

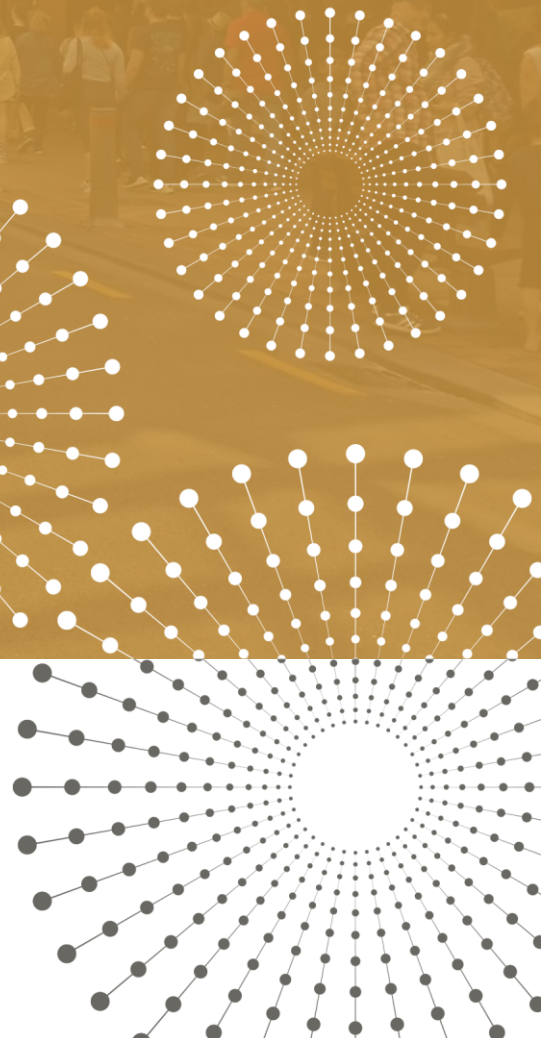
Audit of Service Performance Information

Proposed Improvements to NZ AS 1

Consultation document

December 2022

Consultation closes: 17 March 2023





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PART ONE: **Introduction**



What are we consulting on?

Auditing service performance information is not new in New Zealand and has been a requirement in the public sector for many years using the Auditor-General's standard, AG 4 *The Audit of Performance Reports*, for public sector audits.

In February 2019, the XRB issued NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1). Recently, the XRB deferred the mandatory application date of NZ AS 1 to 1 January 2023 to explore how the standard could be applied in the public sector. Over the past year, we have worked with representatives from the Office of the Auditor-General and other practitioners to develop a standard that could easily be adopted and applied in both the Public Sector and in the Not-for-profit sector. Our exposure draft proposing to revise NZ AS 1 is the result of that review.

Our proposed changes offer a simplified NZ AS 1, with a greater use of plain English and reduced use of overly technical terms. We believe this will make it easier to apply. We also propose to include sector specific application material to ensure the standard will be easy to apply for both the public and the not-for-profit sectors.

We also see value in ensuring that accounting and auditing standards work together. With recent proposed changes to the tier 3 financial reporting standards, our proposed revised auditing standard aligns language between the auditing standard and the applicable financial reporting standards across the reporting tiers.

We believe these changes will result in a standard that is easier to understand and apply.

We hope you agree and welcome your feedback.



2.

How can you contribute?

Submissions on this consultation can be provided via any of the avenues below:

- On our 'Open for Comment' page at <https://www.xrb.govt.nz/consultations/assurance-standards-in-development/>
- Asking questions and providing comments at our virtual event on 23 February 2023
- Emailing us: assurance@xrb.govt.nz
- Sending a letter to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142

The consultation closes on **17 March 2023**

Timeline

○ **December 2022**

Standard exposed

○ **March 2023**

Submissions close

○ **1 January 2024**

Standard applicable

Responding to consultation questions

We are seeking comments on the questions raised in this consultation document. We will consider all comments received before finalising the standard.

Please feel free to comment on any or all of the questions on the proposed standard.

We appreciate both formal and informal comments, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view.

We will put all written submissions on our website unless requested otherwise, and we reserve the right not to publish defamatory submissions.



PART TWO: **Overview of the Proposed Standard**



3.

Key Issues for Feedback

3.1 Alignment with the financial reporting standards

The accounting and auditing standards need to work together to ensure the system works efficiently and effectively. With recent proposed changes to the Tier 3 Not-for-Profit and Public Sector requirements, we propose to align the language in the auditing standard more closely with the reporting requirements.

For example, the proposed revised auditing standard uses the term “appropriate and meaningful”. This term was chosen because it is used and described in the financial reporting requirements in both PBE FRS 48 and in the proposed reporting requirements for Tier 3 .

This requirement and related application material are at paragraphs 26, A36-A45.

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?

3.2 Sector specific material

A key objective in revising NZ AS 1, is to ensure that it is fit for purpose for both the public sector and the not-for-profit sector. We are however mindful that there are differences, especially statutory differences between the public sector and the not-for-profit sectors.

The exposure draft is principles based and framework neutral, so as to be fit for purpose for audits of entities in all tiers where there is a statutory audit requirement. Where possible requirements and application guidance have been drafted to apply to service performance information in both the public and not for profit sectors.

To ensure that the standard is framework neutral for both sectors, we propose to include sector specific paragraphs, using appropriate headings. For example:

Public sector:

- Examples of statutory requirements for public entities. Refer to paragraphs A20-A21.
- Many public sector entities are required to publish forecast service performance information. The service performance information that is reported is largely determined by the forecast service performance information. Refer to paragraph A29.

