

The Audit of Service Performance Information

Exposure Draft

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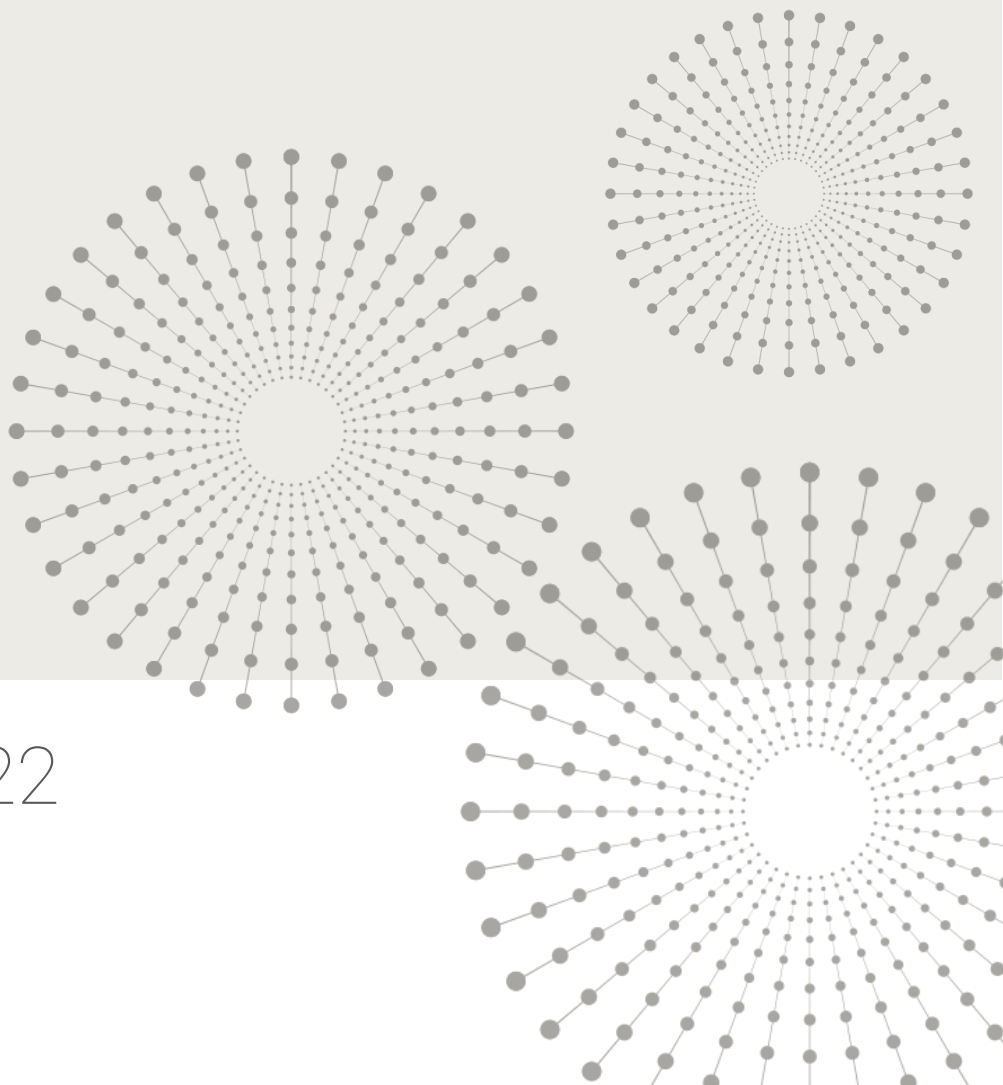


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New Zealand Auditing Standard (NZ AS) 1 (Revised), *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.



NZ AS 1 (Revised) The Audit of Service Performance Information

Introduction

1. Service performance information is information about what the entity has done and achieved during the reporting period in working towards its broader aims and objectives, together with supporting contextual information about why an entity exists, what it intends to achieve and how it goes about this, prepared in accordance with the applicable financial reporting framework. (Ref: Para. A1)

Scope of the Standard

2. 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 service performance information concurrently with the financial statements.
3. 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.
4. This standard together with the ISAs (NZ) sets out the requirements to obtain reasonable assurance over service performance information.
5. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. A2)

Application Date

6. This NZ AS shall apply for audits of service performance information for periods beginning on or after 1 January 2024. Early adoption is permitted on a voluntary basis.

Objective

7. The objective of the auditor is to express a reasonable assurance opinion on whether the service performance information is prepared, in all material respects in accordance with the applicable financial reporting framework.
8. The auditor may achieve the objective of this NZ AS by considering the following two steps:
 - (a) Assess whether each of the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework: (Ref: Para. A3)
 - The elements/aspects of service performance that the entity has selected to report on.
 - The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.
 - The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.
 - (b) Assess whether the reported service performance information fairly reflects the actual service performance and is not materially misstated.

Definitions

9. For the purposes of this NZ AS, the following terms have the meanings attributed below:
- (a) Misstatement – Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud when:
 - (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or
 - (ii) Incorrectly measuring or evaluating the entity’s service performance.
 - (b) Risk of Material Misstatement – The risk that the service performance information is materially misstated prior to the audit. This consists of two components, described as follows at the assertion level:
 - (i) Inherent risk – The susceptibility of an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk – The risk that a misstatement that could occur in an assertion about a performance measure and/or description, measurement basis or evaluation method or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s system of internal controls.

Requirements

General Requirements

Conduct Engagement in Accordance with the ISAs (NZ)

10. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information. (Ref: Para. A4-A5)
11. 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) in relation to the audit of service performance information.

Professional Judgement and Professional Scepticism

12. The auditor shall plan and perform the audit of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A6)

Documentation

13. The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS.¹ (Ref: Para. A7)
14. The audit documentation shall include:
- (a) Significant professional judgements made in audit procedures performed, the audit evidence obtained, and conclusions reached. (Ref: Para. A8-A9)
 - (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

¹ ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

Agreement on Audit Engagement Terms

15. The terms of the engagement shall include²:(Ref: Para. A10-A11)
- (a) The objective and scope of the audit. (Ref: Para. A12-A16)
 - (b) 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 its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
 - (ii) To evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
 - (iii) To evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
 - (iv) To evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework.
 - (c) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
 - (i) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
 - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
 - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
 - (iv) 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.
 - (d) Reference to the expected form and content of the auditor's report.

Obtaining an Understanding

Understanding the Entity

16. The auditor shall obtain an understanding of: (Ref: Para. A17)
- (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.
 - (b) What activities or services the entity performs.
 - (c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.

² ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

- (d) What is considered important to those stakeholders and users and what they may use the service performance information for.

