the consultation paper are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au.

Yours sincerely

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**Chartered Accountants Australia and
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Attachment

Alignment with financial reporting standards

Question 1. Do you agree that the proposed standard strengthens the alignment between the auditing and financial reporting standards? If not, why not and what further changes do you recommend?

We support strengthening the alignment between PBE FRS 48 *Service Performance Reporting* (PBE FRS 48) and NZ AS 1. We understand the rationale behind changing the term “the service performance criteria are suitable” to “the service performance information is appropriate and meaningful”, to align with the terminology in PBE FRS 48. However, given “suitable criteria” is a fundamental element of an assurance engagement (as noted in [A guide for prescribers of assurance engagements](#) as issued by your organisation), we recommend providing some justification for moving away from this well-understood element that is a prerequisite for all assurance engagements.

We note that the term “appropriate and meaningful” is not defined. We recommend that the explanations in paragraph 8(a) and paragraph 26 form the basis of such a definition. We also note that paragraph 26 only refers to “elements/aspects of service performance”. We recommend that paragraph 26 is amended to also refer to the other two aspects of service performance information that are subject to assessment by the auditor, i.e.,

- Performance measures and/or descriptions, and
- Measurement bases or evaluation methods.

In our view the alignment between PBE FRS 48 and the ED could be further improved.

PBE FRS 48 only refers to “performance measures and/or descriptions” when reporting “appropriate and meaningful” service performance information, whereas the ED frames the assessment of service performance information by the auditor being “appropriate and meaningful” using the following three aspects:

1. Elements/aspects of service performance
2. Performance measures and/or descriptions
3. Measurement bases or evaluation methods

We recommend further explanations be developed to clarify and expand on the other two aspects (that is, items 1 and 3 above) subject to assessment by the auditor.

Sector specific material

Question 2. Do you agree that the sector specific material is useful to ensure that the standard is fit for purpose in both the public and not-for-profit sectors?

While the inclusion of application material is useful, we do not believe it should be characterised as sector specific. It should be able to be applied to either sector where it is relevant to that sector. Also, we caution against making references to specific legislation, as legislation is subject to change. We recommend that the terminology in the application material be sector neutral and that examples be used to illustrate how the auditor can address sector specific nuances.

Simplified language and examples to assist

Question 3. Do you agree that the proposed revised standard is easier to understand? If not, please be as specific as you can and make suggestions as to what might assist to clarify the standard further.

Feedback we have received from members is that the ED is overly long and complex, which in turn gives rise to concerns about its scalability to Tier 3 entities.

In our view the change from “service performance criteria” to the “elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods” makes the ED more difficult to understand than extant NZ AS 1. These aspects of service performance information are not defined, so it is unclear how they interrelate. This makes some paragraphs, such as 15(b)(ii) relating to the terms of engagement, very difficult to comprehend. If “appropriate and meaningful” is defined with reference to the three aspects outlined in our response to Question 1, we recommend replacing the reference to the three aspects, in the standard itself (other than the definition) with “the service performance information is appropriate and meaningful”. This will simplify the standard.

The ED reads like it is a standalone standard. However, it must be applied in addition to the ISAs (NZ), and as such, it is unclear which requirements and guidance in the ED are ‘new’ (i.e., not addressed by other ISAs (NZ), adapted from the ISAs (NZ), or duplicated from the ISAs (NZ)). We recommend removal of any duplicative requirements, and greater cross-referencing to the ISAs (NZ) where requirements have been adapted to emphasise linkages.

For example, paragraphs 19–20 (Understanding the Components of the Entity’s System of Internal Control, and Control Deficiencies Within the Entity’s System of Internal Control) duplicate paragraphs 21–27 of ISA (NZ) 315 *Identifying and Assessing the Risks of Material Misstatement*. It would be more useful here to adapt the requirements to a service performance information context. This would make this wording more consistent with paragraph A67 which notes service performance information may not come directly from traditional financial reporting information systems and source records, which is the context of ISA (NZ) 315.

There are also some areas where we believe there are contrary requirements between the ED and the ISAs (NZ). For example:

- Paragraph 24 of the ED requires communication with those charged with governance “as soon as practicable” whereas paragraph 21 of ISA (NZ) 260 *Communication with Those Charged with Governance* requires communication with those charged with governance “on a timely basis”.
- Paragraph 27 of the ED requires the auditor to “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”. This paragraph makes no reference to ‘material amounts’ and so appears to go beyond the requirement in paragraph 14 of ISA (NZ) 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*.

No added compliance costs

Question 4. Do you agree that the proposed revised standard will not increase compliance costs, when compared to existing NZ AS 1?

There are a few areas in the ED we believe may involve more audit effort, and therefore increase compliance costs, compared to extant NZ AS 1. For example, paragraph 26, in the planning section, requires the auditor to “evaluate whether the service performance information is appropriate and meaningful”. Paragraph 38(a), which is under the audit evidence section, requires the auditor to “obtain sufficient appropriate audit evidence that the elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful”. It is unclear how these requirements differ and, in our view, appear to require carrying out the same procedures twice, once at the planning stage and then again during the fieldwork stage of the audit.

