

**Feedback Statement on ED NZAuASB 2017-2 *The Audit of Service Performance Information***

ED NZAuASB 2017-2 was issued in September 2017. 9 submissions were received on the ED.

The table in this feedback statement indicates where and how the proposals in the ED have changed because of feedback received on the ED.

There was general support for the development of an auditing standard but mixed views in response to the proposals.

The main changes are:

- The requirements have been streamlined as a result of concern at the level of prescription and in order to enhance understanding by:
  - Reducing the amount of repetition of the ISAs (NZ) and the applicable financial reporting standard
  - Merging and moving sections and requirements
- The term “service performance criteria” has been dropped and replaced with reference to the methods used to measure, describe, aggregate, present and disclose.
- Additional application material has been added in response to some feedback seeking additional practical guidance

Further information about the changes is available in the Table of Concordance and Explanations for Decisions Made which accompany the draft standard.

<b>Proposal in the ED</b>	<b>What we heard</b>	<b>What we changed</b>
<b>Scope of this NZ AS</b>		
Applies to the audit of service performance information when an auditor is engaged (required by law, regulation or is otherwise engaged) to audit the general purpose financial report.	Some concern relating to the cost/benefit of auditing service performance information, and whether the level of sophistication of reporting systems and controls in smaller entities may result in significant numbers of qualified auditor reports.	No change. The auditing standard does not establish the audit requirement, rather sets out the requirements for the auditor when there is an audit requirement. These concerns are beyond the scope of the auditing standard.
	Reporting of service performance information in accordance with PBE FRS 48 may include information on the extent to which an entity has made progress towards achieving its aims, the contribution the entity has made (along with other entities) towards achieving its aims, its capability to respond to events for which it was established or other categories of performance. Some respondents expressed a need for the standard to define SPI.	Paragraph A1 clarifies that service performance information includes supporting contextual information. This repeats the description of SPI in PBE FRS 48 rather than defining SPI. Whatever the entity identifies as being SPI in accordance with the standard is by law subject to the audit. The scope of the amended standard is clear in this regard.

<b>Proposal in the ED</b>	<b>What we heard</b>	<b>What we changed</b>
Focus on the concurrent nature of the audit of the financial information and the service performance information.	Support for the concurrent nature of the engagement.	No change
<b>Effective date</b>		
Align with the effective date of PBE FRS 48.	General support	No change
<b>Objectives</b>		
Establish the objectives of the auditor, similar to the objectives of the audit of financial information. Introduces the two-step approach by adding an objective to evaluate whether the entity's service performance criteria provide a suitable basis for reporting.	Support for the two-step process although some concern as to how it was articulated. One submission was concerned that the ED lacked a clear objective statement (e.g. to support effective auditing of service performance reporting).	Two-step approach retained but the language to describe step 1 has been amended, no longer referring to criteria. A new objective has been added, i.e. to understand the process applied by the entity to select what and how to report its service performance. The objectives section is consistent with the way in which international auditing standards establish the objectives of the auditor.
<b>Definitions</b>		
To define service performance criteria as "the benchmarks used to measure or evaluate the entity's service performance. The entity's service performance criteria include the goods and services reporting and related performance measures and or descriptions used for the particular engagement."	Mixed views indicated that there was confusion as to what the term "criteria" refers to. While there was some support for the term as used in the ED, many had suggestions for improvements in the definition. Other submissions preferred that the term be removed. There were mixed views as to whether the criteria for the engagement is the accounting standard (PBE FRS 48) or the specific performance measures developed by the entity, for its circumstances. One submitter queried the need to align terminology with ISAE (NZ) 3000 (Revised) given that the standard is developed as an auditing standard.	The NZAuASB is mindful that the language used in the Assurance Framework and the ISAs (NZ) must continue to inform the development of the auditing standard. The advantage of doing so is to remain framework neutral. The amended standard retains the proposed approach that PBE FRS 48 remains the overarching "criteria", but requires the preparer to develop a sub-layer of performance measures and descriptions, following the process described in PBE FRS 48, to evaluate its performance. The term "criteria" is replaced with reference to "the selected service performance and the methods used to measure, describe, aggregate, present and disclose" to describe that sub-layer to enhance