Understanding Laws and Regulations

- 17. 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 laws and regulations that specify the form, content, preparation, publication, and audit of service performance information; and (Ref: Para. A18-A23)
 - (b) How the entity is complying with that framework.

Understanding the Service Performance Information Reported

- 18. The auditor shall obtain an understanding of:
 - (a) The applicable financial reporting framework relevant to the service performance information.
 - (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and judgements to report. (Ref: Para. A24-A26, A29)
 - (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.
 - (d) The measurement bases or evaluation methods the entity is measuring or evaluating its performance measures and/or descriptions against.
 - (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information. (Ref: Para. A27)
 - (f) Where the entity intends to report its service performance information. (Ref: Para. A28)

Understanding the Components of the Entity's System of Internal Control

- 19. In accordance with ISA (NZ) 315 (Revised 2019)³, the auditor shall obtain an understanding of:
 - (a) The control environment relevant to the preparation of the service performance information;
 - (b) The entity's risk assessment process to identify business risks relevant to the preparation of the service performance information;
 - (c) The entity's process for monitoring the system of internal control relevant to the preparation of the service performance information;
 - (d) The entity's information systems and communication relevant to the preparation of the service performance information;
 - (e) The control activities component. (Ref: Para. A30)

³ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

20. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified.

Planning

21. The auditor shall develop an audit plan with a single audit approach to concurrently cover the service performance information and the financial statements. (Ref: Para. A31)
22. In establishing the overall audit strategy, the auditor shall:⁴
- (a) 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.
 - (b) 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.
23. The auditor shall discuss with those charged with governance: (Ref: Para. A32-A34)
- (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information;
 - (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance; and
24. Any concerns identified shall then be communicated to those charged with governance as soon as practicable.

Compliance With the Applicable Financial Reporting Framework

25. The auditor shall evaluate whether the service performance information reported or intended to be reported is in accordance with the applicable financial reporting framework. (Ref: Para. A35)

Appropriate and Meaningful

26. The auditor shall evaluate whether the service performance information is appropriate and meaningful including whether: (Ref: Para. A36, A43-A45)
- (a) It relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives. (Ref: Para. A37)
 - (b) It fairly reflects the auditor's understanding of the entity's performance from all other audit work performed on the audit. (Ref: Para. A38)
 - (c) It is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance. (Ref: Para. A39-A40)
 - (d) There is likely to be sufficient appropriate evidence to support the performance measure and/or description.
 - (e) It is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

⁴ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

- (f) The measurement bases or evaluation methods used to assess each performance measure and/or description are: (Ref: Para. A41-A42)
- Available to intended users.
 - Expected to be supported by audit evidence.
 - Capable of measurement or evaluation in a consistent manner from period to period.

Compliance With Laws and Regulations

27. 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.⁵

Materiality

28. The auditor shall use the understanding gained in paragraphs 16-20 to determine the significant elements/aspects of service performance. (Ref: Para. A46-A47)
29. The auditor shall determine and document materiality considerations and/or materiality for service performance information to determine the: (Ref: Para. A48-A51)
- (a) Nature, timing and extent of further audit procedures; and
 - (b) The auditor's tolerance for misstatement in relation to material service performance measures and/or descriptions.
30. The auditor shall apply materiality to assess whether:⁶ (Ref: Para. A52-A60)
- (a) The significant elements/aspects of service performance and related material performance measures and/or descriptions are appropriate and meaningful; and (Ref: Para. A53)
 - (b) The performance measures and/or descriptions, measurement bases or evaluation methods contain individual or collective misstatements, that based on the auditor's judgement, are likely to influence the decisions of the intended users based on the information.
31. 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 make a different materiality judgement.
32. The auditor shall consider individually or collectively, all misstatements identified that are unadjusted by the entity, to conclude whether the service performance information is materially misstated. (Ref: Para. A56-A59)

Identifying and Assessing Risks of Material Misstatement

33. The auditor shall design and perform risk assessment procedures, in accordance with ISA (NZ) 315 (Revised 2019) to obtain audit evidence that provides an appropriate basis for identification and assessment of risks of material misstatement, whether due to fraud or error:
- (a) At the service performance information level; and

⁵ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 5

- (b) At the assertion level for performance measures, descriptions or disclosures. (Ref: Para. A61-A63)
34. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A64)

The Auditor's Responses to Assessed Risks

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

Audit Evidence

38. The auditor shall obtain sufficient appropriate audit evidence that the: (Ref: Para. A65-A67)
- (a) Elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods are appropriate and meaningful; and
 - (b) Performance measures and/or descriptions have been prepared in accordance with the entity's measurement bases or evaluations methods; and
 - (c) Performance measures and/or descriptions are not materially misstated.
39. Where possible the auditor shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A68-A69)
40. The auditor shall determine whether information to be used as audit evidence has been prepared using the work of a management expert.⁷ (Ref: Para. A70)
41. 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.

Communicating With Those Charged With Governance

42. The auditor shall communicate, unless prohibited by law and regulation, the following matters with those charged with governance:⁸(Ref: Para. A71)
- (a) Any significant risks identified with the service performance information.

⁷ ISA (NZ) 500, *Audit Evidence*

⁸ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

- (b) The auditor's views about significant judgements made in reporting the entity's service performance information, including any significant deficiencies or areas for improvement. (Ref: Para. A72)
- (c) Significant difficulties, if any, encountered during the audit. (Ref: Para. A73)
- (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the audit that were discussed, or subject to correspondence with management. (Ref: Para. A74)
- (e) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations.
- (f) 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.⁹
- (g) Uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion on the service performance information in the auditor's report and request that they are corrected.¹⁰
- (h) Any modifications including the circumstances and the wording the auditor expects to make to the opinion relating to service performance information in the auditor's report.¹¹

Special Considerations: An Entity Using a Service Organisation, Groups and Using the Work of Another Practitioner

43. When planning the audit of service performance information, the auditor shall:
- (a) Where a service organisation is used, obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit of 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) 402.¹² (Ref: Para. A75)
 - (b) Where the service performance information relates to a group, obtain sufficient appropriate audit evidence regarding the service performance information of the components and the aggregation or consolidation process in order 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.¹³ (Ref: Para. A76)
 - (c) Where the service performance information includes information upon which another practitioner has expressed an opinion, communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner about the scope and timing of the work and findings of the other practitioner, and evaluate the sufficiency and

⁹ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

¹⁰ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

¹¹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹² ISA (NZ) 402, *Considerations Relating to an Entity Using a Service Organisation*

¹³ ISA (NZ) 600, *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

appropriateness of evidence obtained and the process for including related information in the service performance information. (Ref: Para. A77)

Using the Work of an Auditor's Expert

44. 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.¹⁴ (Ref: Para. A78)

Written Representations

45. The auditor shall request written representations from those charged with governance that they have fulfilled their responsibility for:¹⁵ (Ref: Para. A79)
- (a) The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
 - (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
 - (c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
 - (d) 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.

