

Review of Service Performance Information

Consultation document

April 2024

Consultation closes 17 July 2024





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PART ONE: **Introduction**





1.

What are we consulting on?

There is a statutory requirement for some entities¹ to have either an audit or a review of their performance report. The performance report includes service performance information together with financial information.

The review engagement standards currently issued by the XRB address the historical financial information. There is currently no international review standard specifically for service performance information as this reporting is unique to New Zealand. Assurance practitioners have been undertaking reviews of service performance information using ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE (NZ) 3000 (Revised)) and EG Au 9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities*.

While EG Au9 has provided useful guidance, now that an auditing standard for service performance information has been issued, it is a good time to develop a review standard, NZ SRE 1 *Review of Service Performance Information* (NZ SRE 1), that specifically addresses the review of service performance information.

Applied concurrently with ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*, the two standards will work together as a package when reviewing general purpose financial reports containing both financial and service performance information. Once mandatory, ISAE (NZ) 3000 (Revised) would no longer be applicable for review engagements of service performance information.

The benefits of having a specific review standard for service performance information include:

- Enabling an integrated approach to review general purpose financial reports that contain both the financial and service performance information.
- Addressing how assurance concepts may differ to a financial statement review engagement.
- Promoting consistency and coherence by the adoption of language and concepts used in the financial reporting and auditing requirements for service performance information.

¹ Charities with total operating expenditure in the 2 preceding accounting periods between \$550k and \$1.1 million (Charities Act 2005, section 42C-42D)



2.

How to provide feedback?

Making a Submission

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

- On our 'Open for Comment' page at <https://www.xrb.govt.nz/consultations/assurance-standards-in-development/>
- Asking questions and providing comments at our virtual event on 13 June 2024
- Emailing us: assurance@xrb.govt.nz
- Sending a letter to: External Reporting Board, Level 6/154 Featherston St, Central Wellington 6011

The consultation closes on 17 July 2024.

Timeline



Responding to consultation questions

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

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

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

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

However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 2020 also applies.



3.

When is a review of service performance information required?

In the Financial Reporting Act 2013 the meaning of financial statements includes the statements of an entity as at a balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of that entity by an applicable financial reporting standard or non-GAAP standard.² Therefore, statutory reviews of financial statements for charities with total operating expenditure between \$550,000 and \$1.1m will include the statement of service performance.

Under the Charities Act 2005³, charities with total operating expenditure between \$550,000 and \$1.1million are required to have either an audit or review of their financial statements. Charities of this size report in accordance with tier 3 reporting requirements⁴ which requires the performance report to include a statement of service performance information.

