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6 March 2023

To Whom it may concern

Invitation to comment - Proposed improvements to NZ AS 1 Audit of Service Performance Information

KPMG welcomes the opportunity to provide comments on the above-mentioned proposed improvements to NZ AS 1. Our comments to the questions you seek comment on are included below.

Question 1. Do you agree that the proposed standard strengthens the alignment between the auditing and financial reporting standards? If no, why not and what further changes do you recommend?

Our understanding is PBE FRS 48 *Service Performance Reporting* and NZ AS 1 *The Audit of Service Performance Information* have been developed to work together. While NZ AS 1 has been redrafted, the version that is the subject of this comment letter is still intended to work in tandem with PBE FRS 48.

We agree that the development of an auditing standard to specifically facilitate the auditing of the Statement of Service Performance (SSP) is a useful and welcome addition to the suite of New Zealand auditing standards.

Subject to our responses to the specific questions below, we do not recommend further changes. We are of the view it is unfortunate that NZ AS 1 was revised at this late stage and that the accounting standard and the final version of the auditing standard could not be implemented at the same time.

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

Whether the Auditor General will allow audit firms to audit service performance information in accordance with NZ AS 1 or continue to require us to apply AG 4 *The Audit of Performance Reports* (AG 4) is not something to which we are currently privy. We do not believe we can appropriately comment on whether the sector specific material added would make the standard fit for purpose for the public sector, we suggest this is a question that should be responded to directly by the Auditor General. We do however acknowledge the following:

- The use of headings when including sector specific material is useful; and
- That it would be beneficial for firms like ours if we were able to adopt the same auditing standard for the audit of service performance information for our audits of public sector entities as we do for our other Public Benefit Entities.

We acknowledge that this ED has been issued as a direct result from feedback in relation to making the standard fit for purpose for the public sector, however changes have been made to the standard that go beyond this specific scope. It is frustrating that this is the case and will be even more so if the revised standard is not adopted by the Public Sector.

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

Given their nature we do expect that auditing standards will contain 'technical auditing term's' and whilst we agree that standalone the revised standard is easy to understand we consider that the extant standard was not particularly deficient nor in need of such improvements. For example, in your consultation document you state the term 'service performance criteria' was creating confusion, however we note this term was easily understood by the team involved in preparing our NZ AS 1 resources. Additionally, in replacing the requirement for the auditor to evaluate whether the service performance criteria are 'suitable' with 'appropriate and meaningful' specific reference to the five characteristics of relevance, completeness, reliability, neutrality, and understandability has been removed. These are

characteristics that auditors are very familiar with and can understand and whilst we appreciate that the guidance for appropriate and meaningful does to some extent cover these five characteristics, we question whether there was a need for this clarification to be provided directly in the standard. Given that the changes made do not fundamentally change the way the audit will be conducted, another option would have been to provide a separate guidance/FAQ document with this and other clarifications.

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

We agree that the revised standard will not fundamentally change the flow of the audit and therefore from this perspective the revised standard will not significantly increase compliance costs compared to existing NZ AS 1. However, we refer you to our response to questions 5 and 7 and note that pending the outcome of the ED we will incur costs to ensure our guidance and templates are updated for the revised standard.

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

Given that the mandatory application date of NZ AS 1 was previously deferred until periods beginning 1 January 2023 it is frustrating that it is proposed that the date is once again deferred, with the extant NZ AS 1 effectively not ever being mandatory. Our firm made the decision in 2022 to early adopt NZ AS 1 (in line with the requirement for tier 1 and 2 PBE's to comply with PBE FRS 48 at the beginning of 2023) and has subsequently directed a considerable amount of time and resource to developing guidance, training, and tools to assist in the adoption of NZ AS 1. We have considered whether we delay the adoption of the extant NZ AS 1 and therefore only comply with the revised standard however we have decided against this for the following reasons:

1 – PBE FRS 48 is applicable now and for many of our tier 1 and 2 PBE's this is the first time they will present a SSP and for some audit teams the first time they may audit an SSP, therefore our team's required guidance. Given extant NZ AS 1 provides specific guidance for auditing SSP's and ISAE (NZ) 3000 does not, we consider our audits will be of a better quality if we early adopt the purpose-built NZ AS 1.

2 - The resources we developed in 2022 based on the extant NZ AS 1 are ready to go for our teams. We will need to update these for NZ AS 1 (Revised) and given the final date for this is a way off we feel it is better to early adopt than to wait for the ED to be finalised and applicable.

3 - We believe it is not efficient or effective for us to audit SSPs under ISAE 3000 for two years and then change to NZ AS 1 (Revised).

However, with all the above in mind and assuming the revised standard will be issued in a timely manner, the proposed application date should enable us sufficient time to update our resources before the revised standard is applicable.

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

Please refer to our comments above.

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

In responding to this consultation, it has been difficult to get a clear picture of all the changes between the extant NZ AS 1 and the ED due to the lack of a document tracking these changes. Whilst we appreciate that the changes are scattered throughout and do not fundamentally change the way we will audit a SSP, the wording changes will require us to update not only the audit program and other guidance documents we have developed but also our engagement letter and audit report templates. This exercise will consume a considerable amount of time and resource which potentially could be reduced if a document outlining the changes was available. Because there are numerous changes of varying impacts throughout the standard it does feel like the standard has essentially been withdrawn and re-issued.



The New Zealand Auditing and Assurance Standards Board

NZ AS-1 Revised

6 March 2023

Yours sincerely

A handwritten signature in black ink, appearing to read 'Darby Healey'. The signature is written in a cursive, flowing style.

Darby Healey
Partner