Forming an Opinion

46. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.¹⁶
47. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the service performance information is free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
- (a) Whether sufficient, appropriate audit evidence has been obtained;
 - (b) Whether uncorrected misstatements are material, individually or collectively; and
 - (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
48. The auditor shall conclude whether, in view of the applicable financial reporting framework:
- (a) The entity has presented service performance information that is appropriate and meaningful.
 - (b) The measurement bases or evaluation methods are available to intended users.

¹⁴ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

¹⁵ ISA (NZ) 580, *Written Representations*

¹⁶ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- (c) When the information is prepared in accordance with a fair presentation framework¹⁷, 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.

49. 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

50. The auditor's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information. (Ref: Para. A80-A81)

51. 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) Refer to the measurement bases or evaluation methods used to assess the service performance information; and (Ref: Para. A82)
- (d) Identify the applicable financial reporting framework.

52. 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: (Ref: Para. A83)

- (a) In our opinion, the service performance information on pages *x to x* presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method on pages *x to xx*, in accordance with [*the applicable financial reporting framework*]; or
- (b) In our opinion, the service performance information on pages *x to x* gives a true and fair view of the service performance for the year then ended in accordance with the entity's measurement bases or evaluation method on pages *x to xx*, in accordance with [*the applicable financial reporting framework*].

53. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:

¹⁷ When the service performance information is prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the service performance information achieves fair presentation.

- (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 (Revised);
- (b) Describe the responsibilities of those charged with governance for:
 - i. The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework.
 - ii. The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods on pages *x* to *xx*, in accordance with the applicable financial reporting framework.
 - iii. The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
 - iv. 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 financial report is prepared in accordance with a fair presentation framework, the description of responsibilities 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.¹⁸

- (c) In the “auditor’s responsibilities” 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:
 - i. Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
 - ii. Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity’s service performance in accordance with the applicable financial reporting framework.
 - iii. Evaluate whether the selected service performance information is prepared in accordance with the entity’s measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
 - iv. Evaluate whether the overall presentation, structure and content of the service performance information represents the elements/aspects of service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

¹⁸ This is not required for tier 4 entities reporting under a compliance framework, ISA(NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 26.

Key Audit Matters

54. The auditor may be required or may voluntarily report key audit matters in the auditor's report in accordance with ISA (NZ) 701¹⁹. If reported, key audit matters shall include matters related to the audit of the service performance where, in the auditor's judgement, such matters were of most significance to the audit of the service performance information. (Ref: Para. A84)

Modifications to the Opinion in the Independent Auditor's Report

55. The auditor shall modify the opinion, with respect to the service performance information when:
- (a) The auditor concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or
 - (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. A85)
 - (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.
56. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effect of the modification on the opinion on the financial statements. (Ref: Para. A86)
57. 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".
58. 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

59. 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. (Ref: Para. A87)
60. 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 users' understanding of the audit of service performance information, the auditor shall include an Other Matter paragraph in the auditor's report. (Ref: Para. A87)

¹⁹ ISA (NZ) 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

Comparative Information

61. The auditor shall determine whether prior period comparative service performance information disclosed:
- (a) Agrees with amounts and other disclosures presented in the prior period or when appropriate, have been restated; and
 - (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

Public Sector

62. 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 agrees with the information presented in the published prospective service performance information.

Other Information

63. The auditor shall read the other information and consider whether there is a material inconsistency between: (Ref: Para. A88-A89)
- (a) The other information and the service performance information; and
 - (b) The other information and the auditor's knowledge obtained in the audit.

Application Material

Introduction (Ref: Para. 1)

- A1. Service performance reporting requirements are generally less prescribed than financial information and may vary between similar entities and industries. The format of the information is not prescribed and information may be presented outside the annual report and may be incorporated by cross reference. The auditor may benefit from early engagement with the entity to understand the entity's service performance reporting process, where it intends to report its service performance information and address any challenges that may arise to evaluate whether the service performance information is appropriate and meaningful as required by paragraph 26.

Scope of the Standard (Ref: Para. 5)

- A2. An entity may be required to identify the service performance information that is prepared in accordance with the applicable financial reporting framework. This standard only applies to service performance information prepared in accordance with the applicable financial reporting framework.

Objective (Ref: Para. 8(a))

- A3. Examples that the auditor may consider to assess whether the aspects of service performance information are appropriate and meaningful include:
- The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.

- The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.
- The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.

General Requirements (Ref: Para. 10, 12)

Conduct Engagement in Accordance with the ISAs (NZ)

- A4. 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 explicitly 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.
- A5. The applicability of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240²⁰, ISA (NZ) 540 (Revised)²¹, and ISA (NZ) 550²² 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, or the effect of related party transactions.

Professional Judgement and Professional Scepticism

- A6. The applicable financial reporting framework enables an entity to determine how it selects, aggregates, measures and presents its service performance information. As such, this elevates the need for early engagement and planning of sufficient time to obtain an understanding of the entity and to exercise professional judgement, particularly to assess whether the service performance information is appropriate and meaningful and to determine materiality. The auditor may find it helpful to seek out examples of service performance reporting of similar entities.

Documentation (Ref: Para. 13-14(a))

- A7. The following are examples of matters that the auditor may 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, any significant changes made during the engagement, and the reasons for the changes.
 - **Risks of material misstatement:** Key elements of the auditor's understanding in accordance with paragraphs 16-20; including the sources of information from which the auditor's understanding was obtained.
 - **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.

²⁰ ISA (NZ) 240, *The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements*

²¹ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

²² ISA (NZ) 550, *Related Parties*

- 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.
- A8. ISA (NZ) 230²³ notes that, an important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results. Documentation of the professional judgements made, where significant, serves to explain the auditor’s conclusions and to reinforce the quality of the judgement.
- A9. Examples of circumstances relating to the use of professional judgement to include in audit documentation include significant matters and judgements relating to:
- whether the service performance information is appropriate and meaningful (Ref: Para. 26).
 - the factors considered in determining materiality and what measures are material. (Ref: Para. 29)

Agreement on Audit Engagement Terms (Ref: Para. 15)

- A10. The terms of the audit engagement include references to the service performance information.
- A11. An illustrative audit engagement letter including service performance information is set out in Appendix 2.
- A12. 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).²⁴

Public Sector

- A13. The performance information required to be prepared by a public entity under legislation can be more extensive than the performance information that is required to be audited under legislation and/or the service performance information addressed in this standard. Public entities, for example, can often include performance information that is outside of the service performance information required by the applicable financial reporting framework (i.e., additional to the audited set of information specially intended to satisfy the entity’s formal reporting requirements).
- A14. Differences between reporting and auditing requirements in legislation may have been identified by the entity or by the auditor. In some instances, the entity or the auditor may have identified performance information that would be useful or valuable to have audited and that falls outside the scope of what is required to be statutorily audited.