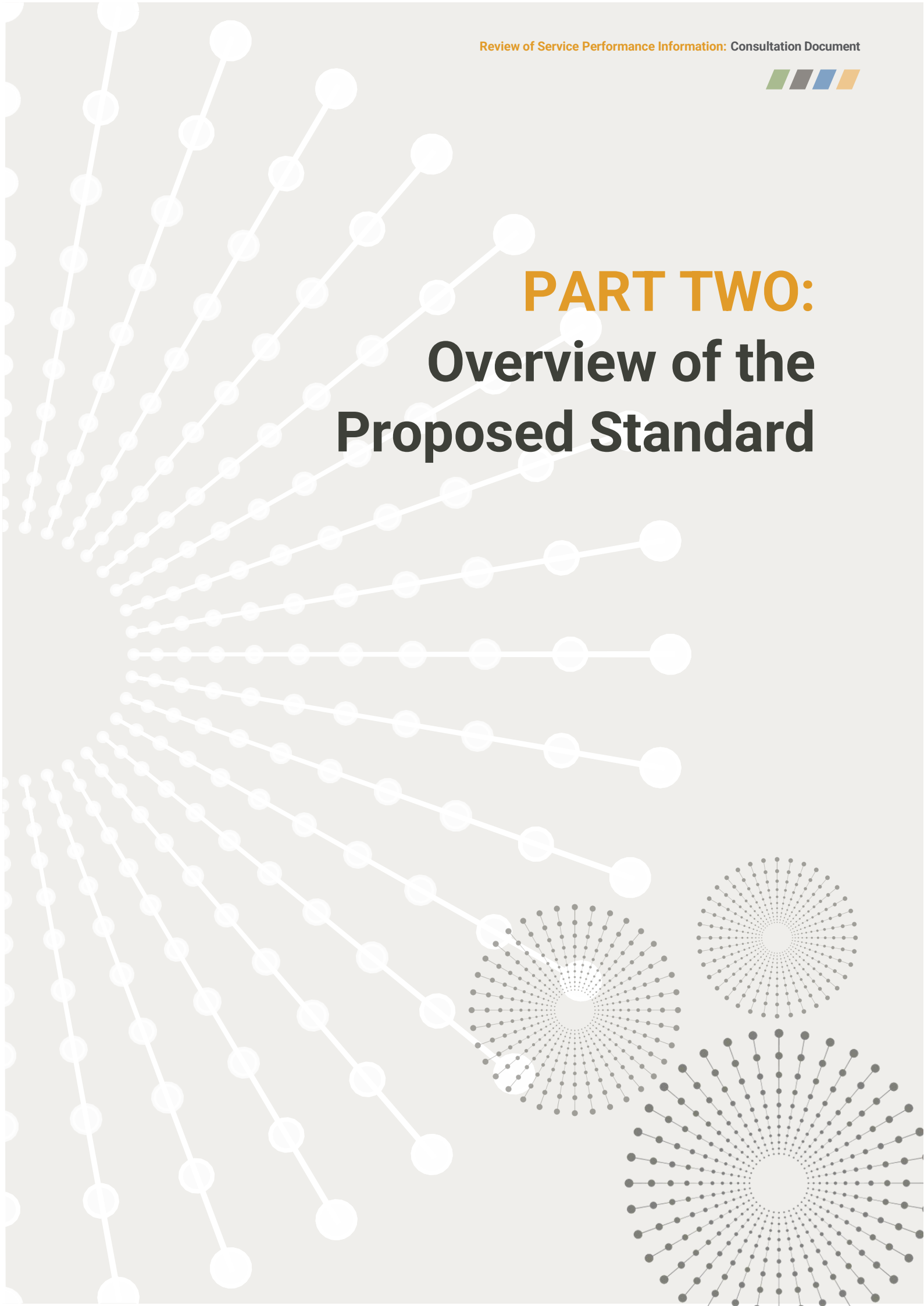
² Financial Reporting Act 2013, section 6(a)

³ Charities Act 2005, section 42C-42D

⁴ External Reporting Board Accounting Standard *Reporting Requirements for Tier 3 Not-For-Profit Entities*



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





4.

Overview of the proposed standard

Proposed NZ SRE 1 *Review of Service Performance Information* is to be applied in conjunction with the review standard for historical financial statements (ISRE (NZ) 2400⁵). This is because a review of service performance information is conducted concurrently with the review of financial information.

The proposed standard addresses areas of the assurance process that are particularly relevant for service performance information and/or when the nature of service performance information may require a different approach to financial information. The proposed standard emphasises the need for the assurance practitioner to consider how the nature of service performance information may require a different approach.

NZ SRE 1 is principles-based and framework-neutral. We expect the main audience for the standard to be those who are engaged to review tier 3 charities. We have therefore developed the standard with these types of entities in mind. When considering what to include or exclude from the standard we have focused on the needs of the assurance practitioner completing an engagement for tier 3 charities.

For example, based on a sample of tier 3 charities service performance reports, we observed that the types of performance measures reported were not complex, and therefore it is unlikely that the assurance practitioner would use the work of an expert. If an expert was required, then the requirements for experts in ISRE (NZ) 2400 could be applied to service performance information and therefore we have not included anything more in the proposals related to use of experts for service performance information.

To develop the proposals, we applied lessons from the recently revised auditing standard for service performance information. This includes adopting the term “appropriate and meaningful” from the financial reporting requirements. The assessment of whether the service performance information is “appropriate and meaningful” considers similar qualitative characteristics to assessing the suitability of criteria for assurance engagements. However, we felt that using the term “appropriate and meaningful” for this phase of the engagement across both engagement types (limited and reasonable assurance) would provide consistency for the assurance practitioner to leverage off their knowledge when assuring service performance information. The term “appropriate and meaningful” is also used in the recently revised Tier 3 Not-for-Profit and Public Sector requirements⁶ so there will be consistency and coherence between the accounting and review standards to help ensure the system works efficiently and effectively.

