



Te Kāwai Ārahi Pūrongo Mōwaho  
**EXTERNAL REPORTING BOARD**

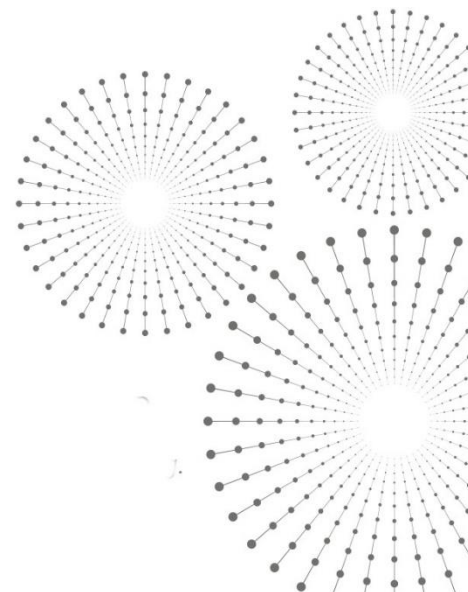
**Basis for Conclusions**  
**NZ AS 1 (Revised)**  
***The Audit of Service Performance***  
***Information***

**July 2023**

This document relates to, but does not form part of, NZ AS 1 (Revised) *The Audit of Service Performance Information*, which was approved in July 2023.

It summarises the major issues raised by respondents to Exposure Draft NZ AS 1 (Revised) *The Audit of Service Performance Information* and how the NZAuASB has addressed them.

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# Basis for Conclusions

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

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## Objective

BC1 A key objective of this project was to ensure one standard for use in both the public and not-for-profit sector. Representatives of the Office of the Auditor-General (OAG) and other practitioners have worked alongside the NZAuASB in the development of NZ AS 1 (Revised). The OAG has noted that it will use NZ AS 1 (Revised) as the basis for the Auditor-General auditing standard for service performance in the public sector.

## Background

BC2 Extant NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1) is a domestic auditing standard, developed to apply when general purpose financial statements include service performance information. Service performance reporting is required by XRB's reporting standards for public sector and not-for-profit entities, across all tiers, i.e., is required by public benefit entity (PBE) reporting standards across tier 1 through to tier 4.

BC3 When issued in 2019, extant NZ AS 1 had an application date for accounting periods beginning on or after 1 January 2021. The XRB deferred the mandatory date of NZ AS 1 to align with the deferral of PBE FRS 48 *Service Performance Reporting* (PBE FRS 48). This deferral was due to COVID disruptions. The Auditor-General also raised concerns about the suitability of NZ AS 1 for the public sector, so the XRB deferred the mandatory application date of extant NZ AS 1 a second time and set up a project to consider these concerns. Some auditors have voluntarily applied extant NZ AS 1 when performing audits of service performance information.

BC4 An advisory group was formed which included representatives from the OAG and other practitioners. The objective of the project was to develop a standard that could be adopted and applied in both the public and not-for-profit sector.

BC5 An exposure draft and consultation document were issued in December 2022. We sought feedback on the following areas:

- Alignment with the financial reporting standards
- Sector specific material
- Simplified language
- No added compliance costs

## What we heard

BC6 We received submissions from CPA Australia and CA ANZ, KPMG, the OAG and a practitioner. Feedback was also gathered through outreach events.

BC7 We heard from stakeholders they want one standard for use in both the public and not-for-profit sectors. The OAG responded that the standard was an improvement on extant NZ AS 1, but others questioned moving away from auditing terms they felt were well understood and whether the standard was in fact easier to understand. Some queried the premise that there would not be an increase in compliance costs compared to extant NZ AS 1.

BC8 Below we look at the key feedback points we received, and how we responded to them.

### How will the reporting requirements work with the auditing standard?

BC9 A key focus for the advisory group was to ensure the requirements of the reporting standard and auditing standard work together.

- BC10 Key areas of concern raised in relation to how the accounting and auditing requirements work together included:
- a) The availability of the measurement bases or evaluation methods to intended users;
  - b) The auditor’s opinion;
  - c) Why move away from technical audit terms to align with appropriate and meaningful; and
  - d) Definition of appropriate and meaningful.