Given that extant NZ AS 1 was first issued four years ago, many audit firms have already incorporated it into their NFP audit methodology and conducted staff training. In addition, some audit software providers (e.g., Audit Assistant¹ and CaseWare²) have integrated extant NZ AS 1 into their systems. If a revised NZ AS 1 is issued, this work will have to be revised, adding to overall implementation costs. We recommend that a detailed analysis of the differences between the extant NZ AS 1 and NZ AS 1 (Revised) be communicated widely. This will allow firms to update their methodology and staff training, and audit software providers to update their programmes, as efficiently as possible, thereby minimising additional implementation costs.

Application Date

Question 5. Do you agree with the proposed application date of NZ AS 1 (Revised)?

We agree with the proposed effective date of NZ AS 1 (Revised), with early adoption permitted. Although we note that in the period between when NZ AS 1 (Revised) is issued and its application becomes mandatory, there will be four possible standards (highlighted below), including two versions of NZ AS 1, by which the audit of service performance information could be conducted. This has the potential to create confusion:

- Extant NZ AS 1
- NZ AS 1 (Revised)
- ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, plus Explanatory Guide (EG) Au9 [Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities](#) (EG Au9) and EG Au9.1 [Supplementary illustrative examples – revised auditor reporting requirements](#) (EG Au9.1)
- AG 4 The Audit of Performance Reports (required for public sector only).

¹ <https://www.auditassistant.com/news/service-performance-auditing-under-nz-as1/>

² <https://support.caseware.com.au/portal/en/kb/articles/tip-vid-nz-as-1-the-audit-of-service-performance-information>

Question 6: Do you agree with the proposal to defer the application date of extant NZ AS 1 to align with the application date of NZ AS 1 (Revised) i.e., for periods beginning on or after 1 January 2024?

We agree that extant NZ AS 1 should continue to be deferred so that, in effect, its application will never become mandatory. Furthermore, to avoid confusion about which version of NZ AS 1 applies, we recommend that extant NZ AS 1 be formally repealed/withdrawn on 1 January 2024 when NZ AS 1 (Revised) becomes effective.

Other comments

Question 7. Do you have any other comments on the proposed standard? If so, please specify

We provide the following additional comments for your consideration:

- Paragraph 22(b) states; “In establishing the overall audit strategy, the auditor shall ... have the necessary skills available to examine and provide comment to the entity at the time the entity is developing its service performance information on whether it is appropriate and meaningful.” We are concerned about the nature of this work and its potential impact on auditor independence.
- Paragraphs 26(f) and 48(b) require “the measurement bases or evaluation methods used to assess each performance measure and/or description are available to intended users”. Further clarification on this would be appreciated, e.g., does it mean identifying external publicly available measurement bases or evaluation methods only, or also describing internally generated measurement bases or evaluation methods, in the disclosures to the general purpose financial report.
- Paragraphs 51(c) and A82 require that the auditor’s report identifies or refers to the measurement bases or evaluation methods used to assess the service performance information. We are concerned this could be interpreted to mean that if an entity’s disclosures are not adequate, then the auditor fills the information gap, which does not adequately reflect the distinction between the preparer’s and auditor’s responsibilities. We recommend further explanations be developed to clarify the requirements in paragraphs 51(c) and A82 and how these requirements would interact with auditor’s independence.
- We do not agree with paragraph 52 in prescribing specific wording for the auditor’s opinion. We support principles-based standards, with illustrative examples in application guidance.
- Paragraph 54 reads as though there must always be a key audit matter (KAM) on service performance information. This could be resolved by inserting “and financial statements” at the end after “service performance information” to indicate that, when assessing matters of most significance the auditor considers the service performance information in conjunction with the financial statements.
- Paragraph A15 refers to a “review” twice. We recommend removing these references as they are confusing, and, in our view, unnecessary.
- Paragraph A35 refers to the names of the extant Tier 3 and Tier 4 PBE Standards. With the recent proposed changes to these standards, we understand the names of these standards will change.

- The definition of a 'misstatement' in paragraph 9(a) focuses on what service performance information is reported. We understand that the most likely misstatement is the complete omission of an appropriate and meaningful element/aspect of service performance or performance measure and/or description. Therefore, in the definition we recommend at least an equal focus is placed on what is not reported, by including this as an additional point (iii) in paragraph 9(a).
- It would be useful to have an illustrative qualified auditor's report in Appendix 5 for where the service performance information is not meaningful and appropriate (step one of the two step approach).
- We recommend EG Au9 is retained but revised to provide guidance on the following scenarios that are out of scope of the ED:
 - Limited assurance engagements (reviews) of service performance information, and
 - Auditing service performance information when the auditor is not also engaged to audit the financial statements.