Not-for-Profit Sector

- A15. Some entities that are required by the applicable financial reporting framework to prepare service performance information, may not be required by law or regulation to have an audit or review. For example, some Tier 3 registered charities, and all Tier 4 registered charities may have no statutory audit or review requirements. Where the service performance information is

²³ ISA (NZ) 230, *Audit Documentation* paragraph A9

²⁴ ISA (NZ) 720 (Revised), *The Auditor’s Responsibility Relating to Other Information*

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).

A16. Some entities are required by the applicable financial reporting framework to prepare entity information. For Tier 3 registered charities that have a statutory audit or review requirement, all information required to be prepared by the applicable reporting standard is required to be audited or reviewed, including the entity information. When the entity information is not within scope of the audit engagement, the auditor's responsibility for the entity information is limited to following the requirements in ISA (NZ) 720 (Revised).

Obtaining an Understanding (Ref: Para. 16-19)

Understanding the Entity (Ref: Para. 16)

A17. The auditor may obtain an understanding through:

- (a) Enquires with management and those charged with governance;
- (b) Reading:
 - Founding documents such as rules, constitution or trust deed.
 - Statement of intent.
 - Past statements of service performance.
 - Funding documents or agreements.
 - Minutes from governance meetings.
 - Entity newsletters.
 - Entities public website.
 - Charities register.
 - Media reports.

Understanding Laws and Regulations (Ref: Para. 17)

A18. Laws and regulations may differ among entities depending on their governing legislation.

A19. The scope of what service performance information the entity reports 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.

Public Sector

A20. The specific statutory reporting requirements differ among public entities depending on their governing legislation. Statutes governing public entities' reporting obligations include the Public Finance Act 1989, Crown Entities Act 2004, Local Government Act 2002, Education and Training Act 2020, Energy Companies Act 1992, and will also include the public entity's enabling Act (where applicable).

A21. For most public entities reporting under the Public Finance Act 1989, the Crown Entities Act 2004, or the Local Government Act 2002, the reporting requirements for an entity will likely include:

- (a) A forecast performance report:

- That may be included in the supporting information for the main Appropriation Bill, statements of performance expectations, statements of intent, long-term plans, and similar documents; and
 - That is aimed at specifying the types and levels of service the public entity plans to deliver and how it plans to assess what its work is achieving; and
- (b) A performance report of actual performance achieved:
- That is normally presented in the public entity’s annual report;
 - That should cover what has been achieved against the performance intentions outlined in the forecast performance report;
 - That should disclose any contextual information necessary to enable an informed assessment to be made of the public entity’s performance. This could include descriptions of identified effects of the public entity’s interventions, including any unintended consequences.

These reports are usually required to comply with the applicable financial reporting framework.

A22. For other public entities (for example energy companies), the nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.

A23. The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and regulation the auditor is not required to assess whether the service performance information is appropriate and meaningful.

Understanding the Service Performance Information Reported (Ref: Para. 18)

A24. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions or measurement bases or evaluation methods from guidance, standards, laws or regulation , or it may need to apply judgement to develop internally its own performance measures and/or descriptions or measurement bases or evaluation methods for its service performance information. The need for such judgement makes the preparation of service performance information inherently more susceptible to the risk of management bias.

A25. The process applied by the entity to determine what service performance information to report on and how to measure or evaluate its service performance information may affect the work that the auditor carries out. The level of potential management bias in selecting the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods directly correlates with the amount of work that the auditor may need to perform when considering the service performance information reported or intended to report. For example, use of performance measures and/or descriptions or measurement bases or evaluation methods specified by external benchmarks or industry guidance may require less work than internally generated performance measures and/or descriptions or measurement bases or evaluation methods, as external guidance reduces the risk of management bias. The entity may have documentation that reflects the process it went through in selecting its service performance information. Transparency about the entity’s process to select its service performance information and the entity’s consideration of materiality may also affect the work that the auditor carries out.

- A26. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity 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 such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.
- A27. Unforeseen events impacting the entity may require the entity to focus on different elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods than intended when the service performance information was determined for the period. The auditor should gain an understanding of such events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.
- A28. Service performance information can also be located outside the service performance report. Such information can, for example, be included with the service performance reporting of another entity or in some other publication and/or published form (for example, a stand-alone service performance report or industry sector report). Service performance reporting can also be activity based rather than focused on the service performance of a single entity.

Public Sector

- A29. For most public entities, the service performance information that is reported is largely determined by the forecast service performance information.

Understanding the Components of the Entity's System of Internal Control (Ref: Para. 19)

- A30. Controls in the control activities component that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews, such as reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another.

Planning (Ref: Para. 21, 23)

- A31. Although it is likely that the service performance information and financial information will come from different systems, a single audit approach recognises the inextricable link between the service performance information and the financial statements of an entity.
- A32. It is important to engage with the entity as early as possible to understand whether the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods the entity intends to report are appropriate and meaningful.

Public Sector

- A33. If an entity prepares forecast service performance information, providing feedback on the forecast service performance information provides the best opportunity to engage with the entity on whether the service performance information intended to be reported is appropriate and meaningful.

A34. The audit of the end of year service performance reporting, can influence how you assess the forecast service performance reporting for the following year.

Compliance With the Applicable Financial Reporting Framework (Ref: Para. 25)

A35. 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*.
- c) For tier 4 public benefit entities, *PBE Simple Format Reporting – Cash*.

Appropriate and Meaningful (Ref: Para. 26)

A36. To determine if the service performance information is appropriate and meaningful the auditor should assess how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.

A37. The auditor may consider whether:

- The service performance information shows clear and logical links between the element/aspect of service performance to be measured or evaluated and the entity's overall purpose and strategies.
- There is other potentially more relevant service performance information that could have been used and reasons why those were not included.
- The entity has a clear understanding of its contribution toward longer term elements/aspects of service performance.
- The entity uses 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 or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders, for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or agreements with key funders. The selection of service performance information pre agreed with key stakeholders may have a lower risk of management bias.
- The service performance information reflects how the entity assesses its service performance for the purpose of internal decision making.

A38. The auditor may consider whether the service performance information inappropriately attributes service performance to the entity.