NZ SRE 1 applies the same “two-step approach” to reviewing service performance information as is required for an audit of this information. It requires the assurance practitioner to understand the entity through positive enquiry and use that understanding to firstly consider whether the service performance information is appropriate and meaningful, prior to obtaining evidence that nothing has come to the assurance practitioner’s attention to cause them to believe that the service performance information does not fairly reflect the actual service performance.

We also considered the work effort required for a review and how it may differ to an audit of service performance information. We were mindful of the need to be able to assist assurance practitioners to understand what they need to do differently and to be clear this is a limited assurance engagement. Where the work effort was similar to an audit, the requirements were adapted from NZ AS 1 (Revised) to promote consistency.

⁵ ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

⁶ *Reporting Requirements for Tier 3 Not-For-Profit Entities and Reporting Requirements for Tier 3 Public Sector Entities*



5.

Key issues for feedback

Limited assurance covers a spectrum of assurance, from assurance that is likely to enhance the intended users' confidence to a degree that is clearly more than inconsequential, to assurance that is just below reasonable assurance.⁷

We compared and contrasted each stage of a review engagement, in the context of service performance information, to an audit of service performance information. Our observations are summarised in the table with further detail below, keeping in mind that it is a matter of professional judgement as to how to meet the objective to obtain limited assurance, depending on the context of the engagement and what comes to the attention of the assurance practitioner throughout the engagement.

<i>Engagement stages</i>	<i>Comparison to an audit</i>	<i>Further detail below</i>
Understanding	SIMILAR	Paragraph 5.1
Planning	SIMILAR	Paragraph 5.2
Assessment of appropriate and meaningful	DIFFERENT	Paragraph 5.3
Materiality	SIMILAR	Paragraph 5.4
Risk assessment	DIFFERENT	Paragraph 5.5
Response to assessed risks	DIFFERENT	Paragraph 5.6
Reporting	DIFFERENT	Paragraph 5.7

5.1 Understanding

The proposals require the assurance practitioner to obtain an understanding of the entity, applicable laws and regulations, the service performance information reported and the systems of internal control (Para 16 -19). We considered what breadth and depth of understanding may be appropriate for a review of service performance information. With the exception of internal controls, we propose that the breadth and depth of understanding needed about the entity is the same regardless of the level of assurance being provided. This understanding is important to enable the assessment of appropriate and meaningful. Therefore, the requirements proposed for obtaining an understanding at paragraphs 16 to 18 are the same as those in the auditing standard NZ AS 1 (Revised).

For internal controls, the proposed standard aligns with the requirements of ISRE (NZ) 2400 and requires an understanding of internal controls over the preparation of service performance information (Para 19). The level of understanding required may be obtained through enquiry and is not expected to be at the same depth of understanding as an audit. Such enquires are important to help the assurance practitioner identify risks that are likely to result in a material misstatement of the service performance information. We are interested in views of whether you believe the depth and breadth of understanding we have proposed is appropriate for a limited assurance engagement.

Do you agree that the requirements to obtain an understanding are appropriate for a review engagement on service performance information?

⁷ Appendix 3, Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements



5.2 Planning

The proposed requirements for planning include the development of a review plan to concurrently cover the service performance information and financial information. This reflects the integrated nature of the engagement and recognises the inextricable link between the service performance information and the financial statements of the entity. (Para 20-23)

Do you agree that the requirements for planning are appropriate for a review engagement on service performance information?

5.3 Assessment of Appropriate and Meaningful

An important first step is for the assurance practitioner to use their understanding of the entity to consider whether the service performance information is appropriate and meaningful. The factors to be considered by the assurance practitioner when exercising professional judgement to make this assessment are the same as those in an audit. To tailor this requirement for a review engagement, paragraph 24 requires the assurance practitioner to “consider” the factors rather than to “evaluate” the factors as required by the auditing standard. It is intended that these terms represent a difference in work effort for a review compared to an audit. This difference in work effort is also indicated in the application material at paragraph A27, where it is acknowledged that enquiry may be a principal source of evidence of this assessment for a review.

Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?

Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?

5.4 Materiality

Materiality is an area that requires the assurance practitioner to exercise significant professional judgement when assuring service performance information. Those judgements are made on the information needs of the intended user and purpose and not affected by the level of assurance.