#### A: Measurement bases or evaluation methods

- BC11 Respondents felt the proposed audit requirement that the measurement bases or evaluation methods be available to intended users, placed a greater responsibility of disclosure on the auditor than on the preparer of service performance information. It was felt that this placed an onus on the auditor to fill in deficiencies in disclosure by an entity.
- BC12 It is important that the measurement bases or evaluation methods are available to intended users so that users understand how the service performance information is being measured, and the basis on which the auditor is giving their opinion.
- BC13 Accounting guidance for preparers of service performance information has been issued to align expectations for both the preparer and an auditor. The guidance clarifies that in accordance with the disclosure principles of PBE FRS 48, it is expected that an entity will provide sufficient information about how each performance measure and/or description has been measured or evaluated.
- BC14 To align expectations in the auditing standard, application material was added in paragraphs A79-A80 to clarify why and how the measurement bases or evaluation methods is made available to users. Special consideration was given to ensure the language used aligned with the accounting guidance. Amendments were also made within the auditing standard to be clear that the auditor should expect the preparer to have made this information available to users.

#### B: Auditors opinion

- BC15 Consideration of whether service performance information is appropriate and meaningful is an important aspect of the audit of service performance information. One respondent felt that the audit opinion was imbalanced as it did not mention whether the service performance information is appropriate and meaningful.
- BC16 We agreed and updated the illustrative wording for the audit opinion to include reference to appropriate and meaningful.
- BC17 We removed the prescriptive wording requirements of the audit opinion to enable variation that may arise when an audit opinion is given over both financial and service performance information. The requirement to comply with ISA (NZ) 700 (Revised)<sup>1</sup> was retained.

#### C: Why move away from technical audit terms to align with appropriate and meaningful?

- BC18 Some respondents questioned the rationale of moving away from the use of audit technical terms, in particular “service performance criteria” and “suitability of criteria”. In their view these are well known and well understood audit terms.
- BC19 The OAG, in their submission to the XRB for extant NZ AS 1, said they found the term “service performance criteria” confusing and recommended replacing this and “suitable criteria” with

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<sup>1</sup> ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

terms used in PBE FRS 48. To address the OAG's concerns, finding an alternative way to describe these terms was a key focus of the project to revise NZ AS 1.

BC20 With the recent update to tier 3 PBE reporting requirements adopting the term "appropriate and meaningful" from PBE FRS 48, we were able to align this language in the auditing standard replacing "suitable criteria".

BC21 We acknowledge that NZ AS 1 (Revised) is no longer framework neutral as the term "appropriate and meaningful" is not used in the tier 4 reporting requirements. An auditor of a tier 4 entity will still be able to apply NZ AS 1 (Revised) but it will not relate back as easily to the financial reporting requirements for tier 4 entities. There is no statutory obligation for a tier 4 charity to have an audit.

BC22 To address the OAG's concerns, the term "service performance criteria", was replaced with a 3 layered description of service performance information related back to the PBE FRS 48 requirement for an entity to provide information about what the entity has done by selecting an appropriate mix of performance measures and/or descriptions.

BC23 A respondent noted that alignment between the auditing standard and PBE FRS 48 could be further improved by explaining why NZ AS 1 (Revised) requires "3 layers" of service performance information to be appropriate and meaningful whereas PBE FRS 48 only refers to "performance measures and/or descriptions" to be appropriate and meaningful.

BC24 The 3 layers referred to in the auditing standard are essentially a guide for how the auditor considers each "performance measure and/or description", required by PBE FRS 48. All three layers relate back to the "performance measure and/or description".

1. Firstly the "element/aspect" is the area of operation or topic that the performance measure and/or description is about. The auditor needs to consider how significant the element/aspect is to users or whether is it a minor or ancillary part of the entities core purpose or operations.
2. The second layer relates directly back to PBE FRS 48 and is the actual measure or description the entity has used to report on that element/aspect.
3. And the third layer is how the "performance measure and/or description" has been measured or evaluated. This may be obvious from the performance measure itself, for example hours, or it may be referenced to an external website as another example.

BC25 Based on this we believe the 3 layers are appropriately aligned to PBE FRS 48 and therefore have not made any further changes to the standard.