Proposal in the ED	What we heard	What we changed
		<p>understanding. This is defined with reference to the applicable criteria.</p> <p>A definition of “long-form report” has been added.</p> <p>The definition of suitability of the entity’s service performance has been moved and incorporated within application material.</p>
<b>Conduct of the Engagement in Accordance with the ISAs (NZ)</b>		
<p>The auditor shall apply the ISAs (NZ) and the ED when auditing SPI.</p>	<p>General support for the approach taken.</p> <p>One submitter suggested that the approach should be to reopen all of the ISAs (NZ) to include the reference to SPI, and that the ED should focus only on what is different to reduce its length and enhance the readability of the ED.</p>	<p>No change.</p> <p>Given the strategic decision of the board to adopt the international standards with minimal changes, the NZAuASB has determined that a domestic standard that deals with SPI is more appropriate than reopening all of the ISAs (NZ), especially where the reporting of SPI is not required across all sectors in New Zealand.</p>
<p>When an entity is required to include entity information within GPFR, the auditor shall also apply the ISAs (NZ) to the entity information, as appropriate</p>	<p>One submitter commented that the entity information should not be subject to audit.</p>	<p>No change.</p> <p>The ED does not establish when an audit is required. If the entity is required by the applicable financial reporting standard to include entity information in the GPFR, and the GPFR is required by law to be audited, then the entity information will be in the scope of the audit.</p>
<b>Preconditions for an Audit of the GPFR</b>		
<p>Section establishes step 1 of the two step process proposed by the ED, i.e. to evaluate the suitability of the entity’s service performance information.</p>	<p>Support for the two step process.</p> <p>The need for clarification as to when the evaluation of the criteria is performed and the need to streamline the ED was raised in feedback received.</p>	<p>Moved and merged these requirements with the section on understanding the entity, given that in the audit of a GPFR, the outcome of the evaluation will not determine the acceptance of the engagement and that the evaluation is likely to be iterative. Retain step 1 but articulate with reference to the selection of service performance and the methods used.</p>

Proposal in the ED	What we heard	What we changed
<p>The auditor shall evaluate whether the service performance criteria adopted by the entity are suitable. The criteria shall be considered to be suitable where the auditor considers that the entity's application of the qualitative characteristics and balance of pervasive constraints are in accordance with the applicable financial reporting framework.</p>	<p>One submitter raised concern that the description of the characteristics of suitable criteria differ from the qualitative characteristics in PBE FRS 48.</p> <p>Another submission suggested elevating the application material listing the characteristics of suitable criteria into the requirements.</p>	<p>The NZAuASB agreed that while the qualitative characteristics as described in the conceptual framework of IPSAS and the characteristics of suitable criteria in the assurance framework are similar, the words do differ slightly. To avoid confusion, and noting the need to remain framework neutral and consistent with the ISAs (NZ) (given that the Tier 4 standard does not include reference to any qualitative characteristics) the requirements will refer to the characteristics consistent with the assurance framework. These words have been elevated to a requirement given the significance to the audit for service performance information. Additional application material has been added to explain that there may be a difference in the words according to the applicable financial reporting framework, however the work effort is the same.</p>
	<p>One respondent suggested incorporating the concept of a rebuttable presumption and adding application material around instances where this risk of material misstatement relating to selection of suitable criteria could be rebutted, for example where the criteria are specified by an external entity, grant, etc or where the strategy of the entity is so distinct that the selection is deemed appropriate. To provide a more balanced approach, consider applying the rebuttable presumption in defined instances, e.g. the entity is reporting for the first time, there has been a change in the criteria, there has been a change in the entity's operations.</p>	<p>Changes to and additional application material clarify that the level of potential preparer bias will directly correlate with the work effort required. Where the compilation methods are established in conjunction with users or established performance frameworks, the application material clarifies that the work effort will be less due to the reduced risk of preparer bias.</p>