A39. The auditor may consider:

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- Whether there is potential for management bias in the selection of the performance measure and/or descriptions.
- If the entity reports targets, how those targets may obscure a proper understanding of the entity's service performance.

- The results of surveys. For example, satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints which may indicate the appropriateness of the service performance information.
- Whether the process to determine what service performance information to report involved the intended users and what information they may find helpful to assess the service performance of the entity - lowering the risk of management bias.
- External requirements or agreements with external parties that influence the entity's service performance accountability.
- Whether the service performance information was pre agreed with key stakeholders.
- 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 how these align to intended users' needs. More detailed service performance reporting may be more appropriate.
- Whether an overly voluminous service performance report is detracting from the usefulness and relevance of the overall report.
- Whether the report is complete.

A40. An entity may select service performance information to report on the basis that the selected performance is readily obtainable or measurable however it may not be the most relevant information to enable the user to understand or assess the service performance of the entity.

A41. The potential for management bias in selecting the measurement basis or evaluation method to assess the service performance measure directly correlates with the amount of work that the auditor may need to perform to obtain sufficient appropriate audit evidence that the measurement basis or evaluation method selected is appropriate and meaningful. For example, the auditor may need to consider management bias when there are multiple measurement bases or evaluation methods possible to assess a performance measure. Also, there may be greater management bias when the measurement basis or evaluation method is internally generated rather than an external industry standard.

A42. Some service performance information that is more relevant for users, may be measured less precisely. The auditor may perform different audit procedures than for those where the service performance can be more precisely measured.

A43. The auditor's evaluation of the service performance information may be an iterative process.

Public Sector

A44. For entities that prepare forecast service performance information for a reporting period, the auditor is encouraged to evaluate whether it is appropriate and meaningful when it is developed.

A45. The considerations in paragraph 26(a), (c), (d) and (f) are most relevant in the auditor's evaluation of whether the forecast service performance information is appropriate and meaningful.

Materiality (Ref: Para. 28-32)

- A46. There can be significant variation in the service performance information selected and presented by entities. The auditor's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to intended users of the service performance information.
- A47. Understanding what elements/aspects of service performance are significant to users may assist the auditor in focusing their audit efforts and applying professional judgement when considering any misstatements identified.
- A48. The auditor's materiality considerations and determination of materiality is a matter of professional judgement. The evaluation required by paragraph 26, particularly the factors regarding relevance considered by the auditor in paragraphs A36 to A45, may assist the auditor to determine materiality considerations and/or materiality.
- A49. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information. Such a discussion provides a frame of reference to the auditor in determining what is material. The auditor's consideration of the entity's process to select the elements/aspects of service performance, the performance measures and/or descriptions, and measurement bases or evaluation methods to use also provides context in determining materiality considerations and/or materiality.
- A50. The basis for materiality will likely differ from the financial statements. Materiality may be expressed in terms of the appropriate unit of account for each element/aspect of service performance or performance measure and/or description reported. The auditor is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account. It may be possible to group similar service performance measures and/or descriptions together and make materiality decisions on the same basis if they have the same unit of account.
- A51. The materiality considerations determine the auditor's tolerance for misstatement in relation to material service performance measures and/or descriptions. Material misstatements may occur in both qualitative and quantitative service performance information. The auditor may need to exercise professional judgement beyond the traditional approach of applying a % to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.
- A52. If the auditor's assessment required by paragraph 30(a) is that the significant elements/aspects of service performance and related material performance measures and/or descriptions is not appropriate and meaningful, it is a matter of professional judgement as to whether that gives rise to a material misstatement.
- A53. The auditor may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the auditor may then consider what are the material performance measures and/or descriptions that measure performance in those elements/aspects of service performance. A tolerance for misstatement is then applied by the auditor to material service performance measures and/or descriptions.
- A54. The following factors may assist the auditor in applying materiality:
- The importance of the element/aspect of service performance to achieving the entity's service performance objectives. For example, whether the performance measure and/or description relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.

- 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.
- The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public; and for example, 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 misleading or inaccurate information.
- The economic, social, political and environmental effect of a project or an entity's work, where there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to an activity that could be a significant risk to the public.
- 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.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- Where there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, the auditor may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the auditor's understanding of known previous communications to users.

Misstatements

A55. A misstatement may arise when:

- An element/aspect of service performance or performance measure or description, or a measurement basis or evaluation method selected is assessed by the auditor as not being appropriate and meaningful;
- The information is not prepared in accordance with the entity's measurement basis or evaluation method;
- The entity's service performance information is not in accordance with the applicable financial reporting framework.

A56. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A57. A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the auditor needs to consider whether the service performance information as a whole is materially misstated.

A58. It is unlikely that the auditor will be able to aggregate misstatements numerically. 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 32.

A59. The auditor exercises professional judgement to conclude on the impact of any material misstatement on the opinion. The auditor may consider factors such as whether the misstatement impacts a significant element/aspect of service performance and whether it is likely to influence the decisions of the intended users.

A60. Examples of factors that may lead to a material misstatement, include:

- Misuse of language – that creates a misleading picture of the entity’s performance.
- Misleading presentation – which highlights or downplays aspects of performance, to create a misleading picture of the entity’s service performance.
- Bias – an emphasis is placed on good performance and downplays or omits poor performance i.e., isn’t neutral.
- Omission of fact – something is left out that may be important to understanding the entity’s service performance or is important to intended users.
- Incorrect measurement or evaluation – the service performance measure isn’t prepared in accordance with the measurement basis or evaluation method selected by the entity.
- Where quantifiable service performance information misstates the level of actual performance beyond a determined level (the traditional application of materiality).
- Misstatement of fact.
- Misrepresentation of trend – performance presented does not represent the facts available.
- Unsubstantiated claims.

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 33-34)

A61. 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 either directly or in conjunction with other entities with common goals.
- c) Completeness – all important 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 the financial statement information.
- e) Cut-off – service performance has been reported in the correct period.
- f) Presentation – service performance is appropriately aggregated or disaggregated, clearly displayed and not misleading, and related disclosures are relevant and understandable.

A62. The auditor may use the assertions as described in paragraph A61 or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution or based on the nature

of the service performance information reported consider existence may be more appropriate than occurrence.