#### D: Appropriate and meaningful is not defined

BC26 Respondents noted the term "appropriate and meaningful" is not defined in NZ AS 1 (Revised) and recommended it be defined. The term has been used in the auditing standard to align with the financial reporting framework. As it is a term from the financial reporting framework, it isn't appropriate to define it in the auditing standard. Therefore, a footnote reference to PBE FRS 48 has been included instead.

#### Increase in compliance costs

BC27 Some respondents questioned the premise that the proposals were simpler to understand and did not increase compliance costs. It was noted that the requirements of extant NZ AS 1 have in some cases already been incorporated into implementation resources and methodologies by auditors.

BC28 The XRB acknowledges that this is an unfortunate consequence of revising NZ AS 1. However, having one standard for both the public and not-for-profit sector to audit service performance information, will avoid additional costs in the future.

BC29 We believe the way service performance information is audited has not fundamentally changed between extant and revised NZ AS 1. We do appreciate however that there are changes, such as terminology, which would impact methodologies and templates that have already been developed. We will therefore develop a mapping document to help with this updating process as part of guidance we issue.

#### Omission of appropriate and meaningful service performance information

BC30 Respondents recommended that the definition of a misstatement should include the omission of appropriate and meaningful service performance information. An additional illustrative audit report was also requested when the auditor issues a modified opinion on this basis.

BC31 We agree that completeness is an important aspect of an auditor's assessment of whether service performance information is appropriate and meaningful, therefore these recommendations have been included in NZ AS 1 (Revised). (Para 8(a), A54)

#### Sector specific paragraphs

BC32 Almost all respondents agreed that the sector specific guidance was useful, however some respondents felt they shouldn't be characterized by sector but be able to be applied where relevant.

BC33 On reflection, we amended the language in the paragraphs to be sector neutral so that they could be applied where relevant rather than limiting the guidance to a particular sector.

#### Key audit matters

BC34 One respondent felt that the key audit matter requirement implied that there must always be a key audit matter relating to service performance information. We have redrafted the requirement as this was not our intention. (Para 52)

#### Removal of reference to current legislation

BC35 Respondents cautioned us against referring directly to current legislation as legislation is subject to change. The proposals had referred to legislation relevant to service performance information reporting requirements in the public sector. We are satisfied that removing the references to legislation would not impact the standard being applied in the public sector so references to legislation have been removed.

## Where to now?

BC36 NZ AS 1 (Revised) was approved for issue in July 2023. It is applicable for periods beginning on or after 1 January 2024.

BC37 Auditing standards issued by the XRB cannot be applied retrospectively i.e., cannot be applied to accounting periods ending prior to the date that the standard takes legal effect. i.e., 28 days after gazetting.

## Transition

BC38 Until NZ AS 1 (Revised) is applicable, auditors will have flexibility in which standard they apply for the audit of service performance information. We are aware that some practitioners have already chosen to apply NZ AS 1 and did want to force these auditors to adopt an alternative standard prior to transitioning to NZ AS 1 (Revised).

BC39 We have deferred the mandatory application date of extant NZ AS 1 for a further 12 months to align with the application date of NZ AS 1 (Revised). In effect, this means extant NZ AS 1 will never be mandatory.

BC40 This enables an auditor to have the flexibility to use their professional judgement in deciding the basis for conducting an audit of service performance information until such time as the revised standard is mandatory.

BC41 During the transition period, this means that practitioners will have the option to either:

- Voluntarily apply extant NZ AS 1; or
- Voluntarily apply NZ AS 1 (Revised) for those accounting periods that have not ended prior to the date the revisions take legal effect (28 days after gazetting); or
- Apply ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

BC42 This is not intended to create a precedent but instead a practical solution to the unique situation we are currently in as we transition to NZ AS 1 (Revised).

BC43 Auditors in the public sector are required to follow the standards of the Auditor-General.

## Guidance

BC44 We have had requests for guidance on several areas relating to the audit of service performance information such as the assertion “attribution”. Now that the standard is issued, we will start working on these to ensure that implementation of NZ AS 1 (Revised) is well supported. We welcome any further comments or suggestions on topics auditors would find useful as they implement the standard. We also welcome any useful examples that could be integrated into guidance such as overcoming challenges around appropriate audit evidence.

BC45 We intend to conduct a post implementation review of NZ AS 1 (Revised) in 2-3 years following implementation.