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	<p>Mixed support for the level of application material included. Some feedback requested additional application material, some feedback was appreciative of the application material proposed and others acknowledged the significant additional guidance provided but noted that this remains an incredibly subjective area. The challenge of evaluating the completeness of the information was emphasised and the observation made that no additional guidance can alleviate this challenge</p>	<p>The NZAuASB may consider developing separate practical guidance outside of the standard.</p>
	<p>One respondent commented that the ED acknowledges that the entity's criteria may develop over time but sought additional guidance as to whether an auditor would qualify their opinion in the initial years when easy measures are selected.</p>	<p>Additional application material may assist the auditor to determine the implications for the auditor's opinion in the early stages of an entity's reporting.</p>
	<p>Mixed views were expressed as to whether it was clear as to when the evaluation of the suitability of criteria is done.</p>	<p>The requirements and application material have been moved from the section headed "Preconditions of the Audit Engagement" and merged with the requirements in "Understanding the Entity". Additional application material makes it explicit that the evaluation may be iterative, rather than occurring at a specific point in time. The NZAuASB was mindful that the timing of the evaluation needs to be flexible – in the public sector this evaluation may be focussed at the ex ante stage (and may occur in the prior year) but in the not-for-profit sector this may not be possible at an early stage. The amended draft encourages the auditor to have these discussions as early as possible with the preparer.</p>

<b>Proposal in the ED</b>	<b>What we heard</b>	<b>What we changed</b>
The auditor shall evaluate whether the service performance criteria are available to intended users.	<p>One respondent commented that the measures used by the entity to assess its performance are reported, and therefore should be available to the users.</p> <p>An opposing view expressed by another respondent was a concern that the requirements for the preparer of the SPI do not explicitly require a basis of preparation. This could result in the user of the SPI not fully understanding how the SPI was prepared.</p>	Retained a requirement for the “criteria” to be available to users, as this is a precondition for an assurance engagement. Amendments emphasise further that the auditor evaluates whether the entity’s methods used to measure, describe, aggregate, present and disclose are available to enable users to understand the methods and assumptions. Additional application material explains various ways in which the methods are made available.
<b>Agreement on Engagement Terms</b>		
Establishes matters related to SPI for inclusion in the engagement terms	No comments received	<p>Merged the requirement describing the responsibilities of those charged with governance to streamline the requirements and amended terminology consistently.</p> <p>An additional reference to preparing service performance information that is consistent with the financial statements is added for emphasis.</p>
<b>Planning</b>		
Emphasizes the need for a concurrent audit plan	<p>Support for need for concurrent approach</p> <p>Minor edits suggested</p>	Minor edits to clarify that the correlation is between the SPI and the financial statement information
Required an understanding of the users and their information needs	Overly prescriptive and onerous for the auditor to understand the users’ needs.	Focus the auditor on understanding the entity’s process for understanding the decisions that may be influenced on the basis of the information.
Required the auditor to liaise with the auditor of the other entity, where the entity intends to report about SPI provided by other entities	Mixed views on the need for requirements related to group audits, use of service organisations and use of other practitioners. Some were supportive and others queried whether these matters are sufficiently different from the ISA (NZ) requirements to justify inclusion in the standard.	Moved and merged the consideration of group audits, service organisations and use of other practitioners into one requirement. This streamlines the ED somewhat but still reminds the auditor that there may be some significant matters to think about if applicable.

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<b>Materiality</b>		
<p>Required the auditor to determine and document materiality levels and factors for the purpose of assessing the risk of material misstatement.</p>	<p>One submitter commented that the requirements could be streamlined but sought additional application material as materiality is a key challenge in the audit of SPI.</p>	<p>Moved the section on materiality below the section on understanding the entity. Elevated application material to a requirement to emphasize that materiality considerations cover both the preparers selection of what information is reported and how to depict that information and the level of misstatement that is likely to significantly influence users' decisions. Streamlined remaining requirements. Deleted references to performance materiality. Added additional application material. Removed distinction between levels and factors as these matters relate both to quantitative and qualitative information.</p>
<b>Understanding the Entity and Its Environment, and Identifying and Assessing Risks of Material Misstatement</b>		
<p>Required the auditor to obtain an understanding of the entity's process for developing report content, evaluate any changes in the report from previous reporting, and discuss any concerns related to planned report content with those charged with governance as soon as possible. Where the auditor's concerns were not addressed, the auditor is required to consider the impact on the audit and the auditor's report.</p>	<p>The need for clarification as to the timing of the evaluation of the suitability of the criteria.</p>	<p>Lifted the language higher to streamline and avoid repeating the accounting standard. Merged the section on understanding the entity and the preconditions of the engagement section as described above. Added application material to clarify that the evaluation is an iterative process.</p>
<p>The auditor shall evaluate the suitability of the service performance criteria.</p>	<p>Recommendation to elevate the characteristics of suitable criteria into the requirements</p>	<p>The characteristics of suitable criteria from the assurance framework are included in the requirements rather than in application material given the significance to audit effort.</p>
	<p>A preference to align the terminology between PBE FRS 48 and the auditing standard.</p>	<p>The NZAuASB consider that the qualitative characteristics as described in the conceptual framework of IPSAS and the characteristics of</p>