The standard includes factors at paragraph 25 to 27, for the assurance practitioner to consider when exercising professional judgement to determine materiality.

The proposed requirements also include the areas where materiality needs to be considered in an engagement for service performance information such as:

- identifying significant elements/aspects of service performance information (paragraph 25)
- determining and documenting materiality considerations (paragraph 26)
- applying materiality to assess whether the service performance information is appropriate and meaningful, and (paragraph 27)
- applying materiality to misstatements identified. (paragraph 27)

These areas of consideration are not impacted by the level of assurance being obtained.

Do you agree that the requirements for materiality are appropriate for a review engagement on service performance information?



5.5 Risk Assessment

Draft NZ SRE 1 proposes that the assurance practitioner is required to use their understanding of the entity to identify where areas of material misstatement are likely to arise to provide a basis for designing procedures (Para 30).

An alternative approach would be to require the assurance practitioner to identify and assess risks of material misstatement at the disclosure level. Identifying and assessing risks at the disclosure level provides a more granular basis for designing and performing further procedures for a review.

A review engagement is risk-based. The scope of the proposals are written with tier 3 charities in mind. Given the connectivity between the financial and service performance information, on balance the XRB determined not to pursue a more granular risk assessment requirement for the service performance information than for the financial statement information.

We are interested in views as to whether you believe the proposals will drive consistency in practice and provide sufficient clarity as to what is required given the nature of service performance information, which may be more qualitative.

Do you agree with the requirements proposed to identify where risks may arise for a review of service performance information? If not, why not?

5.6 Response to Assessed Risk

We believe that responding to assessed risk is the key area of difference in work effort between an audit and review of service performance information. As such, we propose that for a review of service performance information, procedures to obtain sufficient appropriate evidence are mostly restricted to enquiry, analytical, and other procedures as the assurance practitioner considers necessary.

The inclusion of “other procedures” is due to the nature of service performance information often being qualitative, however due to the connectivity between the financial and service performance information reported in many instances enquiry and analytical review procedures may be sufficient.

Do you agree with the requirements proposed for responding to assessed risks? If not, why not?

5.7 Reporting

We believe that the assurance practitioner’s assessment of whether the information is appropriate and meaningful is a crucial step in the review of service performance information and should form part of the conclusion. If the entity’s approach does not provide a reasonable basis for the service performance information, then there is no value in gathering evidence to support a conclusion.

Do you consider the wording of the conclusion to be clear? If not, why not, and what clarifications do you recommend?



5.8 Application date

We propose that the standard is applicable for review engagements of service performance for periods beginning 12 months following the issue of the standard. We consider that this will allow sufficient time for preparation to implement the standard.

Do you agree with the proposed application date of 12 months following issue of the standard?

5.9 Other comments

We welcome feedback on any other aspects addressed in the exposure draft or if you consider there are matters we have missed.

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



PART THREE: **CONSULTATION** **QUESTIONS**





6.

Consultation Questions

Respondents are asked to consider the following specific questions and to respond to the XRB by 17 July 2024.

Understanding

Question 1: Do you agree that the requirements to obtain an understanding are appropriate for a review engagement on service performance information?

Planning

Question 2: Do you agree that the requirements for planning are appropriate for a review engagement on service performance information?

Assessment of Appropriate and Meaningful

Question 3: Do you agree that the requirement to consider “appropriate and meaningful” are appropriate for a review engagement?

Question 4: Do you agree that the use of the different verb to “consider” rather than “evaluate” is clear and will promote consistency in practice?

Materiality

Question 5: Do you agree that the requirements for materiality are appropriate for a review engagement on service performance information?

Risk Assessment

Question 6: Do you agree with the requirements proposed to identify where risks may arise for a review of service performance information? If not, why not?

Response to Assessed Risk

Question 7: Do you agree with the requirements proposed for responding to assessed risks? If not, why not?

Reporting

Question 8: Do you consider the wording of the conclusion to be clear? If not, why not, and what clarifications do you recommend?

Application date

Question 9: Do you agree with the proposed application date of 12 months following issue of the standard?

Other Comments

Question 10: Do you have any other comments on the proposed standard? If so, please specify.