- A63. When assessing the likelihood and magnitude for identified risks of material misstatement the auditor exercises professional judgement in considering the degree to which inherent risk factors of the service performance information affect the susceptibility of an assertion to misstatement. Considering the degree to which inherent risk factors affect the susceptibility of an assertion to misstatement, assists the auditor in appropriately assessing inherent risk for risks of material misstatement at the assertion level and in designing a more precise response to such a risk. Due to the variation in how an entity can aggregate, measure and present its service performance information, this assessment needs to be done at a meaningful level to reflect the inherent risk of the particular measure.
- A64. Risks of material misstatement that may be assessed as having higher inherent risk and may therefore be determined to be a significant risk, may arise from matters such as the following:
- Performance measures that use a measurement basis or evaluation method that may be subject to differing interpretations.
 - Performance measures that involve complexity in data collection and processing.
 - Performance measures that use a measurement basis or evaluation method that involves complex calculations.
 - Changes in the entity's business that involve changes in service performance.

Audit Evidence (Ref: Para. 38-40)

- A65. Determining whether service performance information selected is appropriate and meaningful involves a considerable amount of judgement. There may be documentation that provides audit evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A17.
- A66. The mix of procedures to be performed may vary compared with the mix used for financial information but does not alter the need to obtain sufficient appropriate audit evidence.
- A67. Service performance information may not come directly from traditional financial reporting information systems and source records. Nevertheless, the entity will need an accurate record keeping system that provides relevant and reliable audit evidence. The auditor may find it more challenging and need to think differently to obtain relevant and reliable audit evidence where information systems, source records or internal controls are different to those used in traditional financial reporting.
- A68. The auditor may be able to identify relationships between the service performance information and the financial information as a sense check that the financial and service performance information are reflecting a consistent report of the performance of the entity. For example, does the movement in fuel expense in the financial statements reflect the number of home visits reported.
- A69. The auditor's procedures may include:
- (i) Agreeing or reconciling amounts reported in the service performance information to any underlying financial and non-financial records;
 - (ii) Agreeing cross references between the service performance information and the financial statements.

A70. The auditor may use the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.

Communicating With Those Charged With Governance (Ref: Para. 42)

A71. The auditor is encouraged to communicate with those charged with governance early or as soon as practicable

A72. 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. For example, why the auditor considers the service performance information not to be appropriate and meaningful. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the service performance information selected by the entity or how the information compares to other entities may drive improvements over time. This may include comments about, for example, judgemental aspects of what service performance information to report on, concerns regarding management bias or the quality of the presentation of the information.

A73. Significant difficulties encountered during the audit may include such matters as:

- (i) Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- (ii) The unavailability of expected information.

A74. Significant matters discussed, or subject to correspondence with management may include matters that were pervasive to the service performance information, biases in the performance measures and/or descriptions, for example, questions in a survey articulated to drive a particular result.

Special Considerations: An Entity Using a Service Organisation, Groups and Using the Work of Another Practitioner (Ref: Para. 43)

A75. It may be appropriate for an entity to report service performance information about elements/aspects of service performance provided by other entities. ISA (NZ) 402²⁵ may be relevant to the audit of service performance information, if the user entity makes use of a service organisation for the preparation of service performance information with another entity.

A76. ISA (NZ) 600²⁶ 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 the elements/aspects of service performance provided by other entities.

A77. Alternatively, 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 the other practitioner's opinion is based to provide evidence regarding the service performance information. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such

²⁵ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

²⁶ ISA (NZ) 600, *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

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) A communication that the auditor understands and complies with the requirements of Professional and Ethical Standard 1²⁷.
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement team's involvement in the work of the other practitioner.

ISA (NZ) 620²⁸ may also provide useful guidance with respect to using the work performance by another assurance practitioner.

Using the Work of an Auditor's Expert (Ref: Para. 44)

A78. 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:

- (a) The measurement of complex performance measures;
- (b) Assertions made about the entity's performance, for example, when reporting on the impact that the entity had;
- (c) Conformity assessments, ecolabelling and certification programmes.

Written Representations (Ref: Para. 45)

A79. An illustrative representation letter for an audit that includes service performance information is set out in Appendix 3.

Report Content (Ref: Para. 50-52)

A80. The auditor's report includes references to the service performance information. An illustrative auditor's report that includes references to the service performance information is set out in Appendix 4.

A81. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised)²⁹.

A82. The auditor's report identifies or refers to the method used to measure or evaluate the service performance so the intended users can understand the basis for the auditor's opinion.

A83. An example of how the wording may look in an auditor's report:

In our opinion, the accompanying [financial report/ performance report] presents fairly, in all material respects:

- *[the entity information as at December 31, 20X3;]*
- *the financial position of the [entity] as at December 31, 20X3, and its financial performance, and its cashflows for the year then ended; and*
- *the service performance for the year ended December 31, 20X3 in accordance with the entity's measurement basis or evaluation method on pages x to xx*

²⁷ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

²⁸ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

Key Audit Matters (Ref: Para. 54)

A84. The order of presentation of individual matters within the Key Audit Matters is a matter of professional judgement. Key audit matters relating to service performance may be the most important key matter to intended users.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 55-56)

A85. A misstatement of the service performance information may arise in relation to:

- (a) The application of the measurement basis or evaluation method;
- (b) Inadequate disclosure of judgements made, where applicable; or
- (c) 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.

A86. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements. Appendix 5 includes illustrative auditor's reports with modifications to the opinion with respect to the service performance information.

Emphasis of Matter Paragraphs and Other Matter Paragraphs (Ref: Para. 59-60)

A87. An Emphasis of Matter or Other Matter paragraph 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 and method used to measure or evaluate the service performance information and whether they are externally established (e.g., established in legislation or externally established performance frameworks).
- Any significant interpretations made in selecting the entity's service performance information or applying the method(s) to measure or evaluate.
- Whether there have been any changes in the service performance information disclosed or measurement bases or evaluation methods used.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.
- Information the auditor considers would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting.

Other Information (Ref: Para. 63)