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		suitable criteria in the assurance framework are similar. The NZAuASB continue to refer to the characteristics as used in the ISAs (NZ) to remain framework neutral in the auditing standard, noting that the standard applies across all sizes of entities, and noting that the tier 4 requirements make no reference to qualitative characteristics but the auditor must still evaluate the suitability. Additional application material to explain this has been added and this is illustrated in appendix 2.
The auditor shall identify and assess the risks of material misstatement at the GPFR level; at the SPI level and at the assertion level.	One submitter raised concern at the proposal to assess the risk of material misstatement at the GPFR level. The ED acknowledges that materiality considerations differ between the service performance information and the financial statement information. Requiring an assessment of risk of material misstatement at the GPFR level would require establishing an overarching materiality level over fundamentally different information.	The NZAuASB agreed to remove the reference to identifying and assessing the risk of material misstatement at the GPFR level. Additional requirements to consider the consistency of the service performance information and the financial statement information are included in the terms of engagement, the responsibilities of those charged with governance and in the auditor's report for emphasis.
<b>The Auditor's Responses to Assessed Risks</b>		
The auditor shall design procedures whose nature, timing and extent are responsive to assessed risks of material misstatement. The auditor shall obtain sufficient appropriate audit evidence. The audit evidence will relate to likelihood of material misstatement, whether the auditor intends to rely on internal controls, is more persuasive the higher the assessed risk.	Not necessarily significantly different from ISAs (NZ) – consider deleting.	Streamlined rather than removed completely. The likelihood of a weak control environment may be particularly relevant to audits of SPI especially for entities that have never prepared this type of information before.

Proposal in the ED	What we heard	What we changed
<b>Audit Considerations Relating to an Entity Using a Service Organisation</b>		
The auditor shall obtain an understanding of the nature and significance of the services provided and their effect on the internal controls relevant to the audit	One respondent suggested deleting this requirement as it is not sufficiently different from the audit of the financial information. Another respondent requested additional application material given that use of an external party is prevalent when reporting SPI.	Merged into one requirement to remind the auditor to consider where applicable.
<b>Evaluation of Misstatements Identified During the Audit</b>		
The auditor shall accumulate misstatements and consider them individually and collectively. The auditor shall communicate on a timely basis all misstatements with the appropriate level within the entity.	Difficulty of aggregating misstatements when there is no common unit of measurement for various performance measures. One respondent recommended deleting these requirements as this is not sufficiently difference from the ISAs (NZ) requirements.	Removed to streamline the draft standard. The auditor would still apply the ISAs (NZ) and therefore would still be keeping track of and reporting all misstatements to management. Additional application material in materiality section may assist the auditor to determine the impact of misstatements identified collectively.
<b>Audit Evidence</b>		
Various requirements related to procedures to perform to reconcile SPI to financial statement information and obtaining sufficient audit evidence about whether any disclosures of critical judgements are reasonable in the context of the applicable financial reporting framework.	Feedback indicated that auditors sought more guidance on how to audit a description and the possible undue focus on measurement. One respondent reiterated the need for the auditor to evaluate whether disclosures appropriately focussed on judgements that have been or should have been disclosed.	Moved required audit procedures to application material, as procedures that the auditor may perform. The move away from “criteria” may assist in addressing concern related to perceived undue focus on measurement. The NZAuASB considers that the ED already included a requirement for the auditor to obtain evidence about the disclosures of judgements.
<b>Written Representations</b>		
	No comments received	Re-ordering of the responsibilities and realignment with articulation of step 1. Added reference to prepare service performance information that is consistent with the financial statements for emphasis.