Not-for-profit sector:

- Some charities do not have statutory audit requirements. Application material is proposed to clarify the scope of the audit. Refer to paragraphs A15-A16.

The Auditor-General issues the auditing standards for the public sector and may add further additional material.

Do you agree that the sector specific material is useful to ensure that the standard is clear in both the public and not-for-profit sectors?



3.3 Simplified language and examples to assist

We propose to simplify NZ AS 1, to move away from overly technical terms and adopt a plain English approach, where possible, without departing from the auditing principles as this standard is part of the suite of auditing standards.

For example, extant NZ AS 1 uses the term *service performance criteria*. This term was creating confusion, so we are proposing to replace it with less technical language and have included an example to illustrate what we mean. Instead of requiring the auditor to “evaluate whether the service performance criteria are suitable”, we propose that the auditor assess whether the service performance information is appropriate and meaningful, thinking about the following three layers:

- Aspects/elements of service performance e.g., provide safe drinking water to stakeholders.
- Performance measures or descriptions e.g., 100% of water supplied is safe.
- Measurement basis or evaluation method e.g., Drinking Water Standards for New Zealand.

We also propose a number of questions in application material that the auditor may find helpful in exercising their professional judgement as to whether the service performance information is appropriate and meaningful at paragraphs A36-A45.

Materiality is an area where an auditor exercises significant professional judgement. An example of where the proposed standard uses simplified language with examples, is to support the auditor when exercising professional judgements relating to materiality. The proposed standard requires the auditor at paragraphs 28-30 to:

- Understand the entity to determine the significant elements/aspects of service performance.
- Determine and document materiality considerations to determine both the nature, timing and extent of further audit procedures and the auditor’s tolerance for misstatement.
- Apply materiality to assess whether the service performance information is appropriate and meaningful and whether the information includes individual or collective misstatements that based on the information will likely influence users’ decisions.

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.



3.4 No added compliance costs

Proposed NZ AS 1 (Revised) remains part of the auditing standards suite in New Zealand. Just like extant NZ AS 1, the proposed revised standard requires that the auditor apply the ISAs (NZ) and the proposed standard when auditing service performance information. The proposed standard retains the same approach as extant NZ AS 1, building on the requirements of the ISAs (NZ) specific to service performance information. The audit of the financial and service performance information should be performed concurrently.

NZ AS 1 (Revised) adopts the same two step process as extant NZ AS 1. This two step approach, described in proposed paragraph 8, informed the development of the exposure draft. The two steps are:

1.

Assess whether the service performance information is appropriate and meaningful in accordance with the applicable financial reporting framework.

2.

Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.

The proposed revised standard retains the same key areas: agreeing the terms of the engagement, obtaining an understanding, planning, materiality, identifying, assessing and responding to risk, audit evidence, communication with those charged with governance, and reporting.

We have included a flowchart in appendix 1 of the proposed revised standard to provide an overview of the audit of service performance information. A similar flowchart exists in NZ AS 1. We consider that the proposed revisions will not substantively change the flow of the audit, the work effort required to meet its requirements and therefore do not consider that the proposals will increase compliance costs.

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



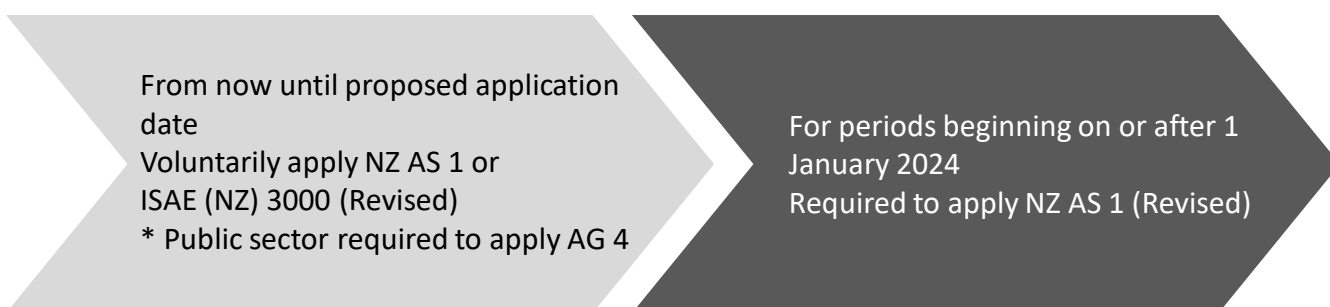
3.5 Application date

We propose that the revised standard is applicable for audits of service performance information for periods beginning on or after 1 January 2024. We consider that this will allow sufficient time for consultation, issue and preparation to implement the revised standard.

We also propose to defer the mandatory application date of extant NZ AS 1 and to only mandate the application of NZ AS 1 (Revised) for audits of service performance information for periods beginning on or after 1 January 2024. The effect is that it will never be mandatory to apply extant NZ AS 1.

So what will happen between now and when the revised standard comes into effect? We understand that some auditors already apply extant NZ AS 1. Auditors are permitted to voluntarily continue to do so. Alternatively, until such time as the revised standard is applicable, the audit could be conducted in accordance with ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, with reference to Explanatory Guide (EG Au9). *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities*

If your client is a public sector entity, the audit is required to be undertaken by the Auditor-General's standards, i.e., AG 4 *The Audit of Performance Reports*.



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

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?

3.6 Other comments

We have outlined the key areas where we seek your feedback but welcome feedback on any other aspects addressed in the exposure draft or if you consider there are aspects that we have missed.

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



PART THREE: **Consultation Questions**



Consultation Questions

Respondents are asked to consider the following specific questions and to respond to the XRB by 17 March 2023:

Alignment with the 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?

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?

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.

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?

Application Date

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

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?

Other comments

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