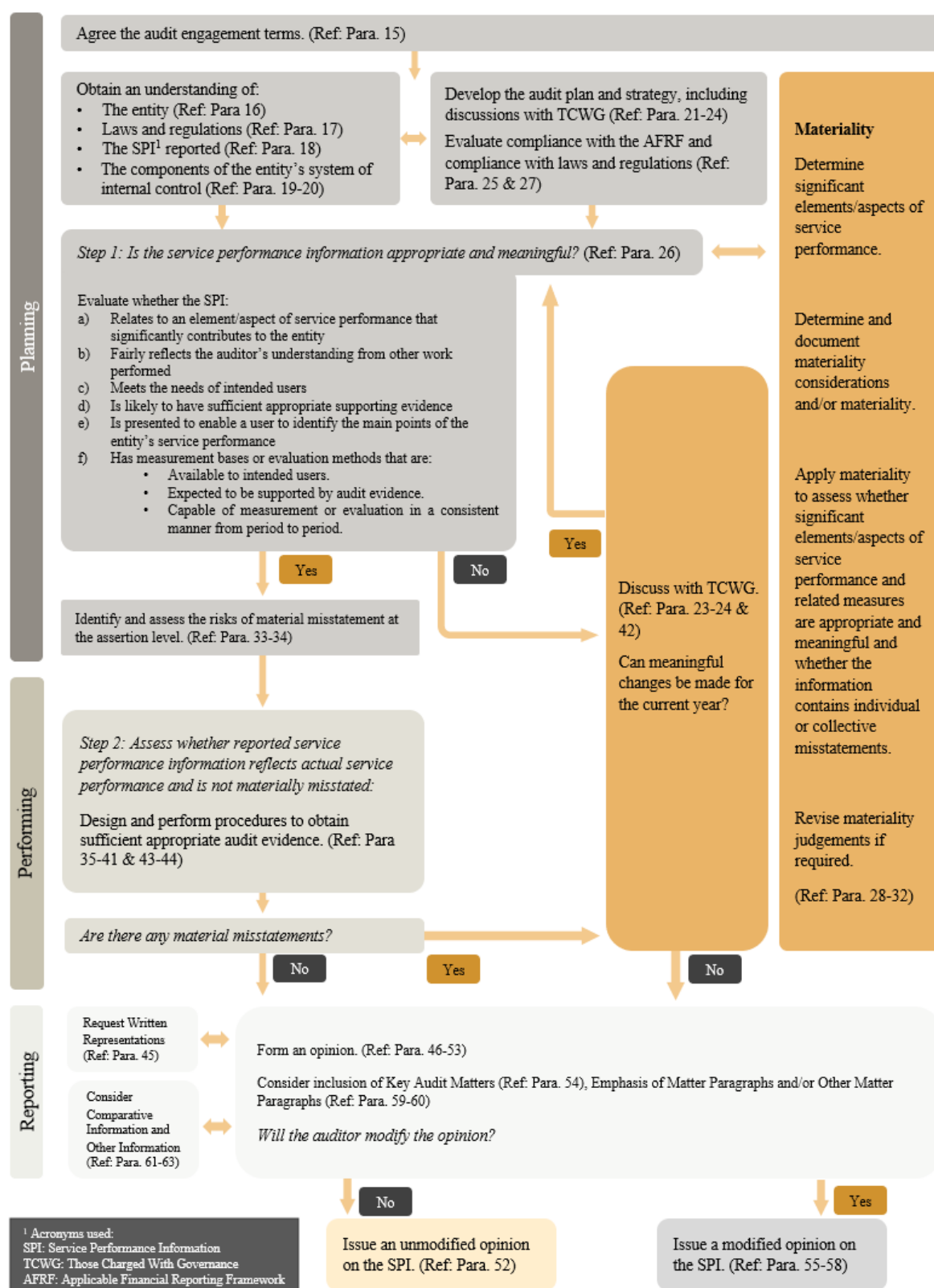
A88. Other information, whether financial or non-financial information (other than the financial statements information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

A89. In the context of service performance information, the distinction between the audited service performance information and the "other information" is not as pronounced as it is for financial

information. As a consequence, quite subtle changes in the way that information is presented in the “other information” (such as wording used to describe performance) can easily provide a misleading impression of the entity’s actual performance when compared to the audited service performance information.

Flowchart of the Audit of Service Performance Information

This flowchart is to be read in conjunction with the standard, and is not intended to be exhaustive. The audit is an iterative process, and therefore the audit may not necessarily flow in the order presented below.



Appendix 2

(Ref: Para. A11)

Illustrative Audit Engagement Letter including Service Performance Information³⁰

The following is an example of an audit engagement letter for an audit of a [*financial report/ performance report*], which comprise financial statements and service performance information. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework. 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) and this standard. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [*Those Charged With Governance*]:³¹

[*The objective and scope of the audit*]

You have requested that we audit the [*financial report/ performance report*] of [*ABC Entity (the "entity")*], which comprise the financial statements, and the service performance information [, *and entity information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. 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 [*financial report/ performance report*] as a whole is 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 (Revised) *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 or collectively, they could reasonably be expected to influence the decisions of users taken on the basis of this [*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 [, *and entity information*] in accordance with the ISAs (NZ) and NZ AS 1 (Revised). Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1 (Revised), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*financial report/ performance report*], whether due to fraud or error, design and perform audit procedures responsive to those

³⁰ May also be referred to as the Statement of Service Performance.

³¹ 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.

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 [*financial report/ performance report*] 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 [*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 and Those Charged With Governance*].
- Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.
- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with [*the applicable financial reporting framework (e.g.: PBE Standards)*].
- Evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- 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 [*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.
- Evaluate the overall presentation, structure and content of the [*financial report/ performance report*] and whether the [*financial report/ performance report*] represents the underlying transactions and events, and elements/aspects of service performance in accordance with the applicable financial reporting framework in a manner that achieves fair presentation.

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) and NZ AS 1 (Revised).

[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:

- The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with [*the applicable financial reporting framework (e.g.: PBE Standards)*];
- The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;

- The preparation and fair presentation of service performance information in accordance with the entity’s measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
- The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework;
- Such internal control as *[Those Charged With Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error; and
- To provide us with:
 - Access to all information of which *[management and [Those Charged With Governance]]* are aware that is relevant to the preparation of the *[financial report/ performance report]* such as records, documentation and other matters;
 - Additional information that we may request from *[management or [Those Charged With Governance]]* for the purpose of the audit; and
 - 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 team during our audit.

[Other relevant information]

[Insert other relevant 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 auditor’s report may need to be amended in the light of our audit findings.

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 *[financial report/ performance report]* including our respective responsibilities.

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

Acknowledged and agreed on behalf of *[Those Charged With Governance]* of *[ABC Entity]* by

(signed)

.....

Name and Title

Date

Appendix 3

(Ref: Para. A79)

Illustrative Representation Letter including Service Performance Information³²

The following illustrative letter includes written representations that are required by this standard and 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 [*financial report/ performance report*] of [*ABC Entity (the "entity")*] for the year ended December 31, 20X3³³ which comprise the financial statements, and the service performance information [, and entity information]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes, for the purpose of expressing an opinion as to whether the [*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, 20X3; and*]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in accordance with the entity's measurement bases or evaluation methods on pages *x* to *xx*

in accordance with [*the applicable financial reporting framework (e.g.: PBE Standards)*] issued by the New Zealand Accounting Standards Board.

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*):

[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 [*financial report/ performance report*] in accordance with the applicable financial reporting framework;
 - The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;

³² May also be referred to as the Statement of Service Performance.

³³ 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.

- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods on pages *x* to *xx*, in accordance with the applicable financial reporting framework;
- The overall presentation structure and content of the service performance information in accordance with the applicable financial reporting framework; and
- Such internal control as we determine is necessary to enable the preparation of the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error. (NZ AS 1 (Revised))
- The methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. (ISA (NZ) 540 (Revised))
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the applicable financial reporting framework. (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 report/ performance report*]. 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 with³⁴:
 - Access to all information of which we are aware that is relevant to the preparation of the [*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 report/ performance report*] 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
 - Others where the fraud could have a material effect on the [*financial report/ performance report*]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud,

³⁴ 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.

affecting the entity's [*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 [*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.³⁵ (ISA (NZ) 720 (Revised))
- [*Any other matters that the auditor may consider necessary.*]

Signed on behalf of [*Those Charged With Governance*]³⁶ of [*ABC Entity*] by

(signed)
.....
Name and Title

(signed)
.....
Name and Title

³⁵ This is only required when the other information is not available until after the date of the auditor's report.

³⁶ The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

Appendix 4

(Ref: Para. A80)

Illustrative Auditor’s Report including Service Performance Information³⁷

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

- Audit of a [*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 framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The [*financial report/ performance report*] is prepared in accordance with a fair presentation framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the [*financial report/ performance report*] in ISA (NZ) 210 and NZ AS 1 (Revised).
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 [*financial report/ performance report*] of [*ABC Entity (the “entity”)*], which comprise the financial statements on pages *x to xx*, and the service performance information on pages *x to xx* [, and entity information on page *x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying [*financial report/ performance report*] presents fairly, in all material

³⁷ May also be referred to as the Statement of Service Performance.

respects, (or gives a true and fair view of):

- [the entity information as at December 31, 20X3;]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in accordance with the entity's measurement bases or evaluation methods on pages *x to xx*

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

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 [and entity information] in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* 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 [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 [Financial Report/ Performance Report]

[Those Charged With Governance] are responsible on behalf of the entity for:

- The preparation, and fair presentation of the [financial report/ performance report] in accordance with the applicable financial reporting framework;
- The selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful in accordance with the applicable financial reporting framework;
- The preparation and fair presentation of service performance information in accordance with the entity's measurement bases or evaluation methods on pages *x to xx*, in accordance with the applicable financial reporting framework;
- The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
- Such internal control as [Those Charged With Governance] determine is necessary to enable the preparation of a [financial report/ performance report] that is free from material misstatement, whether due to fraud or error.

In preparing the *[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 *[Financial Report/ Performance Report]*

Our objectives are to obtain reasonable assurance about whether the *[financial report/ performance report]* as a whole is 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 (Revised) 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 *[financial report/ performance report]*.

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

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) of ISA (NZ) 700 (Revised) 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 of ISA (NZ) 700 (Revised) 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/assurance-standards/auditors-responsibilities/>

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

- Identify and assess the risks of material misstatement of the *[financial report/ performance report]*, 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 *[financial report/ performance report]* 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 and Those Charged With Governance]*.
- Obtain an understanding of the process applied by the entity to select its elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods.

- Evaluate whether the selection of elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods present an appropriate and meaningful assessment of the entity's service performance in accordance with the applicable financial reporting framework.
- Evaluate whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods on pages *x to xx*, in accordance with the applicable financial reporting framework.
- 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 report to the related disclosures in the [*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 report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [*financial report/ performance report*] and whether the [*financial report/ performance report*] represents the underlying transactions and events, and elements/aspects of service performance in accordance with the applicable financial reporting framework, in a manner that achieves fair presentation.

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*]

Appendix 5

(Ref: Para. A86)

Illustrations of Auditor's Reports with Modifications to the Opinion with respect to the Service Performance Information³⁸

- 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 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 3: 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.

For purposes of these illustrative auditor's reports, the following circumstances are assumed:

- **Audit of a [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 framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).**
- **The [financial report/ performance report] is prepared in accordance with a fair presentation framework.**
- **The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the [financial report/ performance report] in ISA (NZ) 210 and NZ AS 1 (Revised).**
- **Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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.**

³⁸ May also be referred to as the Statement of Service Performance.

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 [*financial report/performance report*] of [*ABC Entity (the “entity”)*], which comprise the financial statements on pages *x to xx*, and the service performance information on pages *x to xx* [, and *entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Opinion on the Financial Statements [and Entity Information]

In our opinion, the accompanying [*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, 20X3; and*]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended;

in accordance with [*the applicable financial reporting framework (e.g.: PBE Standards)*], 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 [*financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*):

- the service performance for the year ended December 31, 20X3 in accordance with the entity’s measurement bases or evaluation methods on pages *x to xx*

in accordance with [*the applicable financial reporting framework*] issued by the New Zealand Accounting Standards Board.

Basis for Opinions, Including 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 [*and entity information*] in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report] section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand) 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 and qualified 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 [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 [Financial Report/ Performance Report]

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

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

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

[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 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 *[financial report/ performance report]* of *[ABC Entity (the “entity”)]*, which comprise the financial statements on pages *x to xx*, the service performance information on pages *x to xx* *[, and entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Opinion on the Financial Statements [and Entity Information]

In our opinion, the accompanying *[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, 20X3; and]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended

in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]* 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 *[financial report/ performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*):

- the service performance for the year ended December 31, 20X3 in accordance with the entity’s measurement bases or evaluation methods on pages *x to xx*

in accordance with *[the applicable financial reporting framework]* issued by the New Zealand Accounting Standards Board.

Basis for Opinions, Including 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 *[and entity information]* in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report] section of our report. We are independent of the entity in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand) 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 and qualified 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 [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 [Financial Report/ Performance Report]

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

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

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

[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 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.

INDEPENDENT AUDITOR’S REPORT

To *[Appropriate Addressee]*

Qualified Opinion

We have audited the *[financial report/ performance report]* of *[ABC Entity (the “entity”)]*, which comprise the financial statements on pages *x to xx*, the service performance information on pages *x to xx* *[, and entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying *[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, 20X3; and]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in accordance with the entity’s measurement bases or evaluation methods on pages *x to xx*

in accordance with *[the applicable financial reporting framework (e.g.: PBE Standards)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion

[As outlined on page xx of the [financial report/ performance report], entity has not applied the requirements of the applicable financial reporting framework 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.]

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 *[and entity information]* in accordance with the ISAs (NZ) and New Zealand Auditing Standard (NZ AS) 1 (Revised) *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report. We are independent of the *entity* in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* 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 qualified 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 [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 [Financial Report/ Performance Report]

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

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

[Reporting in accordance with NZ AS 1 (Revised) – see Appendix 4].

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

[Auditor Address]

[Date]