

Comments on Review of Service Performance Information

I am supportive in general of aligning the review standard with NZ AS 1, including the use of similar language with changes in instructional verbs. However, I emphasise that anecdotal evidence suggests that auditors and preparers are struggling with assuring SSP information and this standard may need further guidance especially relating to point 2 and 3 below. I also draw your attention to other matters.

1) Based on my own working paper, I found a significant (14%) increase in audit fees after the adoption of SSP assurance for Tier 1 entities. I found no difference based on whether NZ AS1 or not. Thus, based on the early evidence there does not appear to be a cost to auditors in learning the new assurance standard, or an efficiency gain. We did not find audit disruptions in contrast to other settings where new accounting/auditing standards had been shorter a greater notice period. Thus, I recommend a longer notice period, with voluntary adoption allowed.

2) Research suggests that both preparers and auditors struggle with appropriate and meaningful. Xu and Yang (2022) suggest that currently auditors adopt a compliance mindset and that the preparation of appropriate and meaningful performance information is both hard for preparers and auditors to verify. Thus, I view the instructional verb could be lowered from consider.

3) Anecdotal evidence suggests that auditors struggle to verify performance information, and requirements for appropriate evidence may be driving performance information selection. For example, the 2023 Annual Report for the Royal New Zealand Ballet (tier 2) had a qualified opinion on the SSP as two performance indicators of “At least 500 young dancers and other creative artists participate in Royal New Zealand Ballet talent development pathways activities; and 20,000 or more attend and participate at RNZB education and community activities annually.” Could not be sufficiently independent verified. It is not clear to me whether a review, would 1) look into this (ie the nothing has come to our attention bar) or 2) whether using predominantly analysis and enquiry it could ever meet the sufficient and appropriate bar.

4) There has long been an audit expectations gap, and accounting research suggests that capital market participants do not distinguish between a review conclusion and

audit opinion. Thus, I recommend that there is an information campaign or guidance given to charities around SSP reviews. I believe that a review offers sufficient assurance to many tier 3 charities but they may need to have better guidance about what is the difference to both choose this option and manage an expectations gap from their users.

Cheers

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