<b>Proposal in the ED</b>	<b>What we heard</b>	<b>What we changed</b>
<b>Special Considerations – Audit of Groups</b>		
	One respondent queried the need for this requirement specifically	Merged and combined into one requirement as described above.
<b>Using the Work of an Auditor’s Expert</b>		
	One respondent queried the need for this requirement specifically	No change. Given the wide range of service performance, the need for an auditor’s expert is an important consideration.
<b>Using the Work of Another Practitioner</b>		
	One respondent queried the need for this requirement specifically	Merged and combined into one requirement as described above.
<b>Forming an Opinion and Reporting</b>		
The auditor shall form an opinion on whether the SPI is prepared in all material respect in accordance with the applicable financial reporting framework.	One respondent commented that the words “present fairly” have been omitted from the requirement	The words present fairly are not appropriate for a compliance framework, such as the Tier 4 requirements. The illustrative examples all refer to a fair presentation framework where use of these words are appropriate. This is also stipulated in the reporting requirements. The opinion includes a reference to the entity’s selected methods to measure, describe, aggregate, present and disclose its service performance.
The auditor is required to form an opinion on various matters	Consider re-ordering to reflect the chronological nature of the steps.	Re-ordered requirements as suggested.
The auditor shall conclude whether ...the entity’s service performance criteria are suitable including whether...	Concern that there are inconsistencies between the requirements above and the conclusions formed	In rewording the amended draft, the illustrations have been amended for internal consistency.
<b>Report Content</b>		
The opinion section of the report shall identify the service performance criteria.	Concern that the financial report itself should describe the entity’s service performance criteria and their sources (if required by the financial reporting framework). The audit opinion would then cover that disclosure. If there is no	There remains a need for the auditor to evaluate whether the user will understand the methods used to measure and evaluate the entity’s service performance. The amendments recognise that in many instances the methods may be understood

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	<p>requirement for preparers to disclose the criteria used or their sources then we do not consider it would be appropriate to require the audit opinion to disclose these criteria on behalf of the entity.</p>	<p>as part of the service performance information. The requirements remain flexible to permit the auditor to prepare a long-form report (including information about the methods used) in order to remain consistent with the requirement for all assurance engagements that the criteria are available to users (whether this is apparent in the information itself, is reported by the preparer or is reported in the assurance report).</p>
<p>The wording to be used in the opinion</p>	<p>Some stakeholders were of the view that the opinion should be simplified further by removing the bullet points, to clearly provide one opinion on the GPFR. Another stakeholder was of the view that it is not possible to provide one opinion over the GPFR, rather there is a need for a separate bullet point to recognise that the opinion includes two separate types of information.</p>	<p>No change. The amended draft retains the bullet points separating the opinion on the service performance information and the financial statement information within one opinion. A reference to the methods used to measure, describe, aggregate, present and disclose the service performance is included in the opinion section.</p>
	<p>Majority of the submitters preferred the opinion as proposed over and above the opinion that is explicit about the suitability of the criteria</p>	<p>Retained the proposed approach as it is implicit that the methods are suitable if the opinion is unmodified.</p>
<p>The auditor’s report shall state 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</p>	<p>Concern that reference to both the ISAs (NZ) and the domestic NZ AS 1 was cumbersome and likely to result in non-compliance with the standard</p>	<p>The reference to the domestic auditing standard is required to be in accordance with paragraph 43 of ISA 700 (Revised). The reporting on service performance information is presented in the same section as the report elements required by the ISAs, but shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs.</p>
<b>Modifications to the Opinion</b>		
	<p>No specific comment</p>	<p>Amended the words “as a whole” to “individually or collectively” to reflect that where there is a</p>

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		misstatement in only one of the performance measures, the auditor shall modify the opinion where that misstatement is considered to be material (it is not likely that this misstatement will be pervasive). This will require the use of auditor judgement.